Samruk-Kazyna Construction JSC

Consolidated financial statements

Year ended 31 December 2018
with independent auditor's report

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Independent auditor's report

To the Shareholder and Management of Samruk – Kazyna Construction JSC

Opinion

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

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

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For the matters below, our description of how our audit addressed this matter is provided in that context.

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

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Key audit matter	How our audit addressed the key audit matter
Impairment of real estate property	
Real estate property of the Group is included in investment property and other non-current assets lines of the statement of financial position. We considered impairment testing of real estate properties a key audit matter due to the significance of these balances, large number of properties owned by the Group and uncertainty about the future use of some properties. In addition, the combination of devaluation of the Tenge, increased inflation and uncertainty regarding future economic growth affects the Group's business prospects and therefore could trigger impairment of the Group's assets. Information on investment property and other non-current assets is disclosed in *Notes 6 and 13* to the consolidated financial statements.	We assessed the analysis of impairment indicators performed by management. We compared assumptions used by management in impairment indicators analysis, such as market value of real estate property, with available real estate market data. We assessed management expectations in respect of future real estate market prices and sales volumes. We analyzed disclosures made by the Group in respect of investment property and other non-current assets.
Recoverability of financial assets	
As at 31 December 2018, the Group has significant loans receivable, finance lease receivables, cash and cash equivalents and deposits due from credit institutions. The adoption of IFRS 9 "Financial instruments" has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39 "Financial instruments: recognition and measurement" incurred loss approach with a forward-looking expected credit loss approach. The assessment of expected credit losses for loans receivable, finance lease receivables, cash and cash equivalents and deposits from credit institutions is complex, largely subjective and based on assumptions, in particular, on forecasted future economic conditions. Therefore, this matter was one of most significance in our audit.	We obtained understanding of the process of calculation of allowance for expected credit losses in respect of loans receivable, finance lease receivables, cash and cash equivalents and deposits due from credit institutions and assessed respective accounting policy of the Group. We compared information used by the Group in its provision matrix with historical information on the Group's loans receivable, finance lease receivables, cash and cash equivalents and deposits due from credit institutions settlements and with publicly available economic forecasts. We also considered information on the aging structure of financial assets and settlements before and after the reporting date. We considered current status of negotiations and correspondence with third parties.

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Information on loans receivable, finance lease receivables, cash and cash equivalents and deposits due from credit institutions are isclosed in *Notes 9, 10, 15 and 17* to the consolidated financial statements.

We analyzed disclosures made by the Group in respect of loans receivable, finance lease receivables, cash and cash equivalents and deposits due from credit institutions and the effects of adoption of IFRS 9.

Responsibilities of management and the Board of Directors for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for overseeing the Group's financial reporting process.

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors 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.

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

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

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

Ernst & Young LLP

Adil Syzdykov
Auditor

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

Gulmira Turmagambetova
General Director
Ernst & Young LLP

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

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7 March 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

In thousands of Tenge	Note	2018	2017
Assets			
Non-current assets			
Property, plant and equipment	5	**246,479**	1,352,420
Investment properties	6	**4,653,092**	3,658,920
Investment in associate	12	**59,437**	47,154
Advances paid to construction companies	8	**18,954,990**	11,036,407
Intangible assets		**38,081**	39,893
Long-term financial assets	9	**38,836,344**	40,200,920
Amounts due from credit institutions	10	**41,802,336**	41,450,537
Other non-current assets	13	**21,388,544**	16,833,635
		125,979,303	114,619,886
Current assets			
Inventories		**4,776**	3,861
Real estate for sale	7	**20,340**	48,135
Advances paid to construction companies	8	**4,868**	8,103
Trade accounts receivable	14	**53,040**	41,221
Loans issued	15	**42,314,338**	62,331,242
Income tax prepaid		**147,984**	253,377
Current financial assets	16	**9,508,664**	5,367032
Amounts due from credit institutions	10	**134,583**	136,447
Other current assets	11	**15,454**	96,656
Cash and cash equivalents	17	**11,305,249**	26,372,513
		63,509,296	94,658,587
Total assets		**189,488,599**	209,278,473

The accounting policies and explanatory notes on pages 6 to 44 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of Tenge	Note	2018	2017
Equity and liabilities			
Equity			
Charter capital	18	**19,990,162**	19,990,162
Additional paid-in capital	18, 19	**3,437,245**	3,437,245
Allowance for fair value of financial assets at fair value through OCI		**72,401**	–
Available-for-sale instruments revaluation reserve	18	**–**	(289,241)
Retained earnings		**16,068,014**	16,857,119
Total equity		**39,567,822**	39,995,285
Non-current liabilities			
Non-current portion of loans from the Parent	19	**–**	1,076,322
Other non-current liabilities	20	**1,811,358**	1,624,297
Deferred revenue	24	**153,064**	168,371
Deferred tax liabilities	29	**362,948**	572,132
		2,327,370	3,441,122
Current liabilities			
Current portion of loans from the Parent	19	**121,376,545**	163,974,691
Accounts payable	21	**135,044**	351,385
Other current liabilities	22	**6,059,596**	1,515,990
Other short-term financial liabilities	23	**20,022,222**	–
Total current liabilities		**147,593,407**	165,842,066
Total liabilities		**149,920,777**	169,283,188
Total equity and liabilities		**189,488,599**	209,278,473

Managing Director on Economy and Finance Doszhanov D.K.

Chief accountant Sipuldina B.K.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

In thousands of Tenge	Note	2018	2017
Revenue	25	**16,257,842**	13,684,077
Cost of sales	26	**(9,212,928)**	(8,198,958)
Government grant	24	**1,717,236**	4,653,544
Gross profit		**8,762,150**	10,138,663
General and administrative expenses	27	**(1,655,599)**	(1,658,452)
Expenses for impairment of financial assets		**(471,920)**	(5,067,947)
(Charge)/reversal of allowance for expected credit losses on financial assets	3	**(3,066,962)**	11,102
Operating income		**3,567,669**	3,423,366
Finance income	28	**1,843,826**	3,154,830
Finance costs	28	**(1,499,120)**	(1,548,873)
Share in income of associate	12	**12,283**	3,513
Other income		**3,366,538**	290,433
Other expenses		**(70,160)**	(192)
Profit before taxes		**7,221,036**	5,323,077
Income tax expenses	29	**(1,783,616)**	(1,485,950)
Profit for the year		**5,437,420**	3,837,127
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net income from financial assets measured at fair value through other comprehensive income	16	**72,401**	165,869
Other comprehensive income for the year, net of tax		**72,401**	165,869
Total comprehensive income for the year, net of tax		**5,509,821**	4,002,996

Managing Director on Economy and Finance Doszhanov D.K.

Chief accountant Sipuldina B.K.

The accounting policies and explanatory notes on pages 6 to 44 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

In thousands of Tenge	Charter capital	Additional paid-in capital	Available-for-sale instruments revaluation reserve	Allowance for fair value of financial assets at fair value through OCI	Retained earnings	Total
As at 31 December 2016	19,990,162	3,437,245	(455,110)	–	13,633,382	36,605,679
Profit for the period	–	–	–	–	3,837,127	3,837,127
Other comprehensive loss	–	–	165,869	–	–	165,869
Total comprehensive income	–	–	165,869	–	3,837,127	4,002,996
Dividends *(Note 18)*	–	–	–	–	(613,390)	(613,390)
As at 31 December 2017	19,990,162	3,437,245	(289,241)	–	16,857,119	39,995,285
Effect of adopting IFRS 9 *(Note 4)*	–	–	289,241	–	(5,075,387)	(4,786,146)
As at 1 January 2018 (restated)	19,990,162	3,437,245	–	–	11,781,732	35,209,139
Profit for the period	**–**	**–**	**–**	**–**	**5,437,420**	**5,437,420**
Other comprehensive income	**–**	**–**	**–**	**72,401**	**–**	**72,401**
Total comprehensive income	**–**	**–**	**–**	**72,401**	**5,437,420**	**5,509,821**
Dividends *(Note 18)*	**–**	**–**	**–**	**–**	**(1,151,138)**	**(1,151,138)**
As at 31 December 2018	**19,990,162**	**3,437,245**	**–**	**72,401**	**16,068,014**	**39,567,822**

Managing Director on Economy and Finance Doszhanov D.K.

Chief accountant Sipuldina B.K.

The accounting policies and explanatory notes on pages 6 to 44 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

In thousands of Tenge	Note	2018	2017*
Cash flows from operating activities			
Sale of products and goods		**371,660**	934,929
Interest received		**3,618,776**	4,648,081
Rental proceeds		**8,177,689**	6,642,679
Proceeds from Nurly Zher program		**2,692,071**	–
Other proceeds		**1,682,442**	1,283,020
Payments to suppliers for goods and services		**(838,383)**	(733,905)
Advances paid		**(35,260)**	(53,554)
Salary payments		**(721,889)**	(851,639)
Payment of interest on loans received	19	**(2,130,603)**	(2,198,266)
Corporate income tax		**(1,533,738)**	(413,720)
Other payments to the budget		**(445,044)**	(479,500)
Cash outflow within other current assets	11, 15	**–**	(5,067,902)
Other payments		**(1,867,856)**	(562,313)
Net cash flows from operating activities		**8,969,865**	3,147,910
Cash flows from investing activities			
Real estate acquisition prepaid	8	**(18,490,293)**	(10,498,809)
Purchase of property, plant and equipment and intangible assets		**(51,170)**	(64,086)
Placement of deposits with banks		**(2,549,463)**	(16,650,537)
Return of bank deposits		**1,158,371**	22,000,000
Loans to third parties		**(20,203,473)**	(16,026,238)
Return of borrowings from third parties		**44,141,772**	3,065,910
Other payments/proceeds		**(174,905)**	(27,865)
Net cash flows used in investing activities		**3,830,839**	(18,201,625)
Cash flows from financing activities			
Proceeds from loans received	19, 32	**34,527,713**	12,108,303
Issue of bonds	23	**20,000,000**	–
Payment of principal on interest received	19, 32	**(81,244,543)**	(9,772,947)
Dividends paid	18	**(1,151,138)**	(613,390)
Net cash flows from financing activities		**(27,867,968)**	1,721,966
Net change in cash and cash equivalents		**(15,067,264)**	(13,331,749)
Cash and cash equivalents as at 1 January		**26,372,513**	39,704,262
Cash and cash equivalents as at 31 December	17	**11,305,249**	26,372,513

* Certain amounts given in this column are not consistent with the financial statements for 2017 as they reflect the reclassifications made disclosed in *Note 3*.

Managing Director on Economy and Finance — Doszhanov D.K.

Chief accountant — Sipuldina B.K.

The accounting policies and explanatory notes on pages 6 to 44 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. CORPORATE INFORMATION

Real Estate Fund "Samruk-Kazyna" JSC (hereinafter, the "Company") was established in accordance with the Decree of the Government of the Republic of Kazakhstan No. 265 dated 6 March 2009. On 15 February 2019 the Company was renamed to Samruk-Kazyna Construction JSC.

The Company's office is located at the following address: Republic of Kazakhstan, Astana, Yessil region, E 10, bld. 17/10.

The Company is controlled by the Government through Sovereign Wealth Fund "Samruk-Kazyna" (hereinafter, the "Parent"), which owns 100% interest in the Company.

The Group's mission is to improve the living conditions of the population of the Republic of Kazakhstan through the provision of high-quality and affordable housing as well as improving the efficiency of construction and project management of a group of companies Samruk-Kazyna JSC.

The Company's core activities include the following:

- Completion of participation in government programs;
- Property management;
- Construction management;
- Trust management of company shares at the design and construction stages.

The mission and vision of the Company are designed by taking into account the development strategy and vision of the Parent company. The mission reflects the strategic priorities of the company and its role in the social and economic development of Kazakhstan.

These financial statements represent, on a consolidated basis, the financial results of the Group for the year ended 31 December 2018 and its financial position as at the indicated date.

The Group's financial performance depends on the specificity of the construction industry, which is characterised by long production cycle; real estate construction is carried out, on average, over the period from 1.5 to 3 years. In this connection, during the period of construction and investment in construction there has been decrease in revenues from sale of real estate properties, increase in the capitalisation of costs of construction sites / advances paid to construction companies. Accordingly, there has been growth of income from the principal activities of the Group after commissioning of real estate properties.

In addition, the financial results of the Group are affected by the recognition and subsequent measurement of financial instruments arising from cash management, including interest income and expenses from funding issued and received for the execution of government programs and interest income from placing temporarily free cash on deposits with the second tier banks of the Republic of Kazakhstan *(Note 32)*.

In general, such fluctuations of revenues from core activities by years are inherent in many local and foreign companies operating in the construction industry.

Nurly Zher program

In accordance with the Decree of the Government of the Republic of Kazakhstan No. 922 dated 31 December 2016, the Nurly Zher housing program was approved. This program is aimed at strengthening the construction sector of the economy through the support of private developers. The amount of 97 billion Tenge was allocated by Samruk Kazyna JSC for these purposes. These funds are planned to be allocated to the demanded housing projects that are guaranteed be in demand by the population.

The consolidated financial statements of the Group for the year ended 31 December 2018 were approved for issue by the management of the Group on 7 March 2019.

2. BASIS OF PREPARATION

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

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements. These consolidated financial statements are presented in Kazakhstan Tenge ("Tenge" or "KZT") and all monetary amounts are rounded to the nearest thousand, except when otherwise indicated.

2. BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- Voting rights or potential voting rights belonging to the Group.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiary is consolidated from the date on which control is transferred to the Group and is no longer consolidated from the date that control ceases. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies, All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the assets (including goodwill), related liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Subsidiaries and associates

As at 31 December 2018, the Group had the following subsidiaries and associates:

Name	Country of residence	Principal activities	Ownership 2018	Ownership 2017
FN Management LLP	Kazakhstan	Sale and rent of real estate	49%	49%
SK Development LLP	Kazakhstan	Development, financing and further management/sale of real estate properties	100%	100%

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires the management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of these items and contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

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

Assumptions and estimates are based on the Group's initial data, which it had at the time of preparation of the consolidated financial statements. However, current circumstances and assumptions about the future may vary due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions while they occur.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Expected credit losses

The Group uses an allowance matrix to calculate ECLs for loans issued, amounts due from credit institutions and cash and cash equivalents. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Company's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The Group applied IFRS 9 from 1 January 2018 recognizing the cumulative effect of the initial application of this standard as an adjustment to the balance of accumulated loss at the beginning of the reporting period in the amount of 4,786,146 thousand Tenge, which includes the date of initial application, which is disclosed in *Note 4*. ECL for 2018 amounts to 3,066,962 thousand Tenge on a net basis.

Advances paid to construction companies

Advances are paid to construction companies to acquire real estate properties. Advances to construction companies do not represent a financial instrument and therefore are measured at the amount actually transferred to construction companies.

Interest bearing financing of construction companies

At recognition agreements on interest bearing financing of construction companies are measured at fair value calculated as present value of future cash flows discounted at the market rates effective at initiation of the borrowings. According to agreements of 2018, average discounting rate amounted to 12.7% (2017: 15%) and represented a market rate for similar financial instruments.

After initial recognition, agreements on interest bearing financing of construction companies are subsequently measured at amortised cost using the effective interest rate method.

Operating lease commitments – group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Classification of investment property and real estate properties for sale

The Group determines whether real estate property is a property for sale or investment property as follows:

- Investment property includes apartments, parking areas and commercial premises, which are neither used in activities of the Group nor for sale in operating activities but are held, in the first place, in order to derive rental income and income from appreciation of capital;
- Real estate property for sale includes property held for sale in operating activities. These are mainly apartments, parking areas and commercial premises, which the Group intends to sell after completion of construction.

Cost of investment property and real estate properties for sale

Investment property is recognised in the accounting at cost less accumulated depreciation and impairment losses. Fair value is determined based on recent transactions with property with similar characteristics and location. The fair value of investment property items is disclosed in *Note 6*.

Real estate property for sale is stated at the lower of cost and net realizable value. Net realizable value for real estate for sale is measured taking into account market conditions and prices existing as at the reporting date, and is determined by the Group assuming relevant recent market transactions.

Trust management agreements

During 2018, the Group entered into a trust management agreement with United Chemical Company LLP (hereinafter referred to as "UCC"), a related party, to manage UCC shares in the following subsidiaries: Management Company of Special Economic Zone "Chemical Park Taraz" JSC, Karabatan Utility Solutions LLP, Chem-plus LLP.

The trust management agreements are valid until the completion of the construction of projects: "Construction of infrastructure in the special economic zone "Chemical Park Taraz", "Construction of infrastructure facilities of the special economic zone "National Industrial Petrochemical Park", "Production of glyphosphate, phosphorus trichloride, caustic soda and chlorine", respectively. The Group analyzed the trust management agreements for existence of control over UCC subsidiaries in connection with the transfer to the trust management and concluded that control over the interests in UCC subsidiaries did not transfer to the Group as at 31 December 2018.

Option measured at fair value

As a result of the agreement on joint implementation of the project with BI Corporation LLP, and the sale and purchase agreement for a stake in EXPO Village LLP (hereinafter referred to as the "Project Company"), the Group recognized the right to purchase a stake in the Project Company *(Note 16)*.

The management of the Group believes that ownership will be transferred to the Group from 14 September 2018, i.e. from the date the facility is commissioned, which is an earlier date than the key date of 31 December 2018. The Group concluded that the purchase and sale agreement for a stake in the Project Company was currently still in force as of 31 December 2018, since none of the cases of its termination has occurred. Thus, as at 31 December 2018, the Group has the right to purchase 49.9% stake in EXPO Village LLP *(Note 16)*.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Option measured measured at fair value (continued)

The Group analyzed the fair value of the option. The key assumptions used in calculating the fair value of an option less the selling costs are as follows:

- The calculation of the fair market value of 49.9% ownership interest of the Project Company using the discounted cash flow method (hereinafter referred to as "DCF") was carried out only within the framework of the Green Quarter Project;
- The projected cash flows are calculated on the basis of the sale of real estate property during 12 months of 2019;
- Discount rate used in the model is 10.2%;
- The value of the property was estimated on the basis of prices reflected in already concluded purchase and sale agreements, as well as historical data:
  - Habitable area – 385,000 Tenge per square meter;
  - Commercial area – 400,000 Tenge per square meter;
  - Parking – 1,500,000 Tenge for one parking slot;
  - Storerooms – 140,000 Tenge per square meter;
  - Parking in residential blocks – 84,633 Tenge per square meter;
- Forecasted sale for 2019:
  - Habitable area – 855 square meters;
  - Commercial area – 1,121 square meters;
  - Parking – 100 parking slots;
  - Storerooms – 309 square meters;
  - Parking in residential blocks – 904 square meters.

As a result, at 31 December 2018, the Group measures a derivative instrument carried at fair value through profit or loss in the amount of 352,105 thousand Tenge (2017: 352,105 thousand Tenge).

Reclassification of previously issued financial statements

In course of preparation of these consolidated financial statements reclassification adjustments were identified. The changes were applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, which resulted in restatement of financial information for the previous year. The effect of adjustments is presented in the following table:

In thousands of Tenge	Note	As previously issued	Adjustment effect from reclassification	As restated
Consolidated statement of cash flows for 12 months of 2017				
Cash flows from operating activities				
Proceeds from overnights	A	1,079,793	**(1,079,793)**	**–**
Other proceeds	A	203,227	**1,079,793**	**1,283,020**
Net cash flows from operating activities		3,147,910	**–**	**3,147,910**

Notes to the adjustments as at 31 December 2017:

A In 2018, the Group revised its approach to the classification of overnight proceeds. In these consolidated financial statements, the Group combined these proceeds into one item of the financial statements. In accordance with IAS 8, the Group appropriately changed the classification in the comparative information as at 31 December 2017.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New standards, interpretations and amendments thereof

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* that require restatement of the previously presented comparative information.

The nature and impact of each amendment are described below:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts,* IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group analyzed and concluded that this standard will not affect the process of revenue recognition.

(a) Sale of real estate properties

Application of IFRS 15 to contracts with customers, in which the sale of immovable property will be the sole performance obligation, will have no impact on revenue and profit or loss of the Group. The Group expects that revenue will be recognized at a point in time when control of the asset is transferred to the customer, generally upon signing of the acceptance and transfer act.

(b) Rendering services

The Group does not provide the real estate property services as part of a real estate property sales agreement. Obligation of the Group under the agreements is to transfer the real estate property to the customer.

(c) Advance payments received from customers

The Group receives only short-term advance payments from customers. They are recorded within other current liabilities.

The Group has determined that the length of time between when the customer pays for the goods and the Group transfers goods to the customer is relatively short. Therefore, the Group has concluded that there is not a significant financing component in these contracts.

(d) Principal or agent

According to IFRS 15, the Goup must assess, whether it controls the specified good or service before it is transferred to the customer.

The Company has determined that it controls the goods before they are transferred to the customer, therefore, it is a principal, not an agent for such contracts. In addition, the Group has concluded that it transfers control over real estate property at a certain point in time.

(e) Presentation and disclosure requirements

IFRS 15 provides presentation and disclosure requirements, which are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that some of these disclosure requirements did not have a significant impact.

In particular, the volume of notes to the consolidated financial statements in connection with the disclosure of significant judgements used in determining the transaction price under the contracts did not increase.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments thereof

IFRS 9 Financial Instruments

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

The Group has applied IFRS 9 at the date of initial application – 1 January 2018. The Group has not restated comparative information, which was presented in accordance with IAS 39. The difference arising from application of IFRS 9 was not recognized directly within retained earnings.

The effect of applying IFRS 9 as at 1 January 2018 is as follows:

In thousands of Tenge	31 December 2017	Effect from application	As at 1 January 2018	Adjustments
Assets				
Loans issued	62,331,242	**(3,767,363)**	**58,563,879**	IFRS 9 (b)
Amounts due from credit institutions	41,450,537	**(1,005,796)**	**40,444,741**	IFRS 9 (b)
Cash and cash equivalents	26,372,513	**(12,987)**	**26,359,526**	IFRS 9 (b)
Equity				
Available-for-sale instruments revaluation reserve	(289,241)	**289,241**	**–**	IFRS 9 (a)
Retained earnings	16,857,119	**(5,075,387)**	**11,781,732**	IFRS 9 (b)

(a) Classification and measurement

IFRS 9 contains a new approach to the classification and measurement of financial assets, which reflects the business model for the management of financial assets, as well as the characteristics of cash flows. IFRS 9 divides financial assets in three main classifications: those measured at amortized cost, measured at fair value through other comprehensive income and measured at fair value through profit or loss. This standard excludes the categories of loans and receivables held to maturity and financial assets available for sale in IAS 39.

IFRS 9 classification and measurement requirements did not have a significant impact on the Group. The Group continued to measure at fair value all financial assets that were measured at fair value in accordance with IAS 39.

The classification and measurement of the Group's financial liabilities have not changed.

In general, as a result of the application of IFRS 9 as at 1 January 2018, the Group made the following classifications:

		Measurement category as per IFRS 9		
In thousands of Tenge		At fair value through profit or loss	At amortised cost	At fair value through OCI
Measurement category as per IFRS 39				
Current assets				
Loans and receivables				
Loans issued	58,563,879	–	58,563,879	–
Trade accounts receivable	41,221	–	41,221	–
Amounts due from credit institutions	40,444,741	–	40,444,741	–
Available-for-sale				
Available for sale financial assets	2,443,193	–	–	2,443,193
Financial assets carried at fair value				
Option at fair value	352,105	352,105	–	–
		352,105	99,049,841	2,443,193

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments thereof (continued)

IFRS 9 Financial Instruments (continued)

(b) Impairment

The application of IFRS 9 completely changed the accounting treatment used by the Group in respect of impairment losses on financial assets. The method used in IAS 39 and based on incurred losses was replaced by the forecasted expected credit losses (ECL) model. IFRS 9 requires the Group to reflect an allowance for expected credit losses for all loans and other debt financial assets that are not measured at fair value as well as financial guarantees through profit or loss.

Expected credit losses are calculated as the difference between the cash flows that are due to the Group in accordance with the contract and all cash flows that the Group expects to collect.

The Group applied the simplified approach stipulated by the standard and calculated lifetime expected losses on trade and other receivables. The Group has established an allowance matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group applied IFRS 9 recognizing the cumulative effect of the original application of this standard as an adjustment to the balance of retained earnings at the beginning of the annual reporting period in the amount of 4,786,146 thousand Tenge, which includes the date of initial application.

Below is reconciliation of allowances for impairment in accordance with IAS 39 at the end of the period with allowances for losses at the beginning of the period determined in accordance with IFRS 9:

In thousands of Tenge	Allowance for impairment in accordance with IAS 39 as at 31 December 2017	**Effect of adopting IFRS 9**	**ECL under IFRS 9 as at 1 January 2018**
Loans issued in accordance with IAS 39 / financial assets at amortized cost in accordance with IFRS 9	1,082,281	**3,767,363**	**4,849,644**
Amounts due from credit institutions / financial assets at amortized cost in accordance with IFRS 9	–	**1,005,796**	**1,005,796**
Cash and cash equivalents / financial assets at amortized cost in accordance with IFRS 9	–	**12,987**	**12,987**
	–	**4,786,146**	**5,868,427**

(c) Hedge accounting

The Group has determined that at the reporting date there are no hedging relationships in accordance with IFRS 9 and IAS 39. Accordingly, application of IFRS 9 did not have a significant impact on the consolidated financial statements of the Group.

The Group applied for the first time certain new standards and amendments to the existing standards, which are effective for annual periods beginning on or after 1 January 2018. These standards, interpretations and amendments to the existing standards and interpretations did not have a significant effect on the Group:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective

Standards and interpretations issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. The Group intends to adopt those standards when they become effective.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of "low-value" assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

Transition to IFRS 16

The Group plans to apply IFRS 16 modified retrospective approach to each previous reporting period presented. The Group elected to apply the standard to those agreements that were previously identified as lease contracts in accordance with IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease in accordance with IAS 7 and IFRIC 4. The Group elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and leases of "low-value" assets. In 2018, the Group carried out a thorough analysis of the impact of IFRS 16 and concluded that this standard will not have a significant impact on the consolidated financial statements of the Group.

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements that are not applicable to the Group are listed below.

- IFRS 17 *Insurance Contracts*;
- IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*;
- *Prepayment Features with Negative Compensation* – Amendments to IFRS 9;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*;
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement*.

Foreign currency translation

The consolidated financial statements of the Group are presented in Tenge, which is the functional currency of the Company and its subsidiaries and the currency of presentation of these consolidated financial statements.

Tenge is the currency of the primary economic environment in which the Company and its subsidiary operate. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates prevailing at the date when the transaction meets recognition criteria.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are recognized in the consolidated statement of comprehensive income.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

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

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

The exchange rate of the US Dollar established at KASE as at 31 December 2018 was KZT 384.2 to USD 1 (in 2017: KZT 332.33 to USD 1). As at 7 March 2019, the exchange rate was KZT 377.95 to USD 1.

Investments in associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investment in its associate is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is subsequently increased or decreased due to recognition of the Group's share in changes in net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group's share of the financial results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit of an associate is shown on the face of the consolidated statement of comprehensive income. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the "share of profit of an associate" in the income statement.

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

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification (continued)

All other assets are classified as non-current. A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Measurement of fair value

The Group measures such financial instruments as derivatives at fair value at each date of the statement of financial position. Information on fair value of financial instruments measured at amortised cost and non-financial assets fair value of which shall be disclosed in the financial statements, is disclosed in *Note 32* and *Note 6*, respectively.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosure, the Group classified assets and liabilities based on their nature, characteristics and risks related to them and applicable level of fair value hierarchy, as specified above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of revenue from contracts with customers

The Group's activities are associated with management of real estate and construction. Revenue from contracts with customers is recognised when control of the goods are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has concluded that it acts as the principal in its revenue arrangements because it typically controls the goods before transferring them to the customer. Disclosure of significant accounting judgements, estimates and assumptions relating to revenue under contracts with customers is presented in *Note 3*.

The Group has concluded that it is the principal in all of its revenue arrangements taking into account payment terms defined in an agreement and net of taxes or duties. The specific recognition criteria described below must also be met before revenue is recognised:

Sale of real estate properties

Revenue from the sale of real estate properties is usually recognized when the significant risks and rewards of ownership of the real estate properties have passed to the buyer. Revenue from assignment of rights for objects under construction is recognized when the significant risks and rewards related to ownership rights have passed to the buyer.

Rental income

Income from investment property provided under operating leases is accounted for on a straight line basis over the lease term and is included in revenues due to its operating nature.

Interest income

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

Interest income is included in revenue from core activities as related to financing of construction companies and in finance income as related to other interest income.

Expense recognition

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Income tax

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax (continued)

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

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

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

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

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in the statement of comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Employee benefits

Social tax

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

Defined contribution scheme

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Initial recognition and measurement

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

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

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

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

Financial assets of the Group include cash and cash equivalents, finance lease receivables, loans issued, government bonds, trade and other accounts receivable.

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

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

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

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group classifies loans issued, trade and other receivables, amounts due from credit institutions, cash and cash equivalents as financial assets measured at amortized cost.

Financial assets measured at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement (continued)

Financial assets measured at fair value through OCI (debt instruments) (continued)

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the income statement and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. The Group's debt instruments at fair value through OCI includes investments in quoted debt instruments included under other non-current financial assets. As at 31 December 2018 and 2017, the Group has government bonds – financial assets at fair value through other comprehensive income.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment. As at 31 December 2018 and 2017, the Group has not designated any financial assets upon initial recognition as at fair value through other comprehensive income.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated by the Group as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. This category includes derivative instruments and listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on quoted equity instruments are recognised as other income in the statement of profit or loss when the right of payment has been established.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement within finance income or finance costs. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised from the statement of financial position where:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original current amount of the asset and the maximum amount that the Group could be required to repay.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets

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

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

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established an allowance matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For debt instruments that are measured at fair value through the OCI, the Group applies a simplification about low credit risk. At each reporting date, the Group assesses whether a debt instrument is a low credit risk instrument using all reasonable and corroborated information that is available without undue cost or effort. When conducting such an assessment, the Group reviews the internal credit rating of the debt instrument. Besides, the Group believes that there has been a significant increase in credit risk if contractual payments are over 30 days past due. As at 31 December 2018 and 31 December 2017 the Group had debt securities measured through OCI.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand, and short-term deposits with a maturity of three months or less.

Loans and receivables

Loans and receivables, including long-term deposits, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

The EIR amortisation is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognized in the consolidated statement of comprehensive income within finance costs in case of loans and within other operating expenses in case of accounts receivable.

Financial investments available-for-sale

Available-for-sale financial investments include debt securities. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised within other operating income, or until the investment is impaired, at which time the cumulative loss is reclassified from the available-for-sale reserve to comprehensive income and recognised as finance costs. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and managements intent significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial investments available-for-sale (continued)

Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or maturity. The reclassification to held-to-maturity is permitted only when the entity has the ability and intent to hold until the financial asset accordingly.

For a financial asset reclassified out of the available-for-sale category, the fair value at the reclassification date becomes new depreciable cost, and any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in own equity is reclassified to the consolidated statement of comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables.

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

The Group's financial liabilities include accounts payable, loans from the Parent.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification, as described below:

Accounts payable

Liabilities for accounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Loan from the Parent

After initial recognition, a loan from the Parent is measured at amortised cost using the effective interest rate method. Relevant gains and losses are recognised in the consolidated statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the consolidated statement of comprehensive income.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability to the Parent is replaced by another from the Parent on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of changes in equity.

Offsetting of financial instruments

Financial assets and financial liabilities are only offset and reported at the net amount in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Company intends to either settle on a net basis, to realise the asset and settle the liability simultaneously.

Advances paid to construction companies

Advances paid to construction companies represent advances paid for the construction of real estate property to be recognized at a later date in the consolidated statement of financial position as investment property or property for sale. Advances paid to construction companies are measured at cost (the consideration actually paid) as at the date of partnership agreements less impairment loss, if any. Advances paid to construction companies are settled upon transfer of title to the property from the construction company to the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment property includes property held for receiving lease payments or income from accretion to capital, or both.

Property owned on the lease terms is classified as investment property when it corresponds to the definition of investment property. Lease liabilities are recognized in accordance with IFRS 17 at fair value of fee of leased property.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment loss. Depreciation is calculated on a straight-line basis over the estimated useful life, which is 50 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of comprehensive income in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in the nature of use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Investment property is transferred to non-current assets held for sale when the carrying amount is expected to be refunded by way of sale but not continuous using. This condition is regarded as met only when the sale is highly probable and the property is available for immediate sale in its present condition on the terms general for sale of similar property.

Other non-current assets

Other non-current assets comprise properties for future leasing out under a finance lease agreement or for which the Group, as at the reporting date, has no certain plans related to recovery of its carrying amount. Other non-current assets are measured at cost, including transaction costs. Upon initial recognition, other non-current assets are carried at cost less accumulated impairment. Other non-current assets are not amortised. Transfers are made to (or from) other non-current assets only when there is a change in use.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The initial cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at initial cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets generated internally, except for the capitalized costs for development of products, are not capitalized and the related expense is recognized in the consolidated statement of comprehensive income for the year in which it originated.

Intangible assets have finite useful lives.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The period and accrual method of amortization for an intangible asset with finite useful life are reviewed at least at the end of each reporting period.

Change in the estimated useful life or alleged structure of consumption of future economic benefits embodied in the asset is recorded in the financial statements as a change in the period or accrual method of amortization depending on the situation and accounted for as a change in accounting estimates. Expenses on amortization of intangible assets with finite useful life are recognized in the consolidated statement of comprehensive income in the category of expenses, which corresponds to the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of comprehensive income when the asset is derecognised.

Intangible assets are mainly represented by the software and licenses. Intangible assets are amortized on a straight-line basis over their estimated useful lives of five to ten years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacement of equipment parts and borrowing costs in case of long-term construction projects if capitalization criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated statement of comprehensive income as incurred.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Building	46-50
Office equipment	3-10
Vehicles	4-7

Previous recognized items of property, plant and equipment are derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income in the year when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Property, plant and equipment consists primarily of administrative building, land and office equipment.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal or its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five (5) years. Long-term growth rates are calculated and applied to the projected future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of comprehensive loss in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. For such properties, the impairment is recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive loss unless the asset is carried at a revalued amount. In this case the reversal is treated as a revaluation increase.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are recorded at the lower of cost and net realizable value. Costs comprise charges incurred in bringing inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. All inventories are determined based on weighted average cost method.

Real estate for sale

Property acquired for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realisable value. Cost includes:

- Freehold and leasehold rights for land;
- Amounts paid to contractors for construction;
- Borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs.

Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and discounted for the time value of money if material, less costs to completion and the estimated costs of sale.

The cost of inventory recognised in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

Guarantee payments from lessees

Guarantee payments from lessees represent amounts paid by lessees as security of fulfilment of liabilities under finance lease agreements. At the end of lease term, the amount of guarantee payments are used by lessors to settle the last lease payment.

Lease

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessor

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance income and increase of the finance lease asset so as to achieve a constant rate of interest on the unrecoverable amount of the asset. Finance income is reflected directly in the consolidated statement of comprehensive income.

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as income in the consolidated statement of comprehensive income on a straight line basis over the lease term.

Group as a lessee

Leases which do not transfer substantially all the risks and benefits of ownership of the asset to the Group are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of comprehensive income on a straight line basis over the lease term.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

Government subsidies

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

5. PROPERTY, PLANT AND EQUIPMENT

Movement of property and equipment in 2018 and 2017 is presented as follows:

In thousands of Tenge	Land	Buildings	Office equipment	Total
Cost				
As at 31 December 2016	26,101	1,341,130	371,792	1,739,023
Proceeds	–	–	33,727	33,727
Disposals	–	–	(165)	(165)
As at 31 December 2017	26,101	1,341,130	405,354	1,772,585
Proceeds	–	–	56,374	56,374
Disposals	–	–	(4,222)	(4,222)
Transferred to investment property *(Note 6)*	–	(1,309,217)	–	(1,309,217)
As at 31 December 2018	26,101	31,913	457,506	515,520
Accumulated depreciation				
As at 31 December 2016	–	(149,019)	(210,897)	(359,916)
Depreciation charge for the year	–	(29,099)	(31,230)	(60,329)
Depreciation on disposal	–	–	80	80
As at 31 December 2017	–	(178,118)	(242,047)	(420,165)
Depreciation charge for the year	–	(29,099)	(27,363)	(56,462)
Depreciation on disposal	–	–	3,614	3,614
Transferred from investment property *(Note 6)*	–	203,972	–	203,972
As at 31 December 2018	–	(3,245)	(265,796)	(269,041)
Carrying amount				
As at 31 December 2017	26,101	1,163,012	163,307	1,352,420
As at 31 December 2018	26,101	28,668	191,710	246,479

In 2018, the Kazyna Tower administrative building with a carrying value of 1,105,245 thousand Tenge was transferred to investment property due to a change in the nature of use.

6. INVESTMENT PROPERTIES

Movement of investment property for 2018 and 2017 is presented as follows:

In thousands of Tenge	Building	Commercial premises	Parking lots	Total
Cost				
As at 31 December 2016	3,541,637	246,904	598,000	4,386,541
Transferred to property for sale	–	(135,667)	–	(135,667)
Transferred from property, plant and equipment	–	–	–	–
As at 31 December 2017	3,541,637	111,237	598,000	4,250,874
Adjustment/other	–	**(7,096)**	–	**(7,096)**
Transferred to property for sale	–	**(31,492)**	–	**(31,492)**
Transferred from property, plant and equipment *(Note 5)*	**1,309,217**	–	–	**1,309,217**
As at 31 December 2018	**4,850,854**	**72,649**	**598,000**	**5,521,503**
Accumulated depreciation and impairment				
As at 31 December 2016	(397,792)	(26,774)	(82,728)	(507,294)
Depreciation charge for the year	(76,992)	–	(11,961)	(88,953)
Depreciation on disposal	–	4,293	–	4,293
As at 31 December 2017	(474,784)	(22,481)	(94,689)	(591,954)
Adjustment/other	–	**7,096**	–	**7,096**
Depreciation charge for the year	**(70,576)**	**2,956**	**(11,961)**	**(79,581)**
Transferred to property, plant and equipment *(Note 5)*	**(203,972)**	–	–	**(203,972)**
As at 31 December 2018	**(749,332)**	**(12,429)**	**(106,650)**	**(868,411)**
Carrying amount				
As at 31 December 2017	3,066,853	88,756	503,311	3,658,920
As at 31 December 2018	**4,101,522**	**60,220**	**491,350**	**4,653,092**

In 2018, as a result of regular analysis of the fair value of investment properties, management of the Group came to a conclusion that the carrying amount of its commercial and residential premises did not exceed fair value of the properties.

As at 31 December 2018, the fair value of the Group's real estate properties amounts to 8,172,121 thousand Tenge (2017: 6,056,723 thousand Tenge).

7. REAL ESTATE FOR SALE

In thousands of Tenge	Apartments	Commercial premises	Parking lots	Total
As at 31 December 2016	260,634	95,318	–	355,952
Additions of property	23,055	–	–	23,055
Transferred from investment property	–	135,667	–	135,667
Inventory property sold	(233,079)	(25,847)	–	(258,926)
Granted on finance lease	–	(134,227)	–	(134,227)
Transferred from other non-current assets	19,470	24,407	–	43,877
Transferred to other non-current assets	(21,945)	(95,318)	–	(117,263)
As at 31 December 2017	48,135	–	–	48,135
Transferred from investment property	**31,492**	–	–	**31,492**
Sold real estate property *(Note 26)*	**(27,795)**	**(1,084)**	**(2,777)**	**(31,656)**
Granted on finance lease	**(31,492)**	–	–	**(31,492)**
Transferred from other non-current assets *(Note 13)*	–	**1,084**	**2,777**	**3,861**
As at 31 December 2018	**20,340**	–	–	**20,340**

8. ADVANCES PAID TO CONSTRUCTION COMPANIES

The Group enters into agreements with construction companies (hereinafter, "Real estate developers") for acquirement of apartments, commercial premises and parking lots. In accordance with provisions of the agreements, the Group is obliged to make advance payments to the Real estate developers and the Real estate developers undertook to complete construction by the established dates. The Group becomes an owner of respective objects after completion of construction by the Real estate developers and their appropriate registration in state registration agencies. Completion of construction of the majority of facilities under existing contracts is expected in 2018.

The agreements of the Group with Real estate developers contain a guarantee provision according to which Real estate developers provide collateral in the form of land lots and construction-in-progress to cover the risk of loss of the Group's advance payment.

Movement of advances issued to construction companies for 2018 and 2017 is presented as follows:

In thousands of Tenge	2018	2017
Beginning of the year	**11,044,510**	13,551,250
Advances paid for the year	**18,490,293**	10,498,809
Transferred from loans issued	**2,002,594**	–
Real estate properties received	**(8,233,709)**	(13,203,019)
Receivables assignment	**(4,467,822)**	–
Guarantee payments	**127,228**	197,470
Other	**(3,236)**	–
End of the year	**18,959,858**	11,044,510
Less: advances for objects under construction, which will be sold / transferred to ownership of the Group within 12 months after the reporting date	**(4,868)**	(8,103)
Advances for projects under construction	**18,954,990**	11,036,407

8. ADVANCES PAID TO CONSTRUCTION COMPANIES (continued)

The real estate properties obtained were recognized in the consolidated statement of financial position as follows:

In thousands of Tenge	2018	2017
Other non-current assets *(Note 13)*	8,201,485	13,228,648
Real estate for sale	–	23,055
Other	32,224	(48,684)
	8,233,709	13,203,019

9. LONG-TERM FINANCIAL ASSETS

Non-current financial assets are as follows:

In thousands of Tenge	2018	2017
Finance lease receivables	38,836,344	40,042,701
Loans to construction companies	–	158,219
	38,836,344	40,200,920

Finance lease receivables

Finance lease debt is presented by the amount of minimum lease payments under the existing finance lease agreements. Minimal lease payments receivable in future periods under finance lease contracts as well as present value of net minimal lease payments are presented in the table:

	2018		2017	
In thousands of Tenge	Minimum payments	Present value of payments	Minimum payment	Present value of payments
Within one year	7,047,669	6,406,972	6,407,212	2,222,718
More than 1 year but less than 5 years	27,956,396	20,159,416	25,554,330	9,830,508
Over five years	42,522,580	18,676,928	42,893,147	30,212,193
Total minimum lease payments	77,526,645	45,243,316	74,854,689	42,265,419
Less finance income	(32,283,329)	–	(32,589,270)	–
Discounted value of minimum lease payments	45,243,316	45,243,316	42,265,419	42,265,419
Less: amounts due for settlement within 12 months *(Note 16)*		(6,406,972)		(2,222,718)
Amounts due for settlement after 12 months		38,836,344		40,042,701

An increase in the finance lease debt in 2018 is related to the sale of real estate for finance lease in Shymkent, Kyzylorda, Ust-Kamenogorsk, Atyrau and Aktau as part of the implementation of the Nurly Zher program, rental housing with an option to purchase (hereinafter, the "Regional Development Program – 2020").

10. AMOUNTS DUE FROM CREDIT INSTITUTIONS

In thousands of Tenge	2018	2017
Deposits with Kazakhstan banks	42,976,212	41,586,984
Allowance for expected credit losses	(1,039,293)	–
	41,936,919	41,586,984
Less: interest accrued	134,583	136,447
Non-current portion	41,802,336	41,450,537

10. AMOUNTS DUE FROM CREDIT INSTITUTIONS (continued)

Long-term deposits in Tenge comprise special deposits under the project "Zelenyi kvartal" with second tier banks with an interest rate of 3.5% per annum.

In thousands of Tenge	2018	2017
Beginning of the year	–	–
Effect of adopting IFRS 9 *(Note 4)*	1,005,796	–
Recovery	(4,214)	–
Written off against the provision	(273)	–
Charge	37,984	–
End of the year	1,039,293	–

11. OTHER CURRENT ASSETS

In thousands of Tenge	2018	2017
Cash wth Delta Bank JSC	5,067,902	5,067,902
Cash with KazInvestBank JSC	1,432,699	1,454,281
Cash wth Alpha Bank JSC	204,782	234,771
Other current assets	149,379	30,874
Allowance for expected credit losses	(6,839,308)	(6,691,172)
	15,454	96,656

As at 31 December 2018, other current assets are claims in arrears, amounts due on current account placed with a second-tier bank KazInvestBank JSC of 1,432,699 thousand Tenge with an interest rate of 10% per annum and a short-term deposit placed with Delta Bank JSC in the amount of 5,067,902 thousand Tenge with an interest rate of 14% per annum, for which the Group created a 100% allowance for impairment due to the deprivation of banks of a license to conduct banking and other operations.

On 19 May 2017, SB Alpha-Bank JSC and the temporary administration of Kazinvestbank JSC signed an agreement on the simultaneous transfer of assets and liabilities of Kazinvestbank JSC. In June 2017, SB Alpha-Bank JSC and the Group acting as pledgers for the pool of loans transferred from Kazinvestbank JSC signed agreements on the pledge of cash in the amount of 247,273 thousand Tenge.

As at 31 December 2018, the Group recovered the allowance for the pledge in the amount of 339 Tenge. Also, the Group accrued an allowance in the amount of 148,475 thousand Tenge. The movement of allowance for expected credit losses on other assets is as follows:

In thousands of Tenge	2018	2017
Beginning of the year	6,691,172	1,634,309
Recovery	(339)	(11,084)
Charge	148,475	5,067,947
End of the year	6,839,308	6,691,172

12. INVESTMENT IN ASSOCIATE

The Group has 49% equity interest in tFN Management LLP (hereinafter, "FN Management"). The principal place of operations of FN Management LLP and the country of its registration is the Republic of Kazakhstan. The main activity of FN Management is property management.

The table below summarized the movement in investments for 2018 and 2017:

In thousands of Tenge	2018	2017
Balance at 1 January	47,154	43,641
Share in profit, net	12,283	3,513
Balance as at 31 December	59,437	47,154

12. INVESTMENT IN ASSOCIATE (continued)

Below is summarized financial information about the associate based on its financial statements.

In thousands of Tenge	2018	2017
Non-current assets	**7,997**	7,185
Current assets	**187,476**	130,881
Current liabilities	**(74,172)**	(41,833)
Net assets	**121,301**	96,233
Ownership share	**49%**	49%
Present value of investment as at 31 December	**59,437**	47,154

In thousands of Tenge	2018	2017
Revenue	**627,923**	290,313
Profit for the year from continuing operations	**25,068**	7,170
Share of the Group in profit	**12,283**	3,513

13. OTHER NON-CURRENT ASSETS

In thousands of Tenge	Finished real estate properties	Construction in progress	Other	Total
As at 31 December 2016	7,619,180	752,757	71,756	8,443,693
Transfer of finished real estate properties from advances paid	5,868,291	7,360,357	–	13,228,648
Transferred from property for sale	117,263	–	–	117,263
Transferred to property for sale	(43,877)	–	–	(43,877)
Granted on finance lease	(4,936,092)	–	–	(4,936,092)
Termination of finance lease agreements	24,000	–	–	24,000
As at 31 December 2017	8,648,765	8,113,114	71,756	16,833,635
Transfer of real estate properties from advances paid *(Note 8)*	**3,715,056**	**4,486,429**	–	**8,201,485**
Transferred from construction in progress	**9,075,648**	**(9,075,648)**	–	–
Reclassification	–	–	**6,184,903**	**6,184,903**
Transferred to property for sale *(Note 7)*	**(3,861)**	–	–	**(3,861)**
Granted on finance lease	**(5,701,989)**	–	–	**(5,701,989)**
Termination of finance lease agreements	**83,753**	–	–	**83,753**
Other	–	–	**(261,821)**	**(261,821)**
Allowance for expected credit losses	–	–	**(3,947,561)**	**(3,947,561)**
As at 31 December 2018	**15,817,372**	**3,523,895**	**2,047,277**	**21,388,544**

Other non-current assets include completed and non-completed real estate properties, for which the Group has no specific plans for use.

Construction in progress represented residential complex object under construction in Astana where the Group is a customer. The expected date of commissioning is 2019.

In 2018, the Group transferred apartments in a residential complex in Aktau mcr-32A to real estate for sale from construction in progress in the amount of 9,075,648 thousand Tenge.

Other non-current assets are mainly represented by residential groups 1A, 1B of the Shygys residential complex for a total of 6,184,903 thousand Tenge, which were classified from advances paid to construction companies in connection with the termination of the investment agreement by a court decision in 2018. According to the contract, Kaontech International LLP acted as the Developer of this residential complex.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. TRADE ACCOUNTS RECEIVABLE

In thousands of Tenge	**2018**	2017
Trade accounts receivable	**53,040**	49,951
Less: allowance for expected credit losses	**–**	(8,730)
	53,040	41,221

Trade accounts receivable of the Group represent receivables from operating lease and direct sale of commercial and residential premises.

At 31 December 2018 and 2017, accounts receivable were denominated in Tenge. As at 31 December 2018 and 2017 trade accounts receivable were not overdue and impaired. In 2018 the Group wrote off previously accrued allowance in the amount of 8,730 thousand Tenge.

15. LOANS ISSUED

In thousands of Tenge	**2018**	2017
Loans issued to construction companies under Nurly Zher program	**34,749,078**	53,096,833
Loan to Ayt Housing Complex LLP	**9,009,248**	9,234,409
Loans to other companies	**1,150,051**	1,082,281
Less: allowance for expected credit losses	**(2,594,039)**	(1,082,281)
	42,314,338	62,331,242

Loans issued to construction companies under Nurly Zher program

In 2016, the Group became a participant of the Nurly Zher State Program, a commercial direction, in terms of supporting private developers of commercial housing. According to this program, the Group provides loans to construction companies for a period of up to 24 months with an interest rate of 7.5% for the entire financing period.

As the Group provides loans at below market interest rates, interest bearing loans to construction companies are measured at the fair value at the date of issuance.

In 2018, the Group reclassified loans issued under the Nurly Zher program, a commercial business, from long-term loans issued to short-term loans in connection with the expected repayment of loans in 2019 in accordance with the revised contractual terms.

For the year ended 31 December 2018, the Group issued loans to construction companies for a total of 19,865,061 thousand Tenge with the initial discount amounting to 3,268,609 thousand Tenge for amounts issued in 2018 (2017: 15,473,783 thousand Tenge and 711,475 thousand Tenge, respectively) *(Note 26)*. The amortization of discount for 2018 amounted to 5,505,927 thousand Tenge (2017: 4,099,233 thousand Tenge) *(Note 25)*, and the interest for 2018 was charged in the amount of 2,795,877 thousand Tenge (2017: 2,279,267 thousand Tenge).

Loan to Ayt Housing Complex LLP

According to the investment agreement with Ayt Housing Complex LLP in construction of residential complex Akkent dated 6 April 2012 and the agreement for sale of apartments dated 12 August 2013, the Group provided financing with interest accrued for the right to sell facilities. According to provisions of the investment agreement, the Group made advance payments in the amount of 11,114,252 thousand Tenge in the course of construction of real estate properties. As at 31 December 2018, the amortized amount was 9,009,248 thousand Tenge (2017: 9,234,409 thousand Tenge).

Ayt Housing Complex LLP had the right to sell the real estate property at a free price for further redemption of principal amount of apartments with accrued interest for the granted right to sell and liability to the Parent under the loan agreement dated 3 March 2010.

In December 2014, the Group and Ayt Housing Complex LLP signed an agreement on compensation according to which Ayt Housing Complex LLP shall be liable to pay its obligations in full in the form of cash in the amount of 11,114,252 thousand Tenge and the interest in the amount of 1,426,232 thousand Tenge calculated at the rate 5% before the end of 2015. The payment under this agreement is guaranteed by Sekerbank, Turkish joint stock company. Accordingly, the Group reclassified the financing from advances paid to construction companies to loans issued. On recognition, the financial instrument was measured at fair value equalling future cash flows on the loan discounted at the rate of 8.2% which represents average market rate on financing of construction facilities in Kazakhstan.

15. LOANS ISSUED (continued)

Loan to Ayt Housing Complex LLP (continued)

In October 2015, due to changes in conditions of Ayt Housing Complex LLP obligations repayment, the Group revised the discount rate on loans issued for new construction and reconstruction to recognise the loan at fair value, which amounted to 11.3%. As a result, in 2015 the difference between the nominal value of financing and its fair value in the amount of 2,534,007 thousand Tenge was recognised in the consolidated statement of comprehensive income as interest expense in the cost. The amount of unamortized discount as at 31 December 2018 is 577,109 thousand Tenge (2017: 1,141,493 thousand Tenge). The amortization of discount for 2018 amounted to 564,384 thousand Tenge (2017: 605,139 thousand Tenge) *(Note 25)*.

Loans to other companies

As at 31 December 2018, loans issued to other companies included payables, mainly from Caspian Development Center LLP – 613,704 thousand Tenge, Omiruzak & Ko LLP – 296,706 thousand Tenge, Capitalstroyservice LLP – 144,889 thousand Tenge (2017: Caspian Development Center LLP – 557,917 thousand Tenge, Omiruzak & Ko LLP – 296,724 thousand Tenge, Alliancestroyinvest LLP – 26,982 thousand Tenge, Capitalstroyservice LLP – 144,889 thousand Tenge).

Loans issued as at 31 December 2018 and 2017 were denominated in Tenge.

Movements in allowance for expected credit losses on loans issued were as follows:

In thousands of Tenge	2018	2017
Beginning of the year	**1,082,281**	1,082,299
Effect of adopting IFRS 9 *(Note 4)*	**3,767,363**	–
Recovery	**(4,289,097)**	(18)
Written off against the provision	**(26,982)**	–
Charge	**2,060,474**	–
End of the year	**2,594,039**	1,082,281

16. CURRENT FINANCIAL ASSETS

In thousands of Tenge	2018	2017
Available for sale financial assets	**2,524,461**	2,443,193
Finance lease payable *(Note 9)*	**6,406,972**	2,222,718
Option at fair value *(Note 9)*	**352,105**	352,105
Interest bearing financing of construction companies *(Note 9)*	**94,751**	97,180
Other	**130,375**	251,836
	9,508,664	5,367,032

Financial assets available for sale represent government bonds with the annual interest rate of 6.7%. In 2018, unrealised gains on government bonds amounted to 72,401 thousand Tenge (2017: gains in the amount of 165,869 thousand Tenge). Current financial assets as at 31 December 2018 and 2017 were denominated in Tenge.

Option at fair value

In accordance with the instruction of the Government of the Republic of Kazakhstan regarding implementation of the project "Zelenyi kvartal" (the "Project"), in December 2013, the Group entered into the agreement for joint implementation of the project with BI Corporation LLP. In accordance with this agreement, the Group finances the Project for the total amount of 44 billion Tenge, of which own funds of the Group amount to 15 billion Tenge (the remaining amount will be financed at the expense of borrowed funds provided by the Parent).

To implement the Project "Zelenyi Kvartal, the Group shall place cash totalling 44 billion Tenge on special deposit in the second tier bank for the period of 18 years at 3.5% per annum. The banks will then finance EXPO Village LLP (hereinafter, the "Project Company") that implements the Project. As at 31 December 2018, the Group placed 41,802,336 thousand Tenge (2017: 41,450,537 thousand Tenge) *(Note 10)*.

In addition to the agreement for joint implementation of the project, SK Development LLP, a subsidiary of the Group, and BI Corporation LLP signed an agreement of purchase and sale of a participation interest in the Project company under which the Group intends to acquire 49.9% for 100 Tenge. The date of ownership transfer for this participation interest is stated to be the earliest of the two: 1 April 2017 or the commissioning date of the Project. According to the agreement, the Group has share in net income from sales of property constructed under the Project.

16. CURRENT FINANCIAL ASSETS (continued)

Option at fair value (continued)

Based on the supplementary agreement, the key date was extended until 31 December 2018. However, the earliest is the date of commissioning, which was determined by the management of the Group, which is 14 September 2018.

These agreements led to the recognition by the Group of an option to purchase a stake in EXPO Village LLP, which is a derivative financial instrument in accordance with IFRS 9.

As at 31 December 2018, the Group measured the fair value at the end of the reporting period in the amount of 352,105 thousand Tenge (2017: 352,105 thousand Tenge) and transferred the option within current financial assets due to the fact that the option is expected to be exercised during 2019. Judgments and assumptions of the management of the Group for this assessment are disclosed in *Note 3*.

17. CASH AND CASH EQUIVALENTS

In thousands of Tenge	**2018**	2017
Short-term deposits	**4,222,735**	13,594,871
Accounts with banks	**7,084,286**	12,777,642
Allowance for expected credit losses	**(1,772)**	–
	11,305,249	26,372,513

As at 31 December 2018 cash and cash equivalents comprised current bank accounts in Tenge. Interest is accrued on balance of cash on current bank accounts at various rates from 2.5% to 8.0% (2017: 2.5% to 10%).

Short-term deposits comprise deposits with maturity not more than 3 months placed with second-tier banks with an interest rate of 7.0-7.75%.

18. CHARTER CAPITAL

The charter capital of the Group is fully paid and comprises of 16,247,541 ordinary shares: 15,000,000 shares with par value 1,000 Tenge, 1,247,540 shares with par value 4,000 Tenge and one share with par value 2,490 Tenge.

Additional paid-in capital

As disclosed in *Note 19*, in 2009 and 2010 the Group received a loan from the Parent. The Company discounted the obtained amount using the rates of return on government bonds with similar terms as at the dates of tranches. Accordingly, the difference between the amounts of obtained funds and their fair value totalling 11,356,866 thousand Tenge was recorded as additionally paid in capital. In the event of early repayment of borrowings at the request of the Parent, loans were recalculated at revised effective interest rates and the amount of unamortised discount in the amount of 7,919,621 thousand Tenge (in 2011: 3,744,974 thousand Tenge and in 2012: 4,174,647 thousand Tenge) was recognised in the consolidated statement of changes in equity as a decrease in additional paid-in capital due to changes in loan conditions. At 31 December 2018 and 2017, unamortised discount in equity amounted to 3,437,245 thousand Tenge.

Dividends

In 2018, the Group declared and paid dividends on its ordinary shares in the amount of 1,151,138 thousand Tenge (2017: 613,390 thousand Tenge).

Allowance for fair value of financial assets at fair value through OCI

The allowance for fair value of financial assets measured at fair value through OCI is used to reflect changes in the fair value of financial assets available for sale *(Note 16)*.

19. LOANS FROM THE PARENT

In thousands of Tenge	% rate	Repayment	2018	2017
Credit facility No. 1	0.02-2%	2024		
Balance, beginning			**16,978,750**	21,077,717
Interest accrued			**280,183**	366,259
Payments			**(5,087,599)**	(4,465,226)
Balance, ending			**12,171,334**	16,978,750
Credit facility No. 3	2.0%	2032		
Balance, beginning			**66,880,310**	72,327,806
Loans obtained			**15,869,667**	–
Interest accrued			**1,415,693**	1,409,099
Payments			**(6,996,135)**	(6,856,595)
Balance, ending			**77,169,535**	66,880,310
Credit facility No. 4	2.0%	2019		
Balance, beginning			**29,000,000**	29,000,000
Loans obtained			**–**	–
Interest accrued			**568,771**	580,000
Payments			**(1,564,629)**	(580,000)
Balance, ending			**28,004,142**	29,000,000
Credit facility No. 5	0.15%	2019		
Balance, beginning			**52,191,953**	19,860,551
Loans obtained			**18,658,046**	12,108,303
Interest accrued			**83,991**	73,933
Discount			**(1,588,636)**	(3,064,537)
Unwinding of discount			**4,412,438**	5,650,967
Change in fair value			**–**	17,632,128
Payments			**(69,726,258)**	(69,392)
Balance, ending			**4,031,534**	52,191,953
Current portion of loans			**121,376,545**	163,974,691
Non-current portion of loans			**–**	1,076,322

Credit facility No. 1

This credit facility was opened in 2009 to acquire residential and non-residential premises in completed projects or projects under construction with initial total amount of 225 billion Tenge and three years' grace period to pay the principal. In August 2010, the initial amount of the credit facility was reduced to 155 billion Tenge. Also, the credit facility interest rate was reconsidered and set at the rate of 0.02% p.a. during the first two years from the drawdown date and 2% p.a. during subsequent years.

As at the date of recognition (2010) the Group discounted the obtained amount using the rate of return on similar government bonds as at the dates of tranches. Correspondingly, the discount presented as the difference between all the amounts of obtained funds and their fair value was recorded within additional paid in capital. In the event of early repayment of borrowings in 2012, loans were recalculated at reconsidered effective interest rates and the amount of unamortised discount in the amount of 4,174,647 thousand Tenge was recognised in the consolidated statement of changes in equity as a decrease in additional paid-in capital due to changes in loan conditions. As at 31 December 2018 and 2017, unamortised discount amounted to 3,437,245 thousand Tenge.

In December 2013, additional changes in the credit facility terms were introduced. The significant change is the right of the Parent to demand at any time early repayment of amounts withdrawn under this credit facility.

During 2018, the Group early repaid principal in the amount of 5,026,394 thousand Tenge and interest in the amount of 61,205 thousand Tenge (2017: 4,325,452 thousand Tenge and 139,774 thousand Tenge, respectively). Interest accrued on the outstanding amount amounted to 280,183 thousand Tenge during 2018.

As at 31 December 2018, interest rate on balance of withdrawn amounts was 2.00% (2017: 2.00%). Interest is paid on a semi-annual basis.

19. LOANS FOM THE PARENT (continued)

Credit facility No. 3

This credit facility was opened in 2012 in the total amount of 99,053,000 thousand Tenge to finance housing construction projects within the "Nurly Zher" Program, direction – rental housing with a purchase option, (previously – "Program for the Development of Regions – 2020"), approved by the Decree of the Government of Kazakhstan No. 922 dated 31 December 2016 . According to the terms of agreement, the Parent has the right to demand early repayment of withdrawn amounts. Interest is paid on a semi-annual basis. The remainder of unused amounts under this credit facility amounted to 6,564,290 thousand Tenge as at 31 December 2018 (2017: 22,433,957 thousand Tenge).

During 2018, the Group repaid principal in the amount of 5,580,442 thousand Tenge and interest in the amount of 1,415,693 thousand Tenge (2017: 5,447,496 thousand Tenge and 1,409,099 thousand Tenge, respectively).

Credit facility No. 4

In 2016, the Group entered into a loan agreement for a total of 29,000,000 thousand Tenge to finance a project for the construction of the administrative and residential complex "Zelenyi Kvartal" for a period of 18 months with a interest rate of 2% per annum. According to the terms of agreement, the Parent has the right to demand early repayment of withdrawn amounts. During 2016, the Group received the entire amount of the loan.

During 2018, the Group repaid principal in the amount of 995,858 thousand Tenge and interest in the amount of 568,771 thousand Tenge (2017: nil and 580,000 thousand Tenge, respectively).

Credit facility No. 5

In 2016, the Group became a participant of the Nurly Zher State Program, a commercial direction, in terms of supporting private developers of commercial housing. Under this program, the Group is to receive a loan from the Parent Company in the amount of 97 billion Tenge for a period up to 2026 with an interest rate of 0.15% per annum. Since the loan received is provided to the Group at the below market interest rate, this loan is measured at the date of issuance at the fair value.

In 2016, the Group received a loan under this program in the amount of 42,875,500 thousand Tenge, the initial discount amounted to 23,706,680 thousand Tenge and was recognized as part of deferred income, of which 4,326,492 thousand Tenge was recognized as income from government subsidies *(Note 23)*.

In September 2017, the Group entered into a supplementary agreement to the loan agreement, which provides for new terms of the supplementary agreement – the Group's obligation to repay the loan ahead of schedule in case of return of the invested funds quarterly no later than 30 calendar days following the reporting quarter.

This condition involves the revision of separate assumptions used to recognize the loan at fair value, namely, changes in the calculation of the value of cash flows discounted at the market discount rate. As the restated fair value was significantly different from the initial fair value, the Group derecognized the original loan and recognized the new loan.

In connection with the conclusion of a supplementary agreement on the exclusion of loan turnover, the Group derecognized the tranches received under the previous terms of the Loan Agreement and, from the date of the supplementary agreement, recognizes them at fair value based on the above assumptions.

The fair value of the tranches received amounted to 50,913,339 thousand Tenge, and the discount amounted to 4,070,464 thousand Tenge. When recognizing the specified loan under the new terms, the Group recognized the discount as interest income in revenue from core activities and amortized through interest expenses during the respective terms of each of the tranches.

The amount of unwinding of the discount for 2018 amounted to 4,412,438 thousand Tenge, including the previously recognized unamortized discount of 6,067 thousand Tenge (2017: 5,650,967 thousand Tenge) *(Note 26)*.

During 2018, the Group repaid principal in the amount of 69,641,849 thousand Tenge and interest in the amount of 84,409 thousand Tenge (2017: nil and 69,392 thousand Tenge, respectively).

All obtained funds were not secured by guaranties or collateral.

20. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities represent guarantee payments contributed by lessees to secure performance of obligations of the Group under finance lease agreements. The Group uses guarantee payments to settle the obligations of lessees under the finance lease agreements at the end of the rent period.

21. ACCOUNTS PAYABLE

As at 31 December 2018 and 2017, the accounts payable comprised payables to suppliers of goods, works and services for operating activities of the Group. Payables in the amount of 135,044 thousand Tenge (2017: 351,385 thousand Tenge) are expressed in Tenge and are non-interest bearing.

22. OTHER CURRENT LIABILITIES

In thousands of Tenge	**2018**	2017
Due to the developers under Nurly Zher program	**3,940,157**	–
Due under TMA with respect to Edelveis RC and Akkent RC	**710,754**	439,939
Liabilities to payments under guarantee	**532,775**	275,457
Advances received	**277,002**	118,988
Salary payable	**257,698**	105,328
Payments for operator services of Ayt Housing Complex LLP	**166,758**	176,597
Taxes payable other than income tax	**39,466**	142,201
Deferred revenue	**16,647**	174,360
Other current liabilities	**118,339**	83,120
	6,059,596	1,515,990

Amounts due to developers under the Nurly Zher program are the shares of developers from sales that are accumulated on a special account of Samruk-Kazyna Construction JSC.

These funds will be transferred to the accounts of developers, when they fulfill all contractual obligations under investment agreements.

The guarantee obligations represent Group's repayment obligations to construction companies that had completed construction of facilities upon the expiry of one year period since the commissioning date.

23. OTHER SHORT-TERM FINANCIAL LIABILITIES

On 25 December 2018, the Group placed coupon bonds at the International Stock Exchange of Astana totalling to 20,000,000 thousand Tenge with a face value of 1,000 Tenge per a piece and a coupon rate of 10% per annum. During 2018, the Group accrued interest in the amount of 22,222 thousand Tenge. Payment of coupon and redemption of bonds, including interest accrued, will be made in accordance with the terms of issuance of bonds – no later than 28 June 2019. All bonds were repurchased by the Parent.

24. DEFERRED REVENUE

Deferred revenues are government grants to support private developers of commercial housing in the framework of the Nurly Zher State Program, a commercial business, for a period of up to 10 years with an interest rate of 0.15% per annum *(Note 19)*. The discount on the loan received at initial recognition is recorded as deferred income.

In 2017, due to the revision of the terms under the Loan Agreement and the conclusion of a supplementary agreement under the Nurly Zher program, a commercial business, under which the Group repays the credit line ahead of time, the Group revised the fair value of the financial instrument and derecognized the loan received under the previous conditions through deferred income *(Note 19)*. In 2018, the remaining part of the deferred income under the Nurly Zher program, commercial business, in the amount of 31.953 thousand Tenge was transferred to other current liabilities (2017: 159,054 thousand Tenge).

In 2018, the Group recognised income from unwinding of discount as income from the government grant in the amount of 1,717,236 thousand Tenge (2017: 4,653,544 thousand Tenge).

25. REVENUE

In thousands of Tenge	2018	2017
Unwinding of discount *(Note 15)*	**6,070,311**	4,704,372
Gain on finance lease	**4,721,542**	4,253,329
Interest income on interest bearing financing of construction companies	**3,162,522**	2,297,270
Interest on special deposits under the Zelenyi Kvartal program	**1,499,268**	1,357,089
Property management fee	**378,488**	425,941
Income from sale of residential and commercial premises	**38,955**	318,310
Gains from operating lease	**326,215**	273,372
Other income	**60,541**	54,394
	16,257,842	13,684,077

In 2018, income from sales of completed residential and commercial real estate properties comprise income from sale of residential premises (apartments) under Nurly Zher program - rental housing line, with an option to purchase in Astana, Almaty and Taraz in the amount of 33,354 thousand Tenge and income from sale of commercial premises in the amount of 5,601 thousand Tenge (in 2017: 283,050 thousand Tenge and 35,260 thousand Tenge, respectively).

26. COST OF SALES

In thousands of Tenge	2018	2017
Unwinding of discount *(Note 19)*	**4,412,438**	5,650,967
Recognition of discount on a loan issued *(Note 15)*	**3,268,609**	711,475
Interest expenses	**869,174**	880,418
Maintenance of real estate properties	**212,595**	295,437
Operating taxes	**170,744**	267,673
Cost of residential and commercial premises sold *(Note 7)*	**31,656**	258,926
Depreciation and amortisation	**79,581**	84,660
Other	**168,131**	49,402
	9,212,928	8,198,958

27. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of Tenge	2018	2017
Salary and related taxes	**933,617**	890,809
State duty	**190,383**	-
Professional services	**159,452**	288,798
Board of Directors maintenance expenses	**74,079**	46,401
Depreciation and amortisation	**63,489**	64,859
Maintenance of building	**47,344**	46,623
VAT expenses	**43,713**	53,621
Other taxes and obligatory payments to the budget	**33,918**	74,584
Lease	**18,204**	19,121
Travel expenses	**13,247**	16,758
Advertising and publishing	**12,909**	14,298
Communication	**11,687**	12,619
Materials	**7,271**	9,362
Repair and maintenance	**7,263**	15,033
Bank charges	**2,741**	5,748
Other	**36,282**	99,818
	1,655,599	1,658,452

28. FINANCE INCOME / (FINANCE COSTS)

In thousands of Tenge	2018	2017
Finance income		
Interest income on bank deposits and current bank accounts	**1,676,908**	2,988,181
Income on government bonds	**166,918**	166,649
	1,843,826	3,154,830
Finance costs		
Interest expenses on loans from the Parent	**(1,476,898)**	(1,548,873)
Interest expenses for bonds issued	**(22,222)**	–
	(1,499,120)	(1,548,873)

29. INCOME TAX EXPENSES

Income tax expenses comprised the following for the years ended 2018 and 2017:

In thousands of Tenge	2018	2017
Current income tax expenses	**1,992,800**	1,111,171
Deferred tax (benefit)/charge as a result of origination and reversal of temporary differences	**(209,184)**	374,779
	1,783,616	1,485,950

Reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at 31 December 2018 and 2017 is as follows:

In thousands of Tenge	2018	2017
Profit before taxes	**7,221,036**	5,323,077
Statutory tax rate	**20%**	20%
Income tax at statutory income tax rate	**1,444,207**	1,064,615
Income on coupon interest of government securities	**(33,384)**	(33,331)
Recognition of discount on loans issued	**653,722**	142,295
Unwinding of discount on a loan received	**882,488**	1,130,193
Accrual of allowances for doubtful debts	**518,834**	1,013,581
Subsidizing income	**(343,447)**	(930,709)
Amortisation of discount on financial instruments	**(1,214,062)**	(940,874)
Other permanent (income)/expenses	**(124,742)**	40,180
	1,783,616	1,485,950

29. INCOME TAX EXPENSES (continued)

As at 31 December, components of deferred tax assets and liabilities are as follows:

	Consolidated statement of financial position		Consolidated statement of comprehensive income	
In thousands of Tenge	**2018**	2017	**2018**	2017
Deferred tax assets				
Provisions for loans issued, current financial assets and accounts receivable	**261,010**	218,202	**42,808**	(4)
Taxes	**1,194**	2,847	**(1,653)**	1,202
Capitalized interest	**14,096**	32,452	**(18,356)**	29,441
Deferred revenue	**30,613**	36,736	**(6,123)**	(3,061)
Other	**59,183**	25,247	**33,936**	(7,358)
	366,096	315,484	**50,612**	20,220
Deferred tax assets offset against liabilities	**(366,096)**	(315,484)	**(50,612)**	(20,220)
Deferred tax assets	**–**	–	**–**	–
Deferred tax liabilities				
Property, plant and equipment	**(427,387)**	(431,763)	**4,376**	(21,924)
Expected interest on loans issued	**(301,657)**	(455,853)	**154,196**	(373,075)
	(729,044)	(887,616)	**158,572**	(394,999)
Deferred tax assets offset against liabilities	**366,096**	315,484	**50,612**	20,220
Deferred tax liabilities	**(362,948)**	(572,132)	**–**	–
Net deferred tax benefit/(expense)			**209,184**	(374,779)

Reconciliation of net deferred tax liabilities:

In thousands of Tenge	**2018**	2017
Balance at 1 January	**572,132**	197,353
Deferred tax expenses/(benefit) for the reporting year recognized in profit or loss	**(209,184)**	374,779
Balance as at 31 December	**362,948**	572,132

As at 31 December 2018 and 2017, the Group had no unrecognised deferred tax assets.

30. RELATED PARTY TRANSACTIONS

The category "entities under control of the parent" comprises entities controlled by the Parent Company.

Related party transactions were made on terms agreed to between the parties. Purchases and sales transactions are made on market terms. Outstanding balances at the year-end are unsecured, short-term and settlement occurs in cash, except as discussed below.

As at 31 December 2018 and 2017, the Group has not recorded any impairment of accounts receivables relating to amounts owned by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Major transactions with related parties for 2018 and 2017 are as follows:

In thousands of Tenge	**2018**	2017
Entities under the Parent's control		
Gains from operating lease	**26,424**	21,997
Sales to related parties	**402,170**	667,610
Purchases from related parties	**213,398**	181,547
	641,992	871,154

30. RELATED PARTY TRANSACTIONS (continued)

As a result of the above transactions, the Group had the following amounts due from related parties (due to related parties) as at 31 December 2018 and 2017:

In thousands of Tenge	**2018**	2017
Entities under the Parent's control		
Trade accounts receivable	**100**	758
Payables	**(27,141)**	(13,271)

Loans from the Parent

Details of loans from the Parent are disclosed in *Note 19*.

Compensation to the key management personnel

In 2018, key management personnel consisted of seven persons (2017: seven persons). Total compensation to the key management personnel included in payroll expenses amounted to 158,528 thousand Tenge for the reporting period (2017: 126,180 thousand Tenge). Compensation to the key management personnel mainly consists of contractual salary and year-end bonus.

The Group performed additional procedures to determine related parties with respect to the key management personnel. As a result of these procedures no related parties were identified.

31. FINANCIAL COMMITMENTS AND CONTINGENCIES

Contractual commitments

As at 31 December 2018, the Group had contractual obligations in the amount of 8,581,047 thousand Tenge (2017: 47,281,136 thousand Tenge) under agreements with construction companies.

The project "Zelenyi kvartal"

As disclosed in *Note 9*, in 2013 the Group entered into the agreement for joint implementation of the project "Zelenyi kvartal" with BI Corporation LLP. In accordance with this agreement, the Group will finance the Project for the total amount of 44 billion Tenge, of which own funds of the Group amount to 15 billion Tenge.

As at 31 December 2018, the Group financed this Project in the amount of 41,802,336 thousand Tenge (2017: 41,450,537 thousand Tenge). The Group expects to finance the remaining portion during 2019.

Finance lease contractual commitments – Group as lessor

The Group entered into a number of finance lease agreements for real estate property consisting of certain residential and non-residential areas. These lease agreements are concluded for periods ranging from 10 to 20 years.

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual, including opinions on approaches to recognizing of revenue, expenses and other items of the financial statements in accordance with IFRS. The current regime of penalties and interest related to unreported and discovered violations of Kazakhstan law are severe. Penalties are generally 50% to 80% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2018. The management believes that as at 31 December 2018 its interpretation of the relevant legislation is appropriate and that the Group's tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main financial liabilities of the Group comprise loans from the Parent, payables and other current liabilities. The main purpose of these financial liabilities is to finance operating activities of the Group. The Group also has various financial assets such as cash and cash equivalents, finance lease debt, trade receivables, bank deposits and government bonds.

The main risks arising from these financial instruments are liquidity risk and credit risk.

Liquidity risk

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

Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise. As at 31 December 2018 the Group's current liabilities exceeded its current assets by 87,595,416 thousand Tenge (2017: 71,183,480 thousand Tenge). This excess has developed, mainly due to the classification of the Parent loans in the amount of 121,376,545 thousand Tenge as current due to the Parent's right to demand early repayment of these loans. Management covers liquidity requirements by expanding its operating activities, as well as through funding from the Parent.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2018 and 31 December 2017, based on contractual undiscounted payments.

In thousands of Tenge	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
31 December 2018						
Loan from the Parent	117,345,011	4,017,110	–	–	–	121,362,121
Accounts payable	–	135,044	–	–	–	135,044
Other short-term financial liabilities	20,022,222	–	–	–	–	20,022,222
Other current liabilities	–	–	6,059,596	–	–	6,059,596
	137,367,233	4,152,154	6,059,596	–	–	147,578,983

In thousands of Tenge	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
31 December 2017						
Loan from the Parent	112,859,060	–	53,928,100	1,076,322	–	167,863,482
Accounts payable	–	351,385	–	–	–	351,385
Other current liabilities	–	–	1,515,990	–	–	1,515,990
	112,859,060	351,385	55,444,090	1,076,322	–	169,730,857

Changes in liabilities resulting from financing activities

The table below summarizes changes in the financial liabilities for 2018 and 2017:

In thousands of Tenge	As at 1 January 2018	Cash proceeds	Cash outflow	Discount	Interest paid	Other*	As at 31 December 2018
Non-current portion of loans	1,076,322	–	–	6,067	–	(1,082,389)	–
Current portion of loans	163,974,691	34,527,713	(81,244,543)	2,846,848	(1,811,013)	3,082,849	121,376,545
Total liabilities	165,051,013	34,527,713	(81,244,543)	2,852,915	(1,811,013)	2,000,460	121,376,545

In thousands of Tenge	As at 1 January 2017	Cash proceeds	Cash outflow	Discount	Interest paid	Other*	As at 31 December 2017
Non-current portion of loans	19,844,472	12,108,303	–	2,586,429	–	(33,462,882)	1,076,322
Current portion of loans	122,421,602	–	(9,772,947)	–	(1,868,526)	53,194,562	163,974,691
Total liabilities	142,266,074	12,108,303	(9,772,947)	2,586,429	(1,868,526)	19,731,680	165,051,013

* *Others disclose, mainly, accrued interest on loans and reclassifications from the short-term portion of the loan to the long-term portion. The Group classifies interest paid as cash flows from operating activities.*

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

Financial instruments that potentially expose the Group to credit risk consist of cash on deposits and current bank accounts, accounts receivable and issued loan. The maximum exposure to credit risk is represented by the balance sheet value of each financial asset.

The Group is exposed to credit risk from its operating activities and certain investing activities. In the course of investing activity, the Group mainly places its deposits with Kazakhstani banks.

The table below shows the balances of cash, bank deposits with banks as at the reporting date using Standard & Poor's and Fitch credit rating symbols less provisions made:

In thousands of Tenge	Location	Rating 2018	Rating 2017	31 December 2018	31 December 2017
ATF Bank JSC	Kazakhstan	**B/negative/B**	B/Negative	**42,970,752**	44,142,640
Halyk Bank Kazakhstan JSC	Kazakhstan	**BB/stable/BB**	BB/Negative	**19,842,107**	10,456,411
Forte Bank JSC	Kazakhstan	**B/Positive/B**	B/Positive	**1,847,732**	6,308,511
Tsesnabank JSC	Kazakhstan	**B/negative**	B+/Negative	**46**	3,958,736
Kazkommertsbank JSC	Kazakhstan	**SD/-/SD**	B+/Negative	**–**	3,093,102
SB Alfa Bank JSC	Kazakhstan	**BB-/stable/BB-**	BB-/Stable	**–**	64
Nurbank JSC	Kazakhstan	**B-/negative**	B-/Negative	**–**	33
				64,660,637	67,959,497

Fair value of financial instruments

As at 31 December 2018, financial assets at fair value comprised public debt securities and the right to buy a participatory interest. These financial assets are categorised within Level 1 and Level 3 of fair value hierarchy based on the lowest level input that is significant to the fair value measurement.

Management determined that the fair value of cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other short-term liabilities approximate their carrying amounts mainly due to short maturity of these instruments.

The Group determined the fair value of the right to buy a participatory interest in Expo Village LLP, which allows to assess the fair value of this financial instrument. Accordingly, this right to buy a participatory interest was recognised in the consolidated financial statements of the Group as satisfying to the assets recognition criteria according to IFRS.

The fair value of the financial assets and liabilities included in the financial statements represent an amount for which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. To identify fair value the following methods and assumptions were used:

- The Group assesses long-term receivables/loans with fixed and floating rates based on such parameters as interest rates, risk factors specific to the country, individual creditworthiness of the customer and risk characteristics inherent in the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 31 December 2018, the carrying amounts of such receivables, net of allowances, approximated their calculated fair value;
- The fair value of quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities;
- Fair value of available-for-sale financial assets is determined based on the price quotations in active markets

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were introduced in objectives, policies or processes during the year ended 31 December 2018.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital. The Group includes loans from the Parent and accounts payable within net debt.

The gearing ratio at 31 December 2018 and 2017 is presented in the following table:

In thousands of Tenge	**2018**	2017
Loans from the Parent	**121,376,545**	165,051,013
Corporate bonds	**20,022,222**	–
Accounts payable	**135,044**	351,385
Net debt	**141,533,811**	165,402,398
Equity	**39,567,822**	39,995,285
Debt-to-equity ratio	**3.58**	4.14

33. SUBSEQUENT EVENTS

On 15 February 2019 the Company was renamed to Samruk-Kazyna Construction JSC.