“Sovereign Wealth Fund “Samruk-Kazyna” JSC

Consolidated financial statements

For the year ended December 31, 2018
with independent auditor’s report

CONTENTS

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Independent Auditor's Report

To the Shareholder and Management of "Sovereign Wealth Fund "Samruk-Kazyna" JSC

Opinion

We have audited the consolidated financial statements of "Sovereign Wealth Fund "Samruk-Kazyna" JSC and its subsidiaries (hereinafter - the Group), which comprise the consolidated balance sheet as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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.

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

Key audit matters	How our audit addressed the key audit matters
Impairment of non-current assets	
We considered this matter to be one of most significance in the audit due to the high level of subjectivity in respect of assumptions underlying impairment analysis of non-current assets and significant judgements and estimates made by the management. In addition, increased cost of debt and uncertainty regarding future economic growth affects the Group's business prospects and triggers potential impairment of the Group's assets. Significant assumptions included discount rates, commodities prices, tariffs forecasts, inflation and exchange rate forecasts. Significant estimates included production forecasts, future capital expenditures and commodity reserves available for development and production. Information on non-current assets and the impairment tests performed is disclosed in *Note* 4 to the consolidated financial statements.	We involved business valuation specialists in the testing of the impairment analysis and calculation of recoverable amounts performed by the management. We analyzed the assumptions underlying management forecast. We compared natural resource and commodity prices used in the calculation of recoverable amounts to available market forecasts. We compared the discount rate and long-term growth rate to general market indicators and other available evidence. We tested the mathematical accuracy of the impairment models and assessed the sensitivity analysis. We analysed the disclosures made in the consolidated financial statements in respect of impairment.
Compliance with loan covenants	
In accordance with the terms of certain financing arrangements, the Group should maintain and comply with certain financial and non-financial covenants. Breaching covenants could result in significant fines and penalties along with funding shortages. In addition, cross default provisions are in place under many of the Group's financing arrangements. Compliance with covenants was one of the matters of most significance in the audit since it can have a major impact on the going concern assumption used in the preparation of the consolidated financial statements, and on classification of interest-bearing liabilities in the consolidated balance sheet. Information on compliance with covenants is disclosed in *Note* 19 to the consolidated financial statements.	We examined the terms of financing arrangements. We compared data used in the calculations with the financial statements. We assessed arithmetic accuracy of financial covenants calculations. In addition, we analysed non-financial covenants, such as limitations on disposals and acquisitions, retaining control over assets and absence of insolvency proceedings. We analysed communication with creditors in respect of compliance with financial and non-financial covenants as at 31 December 2018. We also assessed the information disclosed in the consolidated financial statements.

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Other information included in the Group's 2018 Annual Report

Other information consists of the information included in the Group's 2018 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2018 Annual Report is expected to 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 will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available 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.

Responsibilities of management and the Audit Committee for the consolidated financial statements

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

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

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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 or 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 our audit opinion.

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

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

From the matters communicated with the Audit Committee, 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.

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

Ernst & Young LLP

Paul Cohn
Audit Partner

Adil Syzdykov
Auditor

Auditor qualification certificate
No. МФ-0000172 dated 23 December 2013

Gulmira Turmagambetova
General Director
Ernst & Young LLP

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

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4 April 2019

CONSOLIDATED BALANCE SHEET

As at December 31

In millions of tenge	Note	2018	2017 (restated)*
Assets			
Non-current assets			
Property, plant and equipment	7	**12,669,551**	11,503,317
Intangible assets	8	**1,611,163**	993,585
Exploration and evaluation assets	9	**431,848**	451,782
Investment property		**42,388**	11,601
Investments in joint ventures and associates	10	**3,664,897**	2,856,767
Loans issued and finance lease receivables	11	**431,276**	593,325
Amounts due from credit institutions	12	**176,360**	502,493
Deferred tax assets	34	**131,192**	169,280
Other non-current financial assets	13	**291,374**	95,620
Other non-current assets	14	**627,917**	691,328
		20,077,966	17,869,098
Current assets			
Inventories	15	**611,094**	538,416
VAT receivable		**151,750**	145,954
Income tax prepaid		**68,857**	54,626
Trade accounts receivable	16	**747,873**	641,453
Loans issued and finance lease receivables	11	**201,656**	250,362
Amounts due from credit institutions	12	**623,612**	1,951,384
Other current financial assets	13	**57,257**	30,250
Other current assets	16	**417,362**	381,753
Cash and cash equivalents	17	**2,487,533**	2,263,938
		5,366,994	6,258,136
Assets classified as held for sale	6	**200,396**	199,874
Total assets		**25,645,356**	24,327,108

The accounting policies and explanatory notes on pages 9 through 96 form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET (continued)

In millions of tenge	Note	2018	2017 (restated)*
Equity and liabilities			
Equity attributable to equity holder of the Parent			
Share capital	18.1	**5,133,766**	5,133,476
Additional paid-in capital	18.2	**17,303**	13,189
Currency translation reserve	18.9	**1,333,529**	919,146
Revaluation reserve of investments at fair value through other comprehensive income		**28,806**	26,177
Hedging reserve	18.10	**(67,163)**	(54,666)
Other capital reserves		**(16,807)**	(16,742)
Retained earnings		**5,078,098**	3,982,070
		11,507,532	10,002,650
Non-controlling interest	18.8	**1,364,353**	1,821,720
Total equity		**12,871,885**	11,824,370
Non-current liabilities			
Borrowings	19	**6,035,456**	5,417,510
Loans from the Government of the Republic of Kazakhstan	20	**630,433**	776,141
Finance lease liabilities	22	**130,640**	120,091
Provisions	23	**269,123**	247,285
Deferred tax liabilities	34	**915,415**	707,447
Employee benefit liabilities	24	**94,243**	81,172
Prepayment on oil supply agreements	21	**1,153,761**	1,109,265
Other non-current liabilities		**118,675**	106,148
		9,347,746	8,565,059
Current liabilities			
Borrowings	19	**817,319**	1,636,757
Loans from the Government of the Republic of Kazakhstan	20	**22,973**	5,907
Finance lease liabilities	22	**25,853**	19,755
Provisions	23	**151,793**	115,967
Employee benefit liabilities	24	**7,267**	6,883
Income taxes payable		**18,699**	16,252
Trade and other payables		**995,322**	849,216
Prepayment on oil supply agreements	21	**527,402**	332,330
Other current liabilities	25	**764,021**	865,963
		3,330,649	3,849,030
Liabilities associated with assets classified as held for sale	6	**95,076**	88,649
Total liabilities		**12,773,471**	12,502,738
Total equity and liabilities		**25,645,356**	24,327,108

* *Certain numbers shown here do not correspond to the consolidated financial statements for the year ended December 31, 2017 and reflect adjustments made, refer to Note 6.*

Managing Director for Economy and Finance - member of the Management Board

Beibit Karymsakov

Chief accountant

Almaz Abdrakhmanova

The accounting policies and explanatory notes on pages 9 through 96 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31

In millions of tenge	Note	2018	2017 (restated)*
Continuing operations			
Revenue	26	**10,116,427**	7,382,061
Government grants		**31,217**	52,443
		10,147,644	7,434,504
Cost of sales	27	**(7,798,575)**	(5,800,840)
Gross profit		**2,349,069**	1,633,664
General and administrative expenses	28	**(488,633)**	(454,740)
Transportation and selling expenses	29	**(721,582)**	(470,356)
Impairment loss	30	**(208,426)**	(94,382)
Gain/(loss) on disposal of subsidiaries		**26,432**	(3,528)
Gain on business combination	5	**313,517**	26,449
Operating profit		**1,270,377**	637,107
Finance costs	31	**(633,155)**	(482,379)
Finance income	32	**206,520**	191,742
Other non-operating loss		**(110,763)**	(41,107)
Other non-operating income		**44,176**	45,317
Share in profit of joint ventures and associates, net	33	**749,531**	531,682
Net foreign exchange gain		**123,888**	23,896
Gain from exercise of put option		**–**	107,714
Profit before income tax		**1,650,574**	1,013,972
Income tax expenses	34	**(403,816)**	(262,237)
Net profit for the year from continuing operations		**1,246,758**	751,735
Discontinued operations			
Loss from discontinued operations, net of income tax	6	**(3,542)**	(9,838)
Net profit for the year		**1,243,216**	741,897
Net profit for the year attributable to:			
Equity holder of the Parent		**1,140,896**	606,729
Non-controlling interest		**102,320**	135,168
		1,243,216	741,897

The accounting policies and explanatory notes on pages 9 through 96 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In millions of tenge	Note	2018	2017 (restated)*
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations	18.9	**437,322**	(62,251)
Unrealized loss from revaluation investments at fair value through other comprehensive income		**(260)**	(11,514)
Share of the other comprehensive income/(loss) of associates and joint ventures		**3,998**	(408)
(Loss)/gain on transactions with hedge instruments	18.10	**(10,279)**	260
Reclassification to profit or loss of foreign currency translation reserve on disposal of foreign subsidiaries		**(476)**	–
Tax effect on transactions with hedge instrument	18.10	**(750)**	(271)
Net realized gain on investments at fair value through other comprehensive income		**119**	6,659
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**429,674**	(67,525)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Share of the other comprehensive loss of associates and joint ventures		**(155)**	(371)
Net gain from investments in equity Investments at fair value through other comprehensive income		**14,509**	–
Actuarial loss on defined benefit plans	24	**(7,577)**	(8,046)
Tax effect on comprehensive loss components		**404**	(358)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**7,181**	(8,775)
Other comprehensive income/(loss) for the year, net of tax		**436,855**	(76,300)
Total comprehensive income for the year, net of tax		**1,680,071**	665,597
Total comprehensive income for the year, attributable to:			
Equity holder of the Parent		**1,522,219**	527,891
Non-controlling interest		**157,852**	137,706
		1,680,071	665,597

* *Certain amounts shown here do not correspond to 2017 consolidated financial statements and reflect restatement made, details of which are disclosed in Notes 2 and 6.*

Managing Director for Economy and Finance - member of the Management Board

Beibit Karymsakov

Chief accountant

Almaz Abdrakhmanova

The accounting policies and explanatory notes on pages 9 through 96 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31

		Attributable to the equity holder of the Parent									
In millions of tenge	Note	Share capital	Additional paid-in capital	Revaluation reserve for available-for-sale investments	Currency translation reserve	Hedging reserve	Other capital reserves	Retained earnings	Total	Non-controlling interest	Total
Balance as at January 1, 2017 (audited) (restated*)		5,058,658	–	31,032	1,005,345	(52,712)	(16,522)	3,480,564	9,506,365	1,640,592	11,146,957
Total comprehensive income for the period		–	–	(4,855)	(87,300)	(1,954)	(18)	622,018	527,891	137,706	665,597
Issue of shares		74,818	–	–	–	–	–	–	74,818	–	74,818
Other contributions of the Shareholder		–	13,189	–	–	–	–	–	13,189	–	13,189
Dividends		–	–	–	–	–	–	(11,899)	(11,899)	(24,328)	(36,227)
Other transactions with the Shareholder		–	–	–	–	–	–	(6,534)	(6,534)	–	(6,534)
Other distributions to the Shareholder		–	–	–	–	–	–	(112,131)	(112,131)	–	(112,131)
Acquisition of subsidiaries		–	–	–	–	–	–	1,036	1,036	56,359	57,395
Disposal of subsidiaries		–	–	–	(108)	–	–	–	(108)	(3,143)	(3,251)
Change in ownership interests of subsidiaries – sale of non-controlling interest		–	–	–	–	–	–	7,547	7,547	16,517	24,064
Change in ownership interests of subsidiaries – acquisition of non-controlling interest		–	–	–	1,209	–	–	1,547	2,756	(3,082)	(326)
Other equity movements		–	–	–	–	–	(202)	(78)	(280)	1,099	819
Balance as at December 31, 2017 (restated)		5,133,476	13,189	26,177	919,146	(54,666)	(16,742)	3,982,070	10,002,650	1,821,720	11,824,370

* *Certain amounts shown here do not correspond to 2017 consolidated financial statements and reflect restatement made, details of which are disclosed in Notes 2 and 6.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

In millions of tenge	Note	Attributable to the equity holder of the Parent: Share capital	Additional paid-in capital	Revaluation reserve of investments at fair value through other comprehensive income	Currency translation reserve	Hedging reserve	Other capital reserves	Retained earnings	Total	Non-controlling interest	Total
Balance as at December 31, 2017 (restated)		5,133,476	13,189	26,177	919,146	(54,666)	(16,742)	3,982,070	10,002,650	1,821,720	11,824,370
Effect of adoption of new IFRS 9, 15		–	–	2,835	–	–	–	(51,042)	(48,207)	(4,191)	(52,398)
Balance as at January 1, 2018		5,133,476	13,189	29,012	919,146	(54,666)	(16,742)	3,931,028	9,954,443	1,817,529	11,771,972
Total comprehensive income for the period		–	–	**(55)**	**405,068**	**(12,497)**	**26**	**1,129,677**	**1,522,219**	**157,852**	**1,680,071**
Issue of shares	18.1	**290**	–	–	–	–	–	–	**290**	–	**290**
Other contributions of the Shareholder	18.2	–	**4,114**	–	–	–	–	–	**4,114**	–	**4,114**
Dividends	18.3	–	–	–	–	–	–	**(12,732)**	**(12,732)**	**(25,276)**	**(38,008)**
Other transactions with the Shareholder	18.4	–	–	–	–	–	–	**(31,340)**	**(31,340)**	–	**(31,340)**
Other distributions to the Shareholder	18.5	–	–	–	–	–	–	**(111,267)**	**(111,267)**	**(643)**	**(111,910)**
Discount on loans from the Government	20	–	–	–	–	–	–	**(10,477)**	**(10,477)**	–	**(10,477)**
Acquisition of subsidiaries	5	–	–	–	–	–	–	–	–	**147,334**	**147,334**
Change in ownership interests of subsidiaries – sale of non-controlling interest	18.6	–	–	**(405)**	**423**	–	–	**36,268**	**36,286**	**124,137**	**160,423**
Change in ownership interests of subsidiaries – acquisition of non-controlling interest	18.7	–	–	–	**5,938**	–	–	**150,212**	**156,150**	**(855,371)**	**(699,221)**
Other equity movements		–	–	**254**	**2,954**	–	**(91)**	**(3,271)**	**(154)**	**(1,209)**	**(1,363)**
Balance as at December 31, 2018		**5,133,766**	**17,303**	**28,806**	**1,333,529**	**(67,163)**	**(16,807)**	**5,078,098**	**11,507,532**	**1,364,353**	**12,871,885**

Managing Director for Economy and Finance - member of the Management Board ________ Beibit Karymsakov

Chief accountant ________ Almaz Abdrakhmanova

The accounting policies and explanatory notes on pages 9 through 96 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31

In millions of tenge	Note	2018	2017
Cash flows from operating activities			
Receipts from customers		**11,139,592**	8,540,915
Payments to suppliers		**(6,820,267)**	(5,165,564)
Payments to employees		**(945,284)**	(882,235)
Other taxes and payments		**(1,497,177)**	(1,117,307)
Operations with financial instruments (the Fund and Kazpost)		**(149,711)**	(63,143)
Return of VAT from the budget		**84,096**	124,621
Other payments, net		**(114,872)**	(51,047)
Income taxes paid		**(261,221)**	(169,442)
Interest paid		**(534,690)**	(454,320)
Interest received		**180,128**	168,165
Net cash flows received from operating activities		**1,080,594**	930,643
Cash flows from investing activities			
Acquisition of property, plant and equipment, exploration and evaluation assets		**(854,977)**	(1,087,829)
Dividends received from joint ventures and associates	10	**250,499**	356,098
Acquisition of subsidiaries	5	**(199,946)**	–
Redemption/(placement) of bank deposits, net		**1,468,343**	(312,441)
Loans issued		**(32,809)**	(181,948)
Sale of a put option		**–**	173,719
Proceeds from sale of subsidiaries, net of cash of disposed subsidiaries		**10,122**	24,174
Proceeds of receivables from sale of BTA		**5,000**	51,211
Acquisition of intangible assets		**(15,795)**	(23,161)
Sale/(acquisition) of joint ventures and associates		**(50,510)**	15,745
Repayment of loans issued		**109,420**	7,879
Cash acquired with subsidiaries	5	**38,264**	424
Other receipts, net		**106,413**	17,497
Net cash flows received/(used) in investing activities		**834,024**	(958,632)

The accounting policies and explanatory notes on pages 9 through 96 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In millions of tenge	Note	2018	2017
Cash flows from financing activities			
Proceeds from borrowings		**1,870,800**	2,336,650
Repayment of borrowings		**(2,981,551)**	(1,442,094)
Share buyback by subsidiary	18.7	**(642,524)**	
Repayment of finance lease liabilities		**(19,335)**	(18,401)
Contributions to the share capital	18.1	**–**	74,552
Distributions to the Shareholder		**(57,051)**	(62,166)
Dividends paid to non-controlling interest of subsidiaries		**(24,632)**	(21,379)
Sale of non-controlling interest	18.6	**160,423**	24,068
Repayment of principal for acquisition of additional interest in the indivisible shares of the North-Caspian project	25	**(185,570)**	(177,079)
Dividends paid to the Shareholder	18.3	**(12,732)**	(11,899)
Acquisition of non-controlling interest	18.7	**(56,700)**	–
Other payments, net		**(793)**	(4,932)
Net cash flows (used)/received in financing activities		**(1,949,665)**	697,320
Net (decrease)/increase in cash and cash equivalents		**(35,047)**	669,331
Effects of exchange rate changes on cash and cash equivalents		**244,566**	24,115
Changes in cash and cash equivalents disclosed as part of assets held for sale		**14,942**	22,825
Change in allowance for expected credit losses		**(866)**	(6,368)
Cash and cash equivalents at the beginning of the year*		**2,263,938**	1,554,035
Cash and cash equivalents at the end of the year	17	**2,487,533**	2,263,938

* *Cash and cash equivalents at the beginning of the year 2018 reflect restatement made, details of which are disclosed in Note 6.*

Managing Director for Economy and Finance - member of the Management Board

Beibit Karymsakov

Chief accountant

Almaz Abdrakhmanova

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2018

1. GENERAL INFORMATION

Corporate information

"Sovereign Wealth Fund "Samruk-Kazyna" JSC (the "Fund" or "Samruk-Kazyna") was established on November 3, 2008 in accordance with the Decree of the President of the Republic of Kazakhstan dated October 13, 2008 and the Resolution of the Government of the Republic of Kazakhstan dated October 17, 2008. The formation was enacted by the merger of "Sustainable Development Fund "Kazyna" JSC ("Kazyna") and "Kazakhstan Holding Company for State Assets Management "Samruk" JSC ("Samruk") and the additional transfer to the Fund of interests in certain entities owned by the Government of the Republic of Kazakhstan (the "State" or the "Government"). The Government, represented by the State property and privatization committee of the Ministry of finance of the Republic of Kazakhstan, is the sole shareholder of the Fund (the "Shareholder" or the "Parent").

During this process the Government's overall objective was to increase management efficiency and to optimise organisational structures for them to successfully achieve their strategic objectives as set in the respective Government programs and development plans.

The Fund is a holding company combining state-owned enterprises listed in *Note 35* (the "Group"). Prior to February 1, 2012, the Fund's activities were governed by the Law of the Republic of Kazakhstan *On National Welfare Fund* No. 134-4 dated February 13, 2009 and were aimed to assist in provision of stable development of the state economy, modernization and diversification of economy, and improvement of the Group companies' efficiency. According to the Law of the Republic of Kazakhstan enacted on February 1, 2012 *On Sovereign Wealth Fund* No. 550-4, the Fund's activity is focused on improving sovereign wealth of the Republic of Kazakhstan by increasing the long-term value of the Group companies and by effective management of the Group assets.

For management purposes, the Group is organized into organizational business units based on their products and services, and has 8 (eight) reportable operating segments as follows *(Note 39)*:

- Oil and gas segment includes operations related to exploration and production of oil and gas, transportation of oil and gas and refining and trading of crude oil, gas and refined products;
- Transportation segment includes operations related to railway and air transportation of cargo and passengers;
- Communication segment includes operation of fixed line communication, including local, long-distance intercity and international telecommunication services (including CIS and non-CIS countries); and also renting out of lines, data transfer services and wireless communication services;
- Energy segment includes operations related to production and distribution of electricity, the function of oversight over the input of electricity into the energy system and consumption of imported electricity, the function of centralized operation and dispatch of facilities in the Unified Energy System of Kazakhstan;
- Mining segment includes exploration, mining, processing, sales of mineral resources and geological exploration;
- Industrial segment includes industry enterprises and projects of chemical industry;
- Corporate center segment covers Fund's investing and financing activities, including provision of loans to related and third parties;
- Other segment includes operations related to assisting the Government in increasing housing availability by investing into residential development and other operations.

The address of the Fund's registered office is 17/10 E10 str., Nur-Sultan, the Republic of Kazakhstan.

These consolidated financial statements were authorised for issue by the Managing Director for Economy and Finance - member of the Management Board and Chief accountant of the Fund on April 4, 2019 and preliminary approved by the Audit Committee of the Board of Directors of the Fund on the same date. These consolidated financial statements should be further approved by the Board of Directors and Sole Shareholder.

Privatization plan

On April 30, 2014 the Government approved the initial Privatization Plan for 2014-2016. On December 30, 2015 the Government approved the new 2016-2020 Complex Privatization Plan (replacing previous 2014-2016 Privatization Plan) ("Privatization Plan") and the list of all state owned assets to be privatized, including certain Fund subsidiaries.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements.

These consolidated financial statements are presented in Kazakhstan tenge ("tenge") and all monetary amounts are rounded to the nearest million tenge except where otherwise indicated.

Statement of compliance

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

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in *Note 4*.

Restatement affecting comparative information

The Group made reclassification of cost of sales and transportation and selling expenses since the Group believes that this reclassification is more relevant to users consolidated financial statements.

Effect of restatement for the year ended December 31, 2017:

In millions of tenge	For the year ended December 31, 2017 (audited)	NC KMG Group reclassification	KMG International N.V.*	Kazakhstan Engineering JSC*	For the year ended December 31, 2017 (audited) (restated)
Revenue	5,124,158	–	2,334,927	(77,024)	7,382,061
Cost of sales	(4,553,301)	91,632	(1,416,186)	77,015	(5,800,840)
Gross profit	**623,300**	**91,632**	**918,741**	**(9)**	**1,633,664**
Transportation and selling expenses	(319,154)	(91,632)	(60,409)	839	(470,356)
Net profit for the period	**735,975**	**–**	**5,922**	**–**	**741,897**

* *Other items of restatement of the consolidated statement of comprehensive income are disclosed in Note 6.*

Foreign currency translation

Functional and presentation currency

Items included in these consolidated financial statements of each of the Group's entities are measured using the currency of primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in tenge, which is the Group's presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the reporting date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit and loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

2. BASIS OF PREPARATION (continued)

Foreign currency translation (continued)

Group entities

Gains, losses and financial position of all of the Group's subsidiaries, joint ventures and associates (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at that reporting date;
- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates; in which case income and expenses are translated at the rate on the dates of the transactions); and
- All resulting exchange differences are recognized as a separate component of other comprehensive income.

Exchange rates

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

The following table presents currency exchange rates to tenge:

	December 31, 2018	December 31, 2017	**Weighted average for 2018**	Weighted average for 2017	April 4, 2019
United States dollar ("USD")	**384.20**	332.33	**345.04**	326.08	378.29
Euro ("EUR")	**439.37**	398.23	**406.88**	368.45	424.63
Russian ruble ("RUR")	**5.52**	5.77	**5.50**	5.59	5.78

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

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

Several other amendments and interpretations apply for the first time in 2018, but they do not have an impact on the consolidated financial statements of the Group:

- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Considerations*;
- Amendments to IAS 40 *Transfers of Investment Property*;
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*;
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*;
- Amendments to IAS 28 *Investments in Associates and Joint Ventures – clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*;
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – deletion of short-term exemptions for first-time adopters.*

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*. The nature and effect of these changes are disclosed below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 15 Revenue from Contracts with Customers

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

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

The Group adopted IFRS 15 using the retrospective modified method. The effect of transition on the current period has not been disclosed as the standard provides an optional practical expedient. The Group did not apply any of the other available optional practical expedients.

Adoption of IFRS 15 did not have significant effect on the consolidated financial statements of the Group. As of January 1, 2018, the Group adjusted the balance of retained earnings in the amount of 947 million tenge and the non-controlling interest by 429 million tenge.

(a) Sale of goods

The Group's contracts with customers for the sale of goods generally include one performance obligation. The Group has concluded that revenue from sale of goods should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

(b) Rendering of services

The Group fulfills performance obligation on a monthly basis and recognizes revenue from rendering of services, based on the actual volumes of services rendered. Revenue from services is recognized over time given that the buyer simultaneously receives and consumes the benefits provided by the Group. The adoption of IFRS 15 did not have an impact on the Group's revenue and profit or loss from rendering of services.

(c) Contract liabilities to customers

Generally, the Group receives short-term advances from its customers. Prior to the adoption of IFRS 15, the Group presented these advances as advances received in the consolidated balance sheet.

Upon the adoption of IFRS 15, for short-term advances, the Group used the practical expedient. As such, the Group will not adjust the promised amount of the consideration for the effects of a financing component in contracts, where the Group expects, at contract inception, that the period between the time the customer pays for the good or service and when the Group transfers that promised good or service to the customer will be one year or less.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

With the exception of hedge accounting, which the Group applied prospectively, the Group has applied IFRS 9 retrospectively, with the initial application date of January 1, 2018.

The Group did not restate the comparative information for the annual period beginning January 1, 2017 and recognised the adjustment to the opening balance of retained earnings, revaluation reserve for financial assets held at fair value through other comprehensive income (FVOCI) and non-controlling interest as at January 1, 2018.

(a) Classification and measurement

Under IFRS 9, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

(a) Classification and measurement (continued)

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or FVOCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent "solely payments of principal and interest" on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the criterion of solely payments of principal and interest. This category includes the Group's trade and other receivables, loans due from related parties and bank deposits.
- Debt instruments at FVOCI for financial assets that are held within a business model whose objective is achieved by both holding the financial assets in order to collect contractual cash flows that meet the criterion of solely payments of principal and interest and selling financial assets. This category includes the Group's investments in debt securities included in other financial assets.
- Debt instruments at FVPL: this category includes certain loans due from related parties, which contain embedded derivative financial instruments, and coupon bonds included in other financial assets.

As result of adoption of classification requirements of IFRS 9, the Group recognised the adjustment to the opening balances of revaluation reserve for financial assets at FVOCI as of January 1, 2018 and financial assets at FVOCI for the difference between initial carrying amount and fair value of investments in equity instruments accounted at FVOCI by increasing the revaluation reserve by 2,296 million tenge.

The Group accounts the financial guarantee contracts after initial recognition at the higher of the initially recognized amount and the amount of the estimated allowance for expected credit losses. As a result, the Group has adjusted the balance of retained earnings as of January 1, 2018 and other financial liabilities by 6,191 million tenge.

The assessment of the Group's business models was made as of the date of initial application, January 1, 2018, and then applied retrospectively to those financial assets that were not derecognised before January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all debt financial assets not held at FVPL.

ECLs are calculated as a difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors, which are specific to the debtors and the economic environment.

For other debt financial assets (i.e., loans issued and bank deposits), the ECL is calculated for the 12-month period. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

(b) Impairment (continued)

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. As a result of this increase, the Group adjusted the balance of retained earnings, non-controlling interest and revaluation reserve for financial assets held at FVOCI as at January 1, 2018 in this consolidated statement of changes in equity for ECL for financial assets at amortized cost and financial assets held at FVOCI.

Impact on the consolidated balance sheet as at January 1, 2018, as follows:

In millions of tenge	As at December 31, 2017 (restated)	Effects of adoption of IFRS 9	As at January 1, 2018 (restated)
Assets			
Non-current assets			
Investments in joint ventures and associates	2,856,767	(3,615)	2,853,152
Loans issued and finance lease receivables at amortized cost	573,023	(178,029)	394,994
Loans issued at FVPL	20,302	169,393	189,695
Amounts due from credit institutions	502,493	(13,887)	488,606
Deferred tax assets	169,280	834	170,114
Other non-current financial assets	95,620	(157)	95,463
Other non-current assets	691,328	(918)	690,410
at cost	*750,028*	–	*750,028*
less: allowance for expected credit losses	*(58,700)*	*(918)*	*(59,618)*
Current assets			
Trade accounts receivable	641,453	(5,352)	636,101
at cost	*714,102*	*(7,931)*	*706,171*
less: allowance for expected credit losses	*(72,649)*	*2,579*	*(70,070)*
Loans issued and finance lease receivables	250,362	(97,754)	152,608
Loans issued at FVPL	–	92,101	92,101
Amounts due from credit institutions	1,951,384	(2,947)	1,948,437
Other current financial assets	30,250	(54)	30,196
Other current assets	381,753	(2,393)	379,360
at cost	*505,791*	–	*505,791*
less: allowance for expected credit losses	*(124,038)*	*(2,393)*	*(126,431)*
Cash and cash equivalents	2,263,938	(577)	2,263,361
Assets classified as held for sale	199,874	(28)	199,846
Equity and liabilities			
Equity			
Revaluation reserve of investments at FVOCI	26,177	539	26,716
Retained earnings	3,982,070	(39,302)	3,942,768
Non-controlling interest	1,821,720	(4,620)	1,817,100

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

(c) Accounting for modifications or exchange of promissory notes that do not lead to termination of recognition

Profit or loss arising from modification of a financial liability measured at amortized cost is recognized in profit or loss. Income or expense is calculated as difference between the initial cash flows and the present value of future cash flows provided for in the agreement, discounted using the original effective interest rate of the financial instrument. As of January 1, 2018, the Group adjusted the opening balance of retained earnings and liabilities in the amount of 4,602 million tenge.

Standards that have been issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective. The following new standards and amendments are not applicable or have no significant impact for the Group:

- IFRS 17 *Insurance Contracts*;
- IFRIC Interpretation 23 *Uncertainty over Income Tax Treatment*;
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*;
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Venture*;
- Amendments to IFRS 3 *Business Combinations*;
- Amendments to IAS 1 and IAS 8 *Definition of Material*;
- Annual improvements 2015-2017 cycle (issued in December 2017):
  - IFRS 3 *Business Combinations*;
  - IFRS 11 *Joint Arrangements*;
  - IAS 12 *Income Taxes*;
  - IAS 23 *Borrowing costs*.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of "low-value" assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. The lease term will correspond to the duration of the contracts signed except in cases where the Group is reasonably certain that it will exercise contractual extension options.

The Group will make a transition to IFRS 16 using the modified retrospective approach. Under this approach, the prior year figures will not be adjusted and both lease liabilities and right-of-use assets will be recognised at the date of transition to IFRS 16.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards that have been issued but not yet effective (continued)

IFRS 16 Leases (continued)

For leases previously classified as an operating lease applying IAS 17 at the date of transition to IFRS 16 the Group will measure these lease liabilities at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. For leases previously classified as an operating lease, applying IAS 17 the Group at the date of transition to IFRS 16 will assess right-of-use assets at either:

- Its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the Group's applicable incremental borrowing rate at the date of transition to IFRS 16; or
- An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated balance sheet immediately before the date of transition to IFRS 16.

The Group has elected to use the following practical expedients proposed by the standard:

- On initial application initial direct costs will be excluded from the measurement of the right-of-use asset;
- On initial application IFRS 16 will only be applied to contracts that were previously classified as leases;
- For all classes of underlying assets each lease component and any associated non-lease components will be accounted as a single lease component;
- Lease payments for contracts with a duration of 12 months or less for the classes of underlying assets other than land and buildings will continue to be expensed to the statement of comprehensive income on a straight-line basis over the lease term;
- Lease contracts for which the underlying asset is of low value.

Group management expects that the application of IFRS 16 in the future may significantly affect assets and liabilities because it recognised assets as a form of right to use and lease liabilities in relation to agreement in which the Group, except those that meet the criteria of short-term lease or the lease of low-value assets in accordance with IFRS 16.

Preliminary estimated effect of the application of IFRS 16 using the modified retrospective approach as at January 2019 amounted to 210,017 million tenge for assets, 223,854 million tenge for liabilities and 13,837 million tenge for retained earnings.

Basis of consolidation

These consolidated financial statements comprise the financial statements of the Fund and its controlled subsidiaries *(Note 35)*.

Subsidiaries

Subsidiaries are the entities controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Subsidiaries (continued)

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

Assets, liabilities, revenue and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income and consolidated balance sheet from the date the Group gains control until the date the Group ceases to control the subsidiary.

Except for acquisition in transactions between entities under common control, subsidiaries are consolidated from the date when control is obtained by the Group and are de-consolidated from the date when control ceases. At the acquisition of the subsidiary, acquisition cost is distributed between assets and liabilities based on their fair value as at the date of acquisition. Financial statements of the subsidiaries are prepared for the same reporting period as those of the Fund, using consistent accounting policies.

All intra-group balances and transactions, including unrealized gains resulting from intra-group transactions are eliminated in full. Unrealized losses are eliminated in the same manner as unrealized gains, except that they are eliminated to the extent that there is no evidence of impairment.

Non-controlling interest represents a portion of equity in subsidiaries, which is not owned by the Group, and is recorded separately in equity in the consolidated balance sheet separately from the equity attributable to the Parent. Losses within a subsidiary are attributed to the non-controlling interest even if that results in its deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the Parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Business combinations

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

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

If the business combination is achieved in stages, equity interest previously held by the Group in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IFRS 9 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Business combinations (continued)

Goodwill is initially measured at cost being the excess of an aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed by the Group. If this consideration is lower than the fair value of net assets of the subsidiary acquired, the difference is recognized in profit or loss.

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

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operations disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed off in this circumstance is measured on the basis of the relative values of the operation disposed off and the portion of the cash-generating unit retained.

Acquisition of subsidiaries from parties under common control

Acquisition of subsidiaries from parties under common control (entities under the Government's control) is accounted for using the pooling of interest method.

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

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

Change in ownership interests in subsidiaries

In transactions where part of the interest in existing subsidiary is either sold or acquired, but control is retained, the differences between the carrying amounts of net assets attributable to interests in subsidiaries acquired or disposed and the consideration given or received for such increases or decreases are charged or credited to retained earnings.

Investment in joint ventures and associates

The Group has interests in joint ventures which are jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entities. Also, the Group has interests in associates, in which it exercises significant influence over the economic activities of the entities. The Group's investment in its joint ventures and associates are accounted for using the equity method.

Under the equity method, investment in joint venture / associate is carried in the consolidated balance sheet at cost plus post acquisition changes in the Group's share of net assets of the joint venture / associate. Goodwill relating to a joint venture / associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the share of the results of operations of the joint venture / associate. Where there has been a change in net assets recognized directly in the equity of the joint venture / associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and joint venture / associate are eliminated to the extent of the Group's interest in the joint venture / associate.

The share in profit of joint ventures / associates is shown on the face of the consolidated statement of comprehensive income. This is the profit attributable to equity holders of the joint venture / associate and therefore is profit after tax and non-controlling interest in the subsidiaries of the joint ventures / associates.

Financial statements of the joint venture / associate are prepared for the same reporting period as those of the Parent. Where necessary, adjustments are made to bring their accounting policies in line with those of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Investment in joint ventures and associates (continued)

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its joint ventures / associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture / associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of investment in the joint venture / associate and its carrying amount and recognises impairment loss in the consolidated statement of comprehensive income.

Upon loss of joint control over the joint venture and significant influence over associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the investment in the joint venture / associate upon loss of joint control / significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Share of interest in jointly controlled operations

The Group has undivided interest in jointly controlled operations.

Upon acquisition the Group shall recognize in relation to its interest in joint operations its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly. Subsequently, the Group shall recognize its revenue from the sale of its share of the output arising from the joint operations; its share of the revenue from the sale of the output by the joint operations; and its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in the joint operations in accordance with its accounting policy.

Assets classified as held for sale and discontinued operations

Assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through the continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within 1 (one) year from the date of classification.

In the consolidated statement of comprehensive income for the reporting period, and for the prior year comparable period, incomes and expenses from discontinued operations are reported separately from normal income and expenses, even when the Group retains a non-controlling interest in the subsidiary after sale. The resulting profit or loss (net of tax) is reported separately in the consolidated statement of comprehensive income.

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

Exploration and development assets on mineral and hydrocarbon resources (oil and gas and mining assets)

Costs incurred before obtaining subsoil use rights (licenses)

Costs incurred before obtaining full subsoil use rights (licenses) are expensed in the period in which they are incurred, except when costs are incurred after signing preliminary agreements with the Government of the Republic of Kazakhstan, in such cases costs incurred after this date are capitalized.

Expenditures for acquisition of subsurface use rights

Expenditures for acquisition of subsurface use rights (exploration and production) comprise signature bonuses, historical costs, obligatory expenditures for ecological and social programs and are capitalized within intangible assets as subsurface use rights at exploration and evaluation phase.

Expenditures for acquisition of subsurface use rights are accounted for on a field-by-field basis. Each field is tested for impairment on an annual basis. If no future activity is planned, the remaining balance of the acquisition costs is written off. Starting from the commercial production on fields subsurface use rights (remaining costs) shall be transferred to the property, plant and equipment and shall be amortized using unit-of-production method on actual production based on total proved reserves.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and development assets on mineral and hydrocarbon resources (oil and gas and mining assets) (continued)

Exploration and evaluation expenditures (construction in progress)

Exploration and evaluation expenditures include geological and geophysical costs; costs directly related to exploration drilling; stripping activities; overhead and other expenses on exploration and evaluation, which could be related to a certain field. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. Except for geological and geophysical costs, exploration and evaluation expenditures are capitalized within exploration and evaluation assets, accounted for by subsurface use contracts and are not amortized. If mineral or hydrocarbon resources are not found, this could be an indication of impairment. All capitalized costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. If mineral or hydrocarbon resources are determined and development is sanctioned, relevant costs are then transferred to oil and gas or mining assets subclasses.

Development and production expenditures (oil and gas and mining assets)

Development and production expenditures comprise previously capitalized (and reclassified in commencement of production) expenditures for acquisition of subsurface use rights and exploration and evaluation costs; drilling of producing wells regardless of the drilling results; construction of landfills; development of surface technological facilities required for production, collection and preparation of hydrocarbons and mineral resources at fields; other costs incurred in the process of organization of commercial production at fields; capitalized discounted costs for wells and mines abandonment and site restoration. Development and production expenditures are capitalized within property, plant and equipment (oil and gas and mining assets), and are accounted for on a field-by-field basis.

Depreciation of oil and gas and mining assets (within property, plant and equipment and intangible assets)

Oil and gas and mining assets are depreciated using a unit-of-production method based on actual production from commencement of commercial production at fields. Certain oil and gas and mining assets (surface facilities and equipment) with useful lives significantly differing from those of the fields are depreciated on a straight-line basis over their useful lives. The cost of acquisition of subsurface use rights including discounted decommissioning costs are depreciated over total proved reserves. The other field development costs are amortized over proved developed reserves.

Property, plant and equipment (other than oil and gas and mining assets)

On initial recognition, property, plant and equipment is measured at cost. Subsequently, property, plant and equipment are stated at cost less accumulated depreciation, depletion and impairment. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Property, plant and equipment, other than oil and gas and mining assets, principally comprise the following classes of assets, which are depreciated on a straight-line basis over the expected useful lives:

UPS Power transmission lines	50 years
Refinery assets	4-100 years
Pipelines	2-30 years
Buildings and premises	2-100 years
Railway tracks and infrastructure	10-80 years
Machinery, equipment and vehicles	2-50 years
Other	2-20 years

In cases when items of property, plant and equipment are subject to major inspection, the cost is recognized in the carrying amount of property, plant and equipment as a replacement of component if the recognition criteria set out in IAS 16 are satisfied.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the reporting period the asset is derecognised.

Residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment loss. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the intangible asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognized in the consolidated statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Intangible assets with the finite useful life principally comprise the following classes of assets which are depreciated on a straight-line basis over the expected useful lives:

Licenses	3-20 years
Software	1-14 years
Other	2-15 years

Indefinite-lived intangible assets are not amortized, but tested for impairment annually or whenever there are indications of impairment and, if necessary, written down to the recoverable amount.

Investment properties

Investment property is initially measured at cost, including transaction costs.

Since the Group adopted cost model, after initial recognition, investment property is accounted for in accordance with the cost model as set out in IAS 16 *Property, Plant and Equipment*, that is, cost less accumulated depreciation and less accumulated impairment losses.

The depreciation is calculated based on straight line method basis over the expected remaining useful average life of 2-100 years.

Investment property is derecognised (eliminated from the consolidated balance sheet) on its disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected in the future. The difference between the net inflows arisen from the disposal and carrying amount of the asset is recognised in the consolidated statement of comprehensive income for the period in which it was derecognized.

Impairment of non-financial assets

The Group assesses non-financial assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Group makes an estimate of its recoverable amount.

An asset Group's recoverable amount is higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and a provision is made to reduce the asset to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment provision may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognized impairment provision is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment provision was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment provision been recognized for the asset in prior years. Such reversal is recognized in profits and losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

The following process is applied in assessing impairment of goodwill:

- The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment annually and when circumstances indicate that its carrying amount may be impaired;
- Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

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 (FVOCI), and fair value through profit or loss (FVPL).

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 FVOCI, 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.

Subsequent measurement

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

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

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 and other receivables, loans due from related parties and bank deposits.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss

Financial assets at FVPL include certain loans due from related parties, which contain embedded derivative financial instruments, and coupon bonds included in other financial assets mandatorily required to be measured at fair value. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are carried in the consolidated balance sheet at fair value with net changes in fair value recognised in the consolidated statement of comprehensive income.

Derecognition

A financial asset is primarily derecognised (removed from the consolidated balance sheet) 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.

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 and other receivables 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.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedge accounting

The Group designates certain hedging instruments in respect of foreign currency risk, as either hedges of net investments in foreign operations or cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values of foreign operations or cash flows of the hedged item attributable to the hedged risk.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognized hedged item.

Hedge accounting is discontinued:

a) When the Group revokes the hedging relationship;

b) When the hedging instrument expires or is sold, terminated, or exercised; or

c) When it no longer qualifies for hedge accounting.

Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Investments in foreign operations hedge

Foreign currency gain or loss arising on items that are designated as part of the hedge of the Group's net investment in foreign operations are recognized in consolidated statement of comprehensive income within currency translation reserve.

Cash flow hedges

Foreign currency gain or loss arising from financial instruments that are designated and qualify as cash flow hedges is recognized in consolidated statement of comprehensive income within hedge reserve.

Inventories

Inventories are valued at cost or net realisable value, whichever is lower. Costs comprise charges incurred in bringing inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to sell. The same cost formula is used for all inventories having a similar nature and use. Inventories of oil and gas and energy operating segments are valued on a first-in first-out ("FIFO") basis. All other inventories are valued on the weighted-average cost basis.

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits, short-term and highly liquid investments with original maturity of not more than 3 (three) months readily convertible to known amounts of cash and subject to insignificant risk of change in value.

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at FVPL includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in profit or loss.

The Group has not designated any financial liabilities upon initial recognition as at FVPL.

Trade and other payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate (EIR).

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR. Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 (twelve) months after the reporting date. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense when incurred.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the financial guarantee contracts after initial recognition at the higher of the initially recognized amount and the amount of the estimated allowance for expected credit losses.

Derecognition of financial liabilities

A financial liability is derecognized 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 recognized in profit or loss.

Offsetting of financial instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments

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

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions;
- Reference to the current fair value of another instrument that is substantially the same;
- A discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in *Note 37*.

Leases

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

The Group as lessee

Leases are classified at the commencement date of the rental relationship as financial or operating leases. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Financing costs are recognized directly in the statement of comprehensive income.

The leased asset is depreciated over the useful life of the asset. However, if there is no reasonable assurance that the Group will transfer ownership of the asset at the end of the lease term, the asset is depreciated over the shorter of the following periods: the estimated useful life of the asset and the lease term.

An operating lease is defined as a lease other than a financial lease. Operating lease payments are recognized as operating expenses in the statement of comprehensive income on a straight-line basis over the term of the lease.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Provisions

Asset retirement obligation (decommissioning)

Provision for decommissioning is recognized in full, on a discounted cash flow basis, when the Group has an obligation to dismantle and remove a facility or an item of property, plant and equipment and to restore the site on which it is located, and when a reasonable estimate of that provision can be made.

The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding item of property, plant and equipment in the amount equivalent to the provision is also recognized. This asset is subsequently depreciated as part of the capital costs of the production and transportation facilities in accordance with respective depreciation method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

Asset retirement obligation (decommissioning) (continued)

Changes in the measurement of an existing decommissioning provision that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or change in the discount rate, is accounted for so that:

a) Changes in the provision are added to, or deducted from, the carrying amount of the related asset in the current period;

b) The amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognized immediately in the consolidated statement of comprehensive income; and

c) If the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss, in accordance with IAS 36.

Other provisions

Provisions are recognized in the consolidated financial statements when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

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

Employee benefits

Contributions to pension funds

The Group withholds 10% from the salary of its employees limited to certain annual amounts as the employees' contribution to their designated pension funds. Under the legislation, employees are responsible for their retirement benefits and the Group has no present or future obligation to further compensate its employees upon their retirement.

Social tax

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. Social tax is expensed as incurred.

Defined benefit plan

In accordance with the Collective Agreements signed with trade unions and other benefit regulations, some subsidiaries of the Group provide certain benefits to its employees upon their retirement ("Defined Benefit Plan").

The Group recognises actuarial gains and losses arising from the reassessment of the employee benefit liability in the period they are identified in OCI and profits and losses, and recognises benefit costs and obligations based on estimates determined in accordance with IAS 19 *Employee Benefits*.

The obligation and cost of benefits under the defined benefit plan are determined using the projected unit credit method. This method considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The cost of providing benefits is charged to profit and loss, so as to attribute the total benefit cost over the service lives of employees in accordance with the benefit formula of the defined benefit plan. This obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest on government bonds where the currency and terms of these bonds are consistent with the currency and estimated terms of the defined benefit plan obligation.

The defined benefit plans of Group's subsidiaries are unfunded.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity

Share capital

Common shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess or deficiency of the fair value of consideration received over the par value of shares issued is recognized as an increase or decrease in the retained earnings.

Non-controlling interests

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Parent. Losses of subsidiaries are attributed to the non-controlling interest even if this results in a deficit balance.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed in the consolidated financial statements when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Share based payments

Some employees of the Group receive remuneration in the form of share-based payment transactions, whereby these employees render services as consideration for equity instruments of a subsidiary in which they are employed ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value of the instruments on the date that they are granted. The fair value is determined using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other capital reserves, over a period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognized for such transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Other distributions to the Shareholder

In retained earnings other distributions to the Shareholder are represented by expenses incurred or asset distribution made at the discretion of the Shareholder, including property, plant and equipment, interest in another entities and disposal groups, cash and other in accordance with accounting policy of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and the amount of revenue can be reliably measured.

Sale of goods

Revenues are recognized when (or as) the Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset, which usually occurs when the title is passed, provided that the contract price is fixed or determinable and collectability of the receivable is reasonably assured. For export sales, title generally passes at the border of the Republic of Kazakhstan. Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts, volume rebates and reimbursable taxes.

Sales of support services are recognized as services are performed provided that the service price can be determined and no significant uncertainties regarding the receipt of revenues exist.

Rendering of services

Revenue from rendering of services is recognized when the services have been performed.

In respect of services related to transportation, revenue is recognized with reference to the stage of completion of the transportation at the reporting date provided that the stage of completion of transportation and the amount of revenue can be measured reliably. Prepayments received from customers relating to transportation services that have not been started yet are recognized upon receipt as "advances received from customers". Deferred income is credited to current revenue, as the service is provided.

Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as investments held at FVOCI, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Trade receivables

Accounts receivable represent the Group's right to the reimbursement amount, which is unconditional (i.e., only time is required for the redemption period to be paid).

Contract liabilities from contracts with customers

A contract liability is an obligation to transfer goods or services to the buyer for which the Group received a refund (or reimbursement) from the buyer. In the event that a customer pays compensation before the Group transfers a product or service to a customer, the Group recognizes a contract liability at the time the payment is made or at the time the payment becomes payable (whichever comes first). Contract liabilities are recognized as revenue when the Group fulfills its obligations under the contract.

Costs to obtain a contract

The Group pays commission to sales agents for new connected subscribers in the business-to-customer (B2C) segment. The commission to sales agents is capitalized as costs to obtain a contract in the consolidated statements of financial position. Costs to obtain a contract are amortized over the period the service is provided to the customer.

Establishment of tariffs

A number of subsidiaries of the Group are subject to regulation by the Committee for regulation of natural monopolies of the Republic of Kazakhstan ("CRNM"). This Committee is responsible for approval of the methodology for tariff calculation and tariff rates, under which the subsidiaries derive a significant portion of their revenues.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Due to the fact that the Government of the Republic of Kazakhstan is the sole shareholder of the Fund, the Group analyses all transactions with the Government to assess its role: where the Government acts primarily in its capacity of the Shareholder or where it acts as a regulator. If it is determined that in a specific transaction the Government acts in capacity of the Shareholder any gains or losses incurred by the Group as a result of such transaction are reflected directly in equity as either a contribution or withdrawal of equity by the Shareholder.

If it is determined that in a specific transaction the Government does not act in capacity of the Shareholder such transactions are accounted for using provisions of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*. In such circumstances, government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments. Grants related to income are presented separately in the consolidated statement of comprehensive income within revenues from operating activities.

Expense recognition

Expenses are recognized as incurred and are reported in the consolidated statement of comprehensive income in the period to which they relate on the accrual basis.

Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognized in the profits and losses, except to the extent that it relates to items charged or credited to other comprehensive income or equity, in which case it is recognized in other comprehensive income. Current tax expense is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Excess profit tax ("EPT") is treated as an income tax and forms part of income tax expense. In accordance with the subsurface use contracts, the Group accrues and pays EPT, at specified rates of after tax profit which has been adjusted for specific deductions in accordance with the applicable subsurface use contracts, when certain internal rates of return are exceeded.

The internal rate of return is calculated based on the cash flows from each subsurface use contract, adjusted for the national inflation rate. Deferred tax is calculated with respect to both corporate income tax ("CIT") and EPT. Deferred EPT is calculated on temporary differences for assets allocated to subsurface use contracts use at the expected rate of EPT to be paid under the contract.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The temporary differences arising due to the following are not provided for:

- The initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Value added tax ("VAT")

Tax authorities permit the settlement of sales and purchases VAT on a net basis. VAT receivable represents VAT on domestic purchases net of VAT on domestic sales. Export sales are zero rated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

Related parties include the Group's Shareholder, key management personnel, associates, joint ventures and entities in which a substantial interest in the voting power is owned, directly or indirectly, by the Group's shareholders or key management personnel.

Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements *(Note 38)* unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the consolidated financial statements. Where an inflow of economic benefits is probable, they are disclosed in the notes.

Subsequent events

Post-year-end events that provide evidence of conditions that existed at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent assets and liabilities at the reporting date and reported amounts of assets, liabilities, revenues, expenses and contingent assets and liabilities during the reporting period. Actual outcomes could differ from these estimates.

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

Oil and gas reserves

Oil and gas reserves are a material factor in the computation of depreciation, depletion and amortization expenses in oil segment. The Group estimates its oil and gas reserves in accordance with the methodology of the Society of Petroleum Engineers ("SPE"). In estimating its reserves under SPE methodology, the Group uses long-term planning prices. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year-end spot prices. Management believes that long-term planning price assumptions, which are also used by management for their business planning and investment decisions are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves.

All reserve estimates involve some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability.

Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data, availability of new data, or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for Depreciation Depletion & Amortization ("DD&A") in relation to oil and gas production assets. The Group has included in proved reserves only those quantities that are expected to be produced during the initial subsoil use contract period. This is due to the uncertainties surrounding the outcome of such renewal procedures, since the renewal is ultimately at the discretion of the Government. An increase in the Group's subsoil use contract periods and corresponding increase in reported reserves would generally lead to lower DD&A expense and could materially affect earnings. A reduction in proved developed reserves will increase DD&A expense (assuming constant production), reduce income and could also result in an immediate write-down of the property's book value. Given the relatively small number of producing fields, it is possible that any changes in reserve estimates year on year could significantly affect prospective charges for DD&A.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Mining reserves

Mining reserves are a critical component of the projected cash flow estimates that are used to assess the recoverable values of assets and to determine depreciation and amortisation expense in mining segment. Group entities usually estimate reserves based on results of detailed mine exploration, which is evaluated and approved by State Reserves Commission (SRC) of Kazakhstan Geology Committee. Normally upon stripping during production actual reserves of each area are greater or lesser than geological reserves approved by SRC.

Reserves JORC

In 2018 and 2017, the Group engaged SRK Consulting (UK) Limited (hereinafter SRK) to assess the Group's reserves and resources in accordance with the Australasian Code for reporting on geological exploration works, mineral resources and ore reserves (2012) (hereinafter JORC Code). Reserves and resources valuation was carried out as of December 31, 2018 and December 31, 2017, respectively. SRK has reviewed all of the key information upon which the most recent reported mineral resource and ore reserve statements for the mining assets of NAC KAP are based.

SRK has not independently re-calculated mineral resource and ore reserve estimates for the Group's operations but has rather reviewed the quantity and quality of the underlying data and the methodologies used to derive and classify the estimates as reported by the Group and made an opinion on these estimates including the tonnes of uranium planned to be exploited in the most up to date life of mine plans. Based on this review, SRK has derived mineral resource and ore reserve statements according to the guidelines and terminology proposed in the JORC Code. SRK's resource statements are confined to those areas that both have the potential to be mined economically and which are currently being considered for mining.

SRK report contains an assessment of the tonnes of uranium contained in ore which has the potential to be extracted by the existing and planned mining operations (the mineral resource), and also the tonnes of uranium contained in ore currently planned to be extracted as envisaged by the respective mining development plans (the ore reserve). The Group used reserves data according to the SRK report for calculation of impairment of long-term assets and production depreciation for each of the Group's mines.

Recoverability of long-term assets

The Group assesses assets or cash generating unit ("CGU") for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term oil prices, discount rates, future capital requirements, operating performance (including production and sales volumes) that are subject to risk and uncertainty. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered to be impaired and is written down to its recoverable amount. In assessing recoverable amount the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

Under IAS 36, one of the possible impairment indicators is the presence of significant changes that had negative consequences for the Group that occurred during the year or are expected in the near future in the technological, market, economic or legal environment in which the Group operates or in the market for which the asset is used.

Recoverability of oil and gas assets, downstream, refining and other assets

As at December 31, 2018, the Group recognized the impairment of exploration and evaluation assets of 107,745 million tenge, which mainly relates to projects N and Satpayev of 67,897 million tenge and 34,538 million tenge, respectively, due to planned withdrawal from projects and return of the contract territories to the Government.

As at December 31, 2018, the Group performed its annual impairment tests of downstream, refining and other assets due to existence of impairment indicators. The Group considered forecasted refinery margins and production volumes, among other factors, when reviewing for indicators of impairment.

As a result of the impairment analysis of the recoverable amount of downstream, refining and other assets an impairment charge of 56,239 million tenge was recognized in the consolidated financial statements for the year ended December 31, 2018. The impairment charge was allocated to the property, plant and equipment and the intangible assets, and mainly relates to impairment of KMGI's Refining, Petrochemical, Bulgaria and Other CGUs.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Recoverability of oil and gas assets, downstream, refining and other assets (continued)

The present value of the free cash flows was determined using discounted cash flows from financial budgets approved by senior management covering a five-year period. As a result, the impairment loss attributable to Refining, Petrochemical, Bulgaria amounted to 43,701 million tenge was recognized, of which 21,195 million tenge was allocated to the property, plant and equipment and 22,506 million tenge was allocated to the intangible assets.

The recoverable amount of CGUs of KMGI has been determined based on fair value less costs of disposal, which is the present value of the free cash flows adjusted by the present value of the residual value. The key assumptions used in the fair value less costs to sell calculations for the above-mentioned CGUs are operating profit, discount rates and growth rate used to extrapolate cash flows beyond the budget period. The discount rate applied to cash flow projections for Refining and Petrochemical CGUs is 9.7% (2017: 9.0%) and cash flows beyond the 5-year period are extrapolated using a 1.9% growth rate that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 7.8% (2017: 7.5%). As to Bulgaria CGU, the discount rate applied to cash flow projections is 9.8% (2017: 9.1%) and cash flows beyond the 5-year period are extrapolated using a 1.9% growth rate that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 7.9% (2017: 7.6%).

As of December 31, 2018 the Group has significant goodwill related to acquisition of Pavlodar Oil Chemistry Refinery LLP ("PNHZ") of 88,553 million tenge.

The Group performed annual impairment test of the goodwill related to acquisition of PNHZ as at December 2018 and 2017. The Group considers the forecast for oil processing volumes, oil processing tariffs, capital expenditures, among other factors, when reviewing for indicators of impairment.

PNHZ calculates recoverable amount using a discounted cash flow model. The discount rate of 9.7% (2017: 13.25%) was calculated on the weighted average cost of capital before taxes. The weighted average cost of capital takes into account both borrowed and own capital. The cost of equity is derived from the expected return on investment. The cost of debt capital is based on interest-bearing loans that PNHZ is obliged to maintain. The inherent risk was included by applying an individual beta factor. The beta factor was estimated based on the publicly available market data. Forecasted cash flows till to 2037 were based on five-year business plan of PNHZ till 2023, which assumes current management estimates on potential changes in operating and capital costs. The significant part of those cash flows after 2023 was forecasted by applying expected inflation rate of 2.77% (2017: 2.78%), excluding capital costs, which are based on the best estimate of management as of valuation date.

As at December 31, 2018 the recoverable amount of PNHZ goodwill, which was determined based on value in use, exceeds its book value. Therefore, as at December 31, 2018 no impairment of PNHZ goodwill was recognised.

Sensitivity to changes in assumptions

Results of the assessment of recoverable amount of goodwill from acquisition of PNHZ are sensitive to changes in key assumptions, in particular, assumptions related to changes in WACC discount rates and target EBITDA in terminal period. Increase in discount rates by 1.0% from 9.7% to 10.7%, and decrease of target EBITDA in terminal period by 5% from 43% to 38% would not result in decrease of the recoverable amount generating unit of PNHZ.

Energy generating assets

In accordance with analysis made as at December 31, 2018 the management of the Group identified indicators of impairment of property, plant and equipment of Samruk-Energy JSC's subsidiaries: Ekibaztus GRES-1 named after Bulat Nurzhanov LLP ("EGRES-1"), Almaty Electricity Stations JSC ("ALES"), "Moynak HES named after Kantayev U.D" JSC. ("MHPP") and joint venture of Ekibaztus GRES-2 station JSC ("EGRES-2") and investments of EGRES-2 accordingly.

The group involved independent experts to carry out an impairment test on assets of EGRES-1, ALES and EGRES-2 in accordance with IAS 36 *Impairment of Assets*. The impairment test for the MHPP assets was conducted by management along the lines of the methodology used by independent experts in the impairment test for other companies of the Group. The recoverable amount of property, plant and equipment and intangible assets was determined on the basis of the assessment of the estimated future income and cash outflows from the use of assets, the discount rate and other indicators.

Management considers all property, plant and equipments and intangible assets of each subsidiary as a single cash-generating unit, as it is the smallest identifiable group of assets that generates cash inflows largely independent of the cash flows generated by other assets, and it is the lowest level at which each subsidiary monitors recovery of the assets' cost. Management has assessed the recoverable amount of property, plant and equipment on the basis of value in use, determined as the sum of the estimated discounted future cash flows which the Group expects to get from their use.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Recoverability of oil and gas assets, downstream, refining and other assets (continued)

Energy generating assets (continued)

Test for impairment of property, plant and equipment and intangible assets EGRES-1, ALES, MHPP

The impairment test was carried out using the appropriate appraisal techniques, using the following basic assumptions to calculate discounted cash flows for the period 2019-2026:

- Tariff forecast;
- Forecast volumes;
- Forecast of capital and derivative costs;
- Discount rate forecast;
- Macroeconomic indicators.

The forecast period for the test for impairment of assets of subsidiaries is more than five years, as the Group plans to complete work on the completion of certain capital projects. The Group believes that the results of capital projects are material for calculating discounted cash flows.

Electricity tariffs

According to the Law of the Republic of Kazakhstan *On Electric Power Industry*, an energy producing organization independently sets the selling price for electrical energy, but not higher than the marginal tariff for electrical energy of the corresponding group of energy producing organizations that sell electrical energy, and if necessary, the marginal tariffs are adjusted annually. The marginal tariff is approved by the Ministry of Energy of the Republic of Kazakhstan by groups of energy-producing organizations, formed by type of power plants, installed capacity, type of fuel used and distance from the location of fuel.

By the Order of the Minister of Energy of the Republic of Kazakhstan dated December 5, 2018 No. 475 *On Approval of the Group of Energy Producing Organizations Selling Electricity*, subsidiaries of EGRES-1, ALES and MHPP are defined as 1, 26 and 36 groups of energy producing organizations, respectively. The Order of the Minister of Energy of the Republic of Kazakhstan dated December 14, 2018 No. 514 for these groups approved the marginal tariff for electric energy of 5.76, 8.33 and 7.14 tenge / kWh, effective from January 1, 2019 for a period of seven years.

Volumes of production

The sales volume forecast was made on the basis of information for previous years and management's expectations in accordance with the Development Plan of each subsidiary for the corresponding forecast period. It was assumed that the sales volume of EGRES-1 electricity will grow by an average of 7% in 2020-2023 and then 1-2% in 2024-2025, the sales volume of electricity, heat and chemically treated water from ALES and the sales volume of MHPP electricity will remain approximately at the 2019 level.

The Group expects an equal distribution of the sale of capacity at the auction starting from 2020 between the main market participants at an average market rate. The management of the Group is confident that Samruk-Energy JSC will be able to realize the forecast volumes of capacity starting from 2020, as capacity is in demand, and this is indicated by the current station load and sales volume.

Capital expenditures

EGRES-1	Unit	2019	2020	2021	2022	2023	2024	2025	2026
Capital expenditures	mln tenge	12,037	16,197	16,861	22,778	26,232	24,246	26,460	7,706

ALES	Unit	2019	2020	2021	2022	2023	2024	2025
Capital expenditures	mln tenge	5,475	7,882	5,284	3,817	7,126	5,674	5,851

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Recoverability of oil and gas assets, downstream, refining and other assets (continued)

Energy generating assets (continued)

Capital expenditures (continued)

MHPP	Unit	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Capital expenditures	mln tenge	856	719	1,613	864	864	142	146	150	154	159	163

Discount rate

The discount rate was estimated considering the current market assessment of risks inherent in the industry, and is based on the weighted average capital cost of each company in the amount of 11.15% for EGRES-1, 12.06% for ALES and 12.70% for MHPP, respectively.

Long-term rate of inflation

The long-term inflation rate used to calculate the terminal value is 2.57% per annum.

Impairment Test Results

EGRES-1

As a result of testing for impairment, the recoverable amount of assets of EGRES-1 as at December 31, 2018 was determined in the amount of 512,087 million tenge, which exceeds the book value of assets of EGRES-1 by 21,217 million tenge. Accordingly, the Group did not recognize impairment loss in 2018.

ALES

As a result of testing for impairment, the recoverable value of the assets of ALES as of December 31, 2018 was determined in the amount of 79,791 million tenge, which is 2,410 million tenge lower than their book value. Accordingly, the Group recognized an impairment loss on property, plant and equipment in the amount of 2,410 million tenge in 2018. Management distributed impairment losses in proportion to the carrying amount of each asset.

MHPP

As a result of testing for impairment, the recoverable value of the MHPP assets at December 31, 2018 was determined in the amount of 76,288 million tenge, which is 36,267 million tenge above their book value. Accordingly, the Group did not recognize impairment losses in 2018.

Investments in EGRES-2

As at December 31, 2018 the carrying value of the investment in the joint venture EGRES-2 was 18,852 million tenge.

In the analysis of indicators of impairment EGRES-2 management, among other things, takes into account the dynamics of tariffs for electricity and the demand by the main participants in the electricity market. The uncertainty associated with the completion of the construction of power unit No. 3 and the further sale of electricity to be generated by power unit No. 3 indicated a potential depreciation of property, plant and equipment of EGRES-2 and, accordingly, possible impairment of the Group's investment in EGRES-2.

As a result, the management conducted tests for the impairment of all property, plant and equipments of EGRES-2 as a single cash generating unit.

The recoverable amount was determined based on value in use. Forecasted cash flows from updated financial budgets for 5 years starting from 2019 to 2023 approved by the management were used in these estimations. The calculated recoverable amount of the assets exceeded their carrying value as a result of the impairment test.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Railway assets

Because of impairment indicators as at December 31, 2018, NC KTZh conducted impairment tests of its railways assets.

Railway infrastructure is integral and is not differentiated for freight and passenger transportation lines. Accordingly, there is no objective allocation of infrastructure assets for cash flows from freight and passenger transportation. Due to the specifics of tariff regulation for freight transportation and the need to cross-subsidise passenger transportation, railway infrastructure cannot generate independent cash flows and accordingly Group considers them as a single CGU.

The Government, as the Group's Shareholder, has approved a privatisation plan for certain NC KTZh entities, which, if implemented, would result in a new interaction mechanism among its various business units. As NC KTZh's restructuring processes have not been completed, these possible developments were not taken into account for current year impairment testing purposes. Subsequent changes in the identification of CGUs may affect the carrying value of the railway assets.

Additionally, a number of subjective factors, both operational and financial, using the best evidence available, are used to estimate cash flows.

The operational assumptions used in the test reflect expected volumes of transportation services, including transit volumes, based on projected demand and historical dynamic of transit freight transportations volumes.

Financial assumptions include significant estimates associated with tariff forecasts and growth rates, discounts, and projected tenge to Swiss Franc exchange rates. The key long-term assumptions used in the calculation were annual growth rate of 4% and discount rate of 11.8%. These assumptions are presented in real terms.

As at December 31, 2018, no impairment has been identified based on the estimated value in use of the Group's property, plant and equipment. However, the value in use estimate is sensitive particularly to the following assumptions:

- Transit freight transportation volumes;
- Revenue rate on freight transit transportation;
- Capital costs for replacement and maintenance of the assets; and
- The discount rate (WACC).

Adverse changes to planned freight and passenger traffic growth rates due to general economic trends, tariffs not being sufficiently indexed to inflation, the tenge's continuing volatility against foreign currencies, government support levels, and other future adverse changes may lead to significant impairment losses in the period in which they occur.

Assets related to uranium production

Assets related to uranium mines include property, plant and equipment, mine development assets, mineral rights, exploration and evaluation assets, investments in associates, investments in joint ventures, and other investments.

For the purpose of impairment testing assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (termed as "cash-generating units"). The Group has identified each mine (contract territory) as a separate cash-generating unit unless several mines are technologically connected with single processing plant in which case the Group considers such mines as one cash-generating unit.

As at December 31, 2018, management performed an analysis of impairment indications of assets (cash-generating units) related to uranium production. No indications of impairment were identified as of that date: (a) uranium prices increased over 2018, above forecasts in prior year; (b) uranium reserves remained stable in 2018 and for number of mines increased per the JORC report by SRK, as explained below.

The Group considered whether there have been favourable events or changes in circumstances that would indicate impairment losses previously recognised no longer exist or may have decreased. Decrease in reserves as at December 31, 2017 and other factors (refer below) were considered as impairment indications that resulted in impairment losses on Kanzhugan, Karamurun, Zarechnoe and Semizbay mines being recognised in 2017. As these indications reversed as at December 31, 2018, the Group reestimated the recoverable amount and recognised reversal of impairment losses on these cash generating units. No reversal was recognised on Uvanas and South Moinkum CGUs as cost of production on these mines remains to be higher than sales price.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Assets related to uranium production (continued)

The principal assumptions used by management for calculation of value in use as at December 31, 2018 are:

- Average annual uranium prices are based upon the forecast by an independent source Ux Consulting LLC, published in the fourth quarter of 2018 (Mid Price Midpoint), reduced by 10%:

	2019	2020	2021	2022	2023-2030
Average price of U_3O_8 per pound (in USD)	28.92	30.37	31.21	31.76	32.47-47.39

- Forecasted periods and volumes of uranium production and sales have regard to annual production volumes set in the subsurface use contracts and the life of mine plans;
- Operating and capital expenditures for 2019-2023 are consistent with the approved 5-year budget of the Group;
- Operating and capital expenditures after 2023 will increase at the long-term inflation rate of 2.0% per annum;
- Discount rates of 11.87-12.92% per annum; and
- Forecast long-term exchange rate at tenge 370 per US dollar 1.

Assets retirement obligations

Assets retirement obligations related to oil and gas assets

Under the terms of certain subsurface use contracts, legislation and regulations the Group has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Group's obligation relates to the ongoing closure of all non-producing wells and final closure activities such as removal of pipes, buildings and recultivation of the contract territories, and also obligations to dismantle and remove tangible assets and restore territory at each production site. Since the subsurface use contract terms cannot be extended at the discretion of the Group, the settlement date of the final closure obligations has been assumed to be the end of each subsurface use contract period. If the asset retirement obligations were to be settled at the end of the economic life of oil and gas field, the recorded obligation would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Group's obligations to finance the abandonment of wells and for final closure costs depends on the terms of the respective subsurface use contracts and current legislation.

Where neither subsurface use contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the subsurface use contract term, no liability has been recognized. There is some uncertainty and significant judgment involved in making such a determination. Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice.

The Group calculates asset retirement obligations separately for each contract. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstani market.

At each reporting date the Group reviews site restoration provisions, and adjusts them to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

Estimating the future closure costs involves significant estimates and judgments by management. Most of these obligations are many years in the future and, in addition to ambiguities in the legal requirements, the Group's estimate can be affected by changes in asset removal technologies, costs and industry practice.

Uncertainties related to the final closure costs are mitigated by the effects of discounting the expected cash flows. The Group estimates future well and assets abandonment cost using current year prices and the average long-term inflation rate.

The long-term inflation and discount rates used to determine the obligation in the consolidated statement of financial position across the Group entities at December 31, 2018 were in the range from 2.02% to 5.96% and from 5.5% to 10.00%, respectively (2017: from 2.01% to 5.57% and from 5.17% to 10.00%). As at December 31, 2018 the carrying amounts of the Group's asset retirement obligations relating to decommissioning of oil and gas facilities were 67,485 million tenge (December 31, 2017: 70,982 million tenge) *(Note 23)*.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Assets retirement obligations (continued)

Major oil and gas pipelines

According to the Law of the Republic of Kazakhstan *On Major Pipelines* which was made effective on July 4, 2012 the Group's two subsidiaries, JSC KazTransOil and Intergas Central Asia JSC, have legal obligation to decommission its major oil pipelines at the end of their operating life and to restore the land to its original condition.

Asset retirement obligation is calculated based on estimate of the work to decommission and rehabilitate.

As at December 31, 2018 the carrying amounts of the Group's asset retirement obligations relating to decommissioning of pipelines and land were 79,948 million tenge (December 31, 2017: 65,140 million tenge) *(Note 23)*.

Assets related to uranium production

Asset retirement obligations for mining assets as of December 31, 2018 were assessed by the independent consultant SRK Consulting based on data provided by the Group. The scope of works, set by the legislation and covered by SRK calculation, included removal of the facilities and infrastructure (production, injection and monitoring wells, technological units of acidification and distribution of solutions, pipelines, access roads, technological sites, polygons, buildings and other facilities) and subsequent land rehabilitation.

Provisions for asset retirement obligations are subject to potential changes in environmental regulatory requirements and the interpretation of the legislation. Provisions for mining assets and waste polygons retirement obligations are recognised when there is a certainty of incurring of such liabilities and when it is possible to measure the amounts reliably.

Significant judgments used in such estimations include the estimate of discount rate and the amount and timing of future cash flows. The discount rate is applied to the nominal costs the management expects to spend on mining site restoration in the future. Management's estimates based on current prices are inflated using the expected long-term inflation rate of 5.30% in 2018 (2017: 5.40%), and subsequently discounted using rate that reflects the current market estimates of the time value of money and those risks specific to the liability not reflected in the best estimate of the costs. The discount rate is based on a risk-free rate determined as interest rates on government bonds with the same maturity as the subsoil use contracts of the Group. The discount rate used by the Group's companies for calculation of the provision as at December 31, 2018 is 7.45% (December 31, 2017: 9.06%).

At December 31, 2018, the carrying value of the site restoration provision was 29,607 million tenge (December 31, 2017: 19,939 million tenge) *(Note 23)*. Management estimates that reasonably possible changes in key assumptions would not lead to significant changes in the recorded site restoration provision.

Provision for environmental remediation

The Group management also makes judgments and estimates in establishing provisions for environmental remediation obligations. Environmental expenditures are capitalized or expensed depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations and do not have a future economic benefit are expensed.

Liabilities are determined based on current information about costs and expected plans for remediation and are recorded on an undiscounted basis if the timing of the procedures has not been agreed with the relevant authorities. The Group's environmental remediation provision represents management best estimate based on an independent assessment of the anticipated expenditure necessary for the Group to remain in compliance with the current regulatory regime in Kazakhstan and Europe. For environmental remediation provisions, actual costs can differ from estimates because of changes in laws and regulations, public expectations, discovery and analysis of site conditions and changes in clean-up technology. Further uncertainties related to environmental remediation obligations are detailed in *Note 38*. Movements in the provision for environmental remediation obligations are disclosed in *Note 23*.

Provision for taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of the Group's international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable profits and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Provision for taxes (continued)

The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile.

In assessing tax risks, management considers to be probable obligations the known areas of non-compliance with tax legislation, which the Group would not appeal or does not believe it could successfully appeal, if additional taxes are charged. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, amendments to the taxation terms of the Group's subsurface use contracts, the determination of expected outcomes from pending tax proceedings and current outcome of ongoing compliance audits by tax authorities. The provision for taxes disclosed in *Note 23* relates mainly to the Group's application of Kazakhstan transfer pricing legislation. Further uncertainties related to taxation are disclosed in *Note 38*.

Provision for construction of social objects

The Government assigns various sponsorship and financing obligations to the Group. Management of the Group believes that such Government's assignments represent constructive obligations of the Group and require recognition on the basis of respective resolution of the Government of the Republic of Kazakhstan. Furthermore, as the Government is the ultimate controlling party of the Group, the expenditures on these assignments are recognized as "other distributions to the Shareholder" directly in the equity.

Useful lives of items of property, plant and equipment

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

Deferred tax assets

Deferred tax assets are recognized for all allowances and unused tax losses to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of recognized deferred tax assets as at December 31, 2018 was equal to 131,192 million tenge (December 31, 2017: 169,280 million tenge). Further details are contained in *Note 34*.

Operating lease commitments – the Group as lessee

The Group has entered into office space and car leases. The Group has determined that the lessor retains all the significant risks and rewards of ownership of office spaces and cars and so accounts for them as operating leases in the consolidated financial statements

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value of financial instruments reported in the consolidated financial statements. Further details are disclosed in *Note 37*.

Employee benefit liability

The Group uses actuarial valuation method for measurement of the present value of defined employee benefit liability and related current service cost *(Note 24)*. This involves use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, etc.) as well as financial assumptions (discount rate, future annual financial assistance, future annual minimum salary and future average railway ticket price). Further details on judgements are disclosed in *Note 24*.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Estimation of expected credit losses

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

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

Swap transactions

The Group sells part of its uranium products under swap transactions with separate agreements with the same counterparty simultaneously, being for delivery and purchase of the same volume of uranium for the same price at different delivery points. Effectively, this results in the exchange of own uranium (produced or purchased from the Group's entities) with purchased uranium. Normally, under a swap transaction, the Group delivers physical uranium to one destination point, and purchases the same volume of uranium at a third party converter for sale to end customers. Swap transactions are entered into primarily to reduce transportation costs for uranium delivery from Kazakhstan to end customers.

Despite the fact that swap agreements are not formally related to each other, management concluded that these transactions are in substance linked and would not have occurred on an isolated basis, driven by the existing market demand and supply forces. In management's view, supply of the same volume of homogeneous product (uranium) for the same price represents an exchange of products, which should be presented on a net basis in the consolidated financial statements, reflecting the economic substance of the transaction. Interpretation of terms and approach to the accounting for swap transactions requires judgement.

In 2017, the Group did not recognise sales revenue from swap transactions of 57,177 million tenge, cost of sales of 52,532 million tenge and adjusted the inventory balance by 4,645 million tenge.

The Group did not recognize revenue from swap transactions of 65.052 million tenge, cost of sales of 68,112 million tenge and adjusted the balance of reserves by 1,585 million tenge.

Discontinued operations

As of December 31, 2018, the Group ceased to classify KMG International N.V. (KMGI) as discontinued operation as the participants did not complete procedures provided by sale and purchase agreement (the SPA) to sell a 51% interest in KMG I by the long stop date and the transaction was automatically terminated. As a result, KMGI does not meet the criteria of IFRS 5. The assets and liabilities of KMGI were transferred from discontinued operations to continuing operations.

In July 2018 the Group transferred its 100% share in Kazakhstan Engineering JSC to the Shareholder. The Group recognized disposal of net assets of Kazakhstan Engineering JSC as other distributions to the Shareholder.

As at December 31, 2018, the Group decided to sell 100% interest in KMG Retail LLP (KMG Retail). The disposal of KMG Retail is due to be completed in 2019 and, as at December 31, 2018, the procedures for the sale were in progress. The disposal of KMG Retail is in accordance with the Governmental plan on the privatization of state owned companies. The Group considers it as a disposal group held for sale.

5. BUSINESS COMBINATIONS

Kcell JSC

On December 21, 2018, the Group acquired 75% of voting shares in Kcell JSC, whose shares and GDRs are listed on Kazakhstan Stock Exchange and London Stock Exchange, respectively. Kcell JSC is registered and provides mobile services in Republic of Kazakhstan.

5. BUSINESS COMBINATIONS (continued)

Kcell JSC (continued)

The Group has acquired Kcell JSC, because it allows to significantly expand its presence in the segment of mobile telecommunication services in GSM and LTE standards.

The Group decided to measure the non-controlling interest in the acquisition object by the proportionate share of its participation in the identifiable net assets of the acquisition.

Provisional fair value amounts of identified assets, liabilities and contingent liabilities of Kcell JSC as at the date of acquisition comprised the following:

In millions of tenge	At acquisition date
Assets	
Non-current assets	
Property, plant and equipment	120,819
Intangible assets	107,834
Other non-current financial assets	3,010
Other non-current assets	1,156
Current assets	
Inventories	5,681
VAT receivables	6,674
Trade accounts receivable	13,970
Other current assets	3,048
Cash and cash equivalents	6,923
Total assets	**269,115**
Liabilities	
Non-current liabilities	
Borrowings	14,936
Deferred tax liabilities	21,248
Provisions	1,285
Other non-current liabilities	77
Current liabilities	
Borrowings	51,380
Trade and other payables	14,048
Income tax payable	2,694
Other current liabilities	15,333
Total liabilities	**121,001**
Identifiable net assets	**148,114**
Non-controlling interest	(37,029)
Share in identifiable net assets	**111,085**
Goodwill arising on acquisition	54,657
Purchase consideration transferred	**165,742**
Analysis of cash flows on acquisition	
Net cash acquired with the subsidiary	6,923
Cash paid	(165,742)
Net cash outflow	**(158,819)**

Net assets recognized in the consolidated financial statements as at December 31, 2018 are based on a preliminary assessment of their fair value, while the Group makes an independent assessment of assets owned by Kcell JSC. This estimate has not been completed at the time of issuing the consolidated financial statements for 2018.

Since the acquisition date, the contribution of Kcell JSC to the Group's revenue for the period to December 31, 2018 amounted to 4,529 million tenge, and to the Group's net income before tax Kcell JSC contributed loss of 349 million tenge.

5. BUSINESS COMBINATIONS (continued)

JV Inkai LLP

On December 11, 2017, the NAC Kazatomprom JSC (the Fund's subsidiary) and Cameco Corporation completed the restructuring of JV Inkai LLP. In accordance with the terms of the restructuring agreement, the NAC Kazatomprom JSC increased its interest in JV Inkai LLP from 40% to 60% and from January 1, 2018 obtained control over the investee. In addition, within the framework of the restructuring agreement JV Inkai LLP received permission to extend the contract for subsoil use until 2045.

Prior to obtaining control, the Group accounted for JV Inkai LLP as an investment in a joint venture under the equity method.

Business combination transactions which resulted in a recorded net gain of 58,646 million tenge as follows

In millions of tenge	**JV Inkai LLP**
Fair value of the investments in joint ventures prior to the business combination	77,850
Less: carrying value of the investments in joint ventures	(40,389)
Income from previously recognized foreign currency reserve in OCI	21,174
Cash paid	11
Gain from business combination	**58,646**

The following table is the fair value of the assets acquired and liabilities as at the acquisition date:

In millions of tenge	**At acquisition date**
Assets	
Non-current assets	
Property, plant and equipment	62,170
Intangible assets	158,646
Exploration and evaluation assets	15,488
Other non-current financial assets	447
Other non-current assets	3,407
Current assets	
Inventories	5,579
Trade accounts receivable	19,162
Income tax prepaid	2,313
Other current assets	760
Cash and cash equivalents	1,036
Total assets	**269,008**
Liabilities	
Non-current liabilities	
Deferred tax liabilities	32,162
Provisions	1,346
Other non-current liabilities	44
Current liabilities	
Borrowings	38,955
Trade and other payables	3,970
Provisions	234
Other current liabilities	392
Total liabilities	**77,103**
Fair value of identifiable net assets	**191,905**
Less:	
Non-controlling interest	(76,761)
Fair value of the investments in joint ventures prior to the business combination	(77,850)
Cash paid	(11)
Gain on acquisition	**37,283**

Deferred tax of 21,832 million tenge was recorded on the excess of the fair value over the carrying value.

The acquired subsidiary contributed revenue of 25,625 million tenge and net income of 18,643 million tenge to the Group for the period from January 1, 2018 to December 31, 2018.

5. BUSINESS COMBINATIONS (continued)

JV Akbastau JSC and Karatau LLP

The Group and Uranium One Inc hold 50% interest each in Karatau LLP and JV Akbastau JSC. In 2018, the Group and Uranium One Inc signed a number of agreements that formalised their obligation to purchase all production of the investees at equitable terms, as well as to provide financing to the joint arrangement in proportion to their shares. Both parties have direct rights to the assets and obligations for the liabilities of the investees, accordingly starting from 2018 the entities have been classified as joint operations. The Group recognised its direct right in joint assets, liabilities, income and expenses in proportion to 50% ownership interest, these items are consolidated in the Group's financial statements on line by line basis. Until 2018, investments in Karatau LLP (50% interest) and JV Akbastau JSC (50% interest) were accounted for using equity method.

Business combination transactions which resulted in a recorded net gain of 217,588 million tenge as follows:

In millions of tenge	**Karatau LLP**	**JV Akbastau JSC**
Fair value of the investments in joint ventures prior to the business combination	139,270	110,837
Less: carrying value of the investments in joint ventures	(14,632)	(17,887)
Net gain from business combination	**124,638**	**92,950**

Presented below is the information on the fair value of acquired assets, liabilities assumed (proportionate 50% share) and resultant goodwill of Karatau LLP and JV Akbastau JSC:

In millions of tenge	**Karatau LLP**	**JV Akbastau JSC**
Assets		
Non-current assets		
Property, plant and equipment	13,300	10,698
Intangible assets	123,268	91,803
Other non-current financial assets	86	271
Other non-current assets	442	583
Current assets		
Inventories	1,716	1,206
Trade accounts receivable	4,988	6,027
Income tax prepaid	–	340
Other current assets	77	77
Cash and cash equivalents	372	1,513
Total assets	**144,249**	**112,518**
Liabilities		
Non-current liabilities		
Deferred tax liabilities	24,809	18,585
Provisions	414	513
Current liabilities		
Borrowings	2,235	–
Trade and other payables	2,149	1,066
Income tax payable	18	–
Other current liabilities	163	37
Total liabilities	**29,788**	**20,201**
Fair value of identifiable net assets	**114,461**	**92,317**
Less:		
Fair value of the investments in joint ventures prior to the business combination	139,270	110,837
Goodwill arising from the acquisition	**24,809**	**18,520**

5. BUSINESS COMBINATIONS (continued)

Baiken-U LLP

In December 2018 the Group obtained control over Baiken-U LLP. The Group has applied provisional amounts for the acquired assets and liabilities as the accounting for the business combination was not complete at the end of the reporting period.

Provisional fair value amounts of assets, liabilities and contingent liabilities of Baiken-U LLP as at the date of acquisition comprised the following:

In millions of tenge	**At acquisition date**
Assets	
Non-current assets	
Property, plant and equipment	29,981
Intangible assets	691
Investments in joint ventures and associates	246
Other non-current assets	1,705
Current assets	
Inventories	2,049
VAT receivable	781
Trade accounts receivable	452
Other current assets	153
Cash and cash equivalents	28,420
Total assets	**64,478**
Liabilities	
Non-current liabilities	
Deferred tax liabilities	610
Provisions	1,261
Current liabilities	
Trade and other payables	2,142
Income tax payable	215
Provisions	159
Other current liabilities	276
Total liabilities	**4,663**
Identifiable net assets	**59,815**
Non-controlling interest	(33,298)
Share in Identifiable net assets	**26,517**
Share in net assets previously held by the Group	(17,825)
Goodwill arising from acquisition	15,215
Total consideration transferred	**23,907**
Total consideration transferred	
Cash consideration paid	34,193
Net liabilities from pre-existing relationship	(10,286)
Total consideration transferred	**23,907**

The difference between the consideration transferred and the acquiree's identifiable assets, liabilities assumed and contingent liabilities led to recognition of goodwill, as presented in the table above.

6. DISCONTINUED OPERATIONS AND ASSETS CLASSIFIED AS HELD FOR SALE

Discontinued operations in 2018

As at December 31, 2018, the Group ceased to classify KMG International N.V. (KMGI) as discontinued operation as the participants did not complete procedures provided by sale and purchase agreement (the SPA) to sell a 51% interest in KMGI by the long stop date and the transaction was automatically terminated. As such KMGI no longer meet the criteria of IFRS 5. The assets and liabilities of KMGI were transferred from discontinued operations to continuing operations.

In July 2018 the Group transferred its 100% share in Kazakhstan Engineering JSC to the Shareholder. The Group recognized disposal of net assets of Kazakhstan Engineering JSC as other distributions to the Shareholder.

The effect of the change on comparative data is presented below.

	2017			
		Restatement		
In millions of tenge	**Before restatement**	**KMGI**	**Kazakhstan Engineering JSC**	**After restatement**
Revenue	5,124,158	2,334,927	(77,024)	7,382,061
Government grants	52,443	–	–	52,443
	5,176,601	**2,334,927**	**(77,024)**	**7,434,504**
Cost of sales	(4,553,301)	(1,416,186)	77,015	(5,892,472)
Gross profit	**623,300**	**918,741**	**(9)**	**1,542,032**
General and administrative expenses	(412,861)	(46,603)	4,724	(454,740)
Transportation and selling expenses	(319,154)	(60,409)	839	(378,724)
Impairment loss	(94,933)	(838)	1,389	(94,382)
(Loss)/gain on disposal of subsidiaries	(3,528)	–	–	(3,528)
Gain on business combination	26,449	–	–	26,449
Operating (loss)/profit	**(180,727)**	**810,891**	**6,943**	**637,107**
Finance costs	(474,646)	(11,458)	3,725	(482,379)
Finance income	191,932	839	(1,029)	191,742
Other non-operating loss	(42,415)	(250)	1,558	(41,107)
Other non-operating income	49,471	(3,253)	(901)	45,317
Share in profit of joint ventures and associates, net	531,841	385	(544)	531,682
Net foreign exchange gain/(loss)	23,737	(127)	286	23,896
Gain from exercise of put option	107,714	–	–	107,714
Profit before income tax	**206,907**	**797,027**	**10,038**	**1,013,972**
Income tax expenses	(263,782)	1,745	(200)	(262,237)
(Loss)/profit for the year from continuing operations	**(56,875)**	**798,772**	**9,838**	**751,735**
Discontinued operations				
Profit from discontinued operations, net of income tax	792,850	(792,850)	(9,838)	(9,838)
Net profit for the year	**735,975**	**5,922**	**–**	**741,897**
Net profit for the year attributable to:				
Equity holder of the Parent	600,807	5,922	–	606,729
Non-controlling interest	135,168	–	–	135,168
	735,975	**5,922**	**–**	**741,897**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Discontinued operations in 2018 (continued)

	As at December 31, 2017		
In millions of tenge	**Before restatement**	**Restatement**	**After restatement**
Assets			
Non-current assets			
Property, plant and equipment	10,782,247	721,070	11,503,317
Intangible assets	923,811	69,774	993,585
Exploration and evaluation assets	451,782	–	451,782
Investment property	11,601	–	11,601
Investments in joint ventures and associates	2,843,489	13,278	2,856,767
Loans issued and finance lease receivables	593,325	–	593,325
Amounts due from credit institutions	502,493	–	502,493
Deferred tax assets	135,735	33,545	169,280
Other non-current financial assets	95,620	–	95,620
Other non-current assets	687,954	3,374	691,328
	17,028,057	**841,041**	**17,869,098**
Current assets			
Inventories	396,944	141,472	538,416
VAT receivable	144,593	1,361	145,954
Income tax prepaid	54,077	549	54,626
Trade accounts receivable	479,910	161,543	641,453
Loans issued and finance lease receivables	250,362	–	250,362
Amounts due from credit institutions	1,951,384	–	1,951,384
Other current financial assets	30,229	21	30,250
Other current assets	353,581	28,172	381,753
Cash and cash equivalents	2,190,107	73,831	2,263,938
Assets classified as held for sale	**1,286,659**	**(1,086,785)**	**199,874**
Total assets	**24,165,903**	**161,205**	**24,327,108**
Equity and liabilities			
Equity			
Share capital	5,133,476	–	5,133,476
Additional paid-in capital	13,189	–	13,189
Currency translation reserve	922,497	(3,351)	919,146
Revaluation reserve for available for sale investments	26,177	–	26,177
Hedging reserve	(54,666)	–	(54,666)
Other capital reserves	(16,742)	–	(16,742)
Retained earnings	3,817,514	164,556	3,982,070
Attributable to equity holder of the Parent	**9,841,445**	**161,205**	**10,002,650**
Non-controlling interest	1,821,720	–	1,821,720
Total equity	**11,663,165**	**161,205**	**11,824,370**

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

Discontinued operations in 2018 (continued)

In millions of tenge	As at December 31, 2017 Before restatement	Restatement	After restatement
Non-current liabilities			
Borrowings	5,399,886	17,624	5,417,510
Loans from the Government of the Republic of Kazakhstan	776,141	–	776,141
Finance lease receivables	120,021	70	120,091
Provisions	198,716	48,569	247,285
Deferred income tax liabilities	638,722	68,725	707,447
Employee benefit liabilities	76,604	4,568	81,172
Prepayment on oil supply agreements	1,109,265	–	1,109,265
Other non-current liabilities	106,062	86	106,148
	8,425,417	**139,642**	**8,565,059**
Current liabilities			
Borrowings	1,516,573	120,184	1,636,757
Loans from the Government of the Republic of Kazakhstan	5,907	–	5,907
Finance lease receivables	19,742	13	19,755
Provisions	115,967	–	115,967
Employee benefit liabilities	6,883	–	6,883
Income tax payable	13,876	2,376	16,252
Trade accounts payable	660,487	188,729	849,216
Prepayment on oil supply agreements	332,330	–	332,330
Other current liabilities	785,904	80,059	865,963
	3,457,669	**391,361**	**3,849,030**
Liabilities directly associated with the assets classified as held for sale	619,652	(531,003)	88,649
Total liabilities	**12,502,738**	**–**	**12,502,738**
Total equity and liabilities	**24,165,903**	**161,205**	**24,327,108**

Kazakhstan Engineering JSC

The results of Kazakhstan Engineering JSC are presented below:

In millions of tenge	From January 1, 2018 till the date of disposal	2017
Revenue	**12,592**	77,024
Cost of sales	**(12,282)**	(77,015)
Gross profit	**310**	9
General and administrative expenses	**(1,845)**	(4,724)
Transportation and selling expenses	**(497)**	(839)
Impairment loss	**(846)**	(1,389)
Operating loss	**(2,878)**	(6,943)
Finance costs	**(1,370)**	(3,725)
Finance income	**737**	1,029
Other non-operating loss	**(308)**	(1,558)
Other non-operating income	**929**	901
Share in (loss)/profit of joint ventures and associates, net	**(126)**	544
Foreign exchange gain/(loss), net	**48**	(286)
Loss before income tax for the period from discontinued operations	**(2,968)**	(10,038)
Income tax (expenses)/benefit	**(574)**	200
Loss after income tax for the period from discontinued operations	**(3,542)**	(9,838)

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

Discontinued operations in 2018 (continued)

Kazakhstan Engineering JSC (continued)

The major classes of assets and liabilities of Kazakhstan Engineering JSC as at disposal date are as follows:

In millions of tenge	**As at disposal date**
Assets	
Property, plant and equipment	23,537
Intangible assets	377
Investments in joint ventures and associates	6,130
Deferred tax assets	4,030
Other non-current assets	791
Inventories	18,656
Trade accounts receivable	5,261
Other current assets	74,230
Cash and cash equivalents	19,298
Assets classified as held for sale	**152,310**
Liabilities	
Borrowings	31,211
Deferred tax liabilities	966
Provisions	650
Other non-current liabilities	589
Trade and other payables	7,290
Other taxes payables	572
Other current liabilities	94,870
Liabilities directly associated with the assets classified as held for sale	**136,148**
Net assets directly associated with the disposal group	**16,162**

The net cash flows of Kazakhstan Engineering JSC are as follows:

In millions of tenge	**From January 1, 2018 till the date of disposal**	2017
Operating	**12,045**	(6,439)
Investing	**(3,664)**	(279)
Financing	**923**	(7,149)
Net cash inflows	**9,304**	(13,867)

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

Assets classified as held for sale

Assets classified as held for sale comprised the following:

In millions of tenge	**Segment**	**December 31, 2018**	December 31, 2017 (restated)
Transtelecom JSC	Transportation	**96,283**	89,436
KMG Retail	Oil and gas	**43,632**	–
Kazakh-British Technical University JSC	Oil and gas	**15,704**	16,803
Other		**44,777**	93,635
		200,396	199,874

Liabilities associated with assets classified as held for sale comprised the following:

In millions of tenge	**Segment**	**December 31, 2018**	December 31, 2017 (restated)
Transtelecom JSC	Transportation	**81,992**	62,323
KMG Retail	Oil and gas	**375**	–
Kazakh-British Technical University JSC	Oil and gas	**4,659**	1,925
Other		**8,050**	24,401
		95,076	88,649

In September 2018, Remlocomotiv JSC, a subsidiary of the Group, and Transmasholding JSC signed an agreement to sell Tulpar-Talgo LLP to Transmasholding JSC. However, as at December 31, 2018 Tulpar-Talgo LLP ceased to meet the criteria of IFRS 5, as the parties did not agree on certain conditions of the purchase/sale agreement for a 99.99926% interest in Tulpar-Talgo LLP and agreed to cancel the agreement. As a result, the Group ceased classification of Tulpar-Talgo LLP as an asset classified as held for sale.

As at December 31, 2018, the Group decided to sell 100% interest in KMG Retail LLP (KMG Retail). The disposal of KMG Retail was completed in 2019 *(Note 40)* and, as at December 31, 2018, the procedures for the sale were in progress. The Group considers it as an asset held for sale.

7. PROPERTY, PLANT AND EQUIPMENT

In millions of tenge	Oil and gas assets	Pipelines and refinery assets	Buildings and premises	Railway tracks and infra-structure	Machinery, equipment and vehicles	Mining assets	Other	Construc-tion in progress	Total
Net book value at January 1, 2017 (restated)	3,847,619	1,526,626	843,406	959,909	2,551,617	46,836	76,086	1,055,055	10,907,154
Foreign currency translation	(11,532)	(2,062)	(650)	50	210	–	125	(407)	(14,266)
Changes in estimates	13,459	(200)	(351)	–	34	4,826	1	–	17,769
Additions	49,597	36,962	10,817	2,316	76,660	17,376	6,387	975,062	1,175,177
Acquisition through business combinations	–	–	2,539	–	–	–	28	36,213	38,780
Disposals	(17,372)	(3,802)	(8,011)	(103)	(29,026)	–	(8,508)	(2,194)	(69,016)
Depreciation charge	(138,357)	(98,469)	(47,069)	(26,214)	(214,776)	(11,022)	(11,382)	–	(547,289)
Depreciation and impairment on disposals	14,881	3,376	6,792	91	22,623	–	7,868	876	56,507
Impairment, net of reversal of impairment	–	(1)	(4,509)	(31)	(4,570)	(4,911)	(952)	(20,969)	(35,943)
Utilization of reserve	–	–	–	–	–	–	–	(41,130)	(41,130)
Discontinued operations / transfer from/(to) assets classified as held for sale	(170)	(3,908)	(4,742)	–	(2,511)	–	(163)	–	(11,494)
Transfers from/(to) intangible assets	28,087	–	–	–	(513)	–	2	(8,813)	18,763
Transfers from/(to) exploration and evaluation assets, investment property	8,881	–	(2,980)	–	(13)	(32)	(1)	(357)	5,498
Transfer from/(to) inventories, net	(16,877)	13,034	118	(1,928)	2,882	1,661	2,021	1,896	2,807
Other transfers and reclassifications	82,278	298,824	224,668	58,356	237,291	736	6,592	(908,745)	–
Net book value at December 31, 2017 (restated)	3,860,494	1,770,380	1,020,028	992,446	2,639,908	55,470	78,104	1,086,487	11,503,317

7. PROPERTY, PLANT AND EQUIPMENT (continued)

In millions of tenge	Oil and gas assets	Pipelines and refinery assets	Buildings and premises	Railway tracks and infra-structure	Machinery, equipment and vehicles	Mining assets	Other	Construc-tion in progress	Total
Net book value at January 1, 2018 (restated)	3,860,494	1,770,380	1,020,028	992,446	2,639,908	55,470	78,104	1,086,487	11,503,317
Foreign currency translation	**528,808**	**82,403**	**11,986**	**(34)**	**22,961**	**–**	**2,009**	**3,445**	**651,578**
Changes in estimates	**(13,144)**	**7,678**	**(107)**	**–**	**(107)**	**4,847**	**–**	**(519)**	**(1,352)**
Additions	**56,355**	**27,434**	**36,173**	**56**	**105,037**	**25,936**	**10,161**	**839,192**	**1,100,344**
Acquisition through business combinations *(Note 5)*	**–**	**–**	**32,549**	**319**	**117,087**	**60,550**	**4,180**	**22,283**	**236,968**
Disposals	**(17,128)**	**(5,351)**	**(16,884)**	**(976)**	**(29,589)**	**(146)**	**(7,520)**	**(3,650)**	**(81,244)**
Depreciation charge	**(219,379)**	**(127,089)**	**(48,357)**	**(34,662)**	**(231,948)**	**(19,252)**	**(13,334)**	**–**	**(694,021)**
Depreciation and impairment on disposals	**12,603**	**4,914**	**4,845**	**666**	**25,592**	**–**	**4,579**	**1,455**	**54,654**
Impairment, net of reversal of impairment	**(3,650)**	**(3)**	**(13,169)**	**14**	**(17,647)**	**3,768**	**(899)**	**(3,586)**	**(35,172)**
Utilization of reserve	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,251)**	**(1,251)**
Discontinued operations/transfer from/(to) assets classified as held for sale	**(9,847)**	**(356)**	**(29,659)**	**–**	**(6,972)**	**193**	**(2,521)**	**(1,692)**	**(50,854)**
Transfers from/(to) intangible assets	**254**	**–**	**–**	**–**	**(20)**	**–**	**1**	**(5,947)**	**(5,712)**
Transfers from/(to) exploration and evaluation assets, investment property	**3,113**	**–**	**(23,928)**	**–**	**–**	**–**	**–**	**512**	**(20,303)**
Transfer from/(to) inventories, net	**45**	**4,044**	**320**	**(3,580)**	**2,571**	**4,742**	**388**	**4,069**	**12,599**
Other transfers and reclassifications	**92,355**	**574,963**	**19,005**	**144,671**	**245,161**	**212**	**8,154**	**(1,084,521)**	**–**
Net book value at December 31, 2018	**4,290,879**	**2,339,017**	**992,802**	**1,098,920**	**2,872,034**	**136,320**	**83,302**	**856,277**	**12,669,551**
Historical cost	**5,625,233**	**3,367,096**	**1,442,130**	**1,321,816**	**4,681,150**	**201,047**	**191,902**	**1,009,374**	**17,839,748**
Accumulated depreciation and impairment	**(1,334,354)**	**(1,028,079)**	**(449,328)**	**(222,896)**	**(1,809,116)**	**(64,727)**	**(108,600)**	**(153,097)**	**(5,170,197)**
Net book value at December 31, 2018	**4,290,879**	**2,339,017**	**992,802**	**1,098,920**	**2,872,034**	**136,320**	**83,302**	**856,277**	**12,669,551**
Historical cost	4,914,808	2,595,746	1,423,788	1,182,494	4,218,745	94,870	174,536	1,273,265	15,878,252
Accumulated depreciation and impairment	(1,054,314)	(825,366)	(403,760)	(190,048)	(1,578,837)	(39,400)	(96,432)	(186,778)	(4,374,935)
Net book value at December 31, 2017 (restated)	3,860,494	1,770,380	1,020,028	992,446	2,639,908	55,470	78,104	1,086,487	11,503,317

7. PROPERTY, PLANT AND EQUIPMENT (continued)

As at December 31, 2018 property, plant and equipment with net book value of 1,260,296 million tenge was pledged as collateral for some of the Group's borrowings (December 31, 2017: 1,731,397 million tenge).

As at December 31, 2018 the carrying amount of property, plant and equipment acquired under finance lease agreements was equal to 150,129 million tenge (December 31, 2017: 113,688 million tenge).

As at December 31, 2018 the cost of fully amortised property, plant and equipment of the Group was equal to 826,144 million tenge (December 31, 2017: 712,797 million tenge).

In 2018, the Group capitalized 42,007 million tenge of borrowing costs at an average interest rate of 4% (2017: 36,023 million tenge at the rate of 3.6%).

8. INTANGIBLE ASSETS

In millions of tenge	**Licenses**	**Subsur-face use rights**	**Goodwill**	**Marketing related intangible assets**	**Software**	**Other**	**Total**
Net book value at January 1, 2017 (restated)	496,186	265,379	106,595	50,458	50,212	24,694	993,524
Foreign currency translation	(1,620)	(1,186)	(25)	(175)	(166)	70	(3,102)
Changes in estimates	–	(186)	–	–	–	–	(186)
Additions	1,578	3,101	1,515	–	11,067	3,384	20,645
Acquisition through business combinations	–	–	–	–	44	43,034	43,078
Disposals	(3,932)	–	–	–	(6,152)	(577)	(10,661)
Discontinued operations / transfer from/(to) assets classified as held for sale	(13)	–	–	–	–	12	(1)
Amortization charge	(18,011)	(4,928)	–	(1,569)	(12,480)	(1,891)	(38,879)
Accumulated amortization on disposals	3,932	–	–	–	4,941	447	9,320
(Impairment)/reversal of impairment, net	(10)	–	(1,515)	–	(30)	(100)	(1,655)
Transfers from/(to) inventories, net	266	–	–	–	(1)	–	265
Transfers from/(to) property, plant and equipment, net	1,764	(28,297)	–	–	6,676	1,094	(18,763)
Other transfers	(130)	–	–	–	1,484	(1,354)	–
Net book value at December 31, 2017 (restated)	480,010	233,883	106,570	48,714	55,595	68,813	993,585
Foreign currency translation	**70,602**	**27,308**	**1,356**	**5,509**	**669**	**2,092**	**107,536**
Additions	**3,374**	**–**	**–**	**–**	**5,372**	**3,209**	**11,955**
Acquisition through business combinations *(Note 5)*	**100,182**	**373,981**	**113,259**	**–**	**2,881**	**5,312**	**595,615**
Disposals	**(4,143)**	**–**	**–**	**–**	**(3,822)**	**(1,655)**	**(9,620)**
Discontinued operations / transfer from/(to) assets classified as held for sale	**(96)**	**6**	**–**	**350**	**(152)**	**(536)**	**(428)**
Amortization charge	**(28,294)**	**(20,731)**	**–**	**1,659**	**(13,468)**	**(5,716)**	**(66,550)**
Accumulated amortization on disposals	**4,128**	**–**	**–**	**–**	**3,774**	**1,593**	**9,495**
(Impairment)/reversal of impairment, net	**(1,174)**	**–**	**(58)**	**(22,506)**	**(55)**	**(70)**	**(23,863)**
Transfers to other non-current assets, net	**–**	**–**	**–**	**–**	**(12,274)**	**–**	**(12,274)**
Transfers from/(to) property, plant and equipment, net	**316**	**(352)**	**–**	**–**	**5,922**	**(174)**	**5,712**
Other transfers	**762**	**–**	**–**	**(362)**	**1,086**	**(1,486)**	**–**
Net book value at December 31, 2018	**625,667**	**614,095**	**221,127**	**33,364**	**45,528**	**71,382**	**1,611,163**
Historical cost	**695,592**	**642,348**	**296,730**	**58,164**	**143,393**	**119,906**	**1,956,133**
Accumulated amortization and impairment	**(69,925)**	**(28,253)**	**(75,603)**	**(24,800)**	**(97,865)**	**(48,524)**	**(344,970)**
Net book value at December 31, 2018	**625,667**	**614,095**	**221,127**	**33,364**	**45,528**	**71,382**	**1,611,163**
Historical cost	518,252	246,540	148,350	50,312	143,104	109,033	1,215,591
Accumulated amortization and impairment	(38,242)	(12,657)	(41,780)	(1,598)	(87,509)	(40,220)	(222,006)
Net book value at December 31, 2017 (restated)	480,010	233,883	106,570	48,714	55,595	68,813	993,585

9. EXPLORATION AND EVALUATION ASSETS

In millions of tenge	Tangible	Intangible	Total
Net book value at January 1, 2017	383,070	44,298	427,368
Foreign currency translation	(631)	(53)	(684)
Change in estimate	(113)	213	100
Additions	36,748	1,724	38,472
Disposals	(189)	(582)	(771)
Impairment	(803)	(378)	(1,181)
Discontinued operations / transfer to assets classified as held for sale	–	(1,030)	(1,030)
Transfers from/(to) property, plant and equipment, net	(8,848)	–	(8,848)
Transfer from/(to) inventories, net	(1,644)	–	(1,644)
Other transfers and reclassifications	(1,261)	1,261	–
Net book value at December 31, 2017	406,329	45,453	451,782
Foreign currency translation	**30,415**	**700**	**31,115**
Change in estimate	**25**	**–**	**25**
Additions	**48,767**	**1,249**	**50,016**
Acquisition through business combinations *(Note 5)*	**13,131**	**2,357**	**15,488**
Disposals	**(1,314)**	**(1,975)**	**(3,289)**
Impairment	**(96,180)**	**(11,566)**	**(107,746)**
Impairment on disposals	**957**	**5**	**962**
Discontinued operations / transfer to assets classified as held for sale	**(143)**	**(2,296)**	**(2,439)**
Transfers from/(to) property, plant and equipment, net	**(3,600)**	**(200)**	**(3,800)**
Transfer from/(to) inventories, net	**(258)**	**(8)**	**(266)**
Net book value at December 31, 2018	**398,129**	**33,719**	**431,848**
Historical cost	**505,851**	**56,251**	**562,102**
Accumulated impairment	**(107,722)**	**(22,532)**	**(130,254)**
Net book value at December 31, 2018	**398,129**	**33,719**	**431,848**
Historical cost	418,829	56,806	475,635
Accumulated impairment	(12,500)	(11,353)	(23,853)
Net book value at December 31, 2017	406,329	45,453	451,782

As at December 31, 2018 and 2017 the exploration and evaluation assets are represented by the following projects:

In millions of tenge	2018	2017 (restated)
Kashagan	**215,138**	185,999
Zhambyl	**50,178**	33,396
Pearls	**36,486**	35,069
Urikhtau	**30,469**	27,686
Project N *(Note 4)*	**–**	66,256
Satpayev *(Note 4)*	**–**	33,791
Other	**99,577**	69,585
	431,848	451,782

10. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

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

In millions of tenge	**Main activity**	**Place of business**	**2018** Carrying amount	**2018** Percentage ownership	2017 (restated*) Carrying amount	2017 (restated*) Percentage ownership
Joint ventures						
Tengizchevroil LLP	Oil and gas exploration and production	Kazakhstan	**1,970,533**	**20.00%**	1,353,084	20.00%
Mangistau Investments B.V.	Oil and gas exploration and production	Kazakhstan	**138,549**	**50.00%**	135,781	50.00%
Ural Group Limited BVI	Oil and gas exploration and production	Kazakhstan	**70,874**	**50.00%**	78,031	50.00%
KazRosGas LLP	Processing and sale of natural gas and refined gas	Kazakhstan	**65,116**	**50.00%**	33,761	50.00%
AstanaGas KMG JSC	Gas pipeline construction	Kazakhstan	**43,883**	**50.00%**	–	–
JV KazGerMunay LLP	Oil and gas exploration and production	Kazakhstan	**38,349**	**50.00%**	47,537	50.00%
Forum Muider B.V.	Coal production	Kazakhstan	**37,008**	**50.00%**	30,624	50.00%
Other			**204,339**		224,473	
Total joint ventures			**2,568,651**		1,903,291	
Associates						
Kazzinc LLP	Mining and processing of metal ores, production of refined metals	Kazakhstan	**483,723**	**29.82%**	443,336	29.82%
Caspian Pipeline Consortium JSC	Transportation of crude oil	Kazakhstan/ Russia	**289,586**	**20.75%**	195,095	20.75%
PetroKazakhstan Inc. ("PKI")	Exploration, production and processing of oil and gas	Kazakhstan	**116,577**	**33.00%**	115,920	33.00%
Khan Tengri Holding B.V.	Telecommunication	Kazakhstan	**76,071**	**51.00%**	68,327	51.00%
JV KATCO LLP	Exploration, production, processing and export of uranium	Kazakhstan	**49,704**	**49.00%**	38,504	49.00%
JV INKAI LLP	Exploration, production, processing and export of uranium	Kazakhstan	**–**	**–**	40,388	40.00%
Other			**80,585**		51,906	
Total associates			**1,096,246**		953,476	
			3,664,897		2,856,767	

10. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following tables illustrate summarized financial information of significant joint ventures, based on IFRS financial statements of these entities for 2018, reflecting equity method accounting adjustments:

In millions of tenge	Tengizchevroil LLP	Mangistau Investments B.V.	Ural Group Limited BVI	KazRosGas LLP	AstanaGas KMG JSC	JV KazGerMunay LLP	Forum Muider B.V.
Joint ventures							
Non-current assets	**12,922,782**	**407,889**	**239,907**	**11,563**	**119,108**	**131,606**	**76,505**
Current assets, including	**1,057,016**	**72,748**	**216**	**141,406**	**48,776**	**75,131**	**26,797**
Cash and cash equivalents	**203,864**	**15,318**	**183**	**19,910**	**48,767**	**64,921**	**6,393**
Non-current liabilities, including	**2,780,571**	**125,106**	**98,145**	**133**	**85,425**	**43,798**	**12,978**
Non-current financial liabilities	**1,536,800**	**49,946**	**73,500**	**–**	**85,425**	**–**	**10,782**
Current liabilities, including	**1,346,564**	**77,576**	**230**	**22,604**	**1,783**	**86,240**	**16,309**
Current financial liabilities	**36,671**	**451**	**–**	**–**	**1,752**	**–**	**3,480**
Equity	**9,852,663**	**277,955**	**141,748**	**130,232**	**80,676**	**76,699**	**74,015**
Share of ownership	**20.00%**	**50.00%**	**50.00%**	**50.00%**	**50.00%**	**50.00%**	**50.00%**
Consolidation adjustments	**–**	**(428)**	**–**	**–**	**3,545**	**–**	**–**
Carrying amount of investment as at December 31, 2018	**1,970,533**	**138,549**	**70,874**	**65,116**	**43,883**	**38,349**	**37,008**
Revenue	**5,941,474**	**839,356**	**1**	**244,346**	**–**	**234,732**	**122,984**
Depreciation, depletion and amortization	**(685,434)**	**(60,373)**	**(14)**	**(134)**	**–**	**(33,376)**	**(3,522)**
Finance income	**19,426**	**857**	**–**	**1,255**	**–**	**1,119**	**563**
Finance costs	**(136,761)**	**(8,006)**	**(9,031)**	**(377)**	**–**	**(1,062)**	**(717)**
Income tax expenses	**(941,034)**	**(56,904)**	**(1,788)**	**(13,163)**	**–**	**(95,496)**	**(7,565)**
Profit/(loss) for the year from continuing operations	**2,195,746**	**193,707**	**(37,645)**	**10,509**	**223**	**55,830**	**26,519**
Profit for the year from discontinued operations, net of income tax	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other comprehensive income/(loss)	**1,270,679**	**(319)**	**22,023**	**17,231**	**–**	**4,809**	**(194)**
Total comprehensive income/(loss)	**3,466,425**	**193,388**	**(15,622)**	**27,740**	**223**	**60,639**	**26,325**
Dividends received	**64,671**	**–**	**–**	**14,181**	**–**	**42,706**	**8,086**

10. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following tables illustrate summarized financial information of significant joint ventures, based on IFRS financial statements of these entities for 2017, reflecting equity method accounting adjustments:

In millions of tenge	Tengizchevroil LLP	Mangistau Investments B.V.	Ural Group Limited BVI	KazRosGas LLP	AstanaGas KMG JSC	JV KazGerMunay LLP	Forum Muider B.V.
Joint ventures							
Non-current assets	8,719,902	393,188	219,834	27,018	–	131,809	66,114
Current assets, including	1,527,677	66,799	57	150,968	–	46,381	23,412
Cash and cash equivalents	748,523	3,090	47	30,877	–	37,914	8,064
Non-current liabilities, including	2,507,496	66,129	63,640	–	–	28,691	7,188
Non-current financial liabilities	1,329,320	–	54,733	–	–	–	5,047
Current liabilities, including	974,662	122,297	188	69,021	–	54,424	21,091
Current financial liabilities	31,719	–	–	–	–	–	6,665
Equity	6,765,421	271,561	156,063	108,965	–	95,075	61,247
							–
Share of ownership	20.00%	50.00%	50.00%	50.00%	–	50.00%	50.00%
Consolidation adjustments	–	–	–	(20,722)	–	–	
Carrying amount of investment as at December 31, 2017	1,353,084	135,781	78,031	33,761	–	47,537	30,624
Revenue	4,357,947	635,903	8	243,527	–	184,616	109,907
Depreciation, depletion and amortization	(560,817)	(62,190)	(20)	(638)	–	(34,072)	(4,713)
Finance income	22,007	126	17	2,489	–	1,306	463
Finance costs	(127,134)	(5,788)	(1,891)	(13,362)	–	(1,014)	(875)
Income tax expenses	(621,385)	(34,036)	(691)	(11,907)	–	(53,071)	(6,388)
Profit/(loss) for the year from continuing operations	1,449,898	99,210	(3,754)	17,244	–	35,427	27,349
Profit for the year from discontinued operations, net of income tax	–	–	–	–	–	–	–
Other comprehensive income/(loss)	7,517	229	(219)	(1,939)	–	(664)	(6,387)
Total comprehensive income/(loss)	1,457,415	99,439	(3,973)	15,305	–	34,763	20,962
Dividends received	79,694	105,523	–	18,647	–	40,445	6,829

10. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following tables illustrate summarized financial information of significant associates, based on IFRS financial statements of these entities for 2018, reflecting equity method accounting adjustments:

In millions of tenge	Kazzinc LLP	Caspian Pipeline Consortium JSC	PetroKazakhstan Inc. ("PKI")	Khan Tengri Holding B.V.	JV KATCO LLP	JV Inkai LLP
Associates						
Non-current assets	**1,656,829**	**2,147,362**	**410,710**	**155,087**	**62,657**	**–**
Current assets	**373,229**	**105,910**	**91,815**	**23,059**	**60,478**	**–**
Non-current liabilities	**310,018**	**350,304**	**45,218**	**104,124**	**9,778**	**–**
Current liabilities	**98,007**	**685,130**	**104,043**	**38,289**	**6,450**	**–**
Equity	**1,622,033**	**1,217,838**	**353,264**	**35,733**	**106,907**	**–**
Share of ownership	**29.82%**	**20.75%**	**33.00%**	**51.00%**	**49.00%**	**–**
Goodwill	**–**	**36,885**	**–**	**57,847**	**68**	**–**
Unrecognized gain on transactions with associates	**–**	**–**	**–**	**–**	**(2,749)**	**–**
Carrying amount of investment as at December 31, 2018	**483,723**	**289,586**	**116,577**	**76,071**	**49,704**	**–**
Revenue	**1,081,320**	**757,734**	**163,263**	**120,803**	**71,441**	**–**
Profit/(loss) for the year from continuing operations	**156,385**	**279,347**	**44,214**	**(15,183)**	**28,092**	**–**
Other comprehensive income/(loss)	**–**	**176,034**	**40,885**	**–**	**–**	**–**
Total comprehensive income/(loss)	**156,385**	**455,381**	**85,099**	**(15,183)**	**28,092**	**–**
Dividends received	**67,312**	**–**	**24,914**	**–**	**–**	**–**

10. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following tables illustrate summarized financial information of significant associates, based on IFRS financial statements of these entities for 2017, reflecting equity method accounting adjustments:

In millions of tenge	Kazzinc LLP	Caspian Pipeline Consortium JSC	PetroKazakhstan Inc. ("PKI")	Khan Tengri Holding B.V.	JV KATCO LLP	JV Inkai LLP
Associates						
Non-current assets	1,444,462	2,042,156	356,152	153,137	62,572	130,998
Current assets	407,770	95,627	84,904	39,906	39,270	28,850
Non-current liabilities	269,773	756,148	59,123	126,440	7,875	11,721
Current liabilities	95,859	595,179	30,659	46,053	15,152	43,551
Equity	1,486,600	786,456	351,274	20,550	78,815	104,576
Share of ownership	29.82%	20.75%	33.00%	51.00%	49.00%	40.00%
Goodwill	–	31,905	–	57,847	68	–
Unrecognized gain on transactions with associates	–	–	–	–	(183)	(1,442)
Carrying amount of investment as at December 31, 2017	443,336	195,095	115,920	68,327	38,504	40,388
Revenue	999,280	647,478	137,912	104,154	65,426	37,449
Profit/(loss) for the year from continuing operations	194,652	263,451	21,921	(2,287)	19,148	9,036
Other comprehensive income/(loss)	–	16,354	(992)	–	–	–
Total comprehensive income/(loss)	194,652	279,805	20,929	(2,287)	19,148	9,036
Dividends received	39,321	–	20,453	–	10,834	–

All of the above joint ventures and associates are strategic for the Group's business.

10. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following tables illustrate aggregate financial information of individually insignificant joint ventures (the Group's proportional interest):

In millions of tenge	**2018**	2017 (restated)
Carrying amount of investments as at December 31	**204,339**	224,473
Net profit for the year from continuing operations	**18,206**	116,554
Profit for the year from discontinued operations, net of income tax	**–**	–
Other comprehensive income/(loss)	**7**	(31)
Total comprehensive income	**18,213**	116,523

The following tables illustrate aggregate financial information of individually insignificant associates (the Group's proportional interest):

In millions of tenge	**2018**	2017 (restated)
Carrying amount of investments as at December 31	**80,585**	51,906
Net profit for the year from continuing operations	**10,586**	3,849
Other comprehensive income	**(152)**	–
Total comprehensive income	**10,434**	3,849

In 2018 dividends received from individually insignificant joint ventures and associates were equal to 28,556 million tenge (2017: 33,352 million tenge).

The following table summarizes the movements in equity investments in joint ventures and associates in 2018 and 2017:

In millions of tenge	**2018**	2017 (restated)
Balance as at January 1	**2,856,767**	2,781,115
Effect on adoption of IFRS 9 *(Note 3)*	**(3,615)**	–
Share in profit of joint ventures and associates, net *(Note 33)*	**749,531**	531,682
Dividends received	**(250,499)**	(356,098)
Change in dividends receivable	**9,732**	(45,478)
Adjustment of unrealized income*	**17,071**	(20,722)
Additional contributions without change in ownership	**46,716**	9,044
Refund of contributions without change in ownership	**(93,239)**	–
Acquisitions	**12,284**	214
Disposals	**(80,092)**	(28,599)
Transfers to assets classified as held for sale	**–**	(67)
Foreign currency translation	**385,982**	(5,099)
Other comprehensive income/(loss), other than foreign currency translation	**3,843**	(890)
Reversal of impairment/(Impairment), net	**6,488**	(19,334)
Discount on loans issued	**653**	10,999
Fair value of guarantees given	**3,545**	–
Other changes in equity of joint ventures and associates	**(270)**	–
Balance as at December 31	**3,664,897**	2,856,767

* *Adjustment of unrealized income represents elimination of unrealized profit from sale of inventory from the Group to JV made by the Group when using the equity method.*

As at December 31, 2018, the Group's share in unrecognized losses of joint ventures and associates was equal to 96,994 million tenge (December 31, 2017: 189,384 million tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. LOANS ISSUED AND FINANCE LEASE RECEIVABLES

As at December 31, loans issued and finance lease receivables comprised the following:

In millions of tenge	2018	2017 (restated)
Loans issued at amortized cost	**324,463**	797,489
Loans issued at FVPL	**287,046**	20,302
Finance lease receivables at amortized cost	**45,244**	42,264
Total loans and finance lease receivables	**656,753**	860,055
Less: allowance for expected credit losses	**(23,821)**	(16,368)
Loans issued and finance lease receivables, net	**632,932**	843,687
Less: current portion	**(201,656)**	(250,362)
Non-current portion	**431,276**	593,325

In accordance IFRS 9, the Group reclassified some of the loans as measured at fair value through profit or loss. The fair value of these loans was determined by discounting future cash flows.

Loan issued to Eurasian Resources Group

On October 26, 2018 the Eurasian Resources Group early repaid a loan in the amount of 500 million US dollars (equivalent to 184,270 million tenge as at the date of repayment) issued in 2010 with maturity on September 20, 2020 and interest rate of 7.5% per annum.

Movements in the loan allowance for expected credit losses for the years ended December 31 were as follows:

In millions of tenge	2018	2017 (restated)
Allowance at January 1	**16,368**	32,331
Effect of adoption of IFRS 9 *(Note 3)*	**14,289**	–
Change in estimates	**14**	–
Charged, net *(Note 30)*	**(7,563)**	516
Business combinations	**–**	(15,418)
Disposal of subsidiary	**609**	–
Write-off, net	**(633)**	(1,061)
Foreign exchange difference, net	**737**	–
Allowance at December 31	**23,821**	16,368

As at December 31 the components of finance lease receivables are as follows:

In millions of tenge	2018	22017 (restated)
Within one year	**7,048**	6,407
Later than one year, but not later than five years	**27,956**	25,554
After five years	**42,523**	42,893
Minimum lease payments	**77,527**	74,854
Less: unearned finance income	**(32,283)**	(32,590)
Net investment in finance leases	**45,244**	42,264

In millions of tenge	2018	2017 (restated)
Loans issued and finance lease receivables in tenge	**326,115**	388,053
Loans issued in US dollars	**304,081**	453,180
Loans issued in other foreign currencies	**2,736**	2,454
	632,932	843,687

12. AMOUNTS DUE FROM CREDIT INSTITUTIONS

As at December 31 amounts due from credit institutions comprised the following:

In millions of tenge	**2018**	2017 (restated)
Bank deposits	**655,787**	2,260,052
Loans to credit institutions	**150,785**	193,825
Less: allowance for expected credit losses	**(6,600)**	–
Amounts due from credit institutions, net	**799,972**	2,453,877
Less: current portion	**(623,612)**	(1,951,384)
Non-current portion	**176,360**	502,493

In millions of tenge	**2018**	2017 (restated)
Ratings from AAA (Aaa) to AA-(Aa3)	**–**	106,428
Rating from A+(A1) to A-(A3)	**444,431**	1,337,930
Rating from BBB-(Baa3) to BB-(Ba3	**179,397**	296,456
Rating from B+(B1) to B-(B3)	**144,291**	681,226
No rating	**31,853**	31,837
	799,972	2,453,877

In millions of tenge	**2018**	2017 (restated)
Amounts due from credit institutions, denominated in US dollars	**541,913**	1,771,886
Amounts due from credit institutions, denominated in tenge	**255,151**	679,132
Amounts due from credit institutions, denominated in other currencies	**2,908**	2,859
	799,972	2,453,877

In millions of tenge	**2018**	2017 (restated)
International credit institutions	**443,662**	1,525,015
10 largest local banks	**303,746**	827,258
Other local credit institutions	**52,564**	101,604
	799,972	2,453,877

As at December 31, 2018 the weighted average interest rate on amounts due from credit institutions was 3.27% (December 31, 2017: 3.54%).

As at December 31, 2018 amounts due from credit institutions included funds of 13,806 million tenge pledged as collateral for certain Group's borrowings (December 31, 2017: 32,382 million tenge).

13. OTHER FINANCIAL ASSETS

As at December 31 other financial assets comprised the following:

In millions of tenge	**2018**	2017 (restated)
Financial assets at FVOCI, including	**14,532**	16,677
Treasury bills of the Ministry of Finance of the Republic of Kazakhstan	**11,905**	11,928
Bonds of Kazakhstani financial institutions	**1,370**	2,222
Corporate bonds	**1,201**	1,264
Equity securities	**56**	7,889
Less: impairment allowance	**–**	(6,626)
Financial assets at amortized cost, including	**281,693**	87,546
Bonds of Kazakhstani financial institutions	**197,179**	3,088
Corporate bonds	**93,186**	19,041
Note receivable from shareholder of joint venture	**–**	38,015
Note receivable from associate	**–**	27,402
Less: allowance for expected credit losses	**(8,672)**	–
Financial assets at FVPL, including	**52,406**	21,647
Equity securities	**23,451**	21,274
Note receivable from shareholder of joint venture	**16,599**	–
Corporate bonds	**6,812**	–
Forward and futures contracts	**3,129**	21
Options	**1,721**	352
Bonds of Kazakhstani financial institutions	**694**	–
Total financial assets	**348,631**	125,870
Less: current portion	**57,257**	30,250
Non-current portion	**291,374**	95,620

Bonds of Kazakhstani financial agencies at amortized cost

In September 2018 the Group acquired 220,000 million coupon bonds issued by Forte Bank JSC maturing on December 15, 2024 with a coupon rate of 4% per annum. Upon initial recognition, these bonds were assessed at a fair value of 173,682 million tenge, using appropriate market interest rates. As the bond purchase was made by using the funds released from bank deposit, previously placed with Forte Bank JSC, the discount on initial recognition of bonds in the amount of 46,318 million tenge and amortization of discount on deposit recognized due to early withdrawal in the amount of 46,021 million tenge were accounted for on a net basis within finance expenses in the consolidated statement of comprehensive income.

In November 2018 the Group acquired 55,245 million coupon bonds issued by Tsesna Bank JSC maturing on January 15, 2034 with a coupon rate of 0.1% per annum.

Upon initial recognition, these bonds were assessed at a fair value of 18,544 million tenge, using appropriate market interest rates. The difference between the nominal value and the fair value of the bond at the date of recognition of 36,701 million tenge was recognized as interest expense within cost of sales in the consolidated statement of comprehensive income.

Corporate bonds at amortized cost

In 2018 the Group acquired bonds of National Managing Holding Baiterek JSC in the amount of 70,149 million tenge with maturity on March 14, 2026 and interest rate of 0.15% per annum. The funds were provided for the purposes of housing construction and completion of construction of problem housing facilities of Nur-Sultan city.

Upon initial recognition, the bonds were assessed at a fair value of 38,809 million tenge, using appropriate market interest rates. The difference between the nominal value and the fair value of the bond at the date of recognition of 31,340 million tenge was recognized as Other transactions with the Shareholder.

On October 25, 2018 the Group acquired bonds of “Baiterek Venture Fund” JSC in the amount of 40,150 million tenge with maturity date on October 25, 2033 and interest rate of 0.01%.

13. OTHER FINANCIAL ASSETS (continued)

Corporate bonds at amortized cost (continued)

The bonds were acquired for the purpose of financing of acquisition of "Astana Gas KMG" JSC shares. "Astana Gas KMG" JSC implements the project of construction of "Saryarka" main gas pipeline along the route "Kyzylorda-Zhezkazgan-Karaganda-Temirtau-Nur-Sultan". In accordance with the terms of the agreement the Fund has a right to demand an early repayment of the bond, thus the bonds were classified as current.

As at December 31 other financial assets by currency, except for derivatives, comprised:

In millions of tenge	**2018**	2017 (restated)
Financial assets, denominated in tenge	**327,122**	59,731
Financial assets, denominated in US dollars	**16,659**	65,766
	343,781	125,497

As at December 31, 2018 the interest rates for financial assets at fair value through other comprehensive income were in the range from 3.8% to 13% (as at December 31, 2017: from 3.8% to 15%).

14. OTHER NON-CURRENT ASSETS

As at December 31 other non-current assets comprised the following:

In millions of tenge	**2018**	2017 (restated)
Advances paid for non-current assets	**278,365**	387,988
Long-term VAT receivable	**191,509**	167,927
Restricted cash	**105,747**	88,139
Long-term receivables	**38,171**	49,472
Prepaid expenses	**16,404**	10,095
Long-term inventories	**15,574**	14,200
Other	**49,909**	32,208
Less: allowance for expected credit losses	**(67,762)**	(58,701)
	627,917	691,328

15. INVENTORIES

As at December 31 inventories comprised the following:

In millions of tenge	**2018**	2017 (restated)
Uranium products	**128,613**	136,643
Oil refined products for sale	**115,411**	93,624
Gas processed products	**57,762**	15,689
Production materials and supplies	**56,371**	64,966
Goods for resale	**48,450**	21,587
Crude oil	**43,293**	58,475
Oil and gas industry materials and supplies	**40,478**	38,683
Work in progress	**39,400**	40,493
Railway industry materials and supplies	**20,881**	14,877
Fuel	**16,376**	15,937
Aircraft spare parts	**10,827**	7,860
Telecommunication equipment spare parts	**2,344**	1,968
Uranium industry materials and supplies	**1,947**	1,580
Electric transmission equipment spare parts	**1,917**	2,004
Other materials and supplies	**56,774**	54,848
Less: provision for obsolete and slow moving inventories	**(29,750)**	(30,818)
	611,094	538,416

16. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

As at December 31 trade accounts receivable comprised the following:

In millions of tenge	**2018**	2017 (restated)
Trade accounts receivable	**804,834**	714,102
Less: allowance for expected credit losses	**(56,961)**	(72,649)
	747,873	641,453

As at December 31 other current assets comprised the following:

In millions of tenge	**2018**	2017 (restated)
Advances paid and deferred expenses	**152,970**	153,030
Other accounts receivable	**150,150**	133,393
Restricted cash	**77,270**	66,675
Other prepaid taxes	**70,802**	52,682
Dividends receivable	**24,986**	44,384
Non-financial assets for distribution to the Shareholder	**13,321**	12,916
Amounts due from employees	**5,105**	4,725
Other	**26,369**	37,987
Less: allowance for expected credit losses	**(103,611)**	(124,039)
	417,362	381,753

At December 31, 2018 the Group's receivables of 61,325 million tenge were pledged under certain Group borrowings (December 31, 2017: 58,226 million tenge).

Movements in the allowance for expected credit losses for the years ended December 31 were as follows:

In millions of tenge	**2018**	2017 (restated)
Allowance at January 1	**196,688**	146,275
Effect of adoption of IFRS 9	**(186)**	–
Charged, net	**17,558**	30,575
Foreign exchange difference, net	**11,135**	4,448
Change in estimate	**(138)**	32
Transfers to assets classified as held for sale	**373**	–
Reclassification	**–**	17,334
Write-off, net	**(64,858)**	(1,976)
Allowance at December 31	**160,572**	196,688

At December 31, 2018 9,814 million tenge of the Group's receivables were interest bearing (December 31, 2017: 26,767 million tenge). As December 31, 2018 the weighted average interest rate was 11.72% (December 31, 2017: 11.26%).

As at December 31 the ageing analysis of trade accounts receivable is as follows:

			Past due but not impaired				
In millions of tenge	**Total**	**Neither past due nor impaired**	**<30 days**	**30-60 days**	**60-90 days**	**90-120 days**	**>120 days**
2018	**747,873**	**646,689**	**60,069**	**9,413**	**8,782**	**5,932**	**16,988**
2017	641,453	524,355	23,082	42,299	17,715	2,746	31,256

17. CASH AND CASH EQUIVALENTS

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

In millions of tenge	**2018**	2017 (restated)
Current accounts with banks – US dollars	**998,733**	641,243
Current accounts with banks – tenge	**240,404**	367,343
Current accounts with banks – other currency	**21,232**	21,985
Bank deposits – US dollars	**853,482**	852,208
Bank deposits – tenge	**301,234**	345,235
Bank deposits – other currency	**3,779**	3,421
Cash in transit	**12,934**	18,049
Cash on hand	**10,431**	7,934
Reverse repurchase agreements with other banks with contractual maturity of three months or less	**46,011**	6,520
Less: allowance for expected credit losses	**(707)**	–
	2,487,533	2,263,938

Short-term bank deposits are placed for varying periods of between 1 (one) day and 3 (three) months, depending on immediate cash needs of the Group. As at December 31, 2018 the weighted average interest rates for short-term bank deposits and current accounts were 4.0% and 0.6%, respectively (December 31, 2017: 3.2% and 0.8%, respectively).

18. EQUITY

18.1 Share capital

During 2018 and 2017 the Fund issued common shares, which were paid as follows:

Payment for shares	**Number of shares authorized and issued**	**Par value per share, in tenge**	**Share capital in millions of tenge**
As of December 31, 2016	3,481,670,758		5,058,658
Cash contributions	1,577	16,852,000; 100,000,000	74,552
Property contributions	265,983	1,000	266
As of December 31, 2017	3,481,938,318		5,133,476
Cash contributions	**–**		
Property contributions	**1,000**	**290,037**	**290**
As of December 31, 2018	**3,481,939,318**		**5,133,766**

As at December 31, 2018 3,481,939,318 shares of the Fund were fully paid.

Property contributions

On December 29, 2018 the State property and privatization committee contributed property of 290 million tenge to the Fund's share capital.

18.2 Additional paid-in capital

During 2018 the Group increased additional paid in capital by 4,114 million tenge, which represents the fair value of gas pipelines contributed by the Government under trust management. The trust management is a short-term mechanism until the legal title for the pipelines transfers to the Group. The Group is a direct user of these assets; it received all risks and rewards related to the ownership of this property in accordance with trust management agreement. Accordingly, the Group recognised the asset and appropriate increase in additional paid-in capital, which will be reclassified to share capital once the legal procedures are completed.

18. EQUITY (continued)

18.3 Dividends

Dividends attributable to equity holder of the Parent

In 2018 the Fund declared and paid dividends to the Shareholder of 12,732 million tenge based on financial results for 2017 according to the Resolution of the Government dated December 4, 2018.

Dividends attributable to non-controlling interest

During 2018 the Group subsidiaries declared dividends of 25,276 million tenge to the holders of non-controlling interest in NC KMG JSC group, Air Astana JSC and Kazakhtelecom JSC and others.

18.4 Other transactions with the Shareholder

Acquisition of bonds of National Managing Holding Baiterek JSC

In 2018 the Fund used available funds of 70,149 million tenge to acquire bonds of National Managing Holding Baiterek JSC. The difference between the nominal value and the fair value of 31,340 million tenge was recognized as transaction with the Shareholder in the consolidated statement of changes in equity *(Note 13)*.

18.5 Other distributions to the Shareholder

Social projects financing

In 2018 on the basis of Shareholder's resolutions, the Fund recognized liabilities for financing of various social projects for total amount of 64,736 million tenge. These liabilities was recognized as other distributions to the Shareholder in the consolidated statement of changes in equity.

Financing construction of social facilities in the City of Turkestan

In 2018 the Group recognized liabilities for future financing of the construction of social facilities in the city of Turkestan under the social economic development of Turkestan region of 31,001 million tenge. This financing was recognized as other distributions to the Shareholder in the consolidated statement of changes in equity.

Transfer shares of "National Company "Kazakhstan Engineering" JSC to the Shareholder

On July 16, 2018 in accordance with the Resolution of the Government of Republic of Kazakhstan dated July 3, 2018 the Fund transferred 100% shares of "National Company "Kazakhstan Engineering" JSC with the net assets of 16,162 million tenge to the State property and privatization committee. This transaction was recognized as distribution to the Shareholder in consolidated statement of changes in equity *(Note 6)*.

18.6 Change in ownership interests of subsidiaries – sale of non-controlling interest

National Atomic Company "Kazatomprom" JSC

On November 13, 2018 the Fund successfully placed 15% shares of Kazatomprom on international stock exchanges of Nur-Sultan (AIX) and London (LSE). The offer price was USD 11.60 per GDR and tenge 4,322.74 per common share.

As a result of share issue, the Group received proceeds of 160,423 million tenge, net of transaction costs of 5,099 million tenge, non-controlling interest increased by 124,137 million tenge, and the difference of 36,268 million tenge was recognized as an increase in retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. EQUITY (continued)

18.7 Change in ownership interests of subsidiaries – acquisition of non-controlling interest

Share buyback by subsidiary

In 2018 the KMG EP (NC KMG's subsidiary) launched repurchase its outstanding GDRs and common shares placed on KASE. As at December 31, 2018 the total amount of repurchases made up 642,524 million tenge As a result of the transaction the non-controlling interest in KMG EP decreased by 776,940 million tenge.

NC KMG

In June 2018 the Fund acquired an interest of 0.337% in NC KMG through property contribution of 207,196 million tenge. As a result of the transaction the non-controlling interest in NC KMG decreased by 23,772 million tenge.

United Chemical Company LLP (UCC)

In June 2018 the Group acquired an interest of 48% in KPI (subsidiary of UCC) through cash consideration of 56,700 million tenge. As a result of the transaction the non-controlling interest in KPI decreased by 55,208 million tenge.

18.8 Non-controlling interest

The following tables illustrate information of subsidiaries in which there is significant non-controlling interests:

	Non-controlling interest			
	2018		2017 (restated)	
	Share	**Carrying amount**	Share	Carrying amount
NC KazMunayGas JSC	**9.57%**	**756,369**	9.9119%	1,505,009
Kazakhtelecom JSC	**49.00%**	**223,488**	49.00%	181,608
NAC Kazatomprom JSC	**15.00%**	**131,955**	–	–
KEGOC JSC	**10.00% – 1**	**21,484**	10.00% – 1	19,902
Air Astana JSC	**49.00%**	**16,689**	49.00%	14,105
Other		**214,368**		101,096
		1,364,353		1,821,720

All significant subsidiaries with non-controlling interest are registered in Kazakhstan.

18. EQUITY (continued)

18.8 Non-controlling interest (continued)

The following tables illustrate summarized financial information of subsidiaries, in which there are significant non-controlling interests as at December 31, 2018 and for the year then ended:

In millions of tenge	NC KazMunay-Gas JSC	Kazakhtelecom JSC	Kazatomprom NAC JSC	KEGOC JSC	Air Astana JSC
Summarized balance sheet					
Non-current assets	**10,748,329**	**659,523**	**918,917**	**375,775**	**113,347**
Current assets	**3,266,951**	**122,958**	**462,200**	**57,769**	**109,708**
Non-current liabilities	**5,064,056**	**214,922**	**134,731**	**172,506**	**116,744**
Current liabilities	**1,808,156**	**149,808**	**283,375**	**46,198**	**72,251**
Total equity	**7,143,068**	**417,751**	**963,011**	**214,840**	**34,060**
Attributable to:					
Equity holder of the Parent	**6,386,699**	**194,263**	**831,056**	**193,356**	**17,371**
Non-controlling interest	**756,369**	**223,488**	**131,955**	**21,484**	**16,689**
Summarized statement of comprehensive income					
(Loss)/profit for the year from continuing operations	**694,699**	**42,883**	**380,266**	**48,842**	**1,845**
Profit for the year from discontinued operations	**–**	**–**	**–**	**–**	**–**
Other comprehensive (loss)/income	**474,817**	**(2,521)**	**(6,582)**	**–**	**7,387**
Total comprehensive income for the year, net of tax	**1,169,516**	**40,362**	**373,684**	**48,842**	**9,232**
Attributable to:					
Equity holder of the Parent	**1,162,195**	**40,546**	**365,664**	**48,842**	**9,232**
Non-controlling interest	**7,321**	**(184)**	**8,020**	**–**	**–**
Dividends paid to non-controlling interest	**(9,796)**	**(8,612)**	**(635)**	**(3,137)**	**(1,884)**
Summarised cash flow information					
Operating activity	**453,990**	**66,351**	**58,327**	**64,314**	**23,662**
Investing activity	**1,151,140**	**(120,277)**	**(40,279)**	**(52,390)**	**(6,548)**
Financing activity	**(1,505,257)**	**77,277**	**(139,272)**	**(40,586)**	**(21,254)**
Net increase/(decrease) in cash and cash equivalents	**99,873**	**23,351**	**(121,224)**	**(28,662)**	**(4,140)**

18. EQUITY (continued)

18.8 Non-controlling interest (continued)

The following tables illustrate summarized financial information of subsidiaries, in which there are significant non-controlling interests as at December 31, 2017 and for the year then ended:

In millions of tenge	NC KazMunay-Gas JSC	Kazakhtelecom JSC	KEGOC JSC	Air Astana JSC
Summarized balance sheet				
Non-current assets	8,591,496	355,915	319,932	98,482
Current assets	4,797,257	115,399	88,969	98,172
Non-current liabilities	4,500,754	70,126	170,952	120,585
Current liabilities	2,265,599	42,080	39,828	47,235
Total equity	6,622,400	359,108	198,121	28,834
Attributable to:				
Equity holder of the Parent	5,117,391	177,500	178,219	14,729
Non-controlling interest	1,505,009	181,608	19,902	14,105
Summarized statement of comprehensive income				
(Loss)/profit for the year from continuing operations	(269,657)	24,718	41,719	(1,815)
Profit for the year from discontinued operations	789,183	–	–	–
Other comprehensive (loss)/income	(76,054)	(5,042)	–	2,991
Total comprehensive income for the year, net of tax	443,472	19,676	41,719	1,176
Attributable to:				
Equity holder of the Parent	326,002	10,035	37,547	600
Non-controlling interest	117,470	9,641	4,172	576
Dividends paid to non-controlling interest	(17,817)	(2,112)	(1,990)	–
Summarised cash flow information				
Operating activity	399,889	66,225	61,841	32,042
Investing activity	(821,975)	(38,096)	(9,335)	23,365
Financing activity	760,802	(35,472)	(37,061)	(17,669)
Net increase/(decrease) in cash and cash equivalents	338,716	(7,343)	15,445	37,738

18. EQUITY (continued)

18.9 Currency translation reserve

The currency translation reserve is used to record exchange differences arising from the translation of financial statements of the subsidiaries, whose functional currency is not tenge and whose financial statements are included in the consolidated financial statements. In 2018 foreign translation difference amounted to 1,090,827 million tenge.

Certain borrowings of the Group denominated in US dollars were designated as hedge instrument for the net investment in the foreign operations. As at December 31, 2018 unrealized foreign currency loss of 653,505 million tenge resulting from translation of these borrowings were transferred to currency translation reserve recognized in other comprehensive income.

18.10 Hedge reserve

NC KTZh

Hedge reserve includes the effect of cash flow hedge accounting to record any fair value gains or losses on the instruments in a hedge reserve in respect of foreign currency revenue proceeds. These gains or losses are subsequently recycled to the profit and loss as transactions are settled.

In 2015 NC KTZh entered into a cash flow hedge with Eurobonds denominated in Swiss francs ("CHF") and maturing in 2019 and 2022, to reduce the risk of changes in sales revenue from transit, expressed in CHF. As at December 31, 2018 hedge loss attributable to equity holders of the Parent is 14,026 million tenge.

Air Astana JSC

In 2015 Air Astana entered into a cash flow hedge with finance lease obligations denominated in US dollars, to reduce the risk of changes in sales revenue expressed in US dollars. In connection with the transition of the functional currency to US dollar, this hedge ceased to be economically effective from December 31, 2017.

As a result of the change, the hedge relationship has been discontinued so that starting from January 1, 2018 no further foreign currency translation gains or losses are transferred from profit or loss to hedge reserve, and the hedge reserve recognized in equity as at December 31, 2018 shall remain in equity until the forecasted revenue cash flows are received.

During 2018 amount reclassified from the hedging reserve to foreign exchange loss from inception of the hedge was 3,747 million tenge before tax of 750 million tenge. Hedge income attributable to non-controlling interest comprised 1,836 million tenge.

18.11 Other capital reserves

Other capital reserves include mainly remuneration of employees for the services rendered in the form of share-based payments with equity instruments of a subsidiary in which they are employed. The cost of equity-settled remunerations is recognized, together with a corresponding increase in other capital reserves, over the period in which performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award.

18.12 Book value per share

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

In millions of tenge	**2018**	2017 (restated)
Total assets	**25,645,356**	24,327,108
Less: intangible assets	**(1,611,163)**	(993,585)
Less: total liabilities	**(12,773,471)**	(12,502,738)
Net assets for common shares	**11,260,722**	10,830,785
Number of common shares as at December 31	**3,481,939,318**	3,481,938,318
Book value per common share, tenge	**3,234**	3,111
Earnings per share		
Weighted average number of common shares for basic and diluted earnings per share	**3,481,938,345**	3,481,898,532
Basic and diluted share in net profit for the period	**357.05**	213.07
Basic and diluted share in net profit/(loss) from continuing operations	**358.06**	215.90

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. BORROWINGS

As at December 31 borrowings, including interest payable, comprised the following:

In millions of tenge	**2018**	2017 (restated)
Fixed interest rate borrowings	**5,053,961**	4,909,976
Floating interest rate borrowings	**1,798,814**	2,144,291
	6,852,775	7,054,267
Less: amounts due for settlement within 12 months	**(817,319)**	(1,636,757)
Amounts due for settlement after 12 months	**6,035,456**	5,417,510

In millions of tenge	**2018**	2017 (restated)
US dollar-denominated borrowings	**5,369,190**	5,634,180
Tenge-denominated borrowings	**1,116,301**	1,112,828
Other currency-denominated borrowings	**367,284**	307,259
	6,852,775	7,054,267

Under the terms of some loan agreements, respective subsidiaries of the Group are obliged to comply with certain covenants. The Group reviews compliance with all the Group loan covenants at each reporting date.

As at December 31, 2018, the Group had breached one of the HSBC France financial covenants, Debt to Equity ratio, for a loan of 58,809 million tenge, and, as a result, classified long-term portion of the loan of 46,238 million tenge as current liability. After the reporting date, the Group received a waiver from HSBC France to reset covenant threshold as at December 31, 2018. As at December 31, 2018 the Group was in compliance with the reset covenant. Accordingly, this event had not resulted in payment acceleration of HSBC France loan and had not impacted the Group’s obligations under its other borrowing arrangements.

As of December 31, 2018 the Group complied with all financial and non-financial covenants under other loan agreements.

Bonds issuance and repayment

During the year ended December 31, 2018 the Fund performed early redemption of bonds, placed on the Kazakhstan Stock Exchange, in the amount of 81,000 million tenge.

During the year ended December 31, 2018 the Group placed Eurobonds due in 2025, 2030 and 2048 in the amount of 3,250 million US dollars (equivalent to 1,061,190 million tenge). The Group also made an early redemption of Eurobonds due in 2020, 2021 and 2043 in the amount of 3,463 million US dollars (equivalent to 1,143,982 million tenge).

On July 2, 2018 the Group performed a full redemption of bonds issued on the LSE in 2008 for a total of 1,673 million US dollars (equivalent to 570,627 million tenge at the date of payment).

In 2018, the Group fully redeemed a loan from Sberbank Russia of 420 million US dollars (equivalent to 152,989 million tenge), including accrued interest.

In September 2018 the Group issued bonds on the Kazakhstan Stock Exchange (KASE) in the amount of 75,000 million tenge with a coupon rate of 9.25% per annum and maturity date on November 15, 2024 in order to refinance foreign currency loans and loans in tenge with a high interest rate.

In 2018 within the framework of a credit agreement dated November 26, 2012 with the US Export-Import Bank, the Group, made a full repayment of its debt of 61,803 million tenge.

In 2018 the Group within the framework of a loan restructuring agreements with EBRD dated December 22, 2016 made an early repayment of the loan of 43,578 million tenge.

Other borrowings

During the year ended December 31, 2018 the Fund made an early partial repayment of loan from the bank Tokyo-Mitsubishi UFJ LTD in the amount of 900 million US dollars (equivalent to 307,179 million tenge).

During the year ended December 31, 2018 the Group received a loan from the syndicate of banks (Citibank NA, Mizuho Bank Ltd., MUFG Bank Ltd., Societe Generale и ING Bank) in the amount of 200 million US dollars (equivalent to 65,832 million tenge as of the date of receipt) to finance construction of three compressor stations at main gas pipeline “Beineu – Bozoy – Shymkent”.

19. BORROWINGS (continued)

Other borrowings (continued)

During the year ended December 31, 2018, the Group received a loan from ING Bank in the amount of 119 million US dollars (equivalent to 40,376 million tenge).

In 2018 the Group derecognized a loan from ONGC Videsh, a partner in the Satpayev project, for the total amount of 53,263 million tenge, including an interest of 4,620 million tenge *(Note 37)*. The derecognition of the loan is related to the planned withdrawal from the project and returning of the contract territory to the Government.

As at December 31 the carrying amount of borrowings by the Group subsidiaries is presented below:

In millions of tenge	**2018**	2017 (restated)
NC KMG and its subsidiaries	**4,149,123**	4,301,252
NC KTZh and its subsidiaries	**1,272,129**	1,158,981
The Fund	**535,712**	808,453
Samruk-Energy and its subsidiaries	**248,069**	298,527
NAC KAP and its subsidiaries	**199,690**	121,284
KEGOC and its subsidiaries	**162,059**	161,789
Other subsidiaries of the Fund	**285,993**	203,981
Total borrowings	**6,852,775**	7,054,267

20. LOANS FROM THE GOVERNMENT OF THE REPUBLIC OF KAZAKHSTAN

As at December 31 loans from the Government of the Republic of Kazakhstan comprised the following:

In millions of tenge	**2018**	2017
Bonds acquired by the National Bank of the Republic of Kazakhstan using the assets of the National Fund	**588,226**	719,410
Loans from the Government of the Republic of Kazakhstan	**65,180**	62,638
Bonds acquired by the National Bank of the Republic of Kazakhstan		–
	653,406	782,048
Less: amounts due for settlement within 12 months	**(22,973)**	(5,907)
Amounts due for settlement after 12 months	**630,433**	776,141

Bonds, purchased by National Bank of the Republic of Kazakhstan

On November 13, 2018 Fund successfully placed 15% shares of Kazatomprom on international stock exchanges of Nur-Sultan (AIX) and London.

In accordance with the Terms of receivables from transferring of national assets of managing holdings, national holdings, national companies and its subsidiaries, dependent and other entities, who are affiliated with them into competitive environment, with National Fund of Republic of Kazakhstan, approved by Resolution of the Government of Republic of Kazakhstan dated June 4, 2018 № 323, funds received from state assets realization can be transferred to repayment of of the Fund's liabilities to the National Fund.

Due to, December 24, 2018 in accordance with accepted corporate decisions of Fund realized:

- Fully redemption of bonds on its fair value for 123,604 million tenge in the framework of the tenth issue of bonds of the Fund, redeemed by National bank at expense of National Fund, previously issued for loan by the Fund to "Samruk-Energo" JSC;
- Partial early repayment on its nominal value of bonds for 38,057 million tenge in framework of eleventh issue of the Fund's bonds, redeemed by National bank using the funds of the National Fund, previously issued for financing "KMG Kashagan B.V" PC shares acquisition.

Due to abovementioned early redemption of obligations of the National Bank of the Republic of Kazakhstan, the Fund recognized the decrease in discount on loans from the Government of 10,477 million tenge in consolidated statement of changes in equity.

21. PREPAYMENT ON OIL SUPPLY AGREEMENT

NC KMG

In 2016 the Group entered into long-term crude oil and liquefied petroleum gas (“LPG”) supply agreement, which involves the prepayment. The total minimum delivery volume approximates 38 million tons of crude oil and 1 million tons of LPG in the period from the date of the contract to March 2021.

In 2018, in accordance with an amendment signed in December 2017, the Group received an additional prepayment of 499,411 thousand US dollars (equivalent of 163,073 million tenge at the date of transaction) net of transaction costs.

The agreement stipulates pricing calculation with reference to market quotes and prepayments are settled through physical deliveries of crude oil and LPG.

The Group considers this agreement to be regular way agreement to deliver non-financial items in accordance with the Group’s expected sale requirements.

As of December 31, 2018 the Group has partially settled the prepayments by oil supply in the total amount of 1,000 million US dollars.

Interest at rate of LIBOR 1m rate plus 1.85% is annually accrued on outstanding balance of prepayment.

KMG Kashagan B.V.

During 2016, the Group entered into a long-term crude oil supply agreement. In accordance with the terms of the agreement, during the period from January 2017 till December 2021, KMG Kashagan B.V. will supply the minimum volume of oil of 7 million tons from the Kashagan field.

In 2017 KMG Kashagan B.V. signed a first addendum to the crude oil supply agreement and in 2018, KMG Kashagan B.V. signed the second supplementary agreement to the crude oil supply agreement. Under the terms of the supplementary agreement, the term of oil supplies was extended until December 2025, accordingly the minimum volume of oil from the Kashagan field was increased, and for the period from 2018 to 2025 amounts to 16.6 million tons. Under the new terms of the agreement, in 2018 KMG Kashagan B.V. received an additional prepayment of 593,986 thousand US dollars (equivalent of 207,194 million tenge at the date of transaction), net of transaction costs, which will be repaid by the supply of crude oil produced at the Kashagan field.

The Agreement stipulates price determination on the basis of current market quotations and prepayment is reimbursed by means of physical supply of crude oil.

In accordance with the terms of the agreement, supply of oil started from January 2017. The Group considers this agreement as a contract, which was signed for the purpose of delivery of non-financial items in accordance with the Company’s expectations and sale requirements.

Interest at LIBOR 1m rate plus 2.05% for the amount received of 1,950 million US dollars and LIBOR 1m rate plus 2.25% for the amount of 250 million US dollars is monthly accrued on balance of this prepayment.

In accordance with the terms of agreement, KMG Kashagan B.V. must ensure that supplied volume of crude oil is unencumbered.

As at December 31, 2018, the current portion of the advance payment under the crude oil supply agreement amounted to 527,402 million tenge (December 31, 2017: 332,330 million tenge) according to the repayment schedule. The non-current portion of the advance payment under the crude oil supply agreement was 1,153,761 million tenge (December 31, 2017: 1,109,265 million tenge).

Prepayment on oil supply agreement is recognized as contract liability to customers in accordance with IFRS 15.

22. FINANCE LEASE LIABILITIES

The Group has finance leases for various items of property, plant and equipment, mainly aircraft.

During 2012-2014 Air Astana JSC (“Air Astana”), subsidiary of the Group, acquired 11 (eleven) aircraft under fixed interest finance lease agreements. The lease term for each aircraft is 12 (twelve) years. Air Astana has the option to purchase each aircraft for a nominal amount at the end of the lease. Loans provided by financial institutions to the lessor in respect of 6 (six) new Airbus were guaranteed by European Export Credit Agencies, 3 (three) Boeing 767 aircrafts were guaranteed by US Export Import Bank and 2 (two) Embraer aircrafts were guaranteed by Brazilian Development Bank. Air Astana pledged the leased assets with carrying amount of 76,364 million tenge to secure finance lease liabilities (December 31, 2017: 68,671 million tenge).

22. FINANCE LEASE LIABILITIES (continued)

The Group's finance leases are subject to certain covenants. These covenants impose restrictions in respect of certain transactions, including, but not limited to restrictions in respect of indebtedness. These requirements have been met during 2018 and 2017.

As at December 31, 2018 interest calculation was based on effective interest rates ranging from 2.5% to 22.09% (December 31, 2017: from 2.99% to 19.59%).

As at December 31 future minimum lease payments under finance leases together with the present value of the net minimum lease payments comprised the following:

	2018	
In millions of tenge	**Minimum lease payments**	**Present value of minimum lease payments**
Within one year	**31,666**	**25,853**
Two to five years inclusive	**102,955**	**90,430**
After five years	**52,591**	**40,210**
Less: amounts representing finance costs	**(30,719)**	**–**
Present value of minimum lease payments	**156,493**	**156,493**
Less: amounts due for settlement within 12 months	**(31,666)**	**(25,853)**
Amounts due for settlement after 12 months	**124,827**	**130,640**

	2017 (restated)	
In millions of tenge	Minimum lease Payments	Present value of minimum lease payments
Within one year	24,599	19,755
Two to five years inclusive	80,335	69,777
After five years	56,539	50,314
Less: amounts representing finance costs	(21,627)	–
Present value of minimum lease payments	139,846	139,846
Less: amounts due for settlement within 12 months	(24,599)	(19,755)
Amounts due for settlement after 12 months	115,247	120,091

The Air Astana finance lease obligations are denominated in US dollars.

23. PROVISIONS

As at December 31 provisions comprised the following:

In millions of tenge	Asset retirement obligations	Provision for environ-mental remediation	Provision for taxes	Provision for construction of social objects	Other	Total
Provision at January 1, 2017 (restated)	128,218	50,134	48,048	69,786	103,468	399,654
Foreign currency translation	233	(53)	15	–	69	264
Change in estimate	17,619	(948)	–	–	(109)	16,562
Unwinding of discount	10,842	1,794	–	–	4,379	17,015
Provision for the year	3,735	10,999	7,783	28,452	13,499	64,468
Use of provision	(1,661)	(1,165)	(27,690)	(60,194)	(42,258)	(132,968)
Reversal of unused amounts	(175)	–	–	–	(1,568)	(1,743)
Provision at December 31, 2017	158,811	60,761	28,156	38,044	77,480	363,252
Foreign currency translation	**6,474**	**5,492**	**10**	**–**	**7,643**	**19,619**
Additions through business combinations	**4,820**	**–**	**–**	**–**	**–**	**4,820**
Transfer to liabilities associated with assets classified as held for sale	**(333)**	**–**	**(474)**	**–**	**(175)**	**(982)**
Change in estimate	**(1,619)**	**697**	**(1,861)**	**–**	**5,516**	**2,733**
Unwinding of discount	**13,626**	**2,483**	**–**	**–**	**192**	**16,301**
Provision for the year	**773**	**–**	**18,445**	**–**	**56,919**	**76,137**
Use of provision	**(745)**	**(3,319)**	**(25,802)**	**(4,374)**	**(20,996)**	**(55,236)**
Reversal of unused amounts	**(354)**	**(46)**	**–**	**–**	**(5,328)**	**(5,728)**
Provision at December 31, 2018	**181,453**	**66,068**	**18,474**	**33,670**	**121,251**	**420,916**

Current portion and non-current portion of provisions are presented as follows:

In millions of tenge	Asset retirement obligations	Provision for environ-mental remediation	Provision for taxes	Provision for construction of social objects	Other	Total
Current portion	1,668	6,017	28,156	38,044	42,082	115,967
Non-current portion	157,143	54,744	–	–	35,398	247,285
Provision at December 31, 2017 (restated)	158,811	60,761	28,156	38,044	77,480	363,252
Current portion	**2,220**	**6,199**	**18,474**	**33,670**	**91,230**	**151,793**
Non-current portion	**179,233**	**59,869**	**–**	**–**	**30,021**	**269,123**
Provision at December 31, 2018	**181,453**	**66,068**	**18,474**	**33,670**	**121,251**	**420,916**

Other provisions as at December 31, 2018 included provisions for aircraft maintenance for the amount of 33,516 million tenge (December 31, 2017: 24,516 million tenge), gas transportation provision of 28,083 million tenge (December 31, 2017: 24,291 million tenge) and provision of 36,633 million tenge by results of an environmental audit of Embamunaigas JSC (December 31, 2017: nil).

24. EMPLOYEE BENEFIT LIABILITY

State contribution scheme

The Group pays social tax according to the current statutory requirements in the Republic of Kazakhstan. Social tax and payroll are expensed as incurred.

In addition to that, the Group also withholds and contributes up to 10% limit on pension contributions, from salaries of its employees as the employee contribution to their cumulative pension funds. These amounts are expensed in the period they are incurred.

24. EMPLOYEE BENEFIT LIABILITY (continued)

Defined benefit plan

Employee benefit liabilities under various plans are payable in accordance with collective agreements concluded between certain subsidiaries of the Group (NC KMG, NC KTZh, Kazakhtelecom JSC, Samruk-Energy JSC, NAC KAP and Kazpost JSC) and employees of those subsidiaries represented by their labor unions.

As at December 31 total liability under the Group's defined benefit plan comprised the following:

In millions of tenge	**2018**	2017 (restated)
Present value of defined benefit obligation	**101,510**	88,055
Liability falling due within one year	**(7,267)**	(6,883)
Liability falling due after one year	**94,243**	81,172

A reconciliation of the present value of the defined benefit plan liability with specified payments for the years ended December 31 is as follows:

In millions of tenge	**2018**	2017 (restated)
Total liability at the beginning of the year	**88,055**	73,059
Actuarial loss recognized during the period in other comprehensive income	**7,577**	8,046
Interest cost	**7,405**	6,943
Current service cost	**4,407**	4,589
Past service cost	**2,470**	182
Discontinued operations	**(38)**	–
Foreign currency translation	**7**	3,807
Benefits paid during the year	**(8,381)**	(8,771)
Unrecorded past service cost	**(72)**	3
Actuarial (gain)/loss recognized during the period in profit and loss	**80**	197
Total liability at the end of the year	**101,510**	88,055

Total service cost, including current service cost, interest cost, past service cost, unrecorded past service cost and actuarial loss, of 21,868 million tenge was recognized in the consolidated statement of comprehensive income within respective line items in 2018 (2017: 19,959 million tenge).

Estimates of the Group's liabilities were made on the basis of published statistical data regarding mortality and actual Group's data on number, age, gender and years of employee service. Other principal assumptions at the reporting date, calculated as weighed average for all plans, were as follows:

	2018	2017 (restated)
Discount rate	**8.26%**	8.92%
Expected rate of increase of future annual financial assistance	**7.54%**	6.11%
Expected rate of increase of future annual minimum salary	**5.71%**	5.03%
Expected rate of increase of future annual railway ticket price	**4.60%**	6.60%

25. OTHER CURRENT LIABILITIES

As at December 31 other current liabilities comprised the following:

In millions of tenge	**2018**	2017 (restated)
Contract liabilities to customers	**211,703**	152,175
Other taxes payable	**147,787**	125,012
Due to employees	**111,930**	111,928
Advances received and deferred income	**28,117**	79,944
Obligations to the Shareholder on the financing of social projects	**50,072**	4,013
Amounts due to customers	**27,688**	24,777
Government grant liability	**11,784**	14,721
Obligations under quarantee agreements	**7,404**	10,378
Dividends payable	**4,030**	4,077
Payables for acquisition of additional interest in the North-Caspian project	**–**	272,148
Other financial liabilities	**93,682**	20,967
Other non-financial liabilities	**69,824**	45,823
	764,021	865,963

Payables for acquisition of additional interest in undividable stake of the North-Caspian project

On October 31, 2008 all participants of the North-Caspian project (the “NCP” or the “Project) signed an agreement according to which all project participants except for KMG Kashagan agreed to partially sell their interest in the project on proportional basis in order to increase the interest of KMG Kashagan in NCP from 8.33% to 16.81% retrospectively from January 1, 2008.

The purchase price of the undivided share of interest in NCP consists of a principal amount of 1.78 billion US dollars plus annual interest.

The principal amount together with interest was to be paid in three equal annual instalments after achieving Kashagan commercial production (“KCP”) at Kashagan field.

On August 8, 2018, the Group paid the amount of the third tranche in the total amount of 844,012 thousand US dollars (equivalent to 294,258 million tenge), thus fully paying off its obligations under the contract.

26. REVENUE

Revenue comprised the following for the years ended December 31:

In millions of tenge	**2018**	2017 (restated)
Sales of crude oil	**3,757,436**	2,508,923
Sales of oil refined products	**2,603,428**	1,779,471
Railway cargo transportation	**857,847**	765,599
Sales of gas products	**783,070**	342,025
Sales of uranium products	**399,998**	233,878
Oil and gas transportation fee	**315,205**	333,007
Air transportation	**291,631**	255,331
Electricity complex	**277,865**	264,078
Sales of refined gold	**257,475**	193,797
Telecommunication services	**213,588**	200,484
Oil processing fees	**175,112**	128,535
Electricity transmission services	**144,543**	124,423
Railway passenger transportation	**85,453**	83,095
Interest income	**46,167**	153,443
Postal services	**42,537**	38,818
Less: Crude oil Quality Bank	**(18,118)**	(21,769)
Less: indirect taxes and commercial discounts	**(499,910)**	(399,479)
Other revenue	**383,100**	398,402
	10,116,427	7,382,061

27. COST OF SALES

Cost of sales comprised the following for the years ended December 31:

In millions of tenge	**2018**	2017 (restated)
Materials and supplies	**4,844,175**	3,142,080
Personnel costs, including social taxes and withdrawals	**786,597**	771,498
Depreciation, depletion and amortization	**698,317**	516,983
Fuel and energy	**343,189**	289,729
Production services rendered	**227,029**	189,816
Repair and maintenance	**190,570**	159,973
Mineral extraction tax	**158,867**	110,305
Interest expense	**84,051**	177,291
Taxes other than social taxes and withdrawals	**76,049**	58,717
Rent	**75,531**	63,251
Transportation expenses	**38,268**	27,048
Other	**275,932**	294,149
	7,798,575	5,800,840

28. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses comprised the following for the years ended December 31:

In millions of tenge	**2018**	2017 (restated)
Personnel costs, including social taxes and withdrawals	**192,020**	212,555
Taxes other than social taxes and withdrawals	**47,031**	47,143
Consulting services	**38,117**	32,974
Fines and penalties	**33,448**	(6,795)
Depreciation and amortization	**30,911**	33,227
Allowance for expected credit losses for trade receivable and other assets	**12,407**	6,775
Rent	**10,987**	9,712
Business trips	**7,820**	7,104
Other services by third parties	**7,300**	4,714
Sponsorship and charitable donations	**7,298**	16,340
Repair and maintenance	**6,049**	7,022
Transportation services	**4,292**	2,537
Utilities expenses and maintenance of buildings	**4,070**	3,458
Professional education and advanced trainings	**3,719**	2,887
Bank services	**2,448**	2,630
Other	**80,716**	72,457
	488,633	454,740

29. TRANSPORTATION AND SELLING EXPENSES

Transportation and selling expenses comprised the following for the years ended December 31:

In millions of tenge	**2018**	2017 (restated)
Transportation	**361,092**	204,889
Rent tax	**145,523**	83,183
Custom duties	**132,063**	105,703
Personnel costs, including social taxes and withdrawals	**19,961**	19,323
Commission fees to agents and advertising	**13,627**	12,228
Depreciation and amortization	**12,112**	14,117
Other	**37,204**	30,913
	721,582	470,356

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. IMPAIRMENT LOSS

Impairment loss comprised the following for the years ended December 31:

In millions of tenge	**2018**	2017 (restated)
Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets	**166,723**	38,899
Impairment / (reversal of impairment) of assets held for sale	**30,497**	(10,385)
Expected credit losses on other financial assets	**14,000**	39,705
Impairment / (reversal of impairment) / of VAT receivable	**6,357**	(18,212)
Expected credit losses on cash and cash equivalents	**410**	–
(Reversal of) / accrual of expected credit losses on amounts in credit institutions	**(10,216)**	14,995
(Reversal of) / accrual of expected credit losses on loans issued	**(7,563)**	516
(Reversal of impairment) / impairment of investments in joint ventures and associates	**(6,488)**	19,313
Other	**14,706**	9,551
	208,426	94,382

31. FINANCE COSTS

Finance costs comprised the following for the years ended December 31:

In millions of tenge	**2018**	2017 (restated)
Interest on loans and debt securities issued	**412,009**	363,558
Interest for the early redemption of Eurobonds	**89,612**	–
Interest on oil supply agreement	**35,868**	40,756
Discount on provisions and other payables	**17,876**	19,235
Interest on payable for the acquisition of additional interest in North Caspian Project	**8,662**	19,202
Interest on finance lease liabilities	**6,135**	4,551
Discount on assets at rates below market	**2,397**	12,499
Other	**60,596**	22,578
	633,155	482,379

32. FINANCE INCOME

Finance income comprised the following for the years ended December 31:

In millions of tenge	**2018**	2017
Interest income on amounts due from credit institutions and cash and cash equivalents	**90,895**	116,997
Write-off of loan from ONGC Videsh *(Note 19)*	**53,263**	–
Income from loans and financial assets	**34,797**	44,468
Income from financial guarantees	**7,448**	7,412
Unwinding of discount on long-term receivables	**2,143**	10,876
Other	**17,974**	11,989
	206,520	191,742

33. SHARE IN PROFIT OF JOINT VENTURES AND ASSOCIATES, NET

Share in profit/(loss) of joint ventures and associates comprised the following for the years ended December 31:

In millions of tenge	**2018**	2017 (restated)
Tengizchevroil LLP	**439,149**	289,980
Mangistau Investments B.V.	**95,510**	49,605
Caspian Pipeline Consortium JSC	**57,965**	54,666
Kazzinc LLP	**46,637**	58,049
JV Kazgermunai LLP	**27,915**	17,713
Beineu Shymkent Gas Pipeline LLP	**16,710**	(669)
Petro Kazakhstan Ink	**14,591**	7,234
Tenizservice LLP	**13,897**	1,653
Forum Muider B.V.	**13,259**	10,481
JV KATCO LLP	**11,200**	9,495
Valsera Holdings B.V.	**(7,989)**	9,751
Ural Group Limited BVI	**(18,822)**	(1,877)
Other	**39,509**	25,601
	749,531	531,682

34. INCOME TAX EXPENSES

Income tax expenses comprised the following for the years ended December 31:

In millions of tenge	**2018**	2017 (restated)
Current income tax expenses		
Corporate income tax ("CIT")	**223,995**	157,829
Withholding tax on dividends and interest income	**31,900**	31,683
Excess profit tax	**(1,127)**	10,746
Deferred income tax expense/(benefit)		
Corporate income tax ("CIT")	**64,281**	33,419
Withholding tax on dividends and interest income	**92,617**	29,835
Excess profit tax	**(7,850)**	(1,275)
Income tax expenses	**403,816**	262,237

A reconciliation of income tax expenses applicable to profit before income tax at the statutory income tax rate (20% in 2018 and 2017) to income tax expenses was as follows for the years ended December 31:

In millions of tenge	**2018**	2017 (restated)
Accounting profit before income tax from continuing operations	**1,650,574**	1,013,972
Accounting profit before income tax from discontinued operations	**(2,968)**	(10,038)
Income tax expenses on accounting profit	**329,521**	200,787
Tax effect of other items, which are not deductible or assessable for taxation purposes	**210,467**	172,078
Change in unrecognized deferred tax assets	**95,702**	(46,689)
Effect of different corporate income tax rates	**24,757**	622
Excess profit tax	**(8,978)**	9,471
Share in non-taxable profit of joint ventures and associates	**(90,051)**	(60,162)
Other differences	**(157,028)**	(14,070)
Total corporate income tax expenses	**404,390**	262,037
Add: income tax benefit attributable to discontinued operations	**(574)**	200
Income tax expense from continuing operations	**403,816**	262,237

34. INCOME TAX EXPENSES (continued)

Deferred tax balances, calculated by applying the statutory tax rates effective at the respective reporting dates to the temporary differences between tax basis of assets and liabilities and the amounts reported in the consolidated financial statements, are comprised of the following at December 31:

	2018				2017 (restated)			
In millions of tenge	**Corporate income tax**	**Excess profit tax**	**Withholding tax**	**Total**	Corporate income tax	Excess profit tax	Withholding tax	Total
Deferred tax assets								
Property, plant and equipment	**38,348**	**(1,916)**	**–**	**36,432**	98,208	(2,214)	–	95,994
Tax loss carryforward	**784,066**		**–**	**784,066**	632,488	–	–	632,488
Employee related accruals	**13,417**	**–**	**–**	**13,417**	13,235	233	–	13,468
Allowance for expected credit losses of financial assets	**9,204**	**–**	**–**	**9,204**	6,327	–	–	6,327
Provision for environmental remediation	**25,555**	**–**	**–**	**25,555**	23,792	217	–	24,009
Other accruals	**7,974**	**–**	**–**	**7,974**	3,933	1,347	–	5,280
Other	**71,125**	**–**	**–**	**71,125**	55,153	–	–	55,153
Less: unrecognized deferred tax assets	**(556,289)**	**–**	**–**	**(556,289)**	(460,587)	–	–	(460,587)
Less: deferred tax assets offset with deferred tax liabilities	**(260,292)**	**–**	**–**	**(260,292)**	(202,852)	–	–	(202,852)
Deferred tax assets	**133,108**	**(1,916)**	**–**	**131,192**	169,697	(417)	–	169,280
Deferred tax liabilities								
Property, plant and equipment	**846,662**	**6,365**	**–**	**853,027**	640,575	15,712	–	656,287
Undistributed earnings of joint ventures and associates	**–**	**–**	**295,580**	**295,580**	–	–	202,904	202,904
Other	**27,100**	**–**	**–**	**27,100**	51,108	–	–	51,108
Less: deferred tax assets offset with deferred tax liabilities	**(260,292)**	**–**	**–**	**(260,292)**	(202,852)	–	–	(202,852)
Deferred tax liabilities	**613,470**	**6,365**	**295,580**	**915,415**	488,831	15,712	202,904	707,447
Net deferred tax liabilities	**(480,362)**	**(8,281)**	**(295,580)**	**(784,223)**	(319,134)	(16,129)	(202,904)	(538,167)

The movements in the net deferred tax liabilities were as follows for the years ended December 31:

	2018				2017 (restated)			
In millions of tenge	**Corporate income tax**	**Excess profit tax**	**Withholding tax**	**Total**	Corporate income tax	Excess profit tax	Withholding tax	Total
Balance at January 1 (restated)	**319,134**	**16,129**	**202,904**	**538,167**	247,619	17,407	173,069	438,095
Foreign currency translation	**2,112**	**2**	**59**	**2,173**	503	(3)	–	500
Charged to other comprehensive income	**(5,165)**	**–**	**–**	**(5,165)**	605	–	–	605
Acquisition of subsidiaries	**97,414**	**–**	**–**	**97,414**	–	–	–	–
Discontinued operations	**2,586**	**–**	**–**	**2,586**	36,988	–	–	36,988
(Credited)/charged to profit and loss	**64,281**	**(7,850)**	**92,617**	**149,048**	33,419	(1,275)	29,835	61,979
Balance at December 31	**480,362**	**8,281**	**295,580**	**784,223**	319,134	16,129	202,904	538,167

34. INCOME TAX EXPENSES (continued)

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognized deferred tax asset arising mainly from tax losses carry forward were equal to 556,289 million tenge as at December 31, 2017 (December 31, 2016: 460,587 million tenge).

Tax losses carryforwards as at December 31, 2018 in the Republic of Kazakhstan expire for tax purposes 10 (ten) years from the date they are incurred.

35. CONSOLIDATION

Subsidiaries included in the consolidated financial statements are presented as follows:

		Ownership percentage	
		2018	2017
1	National Company "KazMunayGas" JSC ("NC KMG") and subsidiaries	**90.43%**	90.09%
2	KMG Kashagan B.V.	**100.00%**	100.00%
3	National Company "Kazakhstan Temir Zholy" JSC ("NC KTZh") and subsidiaries	**100.00%**	100.00%
4	National Atomic Company "Kazatomprom" JSC ("NAC KAP") and subsidiaries	**85.00%**	100.00%
5	Samruk-Energy JSC ("Samruk-Energy") and subsidiaries	**100.00%**	100.00%
6	Kazakhstan Electricity Grid Operating Company JSC ("KEGOC") and subsidiaries	**90% + 1**	90% + 1
7	Kazpost JSC and subsidiaries	**100.00%**	100.00%
8	Kazakhtelecom JSC ("KTC") and subsidiaries	**51.00%**	51.00%
9	Air Astana JSC ("Air Astana")	**51.00%**	51.00%
10	National Company "Kazakhstan Engineering" JSC ("Kazakhstan Engineering") and subsidiaries	**–**	100.00%
11	"Samruk-Kazyna Construction" JSC and subsidiaries	**100.00%**	100.00%
12	National Mining Company "Tau-Ken Samruk" and subsidiaries	**100.00%**	100.00%
13	United Chemical Company LLP ("UCC") and subsidiaries	**100.00%**	100.00%
14	Samruk-Kazyna Invest LLP and subsidiaries	**100.00%**	100.00%
15	Samruk-Kazyna Contract LLP	**100.00%**	100.00%
16	KOREM JSC	**100.00%**	100.00%
17	International Airport Atyrau JSC	**100.00%**	100.00%
18	International Airport Aktobe JSC	**100.00%**	100.00%
19	Airport Pavlodar JSC	**100.00%**	100.00%
20	SK Business Service LLP and subsidiaries	**100.00%**	100.00%
21	Qazaq Air JSC and subsidiaries	**100.00%**	100.00%
22	Kazakhstan nuclear electric plants JSC	**100.00%**	–
23	"MAEK-Kazatomprom" LLP	**100.00%**	–
24	"Aviation Company "Air Kazakhstan" JSC	**–**	53.55%

36. RELATED PARTY DISCLOSURES

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties include key management personnel of the Group, enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by the Group's key management personnel and other entities controlled by the Government. Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

36. RELATED PARTY DISCLOSURES (continued)

The following table provides the total amount of transactions, which have been entered into with related parties as at December 31:

In millions of tenge		Associates	Joint ventures	Other state-controlled entities
Due from related parties	**2018**	**20,592**	**36,243**	**22,794**
	2017	47,153	95,944	14,466
Due to related parties	**2018**	**40,171**	**133,759**	**11,822**
	2017	50,936	203,208	4,734
Sale of goods and services	**2018**	**63,550**	**324,313**	**319,208**
	2017	58,916	362,885	309,012
Purchase of goods and services	**2018**	**171,577**	**1,515,461**	**17,162**
	2017	180,523	1,069,770	12,981
Other income/(loss)	**2018**	**16,343**	**47,590**	**(50,629)**
	2017	1,994	1,448	8,246
Cash and cash equivalents, and amounts due from credit institutions (assets)	**2018**	**–**	**–**	**178,664**
	2017	–	–	334,546
Loans issued	**2018**	**139,749**	**400,254**	**5,203**
	2017	142,160	383,641	188,744
Borrowings	**2018**	**1,521**	**5**	**1,276,181**
	2017	–	5	1,442,348
Other assets	**2018**	**46,305**	**77,489**	**113,246**
	2017	18,148	90,459	23,173
Other liabilities	**2018**	**14,990**	**45,231**	**65,463**
	2017	12,838	13,388	60,499
Interest received	**2018**	**10,428**	**27,264**	**19,919**
	2017	11,610	26,475	34,624
Interest accrued	**2018**	**(1,280)**	**3,258**	**106,181**
	2017	108	10,770	179,550

As at December 31, 2018 some of the Group's borrowings of 65,423 million tenge were guaranteed by the Government of the Republic of Kazakhstan (December 31, 2017: 65,629 million tenge).

Total compensation to key management personnel included in general and administrative expenses in the consolidated statement of comprehensive income was equal to 6,145 million tenge for the year ended December 31, 2018 (December 31, 2017: 7,512 million tenge). Compensation to key management personnel mainly consists of contractual salary and other payments based on achievement of operating results.

37. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments consist of borrowings, loans from the Government of the Republic of Kazakhstan, finance lease liabilities, amounts due to the customers, derivatives, cash and cash equivalents, loans issued, amounts due from credit institutions, other financials assets, as well as accounts receivable and accounts payable. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and credit risk. The Group also monitors the liquidity risk arising from all financial instruments.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group limits interest rate risk by monitoring changes in interest rates in the currencies in which its cash, investments and borrowings are denominated.

The Group's exposure to interest risk relates primarily to the Group's long-term and short-term borrowings with variable interest rates *(Note 19).*

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

Interest rate risk (continued)

The following table demonstrates the sensitivity of the Group’s profit before income tax (through the impact on variable rate borrowings) to a reasonably possible change in variable LIBOR interest rates, with all other variables held constant.

In millions of tenge	**Increase/ (decrease) in basis points***	**Effect on profit before income tax**
2018		
US dollar	**50/(15)**	**(7,238)/2,171**
2017		
US dollar	70/(8)	(12,458)/1,424

* *1 basis point = 0.01%.*

Currency risk

As a result of significant borrowings, finance lease liabilities and trade accounts payable, cash and cash equivalents, amounts due from credit institutions and accounts receivable denominated in the US dollars, the Group’s consolidated financial position can be affected significantly by movement in the US dollar / tenge exchange rates.

The following table demonstrates the sensitivity of the Group’s profit before income tax to a reasonably possible change in the US dollar and euro, with all the variables held constant.

In millions of tenge	**Increase/(decrease) in exchange rate**	**Effect on profit before income tax**
2018		
US dollar	**14.00%/(10.00%)**	**(389,284)/278,060**
Euro	**14.00%/(10.00%)**	**(12,288)/8,742**
2017		
US dollar	10.00%/(10.00%)	(177,916)/177,916
Euro	13.50%/(9.50%)	(8,792)/8,792

Credit risk

Credit risk arising from the inability of a party to meet the terms of the Group’s financial instrument contracts is generally limited to the amounts, if any, by which the counterparty’s obligations exceed the obligations of the Group to that party. It is the Group’s policy to enter into financial instruments with a diversity of creditworthy parties. The maximum exposure to credit risk is represented by carrying amount of each financial asset.

The Group considers that its maximum exposure is reflected by the amount of loans issued *(Note 11)*, amount due from credit institutions *(Note 12)*, trade accounts receivable and other current assets *(Note 16)*, other financial assets *(Note 13)*, and cash and cash equivalents *(Note 17)*, net of allowances for expected credit losses recognized at the reporting date.

Concentrations of credit risk may arise from exposures to a single debtor or to groups of debtors having similar characteristics such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions.

The Group has a policy that ensures enforcement of constant control procedures for sales to only be made to buyers with an appropriate credit history and that an acceptable credit exposure limit is not exceeded. Credit risk is minimised by the fact that the Group operates on a prepayment basis with the majority of its buyers.

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

Liquidity risk

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

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

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

In millions of tenge	On demand	Due later than 1 month but not later than 3 months	Due later than 3 months but not later than 1 year	Due later than 1 year but not later than 5 years	Due after 5 years	Total
At December 31, 2018						
Loans from the Government of the Republic of Kazakhstan	**13**	**24**	**24,295**	**171,370**	**2,298,494**	**2,494,196**
Borrowings	**177,910**	**133,163**	**826,506**	**3,281,022**	**6,867,754**	**11,286,355**
Finance lease liabilities	**1,338**	**7,926**	**23,826**	**114,923**	**95,864**	**243,877**
Due to customers	**27,682**	**–**	**5**	**79**	**–**	**27,766**
Financial guarantees	**27,032**	**21,193**	**40,676**	**414,018**	**311,325**	**814,244**
Trade and other payables	**463,087**	**482,877**	**48,825**	**13,764**	**956**	**1,009,509**
	697,062	**645,183**	**964,133**	**3,995,176**	**9,574,393**	**15,875,947**
At December 31, 2017						
Loans from the Government of the Republic of Kazakhstan	13	24	29,026	171,717	2,011,241	2,212,021
Borrowings	131,747	44,738	1,002,800	4,409,832	4,607,356	10,196,473
Finance lease liabilities	466	6,068	21,333	102,918	115,492	246,277
Due to customers	22,476	574	1,727	12	–	24,789
Financial guarantees	23,541	22,624	45,834	581,747	261,714	935,460
Trade and other payables	346,799	344,411	134,776	19,506	6,926	852,418
	525,042	418,439	1,235,496	5,285,732	7,002,729	14,467,438

Capital management

The Group manages its capital primarily through capital management of its subsidiaries while conducting its oversight function. Major objective of the capital management is to ensure that subsidiaries of the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group manages capital of its subsidiaries by setting various performance indicators tailored to the business need and industry specific matters of each subsidiary.

The Group manages capital of its subsidiaries by setting various performance indicators tailored to the business need and industry specific matters of each subsidiary. Key performance indicators ("KPI") used by the Group to manage capital of its subsidiaries are ratios of: Debt to Earnings before Interest, Taxes, Depreciation and Amortization, and Interest ("D/EBITDA") from continuing and discontinued operations; and Debt to Equity ("D/E"). Debt is considered to be equal to all borrowings, debt securities, guarantee and finance lease liabilities of relevant subsidiaries reduced by value of cash and cash equivalents. Equity is considered to be equal to the entire equity of the subsidiary attributable to majority shareholders.

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

Capital management (continued)

Allowed maximum for the indicator is approved for each subsidiary based on the needs and specifics of its business and varies within following ranges (consolidated KPI's for the Group have been presented for reference purposes as the Group does not monitor KPI's on the consolidated level):

KPI	**2018**	2017
D/EBITDA	**3.00**	4.82
D/E	**0.61**	0.71

In billions of tenge	**2018**	2017
Borrowings *(Note 19)*	**6,853**	7,054
Loans from the Government of the Republic of Kazakhstan *(Note 20)*	**653**	782
Payable for the acquisition interest in NCP *(Note 25)*	**–**	272
Finance lease liabilities *(Note 22)*	**156**	140
Derivative instruments	**3**	–
Guaranteed principal amount of liabilities of entities outside the Group	**182**	147
Total debt	**7,847**	8,395
Less: cash and cash equivalents	**(2,488)**	(2,264)
Net debt	**5,359**	6,131
EBITDA	**2,619**	1,742
Total equity	**12,872**	11,824

Fair values of financial instruments and investment proprety

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

As at December 31, 2018 and 2017 the carrying amount of the following Group's financial instruments is a reasonable estimate of their fair value:

In millions of tenge	**Level 1**	**Level 2**	**Level 3**	**December 31, 2018**
Financial instruments category				
Assets				
Loans issued at fair value through profit and loss	**–**	**263,427**	**23,619**	**287,046**
Financial assets measured at fair value through OCI	**3,626**	**10,851**	**55**	**14,532**
Financial assets at fair value through profit and loss	**–**	**24,165**	**23,391**	**47,556**
Derivative financial assets	**–**	**3,129**	**1,721**	**4,850**

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

Fair values of financial instruments and investment proprety (continued)

In millions of tenge	Level 1	Level 2	Level 3	December 31, 2017 (restated)
Financial instruments category				
Assets				
Loans issued at fair value through profit and loss	–	–	20,302	20,302
Available-for-sale financial assets	3,611	11,702	1,364	16,677
Financial assets at fair value through profit and loss	–	–	21,274	21,274
Derivative financial assets	–	–	373	373

	December 31, 2018				
			Fair value by level of assessment		
In millions of tenge	**Carrying amount**	**Fair value**	**Quotations in an active market (Level 1)**	**From the observed market (Level 2)**	**Based on the significant amount of unobserved (Level 3)**
Financial assets					
Amounts due from credit institutions	**799,972**	**791,792**	**496,248**	**295,033**	**511**
Investment property	**42,388**	**54,981**	**–**	**32,360**	**22,621**
Financial liabilities					
Borrowings	**6,852,775**	**6,878,032**	**4,302,628**	**2,268,890**	**306,514**
Loans from the Government of the Republic of Kazakhstan	**653,406**	**533,935**	**–**	**533,935**	**–**
Guarantee obligations	**47,119**	**41,529**	**–**	**40,059**	**1,470**

	December 31, 2017 (restated)				
			Fair value by level of assessment		
In millions of tenge	Carrying amount	Fair value	Quotations in an active market (Level 1)	From the observed market (Level 2)	Based on the significant amount of unobserved (Level 3)
Financial assets					
Amounts due from credit institutions	2,453,877	2,441,455	1,853,717	517,078	70,660
Investment property	11,601	26,130	–	12,101	14,029
Financial liabilities					
Borrowings	7,054,267	7,179,801	4,764,020	2,320,864	94,917
Loans from the Government of the Republic of Kazakhstan	782,048	596,584	–	596,584	–
Guarantee obligations	57,136	59,008	–	59,008	–

The fair value of the above financial instruments has been calculated by discounting the expected future cash flows at prevailing interest rates.

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

Changes in liabilities arising from financing activities

In millions of tenge	**Borrowings***	**Finance lease liability**	**Total liabilities from financing activities**
January 1, 2018 (restated)	7,054,267	139,846	7,194,113
Received by cash	**1,843,437**	**–**	**1,843,437**
Interest accrued	**379,168**	**6,135**	**385,303**
Discount	**(5,727)**	**–**	**(5,727)**
Purchase of property plant and equipment financed by borrowings	**34,271**	**–**	**34,271**
Interest capitalized	**43,100**	**–**	**43,100**
Interest paid	**(430,708)**	**(5,623)**	**(436,331)**
Discontinued operations/transfer to assets classified as held for sale	**(22,758)**	**(492)**	**(23,250)**
Repayment of principal	**(3,010,630)**	**(19,335)**	**(3,029,965)**
Amortization of discount	**37,132**	**–**	**37,132**
Write-off of borrowings	**(53,714)**	**–**	**(53,714)**
Business combination	**107,506**	**–**	**107,506**
Interest for early redemption *(Note 31)*	**89,612**	**–**	**89,612**
Foreign currency translation	**799,007**	**16,267**	**815,274**
Additions of finance leases	**–**	**17,050**	**17,050**
Other	**(11,188)**	**2,645**	**(8,543)**
December 31, 2018	**6,852,775**	**156,493**	**7,009,268**

* *Cash proceeds and repayments of certain borrowings obtained by the Fund's Corporate Center are included within cash flows from operating activities because these borrowings are part of the Fund's main activity of assets management. These borrowings were not included within changes in financial liabilities.*

38. COMMITMENTS AND CONTINGENCIES

Operating environment

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

Commodity price risk

The Group generates most of its revenue from the sale of commodities, primarily crude oil and oil products. Historically, the prices of these products have been volatile and have fluctuated widely in response to changes in supply and demand, market uncertainty, the performance of the global or regional economies and cyclicality in industries.

Prices may also be affected by government actions, including the imposition of tariffs and import duties, speculative trades, an increase in capacity or an oversupply of the Group's products in its main markets. These external factors and the volatility of the commodity markets make it difficult to estimate future prices.

A substantial or extended decline in commodity prices would materially and adversely affect the Group's business and the consolidated financial results and cash flows of operations. The Group does not hedge significantly its exposure to the risk of fluctuations in the price of its products.

Transfer pricing control

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

38. COMMITMENTS AND CONTINGENCIES (continued)

Transfer pricing control (continued)

The new law on transfer pricing came into effect in Kazakhstan from January 1, 2009. The new law is not explicit and there is little precedence with some of its provisions. Moreover, the law is not supported by detailed guidance, which is still under development. As a result, application of transfer pricing control to various types of transactions is not clearly regulated.

Because of the uncertainties associated with the Kazakhstan transfer pricing legislation, there is a risk that the tax authorities may take a position that differs from the Group's position, which could result in additional taxes, fines and interest at December 31, 2018.

As at December 31, 2018 management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Group's positions with regard to transfer pricing will be sustained.

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Due to uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2018.

As at December 31, 2018, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements.

JSC "Embamunaigas" environmental audit (Embamunaigas)

On July 23, 2018 Embamunaigas, subsidiary of KMG EP, received a notification from the Department of Ecology of Atyrau region to pay a fine of 8,908 million tenge for violations of ecology law that were identified during the first environmental audit conducted during April–June 2018. The fine was related to emissions of harmful substances above the established norms as a result of gas flaring during the period from November 1, 2017 to June 12, 2018. On September 17, 2018 the Atyrau Regional Court made decision to reduce the amount of the fine to 6,681 million tenge. On October 19, 2018, KMG EP fully paid this fine to the Republican budget.

Also on September 24, 2018, Embamunaigas received an order from the Department of Ecology of the Atyrau region for damages to the environment following the above mentioned an environmental audit of 7,835 million tenge. On January 30, 2019, the Specialized Interdistrict Economic Court of Atyrau region ruled to satisfy the claim of the Department of Ecology of the Atyrau region to recover environmental damage of 7,835 million tenge.

On October 18, 2018, Embamunaigas received a notification from the Department of Ecology of the Atyrau region to pay a fine of 6,862 million tenge for violation of ecology law following the second environmental audit from June 12, 2018 to October 10, 2018. In addition, the authorities also have the ability to assess additional amounts for ecological damage and Embamunaigas expects the additional amount of 6,050 million tenge to be assessed.

Based on the results of two environmental audits, the Group has accrued a provision of 27,428 million tenge in these consolidated financial statements. Also, the Group has accrued a provision of 7 million tenge for the expected fine for the period from October to December 2018. At the moment, the Group is carrying out a claim related work regarding to appeal against fines and environmental damage.

Legal proceedings

KMG Drilling & Services LLP ("KMG D&S") litigations with Consortium of companies Ersai Caspian Contractor LLP and Caspian Offshore and Marine Construction LLP

KMG D&S (subsidiary of the Group) is involved in arbitration proceedings with the Consortium of Ersai Caspian Contractor LLP and Caspian Offshore & Marine Construction Kazakhstan LLP (further – "Consortium" or "Plaintiff") on the issues arising from the contract for the purchase of integrated works on construction of jack-up floating drilling rig dated July 5, 2012. The claim amounts to 192,114 thousand US dollars (equivalent to 73,810 million tenge). This case is under arbitration of the London Court of International Arbitration.

38. COMMITMENTS AND CONTINGENCIES (continued)

Legal proceedings (continued)

KMG Drilling & Services LLP ("KMG D&S") litigations with Consortium of companies Ersai Caspian Contractor LLP and Caspian Offshore and Marine Construction LLP (continued)

The Plaintiff's material requirements totalling 192,114 thousand US dollars consisted of:

- Compensation related to the increase in the cost of the contract (deficiencies in the project documentation and changes in the design solution) of 140,118 thousand US dollars (equivalent to 53,833 million tenge);
- A penalty of 1,383 thousand US dollars (equivalent to 531 million tenge);
- The amount of claims for currency adjustment of 50,613 thousand US dollars (equivalent to 19,446 million tenge). It should be noted that the Plaintiffs indicated a possible change in this amount at the date of payment of the claim.

During 2018, the Consortium submitted an amended Statement of Claim in which the total amount of claims was reduced. The amended Statement of Claim does not include new claims, and the amount of claims was reduced. The total amount of the Consortium's claims in the amended statement of claim is 140,019 thousand US dollars (equivalent to 53,795 million tenge). KMG D&S does not agree with the due claim. Legal and technical advisers, independent experts have been engaged to defend the KMG D&S's interests.

There is an uncertainty around the outcome of court proceedings. As at December 31, 2018, the Group have not recognised a provision for this case.

The proceedings initiated against Mr Stati and related parties on the suit of the Fund in connection with the arrest of the shares KMG Kashagan B.V. belonging to the Fund

On September 14, 2017 the pre-judgement attachment in respect of the Fund's rights on management of 50% KMG Kashagan B.V. shares was imposed with regard to the decision of Amsterdam Court (the "Pre-judgement Attachment").

The named Pre-judgement Attachment was imposed as part of the claim for recognition and enforcement of arbitral award on the matter of Anatolie Stati, Gabriel Stati, Ascom Group SA and Terra Raf Trans Trading Ltd. against the Republic of Kazakhstan issued in 2013 by the Arbitration Tribunal at the Arbitration Institute of the Stockholm Chamber of Commerce.

On March 13, 2019 the Appeal Court in Amsterdam held a hearing on the Fund's claim on cancellation of the decision of Amsterdam Court dated January 5, 2018. The decision of Appeal Court is pending.

Currently, the Fund makes all necessary arrangements to protect its interest in accordance with the established procedure and will continue to defend its rights.

Civil litigation (KMGI)

According to a Decree issued April 22, 2016, prosecutors of Romania with the General Headquarters of the Department for Fight Against Organized Crime and Terrorism (DIICOT) have ordered a reclassification and continued investigation of the case against 26 suspects under charges of organized crime (14 of them were employees of KMG I). In accordance to the same Decree, several civil responsible parties were added to the case, which include KMG I, SC Oilfield Exploration Business Solutions SA and SC Rompetrol Rafinare S.A. (KMG I subsidiaries). The amount of claims of the civil action is RON 1,724,168,825, USD 290,786,616 and EUR 34,941,924 (equivalent of 760 million US dollar or 291,992 million tenge). By Decree issued on May 6, 2016, the DIICOT have applied a prejudgment seizure on KMGI, SC Oilfield Exploration Business Solutions SA and SC Rompetrol Rafinare S.A. movable and immovable assets except for bank accounts, receivables and inventories.

Prescribed seizure does not impact the operational activity of the companies. KMG I appealed the seizure orders in domestic courts and international arbitration. The hearing of Supreme Court was on June 13, 2016. The Supreme Court rejected in full the appeal.

38. COMMITMENTS AND CONTINGENCIES (continued)

Legal proceedings (continued)

Civil litigation (KMGI) (continued)

On July 22, 2016 the Company and KMG I submitted to the Romanian authorities the Notice of Investment Dispute based on the Agreement between the Government of Romania and the Government of the Republic of Kazakhstan, the Agreement between the Government of the Kingdom of the Netherlands and the Government of Romania and the Energy Charter Treaty. The submission of the aforementioned Notice represents the first procedural step that might give rise to an arbitration dispute between an investor and the country where the investment was made. If a settlement between the Group and Romanian authorities fail to be reached, the case will be referred to and settled by the International Centre for Settlement of Investment Disputes under World Bank or to the Arbitration Institute of the Stockholm Chamber of Commerce.

A new ordinance was issued by DIICOT on November 9, 2018 which changes the legal framework for all deeds investigated in the case. KMGI legal representatives are currently in the process of reviewing the new Ordinance.

Management believes that until the completion of the investigation and presentation of information on claims, the creation of reserves is not required in these consolidated financial statements.

Disputes regarding the calculation of the proportion of profit oil sharing with the Republic (KMG Karachaganak LLP)

According to Karachaganak Final Production Sharing Agreement (FPSA), Karachaganak project profit oil sharing is regulated by the Fairness Index. In the second quarter of 2014, the economics of the Karachaganak project reached a level where the trigger on the Fairness Index "worked" and the proportion in the profit oil sharing changed in favour of the Republic of Kazakhstan.

In addition, from August 20, 2014 to the present, the Ministry of Energy of the Republic of Kazakhstan quarterly notifies the Contracting Companies, participants of FPSA, (Contracting Companies) of disagreement regarding the presented calculation of the proportion of the profit oil sharing.

On December 30, 2016, a legally non-binding Memorandum of Understanding was signed between the Republic of Kazakhstan and the Contracting Companies.

On September 29, 2017 the competent authority represented by PSA LLP, filed a request for arbitration in the name of the Contracting Companies (with the exception of KMG Karachaganak LLP) on the improper calculation of the Fairness Index. KMG Karachaganak LLP (KMG Karachaganak) was not involved in the arbitration process due to a conflict of interest.

On October 1, 2018, the Contracting Companies entered into a non-legally binding Agreement on Principles (hereinafter referred to as the "AOP"), providing for the following basic conditions:

- The Contracting Companies shall pay (including KMG Karachaganak) the amount of 1,111,111 thousand US dollars (equivalent to 426,889 million tenge) (hereinafter referred to as "Financial contribution") to the Republic of Kazakhstan, of which 111,111 thousand US dollars (equivalent to 42,689 million tenge) represents a share of KMG Karachaganak. The financial contribution represents a settlement of disputes and shall be paid in 3 (three) tranches: 400,000 thousand US dollars (equivalent to 153,680 million tenge) in 2019, 500,000 thousand US dollars (equivalent to 192,100 million tenge) in 2020 and 211,000 thousand US dollars (equivalent to 81,066 million tenge) in 2021, respectively;
- Making some changes in the methodology for calculating the fairness index starting from January 1, 2019 in accordance with the points specified in the AOP;
- The provision by the Contracting Companies (including KMG Karachaganak) of a loan to the Republic of Kazakhstan in the amount of 1,000,000 thousand US dollars (equivalent to 384,200 million tenge). The loan will be paid in 3 (three) tranches: 334,000 thousand US dollars (equivalent to 128,323 million tenge) in 2022, 333,333 thousand US dollars (equivalent to 127,939 million tenge) in 2023 and 333,333 thousand US dollars (equivalent to 127,939 million tenge) in 2024, respectively. Interest will be charged at a six-month LIBOR rate plus 3% per annum, and will be paid in accordance with schedule specified in the AOP. In the event that the final loan agreement is not concluded before a certain date (to be agreed in the AOP, but no later than July 1, 2022), the Republic of Kazakhstan may prefer to receive compensation in the form of cash. In this case, the Contracting Companies (including KMG Karachaganak) undertakes to pay the amount of 199,600 thousand US dollars (equivalent to 68,870 million tenge) the Republic of Kazakhstan (hereinafter, "Additional financial contribution").

38. COMMITMENTS AND CONTINGENCIES (continued)

Disputes regarding the calculation of the proportion of profit oil sharing with the Republic (KMG Karachaganak LLP) (continued)

In accordance with the terms of the AOP, the Financial Contribution and Additional Financial Contribution will not be considered as expenses for Oil and Gas operations or Reimbursable expenses under FPSA, will in no way be included in the calculation of the Fairness Index or profit oil sharing under FPSA and be considered as deductible expenses in determining taxable income under the applicable Kazakhstan tax laws.

Currently, the Republic of Kazakhstan and the Contracting Companies are negotiating the conclusion of a legally binding Settlement Agreement, which should reflect the principal agreements reached in the AOP.

KMG Karachaganak, together with the KMG and the Competent Authority, prepared comments on the draft AOP between the Contracting Companies and the Republic of Kazakhstan, relating to exclusion of KMG Karachaganak from participating in the payment of compensation and provision of a loan. In the opinion of the Group’s Management, it is highly probable that KMG Karachaganak will be excluded from participation in the payment of compensation and provision of a loan. Accordingly, no provisions have been made under the terms of the AOP in these consolidated financial statements.

Cost recovery audits

Under the base principles of the production sharing agreements (“PSA”), the Government retains right to audit recovery costs. In accordance with the cost recovery audits completed prior to December 31, 2017 certain amounts of the costs incurred by contractors were assessed as non-recoverable. The parties to the PSA are in negotiations with respect to the recoverability of those costs.

As of December 31, 2018 the Group’s share in the total disputed amounts of costs is 765,188 million tenge (December 31, 2017: 469,607 million tenge). The Group and its partners under the production sharing agreements are in negotiation with the Government with respect to the recoverability of these costs.

Kazakhstan local market obligation

The Government requires oil companies in the Republic of Kazakhstan to supply a portion of the products to meet the Kazakhstan domestic energy requirement on an annual basis, mainly to maintain oil products supply balance on the local market and to support agricultural producers during the spring and autumn sowing and harvest campaigns.

Kazakhstan local market oil prices are significantly lower than export prices and even lower than the normal domestic market prices determined in an arm-length transaction. If the Government does require additional crude oil to be delivered over and above the quantities currently supplied by the Group, such supplies will take precedence over market sales and will generate substantially less revenue than crude oil sold on the export market, which may materially and adversely affect the Group’s business, prospects, consolidated financial position and results of operations.

In 2018, in accordance with its obligations, the Group delivered 6,224,344 tons of crude oil (2017: 5,407,526 tons), including joint ventures, to the Kazakhstan market.

Oil supply commitments

As of December 31, 2018 the Group had commitments under the oil supply agreements in the total amount of 30.1 million ton (as at December 31, 2017: 33.8 million ton), including commitments of joint venture.

Commitments under oilfield and mining field licenses and subsurface use contracts

As at December 31, 2018 the Group had following commitments on fulfillment of minimal work programs with respect to the requirements of their oilfield and mining licenses and related subsurface use contracts with the Government (in millions of tenge):

Year	Capital expenditures	Operational expenditures
2019	314,794	135,961
2020	217,951	126,347
2021	131,246	120,962
2022	151,666	120,220
2023-2058	1,160,698	1,521,582
Total	**1,976,355**	**2,025,072**

38. COMMITMENTS AND CONTINGENCIES (continued)

Commitments to extend guarantees, letters of credit and other commitments related to settlement operations

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to 15 (fifteen) years.

Contracted amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for letters of credit represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted.

As at December 31 commitments to extend guarantees were as follows:

In millions of tenge	**2018**	2017
Guarantees	**342,158**	592,923

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The total outstanding contractual commitments to extend guarantee indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded. The Group could also request collateral for credit instruments.

Capital commitments

As at December 31, 2018 the Group, including its joint ventures and associates, had capital commitments of approximately 3,560,843 million tenge related to acquisition and construction of property, plant and equipment (as at December 31, 2017: 3,013,012 million tenge).

Commitments on use of anti-crisis funds

In accordance with the decision of the State commission on economy modernization issues of the Republic of Kazakhstan dated April 5, 2012, dated October 7, 2013 and dated July 3, 2017 the Fund has commitment to finance certain remaining investment projects of 102,315 million tenge as of December 31, 2018.

As at December 31, 2018 Fund's commitments included commitments to finance the program "Affordable housing – 2020" in the amount of 6,565 million tenge and commitments to finance investment projects of 95,750 million tenge, including the following:

- Financing the implementation of the investment project "Construction of an integrated gas and chemical complex in Atyrau region". The first phase in the amount of not greater than 92,316 million tenge, including using funds previously allocated for the implementation of the investment project "Construction of an integrated gas and chemical complex in Atyrau region". The second phase in the amount of 12,495 million tenge.
- Financing of the project "Creation of a special economic zone "Taraz Chemical Park" in the amount of 3,434 million tenge.

39. SEGMENT REPORTING

The following table represents information about profit and loss, assets and liabilities of operating segments of the Group for 2018:

In millions of tenge	Oil and gas	Mining	Trans-portation	Com-munication	Energy	Industrial	Corporate center	Other	Elimination	Total
Revenues from sales to external customers	7,353,474	749,778	1,323,061	257,899	376,740	5,093	33,400	16,982	–	10,116,427
Revenues from sales to other segments	77,754	9,044	14,112	5,027	59,839	5,457	336,148	8,183	(515,564)	–
Total revenue	7,431,228	758,822	1,337,173	262,926	436,579	10,550	369,548	25,165	(515,564)	10,116,427
Gross profit	1,818,250	141,313	242,169	72,591	156,808	1,602	247,691	11,569	(342,924)	2,349,069
General and administrative expenses	(245,458)	(39,508)	(118,155)	(30,980)	(29,800)	(5,285)	(25,499)	(3,407)	9,459	(488,633)
Transportation and selling expenses	(696,895)	(11,598)	(9,157)	(4,689)	(14,631)	(437)	–	(7)	15,832	(721,582)
Finance income	161,400	6,365	7,069	5,039	7,297	1,031	131,439	2,547	(115,667)	206,520
Finance costs	(467,078)	(14,078)	(115,922)	(7,857)	(36,326)	(4,007)	(30,008)	(1,649)	43,770	(633,155)
Share in profits of joint ventures and associates	663,293	64,690	3,481	7,744	10,175	(51)	188	11	–	749,531
Foreign exchange gain/(loss), net	(37,274)	9,152	(118,109)	12,337	(14,641)	(18,624)	290,206	(1,479)	2,320	123,888
Depreciation, depletion and amortization	(466,936)	(42,484)	(130,528)	(42,123)	(65,536)	(4,916)	(345)	(634)	3,718	(749,784)
Impairment of property, plant and equipment and intangible assets	(163,985)	1,120	(451)	(1,110)	(2,144)	(153)	–	–	–	(166,723)
Impairment of other assets	(9,034)	830	(16,990)	(3,373)	(4,570)	(58)	(15,357)	(3,577)	10,426	(41,703)
Income tax expenses	(318,623)	(29,547)	(1,977)	(11,383)	(20,927)	(11,583)	(5,722)	(2,574)	(1,480)	(403,816)
Net profit/(loss) for the year from continuing operations	857,955	440,997	(19,006)	43,039	65,611	(41,281)	276,986	5,920	(383,463)	1,246,758
Net loss for the year from discontinued operations	–	–	–	–	–	(3,542)	–	–	–	(3,542)
Total net profit/(loss) for the period	857,955	440,997	(19,006)	43,039	65,611	(44,823)	276,986	5,920	(383,463)	1,243,216
Other segment information										
Total assets of the segment	16,464,564	2,075,224	3,437,049	875,317	1,456,134	462,137	7,467,849	305,170	(6,898,088)	25,645,356
Total liabilities of the segment	7,786,204	466,763	2,258,520	418,411	731,287	261,837	1,622,831	206,319	(978,701)	12,773,471
Allowances for expected credit losses for doubtful accounts	(609)	1,795	8,261	910	1,457	28	1,815	4	(1,254)	12,407
Investments in joint ventures and associates	2,841,824	612,444	32,359	76,071	89,309	1,279	43,883	69	(32,341)	3,664,897
Capital expenditures	664,188	82,217	220,714	56,791	75,302	47,167	19,439	3,115	(6,532)	1,162,401

39. SEGMENT REPORTING (continued)

The following table represents information about profit and loss, assets and liabilities of operating segments of the Group for 2017:

In millions of tenge	Oil and gas	Mining	Trans-portation	Com-munication	Energy	Industrial	Corporate center	Other	Elimination	Total
Revenues from sales to external customers	4,914,376	525,201	1,174,320	240,420	358,305	3,288	152,212	13,939	–	7,382,061
Revenues from sales to other segments	75,979	17,630	11,390	4,633	59,319	9,329	207,107	4,004	(389,391)	–
Total revenue	4,990,355	542,831	1,185,710	245,053	417,624	12,617	359,319	17,943	(389,391)	7,382,061
Gross profit	1,123,995	73,825	235,678	64,826	151,533	7,121	174,530	11,616	(209,460)	1,633,664
General and administrative expenses	(223,299)	(35,812)	(102,959)	(29,084)	(27,518)	(5,284)	(35,352)	(3,319)	7,887	(454,740)
Transportation and selling expenses	(458,424)	(5,093)	(8,808)	(4,049)	(15,471)	(443)	–	–	21,932	(470,356)
Finance income	124,036	9,523	9,168	6,982	6,613	1,179	66,192	3,705	(35,656)	191,742
Finance costs	(324,938)	(9,698)	(109,513)	(8,257)	(33,569)	(5,756)	(29,553)	(1,550)	40,455	(482,379)
Share in profits of joint ventures and associates, net	425,159	102,181	2,138	1,098	1,412	(309)	–	3	–	531,682
Foreign exchange gain/(loss), net	24,491	(1,665)	(16,616)	(228)	(4,014)	(1,451)	(1,397)	(16)	24,792	23,896
Depreciation, depletion and amortization	(328,141)	(17,288)	(116,249)	(47,534)	(56,862)	(1,154)	(426)	(355)	1,855	(566,154)
Impairment of property, plant and equipment and intangible assets	(23,141)	(7,971)	(855)	(1,392)	(1,358)	(4,182)	–	–	–	(38,899)
Impairment of other assets	17,267	(18,106)	(12,792)	(175)	(31,249)	55	(6,925)	(3,558)	–	(55,483)
Income tax expenses	(194,258)	(17,517)	(9,830)	(8,614)	(18,667)	(425)	(9,948)	(1,670)	(1,308)	(262,237)
Net profit/(loss) for the year from continuing operations	477,682	198,823	(2,269)	25,980	24,266	17,079	153,988	5,569	(149,383)	751,735
Net loss for the year from discontinued operations	–	–	–	–	–	(9,838)	–	–	–	(9,838)
Total net profit for the period	477,682	198,823	(2,269)	25,980	24,266	7,241	153,988	5,569	(149,383)	741,897
Other segment information										
Total assets of the segment	15,734,021	1,554,570	3,364,637	560,848	1,398,224	507,658	7,547,077	261,143	(6,601,070)	24,327,108
Total liabilities of the segment	7,655,338	324,298	2,082,746	160,549	687,577	227,373	1,940,502	172,659	(748,304)	12,502,738
Allowances for expected credit losses for doubtful accounts	1,039	3,066	1,844	895	(1,307)	(6)	1,249	(60)	55	6,775
Investments in joint ventures and associates	2,080,134	619,312	27,404	69,246	86,010	6,945	–	57	(32,341)	2,856,767
Capital expenditures	668,278	53,304	261,967	40,141	108,825	67,241	3,671	748	(2,821)	1,201,354

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. SUBSEQUENT EVENTS

Changes in the structure of the Group

In January 2019, the purchase sales agreement on 100% stake in Kazakhstan-British University LLP (KBTU) between KMG and the Public Foundation "Nursultan Nazarbayev Education Fund" came into force. On February 6, 2019 the Group received a payment for 30% stake of 3,339 millon tenge.

On February 27, 2019, KMG sold a 100% share in KMG Retail LLP to PetroRetail LLP for 60,512 million tenge.