2018

ANNUAL REPORT

Moving Ahead

Caring for the Future

KAZCHROME

TNK Kazchrome JSC is one of the leading modern vertically integrated enterprises in the world, one of the world's largest producers of chrome ore and ferroalloys with the lowest level of costs.

OUR MISSION

- Be the best at what we do
- Navigate global change while holding true to its value
- Responsibly unlock the potential of the Earth and humanity and ensure the prosperity of those who rely on us

The Company has an integrated production chain - from mining and beneficiation of chrome ore at the Donskoy Ore Mining and Processing Plant and manganese ore at the Kazmarganets Mining Enterprise to ferroalloy production at the Aksu and Aktobe Plants.

Production integration has a synergistic effect within the entire process chain with regard to increasing the volume of raw materials for ferroalloy furnaces due to mining growth, increase in metal extraction at all processing stages, waste recycling, etc.

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Message from the President

Dear investors, partners and colleagues,

In 2018, Kazchrome continued to grow its production capacity, optimise its production processes and expand its resource base. We are not only a world leader in terms of ferroalloy production and sales volumes, but also in terms of ferrochrome production efficiency and sustainability.

Kazchrome's long-term strategy is to strengthen its leading position in the global chrome alloys market. This will involve the application of highly efficient processing and production technology (to enable the recovery of the highest grade ore), and the pursuit of persistent cost reductions to enhance the competitiveness of our products. To implement this strategy, we have developed a comprehensive and innovative corporate development programme, which will be applied in several stages.

This strategy involves the continuous improvement of our processes. Indeed, Kazchrome's competitiveness, flexibility and future growth will be driven by enhanced transparency, business efficiency, and product / service quality. As a result, we intend to implement innovative solutions, apply international best practice, and generate our own internal initiatives to support these ends.

In 2018, Kazchrome again achieved broadly positive operating results. Total revenue rose to 750.1 billion tenge (against 702.1 billion tenge in 2017). This growth was driven by rising prices for our main products, and high-carbon ferrochrome in particular.

Kazchrome's achievements would be impossible without the expertise and commitment of its employees, who collectively represent the company's core asset. As such, we are working actively to improve working conditions for our 19,746[1] employees and to minimise staff turnover – which remained steady at 7.2% (the same as in 2017).

We remain fully committed to responsible business practice. We are fully aware of the importance of maximising our positive impact and minimising our negative impacts, particularly, given the nature of our activities, in relation to safety and the environment.

Nonetheless, it is with deep sadness that I report one fatality in 2018 of one of our contractor workforce. The incident involved a fall from a height during a maintenance operation and was subject to a comprehensive investigation. Any fatalities are unacceptable, and I would like to express my sincere condolences to the family of the individual involved. This incident added further impetus to our efforts to improve our safety standards.

The Group has in place Health, Safety and Environment Management Systems compliant with OHSAS 18001:2007 international standard and ISO 14001:2015 international environmental management standards. The Company regularly audits its quality management (in line with ISO 9001) and environmental management systems. Kazchrome conducts timely certification of its production facilities and has developed and approved the Declarations of Industrial Safety.

In 2018, a total of 11.2 billion tenge was invested in occupational safety, an increase of over 20% year-on-year.

Arman Yessenzhulov

President of TNC Kazchrome JSC

[1] Including subsidiaries and affiliates.

Message from the Chairman of the Board of Directors

Dear investors, partners and colleagues,

I am delighted to present Kazchrome's Annual Report and to highlight its key operating and financial results, along with its sustainable development performance.

In 2018, the ferrochrome market remained steady and prices remained stable despite other changes in external market conditions, including the appreciation of the US dollar. In this context, the Company achieved impressive results. These reflected the implementation of a clear strategy, the application of rational capital management and proactive employee engagement – as well as the large-scale expansion project at the Aktobe Ferroalloy Plant.

Ferroalloy output totalled 1.74 million tonnes in 2018, up from 1.63 million tonnes in 2017. Production was focused on high-carbon, low-carbon and medium-carbon ferrochrome and ferrosilicochrome, all of which enjoyed strong demand.

ERG's Sustainable Development Principles are embedded into Kazchrome's business strategy and are actively applied in its day-to-day activities. This is with the aim of minimising any negative environmental impacts, delivering a safe workplace, and maintaining constructive dialogue with stakeholders.

Safety – and the achievement of Zero Harm – is a top priority. To this end, Kazchrome assesses its safety processes on an ongoing basis to ensure they are aligned with international best practice.

In addition, Kazchrome implements a range of projects to improve the working conditions and living standards for local communities (and those of our employees who live in them), including investments in education, culture and sports. This was recognised in 2018 when Kazchrome won the award for best collective labour agreement in the 'Paryz' national corporate social responsibility competition. Furthermore, by expanding its production capacity, the Company creates new jobs that can benefit local residents.

Kazchrome's five-year strategy has ambitious goals that will strengthen the Company's position as a world-leader in the ferroalloy industry. I am confident that the Company's highly skilled professionals, depth of experience and ongoing performance will help it achieve these objectives.

Serik Shakhazhanov

Chairman of the Board of Directors

ABOUT THE COMPANY

General Description

TNC Kazchrome JSC ('Kazchrome' or the 'Company') is a fully integrated mining and metals business covering all stages of the value chain, from geological exploration, mining and mineral processing to the manufacture of high value-added metal products.

Established in 1995, the Company is currently one of the world's largest producers of chrome ore and ferroalloys, with a unique resource base and the industry's lowest cost production.

Refined ferrochrome and high-quality, high-carbon ferrochrome accounts for the largest proportion of Kazchrome's ferroalloy output. The Company also produces ferrosilicomanganese alloys. The Company sells its products in the chrome market that has enjoyed consistent and sustainable growth for more than a decade.

Kazchrome has one of the most diversified customer bases amongst the major ferrochrome producers.

The Company 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 and its subsidiaries (the 'Group') are part of Eurasian Resources Group S.à.r.l ('ERG'), which owns at least 99.99% of Kazchrome's ordinary voting shares (99.35% of the authorised capital).

> "We strive to use the best innovative solutions, adopt the world's best practices, and develop our own ideas, in order to remain a competitive and flexible company."
>
> **Arman Yessenzhulov**
> President of TNC Kazchrome JSC

Business Model

OUR RESOURCES

OPERATING

Donskoy GOK:

- three operating mines (two underground mines and one open pit mine)
- two chrome ore beneficiation plants

Kazmarganets Mining Enterprise:

- one mine

Aktobe Ferroalloy Plant:

- four workshops, including Workshop No. 4 (the new Aktobe plant) - the world's first large scale plant with closed DC furnaces
- electric power plant AktFP

Aksu Ferroalloy Plant:

- four ferroalloy smelting shops, a slag recovery plant, a furnace feed preparation shop and a sintering plant

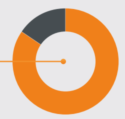
NATURAL

CHROME ORE

Total reserves and resources

221.7 Mt

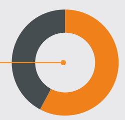
Mining time – over **40 years**



MANGANESE ORE

Total reserves and resources

1.9 Mt



FINANCIAL

We strive to maximise the use of all financial assets

HUMAN

Over 19,000 highly-qualified professional employees

PARTNERSHIP

Kazchrome has one of the most diversified customer bases amongst the major ferrochrome producers. The Company has established long-term cooperation with its partners, thus ensuring stable or growing sales volumes in the long run

HOW WE CREATE VALUE

OUR KEY ADVANTAGES

01. Unique resource base

02. Favourable tax treatment and mining legislation in Kazakhstan

03. Dedicated infrastructure and low production costs

04. Fully integrated production

DONSKOY GOK

MINING 2018	PROCESSING 2018
Chrome ore 5.6 Mt	Chrome product 4.2 Mt
Capacity 5.6 Mt/year	Capacity 5.5 Mt/year

KAZMARGANETS MINING ENTERPRISE

MINING 2018	PROCESSING 2018
Manganese ore 0.48 Mt	Manganese concentrate 0.15 Mt
Capacity 0.65 Mt/year	Capacity 0.65 Mt/year

Chrome sales volume in Russia

External Supplier

Gas

The electric power plant AktFP
covers 33.6% of the plant demand

The Aluminium of Kazakhstan Power Plant

Electric power

AKTOBE FERROALLOY PLANT
Capacity 0.74 Mt

Semi-coke

Ferrosilicochrome

Shubarkol Komir

Semi-coke

AKSU PLANT
Capacity 1.1 Mt

Electric power

EEC Power Plant

FERROALLOYS 1.7 Mt

HIGH-CARBON FERROCHROME 1.48 Mt

MEDIUM- AND LOW-CARBON FERROCHROME 0.06 Mt

SILICON ALLOYS 0.2 Mt

WORLD'S No. 1 IN CRHROME QUALITY
AVERAGE CHROME CONTENT 50.0%

WORLD'S No. 2 CHROME ALLOY PRODUCER IN OUTPUT AND SUPPLY VOLUME

ERG subsidiaries

Kazchrome's assets

OUR CONSUMERS

Kazchrome supplies its products to world's major stainless steel producers:

12 OF THE WORLD'S TOP 20 PRODUCERS

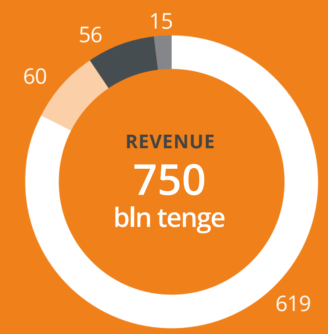
Kazchrome's largest customer provides approximately

15 % OF THE COMPANY'S INCOME

Kazchrome's five largest customers provide approximately

50 % OF THE COMPANY'S INCOME

RESULTS



- High-carbon ferrochrome
- Medium- and low-carbon ferrochrome
- Silicon alloys
- Other

EBITDA	CAPITAL EXPENDITURES
358.7 bln tenge	69 bln tenge

Kazchrome's History

Brief history

Kazchrome commenced operations in 1938 by mining chrome at the Donskoy GOK mine. In 1943 the Aktobe Plant, the first ferroalloy enterprise in Kazakhstan, began production.

Geological surveys were at their peak in the 1970s-80s, when the largest proven resources were discovered.

Following the break-up of the Soviet Union, Kazakhstan managed not only to save the chrome industry from falling apart, but also to promote the significant development of this sector: Kazchrome made significant efforts to tailor its business to the needs of the market.

In the late 1990s, the demand for ferroalloys dropped amid the Asian financial crisis. However, Kazchrome not only survived but also expanded the market for its products by offering a wide range of alloys and varying the volumes of their production depending on demand.

Kazchrome gradually ramped up its beneficiation and metallurgical capacities to become a fully-integrated producer with a global reach and one of Kazakhstan's largest mining companies, with a headcount approaching 20,000.

1933 First discovery of chrome in Kazakhstan

1937 Discovery of ore bodies at the Donskoy GOK

1938 The Donskoy GOK mine commenced operations

1943 First ferrochrome produced at the Aktobe Plant

1968 First kilo tonne of ferroalloys produced at the Aksu Plant

1970 Eight new smelting furnaces launched (Workshop No.2) at the Aksu Plant

1981 Beginning of chrome ore production at the Molodezhnaya mine

1995 TNC Kazchrome JSC formation

1997 Tur Mine began manganese mining

1998 Aksu plant process upgrade, 12 furnaces launched

2005 A fine ore processing plant, a pellet production shop, and a concentrate plant commissioned at the Donskoy GOK

2009 Start of construction of a new ferroalloys plant (Workshop No. 4 of the Aktobe Plant)

2014 Workshop No. 4 of the Aktobe Plant began production of ferroalloys

2017 Start of mining at the Pervomayskoye deposit, 10th Anniversary Mine

Key Performance Indicators

In 2018, Kazchrome's revenue increased by 7% year-on-year and by 40% compared to 2016 due to a higher volume of high-carbon ferrochrome sales and rising ferrochrome prices.

The Company expects further revenue growth over the next two years, owing to the implementation of capacity expansion projects, an increase in metal extraction at all processing stages, and favourable market conditions due to a continually growing demand for stainless steel and high-quality raw materials.

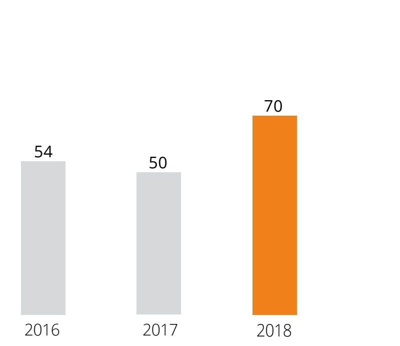
Financial indicators

Unit (thousand tenge)	2016	2017	2018
Revenue			
High-carbon ferrochrome	429,162,731	577,119,670	**619,418,207**
Medium/low-carbon ferrochrome	31,582,265	55,615,368	**56,343,927**
Silicon alloys	49,438,278	52,469,319	**59,415,243**
Others	22,937,091	16,892,949	**14,878,960**
Total revenue	**533,120,365**	**702,097,306**	**750,056,337**

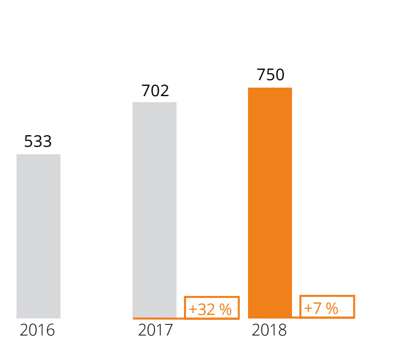
The key factors affecting financial performance:

- » growth in high-carbon ferrochrome production;
- » increase in purchased materials prices (mainly for electrode paste, nut coke);
- » amortisation growth due to commissioning of fixed assets; and
- » foreign exchange gain resulting from revaluation of receivables (due to a rise in the US dollar).

CAPEX PROFILE FOR 2016-2018, BLN TENGE



REVENUE PROFILE FOR 2016-2018, BLN TENGE

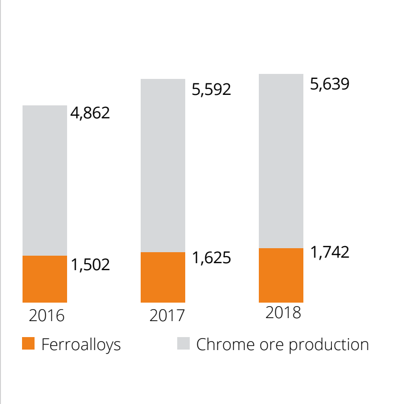


Operational indicators

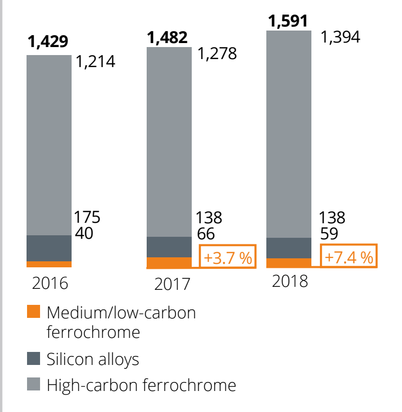
The main factors driving the growth in ferroalloy production are the commissioning of Workshop No. 4 of the Aktobe Ferroalloy Plant and the optimisation of production efficiencies.

Sales volumes are directly affected by market changes and demand. The decrease in silicon alloys sales is associated with the production process, where silicon is used as an intermediary product during the production of ferroalloy.

PRODUCTION (THOUSAND TONNES)



SALES (THOUSAND TONNES)



MARKET OVERVIEW

During 2018, the ferrochrome market was marked by a steady price trend and demonstrated strong stability."

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

Macroeconomic Situation

2018 saw two trends: in H1, global synchronised economic growth, and in H2, the start of the disagreement between the US and China, the rise in US interest rates, the strengthening of the US dollar, and the signs of an economic slowdown in China and Europe. Commodity prices mirrored these trends, which persisted up to the middle of 2018, and then were downwardly adjusted. Despite this, average annual prices for metals produced by the Group saw a general increment year on year.

The threat of a full-scale trade war between the world's two largest economies spurred concerns that this conflict may lead to an economic slowdown and the weakening of consumption trends.

Despite the negative effect of trade disputes with the US, in 2018 China continued to focus its efforts on environmental responsibility. Following the successful reduction of pollution levels in northern cities in the winter of 2017/18, plans were made to achieve the same results across the whole country in 2018/19.

However, the measures taken were not as effective due to the economic slowdown. Thus, production-related restrictions did not have as significant an impact on industry and commodity prices as in the previous year

Demand and Supply Market Overview

Ferrochrome is mostly used for the production of stainless steel. Analysts expect an increase in the demand for stainless steel to be driven by continued urbanisation and economic development in China, India and other developing countries. Demand for stainless steel is expected to grow by 3.6% per annum until 2030, resulting in an increase in demand for ferrochrome and chrome ore. According to one of the world's leading consulting companies, the growth in chrome ore supply in the medium term will be limited, and by 2020 the market will be undersupplied, resulting in rising prices for chrome ore and ferrochrome.

Kazakhstan ranks second in the world after South Africa in terms of chrome ore production volume, accounting for 16% of the market supply.

China is the world's largest ferrochrome producer, accounting for 39% of the global ferrochrome production. However, Chinese ferrochrome producers depend on the import of chrome ore from third-party suppliers, as there are no domestic chrome reserves. The Group has no such challenge as it has an integrated source of chrome ore supply.

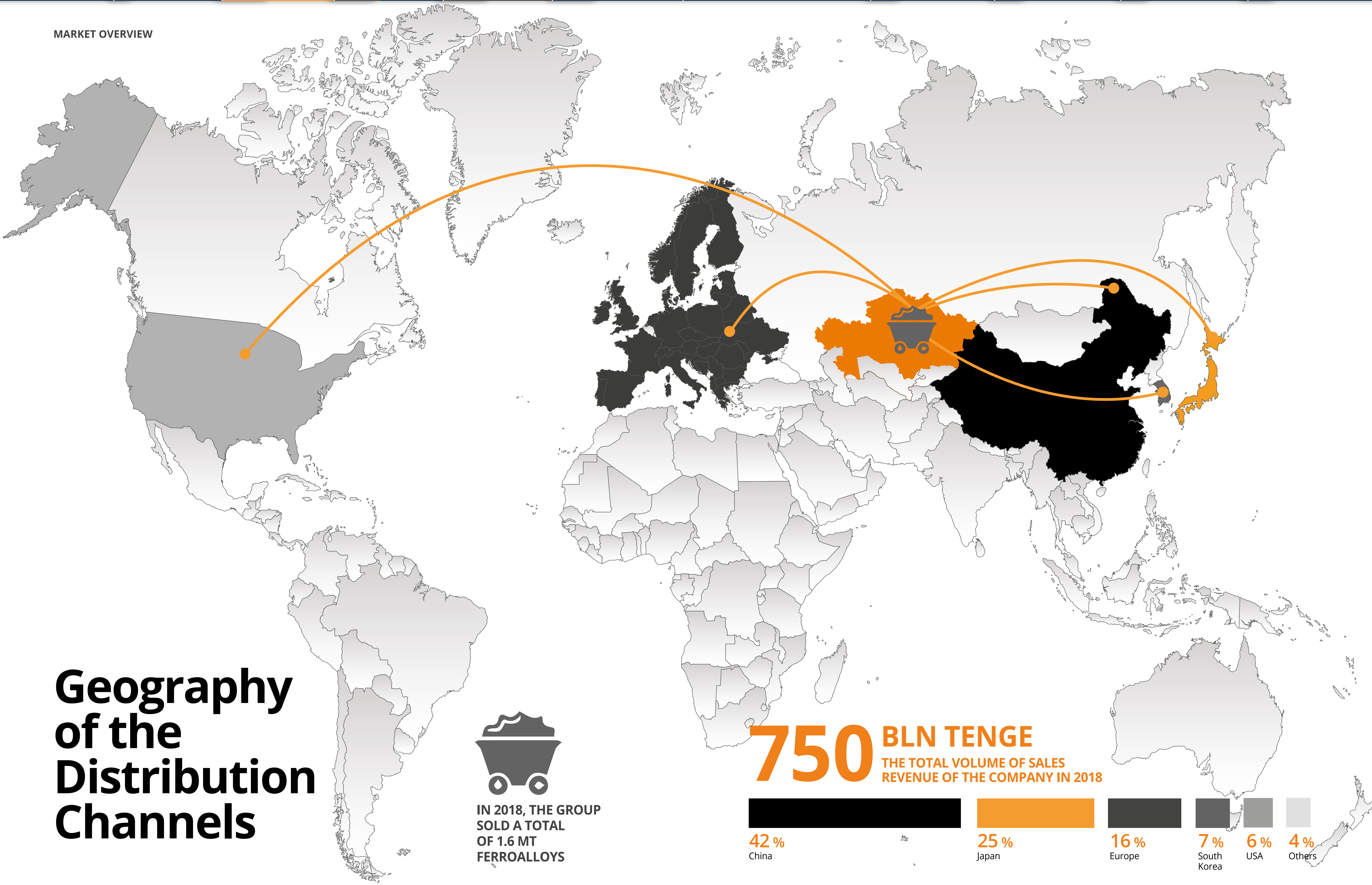
Kazakhstan
RANKS SECOND IN THE WORLD
in terms of chrome ore production volume, accounting for

16 % of the market supply

Ferrochrome Prices

There are no global benchmark prices for ferrochrome. There are several benchmark prices for Europe and China, amongst others, however these are not comparable as they are based on different input data (various factors are treated differently, such as the average market spot price, the bid price of third-party indices, product quality, and basic delivery terms).

The shortage of chrome ore combined with continued growth in demand for stainless steel is expected to continue to drive rising ferrochrome prices in the future.



Geography of the Distribution Channels

IN 2018, THE GROUP SOLD A TOTAL OF 1.6 MT FERROALLOYS

750 BLN TENGE

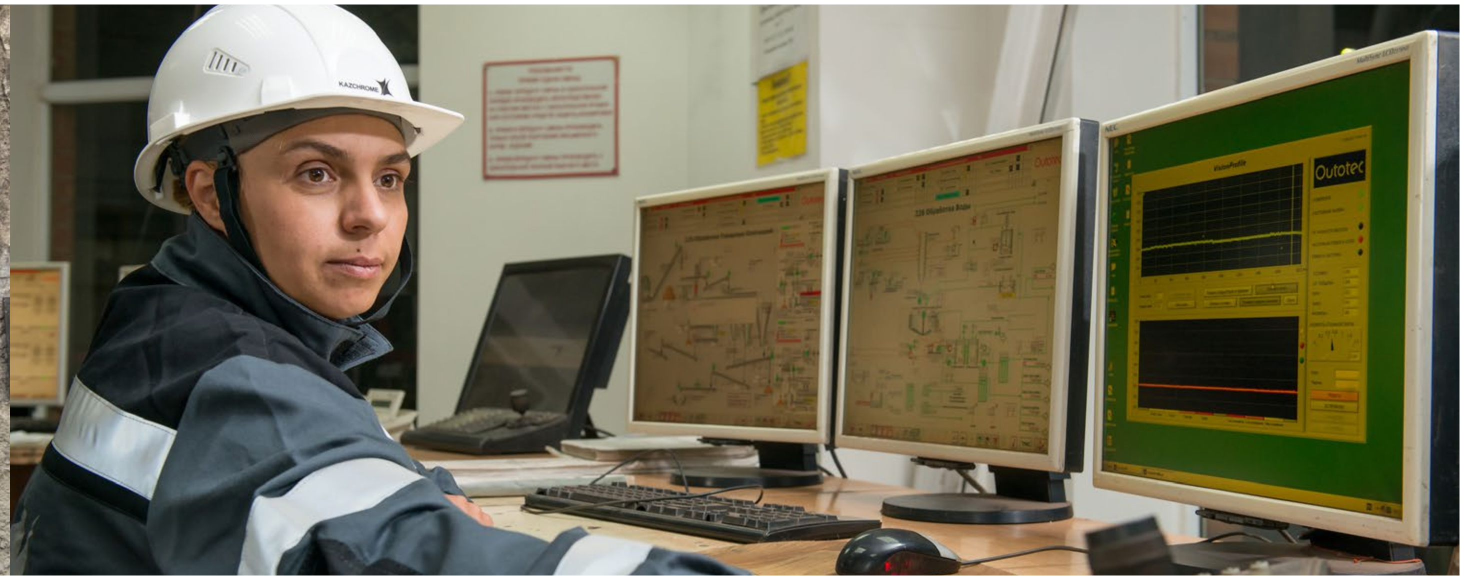
THE TOTAL VOLUME OF SALES REVENUE OF THE COMPANY IN 2018

42 %	25 %	16 %	7 %	6 %	4 %
China	Japan	Europe	South Korea	USA	Others

STRATEGY OVERVIEW

Kazchrome's long-term strategy is aimed at strengthening its leading positions in the global chrome alloys market".

Arman Yessenzhulov
President of TNC Kazchrome JSC



Kazchrome's strategy is focused on retaining and strengthening its world-leader position in the ferroalloy industry, supplying the global market with high-quality chrome in accordance with the principles of efficiency and sustainable development, while generating positive free cash flow throughout the whole cycle.

To implement Kazchrome's leadership vision, the Company has determined its strategic priorities for gaining a competitive edge in the key areas of its activity.

The three key strategic objectives of Kazchrome include

1. Ramp up of production

Kazchrome will continue to use a proactive approach and implement programmes to improve operational efficiency and expand mining and production capacities to ensure prompt response to market trends. In the coming years, the market is forecast to grow due to increasing demand from the main consumer countries, thereby expanding opportunities for Kazchrome.

2. Increasing efficiency

Together with the world-class experts in metallurgy, Kazchrome develops and introduces large-scale projects for increasing operational efficiency and reducing costs at its enterprises..

3. Maintaining a sustainable level of reserves and expanding expertise

Kazchrome is continually engaged in the exploration, discovery and evaluation of new mineral deposits, and is undertaking various projects, including joint ventures, mergers and acquisitions. The in-house training system is continuously being improved, thereby maintaining a high level of personnel skills and productivity.

To ensure the Company's consistent and successful growth in line with the above-stated strategic priorities, a number of areas have been identified for promoting the Company's development and implementing its long-term strategy:

» Technological advantage

Kazchrome strives to introduce cutting-edge technologies with an emphasis on several applications, for example data and IT infrastructure, condition-based maintenance, and integrated geological modelling. In addition, Kazchrome is continuously improving its asset management and material resource accounting systems, including the development of an electronic risk management system.

» Improvement of skills

The main areas of skill development include exploration works, reserves management, commercial activity, major project management, HR management, analytics and digitalisation. Kazchrome invests in training young professionals and organises forums for the exchanging of experience between generations.

» Sustainable development

Kazchrome will focus on improving its sustainable development standards, especially those concerning health and safety, as well as environmental protection. In order to comply with international standards of sustainable development, the Company annually invests in programmes of environmental emission reduction and rehabilitation of adjacent areas and supports the population of the cities where its enterprises are located through social programmes.

Optimisation and growth initiatives

Committed plans in progress

Full-scale ramp-up of capacity at the Aktobe Ferroalloy Plant Workshop No. 4

One of the main objectives for commissioning Workshop No. 4 at Aktobe Ferroalloy Plant is the modernisation of the smelting process. The elimination of the sintering stage from the process will reduce both current capital expenditures and operating expenses. Total investment in Workshop No.4 at the Aktobe Ferroalloy Plant amounted to US$950 million.

Increase capacity at the Aksu Ferroalloy Plant Workshop No. 6

The project involving the reconstruction of four existing furnaces in Workshop No. 6 of Aksu Ferroalloy Plant aims to further increase high-carbon ferrochrome production, while simultaneously reducing production costs and extending the life of the workshop. Furnace reconstruction started in 2017, and the works are expected to be completed by 2024.

Expansion of 10th Anniversary Mine

Over the past 15 years, the Company has invested US$350 million in Stage 2 construction, and plans to make additional investments to expand the resource base.

Increase capacity for low-carbon ferrochrome production at Aksu Ferroalloy Plant Workshop No. 4

The reconstruction of the only furnace in Workshop No. 4 of Aksu Ferroalloy Plant that will ensure additional production of low-carbon ferrochrome is expected to begin in 2021, and to reach the design capacity level by 2023.

This major reconstruction project will replace the less efficient Workshop No. 2 at the Aktobe Ferroalloy Plant. The increase in chrome yield will reduce production costs, while elimination of the need to smelt ferrochrome silicon will reduce electricity costs

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Operational efficiency improvement programme

In 2015, Kazchrome initiated a programme to improve operational efficiency, and in July 2017 appointed one of the world's leading consulting companies to identify ways to improve operational performance. More than 180 initiatives were identified, the key ones being associated with the increasing accessibility of resources, enhancing productivity, and ramping-up capacity and mining volumes. Initial analysis suggests the implementation of these initiatives would lead to a further increase in production.

Potential plans under consideration

Kazchrome plans to construct a power plant to improve power supply at the Donskoy GOK mine and therefore enhance the Company's operational and financial performance.

Kazchrome 2.0 – Existing capacity expansion project

Strategic development programme

A Tier 1 resource base and integrated low-cost production secures Kazchrome's strategic advantage in ferrochrome production. Kazchrome 2.0, a planned project to expand existing capacity, is expected to help address the anticipated shortage in the chrome ore and ferrochrome market after 2020.

Positive project concept studies as well as external assessments by Hatch have been followed by a preliminary feasibility study for Kazchrome 2.0. Kazchrome 2.0 will strengthen the Company's position as a key strategic supplier in the ferrochrome market by providing an industry advantage both in terms of prices, and in production volumes of chrome ore and ferrochrome.

Preliminary feasibility study for Kazchrome 2.0

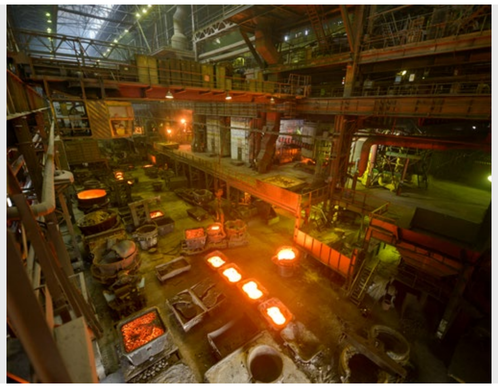
A preliminary feasibility study revealed the potential to increase production to 7.5 million tonnes of chrome ore per year (with potential for further increase). The corresponding potential increase in ferrochrome production is estimated by the Company to reach 0.9 million tonnes per year by 2030.

The Company shall continue the phased evaluation of this project, accounting for potential and emerging project risks and changes in external market conditions.

Expansion plan overview

Kazchrome 2.0 envisages a major expansion of the entire Company's value chain, including the 10th Anniversary Mine, and will provide additional processing and metallurgic capacities.

Summary of major expansion areas under the Kazchrome 2.0 project

MINING	INCREASE IN ORE MINING VOLUMES		• 10th Anniversary Mine capacity expansion • Total investments under the programme cover: – Geological and geotechnical data; – Increase in hoisting capacity and repurposing of the air intake shaft; – Introduction of a mechanised cut-and-fill complex; – Key infrastructure
BENEFICIATION	USE OF STAND-BY CAPACITIES FOR BENEFICIATION		• To upgrade beneficiation processes to obtain required feed volumes for subsequent smelting, processing can be performed using additional sets of pelletisers and a low-carbon ore processing plant
METALLURGY	EXPANSION OF METALLURGIC CAPACITIES		• Additional furnaces will be required (mainly AC ones) • Decisions on investments are taken step-by-step and may be adjusted to comply with the expected market conditions
ELECTRIC POWER	ENSURING SUFFICIENT ELECTRIC POWER SUPPLY		• A new power plant will provide power supply to project facilities

Source: IFC, Kazchrome, and ERG

OVERVIEW OF OPERATIONAL RESULTS

"In 2018, the Company managed to achieve impressive results at all stages of its operations. The Company focused on manufacturing products that were in high demand in the market."

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

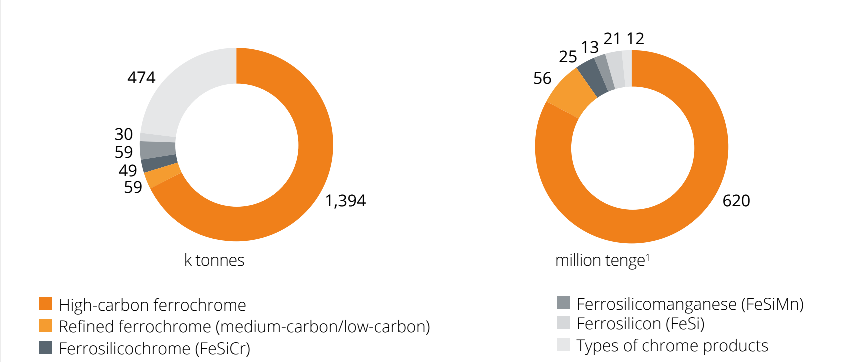
Products, Sales, Markets and Consumers

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

Products

Kazchrome's key products include high-carbon, medium-carbon and low-carbon ferrochrome with a low impurity level. 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. Thus, Kazchrome is able to optimise the range of its products in order to diversify its end customer base and maximise profit.

SALES PROFILE IN 2018



In 2018, the Company sold more than **1.4 million tonnes** of high-carbon ferrochrome and about **200,000 tonnes** of other ferroalloy , which amounts to

a total of **1.6** million tonnes of ferroalloys

Sales, Marketing and Consumers

The Company's marketing strategy focuses on end consumers and markets requiring high-quality products and reliable supplies. Since 2015, Kazchrome has been cooperating with a trader who assisted in establishing long-term cooperation with Kazchrome's end consumers. In 2018, the trader accounted for 94.9% of the Company's total revenue.

At the moment, Kazchrome sells its products under a number of long-term contracts, both through the trader and in the spot market. Long-term contracts enable the Company to mitigate potential risks associated with sales volumes, while the spot market sales allow the Company to benefit from market distortions and maximise value.

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Reserves and Resources

Kazchrome's Chromtau chrome deposits are located in the South Ural Mountains in the Kempirsaisky area, an ophiolite belt stretching over 2,000 km2. The Chromtau deposits are the largest and have the highest cut-off grade in the Kempirsaisky area. The Donskoy GOK mine lies within the main ore field and is focussed on deposits within a 22km by 7km area.

The 10th Anniversary Mine has been explored to the depth of 1,200 m, and has reserve and resource upgrade potential for a life of mine extension. The Company has recently completed an exploration programme in the western section of 10th Anniversary Mine (Zapadny section), which has revealed additional reserves. Furthermore, Kazchrome currently implements a regional exploration programme, which involves drilling operations in the Geofizichesky region, about 10 km north of the Molodezhnaya Mine.

221.7 million tonnes of chrome ore that is unique in its quality, with an average chromium content of **50%**

[1] Sales do not include other income

Mineral Resources and Reserves Report: Donskoy GOK

Donskoy GOK's resource base is the largest in the industry and includes 221.7 Mt tonnes of chrome ore that is unique in its quality, with an average chromium content of 50% and a low impurity level. Proven and estimated reserves amount to 179.9 Mt tonnes and are sufficient to support the mine operation for more than 40 years at the current production level, with considerable potential for further expansion.

Reserves and chrome ore

Deposit	Category	Tonnage (Mt)	Average content of ore Cr_2O_3 (%)	Content of Cr_2O_3 (Mt)
10th Anniversary Mine	Proven and probable reserves	167.5	42.1	70.5
	Measured and indicated reserves	175.2	50.4	88.2
	Inferred mineral resources	34.0	47.9	16.3
	Total mineral resources	209.1	50.0	104.5
Molodezhnaya Mine	Proven and probable reserves	10.1	40.5	4.1
	Measured and indicated reserves	9.8	50.8	5.0
	Inferred mineral resources	–	–	–
	Total mineral resources	9.8	50.8	5.0
Yuzhny Open Pit Mine	Proven and probable reserves	2.3	43.2	1.0
	Measured and indicated reserves	2.5	51.7	1.3
	Inferred mineral resources	–	–	–
	Total mineral resources	2.5	51.7	1.3
Zapadny	Proven and probable reserves	1.5	35.4	0.5
	Measured and indicated reserves	1.5	43.7	0.7
	Inferred mineral resources	–	–	–
	Total mineral resources	1.5	43.7	0.7
Geophysical VII	Proven and probable reserves	–	–	–
	Measured and indicated reserves	0.2	41.2	0.1
	Inferred mineral resources	–	–	–
	Total mineral resources	0.2	41.2	0.1
Total: Donskoy GOK	**Total proven and probable reserves**	**179.9**	**42.0**	**75.6**
	Total measured and indicated reserves	**187.7**	**50.4**	**94.6**
	Total inferred resources	**34.0**	**47.9**	**16.3**
	Total mineral resources	**221.7**	**50.0**	**110.9**

Mineral resources and reserves report: Kazmarganets

Manganese ore reserves and resources

Deposit	Category	Tonnage (Mt)	Content of Mn (%)	Content of Fe (%)	Content of Mn (Mt)	Content of Fe (Mt)
Tur Mine	Proven and probable reserves	1.1	24.4	8.9	0.3	0.1
	Measured and indicated reserves	1.1	26.1	9.5	0.3	0.1
	Inferred mineral resources	0.8	21.2	6.3	0.2	0.1
Total: Kazmarganets	**Total mineral resources**	**1.9**	**24.0**	**8.1**	**0.5**	**0.2**

Source: Minerals Expert Report prepared by SRK Consulting (UK) Limited. Report as of 1 January 2018.

Notes: 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 regraded 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.

Mineral resources at Kazmarganets reach 1.9 million tonnes of manganese ore with an average cut-off grade of 24%.

Mineral deposits are owned by the Government of the Republic of Kazakhstan. Kazchrome has entered into subsoil use contracts with the Government. 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 respective life of mine.

Overview of subsoil use contracts

Existing subsoil use contracts

Contracts	Location	Start	Contract Renewal Date	Mine(s)	Division
Chrome ore extraction	Chromtau 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	Chromtau District of Aktobe Region	2015	2021	South Kempirsai ore field	Donskoy GOK
Exploration for chromite ore	Ayteke Bi and Chromtau Districts of Aktobe Region	2019	2025	Bilge ore occurrence	Donskoy GOK

Source: Kazchrome

Note: In January 2019, Kazchrome entered into a contract for chromite ore exploration at Bilge ore occurrence in Aktobe Region over six years.

Operating Assets

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

The Aktobe Ferroalloy 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 for the Aktobe Ferroalloy Plant and all the electric power for the Aksu Ferroalloy Plant. Another ERG subsidiary, Shubarkol Komir JSC, is one of the suppliers of coal (and semi-coke) for the Aktobe Ferroalloy Plant and Aksu Ferroalloy Plant. Semi-coke is used as a reducing agent in ferroalloys production.

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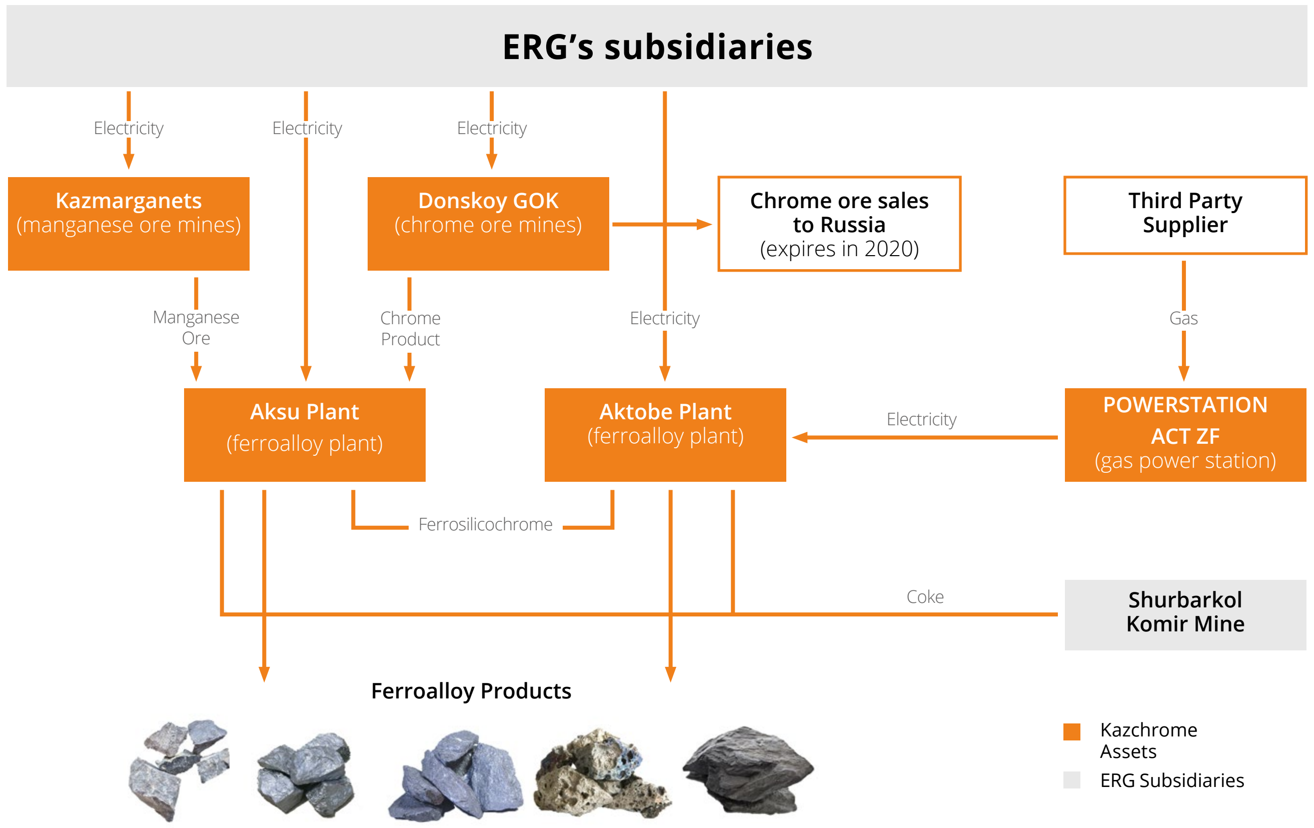
Highly-integrated production process



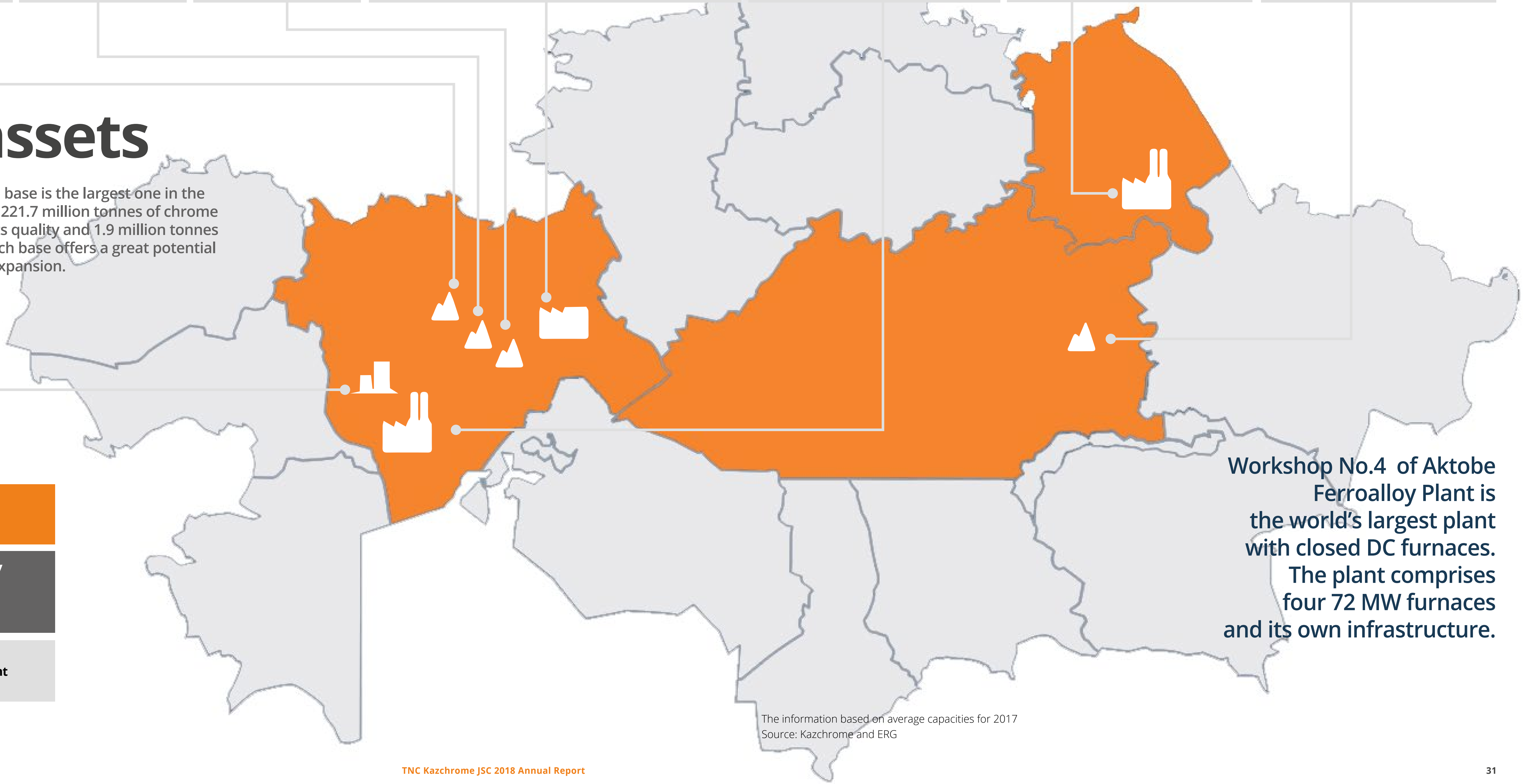
Source: Kazchrome and ERG

Note: Chrome products and manganese ore are transported between Kazchrome's operating assets by ERG's Logistics Division. In addition, a small portion of chrome products is currently sold to third parties under a contract, which is due to expire in 2020. Upon contract expiration, all products will be used internally for increasing ferroalloys production.

Mining			Processing	Metallurgy and smelting		Mining and processing
Donskoy GOK				Aktobe Ferroalloy Plant	Aksu Ferroalloy Plant	Kazmarganets
2,500 ktpa	**2,300 ktpa**	**600 ktpa**	**5,500 ktpa**	**600 ktpa**	**1,100 ktpa**	**200 ktpa**
High-grade ore, low-grade ore	**Medium-grade ore**	**Medium-grade, high-grade ore**	**High-grade ore, concentrates, briquettes**	**Ferrochrome, ferrosilicochrome**	**Ferrochrome, ferrosilicochrome**	**High-grade ore, concentrates, briquettes**
10th Anniversary Mine	Molodezhnaya Mine	Yuzhny Open Pit Mine	DOF-1, FOOR	Workshop No. 1 of Aktobe Ferroalloy Plant Workshop No. 2 of Aktobe Ferroalloy Plant Workshop No. 4 of Aktobe Ferroalloy Plant	Workshop No. 1 of Aksu Ferroalloy Plant Workshop No. 2 of Aksu Ferroalloy Plant Workshop No. 4 of Aksu Ferroalloy Plant Workshop No. 6 of Aksu Ferroalloy Plant	Tur Mine

Our assets

Kazchrome's resource base is the largest one in the industry and includes 221.7 million tonnes of chrome ore that is unique in its quality and 1.9 million tonnes of manganese ore. Such base offers a great potential for further business expansion.



Electric power
Aktobe Ferroalloy Plant
Power plant of Aktobe Ferroalloy Plant 135 MW

Workshop No.4 of Aktobe Ferroalloy Plant is the world's largest plant with closed DC furnaces. The plant comprises four 72 MW furnaces and its own infrastructure.

The information based on average capacities for 2017
Source: Kazchrome and ERG

FINANCIAL REVIEW

"In 2018, Kazchrome once again demonstrated par performance. Transparency, commitment to enhancing business efficiency, and the focus on the products and services quality are the key drivers of future growth."

Arman Yessenzhulov
President of TNC Kazchrome JSC

Accounting principles

This review of Kazchrome's financial performance is intended for understanding and assessing the trends and major changes associated with Kazchrome's operating activities and financial position. The review has been prepared based on the Company's audited consolidated financial statements, without significant adjustments unless otherwise stated. All financial data and considerations have been drawn up under International Financial Reporting Standards (IFRS) and in line with the accounting policies applied in the preparation of consolidated financial statements for the years ended 31 December 2016, 2017 and 2018.

The Company's functional currency is the national currency of the Republic of Kazakhstan, the Kazakhstani tenge. All references to dollars in this report are to US dollars.

PricewaterhouseCoopers LLP (Kazakhstan) is the auditor of the Company. Audited financial statements with the Auditor's analysis are included in Section 10[1].

Income statement

The Table below contains the financial data from the Company's consolidated results in 2016–2018 ('000 tenge)

Indicators	2016	2017	2018
Revenues	533,120,365	702,097,306	**750,056,337**
Cost of sales	(236,286,269)	(306,642,959)	**(357,709,908)**
Gross profit	**296,834,096**	**395,454,347**	**392,346,429**
Distribution costs	(4,311,437)	(5,382,635)	**(5,658,876)**
General and administrative expenses	(43,771,670)	(49,301,304)	**(77,214,740)**
Other operating income / expenses	250,959	(5,804,633)	**8,314,015**
Operating profit	**249,001,948**	**334,965,775**	**317,786,828**
Finance income	117,436,238	109,788,042	**76,278,317**
Finance expenses	(97,708,330)	(84,701,935)	**(191,329,830)**
Share in profits of associates and joint venture after tax	1,436,234	–	**–**
Profit before income tax	**270,166,090**	**360,051,882**	**202,735,315**
Income tax expense	(55,874,294)	(71,154,284)	**(32,859,293)**
Profit for the year	**214,291,796**	**288,897,598**	**169,876,022**
Discontinued operations			
Income from discontinued operations	–	16,557,155	**7,072,180**
Profit for the year	**214,279,796**	**305,454,753**	**176,948,202**

The main factors behind the trend of operating profit growth include the increase in ferroalloy sales and the Company's efforts to cut costs through production intensification. Over the past three years, the Company has increased its ferroalloys sales to 1.6 Mt in 2018 (up 11% on 2016 sales) by boosting production while maintaining the same margins by implementing initiatives to improve operational efficiency.

[1] For Audited Consolidated Financial Statements and Independent Auditor's Audit Report, see page 64

Revenue

Data on ferroalloys production, sales and revenue ('000 tenge)

Indicators	2016	2017	2018
Ferroalloys production (k tonnes)			
High-carbon FeCr	1,255	1,363	**1,482**
Medium- and low-carbon FeCr	44	60	**59**
Si alloys and other ferroalloys	203	202	**201**
Total ferroalloys production	**1,502**	**1,625**	**1,742**
Ferroalloys sales (k tonnes)			
High-carbon FeCr	1,214	1,278	**1,394**
Medium- and low-carbon FeCr	39	65	**59**
Si alloys and other ferroalloys		138	**138**
Total ferroalloys sales (k tonnes)	**1,427**	**1,481**	**1,591**
Average ferroalloys selling price (US$/tonne)[1]			
High-carbon FeCr	1,060	1,359	**1,157**
Medium- and low-carbon FeCr	2,369	2,552	**2,486**
Si alloys and other ferroalloys	848	1,142	**1,121**
Revenue ('000 tenge)			
High-carbon FeCr	429,162,731	577,119,670	**619,418,207**
Medium- and low-carbon FeCr	31,582,265	55,615,368	**56,343,927**
Si alloys and other ferroalloys	49,438,278	52,469,319	**59,415,243**
Others	22,937,091	16,892,949	**14,878,960**
Total revenue	**533,120,365**	**702,097,306**	**750,056,337**

Note: (1) The following official exchange rates were used to calculate of average ferroalloys selling prices:
as of 31 Dec 2016: 333.29 tenge/US$; as of 31 Dec 2017: 332.33 tenge/US$; as of 31 Dec 2018: 384.20 tenge/US$

In 2017, the revenue rose to 702,097 million tenge as compared to 533,120 million tenge in 2016 (an increase of 32%) mainly due to an increase in the average realised price for high-carbon ferroalloys (+28.1%) and an increase in sales (+5.2%). In 2018, the revenue amounted to 750,056 million tenge (7% growth year-on-year). The key revenue driver was a 9% growth in production volume and sales of high-carbon ferrochrome due to the implementation of production efficiency improvement measures, including the increase in production of Workshop No. 4 at Aktobe Ferroalloy Plant.

Cost of sales

In 2018, the cost of sales grew by 51,067 million tenge (+17%) year-on-year, which was due to an increase in high-carbon ferrochrome production in 2018, and a rise in the prices of basic materials (electrodes, reducing agents) by 28,539 million tenge.

In 2017, the cost of sales grew by 70,357 million tenge (+30%) compared to 2016, due to production ramp-up at Workshop No. 4 at Aktobe Ferroalloy Plant and also due to an increase in prices for reducing agents and electrodes, and to the prices for electric power and related services.

It should be noted that the Company continuously implements the Operational Efficiency Improvement Programme, involving annual activities aimed at cost reduction and production intensification, as well as resource and energy saving initiatives. Details of the major cost of sales items are given in the Table below.

Cost of sales ('000 tenge)

Indicators	2016	2017	2018
Materials and components (including fuel and transport)	87,898,726	135,737,814	**64,276,499**
Electric power	50,518,622	64,582,612	**67,864,563**
Staff costs	34,791,002	38,904,656	**43,437,311**
Depreciation and amortisation	24,345,117	34,600,868	**37,244,238**
Mineral extraction tax	15,502,190	17,253,201	**19,554,497**
Other cost of sales	20,682,561	15,563,808	**25,332,800**
Cost of sales	**236,286,269**	**306,642,959**	**357,709,908**

General and administrative expenses

The Company's general and administrative expenses grew by 27,913 million tenge in 2018 (+57.0%) due to an increase in sponsorship and charitable donations (+9,104 million tenge), higher information, consulting and other professional services (+8,225 million tenge) and an increase in other general and administrative expenses (+9,397 million tenge).

General and administrative expenses grew by 5,529 million tenge (+13.0%) in 2017, partly as a result of an increase in sponsorship and charitable donations (+8,059 million tenge).

General and administrative expenses ('000 tenge)

Indicators	2016	2017	2018
Information, consulting and other professional services	10,905,465	14,377,531	**22,602,458**
Sponsorship and charity	10,626,158	18,685,028	**27,789,514**
Staff costs	7,949,123	7,356,417	**8,418,942**
Depreciation and amortisation	1,777,578	1,786,053	**1,876,861**
Other taxes except income tax	577,170	394,553	**647,396**
Impairment of receivables	(553,084)	397,046	**177,513**
Other general and administrative expenses	12,489,260	6,304,676	**15,702,056**
Total general and administrative expenses	**43,771,670**	**49,301,304**	**77,214,740**

Capital expenditures

From 2016 to 2018, Kazchrome invested US$483 million in the business, allocating US$239 million for development projects, US$231 million for maintenance projects and US$13 million for other projects.

Capital expenditures (US$ million)

Indicators	2016	2017	2018
New construction	57	70	**91**
Expansion of production	4	1	**4**
Purchase of new equipment	1	2	**9**
Development projects	**62**	**73**	**104**
Purchase of equipment	32	36	**47**
Reconstruction and upgrading	1	2	**2**
Capitalised repair and maintenance costs	18	18	**18**
Infrastructure maintenance	8	11	**10**
Introduction of IT systems	–	1	**2**
Mining and capital operations	–	14	**11**
Care and maintenance projects	**59**	**82**	**90**
Other projects	**1**	**3**	**9**
Total capital expenditures	**122**	**158**	**203**

The main items of capital expenditure on development for the period between 2016 and 2018 include:

- continued investment in the project to expand the production capacity of the 10th Anniversary Mine (Phases 1 and 2), amounting to US$152.4 million (2016: US$40.4 million, 2017: US$56.8 million, 2018: US$55.2 million);
- the increase in production capacity of Workshop No.4 at the Aktobe Ferroalloy Plant, requiring an investment of US$39.7 million (2016: US$16.2 million and 2017: US$4.5 million, 2018: US$19.1 million);
- investment of US$49.7 million in Workshop No.6 at the Aksu Ferroalloy Plant to increase its production capacity (2016: US$1.8 million and 2017: US$ 22.2 million, 2018: US$ 25.7 million).

Care and maintenance projects are aimed at equipment replacement, renovation and upgrading of fixed assets, maintenance of production infrastructure and introduction of production IT systems. Other projects include research work, health and safety, environment protection, social responsibility projects, etc.

Current debt

On 22 October 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 billion.

The maturity period under the Credit Agreement runs to October 2023. The reference rate is set at 5.95% per annum, taking into account possible rate adjustments. The reference rate shall in no case exceed the maximum rate of 6.70% per annum or be lower than the minimum rate of 5.95% per annum. In October and November 2018 part of the loan was reassigned from VTB Bank (PJSC) to RCB Bank Ltd.

RISK MANAGEMENT

The Kazchrome Risk Management System gives adequate assurance of achieving strategic and operational goals.

Risk Management System

Kazchrome's 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 Group's activities. All Group 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 Kazchrome level (Management Board and Board of Directors) and at the ERG level (Board of Managers and Executive Committee), which are accompanied by supporting functions, including the Risk Management and Internal Control Function, Compliance Function, and the Risk Management and Internal Audit Directorates at the ERG level.

This approach is reflected in the three protection levels:

- First security level – operational managers identify and manage risks. Each risk is owned by a specific manager who responds to and addresses the risk quickly and adequately.
- Second security level – the continual monitoring of the adequacy, effectiveness and promptness of supervision implemented by the first security level using Kazchrome's supervision services, e.g. risk management, internal audit, compliance, quality management, security, etc.
- Third security level – the evaluation of corporate risk management through regular internal and/or external audit.

Geopolitical, Economic and Sectoral Backdrop

Kazchrome's assets are located in different regions of Kazakhstan, whereby the general political climate inside the country is favourable. The likelihood of interstate conflicts and emergency situations remains low, and none of these factors have ever had any significant impact on our activities. However, Kazchrome is still exposed to these uncertainties.

The mining industry is vulnerable to its inherent technological and geological risks, which, together with adverse weather conditions, can lead to a substantial decrease in asset value. Moreover, evaluations of ore reserves are based on uncertain assumptions that, if changed, may result in the need to recalculate ore reserves and mining plans. Additionally, the increase in data fraud and malicious electronic attacks worldwide may adversely affect Kazchrome's value protection system.

One or more of the key risks described below may seriously damage financial performance, operations, project implementation strategy or the company image. Continual risk management efforts include ongoing monitoring, risk mitigation actions, and the development of contingency plans to ensure business continuity.

Key Risks and Their Management

Additional risks, as yet unknown to the Company, and other risks that are not currently considered significant but could potentially have a major impact on its operations and financial results may arise. Therefore, continual risk management efforts are critical to the successful achievement of Kazchrome's goals.

RISK MANAGEMENT

MARKET RISKS

KEY RISKS

A substantial decline in – or volatility around – commodity prices are highly sensitive risk factors for the mining industry. They could materially affect the Company's operations and financial results, as well as the book value of its assets and cash flow forecasts.

RISK MANAGEMENT APPROACH

- Monitor market prices, global sales and internal inventory levels regularly;
- Monitor trends and make regular forecasts of sales volumes and prices for each type of commodity of the company;
- Adjust output volumes and types to respond to market conditions;
- Apply formula pricing to key sales contracts;
- Hedge commodity prices.

HEALTH, SAFETY AND SECURITY RISKS

KEY RISKS

- The nature and location of the Company's operations mean they have, in the absence of appropriate controls, the potential to undermine the physical wellbeing and health of employees, contractors and community members. The Company adheres to international and regional laws and regulations regarding safety and environmental protection.

RISK MANAGEMENT APPROACH

- Apply OHSAS 18001-certified and/or aligned occupational health and safety management systems standards including local safety regulations;
- Develop and implement integrated security enhancement programmes. Security is a priority for the Company in its operating activities;
- Apply workplace safety policies and standards;
- Report all sustainable development indicators regularly to the management.

FINANCIAL RISKS

KEY RISKS

- Deterioration of cash flow and profitability could adversely affect the Company's ability to meet its existing financial obligations, including debt repayments;
- Most of the Company's production expenses are denominated in the Kazakhstani tenge and the US dollar, while the majority of sales are denominated in the US dollar alone;
- The Company is exposed to the risk of an increase in interest costs caused by step-ups in facility agreements. Interest rates can also be affected by changes in exchange rates and inflation.

RISK MANAGEMENT APPROACH

- Seek, where possible, to manage the risk of exchange rate volatility by offsetting cash flows in the same currency;
- Determine the risk associated with major foreign currency transactions as such transactions occur, and, if necessary, develop a hedging programme;
- Maintain and regularly update detailed cash flow budgets and forecasts to deliver accurate insight into the Group's liquidity requirements;
- Require that all customers and financial counterparties undergo a review process;
- Make allowances for the inflation factor in business planning.

COMPLIANCE RISKS

KEY RISKS

Some of the Company's assets are exposed to legal compliance risks in terms of:

- Bribery and corruption prevention;
- Sanctions;
- Human rights;
- Personal data protection;
- Anti-money laundering and counter-financing of terrorism;
- Fraud-prevention;
- Tax;
- Environment protection;
- Licensing.

RISK MANAGEMENT APPROACH

- Embed the Non-Admission of Violations principle in the Group's policies, apply it at the management level and communicate it regularly to employees;
- Provide and operate a dedicated 24-hour hotline that is continuous, anonymous, confidential and operated by a third-party;
- Respond promptly to the enforcement of regulatory requirements and maintain an open dialogue with regulatory authorities.

PRODUCTION AND OPERATIONAL RISKS

KEY RISKS

- The failure of sophisticated technological processes, extreme weather conditions, power interruptions and non-compliance with operational procedures represent key risks that have the potential to result in serious safety incidents (including fatalities), environmental harm and business interruption;
- The Company seeks to identify catastrophic operational risks (including pit flooding and the physical integrity of its pit slopes, tailings dams and underground mines, etc.) and implements effective controls that are monitored on an ongoing basis.

RISK MANAGEMENT APPROACH

- Seek to identify and mitigate catastrophic operational risks (mine collapse, tailings dam collapse, mine flooding, collapse of the underground mine) and implement efficient control measures;
- Employ independent third-party inspectors to carry out regular risk assessments at the Group;
- Apply a risk-based maintenance programme on an ongoing basis;
- Conclude property damage insurance contracts and business interruption insurance contracts and extend them annually.

CAPITAL PROJECT EXECUTION RISKS

KEY RISKS

The Company continues to implement major capital projects. A failure to deliver such projects within planned timeframes, budgets and quality criteria could negatively affect profitability and the Company's reputation in the long run.

RISK MANAGEMENT APPROACH

- Implement a transparent stage-gate approach that integrates project risk management principles;
- Consolidate and enhance capital project planning and execution via the dedicated ERG Capital Projects company;
- Procure insurance policies for major capital projects (e.g. construction all risks insurance and delay in start-up insurance);
- Enhance project due diligence in the mine planning process (including the input of third-party experts).

SUSTAINABLE DEVELOPMENT REVIEW

"The sustainable development principles are integrated into our business strategy and translated into day-to-day operations of the Company."

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

Kazchrome launched its five-year strategy to align its business with ERG's 2025 strategy, which is to become an international, sustainable, socially responsible and efficient natural resources company. This integrated strategy is underpinned by well-defined strategic goals, key performance indicators (KPIs) and implementation levers.

In this context, the Company will aim to:

- Be sound and flexible to thrive in the long term, regardless of market volatility. The recent decline in commodity prices has demonstrated the need to optimise the business as a whole, including operational efficiencies, and to apply innovative techniques;
- Understand the needs of its stakeholders and create opportunities and benefits for them on an ongoing basis. This will help the Company manage its strategic risks and take full advantage of its strategic opportunities.

This approach will help Kazchrome make better business decisions, whilst also making the most efficient use of the resources available. In addition, it will support a more holistic approach to corporate management, with due consideration for the interests of all our stakeholders. This not only includes the interests of our shareholders, customers and creditors, but also those of our employees, local communities, local state authorities and society in general.

The Company's five-year strategy is an integral part of the day-to-day work of every manager and employee, regardless of their location and position. This will be achieved through:

- The integration of strategic goals into employees' KPIs, thus directly influencing their remuneration;
- The clear assignment of responsibility for strategic initiatives amongst senior managers;
- A comprehensive internal communication campaign;
- Dedicated strategy training.

Sustainable development involves the responsible management of the Company's environmental footprint, as well as the promotion of social development. It is also about achieving:

- The sustainability of the business as a whole, by ensuring that Kazchrome's culture, strategy, processes, technologies, competencies and decision-making help us weather future challenges and support long-term value creation;
- Long-term, sustainable growth that adds value and delivers benefits to stakeholders: shareholders, customers, business partners, host governments, employees, and – especially – to local communities.

Thus, sustainable development is an integral part of Kazchrome's business model and is being increasingly integrated into our core business processes. This includes through our Health, Safety and Environment Management System. In 2016, international assurance organisation TÜV confirmed the compliance of the Company's management systems with the ISO 9001 (quality), ISO 14001 (environment), OHSAS 18001 (occupational health and safety) and ISO 50001 (energy) international management system standards.

Human Resource Development

Employees represent the Company's most valuable assets and are vital partners in achieving its strategic goals. Kazchrome prioritises the well-being of all its employees, as well as the creation of a favourable environment for their growth and development.

Kazchrome's annual employee training and development programme – which includes both legally required training as well as supplementary, advanced training – is aligned with the Company's strategic priorities and reflects relevant operational changes. In 2018, Kazchrome spent a total of 320 million tenge on staff training.

As subsoil users, Donskoy GOK and Kazmarganets Mining Enterprise are subject to contractual obligations with respect to the amount of funding they allocate to training, advanced training and the retraining of relevant Kazakh workers. In 2018, this spending amounted to 120.4 million tenge and 21.3 million tenge respectively.

Average salaries across the Company have increased by 16.9% over the last three years. A further increase is planned for 2019 and will affect all Company enterprises.

19,237 employees
Company headcount at the end of 2018

39 years
Average age of Company employees

50 new jobs
created in 2018

10 years
Average length of service of Company employees

7.2 %
Average turnover rate in 2018

Environmental Protection

Kazchrome is in compliance with all applicable environmental regulations. All of the Company's modernisation and expansion projects have passed mandatory State Environmental Reviews (SERs). With the exception of the Aktobe Ferroalloy Plant, the Company's manufacturing operations are not located near significant surface water bodies. Similarly, none of the manufacturing operations are located in or near wildlife management areas, protected natural sites or cultural heritage sites. In 2018, Kazchrome was not subject to any fines, non-financial sanctions or formal complaints from environmental regulators.

Kazchrome has a health, safety and environmental management system that is certified to the OHSAS 18001 (occupational health and safety) and ISO 14001 (environment international standards). The Company also applies the ISO 9001 (quality) management standard. The Company regularly audits its quality management health, safety and environmental management to ensure continuous improvement across its operations. Furthermore, it implements a range of environmentally responsible initiatives relating to:

- Air quality (including the application of state of the art gas cleaning units during metallurgical production, dust suppression and tree planting);
- Water quality (including waste water monitoring, waste water treatment and environmentally-friendly dewatering methods);
- Waste management (including the reprocessing of ferrochrome slag, recycling, waste sorting and waste reduction).

In addition, the Company analyses applicable environmental legislation and regulations to improve its compliance on an ongoing basis.

Environmental protection investments ('000 tenge)

Indicators	2016	2017	2018
Protection of water resources	2,604,115	2,931,126	**3,793,672**
Air quality protection	3,699,993	3,217,766	**4,459,632**
Waste management	5,741,612	8,928,523	**8,793,844**
Land recultivation	265,743	57,041	**165,688**
Other capital and operational expenditure	196,084	1,275,796	**1,300,801**
Total:	**12,507,546**	**16,410,252**	**18,513,637**

Kazchrome is focused on the continuous improvement of its production process to reduce its environmental impact. This includes, for example, the plans to develop a project to construct a semi-enclosed internal water supply system to maximise water savings. The system also enables the treatment of sludge, which can be re-used for chrome ore pellets production. The project won the Innovators' Forum contest in 2017, and Kazchrome expects to implement the solution by the end of 2020. The cost savings that the project will achieve over its lifetime are expected to be greater than the upfront cost of implementation.

Similarly, the Aksu Ferroalloy Plant is renovating Smelting Workshop No. 6 as part of one of the Company's largest investment projects. The application of new smelting technology at the workshop will increase production without a corresponding increase in power consumption – reducing per-unit emissions. Furthermore, the use of sealed furnaces will also make the smelting process safer.

Occupational Health and Safety

Occupational health and safety (OHS) represents a key priority for the Company's management. Kazchrome complies with national OHS standards, and applies active OHS management at its operations. This includes measures to prevent fatalities, physical injuries and occupational diseases, as well as the reporting of incidents.

Kazchrome maintains a system of employee warning notices, and a total of 33,829 notices were collected in 2018. It is an effective way to receive feedback from employees, each of whom is encouraged to report any safety violations, dangerous actions or conditions in their workplace, and potential risks. Employees are also encouraged to propose safety improvements. All notices are reviewed on a daily basis by production managers to ensure the immediate implementation of corrective measures.

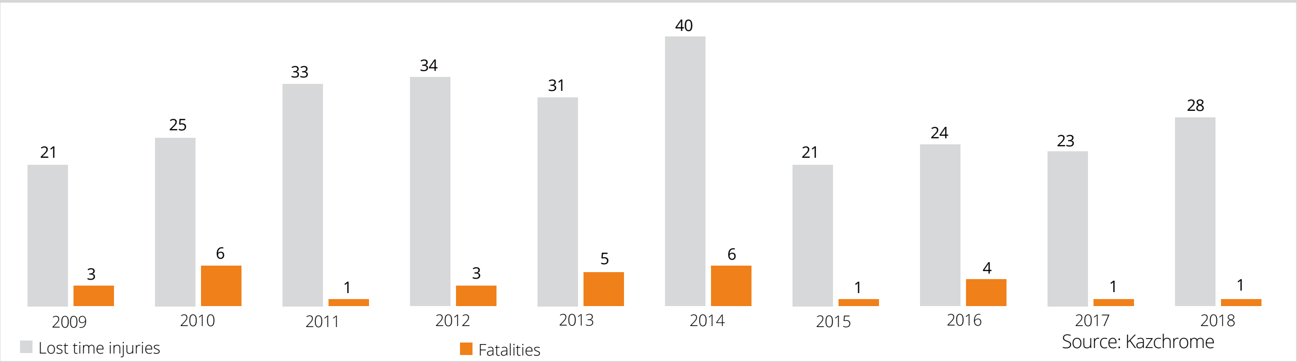
33,829
total number of warning notices at Kazchrome enterprises in 2018

In 2018, the Company experienced one fatality, which related to a member of its contractor workforce. The incident involved a fall from a height during a maintenance operation and was subject to a comprehensive investigation. This identified a range of improved controls across multiple areas, including the permit to work process, evaluation of employee competency, job risk assessment, personal protective equipment, and work supervision.

The company recorded a lost time injury frequency rate (LTIFR) of 0.71 per million hours worked. In 2018, the Company recorded a work-related lost-time injury count of 28, which corresponds to the Company's 10-year average.

In 2019, the Company launched a programme to reduce its injury rates. This includes both technical and organisational responses to the outcomes of investigations into serious incidents, as well as the automation of manual processes. The Company has also conducted a risk assessment and analysed its behavioural safety audits to identify areas of improvement.

NUMBER OF FATALITIES AND LOST-TIME INJURIES[1]



Source: Kazchrome

[1] Lost-time injuries are defined as injuries (excluding fatalities), as a result of which an employee was unable to come to work the day after the injury. Lost-time injuries and fatalities include data for our contractor workforce.

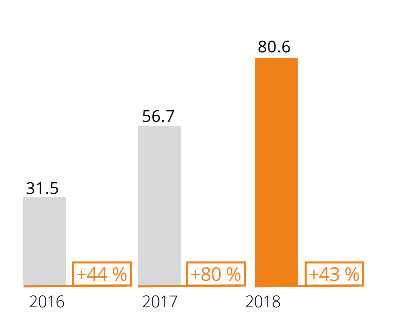
Community Participation

The Company is fully compliant with its social and economic development obligations under its subsoil user contract. ERG and Kazchrome are actively involved in the socio-economic development of their areas of operation and in maintaining positive community relations. Typical activities include promoting the quality of life of employees in the community, sponsoring social initiatives and participating in charitable programmes (including through its dedicated corporate social responsibility programme).

Key initiatives include:

- Road repairs;
- The construction, refurbishment and modernisation of residential areas;
- The construction and modernisation of school buildings and kindergartens;
- Sponsorship of orphanages and local education institutions (e.g. the Ferrous Metallurgy College in Aksu, and the Mining and Technical College in Chromtau);
- Support for international and national sporting events;
- The construction of sports facilities (e.g. an indoor hockey field in Aksu).

CORPORATE SOCIAL RESPONSIBILITY INVESTMENTS (US$ M)



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

CORPORATE GOVERNANCE

Kazchrome's corporate governance is based on the principles of justice, fairness, responsibility, transparency, professionalism, and competence

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

The Company's corporate governance principles 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 corporate governance are as follows:

1. The protection of shareholders' rights and interests:

The Company ensures that the shareholders exercise their basic rights stipulated by the Law of the Republic of Kazakhstan 'On Joint-Stock Companies' and ensures the effective participation of shareholders in key corporate decision-making processes.

2. The effective management of the Company by the Board of Directors and the executive body:

The Board of Directors builds its activity upon the principle of maximum observance of shareholders' interests; general management of the Company's operations is aimed at increasing the Company's market value. The Board of Directors ensures the effective operation of the risk management system; controls and regulates corporate conflicts.

The activities of the Management Board are based upon the principle of maximum observance of shareholders' interests and are fully accountable to the General Meeting of Shareholders and the Board of Directors of the Company.

3. Transparency and objectivity of disclosure of information about the activities of the Company:

The Company discloses information on the main results, plans and prospects of its activities on a timely basis; this can significantly impact property and other rights of shareholders and investors. It also provides timely and complete answers to shareholders' inquiries within the deadlines specified in the Company's Articles of Association.

4. Legality and ethics:

The Company 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 are developed on the basis of the applicable legal requirements and good corporate conduct.

5. Effective dividend policy:

The Company's dividend policy is pursued in strict compliance with the applicable legislation of the Republic of Kazakhstan.

6. Effective personnel policy:

Corporate governance within the Company builds 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.

7. Environmental protection:

The Company implements responsible environmental management practices in the course of its operations.

8. 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.

In 2018, the Company held eight General Meetings of Shareholders, and 48 meetings of the Board of Directors.

Share Capital and Shareholders

As of 31 December 2018

Company securities	Total	Ordinary shares	Preferential shares
Authorised shares	158,069,700	142,949,700	15,120,000
Placed shares	109,838,751	99,953,939	9,884,812
Shares repurchased by the Company	3,921	493	3,428

Face value per share is 1,000 tenge.

In April 2018, a major shareholder of the Company – ENRC N.V. – sold 7,137,712 ordinary shares and 654,085 preferential shares to KCR INTERNATIONAL B.V., which at the time of sale accounted for 98.59% of the total number of the Company's placed shares.

On 8 October 2018, the Company's Board of Directors decided to place the Company's shares (ordinary and preferred) and determine the following terms, conditions and procedure for their placement.

Information about the terms of placement of ordinary and preferential shares of the Company

Number of ordinary shares offered	92,910,896 (ninety-two million, nine hundred and ten thousand, eight hundred and ninety-six) shares
Number of preferential shares offered	9,783,436 (nine million, seven hundred and eighty-three thousand, four hundred and thirty-six) shares
Total number of shares offered (ordinary and preferential)	102,694,332 (one hundred and two million, six hundred and ninety-four thousand, three hundred and thirty-two) shares
Placing price per share	1,000 (one thousand) tenge per ordinary share; 1,000 (one thousand) tenge per preferential shares
Terms of placement	The ratio of placed shares (minus those repurchased by the Company) to the number of offered (sold) shares by their type: » 1 placed ordinary share to 13 offered ordinary shares; » 1 placed preferential share to 13 offered preferential shares. Shares are placed exclusively among the Company's shareholders through the exercise of their pre-emptive right in accordance with the applicable legislation of the Republic of Kazakhstan. Shares that were not acquired by the shareholders through the exercise of their pre-emptive right are considered unplaced. Placement of shares among third parties is not allowed.

In October 2018, as a result of the share offering, KCR INTERNATIONAL B.V. acquired 92,802,086 ordinary shares and 8,533,070 preferential shares of the Company.

As a result, KCR INTERNATIONAL B.V. became the owner of 99,940,708 ordinary shares and 9,189,460 preferential shares of the Company, which amounted to 99.35% of the total number of the placed shares as of 31 December 2018.

Management Structure

SHAREHOLDER BODY →	GENERAL MEETING OF SHAREHOLDERS OF THE COMPANY
MANAGEMENT BODY →	BOARD OF DIRECTORS OF THE COMPANY
EXECUTIVE BODY →	MANAGEMENT BOARD OF THE COMPANY

General Meeting of Shareholders of the Company

Structure of shareholders owning 5 or more percent of the Company's shares (as of 31 December 2018):

Name of the shareholder	Total number of owned shares	Type of share	Percentage of the number of owned shares to the total number of placed shares of the Company
KCR INTERNATIONAL B.V.	99,940,708	Ordinary	90.99%
KCR INTERNATIONAL B.V.	9,189,460	Preferential	8.37%

Board of Directors

Full name, year of birth of the Board of Directors' members (including position in the Board of Directors)	Positions held over the past three years and currently in chronological order (including part-time positions)	Interest in the authorised capital of the Issuer	Interest in the Issuer's subsidiaries and affiliates
Serik Shakhazhanov (born 1977) Chairman Board of Directors	» July 2017–present: Chairman of the Management Board, Eurasian Resources Group LLP » March 2017–July 2017: First Deputy Chairman of the Management Board, Eurasian Resources Group LLP (Member of the Management Board) » December 2015–March 2017: Deputy Chairman of the Management Board for Strategy and Development, Eurasian Resources Group LLP (Member of the Management Board)	none	none
Daniyar Rakhmatulayev (born 1985) Member of the Board of Directors	» October 2018–present: Deputy Chairman of the Management Board for Finance, Eurasian Resources Group LLP » October 2015–October 2018: Director of the Department for Financial Planning and Analysis of ERG Reporting Services LLC » July 2014–October 2015: Director of the Department for Economics of Eurasian Resources Group LLP	none	none
Arman Yessenzhulov (born 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	none	none
Batyrkhan Bekmurzayev (born 1953) Member of the Board of Directors – Independent Director	» January 2013–present: Professor at Kazakh National University	none	none
Erik Edygenov (born 1942) Member of the Board of Directors – Independent Director	» June 1999–present: Deputy Director for Research at the Kunayev Mining Institute	none	none

Management Board of the Company

Full name, year of birth of the Management Board's member (including position in the Management Board)	Positions held over the past three years and currently in chronological order (including part-time positions)	Interest in the authorised capital of the Issuer	Interest in the Issuer's subsidiaries and affiliates
Arman Yessenzhulov (born 1964) President	» March 2018–present: President of TNC Kazchrome JSC » January 2015–March 2018: President of Aluminium of Kazakhstan JSC	none	none
Azamat Bektybayev (born 1964) Member of the Management Board, Vice President for Technical Development	» April 2017–present: Member of the Management Board, TNC Kazchrome JSC » March 2017–present: Vice President for Technical Development, TNC Kazchrome JSC » April 2014–March 2017: Deputy Chairman of the Management Board of Eurasian Resources Group LLP, in charge of production	none	none
Serik Donbekbayev (born 1978) Member of the Management Board, Vice President for Finance and Economics	» February 2017–present: Member of the Management Board, TNC Kazchrome JSC » April 2014–present: Vice President for Finance and Economics, TNC Kazchrome JSC	none	none
Sergey Petukhov (born 1976) Member of the Management Board, Vice President for Technical Development and Repair	» February 2018–present: Member of the Management Board, TNC Kazchrome JSC » January 2018–present: Vice President for Technical Development and Repair, TNC Kazchrome JSC » April 2017–January 2018: Director of Technical Development and Engineering for Maintenance and Repair, Eurasian Resources Group LLP » March 2014–April 2017: Deputy Head of the Operations Centre, PAO Severstal/SSM-Tyazhmash LLC	none	none
Isak Buitendag (born 1965) Member of the Management Board, Vice President for Production	» May 2018–present: Member of the Management Board, TNC Kazchrome JSC » April 2018–present: Vice President for Development, TNC Kazchrome JSC » May 2019 – present: Vice President for Production, TNC Kazchrome JSC » February 2015–April 2018: Management Consultant / Director, Solutions Space	none	none

None of the members of the Board of Directors or the Management Board of the Company have interests in the authorised capital of Kazchrome or Kazchrome's subsidiaries and affiliates.

Information about dividends

The book value per ordinary and preferential shares is 1,000 tenge each as at the reporting date (31 December). The book value per ordinary and preferred share is calculated in compliance with Appendix 5.7 of the Kazakhstan Stock Exchange Listing Rules.

In Kazakhstan tenge	31 December 2018	31 December 2017
Book value per 1 preferred share (tenge)	970	1,005
Basic earnings per ordinary share of profits from continuing operations due to shareholders of the Company (in tenge per share)	5.383	38.958

The table below presents data on dividends paid for the period 2016–2018 (based on the results of year-end 2015 to year-end 2017)

Dividend period	Dividend per ordinary share	Dividend per preferential shares	Basis
For year-end 2015	dividends not accrued or paid	100 tenge	Charter, Minutes of Extraordinary General Meeting of Shareholders dated 24 August 2016
For year-end 2016	dividends not accrued or paid	100 tenge	Charter, Minutes of Extraordinary General Meeting of Shareholders dated 18 August 2017
For H1 2017	40,000 tenge	40,000 tenge, which includes the guaranteed dividend per preferred share of the Company for 2017, as provided for by the Company's Charter.	Charter, Minutes of Extraordinary General Meeting of Shareholders dated 27 September 2017
For Q3 2017	90,000 tenge	90,000 tenge	The Company's Charter, Minutes of Extraordinary General Meeting of Shareholders dated 16 January 2018
For H1 2018	40,100 tenge	40,100 tenge, which includes the guaranteed dividend per preferred share of the Company for 2018	The Company's Charter, Minutes of Extraordinary General Meeting of Shareholders dated 27 August 2018
For Q3 2018	395.20 tenge	395.20 tenge	The Company's Charter, Minutes of Extraordinary General Meeting of Shareholders dated 4 December 2018

Information Policy and Disclosure of Information about the Company's Activities

The Company discloses information on the main results, plans and prospects of its activity on a timely basis; this can significantly impact property and other rights of shareholders and investors. It also provides timely and complete answers to shareholders' inquiries within the deadlines specified in the Company's Charter.

A shareholder has the rights and opportunities stipulated by the applicable legislation of the Republic of Kazakhstan, including access to the agenda materials required for making relevant decisions.

Remuneration

The members of the Board of Directors do not have shares in the Company and/or interest in the Company's subsidiaries and affiliates. No transactions for the purchase or disposal of the Company's shares were completed during the reporting year.

Remuneration paid to members of the Board of Directors

The gross remuneration paid to members of the Board of Directors was as follows: for the year 2017 – 527.3 million tenge, for the year 2018 – 509.6 million tenge. No accumulations for the provision of pension remuneration to members of the Board of Directors are envisaged.

The members of the Management Board do not have shares in the Company and/or interest in the Company's subsidiaries and affiliates. No transactions for the purchase or disposal of the Company's shares were completed during the reporting year.

Remuneration paid to members of the Management Board

The gross remuneration paid to members of the Management Board was as follows: for the year 2017 – 643.5 million tenge, for the year 2018 – 954.5 million tenge. No accumulations for the provision of pension remuneration to members of the Management Board are envisaged.

Report on the Company's Compliance with the Provisions of the Company's Corporate Governance Code

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 has developed, has had approved by its authorised bodies, and currently complies with the following internal documents:

» Regulations of the Board of Directors;

» Regulations of the Management Board;

» Corporate Code of Conduct;

» Compliance with Corporate Rules and Regulations by Agents Policy;

» Anti-Money Laundering Policy;

» Anti-Bribery and Corruption Policy;

» Anti-Fraud Policy;

» Compliance with Anti-trust and Competition Laws Policy;

» Conflict of Interest Policy;

» Personal Data Protection Policy;

» Gifts and Hospitality Policy;

» Related Party Transactions Policy;

» International Economic Sanctions Compliance Policy;

» Information Classification Policy;

» Human Rights Observance Policy;

» CSR Projects and Sponsorship Policy.

The Company annually compiles a calendar of corporate events for the Company and follows it throughout the year.

Statement on Reliability of Data

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

Key Management Team

ARMAN YESSENZHULOV

President of TNC Kazchrome JSC

Arman Yessenzhulov has worked for Eurasian Resources Group for more than 30 years. He started his career in 1986 as a smelter at the Aktobe Ferroalloy Plant and later became Chief Engineer. He graduated from the Moscow Institute of Steel and Alloys in 1986 with a degree in technical sciences. He also holds a Master of Business Administration (MBA) degree from Moscow State University.

In April 2006, he was appointed General Director of Serov Ferroalloy Plant OJSC (RF), part of Eurasian Resources Group. 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.

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

In September 2014, Yessenzhulov was appointed First Vice President of Aluminium of Kazakhstan JSC and in January 2015 he was appointed President of this joint-stock company. During this period, he implemented an innovative investment strategy in parallel with capacity expansion projects, which together helped increase sales and profits and bring the company out of a financially challenging period. Arman Yessenzhulov initiated the revision of the Company's Collective Agreement, with the addition of some significant provisions and the introduction of new corporate traditions uniting the divisions of the aluminium sector.

In March 2018, Yessenzhulov was appointed President of Kazchrome.

AZAMAT BEKTYBAEV

Vice-President for Technical Development at TNC Kazchrome JSC

Azamat Bektybaev has more than 30 years' experience working in the mining industry, including 10 years in management positions, and holds a PhD in Technical Sciences. He has worked for Eurasian Resources Group since 2004.

Azamat Bektybaev graduated from V. I. Lenin Kazakh Polytechnic Institute. He obtained his PhD from the Mining Institute of Kazakhstan's Ministry of Education and Science in 1999, and received an MBA degree in 2009 from 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, when he was appointed Head of the Mining Operations Division in the Mining Department, he has worked for the largest mining and metallurgical company in the country, Eurasian Resources Group.

In 2014, Azamat Bektybaev was appointed Production Deputy Chairman. In this role, he was responsible for all production activities of the Group's enterprises 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 the Group's enterprises, as well as economic efficiency programmes. 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 were adopted in terms of the choice of technologies, equipment and materials for the divisions, and the production unit was completely reorganised. Since 2017, his experience and knowledge were required in the ferroalloy division, and he joined the management unit of Kazchrome as a Vice President.

SERIK DONBEKBAYEV

Vice-President for Finance and Economics at TNC Kazchrome JSC

Serik Donbekbayev has more than 20 years' experience of working 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 Ferroalloy Plant. Two years later, he became the Deputy Head of the Economic Planning Department at the plant.

In 2004, Donbekbayev joined Kazchrome's management team and became the Head of the Economics Department. Since 2008, he has been Head of the Finance and Economics Department, also acting as Deputy Vice-President for Financial and Economic Issues, TNC Kazchrome JSC.

In 2012, Kazchrome launched the Arrow innovative project to transition all branches and processes to run on 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 Finance and Economics at Kazchrome. 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.

SERGEY PETUKHOV

Vice President for Technical Development and Repair, TNC Kazchrome JSC

Sergey Petukhov has more than 25 years' experience in various maintenance and repair-related positions at PAO Severstal industrial enterprise. He started his professional career in 1994 as a worker at the Cherepovets Metallurgical Complex, which is owned by PAO 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 Eurasian Resources Group, 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 Kazchrome Transnational Company, where he joined the management unit and became the Vice-President for Technical Development and Repair.

ISAK BUITENDAG

Vice President for Production of TNC Kazchrome JSC

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

In 1998, Isak Buitendag became Production Services Manager at Bayside Aluminium in South Africa, and in 2001-2002 he was Head of Development/Marketing Projects for BHP Billiton International Metals in the Netherlands. In 2003, he returned to 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 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 he 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 Mt per year) and at the processing plant. From October 2010 to 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.

Between 2015 and 2018, Isak Buitendag became 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 2019, Isak Buitendag moved to the position of Vice President for Production.

VENERA MUKHAMEDZYANOVA

Vice President for Staff and Social Affairs, TNC Kazchrome JSC

Venera Mukhamedzyanova has more than 30 years' personnel management experience in various positions at the Aktobe Ferroalloy Plant and Kazchrome.

After graduating from Karaganda Polytechnic Institute in 1985, she worked as an engineer in Aktobe Ferroalloy 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 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 the Aktobe Ferroalloy 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.

Financial Statements

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 2018, 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 2018;
- the consolidated statement of profit and 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 these requirements and the IESBA Code.

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Independent Auditor's Report (Continued)

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Our audit approach

Overview

- Overall Group materiality: 9,920 millions of Kazakhstani Tenge, which represents 4.5% of profit before tax from continuing and discontinued operations adjusted for the net result of sale of subsidiaries and joint venture.

- We conducted audit procedures over the Company and its disposed significant subsidiary and joint venture located in Kazakhstan.
- Our audit scope addressed 98% of total assets, 99% of total revenue and 97% of net profit of the Group, including the results of discontinued operations

- Going concern.

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	9,920 million tenge
How we determined it	4.5% of profit before tax from continuing and discontinued operations adjusted for the net result of sale of subsidiaries and joint venture
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 net result on sale of the subsidiaries and the joint venture from the materiality calculation because such loss represents an exceptional item rather than a result of the Group's ordinary operations. We chose 4.5% 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.

Key audit matter	How our audit addressed the Key audit matter
Going concern *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 balance sheet it is also a co-guarantor along with the other ERG subsidiary on the loans the subsidiary has attracted (Note 18). Accordingly, in assessing the Group's going concern position management takes into account the overall consolidated financial position of ERG, and in particular compliance	As part of our assessment of going concern assumption, we focused our attention on the ERG and Group's ability to repay its liabilities when they come due and on the ERG and Group's compliance with the debt covenants. Our procedures included the following: • confirming with the ERG Group audit team the overall ERG group financial position and its ability to settle its obligations in due course; • review of the terms associated with the borrowings and the amount of the facility available for drawdown and required to be repaid;

Independent Auditor's Report (Continued)

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Key audit matter	How our audit addressed the Key audit matter
with various covenants associated with debt facilities the ERG and its subsidiaries have entered into. As described in Note 2 the Board of Managers of ERG have concluded that the ERG can access adequate resources to continue its business operations for the foreseeable future and that the preparation of its consolidated financial statements under the going concern basis is appropriate and accordingly ERG will be able to realise its assets and discharge its liabilities in the normal course of business. Based on ERG's opinion regarding applicability of the going concern to its activities in the foreseeable future and forecasts of the future operating activities of the Group, management of the Group believes that the Group has access to sufficient resources to continue operating activities in the foreseeable future and that preparation of these consolidated financial statements on the continuity assumption is appropriate and, accordingly, the Group will be able to realise its assets and repay liabilities in the normal course of business. We considered this matter to be a key audit matter due to its high importance to the Group and to the consolidated financial statements.	• checking that the Group is in compliance with each financial and non-financial covenant of the borrowings including waivers received, if any; • analysis of the waivers obtained by the Group during the year that were still valid as of 31 December 2018; • consideration of the future cash flows expected by the Group during the next 12 months from the date of this audit report; • consideration of the liquidity of existing assets on the consolidated balance sheet; • verification of the appropriateness of measurement of the financial guarantees. Based on the results of the work performed, we did not identify any inconsistences with information provided by the Group or any need to amend the presentation and disclosures in the consolidated financial statements.

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, as well as four subsidiaries and one joint venture that were disposed during the year ended 31 December 2018. Out of these, we have identified the Company, its one subsidiary and joint venture as significant components where we performed full-scope audit procedures.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team, or component auditors. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group consolidated financial statements as a whole.

Independent Auditor's Report (Continued)

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We have obtained an interoffice report from the component auditor of the joint venture, reviewed their working papers, and discussed with them the key assumptions and methodology, received independence and compliance with IESBA Code requirements confirmations.

When determining our audit approach we considered materiality of the Group components for the consolidated financial statements, our risk assessment for each component, volume of evidence received from our audit procedures at the level of the Group as a whole as well as risks associated with non-significant components for which no full scope audit procedures were performed.

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 98% of total assets, 99% of total revenue and 97% 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.

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.

Independent Auditor's Report (Continued)

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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.

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

8 May 2019
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 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	5	**397,677,753**	374,995,941
Intangible assets		**2,106,274**	2,924,612
Investments in joint ventures	6	**–**	113,880,887
Investments in equity instruments		**7,522,222**	7,521,222
Loans issued	11	**–**	60,428,925
Deferred income tax asset	27	**–**	7,936,428
Other non-current assets	8	**20,772,118**	10,973,719
Total non-current assets		**428,078,367**	**578,661,734**
Current assets			
Inventories	9	**114,656,468**	89,600,457
Trade receivables and other current assets	10	**79,207,688**	71,354,002
Loans issued	11	**274,315,992**	1,002,634,314
Current income tax prepaid		**1,959,457**	1,864,469
Cash and cash equivalents	12	**54,118,916**	31,699,851
TOTAL CURRENT ASSETS		**524,258,521**	**1,197,153,093**
Total assets		**952,336,888**	**1,775,814,827**
Equity			
Share capital	13	**106,500,059**	11,777,952
Treasury shares		**(184,411)**	(184,411)
Other reserves		**96,519**	150,764
Retained earnings		**20,642,112**	906,675,306
Equity attributable to the Company's equity holders		**127,054,279**	**918,419,611**
Non-controlling interest		**35,643**	**17,593,079**
TOTAL EQUITY		**127,089,922**	**936,012,690**
Liabilities			
Non-current liabilities			
Borrowings	14	**699,100,691**	678,906,883
Deferred income tax liability	27	**2,863,973**	7,489,886
Provisions for assets retirement obligations	16	**8,760,801**	8,040,725
Employee benefits	17	**6,114,217**	5,360,062
Preference shares		**6830,891**	568,421
Long-term financial guarantees	18	**15,444,497**	27,334,692
Other non-current liabilities	15	**1,125,795**	5,184,532
Total non-current liabilities		**740,240,865**	**732,885,201**

	Note	31 December 2018	31 December 2017
Current liabilities			
Borrowings	14	**1,288,364**	36,595,909
Trade and other payables	15	**63,317,879**	52,154,904
Short-term financial guarantees		**4,043,607**	4,451,106
Dividends payable	13	**6,148,042**	2,709,990
Current income tax payable		**5,528**	364,391
Provisions for assets retirement obligations	16	**1,029,632**	1,076,693
Employee benefits	17	**433,628**	438,888
Other taxes payable		**8,739,421**	9,125,055
Total current liabilities		**85,006,101**	**106,916,936**
Total liabilities		**825,246,966**	**839,802,137**
Total liabilities and Equity		**952,336,888**	**1,775,814,827**
Book value per ordinary share (in Tenge)		**1,223**	**130,531**

Signed on 8 May 2019 for approval of the annual general meeting of shareholders:

President

Esenzhulov A.B.

Vice-president on financial and economic matters

Donbekbayev S.K.

Consolidated Statement of Profit and Loss and Other Comprehensive Income

IN THOUSANDS OF KAZAKHSTANI TENGE

	Note	2018	2017 (restated)
Continuing operations:			
Revenue	19	**750,056,337**	702,097,306
Cost of sales	21	**(357,709,908)**	(306,642,959)
Gross profit		**392,346,429**	**395,454,347**
Other operating income	22	**14,870,020**	2,641,535
Other operating expenses		**(6,556,005)**	(8,446,168)
Distribution costs	23	**(5,658,876)**	(5,382,635)
General and administrative expenses	24	**(77,214,740)**	(49,301,304)
Operating profit		**317,786,828**	**334,965,775**
Finance income	25	**76,278,317**	109,788,042
Finance costs	26	**(191,329,830)**	(84,701,935)
Profit before income tax		**202,735,315**	**360,051,882**
Income tax expense	27	**(32,859,293)**	(71,154,284)
Profit for the year		**169,876,022**	**288,897,598**
Discontinued operations:			
Profit for the year from discontinued operations	7	**7,072,180**	16,557,155
Profit for the year		**176,948,202**	**305,454,753**
Other comprehensive (loss)/income			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit obligations	17	**(89,680)**	727,810
Income tax recorded directly in other comprehensive income	27	**35,435**	(136,848)
Other comprehensive (loss)/income		**(54,245)**	**590,962**
Comprehensive income for the year		**176,893,957**	**306,045,715**
Profit/(loss) for the year attributable to:			
– Company's equity holders		**174,909,555**	307,749,210
– Non-controlling interest		**2,038,647**	(2,294,457)
Profit for the year		**176,948,202**	**305,454,753**

	Note	2018	2017 (restated)
Comprehensive income /(loss) for the year attributable to:			
– Company's equity holders		**174,855,310**	308,340,172
– Non-controlling interest		**2,038,647**	(2,294,457)
Comprehensive income for the year		**176,893,957**	**306,045,715**
Basic and diluted earnings per ordinary share from continuing operations (in Tenge)	20	**5,383**	38,958
Basic and diluted earnings per ordinary share from discontinued operations (in Tenge)	20	**223**	2,638

Consolidated Statement of Changes in Equity

IN THOUSANDS OF KAZAKHSTANI TENGE

		Attributable to the Company's equity holders						
	Note	Share capital	Treasury shares	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2017		**11,777,952**	**(184,411)**	**(440,198)**	**914,833,399**	**925,986,742**		
Profit/(loss) for the year		–	–	–	307,749,210	307,749,210	(2,294,457)	305,454,753
Other comprehensive income		–	–	590,962	–	590,962	–	590,962
Total comprehensive (loss)/income for the year		**–**	**–**	**590,962**	**307,749,210**	**308,340,172**	**(2,294,457)**	**306,045,715**
Dividends	13	–	–	–	(315,907,303)	(315,907,303)	(858)	(315,908,161)
Balance at 31 December 2017		**11,777,952**	**(184,411)**	**150,764**	**906,675,306**	**918,419,611**	**17,593,079**	**936,012,690**
Adoption of IFRS 9	2	–	–	–	10,104,347	10,104,347	(251,413)	9,852,934
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)**
Comprehensive (loss)/ income for the year		**–**	**–**	**(54,245)**	**174,909,555**	**174,855,310**	**2,038,647**	**176,893,957**
Dividends	**13**	**–**	**–**	**–**	**(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		**–**	**–**	**–**	**–**	**–**	**(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**

Consolidated Statement of Cash Flows

IN THOUSANDS OF KAZAKHSTANI TENGE

	Note	2018	2017
Cash flows from operating activities:			
Profit before income tax		**216,794,281**	**372,321,723**
Profit before income tax – continuing operations		**202,735,315**	360,051,882
Profit before income tax – discontinued operations		**14,058,966**	12,269,841
Adjustments for:			
Depreciation of property, plant and equipment	5	**38,536,171**	35,826,978
Amortisation of intangible assets		**1,402,896**	1,344,049
Impairment of property, plant and equipment		**81,242**	(79,124)
Write-off of construction in progress		**60,288**	96,629
Employees benefits		**674,116**	(134,222)
Financial guarantees		**(10,761,795)**	836,380
Provision for obsolete and slow-moving inventory		**3,111,419**	2,100,601
Provision for impairment of receivables		**177,476**	396,955
Other non-cash transaction adjustments		**171,287**	–
Share of profit after tax of joint venture		**(9,345,744)**	(8,697,109)
Net gain on disposal of property, plant and equipment		**(14,469)**	–
Foreign exchange differences on operational activities		**3,665,100**	8,582,412
Foreign exchange differences on cash and cash equivalents		**(11,317,627)**	(4,189,610)
Finance income		**(57,515,708)**	(102,584,707)
Finance costs		**180,158,539**	73,327,775
Operating cash flow before working capital changes:		**355,877,472**	**379,148,730**
Increase in inventories		**(27,149,614)**	(22,190,298)
Decrease in trade receivables and other current assets		**(3,142,332)**	15,777,405
Increase in restricted cash		**(3,227,412)**	–
Increase in trade and other payables		**(1,186,964)**	(2,742,053)
Decrease in provisions for assets retirement obligations		**(154,082)**	(59,288)
(Decrease)/increase in other taxes payable		**(5,057,407)**	1,941,259
Cash generated from operations:		**315,959,661**	**371,875,755**
Income tax paid		**(41,031,480)**	(87,330,950)
Employees benefits paid		**(548,887)**	(466,425)
Interest paid		**(69,722,880)**	(41,075,498)
Interest received		**58,955,189**	85,004,645
Net cash from operating activities, including		**263,611,603**	**328,007,527**
Net cash from operating activities – discontinued operations		**21,288,766**	**15,692,662**
Cash flows from investing activities:			
Purchase of property, plant and equipment		**(68,180,128)**	(45,931,060)
Loans issued		**(532,277,812)**	(1,060,096,424)
Repayment of loans		**1,237,199,592**	1,099,698,162
Decrease other non-current assets		**19,255**	568,122
Placement of bank deposits		**(233,385)**	(251,139)
Withdrawal of bank deposits		**57,948**	246,567
Sales of subsidiaries		**220,988,080**	–
Net cash from/(used in) investing activities, including		**857,573,550**	**(5,765,772)**
Net cash used in investing activities – discontinued operations		**(1,426,652)**	**(14,731,550)**
Cash flows from financing activities			
Proceeds from borrowings		**622,659,569**	–
Repayments of borrowings		**(766,151,181)**	(10,715,049)
Commission on organisation of loans		**(917,459)**	(405,292)
Dividends paid to the Company shareholders	13	**(1,067,609,902)**	(314,286,385)
Placement of authorised shares		**101,935,258**	–
Net cash used in financing activities, including		**(1,110,083,715)**	**(325,406,726)**
Net cash from financing activities– discontinued operations		**–**	**–**
Effect of exchange rate changes on cash and cash equivalents		**11,317,627**	4,189,610
Net change in cash and cash equivalents, including		**22,419,065**	**1,024,639**
Net change in cash and cash equivalents of discontinued operations		**19,862,114**	**961,112**
Cash and cash equivalents at the beginning of the year	12	**31,699,851**	30,675,212
Cash and cash equivalents at the beginning of the period - discontinued operations		**2,535,039**	1,573,927
Cash and cash equivalents at the end of the year, including	**12**	**54,118,916**	**31,699,851**
Cash and cash equivalents at end of the period - discontinued operations		**–**	**2,535,039**

Notes to the Consolidated Financial Statements – 31 December 2018

1. The Company and its Operations

TNC Kazchrome JSC (the "Company" or TNC Kazchrome JSC) 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 Company's address is 4A Mametova Street, Aktobe city, 030008, Aktyubinsk Region. The consolidated financial statements for the year ended 31 December 2018 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 Netherlands. The ultimate parent company is Eurasian Resources Group S.à r.l. ("ERG") incorporated in Luxemburg. As of 31 December 2017 immediate parent company of TNC Kazchrome JSC was ENRC N.V., being under common control of ERG.

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.

Subsidiaries.

In addition to four major operating divisions, TNC Kazchrome JSC has two subsidiaries as of 31 December 2018 (2017: 6 subsidiaries), which provide auxiliary services to the major operating divisions.

In June 2018, the Board of Managers of ERG approved the plan for TNC Kazchrome JSC to sell all of its interests in Molservice LLP, Lotos Aktobe LLP, Chromtau Brick Plant LLP, Credit Partnership ENRC Credit LLP, and Shubarkol Komir JSC to another ERG Group companies. In December 2018 the Company sold its interest in above mentioned companies (Note 7).

% of ownership	Country of registration	Principal activity	**31 December 2018**	31 December 2017
Donskaya Neftebaza JSC	Kazakhstan	Warehousing services and sales of combustive and lubricating materials	77.62*	77.62*
Credit Partnership ENRC Credit LLP	Kazakhstan	Financial services	0.0008	86.17
Akzhar Chrome LLP	Kazakhstan	Slag recycling	100.00	100.00
Molservice LLP	Kazakhstan	Dairy production	–	100.00
Lotos Aktobe LLP	Kazakhstan	Bricks production	–	100.00
Chromtau Brick Plant LLP	Kazakhstan	Bricks production	–	100.00

*percentage of voting shares

2. Basis of Preparation and Significant Accounting Policies

HBasis of preparation.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2018 for the Group.

The accounting policy used in preparation of the consolidated financial statements is described below and is in accordance with the IFRS. These standards are subject to interpretations issued from time to time by

the International Financial Reporting Standards Interpretation Committee ("IFRIC"). The principal accounting policies have been consistently applied to all the periods presented except for the areas where new accounting policies have been applied.

These consolidated financial statements are also prepared under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value and by revaluation of 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 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.

These consolidated financial statements were prepared in accordance with IFRS on the basis of going concern principle, which assumes realisation of assets and repayment of obligations in the normal course of the business in the foreseeable future.

The Board of Managers has reviewed the liquidity available for the period until 30 September 2020. Throughout the period under review ERG generates sufficient cash flow to maintain a position above minimum working capital requirements. During 2018, commodity prices continued to improve considerably which has given ERG additional headroom when considering its liquidity.

On 27 June 2018, Standard & Poor's upgraded the ERG's credit rating to B/B with positive outlook from B-/B with stable outlook.

On 3 August 2018, the Moody's upgraded the ERG's credit rating to B2 with positive outlook from B3 with stable outlook.

ERG's credit facility agreements include a considerable number of various financial and non-financial covenants. As of 31 December 2018, ERG complied with covenants.

ERG appreciates the dependence of liquidity on commodity prices in our key markets and ability to raise additional funding when required (refer to note 21). To ensure adequate liquidity is available to meet contractual obligations, ERG ensures continuing focus on operational efficiency, working capital improvements, and allocation and spending of capital expenditures budget.

The Managers consider that ERG 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 and accordingly ERG will be able to realise its assets and discharge its liabilities in the normal course of business.

Based on the ERG's conclusion on its ability to continue as a going concern for the foreseeable future and forecasts of the future operational activities of the Group, the management of the Group considers 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 the going concern basis is appropriate and, accordingly, it will be able to realise its assets and discharge its liabilities in the normal course of business.

Changes in the accounting policies and disclosures.

New accounting pronouncements adopted in 2018.

IFRS 9 "Financial Instruments" sets out the requirements to recognising and measuring of financial assets, financial liabilities and certain contracts to buy or sell non-financial items. The standard facilitates the use of hedge accounting.

The adoption of IFRS 9 resulted in an increase in equity by Tenge 9,852,934 thousand at 1 January 2018, representing the recognition of the gain on debt modification in the amount of Tenge 14,499,683 thousand and recognition of expected credit losses on loans receivable in the amount of Tenge 2,183,515 thousand, including tax effect in the amount of Tenge 2,463,234 thousand (Note 27).

Prior to 1 January 2018 the Group applied the following accounting treatment of the financial instruments:

» effect of modification of the terms of financial liabilities was recognised as a change in the effective interest rate and was charged to profit or loss during the remaining period of the liability

» investments in equity instruments, which are measured at fair value through profit or loss (FVPL), were classified as investments held-for-sale and were accounted at cost.

» provision for impairment of loans receivable carried at amortised cost was recognised if there was objective evidence that the Group would not be able to receive the amounts due according to the original terms. The amount of provision was calculated as a difference between the asset's carrying value and the present value of the expected future cash flows discounted at the original effective interest rate.

IFRS 15 provides a single model of accounting for revenue arising from contracts with customers based on the identification and satisfaction of performance obligations and revenue from contracts with customers that is distinguished from other sources.

Adoption of IFRS 15 did not result in a material effect on equity as at 1 January 2018.

Amendments to IFRS that are not effective yet.

IFRS 16 "Lease" sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group envisages adopting the modified retrospective method, through which the cumulative effect of the initial recognition will be recognised at 1 January 2019, without restatement of comparative information.

The adoption of IFRS 16 "Leases" is expected to result in recognition of the right-of-use asset and related lease liability in the amount of approximately Tenge 280 million.

Functional and presentation currency.

All amounts in these consolidated financial statements are presented in thousands of Kazakhstani Tenge ("Tenge"), unless otherwise stated. The Company's functional currency is Tenge.

Foreign currency transactions.

Monetary assets and liabilities of the Group denominated in foreign currencies at

31 December 2018, are translated into Tenge using the official exchange rate of Kazakhstan Stock Exchange ("KASE") ruling at that date. Foreign currency transactions are accounted for using KASE exchange rate at the date of transaction. Subsequently, revaluation of the Group's assets and liabilities denominated in foreign currency is performed on a monthly basis using KASE exchange rate at the end of each month. Foreign exchange gains and losses resulting from the settlement of such transactions or from the translation of monetary assets and liabilities denominated in foreign currency are recognised in profit or loss for the year.

At 31 December 2018 the official exchange rate used for translating foreign currency balances was

US Dollar = Tenge 384.20 (31 December 2017: US Dollar = Tenge 332.33). Exchange restrictions and currency controls apply to converting the Tenge into other currencies. Currently, the 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 Company controls. The Company controls the investee when:

» has power to direct relevant activities of the investees that significantly affect their returns;

» has exposure, or rights, to variable returns from its involvement with the investees; and

» 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 Company 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 Company may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Company 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 Company from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Company (acquisition date) and are deconsolidated from the date on which control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. 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 Company. Non-controlling interest forms a separate component of the Group's equity.

Segment reporting.

Group's operations are highly integrated and constitute a single reportable segment. Fixed assets and intangible assets of the Group are located in Republic of Kazakhstan. Information about revenue structure by geographic regions, as well as information about the main customers, generating more than 10% of the Group's revenues is disclosed in Note 19.

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. Information on earnings per share is disclosed in Note 20.

Property, plant and equipment.

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

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 separately, applying depreciation rates reflecting their expected 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 profit and loss for the year.

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 are charged to profit and loss for the year.

Gains and losses on disposals of property, plant and equipment determined as a difference between the proceeds from sale and their carrying amount are recognised in profit and loss for the year.

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 initial cost of each item of property, plant and equipment is depreciated over its useful life to residual value. Each item's estimated useful life depends on 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 and feasible 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 unit-of-production method depending on the asset's production characteristics.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful life of the item of property, plant and equipment or under the unit of production method depending on the order of use of property, plant and equipment. Mining assets recognised within property, plant and equipment are depreciated during respective useful life of pit using the unit of production method based on proved and probable mineral resources.

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 constructing the mines and open pits, and subsequently amortised using unit-of-production method over the lives 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 entity;

» 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 any allocated and directly attributable 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 unit-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 property, plant and equipment and intangible 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 and purchase agreement or active market, fair value less costs to sell is 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 assets groups.

The estimates used for impairment reviews are based on detailed mine layouts 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 volumes 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 charged to profit and loss for the year 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 profit and loss for the year, and is limited to the carrying amount that would have been determined, net of depreciation, if no impairment loss been recognised in prior years.

Financial assets – classification and subsequent measurement.

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 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 its financial assets at initial recognition. In 2017 the Group applied requirements of IAS 39 'Financial instruments: Recognition and measurement.

The Group classifies financial assets as carried at amortised cost only if both of the following criteria 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 include loans issued, trade receivables, and other financial assets held to collect the contractual cash flows.

After initial measurement at fair value, the financial assets, other than investments in equity instruments and provisionally priced receivables, are measured at amortised cost using the effective interest rate ('EIR') method, less impairment. 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 based on effective interest method is included in finance income in the consolidated statement of profit and loss. Impairment losses are charged to profit or loss for the period.

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 using the effective interest method, net of the expected credit loss provision.

Investment in equity instruments.

Changes in fair value of investments in equity instruments are recognised in profit or loss.

Financial assets impairment.

The Group assesses, on a forward-looking basis, the expected credit losses ("ECL") for the financial instruments measured at amortised cost. Provisions for impairment of financial assets are based on assumptions for risk of default and expected credit losses. The Group applies judgement in making such assumptions and selecting the inputs to impairment calculation. This judgement is built upon historical data of the Group given the market conditions and forward-looking estimates available at the end of each reporting period.

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

Impairment of loans issued.

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.

At 31 December 2018, loans issued and trade receivables were classified as Stage 1.

Impairment of trade receivables.

The Group applies the simplified approach to measuring expected credit losses based on 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 the consolidated statement of profit and loss. Subsequent recoveries of previously recognised ECL allowance are credited against general and administrative expenses in the consolidated statement of profit and 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 based on the weighted average 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 raw material, 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 disposal.

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 in cash and cash equivalents.

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

Cash restricted from being used 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 a liability and an equity component. 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 recognised in 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 of reporting period only if they are declared before or on the date reporting period ends. Mandatory annual dividends on preference shares are recognised as finance costs in profit or loss for the year.

Dividends are disclosed when they are proposed before the end of reporting period or proposed or declared after the end of reporting period but before the consolidated financial statements are authorised for issue.

Provisions for assets retirement obligations.

Assets retirement obligations are recognised when it is probable that the costs would be incurred 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 disturbances. 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 Company 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 profit and loss in each reporting period. The amortisation of the discount is disclosed as finance costs.

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

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

Where restoration and rehabilitation works are conducted systematically over the term of operations, rather than at the time of closure, provision is made for the estimated outstanding continuous restoration works at the end of each reporting period and the costs are charged to profit or loss for the year.

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 using the effective interest method.

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 and loss and other comprehensive income within finance income/expenses.

Subsequently, the carrying amount of the borrowings is adjusted for amortisation of the gains on origination and the effective interest rate credit is recorded as finance costs.

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.

Derecognition of financial liabilities.

The Group ceases recognition of a financial liability when it is executed, or cancelled, or 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 amortized 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 for the year 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.

Trade and other payables.

Trade payables are accrued when the counterparty performs its obligations under the contract. The Group recognises trade payables at fair value. Subsequently, trade payables are carried at amortised cost using the effective interest method. The Group does not accrue interest on long-term advances received, which are accounted for as non-financial liabilities.

Income tax.

Income taxes have been provided for in the consolidated financial statements in accordance with Kazakhstani legislation enacted at the end of reporting period. The income tax charge comprises current (corporate income) tax and deferred tax and is recognised in profit or loss for the year, except for where it is recognised directly in other comprehensive income because it relates to transactions that are also recognised, in the same or a different period, 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. In 2017 the Group applied requirements of IAS 18 'Revenue'.

Revenue from the sale of ferroalloys and other products is recognized in time.

Labour costs and related deductions.

Wages, salaries, social security tax, contributions to social insurance funds, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued based on the employees' providing the related services.

Additionally, according to the changes and additions made to the pension legislation of the Republic of Kazakhstan effective from 1 January 2014, the Group at its own expense shall bear the costs of mandatory occupational pension contributions in favour of employees that engaged in work under harmful (or particularly harmful) working conditions. The Group transfers these types of pension contributions in Single Accumulative Pension of Kazakhstan Fund JSC. Upon retirement, all payments are paid out by above pension fund.

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 costs.

Finance income includes unwinding of discount, amortisation of financial guarantees, 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, 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 assumptions 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 mine life which is expected to be in 2074.

If the contracts are not extended in 2041, the carrying amount of property, plant and equipment subject to writing off at the expiry date of the subsurface use contract will be Tenge 34,314,212 thousand (2017: Tenge 32,916,693 thousand).

In these consolidated financial statements, depreciation charge and 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 mine life.

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. When determining mineral reserves, assumptions that were valid at the time of estimation may change when new information becomes available. Any changes could affect the prospective depreciation rates and asset carrying values.

The calculation of the unit-of-production rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on proved and probable mineral reserves, which would generally arise as a result of significant changes in any of the factors or assumptions used in estimating mineral reserves.

These factors could include:

» changes in proved and probable mineral reserves;

» the grade of mineral reserves varying significantly from time to time;

» differences between actual commodity prices and commodity price assumptions used in the estimation of mineral reserves;

» unforeseen operational issues at mine sites; and

» changes in capital and operating mining, processing and reclamation costs, discount rates and foreign exchange rates possibly adversely affecting the economic viability of 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 economically and legally obtained for 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 costs.

The Group's estimates are usually supported by geological research undertaken by independent

engineers-consultants based on mining activities, and drilling samples for determination of the quantity and grade of each ore body. Significant judgement is required in making estimates based on the available geological data.

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.

The majority of other property, plant and equipment are depreciated on a straight-line basis over their useful lives.

Management reviews the appropriateness of assets useful economic lives at least annually; any changes could affect prospective depreciation rates and asset carrying values.

Management believes that there are no reasonably possible changes in key assumptions with respect to subsurface use contract prolongation that would result in a decrease of the useful lives of assets.

Impairment of loans receivable.

Impairment of loans issued is determined based on ECL. Measurement of allowance requires significant assumptions, including probability of default ("PD), collection and terms of expected recovery of future cash flows from the loans. Changes in such assumptions may affect the recoverable value or allowance for such assets. Management reviews assumptions on a regular basis. Expected credit losses for loans receivable have been measured based on credit risk characteristics of the companies with comparable ratings.

The Group applies a "three-stage" for ECL measurement of the loans receivable based on the changes in credit quality since initial recognition. A financial instrument that is not impaired upon initial recognition is classified as related to Stage 1. For loans issued on Stage 1, ECL are estimated at an amount equal to the portion of ECL over the entire term, arising as a result of defaults that may occur during following 12 months or until the maturity date per contract, if it occurs before the expiration of 12 months ("12-month ECL"). If the Group identifies a significant increase in credit risk from since initial recognition, the asset is transferred to Stage 2, and ECL on this asset are estimated based on ECL over the entire term, that is, until the maturity date per contract. If the Group determines that a financial asset is impaired, the asset is transferred to Stage 3 and the ECL are estimated as ECL over the entire term.

At 31 December 2018, all loans receivable were related to Stage 1.

General purpose borrowings.

The borrowings which were not received for financing construction are the general purpose borrowings. Management makes judgements to detemine, whether general purpose borrowings should include or exclude borrowings used for financing assets not meeting recognition criteria for qualifying assets.

Management concluded that borrowings from Sberbank of Russia PJSC and VTB Bank PJSC (Note 14) should be excluded from general purpose borrowings subject to capitalisation, since these borrowings were attracted by the Group to refinance external loans receved by the Group earlier. Subsequently, the whole amount of funds received from Sberbank of Russia PJSC and VTB Bank PJSC was issued in the form of loans to the Group's subsidiaries (Note 11). Company does not capitalize expenses on these borrowings, since cash was not used for financing of qualifying assets.

Provisions for liquidation and restoration of assets.

In accordance with the environmental legislation and the subsurface use contracts, the Company 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 retirement costs as soon as the obligation arises from past mining activities.

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

After the decision on termination of production of ferroalloys at the workshops #1, #2 and #3 at the Aktobe Ferroalloys Plant and their subsequent closure, management has determined that there is a constructive obligation with regard to the demolition of buildings and constructions, dismantlement of machinery and equipment and restoration of damaged land related to the mentioned assets. The management estimated expenses and recognised a provision for asset retirement obligation and restoration for the aforementioned assets.

As at 31 December 2018, the provision was recognised for the amount of Tenge 4,427,215 thousand (2017: Tenge 4,066,699 thousand).

As at 31 December 2018, the total carrying amount of the provision for asset retirement obligations was Tenge 9,790,433 thousand (2017: Tenge 9,117,418 thousand) (Note 16).

As at 31 December 2018, the carrying value of the assets with useful lives limited by the term of operations of the Aktobe Ferroalloys Plant production departments was Tenge 306,094 thousand (2017: Tenge 739,120 thousand). It is expected that the remaining assets, which mainly include items of infrastructure, administrative buildings and facilities with carrying value of Tenge 17,147,764 thousand (2017: Tenge 17,212,950 thousand), will be further used after the operations at the workshops #1 and #2 at Aktobe Ferroalloys Plant are discontinued.

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 the internal and external factors, management determined there were no impairment indicators at the end of the reporting period.

Land use right.

The Company has a right for land use within the territory of its structural divisions and mines under long-term lease agreements with the Territorial Land Resources Management Committees with the terms varying between 5 and 48 years.

Such agreements were extended in prior periods at nominal cost and the Company's management believes that the lease agreements will be extended until the end of mines' useful lives.

Tax and transfer pricing legislation.

Kazakhstani tax and transfer pricing legislation is subject to varying interpretations (Note 27).

Financial guarantees.

The fair values of premium-free financial guarantees issued by the Group are determined using valuation techniques. The Group applies its judgement in determining fair value of the financial guarantees issued. The Group applies interest rate differential and credit default swaps methods to determine the fair value of the financial guarantees. The fair value of the financial guarantee liability is calculated as the net present value of the interest rate differential or credit default swap rate multiplied by the guaranteed loan amount and discounted at the weighted average cost of the Group's debt. For loan facility agreements where the Company is liable jointly and severally with other guarantors the market commission is determined with reference to credit default swaps or interest rate differential and is apportioned between the guarantors. This represents management's best estimate of the Company's exposure to credit risk associated with the issued guarantees.

Management concluded that it is unlikely that the Group would be required to settle the guaranteed obligations (Note 18). In making such a judgment the management of the Group considered the going concern assessment for the Group as described in the Going concern basis in Note 2. Therefore, at 31 December 2018 and 2017, the financial guarantees are carried at unamortised balance of the amount recorded at initial recognition. The Group estimated provisions for expected credit losses for financial guarantees at 31 December 2018. The amount of ECL allowances did not exceed the carrying amounts of financial guarantees.

Going concern.

Note 2 provides details of going concern assessment for the Group.

4. Balances and Transactions with Related Parties

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

Entities under common control: the companies 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. Alexander Machkevitch, Mr. Alijan Ibragimov, and Mr. Patokh Chodiev.

Government related entities: The Republic of Kazakhstan and related legal entities (hereinafter - "government entities"). The Republic of Kazakhstan is the Company's related party due to its significant influence on the Group.

Joint venture: Shubarkol Komir JSC, a subsidiary of ERG.

Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, whether directly or indirectly.

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

In thousands of Kazakhstani Tenge	Note.	Parent	Entities under common control	Entities under control of Class B Managers	Government related entities	Joint venture	Key management
Assets							
Trade receivables and other current assets		–	14,381,626	1,036,819	650,202	–	–
Investments in equity instruments		–	7,522,222	–	–	–	–
Restricted cash	8	–	–	2,596,229	–	–	–
Long-term advances issued		–	701,777	–	–	–	–
Loans issued	11	274,315,992	–	–	–	–	–
Cash and cash equivalents		–	–	32,800,598	–	–	–
Liabilities							
Borrowings obtained	14	–	46,762,213	–	–	–	–
Trade and other payables		–	10,022,527	572,121	880,797	–	–
Financial guarantees		19,441,278	–	–	–	–	–
Employee benefits		–	–	–	–	–	29,027

At 31 December 2017, the outstanding balances with related parties were as follows:

In thousands of Kazakhstani Tenge	Note.	Parent	Entities under common control	Entities under control of Class B Managers	Government related entities	Joint venture	Key management
Assets							
Trade receivables and other current assets		–	566,690	721,976	54,393	–	–
Investments in equity instruments		–	7,521,222	–	–	113,880,887	–
Restricted cash	12	–	–	2,073,489	–	–	–
Long-term advances issued		–	2,206,956	–	–	–	–
Loans issued	11	505,198,490	514,388,788	–	–	40,738,453	–
Cash and cash equivalents		–	–	15,835,686	–	–	–
Liabilities							
Borrowings obtained	14	–	–	–	94,935,155	–	–
Trade and other payables		–	7,112,676	–	1,352,612	8,343	–
Financial guarantees		–	29,735,737	–	–	2,050,061	–
Employee benefits		–	–	–	–	–	43,619

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)	–	–
General and administrative expenses	–	(49,842,613)	(857,360)	(7,427,874)	–	(883,119)
Selling expenses	–	(12,423)	(212)	(301,061)		
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)	–

The income and expense items with related parties for the year ended 31 December 2017 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	–	995,171	584	891,394	–	–
Cost of sales	–	(68,105,360)	(3,392,651)	(14,276,562)	(5,395,024)	–
Other operating income	–	1,491,854	–	–	–	–
Other operating expense	–	(6,676,090)	(160,810)	(1,416,360)	(568)	–
General and administrative expenses	–	(16,706,461)	(17,893)	(10,403,127)	–	(873,573)
Selling expenses	–	(17,503)	–	(291,451)	–	–
Finance income	48,028,382	69,223,490	1,079,560	598,154	6,010,064	–
Finance costs	(1,420,763)	(34,423,886)	(909,695)	(7,450,538)	(7,240,321)	–

Key management compensation is presented below:

In thousands of Kazakhstani Tenge	2018	2017
Wages, salaries and other bonuses	**946,110**	911,023
Post-employment and other long-term benefits	**(62,911)**	(37,450)
Total key management compensation	**883,119**	**873,573**

Entities under common control

The Group sold ferroalloys in the amount of Tenge 43,308,639 thousand (2017: Tenge 878,246 thousand), purchased raw materials and consumables in the amount of Tenge 20,351,682 thousand (2017: Tenge 15,620,658 thousand), electricity in the amount of Tenge 53,445,479 thousand (2017: Tenge 51,879,585 thousand). The Group purchased management services in amount Tenge 14,336,197 thousand (2017: Tenge 10,958,052 thousand). In 2018 the Group provided sponsorship aid in amount Tenge 20,204,032 thousand (2017: Tenge 5,748,409 thousand).

Entities under control of Class B Managers.

The Group received insurance compensation in the amount of Tenge 3,404,589 thousand (2017: nil). Insurance expense amounted to Tenge 3,620,657 thousand (2017: Tenge 3,408,514 thousand).

Government related entities.

The Group purchases and sells goods and services from government related entities. Such transactions are usually carried out on market conditions or on the basis of tariffs established for all market participants.

Individually significant purchases of goods and services from government related entities that the Group has carried out are as follows:

- Services for supply and transportation of natural gas in amount Tenge 923,024 thousand (2017: Tenge 890,016 thousand);
- Railway services in total amount Tenge 10,251,029 thousand (2017: Tenge 7,215,365 thousand);
- Electricity transportation services in total amount Tenge 6,034,064 thousand (2017: Tenge 4,750,360 thousand);
- Disaster prevention services and services of a paramilitary rescue squad of the Central section of professional paramilitary rescue units in amount Tenge 355,417 thousand (2017: Tenge 272,725 thousand).

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 2017	5,191,035	171,881,303	239,696,610	17,478,702	105,718,532	539,966,182
Accumulated depreciation	–	(53,695,541)	(113,250,914)	(9,125,116)	–	(176,071,571)
Carrying amount at 1 January 2017	**5,191,035**	**118,185,762**	**126,445,696**	**8,353,586**	**105,718,532**	**363,894,611**
Additions	–	1,846,920	6,630,403	1,307,725	38,294,792	48,079,840
Transfers	–	20,621,660	28,644,633	1,252,440	(50,518,733)	–
Transfers from/(to) inventories	–	–	–	–	371,926	371,926
Depreciation	–	(10,369,592)	(25,389,664)	(1,478,800)	–	(37,238,056)
Disposals	(2,534)	–	(92,341)	–	(96,629)	(191,504)
Reversal of impairment	–	–	76,154	–	2,970	79,124
Cost at 31 December 2017	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 31 December 2017	**5,188,501**	**130,284,750**	**136,314,879**	**9,434,953**	**93,772,858**	**374,995,941**
Additions	–	1,234,524	8,912,739	2,300,510,	54,104,584	66,552,357
Transfers	–	1,210,278	13,612,198	1,011,378	(15,833,854)	–
Transfers from/(to) inventories	–	–	–	–	(1,695,491)	(1,695,491)
Depreciation	–	(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)
Cost	(121,535)	(1,099,368)	(1,439,982)	(215,656)	(1,643)	(2,878,184)
Depreciation	–	400,995	859,586	97,343	–	1,357,924
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**

Additions in 2018 are presented net of change in provisions for assets retirement obligations in the amount of Tenge 676,187 thousand, of which Tenge 676,249 thousand was credited to an increase in the amount of acquisitions of buildings and constructions (2017: an increase in the amount of Tenge 1,732,429 thousand, related to the value of the respective assets). Additions to construction in progress include capitalised borrowing costs of Tenge 592,877 thousand (2017: Tenge 827,491 thousand). .

6. Investment in Joint Venture

The Group sold its interest of 48.36% shares in Shubarkol Komir JSC. As a result, investments in Shubarkol Komir JSC have been transferred to the category "Discontinued operations".

In thousands of Kazakhstani Tenge	
Carrying amount at 1 January 2018	**113,880,887**
Share in profit/(loss) after tax	9,345,744
Disposal	(123,226,631)
Carrying amount at 31 December 2018	**–**

7. Discontinued Operations

Results of discontinued operations are as follows.

In thousands of Kazakhstani Tenge	31 December 2018	31 December 2017
Revenue	3,514,903	2,956,564
Cost of sales	(2,639,108)	(2,187,463)
Gross profit	**875,795**	**769,101**
Other operating income	1,415,937	101,739
Selling expenses	(177,980)	(168,881)
General and administrative expenses	(486,253)	(429,356)
Other operating expenses	(84,754)	(34,316)
Operating profit	**1,542,745**	**238,287**
Finance income	12,233,725	18,716,908
Finance costs	(9,063,248)	(15,382,463)
Share in profit of joint venture	9,345,744	8,697,109
Profit before income tax	**14,058,966**	**12,269,841**
Income tax (expense)/ benefit	(3,166,948)	4,287,314
Profit for the year from discontinued operations	**10,892,018**	**16,557,155**
Result of disposal	**(3,819,838)**	–
Profit for the year from discontinued operations	**7,072,180**	16,557,155
Discontinued operations:		
Profit/(loss) for the year from discontinued operations attributable to:		
– Company's equity holders	5,041,189	18,855,241
– Non-controlling interest	2,030,991	(2,298,086)
Profit for the year from discontinued operations	**7,072,180**	**16,557,155**

The table below provides information on sale of subsidiaries and joint venture.

In thousands of Kazakhstani Tenge	31 December 2018
Proceeds from sale of subsidiaries	**243,385,233**
Carrying value of disposed net assets	
Investments in joint venture	123,226,631
Loans issued	112,968,782
Cash and cash equivalents	22,397,153
Deferred tax assets	5,921,521
Property, plant and equipment	1,520,260
Trade and other receivables and other non-current assets	1,234,479
Inventories	693,081
Trade and other payables	(335,876)
Financial guarantees	(804,075)
Other liabilities	(273,073)
Non-controlling interest	(19,343,812)
Total net assets	**247,205,071**
Loss from the sale of subsidiaries and joint venture	**3,819,838**

8. Other Non-current Assets

In thousands of Kazakhstani Tenge	2018	2017
Letters of credit	5,889,557	2,078,460
Restricted cash (contract interest rate: 0%, 1%-4% per annum, effective interest rate: 0.04%-4.5%)	2,596,229	2,115,884
Other long-term receivables	86,563	98,965
Total Financial Assets	**8,572,349**	**4,293,309**
Prepayments for property, plant and equipment and related services	13,064,925	7,554,042
Less: provision for impairment of non-current assets	(865,156)	(873,632)
Total Non-current Assets	**20,772,118**	**10,973,719**

Prepayments for property, plant and equipment and related services are mainly attributable to the renovation of workshop #6 at Aksu Ferroalloys Plant in the amount of Tenge 1,286,771 thousand (2017: Tenge 246,496 thousand), capital mining works at Donskoy Mining and Metal Enriching Plant in the amount of Tenge 1,179,657 thousand, the ferroalloys workshop at Aktobe Ferroalloys Plant in the amount of Tenge 873,268 thousand (2017: Tenge 1,163,274 thousand), purchase of equipment for ferroalloys plants in the amount of Tenge 3,854,653 тысяч thousand (2017: Tenge 2,946,917 thousand), and purchase of mining equipment in the amount of Tenge 3,818,304 thousand (2017: Tenge 949,162 thousand).

Restricted cash represents bank deposits denominated in Tenge for a special fund for the retirement of assets in accordance with the requirements of the subsurface use contracts and Ecological Code of the Republic of Kazakhstan in the amount of Tenge 2,594,890 thousand (2017: Tenge 2,114,001 thousand) and a bank guarantee deposit in the amount of Tenge 1,339 thousand (2017: Tenge 1,883 thousand) with a maturity date of 28 August 2020 securing the Group's employees mortgage liabilities. The bank guarantee deposit is interest free and carried at amortised cost.

Letters of credit denominated in USD relate to the guarantee issued by JSC Halyk Bank in relation to the long-term contract for the delivery of electrodes.

Movement in the provision for impairment of the Group's other non-current assets is as follows:

In thousands of Kazakhstani Tenge	2018	2017
Balance at 1 January	**873,632**	**763,653**
Impairment provisions	1,344	110,402
Reversal of impairment provisions	–	(423)
Assets written-off during the year	(9,820)	–
Balance at 31 December	**865,156**	**873,632**

9. Inventories

In thousands of Kazakhstani Tenge	2018	2017
Purchased raw materials	70,283,136	50,654,704
Work in progress	23,782,070	14,942,975
Produced raw materials	20,334,986	16,460,455
Finished goods	10,486,417	13,843,042
Raw materials in transit	1,013,857	1,814,788
Finished products in transit	413,537	552,291
Products for resale	128,162	33,385
Less: provision for obsolete and slow-moving inventories	(11,785,697)	(8,701,183)
Total inventories	**114,656,468**	**89,600,457**

10. Trade Receivables and Other Current Assets

In thousands of Kazakhstani Tenge	2018	2017
Trade receivables	49,521,748	41,873,046
Term deposits	147,390	117,260
Other	384,577	686,819
Less: impairment provision	(188,925)	(175,382)
Total financial assets	**49,864,790**	**42,501,743**
VAT recoverable	16,848,501	16,819,938
Prepayments	11,503,522	11,675,882
Prepaid insurance	1,313,844	662,560
Tax prepayment	557,045	406,926
Other assets	75,611	75,611
Less: impairment provision	(955,625)	(788,658)
Total non-financial assets	**29,342,898**	**28,852,259**
Total trade receivables and other current assets	**79,207,688**	**71,354,002**

The gross amounts of the Group's trade and other receivables are denominated in the following currencies:

In thousands of Kazakhstani Tenge	31 December 2018	31 December 2017
US Dollars	48,727,741	40,607,847
Tenge	1,162,439	1,949,098
RUB	16,145	2,920
Total trade and other receivables	**49,906,325**	**42,559,865**

The amount of provisionally priced trade receivables amount to Tenge 42,686,472 thousand as at 31 December 2018 (31 December 2017 trade receivables were carried at amortised cost in accordance with to IAS 39).

Analysis of expected credit losses is presented below (2017: provision for impairment). At 31 December 2018 trade and other receivables in the amount of Tenge 1,033,378 thousand (2017: Tenge 5,255,233 thousand) were past due but not impaired. These balances relate to a number of independent customers for which there is no recent history of default.

			31 December 2018	31 December 2017
In thousands of Kazakhstani Tenge	Gross carrying amount	ECL	Net amount	Net amount
Current	**5,993,773**	**–**	**5,993,773**	**37,129,250**
Less than 3 months overdue	670,269	(14,474)	655,795	4,639,584
3 to 6 months overdue	14,496	–	14,496	18,926
6 to 12 months overdue	49,622	–	49,622	37,266
More than 12 months overdue	298,991	(174,451)	124,540	559,457
Total past due	**1,033,378**	**(188,925)**	**844,453**	**5,255,233**
Current and past due	**7,027,151**	**(188,925),**	**6,838,226**	**42,384,483**
Individually determined to be impaired	**188,925**	**–**	**188,925**	**–**
Total trade and other receivables, gross	**7,216,076**	**(188,925)**	**7,027,151**	**42,384,483**

In thousands of Kazakhstani Tenge	2018	2017
Short-term portion of loans receivable	**(175,382)**	**(127,222)**
Provision for impairment	(9,630)	(71,968)
Long-term portion of loans receivable	(3,913)	23,808
Total loans receivable	**(188,925)**	**(175,382)**

11. Loans receivable

In thousands of Kazakhstani Tenge	31 December 2018	31 December 2017
Short-term portion of loans receivable	276,310,461	1,002,634,314
Provision for impairment	(1,994,469)	–
Long-term portion of loans receivable	–	60,428,925
Total loans receivable	**274,315,992**	**1,063,063,239**
US Dollars	274,315,992	997,638,568
Tenge	–	65,424,671
Total	**274,315,992**	**1,063,063,239**

In thousands of Kazakhstani Tenge	2018
Credit loss allowance at 1 January	**970,444**
Loans receivable	5,169,521
Loans repaid	(4,145,496)
Credit loss allowance at 31 December	**1,994,469**

In 2018 the Group's loans to the Parent Company were provided at interest rate of 5.96% per annum denominated in US Dollars (2017: 7.78% per annum in US Dollars and 9.75% per annum in Tenge). In 2017 the Group's loans to the Companies under common control were provided at interest rate between 7.31% and 7.78% per annum denominated in US Dollars and between 1% and 9.05% per annum in Tenge.

12. Cash and Cash Equivalents

In thousands of Kazakhstani Tenge	31 December 2018	31 December 2017
Term deposits	53,436,523	31,121,284
Cash in bank accounts in RUB	537,667	288,855
Cash in bank accounts in US dollars	83,546	2,253
Cash on hand	41,092	76,926
Cash in bank accounts in Tenge	19,712	124,527
Cash in bank accounts in EUR	376	86,006
Total cash and cash equivalents	**54,118,916**	**31,699,851**

13. Share Capital

In thousands of Kazakhstani Tenge	31 December 2018		31 December 2017	
	Quantity	Amount	Quantity	Amount
Ordinary shares	99,953,939	100,058,381	7,147,485	7,147,485
Preference shares	9,884,812	2,757,864	756,000	187,579
Total paid charter capital	–	**102,816,245**	–	**7,335,064**
Ordinary shares		(104,442)		
Preference shares		(654,632)		–
Total unpaid charter capital		**(759,074)**		**–**
Share capital indexation for hyperinflation	–	4,442,888	–	4,442,888
Total share capital	–	**106,500,059**	–	**11,777,952**

The total outstanding ordinary shares is 99,953,939 shares (31 December 2017: 7,147,485 shares) with a par value of Tenge 1,000 per share (31 December 2017: Tenge 1,000 per share). Each ordinary share carries one vote. Outstanding ordinary shares are partially paid.

The total outstanding number of preference shares is 9,884,812 shares (2017: 756,000 shares) with a par value of Tenge 1,000 per share (2017: Tenge 1,000 per share.

Dividends declared and paid during the year were as follows

	2018			2017		
		Preference shares			Preference shares	
In thousands of Kazakhstani Tenge	Ordinary shares	Equity	Liability	Ordinary shares	Equity	Liability
Dividends payable at 1 January	261,770	2,448,220	37,800	107,210	981,004	113,057
Dividends declared	969,325,260	101,722,694	1,025,938	285,879,680	30,028,481	75,257
Dividends paid	(968,989,479)	(98,620,423)	(75,257)	(285,725,120)	(28,561,265)	(150,514)
Dividends payable at 31 December	**597,551**	**5,550,491**	**988,481**	**261,770**	**2,448,220**	**37,800**

For the year ended 31 December 2018 dividends on preference shares at guaranteed fixed amount of Tenge 100 per share were accrued as a part of non-current preference shares liabilities in the amount of Tenge 6,830,891 thousand (31 December 2017: Tenge 75,260 thousand).

14. Borrowings

In thousands of Kazakhstani Tenge	31 December 2018	31 December 2017
Borrowings due		
– less than 1 years	1,288,364	36,595,909
– between 2 and 5 years	699,100,691	678,906,883
Total	**700,389,055**	**715,502,792**

VTB Bank

In 2018, the Company together with the Parent Company entered into a new loan facility agreement with VTB bank. The loan amount attributable to the Company amounted to US Dollar 1,700,000 thousand. The agreement provides the maturity of the principal payment until 2023.The interest rate under the contract is 5.95% per annum.

During the second half of 2018 debt portfolio of the Company was fully refinanced. As a result of the refinancing the Company repaid fully the principal debt in the amount of US Dollar 2,062,572 thousand under agreements entered earlier with VTB Bank, Sberbank of Russia OJSC, SB Sberbank of Russia JSC and the Development Bank of Kazakhstan.

As of 31 December 2018 fair value of borrowings amounted to Tenge 705,631,688 thousand (31 December 2017: Tenge 727,137,205 thousand).

The table below presents the analysis of movements in the Group's liabilities as a result of financing activities. Cash flows on these liabilities are also are reported as financing and operating activities in the consolidated statement of cash flows:

In thousands of Kazakhstani Tenge	Borrowings	Dividends	Total
Financial liabilities at 31 December 2016	**714,034,183**	**1,088,214**	**715,122,397**
Cash flows	(52,195,839)	(314,286,385)	(366,482,224)
Change in fair value	5,605,424	–	5,605,424
Foreign exchange differences	(2,005,280)	–	(2,005,280)
Other non-cash movements	50,064,304	315,908,161	365,972,465
Financial liabilities at 31 December 2017	**715,502,792**	**2,709,990**	**718,212,782**
Cash flows	(238,653,479)	(1,067,609,902)	(1,306,263,381)
Change in fair value	(8,517,730)	–	(8,517,730)
Foreign exchange differences	98,147,553	–	98,147,553
Other non-cash movements	133,909,919	1,071,047,954	1,204,957,873
Financial liabilities at 31 December 2018	**700,389,055**	**6,148,042**	**706,537,097**

15. Trade and Other Payables and Non-Current Liabilities

In thousands of Kazakhstani Tenge	31 December 2018	31 December 2017
Trade payables	48,975,027	37,611,673
Other payables	1,553,046	132,991
Total financial liabilities	**50,528,073**	**37,744,664**
Payables to employees	6,088,926	5,902,217
Advances received*	3,977,435	4,466,372
Pension funds contributions	1,140,601	1,101,014
Other payables	1,582,844	2,940,637
Total non-financial liabilities	**12,789,806**	**14,410,240**
Total short-term payables	**63,317,879**	**52,154,904**
Advances received*	1,125,795	5,184,532
Total other non-current liabilities	**1,125,795**	**5,184,532**

* Advances received represent contract liability. As of 31 December 2018 advances received in the amount of Tenge 5,103,230 thousand (2017: Tenge 9,650,904 thousand), including advances from ERG companies amounting to Tenge 7,360 thousand (2017: Tenge 5,328 thousand), from other companies Tenge 5,095,870 thousand (2017: Tenge 9,645,576 thousand). Advances received from ERG companies represent short-term advances for future delivery of ferroalloys.

B In current reporting period revenue recognised in the amount of Tenge 4,058,737 thousand in relation to advances received as of 1 January 2018.

Trade payables of Tenge 18,125,005 thousand (2017: Tenge 16,840,500 thousand) are denominated in foreign currencies: 61.75 percent in Euro (2017: 62.18 percent), 19.24 percent in US Dollar (2017: 19.63 percent), 19.01 percent in Russian Roubles (2017: 18.19 percent).

16. Provisions for Assets Retirement Obligations

In thousands of Kazakhstani Tenge	2018				2017			
	Mining assets	Waste polygons	Other assets *	Total	Mining assets	Waste polygons	Other assets *	Total
Long-term portion	**1,441,457**	**2,892,129**	**4,427,215**	**8,760,801**	1,105,251	2,868,775	4,066,699	8,040,725
Short-term portion	**24,286**	**1,005,346**	**–**	**1,029,632**	2,879	1,073,814	–	1,076,693
Total	**1,465,743**	**3,897,475**	**4,427,215**	**9,790,433**	**1,108,130**	**3,942,589**	**4,066,699**	**9,117,418**

* Other assets include assets of workshops #1, #2 and #3 at Aktobe Ferroalloy plant, which are subject to liquidation after 2019.

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

In percent	2018	2017
Discount rate	**5.43–8.71%**	7.44–9.99%
Inflation rate	**5.10–6.30%**	5.40–7.50%

Movements in provisions for assets retirement obligations are as follows:

In thousands of Kazakhstani Tenge	Mining assets		Waste polygons		Other assets	
	Decommissioning costs	Landfill site restoration	Decommissioning costs	Landfill site restoration	decommissioning costs	Total
Carrying amount at 1 January 2017	**476,514**	**309,287**	**52,040**	**2,851,923**	**2,945,588**	**6,635,352**
Utilised during the year	(7,162)	–	–	(52,126)	–	(59,288)
Change in estimates	182,957	50,220	–	736,627	761,855	1,731,659
Unwinding of the present value discount	63,038	33,276	–	354,125	359,256	809,695
Carrying amount at 31 December 2017	**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**

17. Employee Benefits

In thousands of Kazakhstani Tenge	2018			2017		
	Short-term	Long-term	Total	Short-term	Long-term	Total
Defined benefit obligations	**131,353**	**2,644,957**	**2,776,310**	142,602	2,372,848	2,515,450
Other long-term employee benefits	**302,275**	**3,469,260**	**3,771,535**	296,286	2,987,214	3,283,500
Total employee benefits	**433,628**	**6,114,217**	**6,547,845**	**438,888**	**5,360,062**	**5,798,950**

Changes in benefit obligations presented below.

In thousands of Kazakhstani Tenge	Defined benefit obligations	Other	Total
Present value of defined benefit obligations at 1 January 2017	**2,970,038**	**3,496,375**	**6,466,413**
Unwinding of the present value discount	298,786	351,735	650,521
Benefits paid	(175,740)	(290,685)	(466,425)
Current service cost	150,176	85,911	236,087
Remeasurements	(727,810)	(359,836)	(1,087,646)
Present value of defined benefit obligations at 31 December 2017	**2,515,450**	**3,283,500**	**5,798,950**
Unwinding of the present value discount	223,971	294,201	518,172
Benefits paid	(212,673)	(309,639)	(522,312)
Current service cost	159,882	96,650	256,532
Remeasurements	89,680	406,823	496,503
Present value of defined benefit obligations at 31 December 2018	**2,776,310**	**3,771,535**	**6,547,845**

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

In thousands of Kazakhstani Tenge	2018	2017
Loss from change in demographic assumptions	**49,486**	75,932
Loss/(gain) from change in financial assumptions	**173,259**	34,635
Experience adjustments	**(133,065)**	(838,377)
Итого переоценка обязательств	**89,680**	**(727,810)**

Principal actuarial assumptions at the end of reporting period are as follows::

In percent	2018	2017
Discount rate at 31 December	**8.32%**	8.96%
Future salary growth at 31 December	**8.00%**	8.00%
Average labour turnover rate at 31 December	**7.36%**	6.74%

The mortality rates used in determination of employee benefits at 31 December 2018 and as of 31 December 2017 are based on the official data of the Statistics Agency of the Republic of Kazakhstan.

The sensitivity analysis for the post-employment employee benefits obligations at 31 December 2018 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	(420,831)
Decrease by 3 percent	430,925
Future salary growth rates and minimum calculation index	
Increase by 3 percent	339,678
Decrease by 3 percent	(467,031)
Average staff turnover rate	
Increase by 3 percent	(241,899)
Decrease by 3 percent	(287,118)

18. Financial Guarantees

	Guaranteed obligations		
Entity	31 December 2018	31 December 2017	Period of the guarantee
Parent Company	533,077,500	–	2023
Entities under common control	–	1,302,818,067	2018
Joint Venture	–	83,082,500	2018
Total	**533,077,500**	**1,385,900,567**	

At 31 December 2017 and 31 December 2016, the carrying value of the financial guarantees were measured at the remaining unamortised balance of the amount recorded at initial recognition.

Fair value of the financial guarantees was calculated based on the remaining period of the guaranteed obligations, market rate of commissions, apportioned between the guarantors and discounted using the weighted-average discount rate of the borrowing rates of the Company.

19. Segment Information

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 has been identified as the Company' President. The CODM identified an operating business unit based on the reports used for strategic decision making.

The Group's chief operating decision maker identified one operating segment represented by production of ferroalloys. When making decisions, management evaluates the segment's performance based on operating profit and profit before tax. Ferroalloy production includes production of chrome ore and sale of ferrochromium and other ferroalloys.

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

In thousands of Kazakhstani Tenge	2018	2017
Europe	712,656,791	658,563,254
Eurasia	33,181,111	39,099,910
Kazakhstan	4,218,435	4,434,142
Total revenue	**750,056,337**	**702,097,306**

Revenue for 2018 includes Tenge 16,066,384 thousand loss from sources other than contracts with customers.

20. Earnings 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	2018	2017
Net profit from continuing operations attributable to ordinary shareholders	121,722,952	278,430,701
Weighted average number of ordinary shares in issue	22,614,552	7,146,992
Basic and diluted earnings per ordinary share from continuing operations (expressed in Tenge per share)	**5,383**	**38,958**

Earnings per share from discontinued operations are calculated as follows:

In thousands of Kazakhstani Tenge	2018	2017
Net profit from discontinued operations attributable to ordinary shareholders	5,041,189	18,855,241
Weighted average number of ordinary shares in issue	22,614,552	7,147,485
Basic and diluted earnings per ordinary share from discontinued operations (expressed in Tenge per share)	**223**	**2,638**

The book value per one ordinary share is provided below:

Book value per one ordinary share

In thousands of Kazakhstani Tenge	2018	2017
Assets	952,336,888	1,775,814,827
Intangible assets	(2,106,274)	(2,924,612)
Liabilities	(825,246,966)	(839,802,137)
Charter capital, preference shares	(2,757,864)	(187,579)
Net assets for ordinary shares	**122,225,784**	**932,900,499**
Number of ordinary shares (pcs)	99,953,446	7,146,992
Book value per 1 ordinary share (Tenge)	**1,223**	**130,531**

Book value per one preference share

In thousands of Kazakhstani Tenge	2018	2017
Liabilities on accrued but not paid dividends	–	–
Charter capital, preference shares	2,757,864	187,579
Capital attributable to preference shareholders	**2,757,864,**	**187,579**
Debt component of the first-group preference shares charged to liabilities	6,830,891	568,421
Total	**9,588,755**	**756,000**
Number of preference shares (pcs)	9,588,755	752,572
Book value per 1 preference share (Tenge)	**970**	**1,005**

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.

21. Cost of Sales

In thousands of Kazakhstani Tenge	2018	2017
Materials	164,276,499	135,737,814
Electricity expense	67,864,563	64,582,612
Payroll and related costs	43,437,311	38,904,656
Depreciation	37,244,238	34,600,868
Mineral extraction tax	19,554,497	17,253,201
Other	25,332,800	15,563,808
Total cost of sales	**357,709,908**	**306,642,959**

22. Other Operating Income

In thousands of Kazakhstani Tenge	2018	2017
Foreign exchange gains less losses	7,652,517	–
Income from insurance claims	3,406,026	283,880
Sale of inventories	2,334,632	1,907,358
Inventories' surplus based on the results of stock count	291,096	80,444
Heat loss recovery	101,536	97,088
Income from accrued fines and penalties	93,862	91,994
Income from other assets received free of charge	23,192	–
Profit less loss from disposal of fixed assets	14,469	–
Income from write-off of accounts payable	5,961	6,068
Rental income	3,431	–
Other	943,298	174,703
Total other operating income	**14,870,020**	**2,641,535**

23. Distribution Costs

In thousands of Kazakhstani Tenge	Note	2018	2017
Materials		1,792,163	1,551,757
Services on export transportation		1,769,997	1,836,551
Salaries and related expenses		701,036	786,770
Depreciation		567,657	350,851
Heat transportation costs		300,167	290,623
Insurance Costs		48,102	33,545
Customs duties		46,816	42,459
Other		432,938	490,079
Total distribution costs		**5,658,876**	**5,382,635**

24. General and Administrative Expenses

In thousands of Kazakhstani Tenge	Note	2018	2017
Sponsorship and other financial aid		27,789,514	18,685,028
Information, consulting and other professional services		22,602,458	14,377,531
Agent fees		10,247,588	4,485,301
Payroll and related costs		8,418,942	7,356,417
Depreciation of property, plant and equipment and amortization of intangible assets		1,876,861	1,786,053
Other taxes, except for income tax		647,396	394,553
Fines and penalties		451,710	(2,038,115)
Social tax		379,030	412,501
Travel and entertainment expenses		377,097	288,101
Advertising expenses		352,724	348,223
Rental costs		276,683	225,553
Bank fees		267,740	205,799
Repair and maintenance costs		257,491	226,254
Security Services		228,997	208,237
Reserves for reduction of accounts receivable and non-current assets		177,513	397,046
Employee benefits	17	170,561	(84,668)
Provisions for impairment of fixed assets		141,530	16,617
Communication expenses		138,530	106,585
Insurance Costs		92,034	85,864
Membership fee		63,791	55,275
Shipping Costs		24,645	9,226
Other		2,231,905	1,753,923
Total general and administrative expenses		**77,214,740**	**49,301,304**

The Group supports social development projects aiming to foster sustainable growth of society close to its operations as well as one-off nationally important projects in Kazakhstan to demonstrate its social development commitment in its country of operation.

Contributions to a number of different non-recurring individual social development infrastructure projects at the national level in Kazakhstan amounted to Tenge 21,274,682 thousands (2017: Tenge 12,616,058 thousands), and primarily related to education, cultural and recreation projects.

25. Finance Income

In thousands of Kazakhstani Tenge	Note	2018	2017
Income from early derecognition of financial guarantees		**26,788,910**	19,993,075
Gains on restructuring of borrowings		**22,379,322**	–
Interest income on loans receivable		**21,062,215**	79,913,667
Other		**6,047,870**	9,881,300
Total finance income		**76,278,317**	**109,788,042**

26. Finance Costs

In thousands of Kazakhstani Tenge	Note	2018	2017
Foreign exchange losses less gains*		**69,297,555**	–
Interest expense on borrowings		**51,732,110**	51,547,917
Loss on early redemption of borrowings		**38,183,327**	–
Costs of initial recognition and renewal of financial guarantees		**20,234,539**	26,432,194
Commissions on derecognition of financial assets		**5,652,006**	–
Other		**6,230,293**	6,721,824,
Total finance costs		**191,329,830**	**84,701,935**

* The foreign exchange loss is disclosed on a net basis. The amounts of losses and gains on exchange differences on a gross basis for the year ended 31 December 2018 amounted to Tenge 103,051,261 thousand and Tenge 172,349,604 thousand, respectively (2017: Tenge 164,393,949 thousand and Tenge 160,773,688 thousand, respectively).

27. Income Taxes

Income tax expense comprises the following:

In thousands of Kazakhstani Tenge	2018	2017
Continuing operations		
Current income tax expense	**40,649,555**	74,656,794
Current excess profit tax expense – prior periods	**(444,740)**	–
Current income tax (benefit)/expense – prior periods	**(227,584)**	5,740
Current excess profit tax expense	**–**	356,582
Total current income tax expense - continuing operations	**39,977,231**	**75,019,116**
Deferred income tax benefit	**(7,117,938)**	(4,095,809)
Deferred income tax expense – prior periods	**–**	230,977
Total deferred income tax benefit - continuing operations	**(7,117,938)**	**(3,864,832)**
Income tax expense for the year - continuing operations	**32,859,293**	**71,154,284**
Discontinued operations		
Current income tax expense	**1,087,814**	1,328,589
Deferred income tax expense/(benefit)	**2,079,134**	(5,615,903)
Total income tax expense/(benefit) - discontinued operations	**3,166,948**	**(4,287,314)**
Income tax expense for the year	**36,026,241**	**66,866,970**

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

In thousands of Kazakhstani Tenge	2018	2017
IFRS profit before tax – continuing operations	**202,735,315**	**360,051,882**
IFRS profit before tax – discontinued operations	**14,058,966**	**12,269,841**
Theoretical tax charge at statutory rate of 20%	**40,547,063**	72,010,376
Theoretical tax charge at statutory rate of 20% - discontinued operations	**2,811,793**	2,453,968
Tax effect of items which are not deductible or assessable for taxation purpose:		
– corporate income tax exempt under investment contract	**(8,307,526)**	(5,917,541)
– financial guarantees	**(2,152,374)**	120,717
– non-taxable share in the profit of joint venture	**(1,869,149)**	(1,739,422)
– excess profits tax – prior periods	**(444,740)**	–
– corporate income tax – prior periods	**(227,584)**	(3,557)
– expenses for sponsorship and other financial aid	**3,824,679,**	1,109,126,
– non-deductible expenses under investment contract	**884,250,**	(2,669,605)
– social sphere maintenance	**166,544,**	180,046
– inventories write-off	**116,347,**	208,270,
– non-deductible taxes	**80,687,**	9,492,
– provision for impairment of advances and receivables	**70,978,**	79,381,
– amortization of non-production assets	**37,591,**	39,133,
– fines and penalties	**16,100,**	7,070,
– excess profits tax	**–**	356,582,
– deferred tax – prior periods	**–**	230,977,
– deferred tax under investment contract - prior period	**–**	116,177,
– other	**471,582,**	275,779,
Income tax expense for the year	**36,026,241,**	**66,866,970,**
Income tax expense for the year – continuing operations	**32,859,293,**	71,154,284,
Income tax expense/(benefit) for the year – discontinued operations	**3,166,948**	(4,287,314)

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In thousands of Kazakhstani Tenge	31 December 2017	Adoption of IFRS 9 (adjustment of opening balance)	Recorded to profit or loss	Sale of subsidiaries	Recorded in other comprehen-sive income	31 December 2018
Tax effect of deductible temporary differences						
Intangible assets	267,683	–	(117,999)	–	–	**149,684**
Derivative instruments	(1,501,228)	–	1,501,228	–	–	**–**
Other payables	(35,592)	–	2,582	–	–	**(33,010)**
Loans receivable and other trade receivables	(8,053,936)	(436,703)	2,116,591,	5,857,294		**(516,754),**
Vacation provision	(780,272)	–	(213,038)	64,227,		**(929,083)**
Employee benefits	(1,057,355)	–	73,946		(35,435)	**(1,018,844)**
Taxes accrued but not paid	(1,078,915)	–	55,429	–		**(1,023,486)**
Provision for asset retirement obligation	(1,326,960)	–	(89,677)	–	–	**(1,416,637)**
Contingent accrual for services	–	–	(368,384)	–	–	**(368,384)**
Provision for tax liabilities	–	–	(391,982)		–	**(391,982)**
Provision for impairment of inventories	(1,740,237)	–	(616,902)	–	–	**(2,357,139)**
Gross deferred income tax assets	**(15,306,812)**	**(436,703)**	**1,951,794**	**5,921,521**	**(35,435)**	**(11,443,963)**
Less: offsetting with deferred income tax liabilities	7,370,384	–	499,816	–	35,435	**7,905,635**
Recognised deferred income tax asset	**(7,936,428)**	**(436,703)**	**2,451,610**	**5,921,521**	**–**	**–**
Tax effect of taxable temporary differences						
Property, plant and equipment	9,428,540	–	(1,245,918)	–	–	**8,182,622**
Borrowings	5,431,730	2,899,937	(5,744,680)	–	–	**2,586,987**
Gross deferred income tax liability	**14,860,270**	**2,899,937**	**(6,990,598)**	**–**	**–**	**10,769,609**
Less: offsetting with deferred income tax assets	(7,370,384)	–	(499,816)	–	(35,435)	**(7,905,635)**
Recognised deferred income tax liability	**7,489,886**	**2,899,937**	**(7,490,414)**	**–**	**(35,435)**	**2,863,974**
Net deferred income tax position	**(446,542)**	**2,463,234**	**(5,038,804)**	**5,921,521**	**(35,435)**	**2,863,974**
Continuing operations	7,489,886	2,527,461	(7,117,938)	–	(35,435)	**2,863,974**
Discontinued operations	(7,936,428)	(64,227)	2,079,134	5,921,521	–	**–**

In thousands of Kazakhstani Tenge	31 December 2016	Recorded to profit or loss	Recorded in other comprehensive income	31 December 2017
Tax effect of deductible temporary differences				
Intangible assets	346,724	(79,041)	–	267,683
Other payables	(44,135)	8,543	–	(35,592)
Loans receivable and other trade receivables	(2,195,195)	(5,858,741)	–	(8,053,936)
Vacation provision	(940,100)	159,828	–	(780,272)
Employee benefits	(1,196,859)	2,656	136,848	(1,057,355)
Taxes accrued but not paid	(872,156)	(206,759)	–	(1,078,915)
Provision for asset retirement obligation	(873,518)	(453,442)	–	(1,326,960)
Derivative financial instruments	(333,580)	(1,167,648)		(1,501,228)
Provision for impairment of inventories	–	(1,740,237)		(1,740,237)
Investment preferences on PPE reducing the tax base in different period	(1,752,973)	(2,669,605)		(4,422,578)
Gross deferred income tax assets	**(6,108,819)**	**(9,334,841)**	**136,848**	**(15,306,812)**
Unrecognised deferred income tax assets				
Less: offsetting with deferred income tax liabilities	4,018,971	3,488,261	(136,848)	7,370,384
Recognised deferred income tax assets	**(2,089,848)**	**(5,846,580)**	**-**	**(7,936,428)**
Tax effect of taxable temporary differences				
Property, plant and equipment	12,115,559	(2,687,019)	–	9,428,540
Accounts receivable increasing the tax base in different period	3,121,582	(3,121,582)	–	–
Borrowings	–	5,431,730	–	5,431,730
Gross deferred income tax liability	**15,237,141**	**(376,871)**	**–**	**14,860,270**
Less: offsetting with deferred income tax assets	(4,018,971)	(3,488,261)	136,848	(7,370,384)
Recognised deferred income tax liability	**11,218,170**	**(3,865,132)**	**136,848**	**7,489,886**
Net deferred income tax position	**9,128,322,**	**(9,711,712)**	**136,848,**	**(446,542)**
Continuing operations	11,218,170	(4,095,809)	136,848	7,489,886
Discontinued operations	(2,089,848)	(5,615,903)	–	(7,936,428)

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.

In thousands of Kazakhstani Tenge	2018	2017
Deferred income tax assets:		
– to be recovered after 12 months	**(2,840,794)**	(10,094,451)
– to be recovered within 12 months	**(5,156,953)**	(5,332,472)
Gross deferred tax assets	**(7,997,747)**	**(15,426,923)**
Deferred income tax liabilities:		
– to be recovered after 12 months	**9,758,364**	9,572,051
– to be recovered within 12 months	**1,103,356**	5,408,330
Gross deferred income tax liabilities	**10,861,720**	**14,980,381**

28. Contingencies, Commitments and Operating Risks

Capital expenditure commitments

As at 31 December 2018, the Group has contractual capital expenditure commitments in respect of acquisition of property, plant and equipment totalling Tenge 28,478,186 thousand (2017: Tenge 23,875,134 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 believes that no material losses will be incurred in respect of these claims.

29. Financial Risk Management

Financial risk factorsa

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, foreign exchange risk, interest rate risk and price risk), liquidity risk and credit risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments to hedge these risks.

(a) Market risk

Currency risk

The Group carries out foreign economic activities; thus, it is exposed to foreign exchange risk. The Group is mainly exposed to the risk of a change in the exchange rate of Tenge to US Dollar, Euro and Russian Rubles. The Group exports ferroalloys to the Russian market 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. The management of ERG monitors foreign exchange risk exposure by currency and in total based on the Group's 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	US Dollar	Russian Rouble	Euro	**Total**
As of 31December 2018				
Assets	370,471,733	553,950	376	371,026,059
Liabilities	(657,116,451)	(3,433,322)	(11,202,803)	(671,752,576)
Net exposure to currency risk	**(286,644,718)**	**(2,879,372)**	**(11,202,427)**	**(300,726,517)**
As of 31December 2017				
Assets	1,057,186,296	2,040,627	2,164,466	1,061,391,389
Liabilities	(718,809,235)	(3,063,448)	(10,470,609)	(732,343,292)
Net exposure to currency risk	**338,377,061**	**(1,022,821)**	**(8,306,143)**	**329,048,097**

At 31 December 2018, if the exchange rate of US Dollar to Tenge had increased/decreased by 20 percent, with all other variables held constant, net profit for the year would have been Tenge 45,846,832 thousand higher/lower (2017: increased by 20 percent with all other variables held constant, net profit for the year would have been Tenge 54,140,330 thousand higher/lower), mainly due to the foreign exchange gain/loss arising from the recalculation of cash and cash equivalents, accounts receivable/payable, loans receivable and borrowings balances denominated in US Dollars as of the reporting date.

At 31 December 2018, if the exchange rate of Russian Ruble to Tenge had increased/decreased by 20 percent, with all other variables held constant, net profit for the year would have been Tenge 460,699 thousand higher/lower (2017: increased by 20 percent with all other variables held constant, net profit for the year would have been Tenge 148,476 thousand higher/lower), mainly due to the foreign exchange gain/loss arising from the recalculation of cash and cash equivalents and accounts payable balances denominated in Russian Ruble as of the reporting date.

At 31 December 2018, if the exchange rate of Euro to Tenge had increased/ decreased by 20 percent, with all other variables held constant, net profit for the year would have been Tenge 1,792,388 thousand higher/lower (2017: increased/decreased by 20 percent, with all other variables held constant, net profit for the year would have been Tenge 1,328,983 thousand higher/lower), mainly due to the foreign exchange gain/loss arising from the recalculation of accounts payable balances denominated in Euro as of the reporting date.

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.

The Group is exposed to price risk on equity securities in respect of investments owned by the Group and stated in consolidated balance sheet as investments in equity instruments. 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.

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

Interest rate risk.

Changes in interest rates affect mainly the loans received and borrowings changing their fair value (debt liabilities with a fixed interest rate) or future cash flows thereon (debt liabilities with a floating interest rate). When attracting new loans or borrowings, management decides which interest rate – fixed or floating – will be the most beneficial for the Group during the expected period until the maturity based on its own judgement.

A change in a floating interest rate during the reporting period would not affect the profit or loss for the period since all borrowings had a fixed interest rate. As of the reporting date, there was no material impact of an interest rate risk on financial assets of the Group.

Assets and liabilities with a fixed interest rate expose the Group a risk of changes in the fair value of such asset.

(b) Credit risk

Credit risk mainly arises from cash and cash equivalents, term deposits with banks, loans issued to related parties as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only highly rated institutions operating on local market are accepted.

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 related parties. The carrying amount of cash and cash equivalents, short-term bank deposits with maturity of more than 3 months, loans issued and accounts receivables (including receivables from related parties), net of provision for their impairment represents the maximum amount exposed to credit risk.

At 31 December 2018 the Group had only 4 main trade customers. The total trade receivables for main products from four customer are Tenge 45,268,526 thousand (2017: three main debtors of Tenge 38,830,013 thousand) or

91.41 percent of the total trade and other receivables (2017: 92.73 percent). 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 the provisions for receivables impairment already recorded.

(c) Liquidity risk

Liquidity risk is defined as the risk that the Company will encounter difficulty meeting obligations associated with financial liabilities in due time. 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. The Group's going concern status is 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:

In thousands of Kazakhstani Tenge	Carrying value	Cash flows under agreement	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	–
Trade and other financial payables	50,528,073	50,528,073	50,528,073	–	–	–	–	–
Preference shares	7,819,372	22,735,067	988,481	988,481	988,481	988,481	988,481	17,792,662
Dividends payable	6,148,042	6,148,042	6,148,042	–	–	–	–	–
Total	764,884,542	987,977,952	103,578,184	121,173,713	106,237,059	101,936,364	537,259,970	17,792,662
Assets								
Cash and cash equivalents	54,118,916	54,118,916	54,118,916	–	–	–	–	–
Trade and other financial receivables	50,053,715	50,053,715	50,053,715	–	–	–	–	–
Other financial liabilities	290,410,563	293,618,884	276,504,513	585,908	753,301	144,493	6,496,681	9,133,988
Total	394,583,194	397,791,515	380,677,144	585,908	753,301	144,493	6,496,681	9,133,988

The table below represents information for 2017:

In thousands of Kazakhstani Tenge	Carrying value	Cash flows under agreement	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Liabilities								
Borrowings	715,502,792	1,055,071,788	70,226,963	95,308,419	106,328,234	95,131,317	71,707,253	616,369,602
Trade and other financial payables	37,744,664	37,744,664	37,744,664	–	–	–	–	–
Preference shares	568,421	756,000	75,600	75,600	75,600	75,600	75,600	378,000
Dividends payable	2,709,990	2,709,990	2,709,990	–	–	–	–	–
Total	756,525,867	1,096,282,442	110,757,217	95,384,019	106,403,834	95,206,917	71,782,853	616,747,602
Assets								
Cash and cash equivalents	31,699,851	31,699,851	31,699,851	–	–	–	–	–
Trade and other financial receivables	46,465,317	46,465,317	46,465,317	–	–	–	–	–
Other financial liabilities	1,074,877,770	1,108,085,816	1,028,399,697	39,840,517	13,092,523	9,849,292	8,035,848	8,867,939
Total	1,153,042,938	1,186,250,984	1,106,564,865	39,840,517	13,092,523	9,849,292	8,035,848	8,867,939

In addition, the Company also issued financial guarantees in respect of the debt facilities obtained by its related parties (Note 18).

During 2018 and 2017, all liabilities of the Group were fully settled on a timely basis according to the terms of the signed agreements.

Capital risk management

Decisions in regards of the Group's financing (whether it is the Group's working capital or borrowed funds) are made at the level of ERG's management. 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.

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

Within the framework of capital management, the Group takes into account the following amounts.

In thousands of Kazakhstani Tenge	2018	2017
Borrowings	700,389,055	701,267,737
Equity attributable to the Company's shareholders	127,089,922	945,865,625
Total equity	827,478,977	1,647,133,363

30. 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 receivables and borrowings is within Level 2 of the fair value hierarchy and is disclosed in Notes 11 and 14. Fair values of other financial assets and liabilities carried at amortised cost approximates their carrying amounts.

Fair value of financial instruments measured 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 2018 and 31 December 2017, 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.

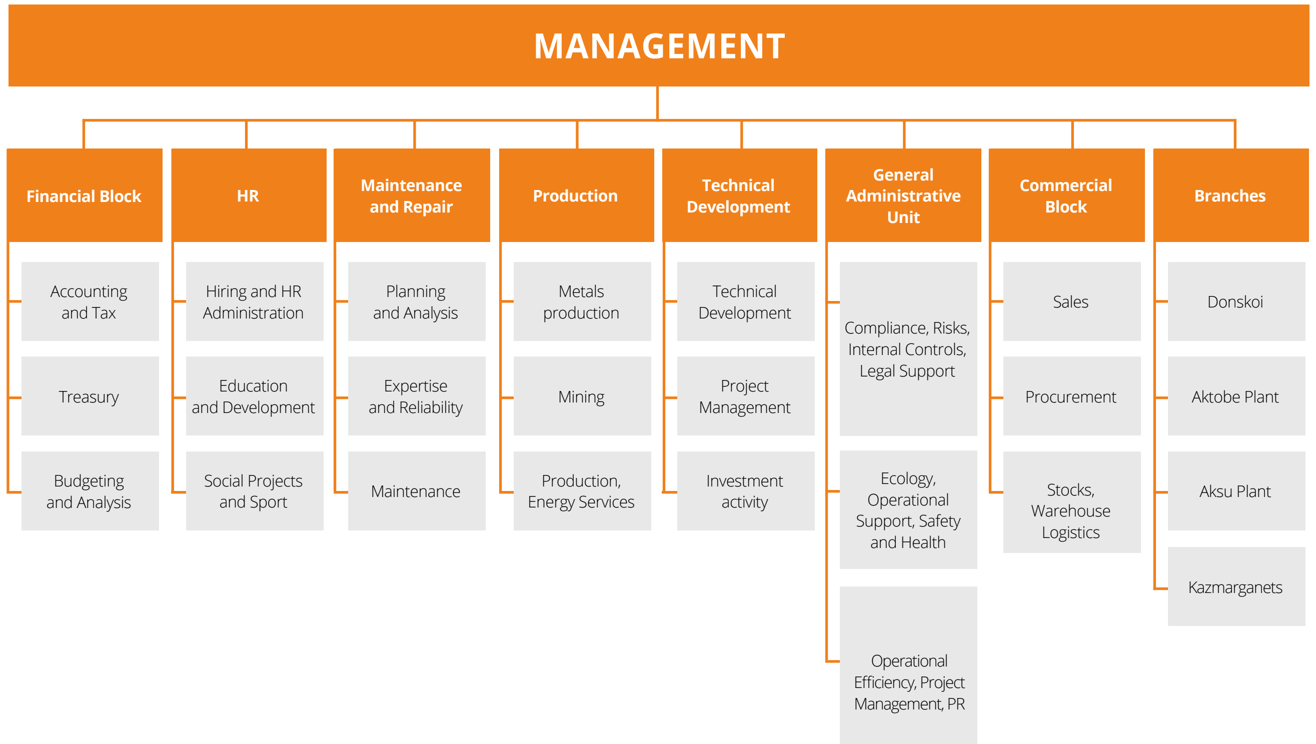
The fair value of investments in equity instruments of Level 3 fair value hierarchy has been determined based on the discounted cash flow model. Significant unobservable input is the income received on the market conditions. Despite the assumptions being subjective estimate, management believes that potential alternatives related to this assumption do not have significant impact on overall assessment of the instrument.

31. Events after the Reporting Period

On 23 January 2019 Company received reimbursement of withholding tax from VTB Bank OJSC in the amount of Tenge 3,386,145 thousand according to the loan agreement dated February 2016. Under this agreement, interest expense was recognised and taxes withheld and paid by the Company during 2016 and 2017.

Annex

Annex 1



Annex 2

Glossary

Abbreviations	
IFRS	International Financial Reporting Standards
ISO	International Organization for Standardization
LTIFR	Lost Time Injury Frequency Rate
OHSAS	Occupational Health and Safety Assessment Series
Measurement units	
k	Kilo (thousand)
km	Kilometres
m^3	Cubic metres
ktpa	kilo tonne per annum
Definitions	
Affiliates	Companies are considered affiliated when one company owns less than the majority interest in another company. Companies may also be affiliated when they are subsidiaries of a third company.
Alloy	a mix of two or more elements including at least one metal.
Alumina	aluminium oxide (Al2O3), the raw material used in the production of aluminium.
Chrome ore	a mineral assembly of iron-chromium oxide that is mined to produce steel through the production of ferrochrome, which is an iron-chromium alloy.
Dividend	a sum of money paid by the company to its shareholders.
Dividend policy	a policy that dictates how the company structures its dividend payout to its shareholders and the frequency with which the dividends are paid.
Ferroalloy	an alloy of iron and one or more other elements (chromium, silicon, manganese, titanium and others) used mainly in the production of steels and other alloys.
Hedging	a strategy to offset the risk of adverse movement in the future price of an asset.
Inflation	a measure of the change in the price of goods and services over time.
Listing rules	the mandatory regulations by which a company wishing to list its shares or securities on a stock exchange must comply with.
Lost-time Injury Frequency Rate	the frequency rate of lost-time injuries.
Mine	a site where deep holes and tunnels are dug in order to extract minerals.
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.
Proven reserves	the measured volume of reserves which, based on geologic and engineering data, can be recovered with presently available technology at an economically viable cost.
Quarry	an open-pit mine where different types of rock are extracted.
SAP	a business intelligence and management software platform used for data automation.
Semi-coke	a medium temperature coke that is used mainly in the metallurgical industry as a reducing agent.
Silicon alloys	includes ferrosilicomanganese, ferrosilicochrome and ferrosilicium.
Smelting	the process of applying heat to melt an ore in order to extract the base metal.
SRK Consulting (SRK)	an independent international consulting company specialising in the mining sector and its activities.

Annex 3

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