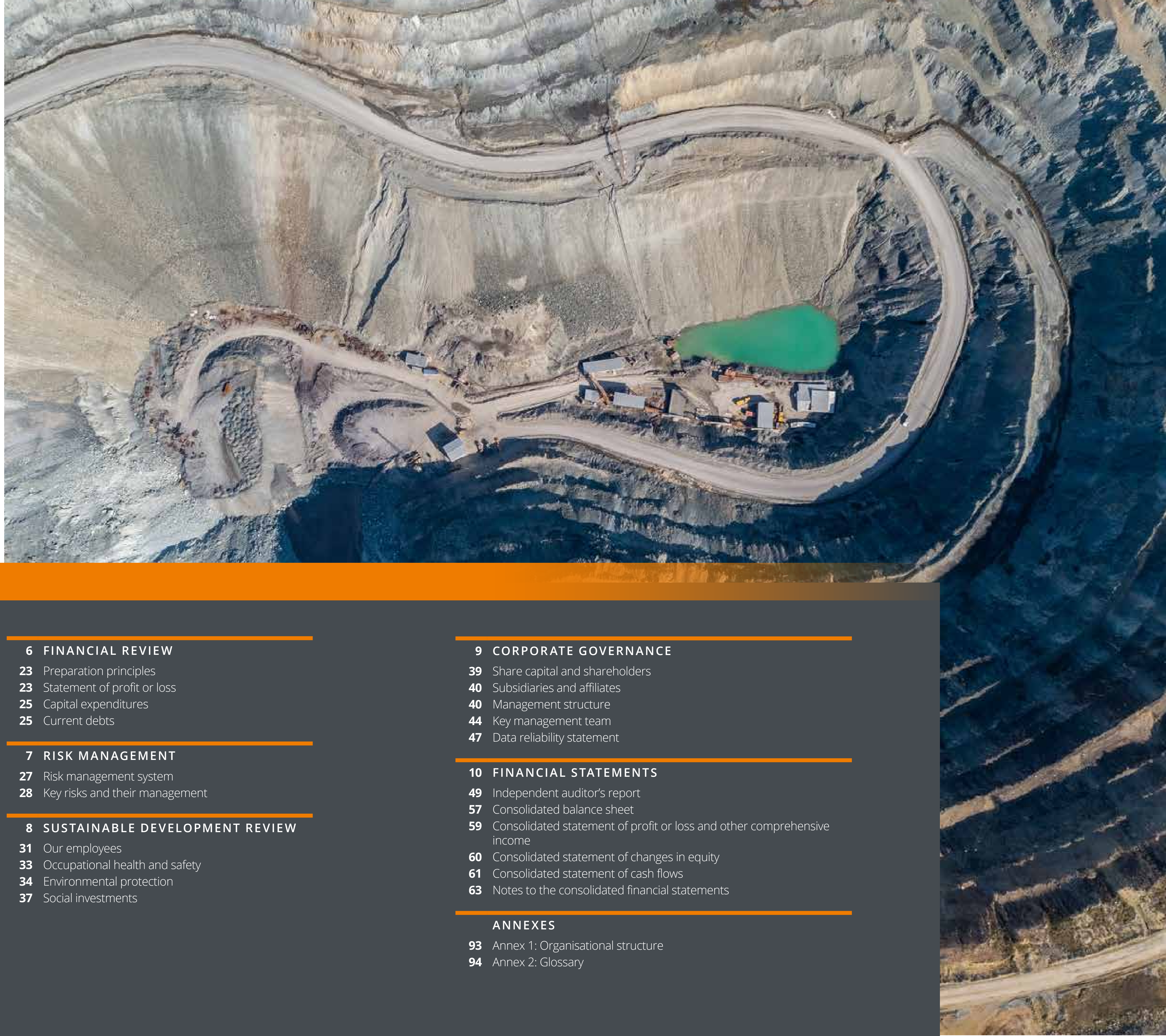
KAZCHROME

YEAR OF GREAT ACHIEVEMENTS

2019 ANNUAL REPORT

TNC Kazchrome JSC

TNC Kazchrome JSC is one of the leading modern vertically integrated companies in the world. The Company is currently among the world's leading manufacturers of chrome ore and ferroalloys, with its unique resource base and low production costs.



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The Company is confident of ongoing production activity and of fulfilling all its commitments to our country, employees, suppliers and our home regions.

Serik Shakhazhanov
Chairman of the Board of Directors of TNC Kazchrome JSC

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We aim to align with the best environmental innovative solutions and improve our operational results, focusing on ‘Green Economy’ priorities in Kazakhstan.

Arman Yessenzhulov
President of TNC Kazchrome JSC

Statement of the Chairman of the Board of Directors

Dear colleagues, partners and investors

In 2019 TNC Kazchrome JSC (Kazchrome) achieved excellent results, reflecting our contribution to the socio-economic development of the country. The Company is confident of ongoing production activity and of fulfilling all its commitments to our country, employees, suppliers and our home regions.

Moreover, the Company entered another stage of transformation this year. Where previously, we targeted production volumes, our key focus is now production efficiency and alignment with the best available technologies.

Despite price fluctuations in the global metal markets, the Company reached record-breaking production figures for the year. This was all made possible through the application of the well-defined ERG strategy, effective management and the commitment of our employees.

The basis of the long-term strategy of Kazchrome is to strengthen our leading position as a Kazakhstan company in the global market for chrome alloys. Next year, we will continue promoting production efficiency improvements, cost reduction and the modernisation of production facilities. Kazchrome was the first ERG company to pilot the ERG Way Production System applications. The initial results of the transformation of the working culture showed efficiency improvements in certain processes and an increase in employee-generated initiatives, gathered through our Ideas Factory.

Our employees are the most important element within our sustainable development programme and as part of maintaining improvements in the quality of life of our employees in 2019, ERG in Kazakhstan increased employees’ salaries. Kazchrome also fulfilled all its social commitments under the collective agreement.

Occupational health and safety are among our top priorities. In 2019, we invested 14 bln Tenge in this area, 20% more than in the previous year. Nevertheless, I am deeply saddened to report two fatalities that took place within Kazchrome. This is unacceptable and we will make every effort to prevent any further fatalities in the future. The cause of these incidents are under review and will be the focus of improvement in our safety management system.

Kazchrome will continue doing business, adhering to the values and mission of the Company. COVID-19 pandemic that has swept the world and negatively impacted our operations has made our team even stronger. We understand that we now live with new realities; we have taken good care of our employees, providing them with personal protective equipment and all necessary medical supplies. We have also reconsidered our production plans in the light of COVID-19 and are confident that the Company has sufficient flexibility and strategic stability. ■

Statement of the President

Dear partners, colleagues and friends

2019 was a year of significant achievements for the Company. We reached a historic maximum in chrome ore extraction and ferroalloys production, obtained the first results from the implementation of innovative projects and continued our work within the framework of Kazchrome’s approved development strategy. At the same time, the Company demonstrated its ability to withstand adverse external influences. Despite the instability of the ferroalloy market during 2019, we still managed to achieve satisfactory financial results due to changes in internal processes and effective resource management.

In 2019, we initiated the pilot applications of the ERG Way Production Systems at Kazchrome. We expect this to enhance the efficiency of existing processes, without additional capital expenditure, through encouraging employees engagement, improvement in loss control and the application of best international practices.

This year, we continued implementing strategic initiatives aimed at increasing ferroalloy production. This included the renovation of smelting workshop No.6, and Phase 1 has now been completed. On Metallurgist Day eve, we have commissioned our innovative smelting furnace No. 64 after all the reconstruction is completed. The Company is working towards achieving the stability of the materials supply for our ferroalloy plants. We continued to advance Phase 2 of the 10th Anniversary Mine development at Donskoy GOK.

We strive to use the most innovative solutions, adopt best practice and develop our own ideas in order to remain a competitive and flexible company. This year, our operating assets delivered record results: our two ferroalloy plants produced 1.8 mln tonnes of ferroalloys (2018: 1.7 mln tonnes). In 2019, Donskoy GOK extracted 6.0 mln tonnes of chrome ore (2018: 5.6 mln tonnes) and produced 4.6 mln tonnes of saleable chrome products (2018: 4.3 mln tonnes); this growth is the result of increased demand in raw materials from the ferroalloy plants.

We exert every effort to minimise the environmental impact of our operations and to reduce the slag generation and operational waste disposal. In 2019, Kazchrome spent 25.7 bln Tenge on environmental protection measures. We build waste processing facilities and increase our waste product lines through specialist service providers for subsequent use in other operations. At the same time, we constantly search for the best scientific solutions and technologies for waste recycling. Environmental protection issues are integrated deeply into our operational objectives. We aim to align with the best environmental innovative solutions and improve our operational results, focusing on ‘Green Economy’ priorities in Kazakhstan.

Kazchrome is a socially oriented company and people are our core value. We are responsible for our employees and their prosperity. We offer competitive salaries as well as health insurance and accommodation. We create all the necessary conditions to provide opportunities for personal and professional growth, and for self-realisation. Today, Kazchrome is one of the most reliable and responsible national employers, providing jobs for more than 19,000 Kazakhstani people.

We are committed to continuous improvement. Transparency, improvement of business efficiency and an emphasis on the quality of our products pave the way for our further growth. We strive to use the most innovative solutions, adopt the best international practices, develop our own solutions, to be always in the forefront, go with the tides and be the best at what we do. ■

ABOUT THE COMPANY

General description

Transnational Company Kazchrome JSC and its subsidiaries (Kazchrome or the Company) is a fully integrated mining and metals business covering all stages of the value chain, ranging from geological exploration survey, mining and processing, all the way to the production of high value-added metal products.

Established in 1995, the Company is currently among the world's leading manufacturers of chrome ore and ferroalloys, with its unique resource base and low production costs.

Kazchrome has one of the most diversified customer bases amongst the major ferrochrome producers. Kazchrome plays an important role in China's 'Belt and Road Initiative' (BRI) and is strategically located near its major customers – the world's leading stainless steel producers in China, Japan and South Korea. Kazchrome also sells its products to customers in the US, Europe and the CIS.

Kazchrome is a member of the Eurasian Resources Group (ERG), which owns 99.99% of its ordinary voting shares.

Key performance indicators

Financial indicators

Thousand Tenge	2017	2018	2019
Revenue	702,097,306	750,056,337	**698,307,440**
EBITDA	376,612,703	351,145,749	**280,737,926**
Net profit	288,897,598	169,876,022	**149,096,587**
Capital expenditures	50,411,263	68,982,042	**85,245,751**

Note: The indicators do not include profit from discontinued operations. In December 2018, Kazchrome sold its interest in Molservice LLP, Lotos Aktobe LLP, Khromtau Brick Plant LLP, Credit Partnership ENRC Credit LLP, and Shubarkol Komir JSC to another ERG companies.

In 2019, key financial indicators such as revenue and EBITDA decreased by 52 bln Tenge and 71 bln Tenge, respectively, compared with 2018. This trend reflected a decrease in ferroalloys prices. However, it should be noted that the negative price dynamics were partially offset by the growth in sales volumes of high-carbon ferrochrome.

The following other factors affected financial performance in 2019 compared with 2018:
- growth of high-carbon ferrochrome production;
- optimisation of consumption norms of raw materials;
- increase in cost of materials (mainly for electrode paste, graphitised electrodes and diesel fuel).

In 2019, Kazchrome capital expenditure was 85 bln Tenge. Key projects included:
- development of 10th Anniversary Mine;
- renovation of workshop No.6 at Aksu Ferroalloys Plant;
- increased production capacity of workshop No.4 at Aktobe Ferroalloys Plant.

Operational indicators

Thousand tonnes	2017	2018	2019
Extraction and Production			
Production of ferroalloys	1,625	1,742	**1,811**
Chrome ore extraction	5,592	5,639	**6,024**
Sales Volume			
High-carbon ferrochrome	1,278	1,394	**1,481**
Refined ferrochrome	65	59	**64**
Silicon alloys	138	138	**138**
Total ferroalloys	**1,481**	**1,591**	**1,683**

Improvement of operating efficiency is one of the main drivers of growth in ferroalloy production. This includes:
- improvement in high-carbon ferrochrome smelting efficiency at Aksu Plant through the introduction of an ore sieving process prior to feeding to the furnaces, repair time reduction and an increase in the rate of ferrochrome metal concentrate usage in furnaces;
- an increase in the production capacity of workshop No. 4 furnaces of Aktobe Plant.

The above mentioned production and operational efficiency initiatives contributed to higher sales volumes of ferroalloys.

Subsequently, over the last three years, Kazchrome increased ferroalloys sales volumes to 1.7 mln tonnes in 2019 (up 5.8% compared with 2018 sales volumes).

Current market and demand changes directly influence sales volumes. High-carbon ferrochrome has been the main product driving increased sales.

COVID-19 pandemic

In March 2020, the World Health Organisation declared a global pandemic related to COVID-19. Kazchrome continues to work closely with its local communities in managing the impacts of the COVID-19 pandemic on its people and its business. Kazchrome has a strong culture of caring for the welfare of its employees and communities. Kazchrome's well established prevention practices and procedures will assist the Company as it faces this new and unprecedented challenge. Kazchrome has been actively working to support government responses to the coronavirus pandemic, both financially and using its supply chain to secure key supplies for the benefit of the community. Although Kazchrome has adjusted some of its operating procedures, to date, its operations have not been significantly impacted by COVID-19. Kazchrome recognises the situation remains dynamic and, as such, continues to monitor developments around the world; the Management believes that it has positioned Kazchrome as best it can in order to weather the storm.

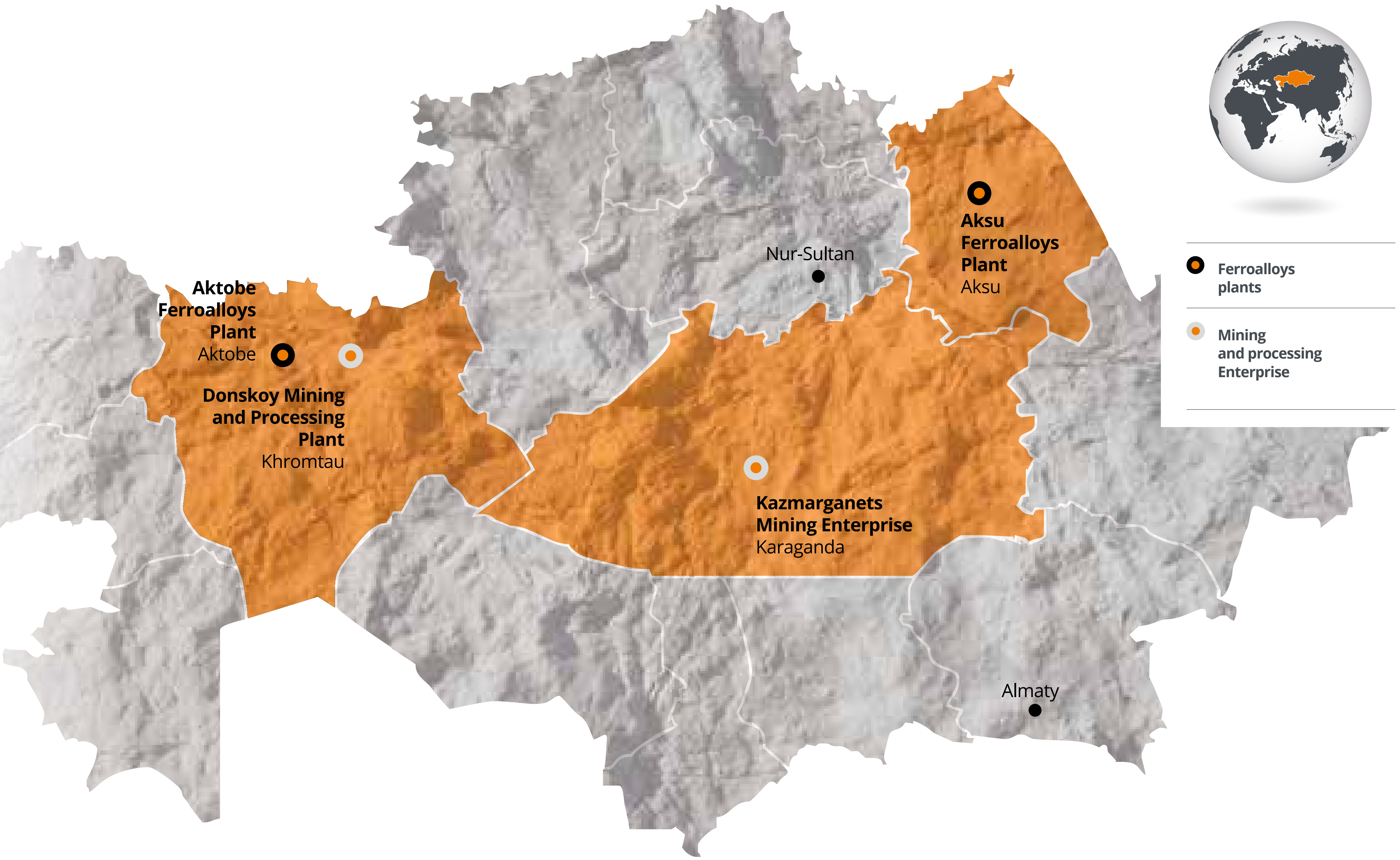
Business model

Kazchrome is the world's largest manufacturer of ferroalloys and chrome ore, ranking first in terms of chrome content in its products. The Company has an integrated production chain ranging from the extraction and beneficiation of chrome ore at Donskoy Mining and Processing Plant (Donskoy GOK) and manganese ore at Kazmarganets Mining Enterprise (Kazmarganets) to ferroalloy production at Aksu and Aktobe Ferroalloys Plants.

The integrated nature of Kazchrome operations allows it to harness synergies across its value chain starting from increases in the volume of raw materials for ferroalloy furnaces through to gains in extraction, growth in metal production at all process stages, waste recycling, etc.

Our advantages:

1. Kazchrome is the world leader in the chrome market due to its unique resource base: chrome ore deposit with high chrome content and estimated reserves of several decades, gives Kazchrome a cost advantage in the production of high-carbon ferrochrome.
2. The continued growth of the low-alloy stainless steel market, associated with the industrialisation and development of niche technological sectors of developed markets, provides opportunities for the development of ferroalloy production.
3. A developed client base allows Kazchrome to occupy a leading position in premium segments of these markets.
4. Implementation of projects to expand production capacity and increase metal recovery at all stages of the value chain allow the Kazchrome to increase production volumes and occupy a leading position among global manufacturers for both the production and supply of ferroalloys.
5. Kazchrome's integration within ERG ensures a stable supply of materials, as well as energy resources and, reducing agents utilising ERG's infrastructures and logistics.
6. Favourable tax regime in the Republic of Kazakhstan creates attractive business conditions for subsoil users.



Ferroalloys plants

Mining and processing Enterprise

Our mission:

- Be the best at what we do.
- Navigate global change whilst holding true to our values.
- Responsibly unlock the potential of the Earth and its people, ensuring the prosperity of those who rely on us.

AKTOBE FERROALLOYS PLANT

DONSKOY MINING AND PROCESSING PLANT

KAZMARGANETS MINING ENTERPRISE

AKSU FERROALLOYS PLANT

How we create value

For more details on operating assets in the production chain and movement in raw materials please refer to Section 5 'Operating Assets'.

OUR RESOURCES

OPERATING

Donskoy GOK
- two mines;
- one open-pit mine;
- two chrome ore beneficiation plants.

Kazmarganets
- transport unit;
- tur mine with concentrating complex.

Aktobe Ferroalloys Plant
- three smelting shops;
- slag processing shop;
- auxiliary shops;
- own power station.

Aksu Ferroalloys Plant
- four ferroalloy shops;
- slag processing complex;
- agglomeration shop;
- auxiliary shops.

Natural

Total reserves and resources

216.6 mln tonnes

- Measured indicated resources 182.6 mln tonnes
- Inferred mineral resources 34.0 mln tonnes

CHROME ORE

MANGANESE ORE

Total reserves and resources

1.8 mln tonnes

- Measured indicated resources 1.7 mln tonnes
- Inferred mineral resources 0.1 mln tonnes

Financial

We strive to maximise the use of all financial assets.

Human

Over 19,000 highly-qualified professional employees.

KEY PROCESSES

OUR KEY ADVANTAGES

- Unique resource base.
- Favourable tax regime and mining legislation in the Republic of Kazakhstan.
- Dedicated infrastructure and low production costs.
- Fully integrated production.
- A developed client base allows Kazchrome to occupy a leading position in premium segments of these markets.

HIGH-CARBON FERROCHROME 1.56 mln tonnes

REFINED FERROCHROME 0.06 mln tonnes

SILICON ALLOYS 0.19 mln tonnes

DONSKOY GOK

	Mining 2019	Processing 2019
CAPACITY	6.0 mln tonnes p.a	6.3 mln tonnes p.a
chrome ore	6.0 mln tonnes	4.4 mln tonnes

KAZMARGANETS

	Mining 2019	Processing 2019
Product	Manganese ore	Manganese concentrate
	0.5 mln tonnes	0.2 mln tonnes
CAPACITY	0.7 mln tonnes p.a	0.7 mln tonnes p.a

Chrome sales to Russia (closed in 2019)

External supplier

Gas

POWER STATION AT AKTOBE FERROALLOYS PLANT

Power

AKTOBE FERROALLOYS PLANT

0.74 mln tonnes p.a

CAPACITY

0.65 mln tonnes

Production 2019

Power

Semi-coke/coal

Ferrosilicochrome
Ferrosilicon

Предприятия ERG

Semi-coke/coal

Power

AKSU FERROALLOYS PLANT

Production 2019

1.16 mln tonnes

CAPACITY

1.2 mln tonnes p.a

Kazchrome operating assets

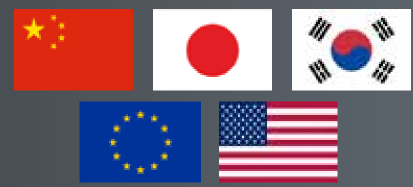
№1 world's IN CHROME CONTENT

Kazakhstan **№2** world's THE LARGEST SUPPLIER OF CHROME

OUR CONSUMERS

Key markets

Established long-term relationships with end consumers: many of the largest stainless and alloy steel producers



Key products (sales volumes)

HIGH-CARBON FERROCHROME 1.48 mln tonnes

REFINED FERROCHROME 0.06 mln tonnes

SILICON ALLOYS 0.14 mln tonnes

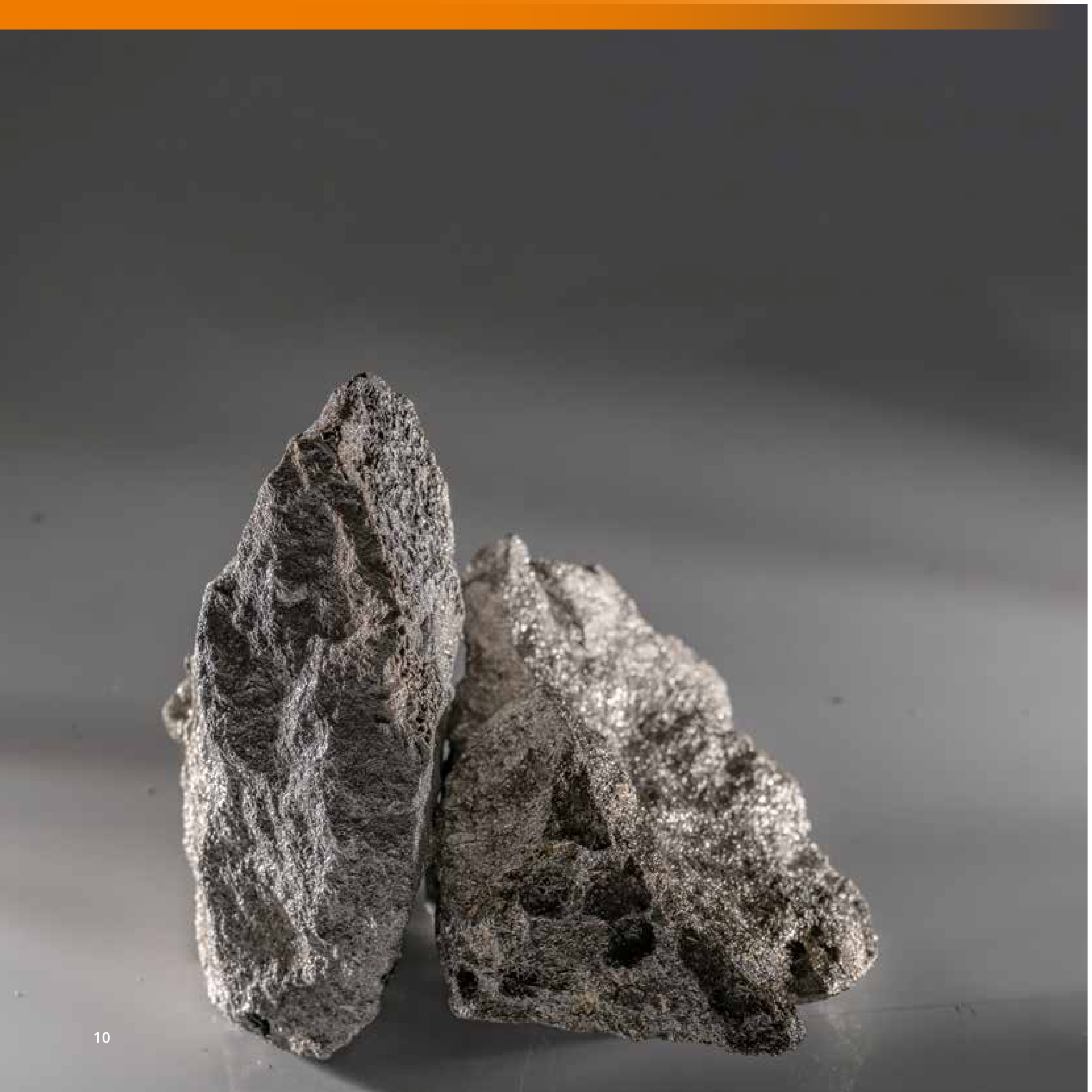
OUR RESULTS

High-carbon ferrochrome	574.4
Refined ferrochrome	54.9
Silicon alloys	51.6
Others	17.4

Capital expenditures

85 bln Tenge

MARKET OVERVIEW



Macroeconomic situation

The dynamics of market prices in 2019 was subject to two main factors: the ongoing trade wars between the US and China as well as weakness in certain segments of the final consumption of stainless steel. For example, the automotive industry, which constitutes about 12% of the stainless steel consumption, reduced its consumption in 2019 by about 5%. Commodity prices declined throughout the year, following the fall in industrial indices (especially in Europe) and deterioration of the overall macroeconomic situation.

Despite government support, growth in the Chinese economy, the main driver of the commodity market prices, has gradually slowed down. In 2019, the Chinese government launched an additional business support programme to sustain economic growth. A further reduction in value added tax to 13% and an increase in borrowed funds within the financial system to stimulate infrastructure projects were the main measures taken to support the Chinese economy.

Ferrochrome market demand and supply and prices overview

Ferrochrome is mostly used in production of stainless steel, which accounts for about 80% of the global chrome demand. Chrome ore supply is concentrated in South Africa and Kazakhstan, accounting for 73% of global chrome extraction. South Africa has the largest chrome reserves with approximately 3,100 mln tonnes or 85% of the global reserves. Kazakhstan ranks the second in terms of the chrome reserves, namely 320 mln tonnes or 9% of the global reserves. Consequently, South Africa and Kazakhstan are the largest suppliers of chrome with 59% and 14% of the market, respectively, followed by India (8%) and Turkey (4%).

While a number of ferrochrome producers, such as Kazchrome and Glencore-Merafe, own their chrome ore deposits, a significant number of ferrochrome producers need to purchase chrome ore. China, the largest producer of ferrochrome with 45% of the global market, does not have its own chrome reserves; Chinese manufacturers import chrome ore from South Africa, Turkey, Zimbabwe and other countries.

The balance between the dynamics of demand for stainless steel and the dynamics of the production of chrome ore and ferrochrome largely determines world prices for ferrochrome. The ferrochrome market was under pressure from oversupply for a long time. However, since the end of 2019, as expected the quick reaction on the supply side from low prices and the high level of chrome and ferrochrome stocks, as well as the withdrawal from the market by some of the least efficient manufacturers should lead to the smooth rebalancing of the market and restoration of prices.

On 11 March 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organisation. The current and expected impacts on global commerce are anticipated to be far-reaching. To date, there have been significant stock market declines and volatility as well as significant volatility in commodity and foreign exchange markets.

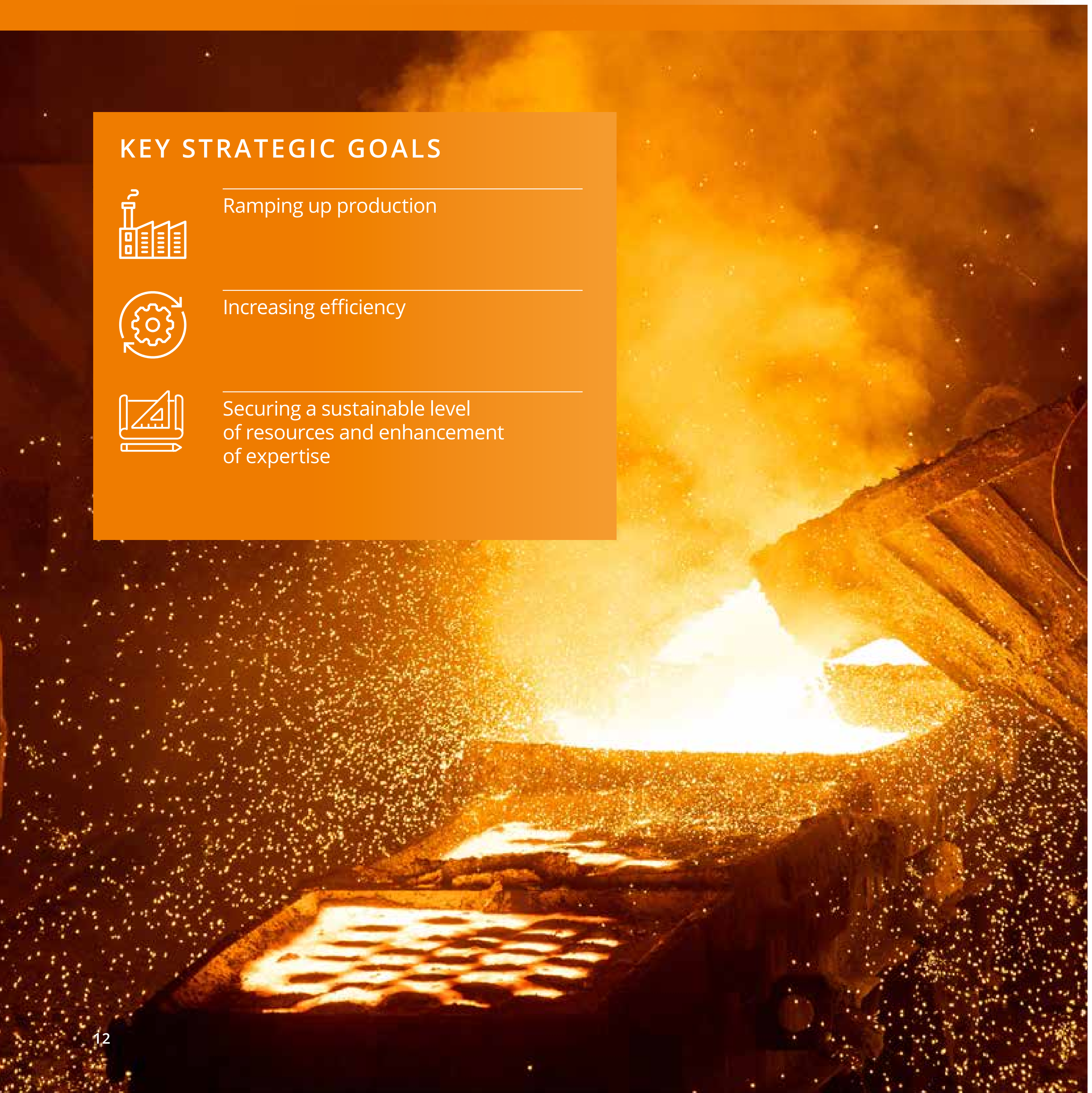
The COVID-19 outbreak has had an influence on global ferrochrome markets: quarantine measures taken by many countries, including South Africa, which accounts for approximately two-thirds of the global chrome ore extraction, contributed to decrease in chrome supply. This situation, according to experts, will lead to an accelerated rebalancing of the global chrome market starting from March 2020.

Despite the negative impact of COVID-19 on the global demand for stainless steel, it is anticipated that the likely decline in the chrome supply by the end of 2020 will be 10% greater than that of 2019 and will exceed the possible decline in demand for chrome. This will contribute to the decline in world chrome reserves and the recovery level of chrome ore and ferrochrome prices by the end of 2020, compared with the minimum level of the first quarter of 2020.

In the medium term, a balance of supply and demand in this market is expected, which will be accompanied by adequate margins for chrome ore and ferrochrome manufacturers.

An increasing demand for the stainless steel is anticipated in the long run, largely due to the continuing urbanisation, improvement in living standards and economic development in China, India and other developing countries. According to current estimates, growth rates in the stainless steel market will be about 3% per annum by the end of 2030. This growth is expected to result in a significant increase in the demand for ferrochrome and chrome ore, which will require a substantial increase in chrome supply, capital investment in new projects in key chrome extraction regions. This will only be possible if chrome ore and ferrochrome prices are maintained at satisfactory levels for producers and investors.

STRATEGY OVERVIEW



KEY STRATEGIC GOALS

- Ramping up production
- Increasing efficiency
- Securing a sustainable level of resources and enhancement of expertise

Kazchrome's strategy is to remain the leader of the world's ferroalloy industry, supplying the global market with high-quality chrome in accordance with the principles of health and safety, efficiency and sustainable development, while generating positive free cash flow throughout the whole cycle.

To implement this vision, Kazchrome continues to work on the following three key strategic goals:

Ramping up production. Kazchrome will continue to use a proactive approach and implement programmes to improve operational efficiency and expand mining and production capacities to ensure a prompt response to current market trends. In addition, Kazchrome will continue to focus on maximising utility from extracted raw materials through the implementation of a programme to increase the rate of chrome extraction from current and accumulated production waste. In the coming years, the global ferrochrome market is forecast to grow due to increasing demand for products from the main consumer countries, thereby expanding opportunities for Kazchrome.

Increasing efficiency. Working jointly with world-class experts in the metals industry, Kazchrome is developing and implementing large scale projects to improve operating efficiency and reduce costs at its units.

Securing a sustainable level of resources and enhancement of expertise. Kazchrome conducts ongoing discovery, exploration and evaluation of new deposits. Kazchrome is working on various joint ventures, mergers and acquisitions. The system of internal training is continuously improved, in order to maintain a high level personnel skills and productivity.

The main leverages for Kazchrome's strategy implementation are as follows:

- **Technological advantage.** Kazchrome works consistently on the adoption of advanced technology with an emphasis on several applications, for example: data and IT infrastructure, condition-based maintenance and integrated geological modelling. In addition, Kazchrome's asset management systems and material resources accounting are being improved and electronic risk management systems are being introduced.
- **Improvement of skills.** The main areas of skill development include exploration works, inventory management, commercial activity, major project management, HR management, analytics and digitalisation. Kazchrome invests in training young professionals and organises forums that enable the exchange of experience between generations.
- **Sustainable development.** Kazchrome aims to improve its sustainable development standards, particularly those concerning health and safety, as well as environmental protection. In order to ensure compliance with international standards for sustainable development, Kazchrome annually invests in programmes aimed at reducing emissions into the environment, landscaping adjacent areas and assisting communities where its units are located through social support programmes.

Optimisation and growth initiatives

As part of the implementation of its strategic goals, Kazchrome has developed and is implementing a whole range of initiatives for optimisation and growth at various stages of the value chain.

Mining Stage

Expansion of 10th Anniversary Mine

Geological survey activities

Ore Beneficiation Stage

Sludge-2
The construction of a new beneficiation plant at Donskoy GOK in order to obtain commodity concentrate from the mature and current tailings, the initiative will also help to actively reduce volumes of existing tailings at the site.

Semi-closed intra-factory water supply of ore enriching and pelletising factory (OEPF)
The construction of a semi-closed intra-factory water supply system is aimed at increasing the production of chrome raw materials for the production of pellets, as well as reducing the volume of waste.

Enrichment tailings at the enrichment of small classes workshop
The project for the enrichment of tailings for the deposits of small classes of OEPF involves obtaining additional volumes of concentrate from accumulated and current tailings.

Metallurgy Stage

Full-scale ramp-up of capacity at Aktobe Ferroalloy Plant workshop No. 4
A number of projects aimed at further increasing the productivity of the workshop.

Increase in production capacity at Aksu Ferroalloy Plant workshop No. 6
This project, involving the reconstruction of four existing furnaces at Workshop No.6 at Aksu Ferroalloy Plant, aims to further increase high-carbon ferrochrome production, while reducing operational costs and extending the life of the workshop. Moreover, this initiative is expected to reduce emissions to air (in conjunction with the installation of two modern gas cleaning devices). Furnace reconstruction was started in 2017 and is being undertaken in two phases. Phase 1 of the project – renovation of furnace No. 64 – has been completed. Commissioning the furnace represents the completion of Phase 1 of the large-scale renovation project at smelting Workshop No. 6. The completion of the reconstruction of the workshop is expected in 2026.

5 mm sludge processing at Aksu Ferroalloy Plant
The project is aimed at processing of fine sludge at Aksu Ferroalloy Plant.

Kazchrome 2.0 – expansion of existing capacity project

Kazchrome 2.0 will strengthen the position of the Company as a key strategic supplier in the ferrochrome market and allow it to gain industry advantages both in terms of prices and in the production of chrome ore and ferrochrome. Kazchrome 2.0 envisages a major expansion of the entire Kazchrome's value chain, including the 10th Anniversary Mine, additional processing facilities, and metallurgic facilities.

Currently, the Company is carrying out a more detailed feasibility study of the project. The Company has made a decision on its stage-by-stage in-depth development that will minimise the risk, maintain variability and ensure the flexibility to respond promptly response to future market conditions.

OVERVIEW OF OPERATIONAL RESULTS

ACHIEVEMENTS 2019

Chrome ore extraction

6,024

Thousands tonnes

Production of ferroalloys

1,811

Thousands tonnes

Sales of ferroalloys

1,683

Thousands tonnes

Products, sales, markets and consumers

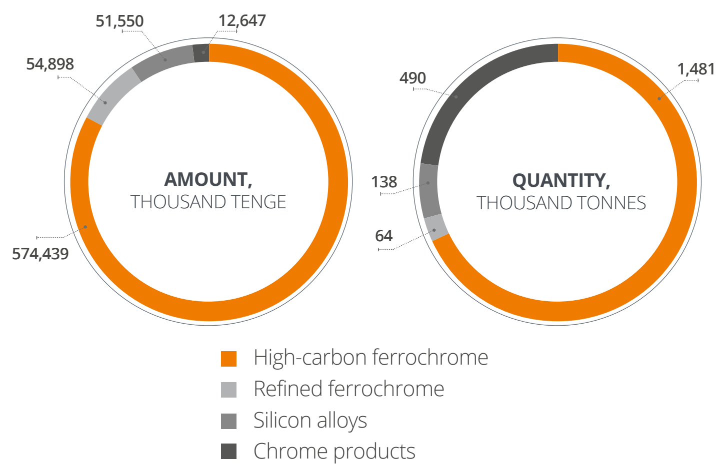
Kazchrome produces high-quality ferroalloy products. The end consumers of the Company include many of the largest stainless and alloy steel producers from China, Japan, South Korea, Europe and the US.

Products

Kazchrome's key products include high-carbon ferrochrome and refined ferrochrome with a low impurity content. The Company's production capacities allow for variations in the carbon content of its ferrochrome products, depending on the specifications provided by customers and market conditions. Kazchrome is therefore able to optimise the range of its products in order to diversify its end customer base and maximise profit. In 2019, the Company sold about 1,481 thousand tonnes of high-carbon ferrochrome and more than 200 thousand tonnes of other ferroalloys, which amounts in total to 1,683 thousand tonnes of ferroalloys.

Kazchrome meets with all the requirements of legislation for health and safety impact and there were no cases of product non-compliance in 2019. There were also no recalls of poor-quality products in 2019. The products were delivered in accordance with regulatory requirements. The products sold were not the subject of public discussion, including advertising and promotion.

2019 SALES PROFILE



Note: Sales do not include other income.

Sales, marketing and consumers

Kazchrome's marketing strategy pays special attention to end consumers and markets requiring high-quality products and reliable supplies. Since 2015, Kazchrome has been working in association with a trading company that has facilitated in establishing long-term relationships with Kazchrome's end consumers. Long-term contracts mitigate potential risks associated with sales volumes.

The remaining volume is distributed in the countries of CIS and Kazakhstan under direct contracts with the consumers.

Reserves and resources

Khromtau chrome deposits are located in the South Ural Mountains of the Kempirsaisky area – the ophiolite belt stretching over 2,000 km². The Khromtau deposits are the largest and have the highest cut-off grade in the Kempirsaisky area.

The chrome deposits of Donskoy GOK mine lie within the main ore field are 22 km long and 7 km wide.

10th Anniversary Mine has been explored to a depth of 1,200 m and has the potential to increase reserve and resource for extension of mine life. Additionally, Kazchrome currently implements a regional exploration programme involving drilling operations in the Geofizichesky region, about 10 km north of the Molodezhnaya Mine.

Overview of subsoil use contracts

Mineral deposits are owned by the Government of the Republic of Kazakhstan. Kazchrome has entered into subsoil use contracts with the Government of Kazakhstan. The terms of these contracts vary depending on the mine. All such contracts include renewal provisions and are usually extended until the end of each mine's life.

SUBSOIL USE CONTRACTS

Contract	Location	Start Date	Contract Renewal Date	Mine(s)	Branch
Chrome ore extraction	Khromtau district of Aktobe region	1997	2041	10th Anniversary Mine, Molodezhnaya Mine, and Yuzhny Open-Pit Mine	Donskoy GOK
Manganese ore extraction	Nura district of Karaganda region	1999	2021	Tur Mine	Kazmarganets
Exploration for chromite-containing ore	Khromtau district of Aktobe region	2015	2021	South Kempirsai ore field	Donskoy GOK
Exploration for chromite ore	Aitekebi and Khromtau districts of Aktobe region	2019	2025	Bilge ore occurrence	Donskoy GOK
Exploration for chromite ore	Mugalzhar, Baigany and Shalkar districts of Aktobe region	2019	2024	Daul-Kokpekty area	Donskoy GOK
Exploration for manganese ore	Shalkar district, Aktobe region	2019	2025	Assambai ore occurrence	Kazmarganets
Exploration for manganese ore	Aitekebi and Sholkar districts of Aktobe region	2019	2025	Ushkuduk ore occurrence	Kazmarganets
Exploration for complex ore	Aitekebi district of Aktobe region	2019	2025	Karakuduk ore occurrence	Donskoy GOK

Note: In January 2019, Kazchrome entered into a contract for chromite ore exploration at Bilge ore occurrence in Aktobe region for the period of six years. In October 2019, Kazchrome entered into a contract for chromite ore exploration within the Daul-Kokpekti area of Aktobe region for the period of five years. In 2019, Kazchrome obtained a subsoil use licence for solid minerals exploration within the Assambai, Ushkuduk and Karakuduk ore occurrence areas in Aktobe region for the period of six years.

Mineral resources and reserves report[1]

Kazchrome, the industry's largest resource base, includes 216.6 mln tonnes of chrome ore unique in its quality, with an average chrome content of 50% and a low impurity content. Proved and probable ore reserves amount to 173.4 mln tonnes and will be sufficient to support the mine's operation for several decades at current production level assuring significant potential for further expansion.

CHROME ORE RESOURCES AND RESERVES: DONSKOY GOK

Deposit	Category	Mln tonnes	Average Cr_2O_3 ore content, %	Cr_2O_3 Content, mln tonnes
10th Anniversary Mine	Proved and probable reserves	**163.6**	**42.2**	**69.0**
	Measured indicated resources	173.4	50.4	87.3
	Inferred mineral resources	34.0	47.9	16.3
	Total mineral resources	**207.4**	**50.0**	**103.6**
Molodezhnaya Mine	Proved and probable reserves	**7.7**	**40.4**	**3.1**
	Measured indicated resources	7.1	50.8	3.6
	Inferred mineral resources	–	–	–
	Total mineral resources	**7.1**	**50.8**	**3.6**
Yuzhny Open Pit Mine	Proved and probable reserves	**2.1**	**40.6**	**0.9**
	Measured indicated resources	1.9	51.7	1.0
	Inferred mineral resources	–	–	–
	Total mineral resources	**1.9**	**51.7**	**1.0**
Geophysical VII	Proved and probable reserves	**–**	**–**	**–**
	Measured indicated resources	0.2	41.2	0.1
	Inferred mineral resources	–	–	–
	Total mineral resources	**0.2**	**41.2**	**0.1**
Total: Donskoy GOK	**Total proved and probable reserves**	**173.4**	**42.1**	**73.0**
	Total measured indicated resources	**182.6**	**50.4**	**92.0**
	Total inferred resources	**34.0**	**47.9**	**16.3**
	Total mineral resources	**216.6**	**50.0**	**108.3**

MANGANESE ORE RESERVES AND RESOURCES: KAZMARGANETS

Deposit	Category	Mln tonnes	Mn Content, %	Fe Content, %	Mn Content, mln tonnes	Fe Content, mln tonnes
Tur Mine	Proved and probable reserves	**1.7**	**25.5**	**7.5**	**0.5**	**0.1**
	Measured indicated resources	1.7	27.5	8.0	0.5	0.1
	Inferred mineral resources	0.1	19.8	9.4	0.0	0.0
Total: Kazmarganets	**Total mineral resources**	**1.8**	**27.3**	**8.0**	**0.5**	**0.1**

[1] **Source:** The information presented in the table above is based on a Competent Persons Report (CPR) under the international standard of Joint Ore Reserves Committee (JORC) prepared by SRK Consulting (UK) limited as at 1 January, 2019
Note: Kazchrome prepares its Mineral Resources and Reserves Reports for the State Commission on Mineral Reserves of the Republic of Kazakhstan pursuant to Kazakhstan's local regulatory requirements. SRK regarded them as Mineral Resources and Ore Reserves in accordance with the terms and definitions of JORC Code (developed by the Australian Institute of Mining and Metallurgy). It is reported that Measured and Identified Resources include the material restated to Ore Reserves.

MINING | PROCESSING | METALLURGY AND SMELTING

Donskoy GOK

3.05 mln tonne p.a	2.3 mln tonne p.a	0.65 mln tonne p.a	6.3 mln tonne p.a
High-grade ore, low-grade ore	Medium-grade ore	Medium-grade, high-grade ore	High-grade ore, concentrates, briquettes
10TH ANNIVERSARY MINE	MOLODEZHNAYA MINE	YUZHNY OPEN PIT MINE	CBP-1 (crushing and beneficiation plant), OBPP (ore beneficiation and pelletisation plant)

Aktobe Plant

0.74 mln tonne p.a

Ferrochrome

WORKSHOP NO. 1
WORKSHOP NO. 2
WORKSHOP NO. 4

Aksu Plant

1.2 mln tonne p.a

Ferrochrome, ferrosilicochrome, ferrosilicon ferrosilicon manganese

WORKSHOP NO. 1
WORKSHOP NO. 2
WORKSHOP NO. 4
WORKSHOP NO. 6

POWER

Aktobe Plan

135 MW

GAS POWER PLANT

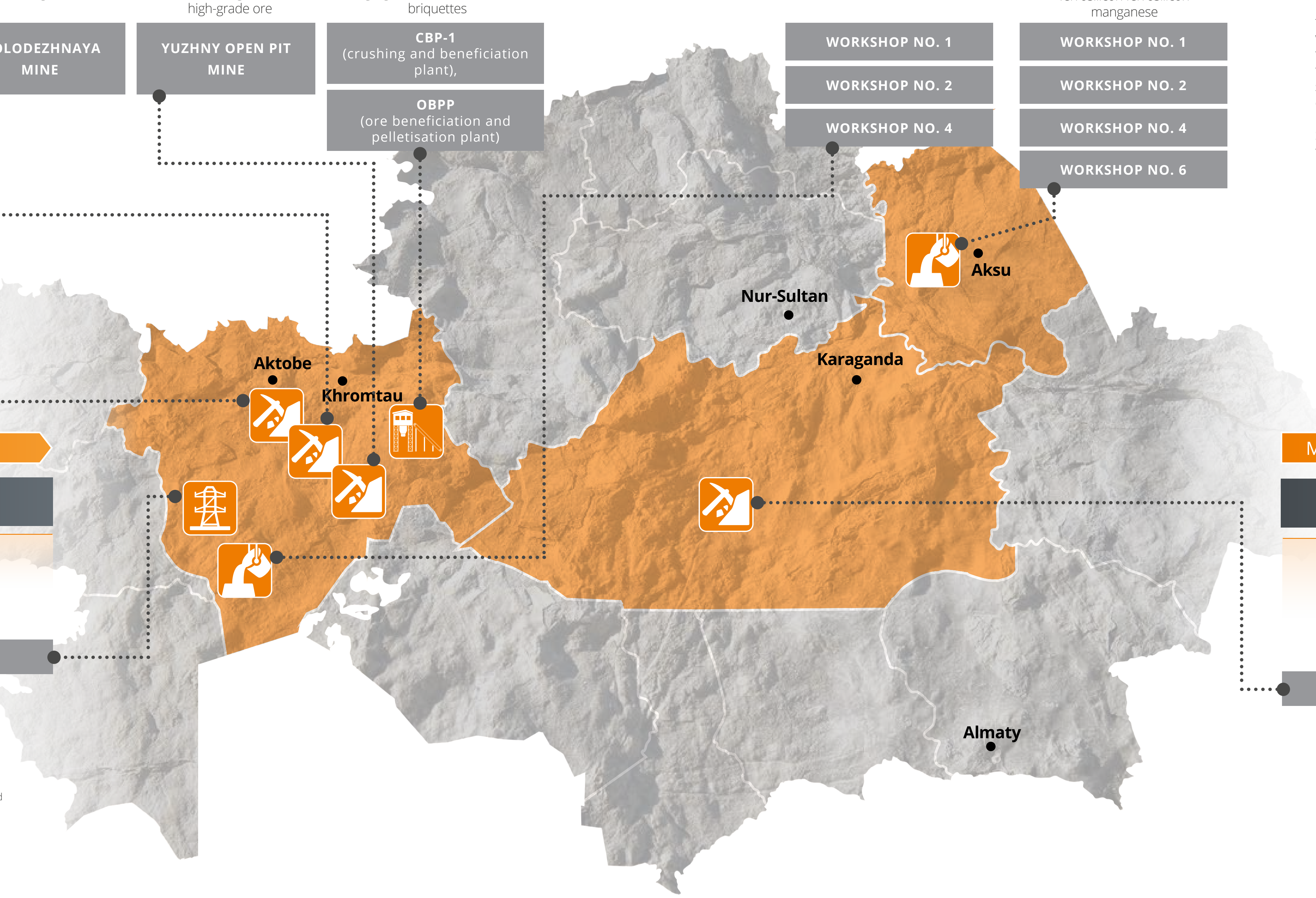
MINING AND PROCESSING

Kazmarganets

0.7 mln tonne p.a (mining and processing)

High-grade, low-grade ore, crushing and screening

TUR MINE



Note: The information based on 2019 capacities. The processing volumes include of the previously stored waste (sludge).

Almost all chrome products produced at Donskoy GOK are transported to Aktobe or Aksu Ferroalloys Plant for internal use in ferroalloys production. Manganese concentrate from Kazmarganets is transported to Aksu Ferroalloys Plant, processed and turned into ferrosilicomanganese. ERG Logistics Division is responsible for the transportation of chrome products and manganese ore between Kazchrome operating assets.

Aktobe Ferroalloys Plant's own natural gas power station supplies more than 30% of the electric power required by the plant, while ERG subsidiaries supply the rest of the electric power and all the electric power for Aksu Ferroalloys Plant. Another ERG subsidiary, Shubarkol komir JSC, is one of coal and semi-coke suppliers for Aktobe Ferroalloys Plant and Aksu Ferroalloys Plant. Semi-coke is used as a reducing agent in ferroalloys production. ■

FINANCIAL REVIEW

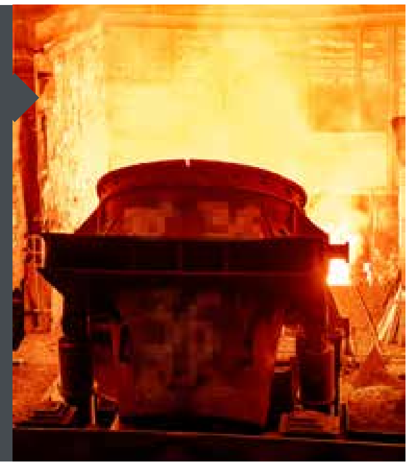
Preparation principles

This review of Kazchrome's financial performance and operating results is intended to present and assess trends and significant changes connected with its operating activities and the financial position of Kazchrome.

The review was prepared based on Kazchrome audited consolidated financial statements. Financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) and the accounting policy for the years ended 31 December 2017, 2018 and 2019.

The functional currency of Kazchrome is Kazakhstani Tenge (Tenge)

PricewaterhouseCoopers LLP (Kazakhstan) is the independent auditor of Kazchrome. For audited financial statements and independent auditor's report, please refer to Section 10.



Statement of profit or loss

The table below represents the financial data based on Kazchrome consolidated results for 2017–2019 years.

Thousand Tenge	2017	2018	2019
Revenue	702,097,306	750,056,337	**698,307,440**
Cost of sales	(306,642,959)	(357,709,908)	**(392,100,431)**
Gross profit	**395,454,347**	**392,346,429**	**306,207,009**
Distribution expenses	(5,382,635)	(5,658,876)	**(7,283,654)**
General and administrative expenses	(49,301,304)	(77,214,740)	**(64,288,937)**
Other operating income / (expenses)	(5,804,633)	8,314,015	**417,679**
Operating profit	**334,965,775**	**317,786,828**	**235,052,097**
Finance income	109,788,042	76,278,317	**36,543,354**
Finance costs	(84,701,935)	(191,329,830)	**(81,130,821)**
Profit before income tax	**360,051,882**	**202,735,315**	**190,464,630**
Income tax expense	(71,154,284)	(32,859,293)	**(41,368,043)**
Profit for the year from continuing operations	**288,897,598**	**169,876,022**	**149,096,587**
Profit for the year from discontinued operations	16,557,155	7,072,180	**–**
Profit for the year	**305,454,753**	**176,948,202**	**149,096,587**

Kazchrome completed the year 2019 with a net profit of 149 bln Tenge, which is 16% lower than in the previous year. These results are primarily due to the downward trend in world prices for ferroalloys. The weakening of the national currency also had a certain impact on our financial results.

Revenue

An increase in ferroalloy sales volumes partially offset by the negative effect of unfavourable prices for ferroalloys, resulted in 52 bln Tenge decrease in revenue compared with 2018 (6.9%).

FERROALLOYS PRODUCTION, SALES VOLUMES AND REVENUE

	2017	2018	2019
Ferroalloys production, thousand tonnes			
High-carbon FeCr	1,363	1,482	**1,557**
Refined FeCr	60	59	**57**
Silicon alloys	202	201	**197**
Total ferroalloys production	1,625	1,742	**1,811**
Ferroalloys sales, thousand tonnes			
High-carbon FeCr	1,278	1,394	**1,481**
Refined FeCr	65	59	**64**
Silicon alloys	138	138	**138**
Total ferroalloys sales	1,481	1,591	**1,683**
Ferroalloys average selling price, US$			
High-carbon FeCr	1,359	1,157	**1,014**
Refined FeCr	2,552	2,486	**2,245**
Silicon alloys	1,142	1,121	**972**
Revenue, thousand Tenge			
High-carbon FeCr	577,119,670	619,418,207	**574,438,951**
Refined FeCr	55,615,368	56,343,927	**54,898,291**
Silicon alloys	52,469,319	59,415,243	**51,550,340**
Others	16,892,949	14,878,960	**17,419,858**
Total revenue	702,097,306	750,056,337	**698,307,440**

* The following official exchange rates were used to calculate average ferroalloys selling prices: KZT332.33/US$ as of 31 December 2017; KZT 384.20/US$ as of 31 December 2018; KZT 382.59/US$ as of 31 December 2019.

Cost of sales

In 2019, the cost of sales increased by 34 bln Tenge compared with the previous year (9.6%), which was largely due to an increase in the production volume of high-carbon ferrochrome.

Increase in the cost of materials by 19 bln Tenge (11.8%) was driven mainly by higher prices for electrode paste and graphitised electrodes, as well as Tenge devaluation. An average salary increase in 2019 led to higher payroll and related costs by 6 bln Tenge (13.8%).

Other cost of sales included expenses on insurance, repair and maintenance, other taxes, etc.

Thousand Tenge	2017	2018	2019
Materials	135,737,814	164,276,499	**183,719,761**
Power and energy	64,582,612	67,864,563	**66,531,190**
Payroll and related costs	38,904,656	43,437,311	**49,430,162**
Depreciation and amortisation	34,600,868	37,244,238	**38,102,943**
Mineral extraction tax	17,253,201	19,554,497	**20,408,379**
Others	15,563,808	25,332,800	**33,907,996**
Total cost of sales	**306,642,959**	**357,709,908**	**392,100,431**

General and administrative expenses

In 2019, following cost optimisation initiatives, Kazchrome managed to decrease the amount of general and administrative expenses by 13 bln Tenge (16.7%). This was mainly due to the reduction in sponsorship and other financial aid related expenses by 9 bln Tenge (34%).

Other general and administrative expenses included expenses on materials, other taxes, repair and maintenance, etc.

Thousand Tenge	2017	2018	2019
Information, consulting and other professional services	14,377,531	22,602,458	**21,620,447**
Sponsorship and other financial aid	18,685,028	27,789,514	**18,338,188**
Payroll and related costs	7,356,417	8,418,942	**9,929,114**
Agent fees	4,485,301	10,247,588	**6,059,472**
Depreciation and amortisation	1,786,053	1,876,861	**2,152,634**
Others	2,610,974	6,279,377	**6,189,082**
Total general and administrative expenses	**49,301,304**	**77,214,740**	**64,288,937**

Capital expenditures

From 2017 to 2019, Kazchrome invested US$587 mln in the business, including US$294 mln for development projects, US$264 mln for care and maintenance projects and US$29 mln for other projects.

The main items of capital expenditures on development for the period from 2017 and 2019 were:

- ongoing expenditures in the project of production capacity expansion of the 10th Anniversary Mine (Phase 1 and Phase 2);
- expenditures at workshop No.6 of Aksu Ferroalloys Plant to increase its production capacity;
- expenditures to increase the production capacity of workshop No.4 of Aktobe Ferroalloys Plant.

US$ mln	2017	2018	2019
Development projects	73	104	**117**
Care and maintenance projects	82	90	**92**
Other projects	3	9	**17**
Total capital expenditures	**158**	**203**	**226**

Current debts

On October 22, 2018, VTB Bank PJSC, acting as the Lender, KCR International B.V., and TNC Kazchrome JSC, acting as the Borrowers, signed an Agreement for opening a credit line for an amount not exceeding US$3.1 bln.

In 2019 Kazchrome signed amendments to the existing loan agreement with VTB Bank PJSC on additional tranches in total amounting to US$250 mln. The amendment provides the maturity of the principal payment in 2024. The interest rate on these tranches is 6.30% per annum.

In December 2019 VTB Bank PJSC transferred a loan issued to Kazchrome in the amount of US$1.7 bln to RCB Bank LTD. The interest rate on the tranche is 5.95% per annum.

In June 2020, we signed an amendment to the existing loan agreement with VTB Bank (PJSC) to receive an additional tranche in the amount of up to US$350 mln and to improve certain commercial terms. The new tranche is repayable in five years and bears interest at a rate similar to previous tranches. This has not only improved our liquidity and enhanced our financial resilience, but will also enable us to invest in future growth. The aggregate of US$100 mln drawn down was assigned from VTB Bank (PJSC) to CQUR Bank LLC.

RISK MANAGEMENT

Risk management system

Kazchrome risk management system provides sufficient confidence in the achievement of its strategic and operational goals. The risk management process covers key areas (strategic management, budgeting and investment activities) and all levels of the Company's activities. All Kazchrome employees are involved in the risk management process and are responsible for effective mitigation of emerging risks. The risk management system includes clearly defined oversight functions at the Company level (Management Board and Board of Directors), which are complemented by supporting functions, including the Risk Management and Internal Control Function, Compliance Function and Risk Management and Internal Audit Directorates.

In 2019, we advanced our risk management practice through a range of new measures, including the application of Business Continuity Management (BCM) methodology). Following BCM methodology approval, a pilot development and implementation of the business continuity plan was initiated at Aktobe Ferroalloys Plant.

In 2019, we also implemented the Risk Management Information System (RMIS). This RMIS assists us in consolidating risk descriptions, mitigating actions and exposure information. It provides the tracking and management reporting capabilities to enable risk managers and risk owners to monitor and control of our efforts to manage risks, thereby increasing overall risk management efficiency.

In March 2020, the World Health Organisation declared a global pandemic related to COVID-19. As the COVID-19 outbreak unfolded, a crisis management office was established, which developed a comprehensive set of measures to mitigate risks linked to COVID-19, whilst optimising Kazchrome's liquidity and financial performance.

Key area of focus included:

- personnel protection;
- sales support;
- supply chain optimisation;
- production stability;
- project management;
- liquidity management.

Implementation of these measures at Kazchrome is monitored on a weekly basis. The extent to which COVID-19 impacts future business activity or financial results, and the duration of any such negative impact, will depend on future developments, which are highly uncertain and unknown at this time. The main risks that result from the current uncertain situation regarding COVID-19 are the possibility of lockdowns or an outbreak of COVID-19 amongst staff, the possibility of delays in the supply chain and the possibility of interrupting production, all of which could affect revenues and profitability. In the case of a possible production interruption, liquidity could be impacted with a related impact on the going concern. The possible impact on going concern is addressed in note 1 in the financial statements indicating that a material uncertainty exists. These risks are mitigated by continuous monitoring, diversifying the supply chain and adjustment of shifts to limit the risks of outbreaks.

Key risks and their management

Kazchrome's financial performance, operations, project implementation strategy and reputation can be affected by the incidence of one or more of the key risks described below. Continuous risk management efforts include ongoing monitoring, risk mitigation actions and the development of contingency plans to ensure business continuity.

RISK AREA AND DESCRIPTION	SELECTED MITIGATION ACTIONS
Political risks Changing political and economic dynamics of Kazakhstan may affect our financial and operational performance.	• Monitoring and analysis of political and macroeconomic trends in Kazakhstan.
Regulatory and legal risks There is a number of factors that could affect our regulatory context. This includes the introduction of new (or changes to existing) laws and regulations in Kazakhstan.	• Monitoring of potential legislative and regulatory changes; • Representation of our interests through professional bodies / associations; • Monitoring of compliance with our licence and permit obligations.
Price risks A substantial decline in – or volatility around – commodity prices could materially affect our business, including our financial results and our liquidity.	• Maintenance of long-term sales contracts that link commodity prices to benchmarks; • Development of alternative sales channels.
Production and operational risks Challenging operational performance has the potential to result in business interruption, damage to physical property, unplanned downtime, uncertainty in geological formations and mineralisation, serious safety incidents and environmental harm.	• Risk-based reliability planning and maintenance; • Independent technical diagnostics focused on machinery; • Maintenance of a resilient power supply system / long-term contracts with reliable suppliers; • Control of input materials (quality and specification); • Implementation of business continuity management processes; • Infill drilling and ore body modelling; • Maintenance of property damage / business interruption insurance.
Supply chain and logistics risks Kazchrome's large supply chain exposes it to risks relating to contractual non-compliance by suppliers, including non-delivery; changes in prices for purchased goods; shortage of transportation for goods.	• Quality / specification / completeness controls related to the supply of goods and services; • Long-term contracts and category strategies for key goods / services (including formula pricing); • Maintenance of own fleet of railway wagons.
Capital project execution risks A failure to deliver major capital projects within planned timeframes, budgets and quality criteria could negatively affect long-term profitability and reputation (including our ability to attract future financing).	• Systematic, transparent and stage-gated project implementation process; • Enhanced project due diligence, independent project reviews and mine planning process; • Application of project management tools and best practices on the front-end loading stages; • Monitoring / control of project deadlines, budgets, etc
Financial risks Kazchrome is exposed to a number of financial risks: liquidity risk (i.e. inability to meet our existing financial obligations), risk of non-compliance with loan covenants, foreign exchange risk, tax risks, credit risk and interest rate risk.	• Maintenance of strong relationships with existing lenders, the expansion of our credit lines, as well as improvements to our debt portfolio, funding opportunities and conditions; • Regular updating of our cash flow plan and control of the liquidity level; • Compliance with our covenants; • Monitoring of open foreign exchange position; • Monitoring of tax legislation compliance; • Credit control implementation.
Personnel management risks Operating in remote locations exposes us to risks in terms of our ability to attract personnel with the skills and experience that we need; the outflow of qualified personnel	• Maintenance of competitive remuneration packages; • Training and development to maintain the skills pipeline; • Implementation of an effective incentivisation and retention system.

RISK AREA AND DESCRIPTION	SELECTED MITIGATION ACTIONS
Social risks Our business activities may negatively affect nearby communities. There is a risk that this could affect our social licence to operate. In addition, we provide social benefits to Kazchrome employees (many of whom are from our local communities) as part of our wider human resources management approach.	• Application of community social investment; • Monitoring of social attitudes and community grievance mechanisms.
Health, safety and security risks In the absence of appropriate controls, the nature and location of our operations have the potential to affect the physical wellbeing and health of our employees, contractors and community members.	• Implementation of OHSAS 18001-certified and/or aligned occupational health and safety management systems; • Zero harm approach towards critical health and safety risks.
Environmental and climate change risks In the absence of appropriate controls, the nature of our activities and processes have the potential to harm the environment. Additionally, due to our substantial greenhouse gas emissions, we face direct and indirect risks in relation to future regulatory attempts to limit an organisation's emissions.	• Implementation of ISO 14001-certified and/or aligned environmental management systems; • Implementation of ISO 50001-certified energy management systems in Kazakhstan; • Implementation of renewable energy projects; • Carbon footprint analysis.
Compliance risks The Kazchrome has a presence/does business in locations that are considered to pose higher levels of legal compliance risks in terms of bribery and corruption, sanctions, human rights, personal data protection, anti-money laundering and counter-financing of terrorism.	• Monitoring of adherence to ERG compliance policies; • Extensive training and communications programme; • Regular counterparty and supply chain due diligence; • Application of a Sanctions Compliance Programme; • Compliance with the EU General Data Protection Regulation (GDPR) and other applicable laws; • Maintenance of a whistle-blower system, including an anonymous and confidential 24-hour, independently operated ERG hotline.
IT and information security risks In the context of the digitalisation and enhancement of our information technology (IT) landscape, we recognise that this exposes us to potential risks. These include: loss of access to IT infrastructure; disruption in business processes; internal and/or external fraud; data leakage and data breaches; non-compliance with information security regulations; violation of software licence agreements.	• Building of a robust cyber resilience framework; • Prompt responses to IT failures and cyber security incidents; • Implementation of continuity plans for critical IT processes; • Monitoring of software licence compliance.

There may be additional risks yet unknown to Kazchrome and other risks currently not believed to be material, that could have a significant impact on our business performance and financial results.

SUSTAINABLE DEVELOPMENT REVIEW

Sustainable development is about more than the responsible management and the environmental, social and governance impacts of ERG and its subsidiaries: it is also about achieving:

'true business sustainability' – by ensuring that ERG business is fit for the future changes and can generate long-term value;

sustained and profitable growth that delivers ongoing benefits to stakeholders – including employees, shareholders, customers, business partners, host countries and local communities.

Sustainable development is integral to the ERG business model, – and is therefore increasingly integrated into core business processes. This is best demonstrated by the ERG 2025 strategy, which is ultimately aimed at achieving 'business sustainability'.

This integrated strategy – which is underpinned by well-defined strategic goals, key performance indicators (KPIs) and implementation levers – will help achieve the vision of being 'an international, sustainable, socially responsible and efficient natural resources company'.

In line with this, Kazchrome has implemented Safety and Environmental Protection Management Systems. The Management took all the necessary preventive measures and agreed on the norms with the relevant state bodies. The Company has implemented integrated management systems and has been operating in accordance with international standards since 2007.

In 2019, international assurance organisation TÜV confirmed the compliance of the Company's management systems with ISO 9001 (quality), ISO 14001 (environment), OHSAS 18001 (occupational health and safety) and ISO 50001 (energy) international management system standards.

As a consequence, sustainable development is now an integral part of the business model and is being fully integrated into core business processes.

ERG fully supports the United Nations Sustainable Development Goals (SDGs) and UN Global Compact, and uses these to guide its approach to business sustainability.

In 2019, ERG continued to embed its 2025 Strategy, placing particular focus on organisational transformation, stakeholder responsiveness and partnerships, digital technology and the enhancement of our financial position. Please note that our 2025 Strategy is currently under review as ERG addresses the immediate impact of the 2020 COVID-19 outbreak and the longer-term implications for the business.

Further information is available in the ERG Sustainable Development Report 2019.

Our employees

Our employees are Kazchrome's most valuable asset and vital partners in achieving our strategic goals. We have prioritised employees well-being with the creation of a favourable environment for their growth and development.

Employee motivation

The labour motivation system consists of a fixed and variable portion. In determining the size of the fixed portion, the Company focuses on salary benchmarks, both in Kazakhstan and in Russia. Over the last three years, the average salary of Kazchrome's employees has increased by 26%. The variable portion depends on an employee's performance in a given period. The variable portion for production staff depends on the operating performance of the Company. Administrative staff are rewarded based on the results of an annual performance evaluation.2.6% of Kazchrome's employees underwent their performance assessment at the end of 2019:

	Share, %
Category	
Managers	27
Specialists	73
Gender	
Women	59
Men	41

The types of social support funded by Kazchrome are enshrined in the collective agreement and set out in the Company's regulations. Over the last three years, Kazchrome has spent 14.37 bln Tenge on the social wellbeing of its employees, including healthcare, employee transportation, social support for employees and their family members, etc. Kazchrome also runs and maintains leisure facilities available for both its employees and the general population in its operating regions.

There were totally 869 employees on maternity/paternity leave (10 male employees) at the end of 2019.

Assistance programmes are also enshrined in the collective agreement for employees who have ceased working as a result of retirement or termination of employment. These include benefits, compensations, remuneration, as well as guarantees for employment and occupational retraining at the expense of Kazchrome in the event of staffing reductions.

WORKFORCE PROFILE

19,388
employees
KAZCHROME HEADCOUNT
at 31 December 2019

40
years
AVERAGE AGE OF KAZCHROME'S EMPLOYEES

251
new jobs
created in 2019

10
years
AVERAGE LENGTH OF SERVICE OF KAZCHROME'S EMPLOYEES

7.0%
AVERAGE STAFF TURNOVER RATE IN 2019

23.3%
OF THE WORKFORCE IS FEMALE

11%
NEW EMPLOYEES HIRED IN THE REPORTING YEAR

Labour relations

Constructive interaction with employee associations on various issues, such as wages, social benefits and occupational safety, is the key component of our approach to labour relations. We respect our employees' right to join labour unions and participate freely in collective agreements.

The minimum period of notification for employees of any changes related to Kazchrome activity is determined by the Labour Code. In the event of any change in labour conditions, Kazchrome shall notify its employees in writing no later than 30 calendar days prior to such change.

If any employee of our Company has any reason for concern or suspicion that any other employee or a counterparty has violated any provision of the ERG's Corporate Code of Conduct, they can either report it directly to their immediate superior, higher ranking superior, compliance specialist or any legal adviser of the Company or via the ERG's 24/7 hotline, which is a completely confidential communication channel maintained by an independent body. The Company will not tolerate any retaliatory actions against any person who has reported in good faith an alleged violation of the Corporate Code of Conduct.

Employees can also discuss any issues related to human resources management, for example, promotion or any salary-related issue, with the local HR department. There were no serious labour relations-related complaints in 2019.

The Company attaches particular importance to compliance with the applicable legislative requirements and provisions of the Company's policies and procedures in its activities, including the recruitment and onboarding of new employees. The Company runs a training and communication programme to helps ensure that all employees understand our ethical standards and proper behaviour models in the course of daily activities and decision making. An introductory briefing is held for all new employees, which includes training on the Corporate Code of Conduct and other issues connected with human rights aspects of significant importance for Kazchrome's business.

Newly hired and trained employees made up 11% and the total number of training hours was 17,184 in 2019.

Diversity and Equal Opportunities

We are committed to providing ample opportunities for employees for professional fulfillment regardless of their origin, social, status, position and financial situation, gender, language, religion, convictions, residence, age and membership in any public associations is one of our underlying principles.

GENDER DIVERSITY AS OF 31 DECEMBER 2019

Region	Men	Women
Aktobe region	9,457	2,961
Pavlodar region	5,038	1,453
Karaganda region	384	95
Total	**14,879**	**4,509**

AGE OF EMPLOYEES AS OF 31 DECEMBER 2019

Category	2019
Up to 30 years old	**5,113**
31 to 50 years old	**9,788**
Above 50 years old	**4,487**
Total	**19,388**

AVERAGE SALARY RATIO FOR MEN AND WOMEN AS OF 31 DECEMBER 2019, %

Category	Aktobe Region	Pavlodar Region	Karaganda Region
Managers, professionals, workers	59.9	74.0	78.4
Labourers	67.4	75.9	68.9

Employee competency development

The need for employee competency development is determined through the analysis of Kazchrome's strategic development plan and aligned to changes in the Company's business processes as well as employee competency assessment.

The competency development system consists of competency assessment, a plan for the training and development of the Company's personnel, intragroup corporate training events and the development of a talent pool for key positions.

Improving employee competence is one of the most important goals within the Company's personnel management strategy and this includes:

- training prescribed by the legislation of the Republic of Kazakhstan;
- training aimed at developing professional competencies;
- corporate training programmes aimed at supporting and implementing common approaches to the Company's business processes, and at developing and preparing the Company's talent pool

Training programs for employees are conducted by both third-party organisations and by our employees at Kazchrome's branches and cover all employees' categories.

Donskoy GOK and Kazmarganets meet all subsoil use contractual obligations to finance training and skills development programmes and retrain certain number of Kazakhstan staff.

The Company's branches conduct training for workers in new occupations, retraining, skills development, second occupation training and training for managers and specialists. An annual plan of professional training, by operating units and by types of training, is prepared based on the requests filed by the operating units. Theoretical and practical training are conducted by qualified employees at the Company's branches.

New workers hired for apprentice positions participate in vocational and technical training in accordance with the programmes approved by the corresponding branch to match qualification requirements. The period of training corresponds to the difficulty of the occupation.

All branches of Kazchrome have computer classrooms fully equipped for training in line with modern requirements.

Occupational health and safety

Occupational health and safety (OHS) is one of the key priorities for the Company's management. Kazchrome complies with national OHS standards and continuously monitors OHS performance at our branches. This includes measures to prevent fatalities, physical injuries and occupational diseases, as well as reporting any incidents.

Key occupational safety indicators	2018	2019
Fatalities (employees and contractors)	1	**2**
Lost-time injuries (employees and contractors)	28	**34**
Lost-time injuries frequency rate (LTIFR) (only employees including fatalities)	0.71	**0.87**
Accident severity rate	51.37	**80.32**
Fatality rate (FAR)	2.43	**4.83**

Unfortunately, two fatalities took place in 2019: one employee from Aksu Plant and another from Donskoy GOK (both were male). No fatalities were recorded among contractors. Both accidents were subject to a comprehensive investigation followed by implementation of the following necessary measures:

- The 2020 Programme for control of lethal risks has been developed and is being implemented (development and introduction of procedures to set extra safety barriers).
- 'Online Training System' project implementation has commenced at the corporate level and the introduction of online registers is being currently developed.
- Working at height: work schedules have been suitably revised and supplemented with safety measures, including a project to install anchor lines where works at height are carried out. In 2020 we plan to purchase the required number of up-to-date safety harnesses. Production supervision is focused on more efficient organisation of hazardous operations, while ensuring that there are sufficient personnel to undertake this work. An adhesion measuring gauge has been purchased at Donskoy GOK in order to measure the strength of anchor points.
- Exposure to electric current: an occupational safety regulation has been developed and introduced at Donskoy GOK to ensure safe electric welding works in underground conditions; access to welding transformers controls has been restricted by the installation of mechanical interlocking devices on the start-control devices to prevent unauthorised use. Control of the welding electrode holders usage has been tightened (only factory-made electrode holders are allowed to be used). The operation of welding machines units without no-load voltage reduction devices has been prohibited.

All Kazchrome branches operate an Occupational Health and Safety Management System (OHSMS). This system meets the requirements of national and international standards of occupational health and safety. Compliance with international standards is confirmed annually by independent auditors. In 2019 we performed OHSMS diagnostic to identify areas for improvement and form the basis for our new OHS strategy.

In 2019, we introduced a new approach to production control compliance with occupational safety requirements and piloted HAZID (hazard identification) risk assessment methodology.

All Kazchrome branches uniformly apply requirements for registration and investigation of accidents, in accordance with legislation of the Republic of Kazakhstan. Due to the automated process of accident registration and notification (including fires), relevant employees are notified about any accidents as soon as possible. Investigations and reporting are carried out in accordance with the standardised requirements of the Company. In 2019, 28 fire cases were recorded; one case could potentially have had severe consequences.

For the purposes of readiness for an emergency response, 1,020 drills were conducted in 2019 in accordance with the emergency response plan. Kazchrome's facilities are equipped with firefighting equipment, fire alarm and automatic fire extinguishment systems in accordance with the fire hazard category and applicable fire safety legislations of the Republic of Kazakhstan.

Regular medical examinations, rehabilitation, recreational and preventive measures are carried out in medical institutions in order to maintain the health of and prevent occupational diseases among employees involved in hard or harmful labour. The collective agreement contains binding terms and conditions about the interaction between an employer and employees regarding health and occupational safety.

Under the ERG safety programme for working at height, at three Kazchrome branches (Aktobe and Aksu Plants and Donskoy GOK), modern training facilities were purchased and installed in order to demonstrate and teach safety measures for working at height. Starting from 2019, the new facilities will be used to train involving employees who work at height.

The development of a 'safety above all' culture is one of the core elements of our occupational safety management strategy. In 2019, we continued our work on the development and enhancement of a safety culture in our branches. To achieve this, we have implemented a number of initiatives for the improvement of training, information and communication efficiency. For example, at Donskoy GOK, a third-party organisation provided a training programme 'Blasting operations in underground mines and at quarries with dangerous conditions due to gas or dust content' for employees. For this, 71 employees took part in 320 hours of training.

An annual forum for contractors is organised each July at all Kazchrome branches. This helps to improve communication and integrate contractors into the occupational safety issues in order to ensure long-term partnership relations with contractors.

Handwork mechanisation programme has been developed and behavioral safety audits are conducted.

Environmental protection

Kazchrome's core activity is ferroalloys production and the development of production technology along with extraction of chromium and manganese ores. The Company's activity is characterised by a wide range of activities that have the potential to cause environmental impacts. The most significant aspects of these are:

- atmospheric pollutant emission;
- use of land resources and soil contamination;
- generation and disposal of wastes;
- use of natural resources (water, fuel, energy) and raw materials.

The Company takes these environmental aspects into account when setting strategic objectives and measures for management of their environmental impact.

Kazchrome has adopted an Environmental Policy that meets the expectations and requirements of the Company and its stakeholders, It includes environmental management compliance with the requirements of international standard ISO14001:2015. Sustainable use and preservation of natural resources as well as minimising the Company's environmental footprint are the main objectives of this policy.

Kazchrome actively participates in implementation of initiatives aimed at environmental protection including the following:

- air quality control (atmospheric emissions purification, state-of-the-art gas cleaning units during metallurgical production, dust suppression and tree planting);
- water quality control and monitoring (waste water monitoring, waste water treatment processes, including quarry and mine water, aimed at preservation of environment);
- waste management (ferroalloy slag processing, waste recycling, waste sorting, extended producer responsibility, waste management programmes);
- ongoing study of legislative documents and regulations by employees and improvement of compliance with statutory requirements on environmental protection.

ENVIRONMENTAL PROTECTION EXPENDITURES, THOUSAND TENGE

Indicator	2018	2019
Wastes management	8,793,844	**10,380,898**
Environmental protection fixed assets overhaul costs*	1,300,801	**4,978,649**
Protection of atmospheric air	4,459,632	**4,416,454**
Protection of water resources	3,793,672	**3,407,808**
Land reclamation**	165,688	**1,537,028**
Total	18,513,637	**25,720,837**

* The increase was mainly due to the acquisition and installation of equipment, dismantling for the reconstruction of gas cleaning furnace No. 44.

** The increase was mainly due to the increase in work performed.

Kazchrome also focuses on the continuous improvement of its production processes to reduce its environmental impact, namely:

- To prevent excess discharges at Donskoy GOK and because its treatment facilities need updating, there is a planned replacement of storm water and wastewater treatment facilities at the production site of 10th Anniversary Mine. Their installation will result in a more efficient treatment of wastewater and a minimisation of environmental impact.
- Equipment for the reconstruction of the gas cleaning system of furnace No.44 has been purchased for installation at Aksu Ferroalloys Plant. Projects are being developed for the reconstruction of the gas cleaning system for furnace No.43 and replacement of dust-trapping equipment at smelting workshops No.1 and 2 dosing sections.
- In 2019, in order to ensure compliance with pollutants emission limits and prevention of excess emissions, Kazmarganets replaced wastewater treatment facilities at Tur mine.

Kazchrome complies with all applicable environmental regulations. All modernisation and expansion projects for the production process implemented by the Company have successfully passed the mandatory State Environmental Reviews (SERs). There were no significant complaints from the environmental protection regulatory authorities about Kazchrome branches.

In the course of its activity, Kazchrome branches carry out industrial environmental control to track the environmental impact of its production activities, including quarterly monitoring of environmental emission sources (emissions, discharges and wastes). In 2019, the monitoring was carried out under the industrial environmental control programmes by the specialists from the accredited Environmental Protection Laboratory of our branches and other contracted organisations. Reports on the implementation of the industrial environmental control programme were sent to ecology departments on a quarterly basis, in accordance with the law.

In 2019, state inspections for compliance with the environmental legislation requirements were carried out at Kazchrome's branches. The results of these inspections proved that the actual volumes of emissions and content of pollutants in general did not exceed the limits established by the environmental emission permits. Based on the requirement of the environmental protection competent authority, a special audit organisation carried out a mandatory audit of Donskoy GOK in 2019. The results of this environmental audit confirmed that Donskoy GOK meets all the relevant environmental protection requirements.

Emergencies may occur due to both natural and man-made factors and lead to the generation of unplanned types of wastes or to an unplanned increase in the volume of controlled waste. Kazchrome has developed an emergency response plans for any type of potential emergency. Kazchrome has also developed an action plan to enable it to respond to all adverse weather conditions. There were no unforeseen incidents that significantly contributed to environmental pollution at Kazchrome production sites in 2019. There were also no emergency or irregular discharges of pollutants in 2019.

Waste management

As with any mining and metallurgical company, wastes such as overburden, furnace wastes, tailings, beneficiation wastes, slag and aspiration fines are generated in the course of operation. We manage the wastes generated in the course of our activity in compliance with the existing systems of environmental management and the Republic of Kazakhstan Environmental Code requirements.

In accordance with the current legislation of the Republic of Kazakhstan, all wastes are subdivided into the following three categories: 'Green', 'Amber' and 'Red'. Production activity also results in the generation of a number of other production wastes such as scrap metal, wood wastes, etc. These wastes are collected, transported, processed and/or removed by specialist organisations who are authorised to undertake these processes.

TOTAL VOLUME OF WASTES FOR 2019, THOUSAND TONNES

	Green	Amber	Red	Mining industry and quarry waste	Total
Generated amount of wastes	1,966.53	196.88	0.01	6,710.31	8,873.73
Amount of wastes outsourced to entities specialising in collection, transportation, recycling, processing and disposal of wastes	55.21	19.03	0.01	–	74.25
Amount of wastes processed, recycled by the wastes owner at the production site	1,630.58	72.52	–	1,271.49	2,974.59
Amount of dumped (buried) wastes	413.89	–	–	2,870.14	3,284.03

Energy consumption and efficiency

ENERGY CONSUMPTION DATA, TERAJOULES

Type of use	Source of energy	2018	2019
Direct	Coal	2,469	**2,500**
	Natural gas	12,290	**12,266**
	Diesel fuel	895	**878**
	Heavy fuel oil	181	**159**
	Petrol	54	**51**
	Subtotal	**15,889**	**15,854**
Indirect	Electrical power	28,779	**29,330**
	Thermal power	131	**94**
	Steam	80	**63**
	Subtotal	**28,990**	**29,487**
	Total	**44,879**	**45,341**

Greenhouse gas (GHG) emissions and other pollutants, tonnes of CO_2 (eqv.)

Type	2018	2019
Direct emission*	1,113,929	**1,110,089**
Indirect emission**	3,521,248	**3,582,090**

* i.e. GHG emissions that result from the consumption of direct energy for generation of electricity, heat/steam, used in mining, production, and for Kazchrome-controlled transportation activities. CO_2, CH_4 and N_2O only. Conversion factors from 2006 IPCC Guidelines for National Greenhouse Gas Inventories – Stationary and Mobile Combustion.

** i.e. GHG emissions that result from the consumption of indirect energy purchased from third parties not owned or controlled by Kazchrome. Based on operational control of assets. Conversion factors: (1) Purchased electricity – Country-specific WBCSD and WRI: GHG Protocol – Calculation tool for purchased electricity v4.3 (2008 values); and (2) Purchased heat and steam – Supplier data and default factors from 2006 IPCC Guidelines for National Greenhouse Gas Inventories – Stationary and Mobile Combustion.

WATER CONSUMPTION, M^3

Water consumption by types	2018	2019
Total consumption of fresh water, including:	27,441,171	**27,689,839**
Surface water	9,672,606	**10,437,630**
Subsurface water	17,768,565	**17,252,209,**
Waste water	**7,098,834**	**4,643,304**

Discharge of wastewater

ENVIRONMENTAL POLLUTION VOLUME, TONNES

	2018	2019
Kazmarganets	4,392	**5,341**
Donskoy GOK	3,788	**1,902**

Aktobe Plant and Aksu Plant do not discharge any pollutants into environment.

There are the following treatment facilities at **Donskoy GOK** for wastewater, stormwater and shaft water: municipal treatment facilities and treatment facilities of the central site's industrial sewerage system, transportation department's vehicle-wash, 40th Anniversary of KazSSR production site, Mugodzhary recreational centre, 10th Anniversary Mine. Treated wastewater is discharged onto the ground (except for outlet No.2 that discharges water into the containment pond).

There are the following treatment facilites at **Kazmarganets**: Alta Air Master Pro 55 UV utility treatment system and treatment facilities for utility-sanitary effluents of Tur mine Central station. Treated wastewater is discharged onto the ground.

Kazchrome does not discharge into open-water bodies and does not affect water bodies or their associated habitats.

Biodiversity

Biodiversity is a prerequisite for ecological wellbeing. Consequently, the following principles lie at the core of the biodiversity issues management:

- identification and assessment of environmental risks and their impact;
- implementation of preventive measures;
- ongoing improvement of the management system for environmental protection.

Kazchrome's production assets are located in Karaganda, Aktobe and Pavlodar regions, away from the main surface water bodies (except for Aktobe Ferroalloys Plant). There are no natural reserves, specially protected natural areas or cultural heritage sites in close proximity to Kazchrome's operating assets.

There are no unique, rare or especially valuable animal communities requiring protection in the area of deposits in Karaganda region. Approximately 20 rare, endemic and relict species found in the Red Book of Kazakhstan dwell in the Aktobe region but none are close to Kazchrome's operating assets. Wildlife in areas adjacent to the Pavlodar region live in groups in open terrain therefore no additional influence on species composition, animal populations, ecosystem and reproduction conditions has been identified.

All employees working at a deposit are warned about the need to preserve rare species. Any hunting or fowling is prohibited.

The impact of operations carried out in the territory of the Company's production sites on flora and fauna is considered as acceptable.

Social investments

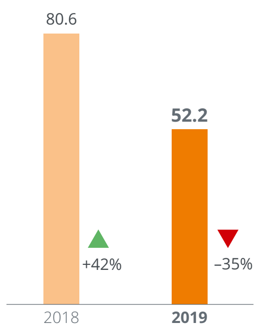
The Company fulfils its social and economic development obligations under the subsoil use contract on annual basis. Kazchrome is committed to corporate social responsibility projects that support the sustainable development of the regions of its operations.

Initiatives among others include donation and sponsorship arrangements for:

local educational institutions (for example, Aksu college of ferrous metallurgy, Khromtau mining and technical college), regional orphanages;

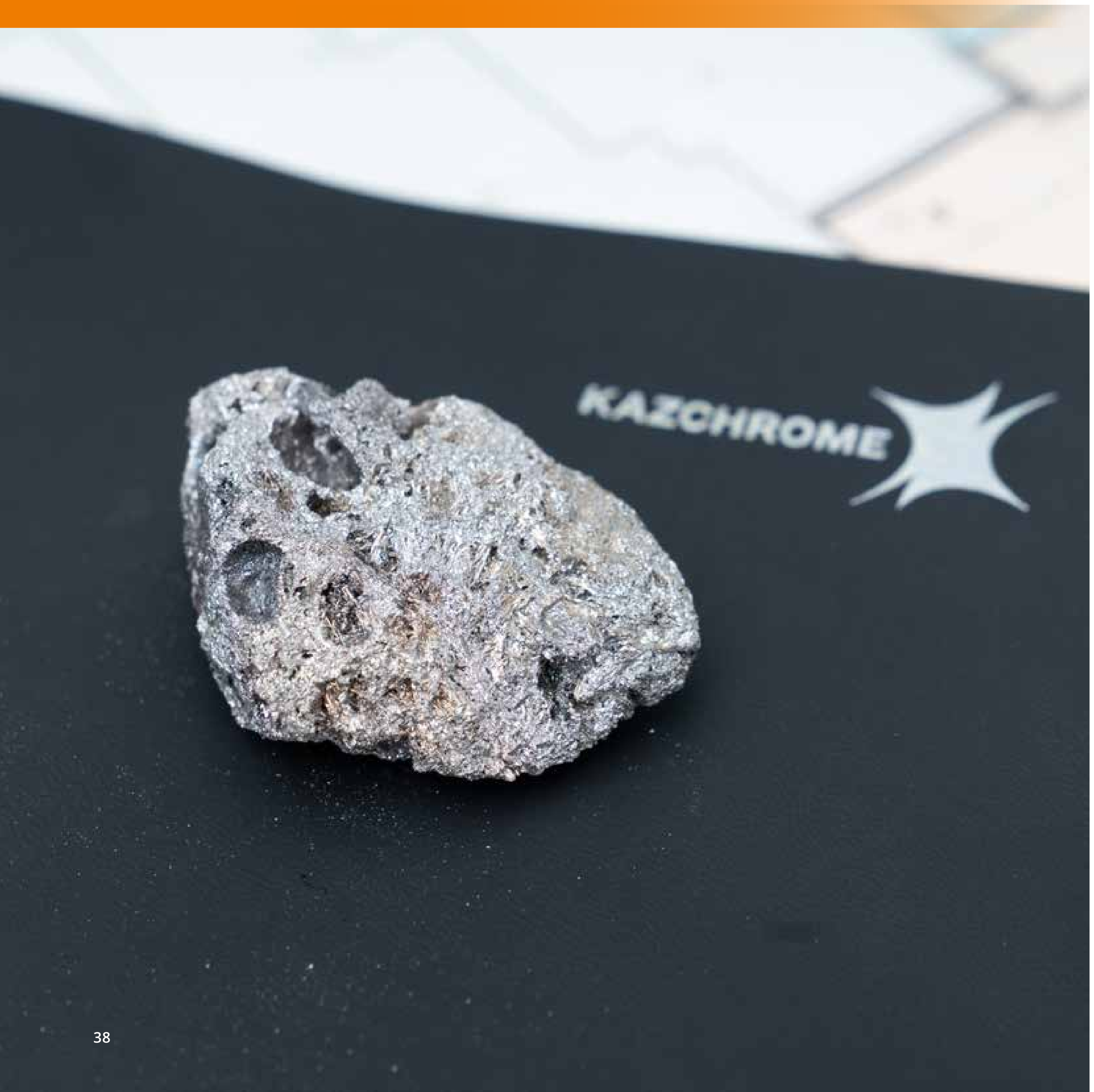
- education grants to attract young specialists to medical institutions;
- purchase of special equipment and containers for municipal solid waste to support public utilities;
- supporting international and country-level sports events;
- building of houses;
- equipment for the local medical facilities;
- construction of sports facilities (for example, a children's playground, a playground for children with disabilities in Khromtau).

CORPORATE SOCIAL RESPONSIBILITY PROJECTS, US$



Note: The calculations based on the average exchange rate for each quarter of reporting period.

CORPORATE GOVERNANCE



Corporate governance at Kazchrome is based on the principles of justice, fairness, responsibility, transparency, professionalism and competence. The effective corporate governance structure supports respect for the rights and interests of all stakeholders and contributes to the success of Kazchrome, including its market value growth and sustained financial stability and profitability.

Kazchrome corporate governance principles are aimed at building trust in relations, emanating from the management of the Company, and constitute the basis for all rules and recommendations contained in the Corporate Governance Code adopted by the General Meeting of the Company on 13 March 2017.

The fundamental principles of our corporate governance are as follows:

- Protection of shareholders' rights and interests
  Kazchrome ensures that shareholders exercise their basic rights as stipulated by the Republic of Kazakhstan law on 'Joint-Stock Companies' and enables effective participation by shareholders in key corporate decision-making processes.
- Effective management of the Company by the Board of Directors and the executive body
  The Board of Directors duties are based upon the principle of maximum observance of shareholders' interests, general management of the Company's operations with the aim of increasing the Company's market value.
  The Board of Directors ensures effective operation of the risk management system and controls, and regulates corporate conflicts.
  The Management Board's duties are based upon the principle of maximum observance of shareholders' interests and it is fully accountable to the General Meeting of Shareholders and the Board of Directors of Kazchrome.
- Transparency and objectivity in the disclosure of information about the Company's activities
  Kazchrome discloses information on a timely basis about the main results, plans and prospects of its activities, which can significantly impact property and other rights of shareholders and investors. It also provides timely and full answers to shareholders' enquiries within the timeframes specified in Kazchrome's Charter.
- Legality and ethics
  Kazchrome operates in strict compliance with the laws of the Republic of Kazakhstan, generally accepted good corporate conduct and the Company's internal documents. The Company's internal documents have been developed based on applicable legal requirements and good corporate conduct.
- Effective dividend policy
  The Company's dividend policy is pursued in strict compliance with the applicable legislation of the Republic of Kazakhstan.
- Effective employee policy
  Corporate governance within Kazchrome is based upon the protection of the rights of the Company's employees, as specified in the applicable labour legislation of the Republic of Kazakhstan. It aims to develop partnerships between the Company and its employees in order to regulate working conditions and resolve social issues.
- Environmental protection
  Kazchrome implements responsible environmental management practices in the course of its operations.
- Corporate conflict resolution
  In the event of a corporate conflict, the parties involved seek ways to resolve the conflict through negotiations in order to ensure effective protection of both shareholders' rights and the Company's business reputation.
  Where it is impossible to resolve corporate conflicts through negotiations, they should be addressed strictly in compliance with the applicable legislation of the Republic of Kazakhstan.

Kazchrome carries out its activity in compliance with various applicable regulatory requirements in all its jurisdictions, including subsurface management rights and that of natural monopolies.

Share capital and shareholders

INFORMATION AS AT 31 DECEMBER 2019

Company securities	Total number	Number of ordinary shares	Number of preference shares
Authorised shares	158,069,700	142,949,700	15,120,000
Placed shares	109,850,711	99,953,939	9,896,772
Treasury shares	3,921	493	3,428

Nominal value per one share is 1,000 Tenge.

Subsidiaries and affiliates

Name and Address	Principal activity	Director	Participation Interest
Akzhar-Chrome LLP Aktobe region, Khromtau district, Khromtau city, 2 Okraina Str., bld.2	Processing and removal of non-hazardous wastes	Talgat Kalenov	100%
Kazchrome Volleyball Club Corporate Fund Khromtau, Abai Ave., OFK (Aktobe, 312 Strelkovaya Diviziya Ave., industrial zone)	Volleyball promotion	Vitaliy Kovalenko	100%
Donskaya Petroleum Tank Farm JSC Aktobe region, Khromtau district, Khromtau, industrial zone, 12 Okraina Str.	Fuel and lubrication materials storage and sales services	Natalya Ivanova	70.38%
BTS LLP 010000, Nur-Sultan, Yessil district, 29 Syganak str.	ERP systems development and support	Andrey Antonikov	37.99%
ERG Komek Corporate Fund 010000, Nur-Sultan, Yessil district, 30 Kabanbay batyr ave.	Non-profit charity organisation	Bolat Orazov	
Eurasian Digital Ventures LLP 010000, Nur-Sultan, 55/17 Mangilik Yel ave., office 145.	Venture capital investment	Galymzhan Akhmetov	78.12% TNC Kazchrome JSC is a limited partner

Management structure

Shareholder body	General Meeting of Shareholders
Management body	Board of Directors
Executive body	Management Board

General Meeting of Shareholders

General Meeting of Shareholders is the supreme body of the Company that decides on all the key issues of the Company's activity and development, and plays a major role in enforcing shareholders' rights.

The organisation and procedure of the General Meeting of Shareholders are described in the Company Charter and should adhere to the following requirements:

- fair and equal treatment of all shareholders;
- free and unhindered participation in General Meeting for all shareholders;
- provision of organisational and reporting information of the maximum possible scope;
- simplicity and transparency of General Meetings of Shareholders.

The rights of minority shareholders are exercised in accordance with the Republic of Kazakhstan Law on 'Joint Stock Companies' (RK Law on JSC), provisions of the Company Charter and internal documents. The minority shareholders interaction system is based on the provisions of the RK Law on JSC, the Company Charter, and applicable internal documents. Minority shareholders participate in the management of the Company in accordance with the procedure provided for by the Republic of Kazakhstan legislation and the Company Charter.

Eight General Meetings of Shareholders were held in 2019.

SHAREHOLDERS WITH SHARE OWNERSHIP OF FIVE OR MORE PER CENT AS AT 31 DECEMBER 2019

Shareholder	Total number of shares held	Type of share	Ratio of the number of shares held to the total number of placed shares of the Company, %
KCR INTERNATIONAL B.V.	99,940,708	Ordinary	90.98
	9,189,460	Preference	8.37

Board of Directors

Members of the Company's Board of Directors are elected by the General Meeting of Shareholders by means of the election procedure, transparent and clear for all shareholders. The process for the election of Board of Directors' members is implemented taking into account the opinions and interests of all shareholders, including those holding a minority interest in the Company's share capital. Candidates and members of the Board of Directors require positive achievements and a good reputation in the business world. At least 30% of the members of the Company's Board of Directors shall be independent Directors. Members of the Board of Directors shall perform their duties in good faith and intelligently with all due care and prudence on behalf of the Company and its shareholders, avoiding any conflict of interests. They shall ensure full compliance not only with the requirements of the legislation and the Company's Corporate Governance Code but also with generally accepted business ethics standards.

The Board of Directors tracks and, if possible, eliminates potential conflicts of interests at the level of officials and shareholders, including misuse of the Company's assets and corrupt practices in the execution of transactions in which they may have an interest. The Board of Directors controls the efficiency of the Company's corporate governance practice.

Every member of the Board of Directors, participating in various issues proposed for consideration to the Board of Directors, shall have the right to express their opinion and independently make decisions based on their experience and knowledge in a particular field. The Company's Corporate Governance Code provides for the assessment of the Board of Directors activity by the General Meeting of Shareholders. No assessment conducted in 2019.

In accordance with the provisions of the Article 53 of RK Law on JSC, the Board of Directors shall consider and approve the annual financial statements of the Company, reviewing the financial position, performance and cash flows of the Company for the reporting period prior to its approval by the General Meeting of Shareholders. In the course of preparation for the Board of Directors meetings, all its members are provided with the materials on every issue on agenda, containing complete and reliable information.

In 2019, 42 meetings of the Board of Directors were held where the following key issues were considered:

- the transactions that lead to liabilities increase by ten and more per cent of the total amount of Company's equity;
- convening the General Meeting of Shareholders and agreeing the agenda;
- preliminary approval of the Company's financial statements;
- suggestions on the procedure of distribution of the Company's net profit for 2018 and amount of dividend per an ordinary share.

Full name, year of birth	Positions over the last three years in chronological order (including part-time positions)
Serik Shakhazhanov (born in 1977) Chairman of the Board of Directors	• July 2017 – Present: Chairman of the Management Board of Eurasian Group LLP • March 2017 – July 2017: First Deputy of the Chairman of the Management Board of Eurasian Group LLP (Member of the Management Board) • December 2015 – March 2017: Deputy Chairman of the Management Board for Strategy and Development of Eurasian Group LLP (Member of the Management Board)
Daniyar Rakhmatullayev (born in 1985) Member of the Board of Directors	• October 2018 – Present: Deputy Chairman for Finance of the Management Board of Eurasian Group LLP • October 2015 – October 2018: Director of the Financial Planning and Analysis Department of ERG Reporting Services LLP
Arman Yessenzhulov (born in 1964) Member of the Board of Directors	• March 2018 – Present: President of TNC Kazchrome JSC • January 2015 – March 2018: President of Aluminium of Kazakhstan JSC
Batyrkhan Bekmurzayev (born in 1953) Member of the Board of Directors – Independent Director	• January 2013 – Present: Professor of the Al-Farabi Kazakh National University
Yerik Yedygenov (born in 1942) Member of the Board of Directors – Independent Director	• July 1999 – Present: Deputy Director for Research at the Kunayev Mining Institute

Management Board

Full name, year of birth	Positions over the last three years in chronological order (including part-time positions)
Arman Yessenzhulov (born in 1964) President	• March 2018-Present: President of TNC Kazchrome JSC • January 2015-March 2018: President of Aluminium of Kazakhstan JSC
Azamat Bektybayev (born in 1964) Member of the Management Board – Vice President for Technical Development	• April 2017 – Present: Member of the Management Board of TNC Kazchrome JSC • December 2018 – Present: Vice President for Technical Development of TNC Kazchrome JSC • April 2014 – March 2017: Deputy Chairman of the Management Board of Eurasian Group LLP

Full name, year of birth	Positions over the last three years in chronological order (including part-time positions)
Serik Donbekbayev (born in 1978) Member of the Management Board – Vice President for Financial and Economic Issues	• February 2017 – Present: Member of the Management Board of TNC Kazchrome JSC • April 2014 – Present: Vice President for Financial and Economic Issues of TNC Kazchrome JSC
Sergei Petukhov (born in 1976) Member of the Management Board – Vice President for Technical Maintenance and Repair	• February 2018 – Present: Member of the Management Board of TNC Kazchrome JSC • January 2018 – Present: Vice President for Technical Development and Repair of TNC Kazchrome JSC • April 2017 – January 2018: Director for Technical Development and Engineering, Technical Maintenance and Repair of Eurasian Group LLP; • March 2014 – April 2017: Deputy head of the field work of the SSM-Tyazhmash Machine-Building Center of Severstal JSC
Isaac Buitendag (born in 1965) Member of the Management Board – Vice President for Production	• May 2018 – Present: Member of the Management Board of TNC Kazchrome JSC • December 2018 – Present: Vice President for Production of TNC Kazchrome JSC • February 2015 – April 2018: Director/Management Consultant (in branches) Solution Space

No member of the Board of Directors or the Management Board of the Company has any participatory interest (share) in the capital of the Company, its subsidiaries or affiliates.

Information on dividends

Book value of ordinary and preference shares calculated in accordance with appendix 5.7 of the listing rules of Kazakhstan Stock Exchange.

In Tenge	31 December 2019	31 December 2018
Book value of an ordinary share	**1,437**	1,223
Book value of a preference share	**953**	970

In Tenge	2019	2018
Basic and diluted earnings per an ordinary share from continuing operations	**1,357**	5,383

DIVIDENDS PAID FROM 2017 TO 2019

Dividend Period	Dividend per ordinary share, Tenge	Dividend per preference share, Tenge	Basis
For 2016	Dividends not accrued or paid	100	Company Charter, Minutes of an extraordinary General Meeting of Shareholders as of 18 August 2017
For the 1st half of 2017	40,000	40,000 including the guaranteed dividend per a preference share of the Company for 2017 provided for by the Company Charter	Company Charter, Minutes of an extraordinary General Meeting of Shareholders as of 27 September 2017
For the 3rd quarter of 2017	90,000	90,000	Company Charter, Minutes of an extraordinary General Meeting of Shareholders as of 16 January 2018
For the 1st half of 2018	40,100	40,100 including the guaranteed dividend per a preference share of the Company for 2018	Company Charter, Minutes of an extraordinary General Meeting of Shareholders as of 27 August 2018
For the 3rd quarter of 2018	395.20	395.20	Company Charter, Minutes of an extraordinary General Meeting of Shareholders as of 4 December 2018
For 2018	167.88	167.88	Company Charter, Minutes of an extraordinary General Meeting of Shareholders as of 17 May 2019
For the 1st quarter of 2019	392.62	392.62	Company Charter, Minutes of an extraordinary General Meeting of Shareholders as of 3 June 2019
For the 1st half of 2019	303.86	303.86	Company Charter, Minutes of an extraordinary General Meeting of Shareholders as of 11 October 2019
For the 3rd quarter of 2019	316.09	316.09	Company Charter, Minutes of an extraordinary General Meeting of Shareholders as of 3 December 2019

Information policy and disclosure of information on Kazchrome's operations

Information on Kazchrome's activity is disclosed in accordance with the Republic of Kazakhstan legislation and the Company Charter. In disclosing information, Kazchrome follows the principles of completeness, accuracy and timeliness of disclosed information.

Kazchrome discloses information on the main results, plans and prospects of its activity that may significantly impact property and other rights of shareholders and investors on a timely basis. It also provides timely and full answers to shareholders' inquiries within the deadlines specified in the Company Charter. The Company discloses information on corporate events online through such resources as: financial reporting depository, Kazakhstan Stock Exchange and informational platform of the Astana International Financial Centre – AIX.

Kazchrome responds in a timely manner to all inquiries from its shareholders and other stakeholders, and in full extent within the time set by the legislation of the Republic of Kazakhstan and the Company Charter.

Interaction with stakeholders

The Company has approved and applies the following documents for interaction with stakeholders:

- Methodological Instruction on the procedure of assessment of risks and opportunities – this internal document defines the procedure of identification of risks and opportunities of the Company in interaction with stakeholders.
- Related Party Contracts Policy – this policy is applied for the consideration and approval of contracts with related parties determined in the given policy.

Remuneration

Remuneration amount paid to members of the Board of Directors and the Management Board in 2019 was 1,258.1 mln Tenge with due account for income tax (2018: 1,464.1 mln Tenge). No accumulations for the provision of pension remuneration are envisaged.

Report on compliance with the Corporate Governance Code of the Company

In its activities, the Company is guided by the Corporate Governance Code approved by the resolution of the General Meeting of Shareholders of the Company dated 13 March 2017.

The Company complies with the following internal documents duly approved by its competent bodies:

- Regulations of the Board of Directors;
- Corporate Code of Conduct;
- Policy on compliance with corporate rules and regulations by agents;
- Anti-money laundering policy;
- Anti-bribery and corruption policy;
- Anti-fraud policy;
- Policy on compliance with anti-trust and Competition Laws;
- Policy on conflict of interest;
- Personal data protection policy;
- Gifts and hospitality policy;
- Policy on related party transactions;
- International economic sanctions compliance policy;
- Information classification policy;
- Policy on human rights;
- Policy on CSR projects and sponsorship.

The Company draws up an annual calendar of corporate events and follows it throughout the year.

Key management team

Arman Yessenzhulov
President of TNC Kazchrome JSC

Arman Yessenzhulov has worked in ERG for more than 30 years. He started his career in 1986 as a smelter at Aktobe Ferroalloys Plant, where he progressed to Chief Engineer of the enterprise..

He graduated from Moscow Institute of Steel and Alloys in 1986. In 2011 he was awarded a Master of Business Administration (MBA) degree from Lomonosov Moscow State University.

In April 2006, he was appointed a General Director of Serov Ferroalloy Plant, ERG company. Within two years, he managed to transform the loss-making plant into one of the industrial leaders of the Russian Federation. He implemented a large-scale reconstruction programme to upgrade the production process and resolved many social issues.

In July 2008, he became the head of Aksu Ferroalloys Plant, which is part of ERG. During his leadership, amid the global financial crisis, the plant retained its personnel, increased production capacity and became one of the world leaders in ferroalloys production and quality of its products. Sales markets were also expanded.

In September 2014, Arman Yessenzhulov was appointed First Vice President of Aluminium of Kazakhstan JSC, and in January 2015 was appointed President of the company. During this period, due to a change in the approach to investment programme planning, projects were launched to upgrade and maintain production capacities. Arman Yessenzhulov initiated the revision of the Company's collective agreement, with the addition of some significant provisions. That period gave impetus for the development of ore base of the company, which made it possible to increase work efficiency.

In March 2018, Arman Yessenzhulov was appointed President of TNC Kazchrome JSC. Under his leadership, work has begun on systematising the implementation of investment projects. The process of reaching the design capacity of smelting shop No. 4 of Aktobe Ferroalloys Plant reached another stage and a strategy was developed to extend the functioning of smelting shops 1 and 2. Research has begun on the development of new solutions for processing production wastes. Implementation of the Company's employee hygiene and amenities improvement programme has been revised. New projects for creating a talent pool and aligning the commitment of line managers to the main objectives and values of the Company have been initiated.

Azamat Bektybaev
Vice-President for Technical Development of TNC Kazchrome JSC

Azamat Bektybaev holds a PhD in Technical Sciences and has more than 30 years of working experience in the mining industry, including 10 years in executive positions. Since 2004, he has worked for ERG.

Azamat Bektybaev graduated from V.I. Lenin Kazakh Polytechnic Institute. He defended his PhD thesis at the Mining Institute of Kazakhstan's Ministry of Education and Science in 1999, and received an MBA degree in 2009 from Lomonosov Moscow State University. He is the author of more than 50 scientific articles and the creator of 12 inventions.

He started his professional career as a miner at the 50th Anniversary of the USSR Belogorsky GOK Ognevka mine. In 1994, he transitioned into a Senior Researcher role at the Technical Laboratory, in the New Equipment and Technology Centre. He joined the Kunayev Mining Institute in 1996 and worked his way up from Leading Engineer to the Deputy Director for Design and Survey Work.

Since 2004, his life has been connected to the largest mining and metallurgical company in the country – ERG, when he was appointed head of Mining Unit in Mining Department. In 2014, Azamat Bektybaev was appointed Production Deputy Chairman. In this role, he was responsible for all production performance of ERG companies in Kazakhstan, in particular ore mining and the manufacturing of marketable products: ferroalloys, iron ore raw materials, alumina, aluminium, coal, and electric power. He oversaw the development and introduction of new technologies at ERG companies, as well as economic efficiency programmes.

Azamat Bektybaev initiated the implementation of systematic strategic planning in the Company, using such advanced tools as geographic information systems (GIS). Under his leadership, new approaches have been adopted in terms of the choice of technologies, equipment and materials for the divisions, and the production unit has been completely reorganised. Since 2017, his experience and knowledge were acquired in the ferroalloy division, and he joined the management unit of TNC Kazchrome JSC as a Vice President.

Serik Donbekbayev
Vice-President for Financial and Economic Issues of TNC Kazchrome JSC

Serik Donbekbayev has more than 20 years of experience in finance and economics management in various positions at TNC Kazchrome JSC.

After graduating from Pavlodar State University in 1999, he began his professional career as an economist in the road transport department at Aksu Ferroalloys Plant. Two years later, he became the Deputy Head of the Economic Planning Department at the plant.

In 2003, he joined the executive team of TNC Kazchrome JSC as the head of the Economic Department.

Since 2008, he has been the Head of the Financial and Economic Department, and also acted as Deputy Vice-President for Financial and Economic Issues of TNC Kazchrome JSC.

In 2012, Kazchrome launched an innovative project called 'Arrow' for transitioning all branches and processes to the SAP digital platform. Serik Donbekbayev became Vice President for Business Transformation and oversaw the Company's transition to the new accounting system.

In May 2014, he was appointed Vice President for Financial and Economic Issues at TNC Kazchrome JSC. His duties include management of the Company's financial and material resources flow, development of accounting policy, compliance with tax legislation and participation in strategic development.

Sergei Petukhov
Vice President for Technical Maintenance and Repair of TNC Kazchrome JSC

Sergei Petukhov has more than 25 years of experience in various maintenance and repair-related positions at JSC Severstal industrial enterprise.

His professional career began in 1994 as a worker at the Cherepovets Metallurgical Complex, which is owned by JSC Severstal.

In mid-2000, he became the Chief Technologist at the Industrial Equipment Repair Centre, one of Severstal's major service centres. He was responsible for technological development and for improving the quality of repairs to metallurgical equipment.

In 2013, he moved to another repair division of the Company – the Machine-Building Centre at SSM-Tyazhmash LLC – as the Head of the Metallurgical Equipment Repair Shop; here, he directed a team of 460 people, organised on-line equipment repair and was in charge of staff development.

In 2015, he was appointed Deputy Head of the Machine Building Centre, where he oversaw improvements to the efficiency of six repair shops.

In 2017, Sergey Petukhov was invited to join ERG, where he was appointed Director of Technical Development and Engineering for Maintenance and Repair.

In 2018, his knowledge and extensive practical experience were required for work at TNC Kazchrome JSC, where he joined the management unit and became the Vice-President for Technical Maintenance and Repair.

Venera Mukhamedzyanova
Vice President for Staff and Social Affairs of TNC Kazchrome JSC

Venera Mukhamedzyanova has more than 30 years of human resources management experience in various positions at Aktobe Ferroalloys Plant and TNC Kazchrome JSC.

After graduating from Karaganda Polytechnic Institute in 1985, she worked as an engineer in Aktobe Ferroalloys Plant's Chief Mechanic Department.

From 1991 to 1995, she worked as a rationing engineer in Smelting Workshop No. 2. Then, from 1995 to 2003, she was Head of the Bureau for Tariffs and Regulations as well as an Economist in the Labour Organisation and Wages Department, where she was also in charge of the development and implementation of the remuneration and compensation system. In 2003, she continued her career at Aktobe Ferroalloys Plant, first becoming the Deputy and then the Head of Labour Organisation and Motivation.

From 2004 to 2018, she held the position of Head of the HR Department at TNC Kazchrome JSC.

In September 2018, she joined the management unit of Kazchrome and became Vice-President for Staff and Social Affairs. Her duties include the improvement of personnel policy, strategy for the development and recruitment of personnel, as well as the promotion of corporate culture and performance management.

Isak Buitendag
Vice President for Production of TNC Kazchrome JSC

Isak Buitendag has more than 15 years working experience in various management industrial positions in Kazakhstan, Australia, the Netherlands and South Africa.

In 1998, Buitendag became Production Services Manager at Bayside Aluminium in South Africa, and in 2001–2002 he was the Head of Development/Marketing Projects for BHP Billiton International Metals in the Netherlands.

In 2003, he returned to the South Africa as Vice President for Technical Issues, Health Care, Industrial Safety, Environmental Protection and Quality Control at Samancor Chrome. Almost immediately, he moved to the division of Ferrometals and Ferroveld as General Production Manager, where he managed the chrome smelting plant.

In 2005, he became the Chief Operating Officer of Samancor Chrome, with duties of Acting President. He then moved to Western Australia, where he was appointed General Production Manager at Ravensthorpe Nickel. There, his duties included the general management of operations at the nickel mine and the processing plant.

In 2009, Isak Buitendag became General Production Manager at Cloudbreak Mine, Australia, and in 2010 became Acting Director, dealing with healthcare, industrial safety and environmental protection issues.

In 2009–2010, he was the Production Director at Cloudbreak and Christmas Creek Mines, (Fortescue Metals Group) in Pilbara, the mining centre of Western Australia. There, he managed operations both at the iron ore mine (with a capacity of 42 mln tonnes per annum) and at the processing plant.

Over the period of October 2010 through June 2011, he also worked as Fortescue Metals Group's Operational Readiness Manager, overseeing exploration activities, capacity expansion projects, and undertook fundraising and investor campaigns.

From June 2011 to January 2015, he held the positions of Director for Safety, Health Care and Environmental Protection, Acting Chief Operating Officer, and Director of External Relations at Fortescue Metals Group, where he oversaw the company's operations and performance, including three mining and processing plants, railway and port facilities, as well as external relations.

From 2015, Isak Buitendag worked as a management consultant and private business owner.

In 2018, his extensive knowledge in the mining and metallurgical industry was required at Kazchrome, where he was invited to join the management unit as Vice President for Development. In December 2018, Isak Buitendag moved to the position of Vice President for Production.

Data reliability statement

In compliance with the Company's Corporate Governance Code, the Board of Directors and the Management Board are responsible for reliability of the annual report and financial statements of Kazchrome.

FINANCIAL STATEMENTS

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Independent Auditor's Report

To the Shareholders and the Board of Directors of TNC Kazchrome JSC:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of TNC Kazchrome JSC (the "Company") and its subsidiaries (the "Group") as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Material uncertainty relating to going concern

We draw attention to Note 2 to the consolidated financial statements which discloses the material risks and uncertainties which exist both in respect of the extent and duration of the impacts of COVID-19 that may affect demand and commodity prices, and the ability of Eurasian Resources Group S.à r.l. and its subsidiaries' to implement the actions listed in the Note 2 to manage its liquidity and debt covenants position, which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Independent Auditor's Report (Continued)

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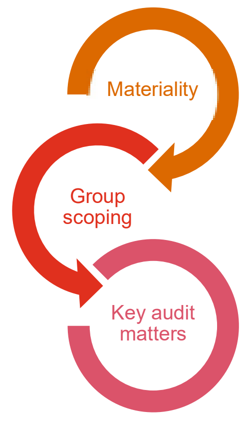
Our audit approach

Overview



- Overall Group materiality: 9,700 millions of Kazakhstani Tenge, which represents 4.8% of profit before tax for the year adjusted for loss on borrowings resulted from the revision of estimated future cash flows

- We conducted audit procedures over the Company.
- Our audit scope addressed 99% of total assets, 99% of total revenue and 99% of net profit of the Group, including the results of discontinued operations

- Revenue recognition
- Compliance with debt covenants

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Independent Auditor's Report (Continued)

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Overall materiality	9,700 million tenge
How we determined it	4.8% of profit before tax for the year adjusted for loss on on borrowings resulted from the revision of estimated future cash flows
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We further excluded the loss on borrowings resulted from the revision of estimated future cash flows as such loss represents an exceptional item rather than a result of the Group's ordinary operations. We chose 4.8% which is, in accordance with our professional judgment, consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

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. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the Key audit matter
Revenue recognition	
Refer to Note 3, Note 18 and Note 26 to the consolidated financial statements.	*Our response to the risk*
The ferroalloys delivered to the customers are provisionally priced at the date revenue is recognised. Such adjustments to revenue fall under the scope of IFRS 9 'Financial Instruments' rather than IFRS 15 'Revenue from Contracts with Customers' and therefore represent revenue from sources other than contracts with customers.	Our audit procedures included, among others, obtaining an understanding of, evaluating the design and testing the operating effectiveness of controls over the Group's revenue recognition process, which includes, but not limited to, contract authorisation, approvals of price addendums, determination of the timing of revenue recorded and adjustments based on the most recent provisional prices.
As discussed in Note 18, revenue for 2019 includes loss from sources other than contracts with customers in the amount of Tenge 24,622,365 thousand (2018: Tenge 16,066,384 thousand loss).	We also evaluated the design and tested the operating effectiveness of automated controls over revenue recognition assisted by our IT professionals.

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Independent Auditor's Report (Continued)

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Key audit matter	How our audit addressed the Key audit matter
Determining the provisional prices is complex and judgmental. As indicated in Note 26, a ten percent decrease in ferroalloys market prices would decrease profit before tax by Tenge 10,396,320 Thousand (2018: Tenge 10,788,427 thousand). Therefore, there is a risk of revenue from sources other than from contracts with customers being misstated as a result of inaccurate determination of fair value of the accounts receivable and incorrect calculations of the change in the fair value at the year-end, which impacts the revenue recognition. There is also a risk that revenue may be overstated due to management override through manipulation of the estimates involved and premature revenue recognition resulting from the pressure local management may feel to achieve performance targets. We considered this matter to be a key audit matter due to a significant effect on our overall audit strategy and allocation of resources in planning and completing our audit as significant effort was required in evaluating the appropriateness of the revenue recognition.	We evaluated management's accounting policies and the methodology used by management to determine the provisional prices. In addition, our audit procedures included testing of reconciliations between the data records from the system generated sales reports to the general ledger to ensure accurate calculation of the adjustments posted to reflect the most recent provisional prices and final prices. In order to assess the accuracy of the provisional prices determined at the year-end, on a sample basis, we tested the benchmark price forecasts against the external analysts' data. On a sample of basis, we: - reviewed contracts and price addendums; - recalculated revenue recognised based on the provisional prices available at the date of transaction; and - tested shipping documents focusing on the period shortly before year-end. As part of this, we made enquiries of the Group's management to obtain understanding of the fluctuations of shipping volumes closely shortly before year-end. We also circularised the main customer to test whether the volumes shipped during the year were accurate. We also assessed the adequacy of the Group's disclosures in respect to the accounting policies on revenue recognition.
Compliance with debt covenants *Refer to Note 2 to the consolidated financial statements.* The Group is a subsidiary of Eurasian Resources Group S.à.r.l. ("ERG"). During preceding and current periods ERG and its subsidiaries have attracted a number of debt facilities to finance its various activities. The Group is a party to those arrangements and in addition to the loans it carries on its	 *Our response to the risk* Our audit procedures included assessment of the ERG and Group's compliance with the debt covenants.

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Independent Auditor's Report (Continued)

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Key audit matter	How our audit addressed the Key audit matter
balance sheet it is also a co-guarantor along with the other ERG subsidiary on the loans the subsidiary has attracted (Note 16). The Group's credit facility agreements include a considerable number of various financial and non-financial covenants. As indicated in Note 2, the Group complied complied with all of its banking obligations and financial covenants at 31 December 2019. Compliance with debt covenants is considered a highly important as it impacts classification of the Group's borrowings and measurement of financial guarantees as well as overall liquidity position of the Group. We considered this matter to be a key audit matter due to its high importance to the Group and to the consolidated financial statements.	We focused on the following: - review of the terms associated with the borrowings and the amount of the facility available for drawdown and required to be repaid; - checking that the Group is in compliance with each financial and non-financial covenant of the borrowings including waivers received, if any; - confirming with the ERG Group audit team the overall ERG Group and its subsidiaries compliance with debt covenants; - verification of the appropriateness of classification of the borrowings and measurement of the financial guarantees.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The assets and operations of the Group are spread amongst the Company and its two subsidiaries. Out of these, we have identified the Company as the only significant component where we performed full-scope audit procedures.

We have identified other companies of the Group as not material components, for which we carried out audit procedures for the most material line items of the financial information and general analytical procedures.

In general, the scope of our audit covered 99% of total assets, 99% of total revenue and 99% of the absolute value of net profit of the Group. The procedures performed have enabled us to obtain sufficient appropriate audit evidence in relation to the consolidated financial statements of the Group and provide a basis for our audit opinion on it.

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Independent Auditor's Report (Continued)

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Other information

Management is responsible for the other information. The other information comprises information contained in the annual report but does not include the consolidated financial statements and our auditor's report thereon. The Group's complete Annual report is expected to be made available to us after the date of our 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.

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

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of 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.

Those charged with governance are 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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Independent Auditor's Report (Continued)

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As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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Independent Auditor's Report (Continued)

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

PricewaterhouseCoopers LLP

24 June 2020
Almaty, Kazakhstan

Approved and signed by:

Dana Inkarbekova
Managing Director
PricewaterhouseCoopers LLP
(General State License of the RK Ministry
of Finance No.0000005 dated 21 October 1999)

Auditor in charge
(Qualified auditor certificate
№0000492 dated 18 January 2000)

Consolidated Balance Sheet

In thousands of Kazakhstani Tenge	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	5	**462,622,549**	397,677,753
Intangible assets		**1,175,557**	2,106,274
Investments at fair value	6	**27,910,139**	7,522,222
Loans receivable	9	**302,387,038**	–
Deferred income tax asset	23	**5,509,329**	–
Other non-current assets		**12,826,335**	20,772,118
Total non-current assets		**812,430,947**	**428,078,367**
Current assets			
Inventories	7	**116,365,078**	114,656,468
Trade and other receivables	8	**89,104,515**	79,060,298
Loans receivable	9	**–**	274,315,992
Current income tax prepaid		**170,511**	1,959,457
Other current assets		**52,634**	147,390
Cash and cash equivalents	10	**35,700,055**	54,118,916
Total current assets		**241,392,793**	**524,258,521**
TOTAL ASSETS		**1,053,823,740**	**952,336,888**
EQUITY			
Share capital	11	**106,505,027**	106,500,059
Treasury shares		**(184,411)**	(184,411)
Other reserves		**30,556**	96,519
Retained earnings		**41,051,878**	20,642,112
Equity attributable to the Company's equity holders		**147,403,050**	**127,054,279**
Non-controlling interest		**42,453**	**35,643**
TOTAL EQUITY		**147,445,503**	**127,089,922**
LIABILITIES			
Non-current liabilities			
Borrowings	12	**755,060,316**	699,100,691
Lease liability	12	**1,868,519**	–
Provision for assets retirement obligations	14	**4,832,396**	8,760,801
Preference shares liability	12	**6,767,177**	6,830,891
Deferred tax liability	23	**–**	2,863,973
Employee benefit obligations	15	**6,451,133**	6,114,217
Financial guarantees	16	**11,464,039**	15,444,497
Other non-current liabilities	13	**–**	1,125,795
Total non-current liabilities		**786,443,580**	**740,240,865**
Current liabilities			
Borrowings	12	**1,362,573**	1,288,364
Lease liability	12	**197,041**	–
Trade and other payables	13	**104,933,529**	69,465,921
Financial guarantees	16	**4,047,057**	4,043,607
Current income tax payable		**6,070**	5,528
Provision for assets retirement obligations	14	**444,230**	1,029,632
Employee benefit obligations	15	**453,033**	433,628

Consolidated Balance Sheet (Continued)

In thousands of Kazakhstani Tenge	Note	31 December 2019	31 December 2018
Other taxes payable		**8,491,124**	8,739,421
Total current liabilities		**119,934,657**	**85,006,101**
TOTAL LIABILITIES		**906,378,237**	**825,246,966**
TOTAL LIABILITIES AND EQUITY		**1,053,823,740**	**952,336,888**

The accompanying notes on pages 63 to 91 are an integral part of these consolidated financial statements.

Signed on 24 June 2020 for approval of the annual general meeting of shareholders:

Yessenzhulov A.B.
President

Donbekbayev S.K.
Vice-president on financial and economic matters

Consolidated Statement of Profit or Loss and Other Comprehensive Income

In thousands of Kazakhstani Tenge	Note	2019	2018
Continuing operations:			
Revenue	18	**698,307,440**	750,056,337
Cost of sales	19	**(392,100,431)**	(357,709,908)
Gross profit		**306,207,009**	**392,346,429**
Other operating income		**12,558,590**	14,870,020
Other operating expenses		**(12,140,911)**	(6,556,005)
Distribution costs		**(7,283,654)**	(5,658,876)
General and administrative expenses	20	**(64,288,937)**	(77,214,740)
Operating profit		**235,052,097**	**317,786,828**
Finance income	21	**36,543,354**	76,278,317
Finance costs	22	**(81,130,821)**	(191,329,830)
Profit before tax		**190,464,630**	**202,735,315**
Income tax expense	23	**(41,368,043)**	(32,859,293)
Profit for the year from continuing operations		**149,096,587**	**169,876,022**
Discontinued operations:			
Profit for the year from discontinued operations	24	**–**	7,072,180
Profit for the year		**149,096,587**	**176,948,202**
Other comprehensive (loss)/income			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of post-employment benefit obligations	15	**(23,000)**	(89,680)
Income tax recorded directly in other comprehensive income	23	**(42,963)**	35,435
Other comprehensive loss		**(65,963)**	**(54,245)**
Comprehensive income for the year		**149,030,624**	**176,893,957**
Profit for the year attributable to:			
– Company's equity holders		**149,088,919**	174,909,555
– Non-controlling interest		**7,668**	2,038,647
Profit for the year		**149,096,587**	**176,948,202**
Comprehensive income for the year attributable to:			
Company's equity holders		**149,022,956**	174,855,310
Non-controlling interest		**7,668**	2,038,647
Comprehensive income for the year		**149,030,624**	176,893,957
Basic and diluted earnings per ordinary share from continuing operations (in Tenge)	17	**1,357**	5,383
Basic and diluted earnings per ordinary share from discontinued operations (in Tenge)	17	**–**	223

The accompanying notes on pages 63 to 91 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

		Attributable to the Company's shareholders						
In thousands of Kazakhstani Tenge	Note	Share capital	Treasury shares	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2018		**11,777,952**	**(184,411)**	**150,764**	**916,779,653**	**928,523,958**	**17,341,666**	**945,865,624**
Profit for the year		–	–	–	174,909,555	174,909,555	2,038,647	176,948,202
Other comprehensive loss		–	–	(54,245)	–	(54,245)	–	(54,245)
Ccomprehensive (loss)/income for the year		**–**	**–**	**(54,245)**	**174,909,555**	**174,855,310**	**2,038,647**	**176,893,957**
Dividends	11	–	–	–	(1,071,047,096)	(1,071,047,096)	(858)	(1,071,047,954)
Issue of shares		94,722,107	–	–	–	94,722,107	–	94,722,107
Disposal	24	–	–	–	–	–	(19,343,812)	(19,343,812)
Balance at 31 December 2018		**106,500,059**	**(184,411)**	**96,519**	**20,642,112**	**127,054,279**	**35,643**	**127,089,922**
Profit for the year		–	–	–	149,088,919	149,088,919	7,668	149,096,587
Other comprehensive loss		–	–	(65,963)	–	(65,963)	–	(65,963)
Ccomprehensive (loss)/income for the year		**–**	**–**	**(65,963)**	**149,088,919**	**149,022,956**	**7,668**	**149,030,624**
Dividends	11	–	–	–	(128,679,153)	(128,679,153)	(858)	(128,680,011)
Issue of shares		4,968	–	–	–	4,968	–	4,968
Balance at 31 December 2019		**106,505,027**	**(184,411)**	**30,556**	**41,051,878**	**147,403,050**	**42,453**	**147,445,503**

The accompanying notes on pages 63 to 91 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

In thousands of Kazakhstani Tenge	Note	2019	2018
Cash flows from operating activities:			
Profit before tax		**190,464,630**	**216,794,281**
Profit before tax – continuing operations		**190,464,630**	202,735,315
Profit before tax – discontinued operations		**–**	14,058,966
Adjustments for:			
Depreciation of property, plant and equipment		**39,956,398**	38,536,171
Amortisation of intangible assets		**1,614,809**	1,402,896
Long-term employees benefits		**329,728**	674,116
Financial guarantees		**(4,046,225)**	(10,761,795)
Provision for asset retirement obligations: amount reversed through cost of sales and other operating expenses		**(2,651,832)**	(599,185)
Provisions for obsolete and slow-moving inventory		**2,104,405**	3,111,419
Loss allowance for trade and other receivables		**150,231**	177,476
Share of profit after tax of joint venture		**–**	(9,345,744)
Foreign exchange differences on operational activities		**1,908,277**	3,665,100
Foreign exchange differences on cash and cash equivalents		**487,737**	(11,317,627)
Finance income		**(32,318,768)**	(57,515,708)
Finance costs		**81,130,821**	180,158,539
Other non-cash transaction adjustments		**253,786**	897,533
Operating cash flow before working capital changes:		**279,383,997**	**355,877,472**
Change in inventories		**(11,035,407)**	(27,149,614)
Change in trade and other receivables		**(10,058,762)**	(3,142,332)
Change in restricted cash		**(35,098)**	(3,227,412)
Change in trade and other payables		**31,001,401**	(1,186,964)
Change in provisions for assets retirement obligations		**(1,804,224)**	(154,082)
Change in other taxes payable		**(248,297)**	(5,057,407)
Cash generated from operations:		**287,203,610**	**315,959,661**
Income taxes paid		**(53,208,409)**	(41,031,480)
Long-term employees benefits paid		**(584,147)**	(548,887)
Interest received		**2,046,127**	58,955,189
Interest paid		**(41,319,778)**	(69,722,880)
Withholding income tax reimbursed		**6,531,280**	–
Net cash from operating activities, including		**200,668,683**	**263,611,603**
Net cash from operating activities – discontinued operations		**–**	**21,288,766**
Cash flows from investing activities:			
Purchases of property, plant and equipment and intangible assets		**(84,511,478)**	(68,180,128)
Loans receivable		**(44,367,650)**	(532,277,812)
Repayment of loans		**25,326,850**	1,237,199,592
Change in other non-current assets		**–**	19,255
Bank deposits placed		**(44,055)**	(233,385)
Bank deposits withdrawal		**80,289**	57,948
Proceeds from disposal of subsidiaries		**–**	220,988,080
Acquisition of investments		**(20,387,918)**	–
Net cash (used in)/from investing activities, including		**(123,903,962)**	**857,573,550**
Net cash used in investing activities – discontinued operations		**–**	**(1,426,652)**
Cash flows from financing activities			
Proceeds from borrowings		**96,594,900**	622,659,569

Consolidated Statement of Cash Flows (Continued)

In thousands of Kazakhstani Tenge	Note	2019	2018
Repayments of borrowings		**(59,640,717)**	(766,151,181)
Commission on loans origination		**(2,584,178)**	(917,459)
Dividends paid	11	**(129,006,497)**	(1,067,609,902)
Lease liability paid		**(71,321)**	–
Placement of shares		**11,968**	101,935,258
Net cash used in financing activities		**(94,695,845)**	**(1,110,083,715)**
Effect of exchange rate changes on cash and cash equivalents		**(487,737)**	11,317,627
Net change in cash and cash equivalents, including		**(18,418,861)**	**22,419,065**
Net change in cash and cash equivalents of discontinued operations		**–**	**19,862,114**
Cash and cash equivalents at the beginning of the year	10	**54,118,916**	31,699,851
Cash and cash equivalents at the beginning of the period – discontinued operations		**–**	2,535,039
Cash and cash equivalents at the end of the year, including	10	**35,700,055**	**54,118,916**
Cash and cash equivalents at end of the period – discontinued operations		**–**	**–**

The accompanying notes on pages 63 to 91 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements – 31 December 2019

1. The Company and its Operations

General information. TNC Kazchrome JSC (the "Company") was incorporated on 20 October 1995. The Company is a joint-stock company and operates in accordance with the legislation of the Republic of Kazakhstan. The consolidated financial statements for the year ended 31 December 2019 have been prepared for the Company and its subsidiaries (the "Group").

The immediate parent company of TNC Kazchrome JSC is KCR International B.V. incorporated in the Kingdom of the Netherlands. The ultimate parent company is Eurasian Resources Group S.à r.l. ("ERG") incorporated in the Grand Duchy of Luxemburg.

Principal activity. The principal activity of the Group includes the extraction of chrome and manganese ores, sale of chrome ore, and production and sale of ferroalloys. The Group's production assets are located in the Republic of Kazakhstan.

The Company's registered address and domicile: 030008, Republic of Kazakhstan, Aktobe city, 4A M. Mametova Street.

Subsidiaries	Country of registration	Principal activity	Ownership, %
Donskaya Neftebaza JSC	Kazakhstan	Warehousing services and sales of combustive and lubricating materials	70.38
Akzhar Chrome LLP	Kazakhstan	Slag recycling	100.00

2. Basis of Preparation and Significant Accounting Policies

Basis of preparation. These consolidated financial statements of the Group for the year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The accounting policies used in preparation of the consolidated financial statements are described below and are based on IFRS. These standards are subject to interpretations issued from time to time by the International Financial Reporting Standards Interpretation Committee.

These consolidated financial statements are also prepared under the historical cost convention, except for the initial recognition of the financial instruments at fair value and revaluation of the financial instruments categorised at fair value through profit or loss.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise their judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Going concern principle.

COVID-19 pandemic

In March 2020, the World Health Organisation declared a global pandemic related to COVID-19. The current and expected impacts on global commerce are anticipated to be far-reaching. To date there have been significant stock market declines and volatility, significant volatility in commodity and foreign exchange markets, restrictions on the conduct of business in many jurisdictions and the global movement of people and some goods has become restricted.

There is significant ongoing uncertainty surrounding COVID-19 and the extent and duration of the impacts that it may have on demand and prices for the commodities we produce, on our suppliers, on our employees and on global financial markets. ERG and its subsidiaries ('ERG Group') have made efforts to safeguard the health of our employees, while continuing to operate safely and responsibly maintain employment and economic activity.

ERG Group has not experienced significant disruption to supply chains and product shipments since the onset of the COVID-19 pandemic and ERG Group is working to manage the logistical challenges presented by the closure of trade borders, using alternative routes where feasible. Due to these global economic challenges, ERG Group liquidity has become more sensitive to market changes and access to additional sources of funding.

2. Basis of Preparation and Significant Accounting Policies (Continued)

Liquidity forecast

Group places reliance upon the continued support of ERG, which is dependent upon the liquidity of ERG Group.

Liquidity of the Group and ERG Group is sensitive to market changes, in particular, commodity prices and exchange rates which are currently exposed to significant volatility due to global economic challenges.

The Board of Managers of ERG has reviewed the liquidity available for the period until 30 June 2021. Throughout the period under review there is forecast limited liquidity as a result of the deterioration in market conditions primarily in respect of lower expected commodity prices and continued economic uncertainties in our key markets.

ERG Group continuously monitors its financial position to ensure adequate liquidity headroom is in place to support its business needs and to ensure compliance with loan covenants or to obtain waivers where appropriate. As of 31 December 2019, ERG Group complied with all of its banking obligations and financial covenants.

ERG Group is actively pursuing significant mitigating actions in its business plan to manage liquidity and the covenant position during the period under review. These actions, inter alia, include:
- Renegotiation with ERG Group's main providers of finance to amend repayment profile of certain facilities and to secure new financing which will give rise to an additional liquidity before 30 June 2021 of up to US$968 million;
- To renegotiate and align covenants for all facilities to ensure compliance with all necessary banking covenants as at 31 December 2020;
- Cost reduction and restructuring within the business which will generate annual savings of US$ 77 million;
- Deferral of capital projects during the period under review of US$ 294 million;
- Enhanced management of working capital to generate further liquidity but also enhance flexibility regarding the deployment of cash resources (for example, by management of expenditure within the period under review).

These actions will further support ERG Group's liquidity and the plan of management is to generate a sufficient liquidity 'buffer' to provide further headroom should market conditions further worsen.

In reaching their conclusion in respect of the preparation of financial statements under the going concern basis the Board of Managers of ERG notes that there are material risks and uncertainties which exist both in respect of the extent and duration of the impacts of COVID-19 that may affect demand and commodity prices, and ERG Group's ability to implement the actions listed above to manage its liquidity and covenants position. These material risks and uncertainties may cast significant doubt on ERG Group's ability to continue as a going concern.

The Board of Managers of ERG believes that strong relationships with existing banking partners will continue in the future. The Board of Managers of ERG is also confident that ongoing management programs to reduce costs and improve working capital, together with ability to raise additional funding and potential asset disposals, would allow to maintain the required liquidity.

The Board of Managers of ERG therefore considers that ERG Group can access adequate resources to continue its business operations for the foreseeable future and that the preparation of these consolidated financial statements under the going concern basis is appropriate.

Based on the Managers' of ERG conclusion the Management of the Group note that material uncertainties exist that may cast significant doubt on the Group's ability to continue as a going concern but believes that the Group has access to adequate resources to continue its operations in its current capacity for the foreseeable future and that the preparation of these consolidated financial statements under a going concern basis is appropriate.

New accounting pronouncements adopted in 2019.

IFRS 16 "Leases". According to IFRS 16 "Leases" all lease contracts, with limited exceptions, are recognised in the financial statements by way of right-of-use assets and corresponding lease liabilities. The Group applied IFRS 16 "Leases" using the modified retrospective approach, by which the aggregate effect from the initial application of standard was recognised without restatement of the comparative information.

The reconciliation of operating lease liabilities under the previous standard as of 31 December 2018 to additional lease liabilities recognised as of 1 January 2019 is presented below:

In thousands of Kazakhstani Tenge	
Undiscounted minimum lease payments under operating leases at 31 December 2018	1,518,786
Leases of low value assets	(378,806)
Short-term leases	(14,493)
Effect of discounting	(841,024)
Additional lease liabilities at 1 January 2019	**284,463**
Finance lease liabilities at 31 December 2018	–
Total lease liabilities at 1 January 2019	**284,463**

Weighted average incremental borrowing rate applied upon transition to IFRS 16 "Leases" was 11.7%. The adoption of the IFRS 16 "Leases" had no impact on equity, however, it resulted in the recognition of additional right-of-use assets in the amount of Tenge 284,463 thousand and the corresponding lease liabilities in the amount of Tenge 284,463 thousand.

The amendments to standards and interpretation enacted from 1 January 2019 did not have a significant impact on the Group. The Group has not early adopted any standard, interpretation or amendment that have been issued, but are not yet effective. The amendments to standards enacted from 1 January 2020 do not have a significant impact on the Group. The Group assesses the potential impact of other new standards, amendments to standards, and interpretations.

Functional and presentation currency. All amounts in these consolidated financial statements are presented in thousands of Kazakhstani Tenge ("Tenge"), unless otherwise stated. The functional currency of Company and its subsidiaries is Tenge.

Foreign currency transactions. Monetary assets and liabilities of the Group denominated in foreign currency at 31 December 2019, are translated into Tenge at the official exchange rate of the Kazakhstan Stock Exchange ("KASE") at that date. On initial recognition, foreign currency transactions are accounted for at the exchange rate of the KASE prevailing at the date of the transaction. Subsequently, assets and liabilities of the Group denominated in foreign currency are restated on a monthly basis at KASE rate as at the month end. Gains or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the statement of profit or loss.

At 31 December 2019 the official exchange rate used for translating foreign currency balances was US Dollar (USD) 1 = Tenge 382.59 (31 December 2018: USD 1 = Tenge 384.20). Currency control rules apply to converting Tenge into other currencies. Tenge is not freely convertible outside of the Republic of Kazakhstan.

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

Consolidated financial statements. Subsidiaries are those investees, including structured entities that the Group controls. The Group controls the investee when:
(i) has power to direct relevant activities of the investees that significantly affect their returns;
(ii) has exposure, or rights, to variable returns from its involvement with the investees; and
(iii) has the ability to use its power over the investees to affect the amount of investor's returns.

The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made.

The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee.

Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

Intercompany transactions between the Company and its subsidiaries, unrealised gains on transactions and also intercompany balances are eliminated. Unrealised losses are also eliminated however considered as impairment indicators of the assets transferred. The Company and all of its subsidiaries use uniform accounting policies consistent with the Company's policies.

Non-controlling interest is the share in the net results of operations and equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

Segment reporting. Group's operations are highly integrated and defined by Group's chief operating decision maker as a single reportable segment. Ferroalloy production includes production of chrome ore and sale of ferrochromium and other ferroalloys.

The Group's chief operating decision maker (CODM) is the person or group of persons who allocates resources and assesses the performance for the Group's operating segments. The CODM identified an operating business unit based on the reports used for strategic decision making. When making decisions, management evaluates the segment's performance based on operating profit and profit before tax.

Information about revenue structure by geographic regions is disclosed in Note 18.

Economic environment in the Republic of Kazakhstan. The economic environment where the Group operates is subject to commodity price fluctuations. Management takes all necessary measures to ensure sustainability of the Group.

Earnings per share. Preference shares are not redeemable and are considered participating shares. Earnings per share are determined by dividing the profit or loss attributable to the owners of the Company by the weighted average number of participating shares outstanding during the year.

Property, plant and equipment. Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and impairment provision. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overhead costs.

2. Basis of Preparation and Significant Accounting Policies (Continued)

The individual significant parts of an item of property, plant and equipment (components), whose useful lives are different from the useful life of the given asset as a whole are depreciated individually, applying depreciation rates reflecting their anticipated useful lives. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Gains or losses on replaced parts' write-off are recognised in the statement of profit or loss.

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

Gains and losses on disposals of property, plant and equipment determined by comparing the proceeds with carrying amount are recognised in the statement of profit or loss.

Mining assets are carried at cost less accumulated depreciation and less any accumulated impairment losses. Expenditures, including evaluation costs, incurred to establish or expand production capacity, as well as to conduct works for mining-construction, and mine preparation during the period of establishing project capacity or during mine reconstruction, are capitalised to mining assets as part of buildings and constructions.

Depreciation. Land is not depreciated. The deemed cost of each item of property, plant and equipment is depreciated over its useful life to residual value. Each item's estimated useful life has due regard to both its own physical life limitations and/or the present assessment of economically recoverable reserves of the mine property at which the item is located.

Mining assets are depreciated using the units-of-production method based on the estimated economically recoverable proved and probable reserves to which they relate. If the estimated useful life of a particular asset is less than the corresponding useful life of the mine, then for such mining assets depreciation is calculated using the straight-line method or units of production method depending on the asset's production characteristics. Depreciation is charged to profit or loss.

Changes in estimates, which affect unit-of-production calculations, are accounted for prospectively. The expected useful lives are as presented in the table below.

	Useful life in years
Buildings and constructions	10-60
Machinery and equipment	5-30
Other equipment and motor vehicles	3-30
Mining assets – open pits and mines infrastructure	2-30
Mining assets – other	unit-of-production method

The residual value of an asset is the estimated amount that the Group would currently receive from disposal of the asset less the estimated costs of disposal, if the asset was already of age and in condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed and adjusted, if necessary, at the end of each reporting period.

Construction in progress is recognised at historical cost. When construction in progress is completed, the assets are transferred to property, plant and equipment at their carrying amounts. Construction in progress is not depreciated until the asset is ready for its intended use.

Stripping costs. Stripping (i.e. overburden and other waste removal) costs as the result of development of mines and open pits before production commences are capitalised as part of the cost of mining asset, and subsequently amortised using units of production method over the useful life of the mines or open pits. The stripping costs incurred subsequently during the production stage are included in cost of inventory to the extent that the benefit from the stripping activity is realised in the form of inventory produced.

In case if the benefit improves the access to the ore body in future, then the Group recognises the subsequent costs as a non-current asset – "stripping activity asset".

The Group recognises stripping activity asset where the following criteria are met:
- it is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the Group;
- the Group can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

The Group accounts for a stripping activity asset as an addition to, or as an enhancement of, an existing asset to which it relates. A stripping activity asset is initially measured at cost, which includes accumulated costs which are directly related to stripping activities that improve access to identifiable component of the ore body, plus allocation of costs that are directly related to overheads. Subsequently a stripping activity asset is carried at cost less depreciation or amortisation and impairment losses. Just as the existing asset of which it forms an integral part. A stripping activity asset is amortised using the units of production method in proportion to ore mined.

When the costs of the stripping activity asset and the inventory produced are not separately identifiable, production stripping costs are allocated between the inventory produced (current stripping costs) and the stripping activity asset, the Group allocates costs on the basis of the stripping coefficient.

Impairment of non-financial assets. At the end of each reporting period management assess whether indicators of impairment of non-financial assets exist. The carrying amounts of property, plant and equipment, intangible assets and all other non-financial assets are reviewed for impairment if there is any indication that the carrying amounts may not be recoverable.

When a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of: "value in use" (being the net present value of expected future cash flows of the relevant cash generating unit) and "fair value less costs to sell" (the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal). Where there is no binding sale agreement or active market, fair value less costs of disposal are based on the best information available to reflect the amount the Group could receive for the cash generating unit in an arm's length transaction.

A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups.

The estimates used for impairment reviews are based on detailed production plans and operating budgets, modified as appropriate to meet the requirements of IAS 36 "Impairment of Assets". Future cash flows are based on:
- estimates of the quantities of the reserves for which there is a high degree of confidence of economic extraction;
- future production levels;
- future commodity prices (assuming the current market prices will revert to the Group's assessment of the long-term average price, generally over a period of three to five years); and
- future costs of production, capital expenditures, assets retirement and land restoration.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is recognised in the statement of profit or loss so as to reduce the carrying amount in the consolidated balance sheet to its recoverable amount.

A previously recognised impairment loss is reversed only if, from the last recognition of an impairment loss, there have been changes in the accounting estimates used to determine the recoverable amount of the asset. This reversal is recognised in the statement of profit or loss, and is limited to the carrying amount that would have been determined, net of depreciation, if no impairment loss been recognised in prior years.

Classification and subsequent measurement of financial assets. The Group classifies its financial assets into the following measurement categories: financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, and financial assets at amortised cost. The classification and subsequent measurement of debt financial assets depends on the Group's business model for managing the corresponding financial assets' portfolio and the cash flow characteristics of the asset. Management determines the classification of financial assets at initial recognition.

The Group classifies financial assets as carried at amortised cost only if both of the following requirements are met: (a) the asset is held within a business model with the objective of collecting the contractual cash flows; and (b) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Financial assets carried at amortised cost include loans receivable, trade receivables, cash and cash equivalents and other financial assets held to collect the contractual cash flows.

After initial measurement at fair value, the financial assets, other than investments at fair value and provisionally priced trade receivables, are measured at amortised cost net of the loss allowance. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

The amortisation is included in finance income in the consolidated statement of profit or loss. Expected credit losses are charged to profit or loss.

Trade and other receivables. Trade and other receivables (other than provisionally priced trade receivables carried at fair value through profit or loss) are recognised initially at fair value and are subsequently carried at amortised cost less provision for impairment.

Prepayments. Prepayment is recognised in the financial statements at cost less provision for impairment. Prepayments paid to suppliers for future deliveries of property, plant and equipment are recognised within other non-current assets. Prepayments for future deliveries of inventories are recognised within other current assets.

Foreign currency denominated prepayments for goods and services represent non-monetary items and, therefore, are measured at market exchange rate at the date of prepayment, and are not subject to remeasurement at the end of reporting period. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly, and a corresponding impairment loss is charged to profit or loss.

Investments at fair value. The Group doesn't have control or significant influence in relation to the investees if the Group does not participate in decision making regarding financing and operating activities of these entities. Such investments are classified as investments at fair value. Changes in value of investments at fair value are recognised in profit or loss.

Financial assets impairment. The Group assesses the expected credit losses ("ECL") for the financial assets carried at amortised cost. The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation. This judgement is based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Financial assets carried at amortised cost are presented in the consolidated balance sheet net of expected credit losses allowance.

2. Basis of Preparation and Significant Accounting Policies (Continued)

The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity. If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL.

Impairment of trade receivables. The Group applies the simplified approach to measuring ECL based on a provision matrix, which uses a lifetime expected loss allowance for all trade and other receivables. The provision matrix is based on historical credit losses, adjusted to reflect forward-looking information on macroeconomic factors and updated at each reporting date. Trade receivables are grouped based on the days past due, and ECL are determined on the basis of historical analysis of default rates. Changes in ECL allowance are recorded in general and administrative expenses in the statement of profit or loss.

Derecognition of financial assets. The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership, but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Inventories. Inventories are carried at the lower of cost and net realisable value. Cost of inventory is determined on a weighted average cost basis. Chrome, manganese and other extracted minerals are recognised as raw materials when extracted and valued at the average cost of extraction. The cost of finished goods and work in progress comprises the cost of raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less any further costs expected to be incurred to completion and sale.

Cash and cash equivalents. Cash and cash equivalents include balances in bank accounts, cash in hand, demand deposits or deposits that mature within three months, and other short-term highly liquid investments with original maturity of less than three months.

Cash placed in banks for a period over three months, unless it is restricted, and is available and intended for early withdrawal, is also included into cash and cash equivalents.

However, cash placed in banks for a period over three months in order to generate investment income, not intended for early withdrawal, is included into other current or non-current assets.

Cash restricted for more than three months are included in other current or non-current assets depending on the maturity.

Share capital. Ordinary shares are classified as equity. Preference shares are compound financial instruments that contain both an equity component and a liability. The liability is initially recognised at its fair value by applying a market interest rate to the amount of mandatory annual dividends using a net present value formula for the period equal to the useful life of the mines.

The useful life of mines is used rather than a perpetuity since the Group will not generate cash flows or profits beyond the useful life of the mines.

Subsequently, the liability is measured at amortised cost. Effects of changes in cash flow estimates on carrying amounts are charged to the financial results. At initial recognition, the equity component is the residual, i.e. it is the proceeds received from the issuance of the preference shares less the fair value of the liability. The equity component is not subsequently re-measured.

Treasury shares. Where the Company or its subsidiaries purchase the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from the equity attributable to the Company's owners until the equity instruments are reissued, disposed of or cancelled. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners.

Dividends. Dividends, except for the mandatory annual dividends on preference shares, are recognised as a liability and deducted from equity at the end reporting date only if they are declared before or on the reporting date. Mandatory annual dividends on preference shares are recognised as finance costs in the statement of profit or loss.

Dividends are disclosed 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.

Provisions for assets retirement obligations. Assets retirement obligations are recognised when it is highly probable to incur the costs and those costs can be measured reliably.

Asset retirement obligations include the costs of rehabilitation and costs of liquidation (demolition of buildings, constructions and infrastructure, dismantling of machinery and equipment, transportation of the residual materials, environmental clean-up, monitoring of wastes and land restoration).

Provisions for the estimated costs of liquidation, rehabilitation and restoration are established and charged to the cost of property, plant and equipment in the reporting period when an obligation arises from the respective land disturbance in the course of mine development or environment pollution, based on the discounted value of estimated future costs.

Provisions for asset retirement obligations do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure and restoration plan.

The cost estimates are calculated annually during the course of the operations to reflect known developments, e.g. updated cost estimates and revised term estimated lives of operations, and are subject to formal reviews on a regular basis.

The Group estimates its costs based on feasibility and engineering studies using current restoration standards and techniques for conducting restoration and retirement works.

The amortisation or "unwinding" of the discount applied in establishing the net present value of provisions is charged to the financial results in each reporting period. The amortisation of the discount is disclosed as finance costs.

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

Movements in the provisions for asset retirement obligations that relate to disturbance caused by the production phase are charged to the statement of profit or loss.

Where restoration works are conducted systematically over the period of operational activity, rather than at the date of liquidation, provisions are made for the estimated outstanding restoration work at the end of each reporting period, and the expenses are charged to profit or loss.

Leases. At contract inception, the Group assesses whether the contract as a whole or its individual components is a lease. The contract as a whole or its components is a lease if the contract transfers a right to control the use of an identified asset for a certain period in exchange for a consideration. The Group applies a uniform approach to recognition and measurement of all types of leases except for short-term leases and leases of low value items. At the commencement date, the Group recognises the lease liability and the right-of-use asset. In 2018 the Group applied IAS 17 "Leases" and at the date of recognition classified leases as finance or operating leases.

Right-of-use assets. At the commencement of the lease the Group measures the right-of-use assets at historical cost, less accumulated depreciation and accumulated impairment losses, adjusted for the remeasurement of the lease liability as a result of the lease modification. Initial cost of the right-to-use asset includes:
(a) the amount of initial recognition of the lease liability;
(b) lease payments made at or before the commencement of the lease term, less any received lease incentives;
(c) any initial direct costs incurred; and
(d) an estimate of the costs that would be incurred by the lessee to dismantle the underlying asset, restore the site on which it is located or restore the underlying asset to the condition required under the lease, unless such costs are incurred to produce inventories. The lessee's liability in respect of such costs arises either at the commencement of the lease or as a result of the use of the underlying asset within a specified period.

Depreciation of right-of-use assets is calculated using the straight-line method. If the lease transfers the ownership of the underlying asset to the lessee before the end of the lease term or if the initial value of the right-of-use asset reflects the lessee's intention to exercise the purchase option, the depreciation on the right-of-use assets is charged from the date of commencement of the lease until the end of the useful life of the underlying asset. Otherwise, the depreciation of the right-of-use asset is charged from the commencement of the lease until the earlier of the following dates: date of expiry of the useful life of the right-of-use asset or the date of expiry of the lease. Right-of-use assets are also subject to impairment.

Lease liabilities. At the commencement of the lease the Group recognises the lease liability at the present value of the lease payments, which have not yet been made at that date. The Group discounts lease payments using the interest rate implicit in lease or incremental borrowings rate in case it is impracticable to determine the rate implicit in lease. After the date of commencement of the lease, the Group assesses the lease liability as follows:
(a) by increasing the carrying amount to reflect the interest on the lease liability;
(b) by decreasing the carrying amount to reflect the lease payments made; and
(c) by revaluing the carrying amount to reflect the reassessment or modification of the lease.

Classification of financial liabilities. The Group classifies financial liabilities in the following measurement categories: financial liabilities measured at fair value through profit or loss and financial liabilities carried at amortised cost. Management classifies its financial liabilities at initial recognition.

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortised cost.

Where a loan is obtained at interest rates different from market rates, the loan is measured at origination at its fair value, being future interest payments and principal repayments discounted at market interest rates for similar loans.

The difference between the fair value of the loan at origination, net of transaction costs and net proceeds from the loan, represents an origination gain/loss. The origination/loss gain is recognised in the consolidated statement of profit or loss and other comprehensive income within finance income/expenses.

Subsequently, the carrying amount of the borrowings is adjusted for amortisation charged at the amount of profit or loss at initial recognition of borrowings, with the amount of amortisation reflected as financial costs or income on borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of reporting period.

2. Basis of Preparation and Significant Accounting Policies (Continued)

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditures on qualifying assets. Capitalised borrowing costs are calculated on the basis of the Group's average funding cost (the weighted average interest cost is applied to capital expenditures on qualifying assets), except to the extent that funds have been borrowed to prepare a qualifying asset for use. When this occurs, actual borrowing costs incurred on specific borrowings during the period are capitalised, net of any investment income earned on the temporary investment of those borrowings.

The capitalisation commences when (a) the Group incurs the costs on a qualifying asset; (b) it incurs the borrowing costs; and (c) it takes steps to prepare the asset for use. Capitalisation of borrowing costs is suspended when construction and preparation of the qualifying asset for use is interrupted over an extended period of time. Capitalisation of borrowing costs continues until the date when substantially all the work required to prepare the asset for use or sale is completed.

Derecognition of financial liabilities. The Group derecognises the financial liability when it is fulfilled, or cancelled, or it has expired.

If an existing financial liability is replaced by another financial liability with the same creditor or if there has been a significant change in the terms of the existing financial liability, such substitution or change should be accounted for as a repayment of the original financial liability and recognition of a new financial liability.

The Group estimates the materiality of the change on the basis of qualitative and quantitative factors. If the existing financial liability is replaced by another financial liability with the same creditor on terms that are insignificantly different from the original ones, or if the changes in the terms of the existing liability are insignificant, such replacement or change is not accounted for as a repayment of the original financial liability and recognition of a new financial liability. The difference in the respective carrying amounts is charged to the profit or loss of the reporting period.

Financial guarantees. Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is usually evidenced by the amount of fees received and subsequently recorded at amortised cost. Financial guarantees are recognised when a premium is paid or in case of a premium-free guarantees (intra group guarantees) when the borrower receives the money from the financing entity.

When the Group issues a premium-free guarantee or a guarantee at a premium different from market premium, fair value is determined using valuation techniques (e.g. market prices of similar instruments, interest rate differentials, etc.).

Losses at initial recognition of a financial guarantee liability are recognised in profit or loss within other finance costs. Financial guarantee liabilities are amortised on a straight-line basis over the life of the guarantees with respective income presented within other finance income. At end of each reporting period, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the amount of the loss allowance for the guaranteed exposure determined based on the expected credit loss model. The procedure for determining the amount of the estimated loss allowance on financial guarantees is similar to that for impairment of loans receivable.

Trade and other payables. Trade and other payables are accrued when the counterparty performed its contractual obligations. The Group recognises trade payables at fair value. Subsequently, trade payables are carried at amortised cost.

Income taxes. Income taxes are recognised and measured in the consolidated financial statements in accordance with the legislation of the Republic of Kazakhstan effective at the reporting date. The income tax charge comprises current tax (corporate income tax) and deferred tax. The income tax charge is recognised in the statement of profit or loss, except for where it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the state budget in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses. Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

In accordance with the exception for initial recognition, deferred income tax is not accounted for temporary differences arising from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit. The deferred tax assets and liabilities are netted only within each separate subsidiary included in the consolidated financial statements of the Group. Deferred tax balances are measured at corporate income and excess profit tax rates enacted or substantively enacted at the end of reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised.

Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. When determining the future taxable income and tax benefits, which are probable in future, management applies judgements and estimates on the basis of taxable income for the last two years as well as expectations of future income, which are reasonable under the current circumstances.

Revenue recognition. Revenue from contracts with customers is recognised when control of the goods (generally, upon delivery) or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue is recognised in the amount of transaction price, net of VAT and discounts.

Revenues from the sale of certain goods may be subject to adjustment as a result of commodity price changes at the time the goods are delivered to the point of destination, as well as a result of the customers' checking the quantity and quality of the products. In such cases, revenues are initially recognised at fair value at the time the goods are shipped. The prices are generally finalised within 3 months. Such adjustments to revenue are dealt with under IFRS 9 'Financial Instruments' rather than IFRS 15 'Revenue' and therefore the IFRS 15 'Revenue' rules on variable consideration do not apply. Such adjustments therefore represent revenue from sources other than contracts with customers.

Revenue from the sale of ferroalloys and other products is recognised at a point in time.

Employee benefits. The Group provides long-term employee benefits to employees at the end of employment (lump-sum payments at retirement, financial assistance) and other long-term employee benefits (financial aid for employees' disability, significant anniversaries and funeral aid to the Group's employees) as in accordance with the provisions of the Collective agreement.

The entitlement to some benefits is usually conditional on the employee remaining employed until the retirement age and the completion of a minimum service period.

Such benefits are valued consistent with an unfunded defined plan in accordance with the revised IAS 19 "Employee Benefits". In this case actuarial and investment risks related to the unfunded defined benefit plans remain with the Group.

Finance income and finance costs. Finance income includes unwinding of discount, amortisation of financial guarantees, gain on modification of loans, interest income on deposits, loans receivable and other investments. Finance costs include interest expense on loans, loss on recognition of financial guarantees, interest expense from unwinding of discount on provisions for assets retirement obligations, loss on modification of loans, etc.

Finance income and costs also include foreign exchange gains and losses related to respective financial assets and liabilities.

Interest income and expenses are recognised on a time proportion basis, using the effective interest method. All interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance costs unless incurred on borrowings to finance the acquisition of a qualifying asset. In this case, such expenses are capitalised in the period required for construction of an asset and bringing it for intended use.

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Subsurface use contracts. The major contract of the Group on subsurface use for the extraction of chromium ore expires in 2041. Management of the Group expects that this contract will be extended at nominal cost until the end of the useful life of the mine which is expected to be in 2074.

In these consolidated financial statements, the depreciation charge and the carrying amounts of property, plant and equipment were recorded on the assumption that the subsurface use contracts will be extended until the end of the useful life of the mine.

Estimated useful life of mining assets and mineral reserves. The mining assets, classified within property, plant and equipment, are depreciated over the respective life of the mine using the unit-of-production (UOP) method based on proved and probable mineral reserves.

Estimates of ore reserves can differ from period to period. This can affect the Group's financial results. Such changes in reserves can affect the depreciation charge, carrying amount of assets and provisions for asset retirement liabilities.

The Group's ore reserves are based on the best available estimates of volumes of product which can be technically and economically justified, and, based on legal rights, obtained from the corresponding mining asset. The estimates are based on a range of factors, including the volume and grade of ore, production technologies and norms for extraction, forecasted commodity prices and production cost.

Ore reserves are estimated mainly on the basis of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code", 2012), which requires the use of substantiated assumptions, including:

- estimation of future production, including proved and estimated reserves, estimation of reserves and liabilities for expansion;
- expected future commodity prices based on the current market price, forward prices, and the Group's estimate of the long-term average price; and
- future cash expenses for production, capital expenditures and liabilities for restoration.

General purpose borrowings. Borrowings facilities from VTB Bank (PJSC) and Sberbank of Russia OJSC repaid in October 2018, were excluded from the category of general purpose borrowings liable for capitalization as they were originated by the Group for the purpose of refinancing of previously obtained borrowings.

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

Provisions for liquidation and restoration of assets. In accordance with the environmental legislation and the subsurface use contracts, the Group has a legal obligation to remediate damage caused to the environment from its operations and to decommission its mining assets and waste polygons and restore a landfill site after its closure.

Provisions are made, based on the net present values, for site restoration and rehabilitation costs as soon as the obligation arises from past mining activities.

The provisions for assets retirement obligation are estimated based on the Group's interpretation of current environmental legislation in the Republic of Kazakhstan and the Group's related program for liquidation of subsurface use consequences on the contracted territory and other operations supported by the feasibility study and engineering researches in accordance with the existing restoration and retirement standards and techniques.

Provisions for asset retirement obligations are subject to potential changes in environmental regulatory requirements and the interpretation of the legislation.

Provisions for assets retirement obligations are recognised when there is a certainty of incurring such liabilities and when it is possible to measure the amounts reliably.

In 2019 Group's management made a decision on prolongation of operational lifetime of workshops #1 and #2 at Aktobe Ferroalloy plant till 2035.

Impairment of non-financial assets. The Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that these assets are impaired. Based on the analysis of internal and external factors, management determined there were no impairment indicators at the end of the reporting period.

Impairment of loans receivable. The evaluation of ECL requires the use of significant assumptions including the probability of default, collection and timing of the expected recovery of future cash flows on loans. Changes in such assumptions may affect the recoverable amount or the allowance for such assets. Management regularly reviews assumptions. ECL on loans receivable were calculated based on the credit risk of companies with comparable rating. As of 31 December 2019 the loans receivable were classified in the Stage 1. Such management's judgment is based on the going concern assessment of ERG.

Measurement of financial guarantees. The Group applies the credit swap method to determine the fair value of financial guarantees. The fair value of the financial guarantee liability is calculated by reference to the guaranteed borrowing amount, interest rate and risk indicators. For borrowing facility agreements where the Group is liable jointly and severally with other guarantors, the market commission determined with reference to credit default swaps is apportioned between the guarantors. This represents management's best estimate of the Group's exposure to credit risk associated with the issued guarantees. Such management's judgment is based on the going concern assessment of ERG.

Management concluded that it is unlikely that the Group will be required to settle the guaranteed obligations.

Tax and transfer pricing legislation. Kazakhstan tax and transfer pricing legislation is subject to varying interpretations.

4. Balances and Transactions with Related Parties

Parent company: Information of the Group's immediate parent company and ultimate parent company is disclosed in Note 1.

Entities under common control: entities under control of ERG.

Entities under control of Class B Managers: Class B Managers and all entities under their control are related parties of the Group as a result of Class B Managers' indirect interests in the ordinary shares of ERG. Class B Managers of the Company are Mr. Chodiev P.K, Mr. Ibragimov A.R. and Mr. Machkevitch A.A.

Government related entities: The Republic of Kazakhstan and related legal entities. The Republic of Kazakhstan is the Group's related party based on significant impact on ERG.

Joint venture: Shubarkol Komir JSC, subsidiary of ERG.

Key management: persons with direct or indirect authority and responsibility for planning, coordination and control of the Group's operations.

At 31 December 2019, the outstanding balances with related parties were as follows:

In thousands of Kazakhstani Tenge	Parent Company	Entities under common control	Entities under control of Class B Managers	Government related entities	Key management
Assets:					
Investments at fair value	**–**	**27,910,139**	**–**	**–**	**–**
Loans receivable	**302,387,038**	**–**	**–**	**–**	**–**
Other non-current assets	**–**	**95,709**	**1,810,496**	**–**	**–**
Trade and other receivables	**–**	**3,100,715**	**1,768,816**	**1,224,265**	**–**
Other current assets	**–**	**–**	**45,934**	**–**	**–**
Cash and cash equivalents	**–**	**–**	**35,425,796**	**3,297**	**–**
Liabilities:					
Lease liabilities	**–**	**4,210**	**–**	**276,884**	**–**
Preference shares liabilities	**6,285,711**	**–**	**–**	**–**	**–**
Employee benefits	**–**	**–**	**–**	**–**	**71,618**
Financial guarantees	**15,400,238**	**–**	**–**	**–**	**–**
Trade and other payables	**918,946**	**31,857,711**	**561,975**	**1,326,939**	**–**

As of 31 December 2019 the Group has had an undrawn commitment to invest capital of up to USD 128 million to Eurasian Digital Ventures 1 Limited Partnership, a subsidiary undertaking of ERG S.à r.l., during the period up the year of 2025, subject to certain conditions being satisfied (2018: no commitment).

At 31 December 2018, the outstanding balances with related parties were as follows:

In thousands of Kazakhstani Tenge	Parent Company	Entities under common control	Entities under control of Class B Managers	Government related entities	Key management
Assets:					
Investments at fair value	–	7,522,222	–	–	–
Other non-current assets	–	701,777	2,596,229	–	–
Trade and other receivables	–	14,381,626	946,065	650,202	–
Loans receivable	274,315,992	–	–	–	–
Other current assets	–	–	90,754	–	–
Cash and cash equivalents	–	–	32,800,598	–	–
Liabilities:					
Borrowings	–	46,762,213	–	–	–
Preference shares liabilities	6,352,572	–	–	–	–
Employee benefits	–	–	–	–	29,027
Financial guarantees	19,441,278	–	–	–	–
Trade and other payables	935,337	10,022,527	572,121	880,797	–

The income and expense items with related parties for the year ended 31 December 2019 were as follows:

In thousands of Kazakhstani Tenge	Parent	Entities under common control	Entities under control of Class B Managers	Government related entities	Key management
Revenue	**–**	**10,661,525**	**14,133**	**808,278**	**–**
Cost of sales	**–**	**(79,960,311)**	**(8,352,890)**	**(19,602,604)**	**–**
Other operating income	**–**	**2,229,556**	**9,386,901**	**–**	**–**
Other operating expense	**–**	**(1,556,238)**	**(304,653)**	**(1,075,795)**	**–**
Distribution costs	**–**	**(446,374)**	**(2,352)**	**(435,927)**	**–**
General and administrative expenses	**–**	**(41,793,593)**	**(521,038)**	**(270,932)**	**(1,264,224)**
Finance income	**23,941,108**	**–**	**1,553,197**	**–**	**–**
Finance costs	**(10,190,272)**	**(13,310,340)**	**(342,680)**	**(32,438)**	**–**

4. Balances and Transactions with Related Parties (Continued)

The income and expense items with related parties for the year ended 31 December 2018 were as follows:

In thousands of Kazakhstani Tenge	Parent	Entities under common control	Entities under control of Class B Managers	Government related entities	Joint venture	Key management
Revenue	–	43,482,105	621	922,716	–	–
Cost of sales	–	(70,055,853)	(6,404,731)	(20,015,494)	(5,645,450)	–
Other operating income	–	2,238,363	3,417,369	104,213	–	–
Other operating expense	–	(149,466)	(317,995)	(73,104)	–	–
Distribution costs	–	(12,423)	(212)	(301,061)	–	–
General and administrative expenses	–	(49,842,613)	(857,360)	(7,427,874)	–	(883,119)
Finance income	3,635,733	78,777,199	4,899,231	–	7,417,079	–
Finance costs	(26,549,936)	(3,405,992)	(59,292)	(14,820,565)	(10,690,438)	–

Key management compensation is presented below:

In thousands of Kazakhstani Tenge	2019	2018
Wages, salaries and other bonuses	**884,692**	946,030
Post-employment and other long-term benefits	**379,532**	(62,911)
Total key management compensation	**1,264,224**	**883,119**

Entities under common control. During 2019 and 2018, the Group mainly sold ferroalloys and also received financing for working capital replenishment. Prices for ferroalloys depends on the global markets. The Group purchased materials, electricity and management services and provided sponsorship aid.

Entities under control of Class B Managers. Balances and transactions with entities under control of class B Managers comprise mainly treasury operations carried out through a bank under control of Class B Managers, and insurance services.

Government related entities. The Group performs transactions on purchase and sale of goods and services with government related entities. Such transactions are usually carried out on market conditions or on the basis of tariffs established for all market participants. The Group procured natural gas supply and transportation services, railway services, and electricity transportation services.

5. Property, Plant and Equipment

In thousands of Kazakhstani Tenge	Land	Buildings and constructions	Machinery and equipment	Other	Construction in progress	Total
Cost at 1 January 2018	5,188,501	194,036,436	265,162,647	19,573,872	93,772,858	577,734,314
Accumulated depreciation	–	(63,751,686)	(128,847,768)	(10,138,919)	–	(202,738,373)
Carrying amount at 1 January 2018	**5,188,501**	**130,284,750**	**136,314,879**	**9,434,953**	**93,772,858**	**374,995,941**
Additions	–	562,275	8,912,739	2,296,572	54,104,584	65,876,170
Changes in estimates of assets retirement obligations	–	672,249	–	3,938	–	676,187
Transfers	–	1,210,278	13,612,198	1,011,378	(15,833,854)	–
Transfers to inventories	–	–	–	–	(1,695,491)	(1,695,491)
Depreciation charge	–	(9,916,220)	(28,713,058)	(1,624,649)	–	(40,253,927)
Disposals	(205,107)	(825)	(53,405)	–	(60,288)	(319,625)
Impairment	–	(9,476)	(11,102)	–	(60,664)	(81,242)
Disposals as a result of discontinued operations	(121,535)	(698,373)	(580,396)	(118,313)	(1,643)	(1,520,260)
Cost at 31 December 2018	4,861,859	194,535,748	281,065,078	22,169,692	130,225,502	632,857,879
Accumulated depreciation	–	(72,431,090)	(151,583,223)	(11,165,813)	–	(235,180,126)
Carrying amount at 31 December 2018	**4,861,859**	**122,104,658**	**129,481,855**	**11,003,879**	**130,225,502**	**397,677,753**
Adoption of IFRS 16 "Leases"	**271,250**	**13,213**	**–**	**–**	**–**	**284,463**
Carrying amount at 1 January 2019	**5,133,109**	**122,117,871**	**129,481,855**	**11,003,879**	**130,225,502**	**397,962,216**
Additions	**9,804**	**481,075**	**9,862,225**	**1,865,521**	**88,468,684**	**100,687,309**
Changes in estimates of assets retirement obligations	**–**	**(772,105)**	**(6,055)**	**–**	**–**	**(778,160)**
Transfers	**–**	**3,845,022**	**16,560,173**	**651,311**	**(21,056,506)**	**–**
Transfers (to)/from inventories	**–**	**–**	**–**	**(204,000)**	**7,426,394**	**7,222,394**
Depreciation charge	**(16,211)**	**(8,750,331)**	**(31,641,965)**	**(1,797,429)**	**–**	**(42,205,936)**
Disposals	**–**	**–**	**(16,773)**	**–**	**(132,995)**	**(149,768)**
Impairment	**–**	**(25,963)**	**(51,350)**	**–**	**(38,193)**	**(115,506)**
Cost at 31 December 2019	**5,142,913**	**198,803,467**	**300,340,633**	**24,115,746**	**204,892,886**	**733,295,645**
Accumulated depreciation	**(16,211)**	**(81,907,898)**	**(176,152,523)**	**(12,596,464)**	**–**	**(270,673,096)**
Carrying amount at 31 December 2019	**5,126,702**	**116,895,569**	**124,188,110**	**11,519,282**	**204,892,886**	**462,622,549**

Additions to construction in progress include capitalised borrowing costs in total amount of Tenge 2,572,009 thousand (2018: Tenge 592,877 thousand).

6. Investments at Fair Value

			2019		2018	
Company name	Registration country	Operations	Thousands Tenge	Share, %	Thousands Tenge	Share, %
Eurasian Digital Ventures 1 Limited Partnership	Kazakhstan (AIFC)	Venture investment	**20,386,813**	**78.12**	–	–
Business and Technology Services LLP	Kazakhstan	Adaption and support of ERP-systems	**7,521,222**	**37.99**	7,521,222	37.99
ENRC Credit LLP	Kazakhstan	Financing	**2,104**	**0.0008**	1,000	0.0008
Total investments at fair value			**27,910,139**		**7,522,222**	

7. Inventories

In thousands of Kazakhstani Tenge	2019	2018
Purchased raw materials	**75,992,381**	70,623,939
Produced raw materials	**23,263,655**	21,008,040
Work in progress	**20,199,814**	23,782,070
Finished goods	**10,618,068**	10,899,954
Other	**110,269**	128,162
Less: provision for obsolete and slow-moving inventories	**(13,819,109)**	(11,785,697)
Total inventories	**116,365,078**	**114,656,468**

8. Trade and Other Receivables

In thousands of Kazakhstani Tenge	2019	2018
Trade receivables	**53,005,099**	49,521,748
Other	**1,185,021**	384,577
Less: ECL allowance	**(225,611)**	(188,925)
Total financial assets	**53,964,509**	**49,717,400**
VAT recoverable and other taxes	**28,310,892**	17,405,546
Prepayments	**7,780,223**	12,817,366
Other	**118,721**	75,611
Less: impairment provision	**(1,069,830)**	(955,625)
Total non-financial assets	**35,140,006**	**29,342,898**
Total trade and other receivables	**89,104,515**	**79,060,298**

Analysis of ECL for trade receivables carried at amortised cost is presented below.

	31 December 2019			31 December 2018		
In thousands of Kazakhstani Tenge	Gross carrying amount	ECL	Net amount	Gross carrying amount	ECL	Net amount
Current	**9,201,480**	**(16,439)**	**9,185,041**	**5,993,773**	**–**	**5,993,773**
Less than 3 months overdue	**1,334,605**	**(12,623)**	**1,321,982**	670,269	(14,474)	655,795
3 to 6 months overdue	**54,520**	**(1,287)**	**53,233**	14,496	–	14,496
6 to 12 months overdue	**81,373**	**(5,670)**	**75,703**	49,622	–	49,622
More than 12 months overdue	**357,313**	**(189,592)**	**167,721**	298,991	(174,451)	124,540
Total past due	**1,827,811**	**(209,172)**	**1,618,639**	**1,033,378**	**(188,925)**	**844,453**
Total current and past due	**11,029,291**	**(225,611)**	**10,803,680**	**7,027,151**	**(188,925)**	**6,838,226**

9. Loans Receivable

In thousands of Kazakhstani Tenge	2019	2018
ECL allowance at 1 January	**1,994,469**	**970,444**
Loans receivable	**1,044,500**	3,966,822
Loans repaid	**(602,055)**	(1,998,032)
Changes to ECL measurement model assumptions and modification of contract terms	**1,732,251**	(944,765)
ECL allowance at 31 December	**4,169,165**	**1,994,469**

On May 2019 the Group signed an addendum with the Parent company that comprises extension of loan's maturity to 8 November 2023, change in the interest rate from 5.96% to 6.73% and payment of principal and interest at maturity date.

In May 2019, the Group provided a new credit line to the Parent company in the amount of USD 150 million at a rate of 5.96% per annum with a maturity in November 2025. At 31 December 2019 USD 50 million of this credit line was disbursed.

10. Cash and Cash Equivalents

In thousands of Kazakhstani Tenge	31 December 2019	31 December 2018
Term deposits	**35,585,094**	53,436,523
Cash in bank accounts and on hands	**114,961**	682,393
Total cash and cash equivalents	**35,700,055**	**54,118,916**

11. Share Capital

	31 December 2019		31 December 2018	
In thousands of Kazakhstani Tenge	Quantity	Amount	Quantity	Amount
Ordinary shares	**99,953,939**	**100,058,381**	99,953,939	100,058,381
Preference shares	**9,896,772**	**2,664,662**	9,884,812	2,757,864
Total nominal issued share capital	**–**	**102,723,043**	**–**	**102,816,245**
Ordinary shares	**–**	**(104,442)**		(104,442)
Preference shares	**–**	**(556,462)**	–	(654,632)
Total unpaid charter capital	**–**	**(660,904)**		**(759,074)**
Share capital indexation for hyperinflation	**–**	**4,442,888**		4,442,888
Total share capital	**–**	**106,505,027**	**–**	**106,500,059**

The par value of ordinary shares is Tenge 1,000 per share (31 December 2018: Tenge 1,000 per share). Each ordinary share carries one vote. In 2019 the Company did not issue ordinary shares (in November 2018: the Company issued 92,806,454 ordinary shares).

The par value of preference shares is Tenge 1,000 per share (2018: Tenge 1,000 per share).

The preference shares do not envisage the obligatory redemption by the company (issuer) and participate in any dividend distribution. The preference shares owners rank ahead of the owners of ordinary shares to receive dividends in a predetermined guaranteed amount established by the charter, and a portion of the property upon liquidation of the Company. Prior to the full payment of dividends on the Company's preference shares, payment of dividends on its ordinary shares should not be made.

The dividends on the preference shares in excess of the guaranteed amount are not contractual and not subject to payment since such distributions can be avoided if dividends on ordinary shares are not distributed. Therefore, the preference share represents a compound instrument which consists of equity and liability components.

The preference shares do not provide their holder with the right to participate in Company's governance, excluding the cases, when:
- General meeting of shareholders of the Company considers a matter, the decision on which may restrict the rights of a shareholder owning preferred shares;
- The General Meeting of Shareholders of the Company considers the issue of approving changes in the methodology for determining the value of preferred shares when they are redeemed by the Company on an unorganized market;
- The General Meeting of Shareholders of the Company considers the issue of reorganization or liquidation of the Company;
- The dividend on the preference share has not been paid in full within three months from the expiration of the period established for its payment.

Dividends declared and paid during the year were as follows:

	2019			2018		
		Preference shares			Preference shares	
In thousands of Kazakhstani Tenge	Ordinary shares	Equity	Liability	Ordinary shares	Equity	Liability
Dividends payable at 1 January	**597,551**	**5,550,491**	**988,481**	261,770	2,448,220	37,800
Dividends declared	**117,990,044**	**10,689,967**	**990,154**	969,325,260	101,722,694	1,025,938
Dividends paid	**(117,988,707)**	**(11,017,790)**	**(989,301)**	(968,989,479)	(98,620,423)	(75,257)
Dividends payable at 31 December	**598,888**	**5,222,668**	**989,334**	**597,551**	**5,550,491**	**988,481**

For the year ended 31 December 2019 dividends on preference shares at guaranteed fixed amount of Tenge 100 per share were accrued as a part of non-current preference shares in the amount of Tenge 6,999 thousand (31 December 2018: Tenge 7,213,151 thousand).

12. Borrowings

VTB Bank (PJSC). In 2018 the Group together with the Parent company entered into a new loan facility agreement with VTB Bank (PJSC) in the amount of USD 1,700 million with maturity till October 2023. The interest rate is 5.95% per annum.

In 2018, the Group fully repaid principal in the amount of USD 2,062,572 thousand under agreements entered earlier with VTB Bank (PJSC), Sberbank of Russia OJSC, SB Sberbank of Russia JSC and the Development Bank of Kazakhstan.

In 2019 the Group signed an amendments to the existing loan agreement with VTB Bank (PJSC) on an additional tranches in total amount of USD 250 million. The amendment provides the maturity of the principal payment in 2024. The interest rate on these tranches is 6.30% per annum.

RCB Bank LTD. In December 2019 VTB Bank (PJSC) transferred a loan issued to the Group in the amount of USD 1,700 million to RCB Bank LTD. The interest rate on the tranche is 5.95% per annum.

In thousands of Kazakhstani Tenge	Borrowings	Dividends	Lease liabilities	Preference shares liabilities	Total
Financial liabilities at 31 December 2017	**715,502,792**	**2,747,790**	**–**	**568,421**	**718,819,003**
Cash movements	(238,653,479)	(1,067,685,159)	–	9,783,436	(1,296,555,202)
Change in fair value	(8,517,730)	–	–	–	(8,517,730)
Foreign exchange adjustments	98,147,553	–	–	–	98,147,553
Other non-cash movements	133,909,919	1,072,073,892	–	(3,520,966)	1,202,462,845
Financial liabilities at 31 December 2018	**700,389,055**	**7,136,523**	**–**	**6,830,891**	**714,356,469**
Adoption of IFRS 16 «Leases»	–	–	284,463	–	284,463
Financial liabilities at 1 January 2019	**700,389,055**	**7,136,523**	**284,463**	**6,830,891**	**714,640,932**
Cash movements	**(10,408,538)**	**(129,995,798)**	**(71,411)**	**–**	**(140,475,747)**
Foreign exchange adjustments	**(4,417,887)**	**–**	**250**	**–**	**(4,417,637)**
Other non-cash movements	**70,860,259**	**129,670,165**	**1,852,258**	**(63,714)**	**202,318,968**
Financial liabilities at 31 December 2019	**756,422,889**	**6,810,890**	**2,065,560**	**6,767,177**	**772,066,516**

13. Trade and Other Payables and Other Non-Current Liabilities

In thousands of Kazakhstani Tenge	2019	2018
Trade payables	**86,050,372**	48,975,027
Dividends payable	**6,810,890**	7,136,523
Other payables	**1,444,672**	564,565
Total financial liabilities	**94,305,934**	**56,676,115**
Payables to employees	**6,319,078**	6,088,926
Advances received	**1,294,911**	3,977,435
Other payables	**3,013,606**	2,723,445
Total non-financial liabilities	**10,627,595**	**12,789,806**
Total current trade and other payables	**104,933,529**	**69,465,921**
Advances received*	**–**	1,125,795
Total other non-current liabilities	**–**	**1,125,795**

* Advances received represent contract liability. As of 31 December 2019 advances received in the amount of Tenge 1,294,911 thousand (2018: Tenge 5,103,230 thousand). Advances received represent short-term advances for future delivery of ferroalloys.

In current reporting period revenue recognised in the amount of Tenge 5,103,230 thousand in relation to advances received at the beginning of the reporting year (2018: Tenge 4,058,737 thousand).

14. Provisions for Assets Retirement Obligations

In thousands of Kazakhstani Tenge	2019				2018			
	Mining assets	Waste polygons	Other assets *	Total	Mining assets	Waste polygons	Other assets *	Total
Long-term portion	**1,115,746**	**2,299,838**	**1,416,812**	**4,832,396**	1,441,457	2,892,129	4,427,215	8,760,801
Short-term portion	**321,734**	**122,496**	**–**	**444,230**	24,286	1,005,346	–	1,029,632
Total	**1,437,480**	**2,422,334**	**1,416,812**	**5,276,626**	**1,465,743**	**3,897,475**	**4,427,215**	**9,790,433**

* Other assets include assets of workshops #1 and #2 at Aktobe Ferroalloy plant, which are subject to liquidation after 2035 (2018: after 2019).

In thousands of Kazakhstani Tenge	Mining assets		Waste polygons		Other assets decommissioning costs	Total
	Decommissioning costs	Landfill site restoration	Decommissioning costs	Landfill site restoration		
Carrying amount at 1 January 2018	**715,347**	**392,783**	**52,040**	**3,890,549**	**4,066,699**	**9,117,418**
Utilised during the year	(3,208)	–	–	(150,874)	–	(154,082)
Change in estimates	222,519	42,693	–	(245,960)	57,750	77,002
Unwinding of the present value discount	62,713	32,896	–	351,720	302,766	750,095
Carrying amount at 31 December 2018	**997,371**	**468,372**	**52,040**	**3,845,435**	**4,427,215**	**9,790,433**
Utilised during the year	**–**	**–**	**–**	**(1,804,224)**	**–**	**(1,804,224)**
Change in estimates	**(122,875)**	**(17,506)**	**–**	**39,493**	**(3,329,104)**	**(3,429,992)**
Unwinding of the present value discount	**75,344**	**36,774**	**–**	**289,590**	**318,701**	**720,409**
Carrying amount at 31 December 2019	**949,840**	**487,640**	**52,040**	**2,370,294**	**1,416,812**	**5,276,626**

Changes in estimates of reserves for obligations for liquidation and restoration of other assets in the amount of Tenge 2,651,832 thousand led to a decrease the cost of sales.

Principal assumptions made in calculations of assets retirement obligations are presented below:

In percent	2019	2018
Discount rate	**9.09-10.16**	5.43-8.71
Inflation rate	**4.80-5.40**	5.10-6.30

15. Employee Benefits

Changes in benefit obligations presented below:

In thousands of Kazakhstani Tenge	2019	2018
Present value of defined benefit obligations in the beginning of the year	**6,547,845**	**5,798,950**
Unwinding of the present value discount	**544,778**	518,172
Benefits paid	**(584,147)**	(522,312)
Current service cost	**272,608**	256,532
Remeasurements	**123,082**	496,503
Present value of defined benefit obligations in the end of the year	**6,904,166**	**6,547,845**

The remeasurements of the post-employment benefits include the following:

In thousands of Kazakhstani Tenge	2019	2018
Loss from change in financial assumptions	**112,995**	173,259
Loss from change in demographic assumptions	**23,748**	49,486
Experience adjustments	**(113,743)**	(133,065)
Total remeasurements of post-employment benefit obligations	**23,000**	**89,680**

Principal actuarial assumptions at the reporting date are as follows:

In percent	2019	2018
Discount rate	**8.29**	8.32
Salary growth rate	**8.00**	8.00
Average staff turnover rate	**6.79**	7.36

The sensitivity analysis for the post-employment employee benefits obligations at 31 December 2019 for changes in key assumptions is presented in the table below:

In thousands of Kazakhstani Tenge	Increase/(decrease) in the defined benefit obligations
Discount rate	
Increase by 3 percent	(492,263)
Decrease by 3 percent	480,932
Future salary growth rates and minimum calculation index	
Increase by 3 percent	388,061
Decrease by 3 percent	(409,003)
Average staff turnover rate	
Increase by 3 percent	(276,144)
Decrease by 3 percent	327,842

16. Financial Guarantees

Entity	Guaranteed obligations		
	31 December 2019	31 December 2018	Period of the guarantee
Parent Company	**511,714,125**	533,077,500	2023
Third parties	**2,288,200**	998,743	2036–2039
Total	**514,002,325**	**534,076,243**	

At 31 December 2019 and 31 December 2018, the carrying amount of financial guarantees represents unamortised amount accounted for at initial recognition.

17. Earnings per Share and Book Value per Share

Basic earnings per share are calculated by dividing the net profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

The Company does not issue convertible financial instruments; therefore, the basic earnings per share equals the diluted earnings per share.

The information of profit and number of shares used in calculations of basic earnings per share is presented below.

In thousands of Kazakhstani Tenge	2019	2018
Profit for the year from continuing operations	**149,088,919**	174,909,555
Dividends on preference shares	**(13,427,684)**	(53,186,603)
Net profit from continuing operations attributable to ordinary shareholders	**135,661,235**	121,722,952
Weighted average number of ordinary shares in issue	**99,953,446**	22,614,552
Basic and diluted earnings per ordinary share from continuing operations (Tenge)	**1,357**	**5,383**

Earnings per share from discontinued operations are calculated as follows:

In thousands of Kazakhstani Tenge	2019	2018
Net profit from discontinued operations attributable to ordinary shareholders	–	5,041,189
Weighted average number of ordinary shares in issue	–	22,614,552
Basic and diluted earnings per ordinary share from discontinued operations (Tenge)	–	**223**

The book value per one ordinary share is provided below:

BOOK VALUE PER ONE ORDINARY SHARE

In thousands of Kazakhstani Tenge	31 December 2019	31 December 2018
Assets	**1,053,823,740**	952,336,888
Intangible assets	**(1,175,557)**	(2,106,274)
Liabilities	**(906,378,237)**	(825,246,966)
Share capital, preference shares	**(2,664,662)**	(2,757,864)
Net assets for ordinary shares	**143,605,284**	**122,225,784**
Number of ordinary shares (units)	**99,953,446**	99,953,446
Book value per 1 ordinary share (Tenge)	**1,437**	**1,223**

BOOK VALUE PER ONE PREFERENCE SHARE

In thousands of Kazakhstani Tenge	31 December 2019	31 December 2018
Share capital, preference shares	**2,664,662**	2,757,864
Capital attributable to preference shareholders	**2,664,662**	**2,757,864**
Debt component of the first-group preference shares charged to liabilities	**6,767,177**	6,830,891
Total	**9,431,839**	**9,588,755**
Number of preference shares (units)	**9,893,344**	9,881,384
Book value per 1 preference share (Tenge)	**953**	**970**

The Company's shares are listed on the Kazakhstan Stock Exchange ("KASE") and the Stock Exchange of the Astana International Financial Center. Book values of ordinary and preference shares are calculated in line with Annex 5.7 of the Listing Rules of Kazakhstan Stock Exchange.

18. Revenue

The table below provides the Group's revenue from third-party customers by geographic region:

In thousands of Kazakhstani Tenge	2019	2018
Europe	**645,850,442**	712,656,791
Eurasia	**46,753,167**	33,181,111
Kazakhstan	**5,703,831**	4,218,435
Total revenue	**698,307,440**	**750,056,337**

The change in revenue is mainly due to decrease in market prices. Revenue for 2019 includes Tenge 24,622,365 thousand loss from sources other than contracts with customers (2018: Tenge 16,066,384 thousand loss).

19. Cost of Sales

In thousands of Kazakhstani Tenge	2019	2018
Raw materials	**183,719,761**	164,276,499
Electricity expense	**66,531,190**	67,864,563
Payroll and related expenses	**49,430,162**	43,437,311
Depreciation of property, plant and equipment and amortisation of intangible assets	**38,102,943**	37,244,238
Mineral extraction tax	**20,408,379**	19,554,497
Other	**33,907,996**	25,332,800
Total cost of sales	**392,100,431**	**357,709,908**

20. General and Administrative Expenses

In thousands of Kazakhstani Tenge	2019	2018
Information, consulting and other professional services	**21,620,447**	22,602,458
Sponsorship and other financial aid	**18,338,188**	27,789,514
Payroll and related expenses	**9,929,114**	8,418,942
Agency fees	**6,059,472**	10,247,588
Depreciation of property, plant and equipment and amortisation of intangible assets	**2,152,634**	1,876,861
Other	**6,189,082**	6,279,377
Total general and administrative expenses	**64,288,937**	**77,214,740**

Contributions to a number of different non-recurring individual social development infrastructure projects at the national level in Kazakhstan amounted to Tenge 14,450,810 thousands (2018: Tenge 21,274,682 thousands), and primarily related to education, cultural and recreation projects.

21. Finance Income

In thousands of Kazakhstani Tenge	2019	2018
Interest income on loans receivable	**18,151,675**	21,062,215
Reimbursement of withholding income tax on borrowings	**6,531,280**	–
Amortisation of discount on financial guarantees	**4,046,226**	4,207,423
Net foreign exchange gain	**3,488,629**	–
Gain on initial recognition of loans receivable	**2,753,814**	–
Gain on early derecognition of financial guarantees	**–**	26,788,910
Gains on modification of borrowings	**–**	22,379,322
Other	**1,571,730**	1,840,447
Total finance income	**36,543,354**	**76,278,317**

22. Finance Costs

In thousands of Kazakhstani Tenge	2019	2018
Interest expense	**43,051,946**	51,732,110
Amortisation of financial instruments	**15,022,758**	5,512,158
Loss on borrowings	**12,018,268**	–
Loss on initial recognition of loans receivable	**5,662,215**	–
ECL allowance on loans receivables	**2,174,696**	1,024,025
Loss on early derecognition of loans receivable	**1,524,360**	–
Loss on initial recognition and renewal of financial guarantees	**69,217**	20,234,539
Net foreign exchange loss	**–**	69,297,555
Loss on early repayment of borrowings	**–**	38,183,327
Loss on derecognition of financial assets	**–**	5,652,006
Loss from changes in fair value of condition for changing interest rate depending on commodity price index	**–**	(2,575,352)
Other	**1,607,361**	2,269,462
Total finance costs	**81,130,821**	**191,329,830**

Loss on borrowings resulted from the revision of estimated future cash flows.

23. Income Taxes

In thousands of Kazakhstani Tenge	2019	2018
Continuing operations		
Current income tax expense	**44,905,815**	40,649,555
Current income tax expense/(benefit) – prior periods	**4,882,242**	(227,584)
Current excess profit tax benefit – prior periods	**(3,749)**	(444,740)
Total current income tax expense – continuing operations	**49,784,308**	**39,977,231**
Deferred income tax benefit	**(8,416,265)**	(7,117,938)
Total deferred income tax benefit – continuing operations	**(8,416,265)**	(7,117,938)
Income tax expense for the year – continuing operations	**41,368,043**	**32,859,293**
Total income tax expense – discontinued operations	**–**	**3,166,948**
Income tax expense for the year	**41,368,043**	**36,026,241**

Reconciliation between the theoretical and the actual taxation charge is provided below:

In thousands of Kazakhstani Tenge	2019	2018
Profit before tax – continuing operations	**190,464,630**	**202,735,315**
Profit before tax – discontinued operations	**–**	**14,058,966**
Theoretical tax charge at statutory rate of 20%	**38,092,926**	40,547,063
Theoretical tax charge at statutory rate of 20% – discontinued operations	**–**	2,811,793
Tax effect of non-deductible or non-taxable items:		
– corporate income tax exempt under investment contract and non-deductible expenses under investment contract	**(4,568,961)**	(7,423,276)
– non-taxable share in the profit of joint venture	**–**	(1,869,149)
– corporate income tax – prior periods	**4,882,242**	(227,584)
– expenses for sponsorship and other financial aid	**2,147,325**	3,824,679
– other	**814,511**	(1,637,285)
Income tax expense for the year	**41,368,043**	**36,026,241**
Income tax expense for the year – continuing operations	**41,368,043**	32,859,293
Income tax expense for the year – discontinued operations	**–**	3,166,948

In thousands of Kazakhstani Tenge	1 January 2019	Charged to profit or loss	Charged to other comprehensive income	31 December 2019
Tax effect of deductible/(taxable) temporary differences				
Property, plant and equipment	**(8,182,622)**	1,717,532	–	**(6,465,090)**
Borrowings	**(2,586,986)**	4,986,045	–	**2,399,059**
Provision for impairment of inventories	**2,357,139**	406,683	–	**2,763,822**
Loans receivable and other receivables	**516,754**	1,525,059	–	**2,041,813**
Employee benefits	**1,018,844**	279,438	(42,963)	**1,255,319**
Taxes accrued but not paid	**1,023,486**	189,945	–	**1,213,431**
Vacation provision	**929,083**	(88,423)	–	**840,660**
Provision for asset retirement obligation	**1,416,637**	(911,000)	–	**505,637**
Other	**643,692**	310,986	–	**954,678**
Net deferred income tax position	**(2,863,973)**	**8,416,265**	**(42,963)**	**5,509,329**
Presented as:				
Recognised deferred income tax asset	**–**			**5,509,329**
Recognised deferred income tax liability	**(2,863,973)**			**–**

23. Income Taxes (Continued)

In thousands of Kazakhstani Tenge	1 January 2018	Adoption of IFRS 9 (adjustment of opening balance)	Charged to profit or loss	Sale of subsidiaries	Charged to other comprehensive income	31 December 2018
Tax effect of deductible/(taxable) temporary differences						
Property, plant and equipment	(9,428,540)	–	1,245,918	–	–	(8,182,622)
Borrowings	(5,431,730)	(2,899,937)	5,744,681	–	–	(2,586,986)
Provision for impairment of inventories	1,740,237	–	616,902	–	–	2,357,139
Provision for asset retirement obligation	1,326,960	–	89,677	–	–	1,416,637
Taxes accrued but not paid	1,078,915	–	(55,429)	–	–	1,023,486
Employee benefits	1,057,355	–	(73,946)		35,435	1,018,844
Vacation provision	780,272	–	213,038	(64,227)		929,083
Loans receivable and other receivables	8,053,936	436,703	(2,116,591)	(5,857,294)		516,754
Derivative instruments	1,501,228	–	(1,501,228)	–	–	–
Other	(232,091)	–	875,783	–	–	643,692
Net deferred income tax position	**446,542**	**(2,463,234)**	**5,038,805**	**(5,921,521)**	**35,435**	**(2,863,973)**
Presented as:						
Recognised deferred income tax assets	446,542					–
Recognised deferred income tax liability	–					(2,863,973)
Net deferred income tax position	**446,542**	**(2,463,234)**	**5,038,805**	**(5,921,521)**	**35,435**	**(2,863,973)**
Continuing operations	(7,489,886)	(2,527,460)	7,117,938	–	35,435	(2,863,973)
Discontinued operations	7,936,428	64,226	(2,079,133)	(5,921,521)	–	–

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority.

24. Sales of Subsidiaries and Joint Ventures

In December 2018, the Company sold its interest in Molservice LLP, Lotos Aktobe LLP, Khromtau Brick Plant LLP, Credit Partnership ENRC Credit LLP, and Shubarkol Komir JSC to another ERG Group companies.

The table below provides information on sale of subsidiaries and joint venture and the results of their discontinued operations:

In thousands of Kazakhstani Tenge	31 December 2018
Proceeds from sale of subsidiaries (cash)	**243,385,233**
Carrying value of disposed net assets:	**247,205,071**
Cash and cash equivalents	22,397,153
Other assets and liabilities	244,151,730
Non-controlling interest	(19,343,812)
Total net assets	**247,205,071**
Loss from the sale of subsidiaries and joint venture	**3,819,838**

In thousands of Kazakhstani Tenge	31 December 2018
Operating profit	**1,542,745**
Finance income	12,233,725
Finance costs	(9,063,248)
Share in profit of joint venture	9,345,744
Profit before tax	**14,058,966**
Profit for the year	**10,892,018**
Result of disposal	(3,819,838)
Profit for the year from discontinued operations	**7,072,180**

25. Contingencies, Commitments and Operating Risks

Tax legislation and transfer pricing legislation. Kazakhstani tax legislation and practice is in a state of continuous development, and therefore is subject to varying interpretations and frequent changes, which may have retroactive impact. Therefore, the interpretation of tax legislation by the tax authorities in relation to the Group's transactions and operations, may differ from management's interpretation. In this regard, tax position of the Group in respect of certain transactions may be challenged by the tax authorities, and this may lead to charging of additional tax liabilities, penalties and fines. Audited tax periods remain open for retrospective review by the Kazakhstan tax authorities before the expiration of the applicable statute of limitations. Whilst there is a risk that the Kazakhstan tax authorities may challenge the policies applied by the Group, including those related to transfer pricing, management believes that it will be able to successfully defend its position in case of disputes, and also notes that the amount of a potential claim by the tax authorities is not subject to reasonable assessment. Accordingly, at 31 December 2019 the financial statements have no provision for potential tax liabilities (2018: no provision recorded).

Contractual capital expenditure commitments. As at 31 December 2019, the Group has contractual capital expenditure commitments in respect of acquisition of property, plant and equipment totalling Tenge 29,129,700 thousand (2018: Tenge 28,478,186 thousand).

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice, Management of the Group is of the opinion that no material losses will be incurred in respect of these claims.

26. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, the risk of interest rate risk affecting fair value and cash flows and price risk), credit risk and liquidity risk. The Group's risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments for hedging certain risks.

(a) Market risk

Currency risk. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, in particular in relation to USD, Euro and the Russian Rouble. The Group exports ferroalloys abroad and attracts the significant amount of long-term borrowings in foreign currency. The Group does not use derivative financial instruments in order to decrease currency risk, and is thus exposed to foreign exchange risk. The ERG management monitors foreign exchange risk exposure by currency and in total based on the ERG consolidated position.

The table below summarizes the Group's exposure to currency risk at the end of the reporting period:

In thousands of Kazakhstani Tenge	USD	Russian Rouble	Euro	Tenge	Other	Total
As of 31 December 2019						
Assets	**383,206,400**	**1,543,317**	**–**	**43,341,337**	**–**	**428,091,054**
Liabilities	**(763,612,015)**	**(7,084,085)**	**(6,686,614)**	**(81,958,830)**	**(220,016)**	**(859,561,560)**
Net exposure to currency risk	**(380,405,615)**	**(5,540,768)**	**(6,686,614)**	**(38,617,493)**	**(220,016)**	**(431,470,506)**
As of 31 December 2018						
Assets	370,471,733	553,950	376	23,557,135	–	394,583,194
Liabilities	(657,116,451)	(3,433,322)	(11,202,803)	(91,996,060)	(147,425)	(763,896,061)
Net exposure to currency risk	**(286,644,718)**	**(2,879,372)**	**(11,202,427)**	**(68,438,925)**	**(147,425)**	**(369,312,867)**

26. Financial Risk Management (Continued)

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Group entities, with all other variables held constant:

	Effect on profit/(loss) and equity	
In thousands of Kazakhstani Tenge	At 31 December 2019	At 31 December 2018
USD strengthening/weakening by 20%	**(60,864,898)/ 60,864,898**	(45,846,832)/ 45,846,832
Euro strengthening/weakening by 20%	**(1,069,858)/ 1,069,858**	(1,792,388)/ 1,792,388
Russian Rouble strengthening/weakening by 20%	**(886,523)/ 886,523**	(460,699)/ 460,699

Price risk. The Group sells its products to third parties. The Group is exposed to price risk, since the selling prices for finished products depend on general and market specific fluctuations.

The Group is exposed to price risk, since the selling prices for the Group's ferroalloys depend on changes in prices in prevailing market commodity prices, which in their turn depend on general and specific market fluctuations. The Group does not use derivative financial instruments to hedge its exposure to commodity price risk because as per management's forecasts there is a tendency of historically high prices for ferroalloys, observed during the period before financial crisis, to be recovered.

A ten percent increase in commodity market prices for ferroalloys would increase profit before tax by Tenge 10,396,320 thousand (2018: Tenge 10,788,427 thousand increase), and a ten percent decrease in prices would increase profit before tax by Tenge 10,396,320 thousand (2018: Tenge 10,788,427 thousand decrease), with no additional impact on equity. This analysis assumes that all other variables remain constant.

Fluctuations of metal commodity prices affect the fair value assessment of provisionally priced trade receivables.

The Group is exposed to price risk in respect of investments owned by the Group and stated in consolidated balance sheet as investments at fair value. However, the Group has estimated that this risk is low, as investments represent investments in companies of ERG, which are not traded in an active market and ERG controls expected cash flows related to these investments.

Interest rate risk. Changes in interest rates affect mainly the loans received and borrowings by changing either their fair value (debt liabilities with a fixed interest rate) or their future cash flows from it (debt with a variable interest rate). When arising new loans or borrowings, management decides on what kind of interest rate – fixed or variable – will be more favorable to the Group over the expected period until maturity, based on its judgement.

Change in market interest rate during the reporting period would not affect profit or loss, due to the fact that all raised borrowings were obtained at fixed interest rates. As at the reporting date there was no significant influence of interest rate risk on financial assets of the Group.

Assets and liabilities with fixed interest rates expose the Group to the risk of changes in fair value of such assets and liabilities.

(b) Credit risk.

Credit risk mainly arises from cash and cash equivalents, term deposits, loans receivable issued to related parties, financial guarantees as well as credit exposures to customers, including outstanding receivables and confirmed transactions. As of 31 December 2019 the credit rating of banks, where the Group has placed its financial instruments, varied from B2 (Moody's) to BBB- (Fitch). In relation to financial guarantees the Group guaranteed the obligations of related parties.

As at 31 December 2019, the Group placed cash and deposits to financial institutions with credit ratings ranging from BBB- and from BB+ to B in the amount of Tenge 267,243 thousand (2018: Tenge 21,191,468 thousand) and Tenge 43,801,816 thousand (2018: Tenge 41,493,912 thousand), respectively.

The Group has policies in place to ensure that sales of products and services are made to customers with good financial position and credit history. The majority sales of iron ore products are made to third parties. The carrying amount of cash and cash equivalents, short-term bank deposits with maturity of more than 3 months, loans receivable and accounts receivables (including receivables from related parties), net of ECL allowances represents the maximum amount exposed to credit risk.

At 31 December 2019 the Group had only four main trade customers. The total trade receivables for main products from four customer are Tenge 48,896,113 thousand (2018: four main debtors of Tenge 45,268,526 thousand) or
92.25%of the total trade and other receivables (2018: 91.41%). These receivables are short-term with a maturity period from 1 to 3 months, which is in compliance with the contract payment terms. The major part of loans receivable is due from related parties. In respect of other balances there is no history of significant default of counterparties.

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond ECL allowances already recognised for receivables.

(c) Liquidity risk.

Liquidity risk is defined as the risk of not meeting financial liabilities when they become due. Prudent liquidity risk management implies maintaining the sufficient cash and marketable securities, availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Further details on the Group's going concern principle are discussed in Note 2.

Below is the information on contractual terms of financial liabilities settlement, including interest payments. Amounts in the table below represent the contractual undiscounted cash flows.

The table below represents information for 2019:

In thousands of Kazakhstani Tenge	Carrying value	Contractual cash flows	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Liabilities								
Borrowings	**756,422,889**	**962,514,773**	**54,048,264**	**54,437,125**	**54,586,678**	**697,350,454**	**102,092,252**	**–**
Lease liabilities	**2,065,560**	**2,983,365**	**208,719**	**433,400**	**408,426**	**380,821**	**373,597**	**1,178,402**
Financial guarantees	**15,511,096**	**514,002,325**	**19,254,764**	**19,254,764**	**19,254,764**	**454,450,889**	**125,264**	**1,661,880**
Preference shares liabilities	**6,767,177**	**20,776,022**	**–**	**989,334**	**989,334**	**989,334**	**989,334**	**16,818,686**
Trade and other payables	**94,305,934**	**94,305,934**	**94,305,934**	**–**	**–**	**–**	**–**	**–**
Total	**875,072,656**	**1,594,582,419**	**167,817,681**	**75,114,623**	**75,239,202**	**1,153,171,498**	**103,580,447**	**19,658,968**
Assets								
Loans receivable	**302,387,038**	**390,821,646**	**506,719**	**1,155,953**	**1,155,953**	**365,953,552**	**1,159,120**	**20,890,349**
Trade and other receivables	**53,964,509**	**54,181,661**	**54,181,661**	**–**	**–**	**–**	**–**	**–**
Cash and cash equivalents	**35,700,055**	**35,700,055**	**35,700,055**	**–**	**–**	**–**	**–**	**–**
Other financial assets	**36,039,452**	**36,907,096**	**144,155**	**137,582**	**6,149,026**	**211,803**	**31,645**	**30,232,885**
Total	**428,091,054**	**517,610,458**	**90,532,590**	**1,293,535**	**7,304,979**	**366,165,355**	**1,190,765**	**51,123,234**

The table below represents information for 2018:

In thousands of Kazakhstani Tenge	Carrying value	Contractual cash flows	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Liabilities								
Borrowings	700,389,055	908,566,770	45,913,588	120,185,232	105,248,578	100,947,883	536,271,489	–
Financial guarantees	19,488,104	534,076,243	19,265,378	19,265,378	19,265,378	19,265,378	456,292,878	721,853
Preference shares liabilities	6,830,891	21,746,586	–	988,481	988,481	988,481	988,481	17,792,662
Trade and other payables	56,676,115	56,676,115	56,676,115	–	–	–	–	–
Total	**783,384,165**	**1,521,065,714**	**121,855,081**	**140,439,091**	**125,502,437**	**121,201,742**	**993,552,848**	**18,514,515**
Assets								
Loans receivable	274,315,992	276,310,461	276,310,461	–	–	–	–	–
Trade and other receivables	49,717,400	49,906,325	49,906,325	–	–	–	–	–
Cash and cash equivalents	54,118,916	54,118,916	54,118,916	–	–	–	–	–
Other financial assets	16,430,886	17,455,813	341,442	585,908	753,301	6,034,050	607,124	9,133,988
Total	**394,583,194**	**397,791,515**	**380,677,144**	**585,908**	**753,301**	**6,034,050**	**607,124**	**9,133,988**

The amount of the guaranteed obligations under financial guarantees is disclosed in the Note 16.

Capital risk management. Decisions in relation to the Group's activity on funding (through own or borrowed funds) are made at the level of the ERG's management. The ERG's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

26. Financial Risk Management (Continued)

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return on capital of shareholders or sell assets to reduce debt.

The Group considers the following amounts under capital management:

In thousands of Kazakhstani Tenge	2019	2018
Borrowings	**756,422,889**	700,389,055
Equity attributable to the Company's shareholders	**147,403,050**	127,089,922
Total capital	**903,825,939**	**827,478,977**

27. Fair Value of Financial Instruments

Fair value of financial instruments carried at amortised cost

Fair value of financial instruments carried at amortised cost is based on the expected future cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities.

Fair value of loans receivable and borrowings represents Level 2 of the fair value hierarchy. As at 31 December 2019 the fair value of loans receivable amounted to Tenge 302,822,020 thousand (31 December 2018: fair value of loans receivable carried at amortised cost was approximately equal to their book value). As of 31 December 2019 the fair value of borrowings amounted to Tenge 766,190,808 thousand (31 December 2018: Tenge 705,631,688 thousand).

Fair values of other financial assets and liabilities carried at amortised cost approximate their carrying amounts.

Fair value of financial instruments carried at fair value

The Group applies judgement in categorising financial instruments using the fair value hierarchy in order to choose different techniques and verify assumptions, which are mainly based on the market conditions at each reporting date, and fair value measurement of other parties. As at 31 December 2019 and 31 December 2018, the Group did not have financial instruments of Level 1. The Group did not make transfers between the hierarchy levels.

Fair value of provisionally priced trade receivables of Level 2 fair value hierarchy is derived from the forecasted quoted commodity prices and equals to Tenge 42,532,727 thousand (31 December 2018: Tenge 42,686,472 thousand).

The fair value of the investments in Eurasian Digital Ventures 1 Limited Partnership accounted at fair value represents Level 3 of the fair value hierarchy and has been determined as a share in the net assets based on the data extracted from the financial statements of Eurasian Digital Ventures 1 Limited Partnership.

The fair value of other investments at fair value represents Level 3 of the fair value hierarchy and has been determined based on the discounted cash flow model. Significant unobservable inputs are revenue and its expected annual growth rate. Despite the assumptions being subjective estimate, management believes that potential alternatives related to this assumption do not have significant impact on overall assessment of the instrument.

28. Events after the Balance Sheet Date

COVID-19 has spread internationally, contributing to a sharp decline in global financial markets and a significant decrease in global economic activity. On 11 March 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organisation and has since then resulted in numerous governments and companies, including the Group, introducing a variety of measures to contain the spread of the virus. The outbreak and efforts to contain it have had a significant effect on commodity prices and capital markets. This outbreak is classified as non-adjusting event after the reporting date. Notwithstanding the proactive and considered actions taken to maintain a safe workplace, it is possible that in the future there will be negative impacts on our operations if the pandemic continues or further increases in scale. It is possible that such events could have negative impact on our cash flows, earnings, results of operations and financial position. Whilst the business is currently able to continue to operate with limited disruption, the extent to which COVID-19 impacts future business activity or financial results, and the duration of any such negative impact, will depend on future developments, which are highly uncertain and unknown at this time. In addition, ERG Group established a crisis management office, which developed a comprehensive set of measures to mitigate risks linked to COVID-19, whilst optimising ERG Group's liquidity and financial performance. Anti-crisis plan with key focus on personnel protection, sales support, supply chain optimization, production stability, project management, liquidity management is aimed to provide assurance in minimising negative impact on ERG Group's operations and financial position.

Volatility in foreign exchange markets resulted in recognition of Tenge 32,226,783 thousand net foreign exchange loss in statement of profit or loss for the five months ended 31 May 2020.

The Group signed an amendment to the existing loan agreement with VTB Bank (PJSC) to receive an additional tranche in the amount of up to US Dollar 350 million and to improve certain commercial terms. The new tranche is repayable in five years and bears interest at a rate similar to previous tranches.

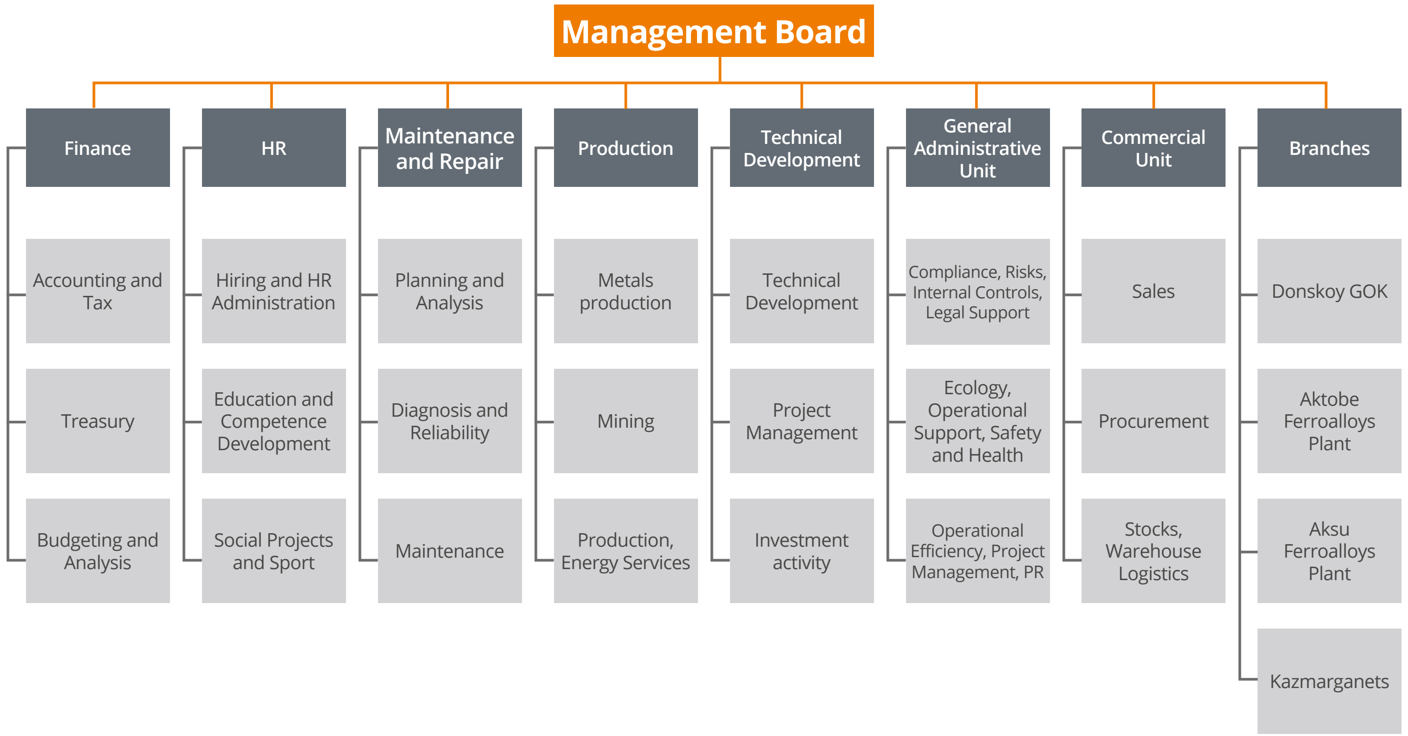
The Group provided a loan to the Parent company in the amount of US Dollar 68 million repayable until 2025.

The Group signed an addendum to the existing credit line provided to the Parent company increasing the amount up to US Dollar 350 million and increasing the interest rate.

ANNEXES

Annex 1:

Organisational structure



All operating assets of TNC Kazchrome JSC are located in the Republic of Kazakhstan, including:

Name of the branch or subsidiary	Full Name of the Director
Donskoy GOK	Viktor Valdemarovich Til
Aktobe Ferroalloys Plant	Zhalgasbai Bereketovich Mussabekov
Aksu Ferroalloys Plant	Sergey Leonidovich Prokopiyev
Kazmarganets Mining Enterprise	Bagdat Tlyubergenovich Zhakbayev
Akzhar Chrome LLP	Talgat Mukhambetovich Kalenov
Donskaya neftebaza JSC	Natalya Frolovna Ivanova

		Gender	
Name of the branch or subsidiary	Average number of employees in 2019	Women	Men
Executive office	520	368	152
Donskoy GOK	7,363	1,979	5,384
Aktobe Ferroalloys Plant	4,362	861	3,501
Aksu Ferroalloys Plant	6,548	1,524	5,024
Kazmarganets Mining Enterprise	516	105	411
Subsidiaries	77	45	32
TOTAL:	**19,386**	**4,882**	**14,504**

Annex 2:

Glossary

Abbreviations

IFRS	International Financial Reporting Standards
ISO	International Organisation for Standardisation
LTIFR	Lost Time Injury Frequency Rate
OHSAS	Occupational Health and Safety Assessment Series
SRK	SRK Consulting an independent international consulting company specialising in the mining sector and its activities

Measurement units

Km	Kilometres
km^2	Square kilometer
m^3	Cubic metres
mln	million
bln	billion

Definitions

Probable reserves	the estimated volume of reserves which, based on geologic and engineering evidence, can reasonably be expected to exist and is recoverable with presently available technology at an economically viable cost.
Dividend	part of the net profit of the Company distributed among the Company's shareholders.
Dividend policy	a body of principles and methods determining the ratio of the capitalised part of the Company's profit to the part of that paid in the form of dividends, as well as a system of relations and principles determining the procedure and timing of dividend payment and establishing the Company's liability for failure to fulfill the dividends payment obligation.
Proved reserves	mineral reserves, which, according to geological and engineering data, can with a sufficient degree of probability be extracted in the future from known strata under existing economic and external conditions.
Subsidiaries, organisations, enterprises	legal entities, a certain percentage of voting shares of which are held by the Company and, either by virtue of the predominant participation in the authorised capital or under certain concluded agreement or otherwise has the ability to influence the decisions made by such legal entities.
Inflation	a process characterised by the rise of the overall price level in the economy or, equivalently, by the erosion of money purchasing power.
Quarry	mine workings formed by surface mining operations (strip mining); a mining enterprise specialising in open-pit mining of extractable resources.
Indirect use of energy	the consumption of energy produced outside the organisation and used within its limits in intermediate forms of energy.
Listing rules	the mandatory regulations by which a company wishing to list its shares or securities on a stock exchange must comply with.
Manganese concentrate	a product of manganese ore beneficiation with manganese content and general mineralogical makeup meeting the requirements of further metallurgical or other processing for manganese extraction.
Smelting	a process of ore or concentrates smelting aimed at metal separation from impurities.
Refined ferrochrome	ferrochrome with mean/low carbon content.
Mine	a mining enterprise extracting mineral resources (predominantly ore) by underground or surface mining.
Special coke (semi-coke)	solid carbonaceous reducing agent of 5 to 25mm lump size and ash content not exceeding 10% intended for electrometallurgy purposes.
Alloy	a mix of two or more elements including at least one metal.
Ferrosilicomanganese	an alloy of iron, silicon and manganese used in metallurgy for steel alloying and deoxidising, and imparting strength, wear resistance and impact resistance to ferrous alloys.
Ferrosilicochrome	a ferroalloy used in metallurgy for alloying and deoxidising of steel and alloys, for cast iron modifying and also used as a reducing agent in ferrochrome smelting.
Ferrosilicon	ferroalloy, the main components of which are iron and silicon, used in metallurgy as deoxidising and alloying additive for the smelting of silicon-sheet, spring, corrosion- and heat-resistant steels.
Ferroalloys	alloys of iron with other elements (chrome, silicon, manganese, titanium, etc.) used mainly for oxidising and alloying purposes, made of ore or concentrates in electric furnaces.
Ferrochrome	iron-chrome alloys used in metallurgy for alloying of steel and alloys.
Chrome ore	a natural mineral assembly containing chrome in concentrates and quantities making production of metallic chrome and its compounds economically feasible.

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