Rakhat JSC

Consolidated financial statements

For the year ended 31 December 2019,
together with independent auditor's report

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Independent auditor's report

To the Shareholders and Board of Directors of Rakhat JSC

Opinion

We have audited the consolidated financial statements of Rakhat JSC and its subsidiaries (hereinafter, the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (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.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter 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 consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statement.

Key audit matter	How our audit addressed the key audit matter
Inventory net realizable value	
As described in Note 6 to the consolidated financial statements, the Group has significant balances of inventories as of December 31, 2019, which amounted to 16.496.870 thousand Tenge. The process of management's evaluation of the provision for inventory write down to net realizable value and the provision for obsolete inventories, performed by the management is complex; it is substantially subjective and is based on assumptions, in particular, on the forecast of production and sales of finished products, therefore this matter was the most significant in our audit.	We tested controls over the process of purchasing and movement of inventories. We have analyzed the information used by the Group to determine the provision for inventory write down to net realizable value and the provision for obsolete inventories, in particular, the management's judgment in respect of future production and sales, selling prices and the expiration date. We also analyzed the movement of inventories and inventories without movement. On a sample basis we compared the carrying value of inventories with sales price less cost to sell in a subsequent period. On a sample basis we tested inventories for obsolete, damaged and slow-moving items. Due to pervasiveness of this matter across the Group, we performed audit procedures based on the significance of the matter to the component.

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Revenue recognition

The amount of revenue is material to the consolidated financial statements. Certain contracts for the sale of goods include a right of return and volume rebates that give rise to variable consideration. The determination of the method for measuring variable consideration requires significant judgment by management. For this reason, and additionally due to the risk of untimely recognition of revenue from shipments that occurred at the end of the reporting period (cut-off), we have identified revenue recognition as one of the most significant for the audit. The Group's disclosure in respect of the accounting policies on revenue recognition is included in Note 3 to the consolidated financial statements, and disclosure of revenue for 2019 is included in Note 17 to the consolidated financial statements.	Among other things, during the audit we conducted the following procedures on a selective basis: ▸ assessed the timeliness reflection of shipments in the accounting system with primary documents; ▸ in relation to revenue recorded by the parent and significant subsidiaries of the Group, we analysed the monthly fluctuations of revenue, changes in key elements of revenue such as sales prices and sales volumes, compared the dynamics of revenue with monthly sales volumes using automated systems that analyze the relationships between different accounts of consolidated financial statements; ▸ we analysed the terms of sales contracts with respect of meeting revenue recognition criteria; ▸ when sales contracts include a right to return and/or volume rebates, we evaluated and analysed management's assessment of the variable consideration that arise in such transactions; ▸ we analysed the disclosures in respect of revenue and in respect of the assessment of variable consideration.

Other information included in the Group's 2019 Annual report

Other information consists of the information included in the Group's 2019 Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2019 Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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Responsibilities of management and 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.

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

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

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

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

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

We communicate with the 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.

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 Gulmira Turmagambetova.

Ernst & Young LLP

Gulmira Turmagambetova
Auditor / General Director
Ernst & Young LLP

Auditor qualification certificate
No. 0000374 dated 21 February 1998

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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13 March 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

In thousands of Tenge	Note	2019	2018
Assets			
Non-current assets			
Property, plant and equipment	5	**16,851,207**	15,508,690
Intangible assets		**278,298**	188,930
Right-of-use asset		**377,501**	–
Advances paid for non-current assets	8	**801,537**	843,567
Non-interest-bearing loans to employees		–	409
		18,308,543	16,541,596
Current assets			
Inventories	6	**16,496,870**	16,672,240
Trade accounts receivable	7	**1,197,048**	1,030,216
Advances paid	8	**592,639**	1,426,172
Corporate income tax prepayment		**184,098**	126,387
Other current assets	9	**2,009,342**	515,859
Cash and cash equivalents	10	**15,840,041**	9,898,203
		36,320,038	29,669,077
Total assets		**54,628,581**	46,210,673
Equity and liabilities			
Share capital	11	**900,000**	900,000
Reserve capital	11	**180,000**	180,000
Currency translation reserve		**376,697**	381,572
Retained earnings		**44,294,676**	38,583,657
Equity attributable to shareholders of the Parent		**45,751,373**	40,045,229
Non-controlling interest		–	57
Total equity		**45,751,373**	40,045,286
Non-current liabilities			
Long-term loans	12	**1,730,996**	587,015
Deferred tax liabilities	24	**1,139,491**	981,556
Deferred income	13	**685,895**	677,228
Employee benefit liabilities	14	**39,547**	177,299
Lease liabilities	23	**281,204**	–
		3,877,133	2,423,098
Current liabilities			
Loans – current portion	12	**760,923**	179,674
Trade accounts payable	15	**2,126,803**	1,459,304
Advances received		**328,262**	137,231
Deferred income	13	**65,976**	45,619
Employee benefit liabilities	14	**7,508**	64,552
Other current liabilities	16	**1,595,952**	1,843,146
Lease liabilities – current portion	23	**114,651**	–
Corporate income tax liabilities		–	12,763
		5,000,075	3,742,289
Total liabilities		**8,877,208**	6,165,387
Total equity and liabilities		**54,628,581**	46,210,673
Book value per share	11	**12,631**	11,071

Chairman of the Management Board ______________ *K.V. Fedorets*

Chief Accountant ______________ *D.A. Divazova*

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The accounting policies and explanatory notes on pages 6 to 41 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

In thousands of Tenge	Note	2019	2018
Revenue	17	**63,385,532**	59,164,232
Cost of sales	18	**(47,843,915)**	(43,666,669)
Gross revenue		**15,541,617**	15,497,563
General and administrative expenses	19	**(3,190,537)**	(3,385,998)
Selling expenses	20	**(3,797,329)**	(3,460,793)
Other operating income, net	21	**387,237**	98,313
Operating profit		**8,940,988**	8,749,085
Finance costs	22	**(180,713)**	(105,627)
Finance income	22	**1,060,799**	577,917
Foreign exchange (loss)/gain, net		**3,669**	(149,795)
Profit before taxes		**9,824,743**	9,071,580
Corporate income tax expense	24	**(1,932,181)**	(1,798,092)
Profit for the year		**7,892,562**	7,273,488
Attributable to:			
Shareholders of the parent		**7,892,619**	7,273,496
Non-controlling interest		**(57)**	(8)
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Foreign exchange differences from translation of financial statements of foreign operations, net of taxes		**(4,875)**	124,911
Other comprehensive income for the year, net of tax		**(4,875)**	124,911
Total comprehensive income for the year, net of taxes		**7,887,687**	7,398,399
Attributable to:			
Shareholders of the parent		**7,887,687**	7,398,407
Non-controlling interest		**–**	(8)
		7,887,687	7,398,399
Earnings per share			
Basic and diluted profit for the year attributable to ordinary shareholders of the Parent, Tenge	11	**2,192**	2,020

Chairman of the Management Board ______ *K.V. Fedorets*

Chief Accountant ______ *D.A. Divazova*

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to equity holders of the parent						
In thousands of Tenge	Share capital	Reserve capital	Currency translation reserve	Retained earnings	Total	Non-controlling interest	Total Equity
	Note 11	*Note 11*	*Note 11*				
At 1 January 2018	900,000	180,000	256,661	32,634,961	33,971,622	65	33,971,687
Profit for the year	–	–	–	7,273,496	7,273,496	(8)	7,273,488
Other comprehensive income	–	–	124,911	–	124,911	–	124,911
Total comprehensive income	–	–	124,911	7,273,496	7,398,407	(8)	7,398,399
Dividends *(Note 11)*	–	–	–	(1,324,800)	(1,324,800)	–	(1,324,800)
At 31 December 2018	900,000	180,000	381,572	38,583,657	40,045,229	57	40,045,286
Profit for the year	**–**	**–**	**–**	**7,892,619**	**7,892,619**	**(57)**	**7,892,562**
Other comprehensive loss	**–**	**–**	**(4,875)**	**–**	**(4,875)**	**–**	**(4,875)**
Total comprehensive income	**–**	**–**	**(4,875)**	**7,892,619**	**7,887,744**	**(57)**	**7,887,687**
Dividends *(Note 11)*	**–**	**–**	**–**	**(2,181,600)**	**(2,181,600)**	**–**	**(2,181,600)**
At 31 December 2019	**900,000**	**180,000**	**376,697**	**44,294,676**	**45,751,373**	**–**	**45,751,373**

Chairman of the Management Board _____________ *K.V. Fedorets*

Chief Accountant _____________ *D.A. Divazova*

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

In thousands of Tenge	Note	2019	2018
Operating activities			
Profit before taxes		**9,824,743**	9,071,580
Adjustments to reconcile profit before tax to net cash flows			
Depreciation and amortisation	18, 19, 20	**1,516,323**	1,114,518
Impairment of property, plant and equipment	19	**(4,791)**	70,005
Disposal of property, plant and equipment	5	**14,703**	19,521
Provision for obsolete inventory	19	**39,673**	20,632
Finance costs	22	**180,713**	105,627
Finance income	22	**(1,060,799)**	(577,917)
Accrual of employee benefit liabilities	14	**916**	20,332
Accrual of provision for other estimated liabilities	19	**25,000**	26,000
Foreign exchange differences		**(8,230)**	219,776
Allowance for expected credit losses	19	**(103,319)**	174,468
Accrual of unused vacation reserve		**605,885**	567,562
Accrual/(reversal) of provision for expected credit loss	19	**1,257**	(16,444)
Income from government grant	21	**(60,976)**	(48,297)
Accrual of provison for advances paid	19	**2,861**	1,212
Changes in working capital			
Change in inventories		**135,697**	(2,179,669)
Change in trade accounts receivable		**(118,118)**	(140,894)
Change in advances paid		**830,672**	(1,173,407)
Change in other current assets		**(1,415,965)**	22,421
Change in trade payables		**1,372,603**	461,192
Change in advances received		**191,088**	(135,072)
Change in employee benefit liability		**(195,712)**	11,981
Change in other liabilities		**(950,814)**	(288,635)
Corporate income tax paid		**(1,844,720)**	(1,573,912)
Interest paid		**(57,068)**	(46,285)
Interest received		**543,825**	468,140
Net cash flows from operating activities		**9,465,447**	6,194,435
Investing activities			
Purchase of property, plant and equipment		**(3,421,661)**	(4,138,891)
Purchase of intangible assets		**(126,290)**	(64,004)
Loans repaid by employees		**-**	-
Government grants	13	**90,000**	180,000
Net cash flows used in investing activities		**(3,457,951)**	(4,022,895)

The accounting policies and explanatory notes on pages 6 to 41 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of Tenge	Note	2019	2018
Financing activities			
Proceeds from borrowings		**2,322,817**	259,182
Repayment of loans		**(212,077)**	(574,067)
Payment of dividends		**(2,248,634)**	(1,265,884)
Net cash flows used in financing activities		**(137,894)**	(1,580,769)
Net change in cash and cash equivalents		**5,869,602**	590,771
Expected credit loss		**103,312**	(174,468)
Net foreign exchange difference		**(31,076)**	(24,062)
Cash and cash equivalents as at 1 January		**9,898,203**	9,505,962
Cash and cash equivalents as at 31 December	10	**15,840,041**	9,898,203

NON-CASH TRANSACTIONS – ADDITIONAL DISCLOSURE

The following non-cash transactions have been excluded from the consolidated statement of cash flows:

Purchase of property, plant and equipment

In 2019 additions to property, plant and equipment in the amount of 714,406 thousand Tenge were financed by the increase in trade accounts payable (in 2018: 166,124 thousand Tenge).

Chairman of the Management Board — *K.V. Fedorets*

Chief Accountant — *D.A. Divazova*

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1. GENERAL INFORMATION

Rakhat Joint Stock Company (the "Company") was formed on 20 May 1992, in accordance with the laws of the Republic of Kazakhstan.

The Company is incorporated, domiciled and operates in the Republic of Kazakhstan. The legal address of the Company is Republic of Kazakhstan, Almaty, 2a Zenkova str.

Below is a list of shareholders of the Company as at 31 December:

	Country of registration	2019	2018
Lotte Confectionery Co., Ltd	South Korea	**95.57%**	92.44%
Other	Kazakhstan	**4.43%**	7.56%
		100.00%	100.00%

The ultimate controlling party of the Company is Lotte Confectionery Co., Ltd.

The principal activities of the Company and its subsidiaries listed in *Note 2* (collectively, the "Group") are the manufacturing, wholesale and retail sale of confectionery products.

These financial statements represent, on a consolidated basis, the financial results of the Group for the year ended 31 December 2019 and its financial position as at the indicated date.

These consolidated financial statements were approved for issue by the management of the Group on 13 March 2020.

2. BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent and its subsidiaries as at 31 December 2019. 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 following conditions are met:

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

Generally, there is a presumption that a majority of voting rights results 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 arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. 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 statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

2. BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. 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 intragroup assets and liabilities, equity, income, expenses and cash flows arising as the result of transactions within the Group are eliminated on consolidation in full.

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 related assets (including goodwill), 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

As at 31 December the Group had a share in the following subsidiaries included in the consolidated financial statements:

Existing entity	Principal activities	Country of registration	Company's participation interest 2019	2018
Rakhat-Shymkent LLP	Foodstuff manufacturing	Kazakhstan	**100.00%**	100.00%
Rakhat-Aktau LLP	Foodstuff wholesale and retail trade	Kazakhstan	**100.00%**	100.00%
Rakhat-Astana LLP	Foodstuff wholesale and retail trade	Kazakhstan	**100.00%**	100.00%
Rakhat-Aktobe LLP	Foodstuff wholesale and retail trade	Kazakhstan	**100.00%**	100.00%
Rakhat-Oral LLP	Foodstuff wholesale and retail trade	Kazakhstan	**100.00%**	100.00%
Rakhat-Karaganda LLP	Foodstuff wholesale and retail trade	Kazakhstan	**100.00%**	100.00%
Rakhat-Taldykorgan LLP	Foodstuff wholesale and retail trade	Kazakhstan	**100.00%**	100.00%
Torgovyi dom Rakhat-Shymkent LLP	Foodstuff wholesale and retail trade	Kazakhstan	**100.00%**	100.00%
Almatinskiye konfety LLC	Foodstuff wholesale and retail trade	Kyrgyzstan	**100,00%**	100,00%
Rakhat-TR LLP	Transportation	Kazakhstan	**100,00%**	99,90%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New standards, interpretations and amendments thereof

The Group applied IFRS 16 *Leases* for the first time. The nature and effect of the changes as a result of adoption of this accounting standard are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the separate financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 Leases

IFRS 16 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.* The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for the majority of leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged 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. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 on 1 January 2019 using a modified retrospective method of adoption. According to this method, the standard is applied retrospectively with recognition of the cumulative effect of the standard's initial application at the date of initial application.

The Group used the practical expedient available on transition to the standard not to reassess whether a contract is or contains a lease as at 1 January 2019. Instead, the Group applied the standard only to those contracts that were previously identified as leases using IAS 17 and Interpretations IFRIC 4 at the date of initial application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments thereof (continued)

IFRS 16 Leases (continued)

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 lease contracts for which the underlying asset is of low value.

The effect of adopting IFRS 16 as at 1 January 2019 was, as follows:

In thousands of Tenge	At 1 January 2019
Assets	
Right-of-use assets	530,606
Total assets	**530,606**
Liabilities	
Lease liabilities *(Note 23)*	530,606
Total liabilities	**530,606**

The amount of the lease liability was determined as follows:

In thousands of Tenge	At 1 January 2019
Amount of undiscounted cash flows	686,646
Discounting rate	11.2%
Total discounted liabilities	**530,606**

The Group has entered into agreements for the lease of office buildings and warehouses.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases in which it is a lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

This Interpretation did not have any impact on the Group's consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments thereof (continued)

Prepayment Features with Negative Compensation – Amendments to IFRS 9

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the cash flow criterion) and the instrument is held within the appropriate business model enabling such classification. The amendments to IFRS 9 clarify that a financial asset meets the cash flow criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 19 Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to: Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

An entity must also determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

These amendments did not have a significant impact on the Group's consolidated financial statements.

Annual IFRS improvements, 2015-2017 cycle (issued in December 2019)

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

These amendments had no impact on the consolidated financial statements of the Group, since the Group does not have such transactions in the presented periods.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

These amendments did not have an effect on the Group's consolidated financial statements due to absence of transactions in which the Group obtains joint control.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the current policy of the Group complies with the requirements of the amendments, their application did not have an effect on the consolidated financial statements of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments thereof (continued)

Annual IFRS improvements, 2015-2017 cycle (issued in December 2019) (continued)

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. Since the current policy of the Group complies with the requirements of the amendments, their application did not have an effect on the consolidated financial statements of the Group.

Standards issued but not yet effective

Standards and interpretations issued but not yet effective as at 31 December 2019 are as follows: The Group intends to adopt those standards when they become effective.

Conceptual Framework for Financial Reporting

In March 2018 the International Accounting Standards Board issued the revised *Conceptual Framework for Financial Reporting*. In particular, new definitions of assets and liabilities and updated definitions of income and expenses are introduced. The revised document comes into force for mandatory application starting from annual periods after 1 January 2020. The revised document will not have a material impact on the consolidated financial statements.

Amendment to IFRS 3 Business Combination

In October 2018, the IASB issued an amendment to IAS 3 *Business Combination*. The amendment clarifies the definition of a business, which is introduced by the standard. The amendment is effective for acquisitions of a business or a group of assets that will be carried out after 1 January 2020. Earlier application is permitted. Since the amendment is applied prospectively to recording of transactions and other events that will take place after the date of its first application, the amendment will not affect the consolidated financial statements of the Group.

Amendments to IAS 1 and IAS 8 Definition of Material

In October 2018, the IASB issued amendmens to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Amendments to IAS 1 and IAS 8 introduces a new definition of material.

Amendments to IAS 1 and IAS 8 are effective on or after 1 January 2020. Earlier application is permitted. The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

Amendments to IFRS 7 Financial Instruments: Disclosures and IFRS 9 Financial Instruments – Interest Rate Benchmark Reform

In September 2019, the IASB issued amendments to IFRS 7 *Financial Instruments: Disclosures* and IFRS 9 *Financial Instruments – Interest Rate Benchmark Reform*. The adopted amendments provide relief from certain hedge accounting requirements, the implementation of which may lead to the termination of hedge accounting due to the uncertainty surrounding the reform of interest-rate benchmarks. The amendments are effective from 1 January 2020. Earlier application is permitted.

These amendments will not have a significant impact on the consolidated financial statements.

Amendment to IAS 1 Presentation of Financial Statements named Classification of Liabilities as Current or Non-current

In January 2020, the International Accounting Standards Board (IASB) has issued *Classification of Liabilities as Current or Non-Current* (Amendments to IAS 1 *Presentation of Financial Statements*). The adopted amendment clarifies requirements for classifying liabilities as non-current or current. The amendment is effective from 1 January 2022. Earlier application is permitted.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Amendment to IAS 1 Presentation of Financial Statements named Classification of Liabilities as Current or Non-current (continued)

This amendment will not have a material effect on the consolidated financial statements, since the Group is already applying the clarified requirements.

The Group does not plan to early adopt the above new standards and amendments to existing standards subject to early adoption.

Foreign currency

The Group's consolidated financial statements are presented in Tenge, which is also the parent company's functional currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Transactions and balances

Transactions in foreign currencies are initially recorded at functional currency rates prevailing at the transaction date when the transaction meets recognition criteria.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Differences arising from repayment or restatement of monetary items are included in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

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

The following table summarizes the foreign currency exchange rates to Tenge:

	31 December 2019	31 December 2018
US Dollar	**382.59**	384.20
Euro	**429**	439.37
Kyrgyz Som	**5.49**	5.51
Russian Rouble	**6.16**	5.52

The functional currency of a foreign operation Almatinskiye konfety LLC (Kyrgyzstan) is Kyrgyz Som. During consolidation the assets and liabilities of foreign operations are translated into Tenge at the rate of exchange prevailing at the reporting date and their statements of comprehensive income are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income.

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 12 (twelve) months after the reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification (continued)

All other assets are should be 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.

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the capitalization criteria are met. When significant parts of property 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. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

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

	Years
Buildings and constructions	15-30
Machinery and equipment	5-20
Motor vehicles	5-9
Other	4-12

An item of property and equipment and any significant part initially recognized is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of 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.

Construction in progress represents assets and is stated at cost. Construction in progress includes costs directly associated with the construction of property and equipment, including corresponding allocation of direct variable overhead expenses, incurred in the course of construction. As in the case with other property and equipment these assets are depreciated from the date of commissioning.

Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period when such costs are incurred. Capitalized costs comprise major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity when used.

Repair and maintenance expenditures that do not meet the above capitalisation criteria shall be recorded within profit and loss for the year, as they arise.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at initial cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite.

Intangible assets with finite useful 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 consolidated 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 primarily include software and software licenses. Intangible assets are amortized on a straight-line basis within the estimated useful lives from six to ten years.

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 such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's or CGU's recoverable amount is the higher of an asset's or (CGU's) fair value less costs to sell and an asset's or (CGU's) value in use. 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 to sell, recent market transactions are used, if any. In their absence the relevant valuation model is applied. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries 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 cash generating units to which individual assets are allocated. These budgets and forecast calculations are generally covering a period of five (5) years. For longer periods, a long-term growth rate is calculated and applied to project future cash flow after the fifth year.

Impairment losses of continuing operations (including impairment of inventory) are recognised in the consolidated statement of comprehensive income 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. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, 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. Previously recognised impairment losses are 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 consolidated statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement

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

Financial assets

Initial recognition and measurement

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

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

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

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

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

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.

The financial assets of the group mainly comprise loans and receivables.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized (i.e. exluded from the Group's consolidated statement of financial position):

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Derecognition (continued)

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

Impairment of financial assets

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

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

For trade 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.

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, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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 trade payables, and loans.

Subsequent measurement

Trade accounts payable

Liabilities for trade 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.

Loans and borrowings

After initial recognition, loans and borrowings are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR 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 derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised through the consolidated statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments

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

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 an original maturity of three months or less.

Inventory

Inventories are valued at the lower of cost or net realisable value.

Costs incurred in the delivery of each product to its destination, and bringing it into proper condition, are recorded as follows:

- Raw materials – acquisition costs under the average weighted price method;
- Finished goods and work in progress – the direct costs of materials and labour, as well as the share of indirect costs of production, based on normal production capacity, but not including borrowing costs.

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.

Lease

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognizes the right-of-use assets at the commencement date of the lease (that is, the date on which the underlying asset becomes available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If at the end of the lease term the ownership of the leased asset transfers to the Group or if the initial value of the asset reflects the exercise of the purchase option, the asset is depreciated over its estimated useful life.

Right-of-use assets are subject to testing for impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense (except when incurred for production of inventories) in the period on which the event or condition that triggers the payment occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

Lease liabilities (continued)

The Group uses the incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (for example, a change in future payments due to a change in the index or rate used to determine such payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and lease of assets of low value

The Group applies the short-term lease recognition exemption to its short-term leases (i.e. contracts that, at the commencement date, have a lease term of 12 months or less and do not contain an option to purchase an underlying asset). The Group also applies the low value assets lease recognition exemption to contracts of lease of assets whose value is considered to be low. Lease payments on short-term leases and lease of assets of low value are recognised as expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of comprehensive income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

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% of the salary of its employees, from income not exceeding 2,125 thousand Tenge as the employees' contribution to their designated pension funds. In accordance with requirements of the legislation, the Group is responsible for payment of retirement benefits on behalf of employees and the Group has no present or future obligations to further benefit its employees upon their retirement.

Government grants

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.

The Group recognized a government grant as deferred income over the expected useful life of a respective asset.

Dividends

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

Total

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. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised 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.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Employee benefit liabilities

The Group offers to its employees long-term benefits before retirement in accordance with the Collective agreement between the Group and its employees.

Accrual of expected expenses on one-time retirement benefits is carried out during employee labour activity in accordance with technique, which is used in calculation of defined benefit schemes.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Actuarial gains and losses arising during a year are recorded within the items of profit and loss. For this purpose, actuarial gains and losses include the impact of changes in actuarial assumptions, and the impact of past experience on differences between actuarial assumptions and actual data. Other changes are recognised in the current period, including the current service costs, the past service costs and the impact of personnel layoff or completed settlements.

The most significant assumptions used in accounting for the benefit liability are the discount rate and mortality rates. The discount rate is used to determine the net present value of future liabilities, and every year amortization of the discount on those liabilities is recognized in the consolidated statement of comprehensive income as interest expenses. The assumption of mortality is used to forecast the future benefit payment flow, which then is discounted to arrive at the net present value of liabilities.

Net interest is calculated by applying the discount rate to the net employee benefit liabilities. The Group recognises the outlined changes of net employee benefit liabilities in the items: "cost of sales", "general and administrative expenses", "selling expenses" and financial costs in the consolidated statement of comprehensive income (classified by function):

- Cost of service, including the current service costs, the past service costs;
- Net interest expense or income.

Employee benefits are deemed to be other long-term employee benefits. Expected cost of these payments is accrued within working period using accounting methods similar to that used for defined benefit plan. Such liabilities are valued by independent qualified actuaries on an annual basis.

Revenue recognition

Sale of assets

The activities of the Group are related to the production of confectionery products. Revenue from contracts with customers is recognized when (or how) the Group fulfills its performance obligation by transferring the promised goods (i.e. an asset) to the buyer. An asset is transferred when the buyer gains control of the asset, which generally occurs upon transfer of ownership, provided that the contract price is fixed or determinable and the receivables are reasonably secured. Revenue is measured at fair value of consideration received or receivable, taking into account payment terms defined in a contract and net of indirect taxes (VAT) and duties. The Group has concluded that it acts as a principal in all revenue arrangements, because the Group controls the asset before transferring it to the buyer. The Group is the primary obligor under arrangement, has pricing latitude and is also exposed to inventory and credit risks. Revenue from the sale of assets is recognized at a specific point in time, and is payable within 30-60 days.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Sale of assets (continued)

The Group assesses the existence of performance obligations in separate agreements (for example, various promotional activities to promote goods, marketing and other advertising services), which must be allocated as part of the transaction price. The Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any). Amounts allocated to the fulfilled performance obligation are recognized as a decrease in revenue in the period in which the transaction price changes.

Variable consideration

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

Rights of return

Certain contracts provide a customer with a right to return the goods within a specified period. In estimating the goods that will not be returned, the Group uses the expected value method because this method better predicts the amount of consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, the Group recognises a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover the goods from the customer.

Volume rebates

The Group provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the Group applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds. The Group applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future rebates.

Income from rent

Income from rent is recorded based on a straight line basis over the term of lease and included within other income in the consolidated statement of comprehensive income.

Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as AFS, interest income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The interest income is recorded as a part of finance income in the consolidated statement of comprehensive income.

Expense recognition

Expenses

Expenses are accounted for at the time the actual flow of the related goods or services occur, regardless of when cash or its equivalent is paid, and are reported in the consolidated financial statements in the period to which they relate.

Finance costs

Finance costs comprise interest expenses on loans and accumulation of interest on provisions. Finance costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Other finance costs are recognised as an expense when incurred.

3. SUMMARY OF ACCOUNTING POLICIES (continued)

Taxes

Current corporate income tax

Current corporate income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rate and tax law used to compute the amount are those that are enacted or substantially enacted by the reporting date in the countries where the Group operates and generates taxable income.

Current corporate income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of comprehensive income. Management of the Group 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 income tax

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or 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; and
- 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 utilized 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; and
- 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 utilised.

The currying amount of deferred tax assets is reviewed at each balance sheet 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 asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

3. SUMMARY OF ACCOUNTING POLICIES (continued)

Taxes (continued)

Value added tax

The tax authorities permit the settlement of sales and purchases value added tax (VAT) on a net basis.

VAT payable

VAT is payable to tax authorities upon collection of receivables from customers. VAT on purchases, which have been settled at the reporting date, is deducted from the amount payable.

In addition, VAT related to sales which have not been collected at the reporting date is also included in the balance of VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT liability is maintained in the consolidated financial statements until the debtor is written off for tax purposes.

VAT recoverable

VAT recoverable is recorded in accounting on purchased goods, works and services that were purchased with VAT, in case that they were used for the purpose of obtaining income.

VAT recoverable is reclaimable against VAT related to sales upon payment for the purchases.

Fair value measurement

For the purpose of assessment of impairment and recoverable amount of certain non-financial assets the Group uses the fair value net of losses from disposal.

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 to 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.

Information on fair value of financial instruments and valuation method are disclosed in *Note 26*.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

In the process of applying the Group's accounting policies, management has used the following judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the consolidated financial statements.

Revenue from contracts with customers

The Group used the following judgments, which have a significant impact on the amount and timing of revenue recognition under contracts with customers:

Determining method to estimate variable consideration and assessing the constraint

Certain contracts for the sale of goods include a right of return and volume rebates that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sale of goods with rights of return, given the large number of customer contracts.

In estimating the variable consideration for the sale of an asset with volume rebates, the Group determined that using a combination of the most likely amount method and expected value method is appropriate. The selected method that better predicts the amount of variable consideration was primarily driven by the number of volume thresholds.

The most likely amount method is used for those contracts with a single volume threshold, while the expected value method is used for contracts with more than one volume threshold. Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

Taxation

In assessing tax risks, management considers to be probable obligations the known areas of tax positions which the Group would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgement and are subject to change as a result of changes in tax laws and regulations, the determination of expected outcomes from pending tax proceedings and current outcome of ongoing compliance audits by tax authorities. Group's tax obligations and contingencies related to taxation are detailed in *Note 27*.

Useful life of property, plant and equipment and intangible assets

The Group assesses the remaining useful lives of items of property, plant and equipment and intangible assets at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amounts of the carrying values of property and equipment and intangible assets and on depreciation and amortization expenses recognized in profit or loss.

Employee benefit liabilities

The cost of long-term employee benefits and the present value of obligations is determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future benefits increases. Due to the complexities involved in the valuation of basic assumptions and long-term nature of obligations, all assumptions are reviewed at each reporting date.

In the absence of an active market of corporate securities in Kazakhstan when determining the appropriate discount rate the management of the Group considers the interest rates of state securities with extrapolated maturities that correspond to the expected life of obligations under the post-employment benefit plan. Subsequently, the quality of the corresponding securities in the is analysed on a regular basis.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Revenue from contracts with customers (continued)

Employee benefit liabilities (continued)

The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. Further details about pension obligations are contained in *Note 14*.

Net realizable value and provision for obsolescence (impairment) of inventories

At the end of the year, the Group is testing the carrying amount of inventories for their recoverability. For these purposes, the Group makes a comprehensive assessment of the amount of the allowance for write-offs to the net realizable value and outdated inventories. To a large extent, the assessment is subjective and based on assumptions, in particular, on the forecast for the production and sale of finished products, and also analyzes inventories that are not moving for a certain amount of time. As a result, the Group recognized a provision for writing off the value of inventories to their net realizable value and for obsolete inventories as disclosed in *Note 6*.

Impairment of financial assets

IFRS 9 requires the Group to apply the model of expected losses for the purpose of reserving receivables, the key principle of which is timely reflection of deterioration or improvement of the quality of receivables, taking into account the accumulated historical data, as well as current and forecast information. The amount of expected losses recognized as an allowance for impairment depends on the degree of change in quality of receivables from the date of initial recognition of a financial instrument (the date on which the Group assumes such an obligation is used as the date of initial recognition of obligations to provide receivables).

For the purpose of reserving cash instruments held in bank savings accounts, the Group also uses the expected loss model, which is based on independent ratings of banks.

The provision for impairment is formed on the basis of the timing of occurrence of:

- Expected losses during the year – for accounts receivable and cash without factors evidencing a significant deterioration in the quality of receivables from the date of initial recognition, or evidence of impairment;
- Expected losses over the life of the contract – for receivables and cash with evidence of a significant increase in the risk of non-payment, or evidence of impairment.

The Group recognises an allowance for expected credit losses (ECLs) for all debt financial assets not held at fair value through profit or loss.

ECLs are calculated as the difference between the contractual cash flows due to the Group in accordance with the contract and all the cash flows that the Group expects to collect discounted using the rate approximating to the original effective interest rate on this asset.

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

For trade and other receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established 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.

5. PROPERTY, PLANT AND EQUIPMENT

Movement of property, plant and equipment for the year ended 31 December is presented as follows:

In thousands of Tenge	Land	Buildings and con-structions	Machinery and equipment	Motor vehicles	Other	Con-struction in progress	Total
Cost							
At 1 January 2018	1,249,196	6,133,851	12,353,292	625,088	1,241,587	856,581	22,459,595
Additions	-	21,671	36,405	-	17,552	4,093,050	4,168,678
Commissioning of construction in progress	-	292,117	3,106,166	-	216,469	(3,614,752)	-
Disposals	-	-	(197,518)	(1,220)	(32,929)	-	(231,667)
Foreign currency translation	37,124	16,583	3,221	1,940	578	-	59,446
Reclassification	-	(57,466)	57,466	-	-	-	-
At 31 December 2018	1,286,320	6,406,756	15,359,032	625,808	1,443,257	1,334,879	26,456,052
Additions	**-**	**136,396**	**20,958**	**54,888**	**31,805**	**2,502,883**	**2,746,930**
Commissioning of construction in progress	**-**	**111,926**	**2,647,798**	**-**	**403,625**	**(3,163,349)**	**-**
Disposals	**(1,400)**	**-**	**(58,893)**	**(20,734)**	**(22,129)**	**(357)**	**(103,513)**
Foreign currency translation	**(2,184)**	**(1,105)**	**(175)**	**(114)**	**(47)**	**-**	**(3,625)**
At 31 December 2019	**1,282,736**	**6,653,973**	**17,968,720**	**659,848**	**1,856,511**	**674,056**	**29,095,844**
Accumulated depreciation and impairment							
At 1 January 2018	(104,230)	(2,111,176)	(6,821,276)	(281,007)	(625,786)	(46,083)	(9,989,558)
Depreciation charge	-	(234,966)	(698,465)	(40,854)	(113,304)	-	(1,087,589)
Impairment *(Note 19)*	(48,755)	(22,866)	(387)	-	(98)	2,101	(70,005)
Disposals	-	-	197,518	507	14,120	-	212,145
Foreign currency translation	-	(10,100)	(492)	(1,190)	(573)	-	(12,355)
Reclassification	-	25,653	(25,653)	-	-	-	-
At 31 December 2018	(152,985)	(2,353,455)	(7,348,755)	(322,544)	(725,641)	(43,982)	(10,947,362)
Depreciation charge	**-**	**(241,283)**	**(941,647)**	**(42,740)**	**(165,987)**	**-**	**(1,391,657)**
Impairment *(Note 19)*	**50,155**	**22,866**	**-**	**387**	**98**	**(68,715)**	**4,791**
Disposals	**-**	**-**	**53,735**	**15,341**	**19,377**	**357**	**88,810**
Foreign currency translation	**-**	**627**	**63**	**79**	**12**	**-**	**781**
At 31 December 2019	**(102,830)**	**(2,571,245)**	**(8,236,604)**	**(349,477)**	**(872,141)**	**(112,340)**	**(12,244,637)**
Net book value							
At 31 December 2018	1,133,335	4,053,301	8,010,277	303,264	717,616	1,290,897	15,508,690
At 31 December 2019	**1,179,906**	**4,082,728**	**9,732,116**	**310,371**	**984,370**	**561,716**	**16,851,207**

As at 31 December 2019 property, plant and equipment with the cost of 5,766,933 thousand Tenge were fully depreciated (2018: 4,878,230 thousand Tenge).

Additions to construction in progress mainly comprise the cost of equipment for confectionery factories in Shymkent and Almaty.

Property, plant and equipment of the Group are used as collateral under the loans. As at 31 December 2019, the residual value of assets pledged as collateral is 1,856,652 thousand Tenge (2018: 1,908,897 thousand Tenge) *(Note 12)*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. INVENTORIES

As at 31 December inventory comprised:

In thousands of Tenge	2019	2018
Raw materials	**9,283,680**	10,371,217
Finished products *(Note 18)*	**3,231,992**	4,546,740
Packaging materials	**2,321,978**	26,518
Spare parts	**680,295**	654,449
Goods for resale	**438,502**	324,553
Construction in progress *(Note 18)*	**216,834**	420,352
Fuel	**33,384**	34,338
Other materials	**333,435**	323,460
	16,540,100	16,701,627
Less allowance for obsolete inventories	**(43,230)**	(29,387)
	16,496,870	16,672,240

The movements in the allowance for obsolete inventories for the periods ended 31 December, are as follows:

In thousands of Tenge	2019	2018
At the beginning of the year	**(29,387)**	(36,028)
Charge for the year *(Note 19)*	**(39,673)**	(20,632)
Write-off	**25,830**	27,273
At the end of the year	**(43,230)**	(29,387)

7. TRADE ACCOUNTS RECEIVABLE

As at 31 December trade accounts receivable comprised the following:

In thousands of Tenge	2019	2018
Accounts receivable from buyers who are not related parties	**1,205,796**	1,014,161
Receivables from other related parties *(Note 25)*	**14,498**	38,093
Allowance for expected credit losses	**(23,246)**	(22,038)
	1,197,048	1,030,216

The movements in the allowance for an expected credit loss were as follows for the years ended 31 December:

In thousands of Tenge	2019	2018
At the beginning of the year	**(22,038)**	(56,905)
(Charge)/reversal for the year *(Note 19)*	**(43,741)**	16,444
Write-off	**42,484**	16,498
Effect of translation differences	**49**	1,925
At the end of the year	**(23,246)**	(22,038)

Trade accounts receivable are usually settled on 8-10 day terms.

As at 31 December, the ageing analysis of trade receivables is as follows:

			Past due, but not impaired				
In thousands of Tenge	Total	Neither past due nor impaired	Less than 30 days	30 to 90 days	90 to 120 days	120 to 360 days	Over 360 days
2019	**1,197,048**	**1,197,048**	**–**	**–**	**–**	**–**	**–**
2018	1,030,216	1,030,216	–	–	–	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. TRADE ACCOUNTS RECEIVABLE (continued)

At 31 December, the Group's trade accounts receivable were denominated in various currencies as follows:

In thousands of Tenge	**2019**	2018
Tenge	**797,468**	531,977
Russian Rouble	**195,437**	217,180
US Dollar	**140,192**	171,201
Kyrgyz Som	**63,951**	109,858
	1,197,048	1,030,216

8. ADVANCES PAID

As at 31 December, advances comprised the following:

In thousands of Tenge	**2019**	2018
Advances paid for non-current assets to third parties	**801,537**	843,567
Advances paid for goods and services to third parties	**605,030**	1,435,702
Less: provision for advances paid	**(12,391)**	(9,530)
	1,394,176	2,269,739
Advances paid for goods and services	**592,639**	1,426,172
Advances paid for non-current assets	**801,537**	843,567

The movements in the allowance for advances paid were as follows for the years ended 31 December:

In thousands of Tenge	**2019**	2018
At the beginning of the year	**(9,530)**	(8,318)
Charge for the year *(Note 19)*	**(2,861)**	(1,212)
Write-off	**-**	-
At the end of the year	**(12,391)**	(9,530)

9. OTHER CURRENT ASSETS

As at 31 December other current assets comprise:

In thousands of Tenge	**2019**	2018
Restricted cash *(Note 12)*	**1,380,000**	-
Taxes prepaid other than corporate income tax	**512,403**	423,895
Deferred expenses	**83,084**	53,106
Other	**33,855**	38,858
	2,009,342	515,859

10. CASH AND CASH EQUIVALENTS

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

In thousands of Tenge	**2019**	2018
Cash on bank deposit accounts	**12,450,322**	8,519,775
Cash on current bank accounts	**3,456,585**	1,549,109
Cash on hand	**4,283**	3,787
Allowance for expected credit losses	**(71,149)**	(174,468)
	15,840,041	9,898,203

Cash on current and deposit bank accounts earns interest at the weighted average rate of 6.50% and 8.50% p.a., respectively (2018: 5.75% and 9.00% per annum).

10. CASH AND CASH EQUIVALENTS (continued)

As at 31 December 2019, the Group measured and recognized an allowance for expected credit losses from cash on deposit and current bank accounts based on the bank credit ratings of Standard & Poor's.

The methodology for calculating expected credit losses is described in *Note 4.*

As at 31 December, cash and cash equivalents were denominated in currencies as follows:

In thousands of Tenge	**2019**	2018
Tenge	**12,331,264**	8,466,486
US Dollar	**2,384,559**	1,007,604
Russian Rouble	**462,766**	221,355
Euro	**342,829**	5,272
Kyrgyz Som	**318,623**	197,486
	15,840,041	9,898,203

As at 31 December 2019, the weighted average interest rate for short-term bank deposits was 1.00% in US Dollars, 8.25% in Tenge and 4.00% in other currencies (2018: 2.40% in USD, 8.20% in Tenge and 0.06% in other currencies).

11. EQUITY

Share capital

In thousands of Tenge	Number of shares	Share capital
At 31 December 2018	3,600,000	900,000
At 31 December 2019	**3,600,000**	**900,000**

Ordinary shares were fully paid. Each fully paid share with nominal value of KZT 250 is entitled to dividends and a vote per a share.

In 2019, the general meeting of shareholders decided to distribute the Group's net income based on the results of financial and economic activities for 2018 in the amount of 2,181,600 thousand Tenge (2018: 1,324,800 thousand Tenge). The dividends distribution start date is 31 May 2019 (2018: 14 May). As at 31 December 2019, there are no outstanding amounts on dividends (2018: 75,581 thousand Tenge) *(Note 16).*

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of functional currencies of the subsidiaries to Tenge, whose financial statements are included in these consolidated financial statements in accordance with the accounting policy disclosed in *Note 3.*

Reserve capital

According to the Group's Charter, the Group created a reserve capital equal to 20% of the authorized share capital. This reserve capital was created from the appropriation of the retained earnings and amounts KZT 180,000 thousand as at 31 December 2019 and 2018.

Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. The Group does not have any dilutive potential ordinary shares.

The following reflects the income and share data used in the basic earnings per share computations.

In thousands of Tenge	**2019**	2018
Net profit attributable to ordinary equity holders of the parent	**7,892,619**	7,273,496
Weighted average number of ordinary shares	**3,600,000**	3,600,000
Earnings per share, Tenge	**2,192**	2,020

In accordance with requirements of Kazakhstan Stock Exchange the Group shall disclose the calculation method of carrying value of one share, calculated as the equity less intangible assets, and less the preferred non-voting shares amount (in equity) divided by the number of ordinary shares outstanding as at year end. As at 31 December 2019, this index was Tenge 12,631 (2018: 11,071 Tenge). As at 31 December 2019 and 2018, the Group did not have preferred non-voting shares.

12. LOANS

As at 31 December loans and borrowings comprised:

In thousands of Tenge	Currency	Maturity	Interest rate	2019	2018
Subsidiary organization VTB Bank JSC (Kazakhstan)	Tenge (KZT)	20 December 2024	4.90%	**1,111,053**	-
Subsidiary organization VTB Bank JSC (Kazakhstan)	Tenge (KZT)	13 December 2024	4.90%	**617,241**	-
Bank CenterCredit JSC	Tenge (KZT)	30 October 2020	6.00%	**424,540**	766,689
Bank CenterCredit JSC	Tenge (KZT)	12 January 2021	6.00%	**339,085**	-
				2,491,919	766,689
Less: amount to be repaid within 12 months				**(760,923)**	(179,674)
				1,730,996	587,015

On 31 October 2017, the Group entered into an agreement with Bank CenterCredit JSC to open a credit line totalling 568,000 thousand Tenge under the program of support of large business entities engaged in the manufacturing sector – DBK Ondiris.

On 12 January 2018, the Group entered into an agreement with Bank Center Credit JSC to open a credit line for a total amount of 432,000 thousand Tenge also within the framework of the support program – BRK Ondiris.

The Group recognized loans at fair value equal to future cash payments on loans discounted at the market rate of 13.2% per annum.

On 24 September 2019, the Group approved the conclusion of the transaction of Rakhat-Shymkent LLP together with Subsidiary Organization VTB Bank (Kazakhstan) JSC to finance an investment project under the Agrobusiness preferential program with a total financing term of up to 63 months with an interest of 4.9% per annum when financing in Tenge at the expense of funds of Agrarian Credit Corporation JSC.

As part of the General Financing Agreement with the Subsidiary Organization VTB Bank (Kazakhstan) JSC, the Group entered into bank loan agreements in the amount of 770,000 thousand Tenge and 1,380,000 thousand Tenge, the amounts were received in two tranches. On 30 December 2019, in accordance with the Group's mortgage agreement for securing the fulfillment of financing obligations, cash in the amount of 1,380,000 thousand Tenge was blocked on a special personal account until obligations are duly performed under issued letters of credit *(Note 9)*.

The Group recognized loans at their fair value equal to future cash payments on loans discounted at the market rate of 12.3% per annum.

In 2019, the discount was initially recognized in the consolidated statement of comprehensive income in the amount of 439,314 thousand Tenge (2018: 23,508 thousand Tenge) within finance income *(Note 22)*. Unwinding of discount for 2019 amounted to 53,804 thousand Tenge (2018: 42,142 thousand Tenge) and was recognized within finance costs *(Note 22)*.

As at 31 December 2019, the residual value of assets pledged as collateral is 1,856,652 thousand Tenge (2018: 1,908,897 thousand Tenge) *(Note 5)*.

13. DEFERRED INCOME

The movement in deferred revenues is presented below:

In thousands of Tenge	2019	2018
At the beginning of the year	**722,847**	591,144
Received during the year	**90,000**	180,000
Recorded in the consolidated statement of comprehensive income *(Note 21)*	**(60,976)**	(48,297)
At the end of the year	**751,871**	722,847
Less current portion	**65,976**	45,619
Non-current portion	**685,895**	677,228

13. DEFERRED INCOME (continued)

In 2017, Rakhat-Shymkent LLP, a subsidiary of the Group, received a state grant in the total amount of 319,332 thousand Tenge (2016: 319,332 thousand Tenge) in accordance with the Law of the Republic of Kazakhstan dated 8 July 2005 *On State Regulation of Development of Agricultural Complex and Rural Territories* and the order No. 9-3/726 dated 7 August 2015 *On Approval of Regulations for Subsidising on Compensation of the Part of the Expenses Incurred by the Subject of Agroindustrial Complex in Investment Investments.*

In 2018, the Company received an investment grant of 180,000 thousand Tenge under the project "Expansion of facilities for the production of confectionery products. Expansion of the existing enterprise for production of bar chocolate" on the basis of the Grant Rules for the reimbursement of a portion of expenses incurred by the subject of the agro-industrial complex in case of investment approved by the Order of the Deputy Prime Minister of the Republic of Kazakhstan – Minister of Agriculture of the Republic of Kazakhstan dated 1 February 2017.

In 2019, Rakhat-Shymkent LLP received a government grant with the total amount of 90,000 thousand Tenge as part of the project "Expansion of the existing enterprise for the production of confectionery products Marmalade production line."

The Group recognized grants as deferred income over the expected useful life of a respective asset of 13 years on average and depreciates them.

14. EMPLOYEE BENEFIT OBLIGATIONS

Employee benefit liabilities represent payments for long service, the entitlement for these benefits is usually conditional on the completion of a minimum service period. Expected cost of these payments is accrued within working period using accounting methods similar to that used for defined benefit plan. The Group did not create any funds to these future benefit payments.

In connection with the conclusion of a supplementary agreement to the Collective Agreement for 2016-2019, a decision was made to exclude clauses on the abolition of payments for long-term service, according to which the Group paid material assistance for continuous work experience by the anniversary dates of 10, 20, 30, 40 years. The decision entered into force on 1 June 2019. Based on the foregoing, the Group performed an actuarial valuation of current liabilities as at 30 June 2019, and also carried out a revaluation at the end of the year.

Changes in employee benefit obligations are presented as follows:

In thousands of Tenge	**2019**	2018
The present value of defined benefit obligations at the beginning of the year	**241,851**	176,270
(Reversal of past services) / cost of past services	**(222,567)**	16,068
Cost of current services *(Notes 18, 19, 20)*	**916**	20,332
Discounting on actuarial liabilities *(Note 22)*	**20,512**	17,200
Benefits paid	**(14,096)**	(79,217)
Actuarial losses	**20,439**	91,198
The present value of defined benefit obligations at the end of the year	**47,055**	241,851
Less: current portion of the present value of defined benefit liability	**(7,508)**	(64,552)
Non-current portion of employee benefit obligations	**39,547**	177,299

Amounts recognised in the consolidated statement of financial position and the consolidated statement of comprehensive income of the current year are as follows:

In thousands of Tenge	**2019**	2018
The present value of defined benefit liability at the end of a year	**47,055**	241,851
Net liability	**47,055**	241,851
Past service expenses	**(222,567)**	16,068
Expenses for current services *(Notes 18, 19, 20)*	**916**	20,332
Expenses recognised in the current period	**(221,651)**	36,400

The cost of current services is included in the consolidated statement of comprehensive income within the cost of goods sold, general and administrative expenses and selling expenses *(Notes 18, 19, 20)*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. EMPLOYEE BENEFIT LIABILITIES (continued)

The principal actuarial assumptions used in determining the defined benefit liability are as follows:

	2019	2018
Discounting rate	**7.30%**	8.50%
Future salary increase	**5.40%**	7.00%

A quantitative sensitivity analysis for significant assumptions as at 31 December 2019, is as follows:

In thousands of Tenge	Decrease	Increase
Discount rate	-1.00%	+1.00%
	3,670	(3,510)
Future salary change	-1.00%	+1.00%
	(4,593)	4,823
Average labour turnover rate	-1.00%	+1.00%
	4,184	(4,023)

15. TRADE ACCOUNTS PAYABLE

As at 31 December, trade accounts payable comprise the following:

In thousands of Tenge	2019	2018
Accounts payable to third parties	**2,111,778**	1,388,732
Accounts payable to related parties *(Note 25)*	**15,025**	70,572
	2,126,803	1,459,304

As at 31 December 2019 and 2018, accounts payable were interest-free. Trade payables as at 31 December 2019 and 2018, were mainly represented by payables for inventories.

As at 31 December, trade payables are denominated in the following currencies:

In thousands of Tenge	2019	2018
US Dollar	**956,192**	482,898
Russian Rouble	**525,885**	129,078
Tenge	**382,318**	500,390
Euro	**258,367**	344,456
Kyrgyz Som	**2,416**	2,482
GBP	**1,625**	–
	2,126,803	1,459,304

16. OTHER CURRENT LIABILITIES

As at 31 December, other current liabilities comprised the following:

In thousands of Tenge	2019	2018
Allowance for unused vacations	**530,842**	504,902
Settlement with employees	**404,338**	403,173
Taxes payable other than corporate income tax	**244,604**	342,947
Other estimated liabilities	**206,000**	205,000
Payable to pension funds	**73,902**	76,923
Dividends payable *(Note 11)*	**–**	75,581
Other	**136,266**	234,620
	1,595,952	1,843,146

At 31 December 2019 and 2018, other current liabilities were not interest bearing and were primarily denominated in Tenge.

Taxes payable other than income tax at 31 December 2019 and 2018,are mainly represented by VAT payable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. REVENUE

Revenue for the years ended 31 December comprised the following:

In thousands of Tenge	**2019**	2018
Revenue from the sale of produced goods	**63,699,312**	59,235,370
Return of goods	**(52,178)**	(44,713)
Adjustment of selling price	**(261,602)**	(26,425)
	63,385,532	59,164,232

Adjustment of the selling price implies services for conducting promotions, which are recorded, according to their commercial and economic nature, within revenue with a negative balance.

Revenue for the years ended 31 December comprised the following:

In thousands of Tenge	**2019**	2018
Chocolate	**33,970,105**	29,182,953
Sponge cakes	**14,598,754**	13,081,291
Sweets	**11,024,861**	14,389,220
Other	**4,053,414**	2,537,193
Selling price adjustment	**(261,602)**	(26,425)
	63,385,532	59,164,232

Revenue for the years ended 31 December comprised the following:

In thousands of Tenge	**2019**	2018
Kazakhstan	**48,990,531**	45,677,438
Russia	**8,786,017**	8,085,857
Kyrgyzstan	**2,380,448**	2,548,697
Uzbekistan	**1,172,489**	1,013,210
Tajikistan	**663,542**	580,331
People's Republic of China	**517,649**	210,080
Azerbaijan	**315,293**	485,914
Mongolia	**203,087**	203,919
Germany	**173,847**	189,069
Afghanistan	**114,524**	93,387
Armenia	**28,675**	63,909
Other	**39,430**	12,421
	63,385,532	59,164,232

Revenue from sale of goods is recognized at a point in time.

18. COST OF GOODS SOLD

Cost of goods sold for the years ended 31 December, comprised the following:

In thousands of Tenge	**2019**	2018
Materials	**37,702,762**	36,031,335
Payroll and related taxes	**6,153,229**	6,035,997
Depreciation and amortisation	**1,175,622**	898,120
Utilities	**928,031**	1,007,813
Repair and maintenance expenses	**188,147**	188,798
Transportation expenses	**84,516**	78,781
Depreciation on a right-of-use asset	**2,782**	-
Employee benefit expenses *(Note 14)*	**580**	14,321
Rent	**-**	3,600
Other	**89,980**	105,293
	46,325,649	44,364,058
Finished products and work-in-progress at the beginning of the year *(Note 6)*	**4,967,092**	4,269,703
Finished products and work-in-progress at the end of the year *(Note 6)*	**3,448,826**	4,967,092
Changes in finished products and work-in-progress	**1,518,266**	(697,389)
	47,843,915	43,666,669

19. GENERAL AND ADMINISTRATIVE EXPENSES

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

In thousands of Tenge	**2019**	2018
Payroll and related taxes	**1,800,314**	1,946,662
Audit and consulting services	**334,389**	174,002
Depreciation and amortisation	**112,079**	96,669
Bank services	**103,715**	87,635
Insurance	**100,147**	76,411
Taxes other than income tax	**99,523**	110,555
Materials	**75,463**	101,620
Security services	**61,359**	60,797
Business trips	**51,411**	39,171
Provision for obsolete inventory *(Note 6)*	**39,673**	20,632
Repair and maintenance	**32,963**	14,291
Charity expenses	**26,018**	18,577
Accrual of provision for other estimated liabilities	**25,000**	26,000
Communication	**24,763**	24,467
Training of employees	**17,683**	11,430
Utilities	**12,550**	18,875
Rent	**8,168**	10,719
Accrual of provision for advances paid *(Note 8)*	**2,861**	1,212
Charge/(reversal) of provision for doubtful debts *(Note 7)*	**1,257**	(32,942)
Employee benefit expenses *(Note 14)*	**228**	3,987
(Reversal)/accrual of provision for impairment of property, plant and equipment *(Note 5)*	**(4,791)**	70,005
(Reversal)/accrual of provision for expected credit losses	**(103,319)**	174,468
Other	**369,083**	330,755
	3,190,537	3,385,998

20. SELLING EXPENSES

Selling expenses for the years ended 31 December comprised the following:

In thousands of Tenge	**2019**	2018
Payroll and related taxes	**1,697,880**	1,419,443
Transportation expenses	**880,019**	841,393
Advertising expenses	**499,956**	536,442
Materials	**215,341**	170,744
Depreciation and amortisation	**129,483**	119,729
Depreciation on a right to use an asset	**96,357**	-
Utilities	**63,830**	63,384
Business trips	**33,227**	23,855
Repair and maintenance	**21,177**	27,182
Security services	**7,848**	7,596
Rent	**3,873**	117,680
Employee benefit expenses *(Note 14)*	**108**	2,024
Other	**148,230**	131,321
	3,797,329	3,460,793

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. OTHER OPERATING INCOME, NET

Other operating income and expenses for the years ended 31 December comprised the following:

In thousands of Tenge	**2019**	2018
Income from adjustment of actuarial obligations	**222,562**	-
Income from canteen services	**123,775**	127,567
Income from government grant *(Note 13)*	**60,976**	48,297
Income from sale of other tangible assets	**52,516**	42,242
Income from rent	**50,146**	43,731
Income from claims	**8,916**	33,443
Reimbursement of expenses	**40**	18,343
Other	**178,811**	161,900
	697,742	475,523
Canteen expenses	**(226,429)**	(216,202)
Actuarial expenses	**(20,439)**	(91,198)
Rent expenses	**(2,195)**	(2,231)
Other	**(61,442)**	(67,579)
	(310,505)	(377,210)
	387,237	98,313

22. FINANCE COSTS/FINANCE INCOME

Finance costs and finance income for the year ended 31 December comprised the following:

In thousands of Tenge	**2019**	2018
Finance costs		
Interest on loans	**57,068**	46,285
Unwinding of discount on bank loans *(Note 12)*	**53,804**	42,142
Finance lease interest expense *(Note 23)*	**49,329**	-
Discounting on actuarial liabilities *(Note 14)*	**20,512**	17,200
	180,713	105,627
Finance income		
Interest income on current and deposit accounts	**621,485**	554,409
Discounting of bank loans *(Note 12)*	**439,314**	23,508
	1,060,799	577,917

23. LEASE LIABILITIES

The Group entered into agreements for the lease of office buildings and warehouses in various oblasts of Kazakhstan. Agreements for the lease of office buildings and warehouses are based on the lease term of 1 (one) year as an average. There are no restrictions placed upon the Group by entering into these lease agreements.

At the commencement of the lease, the Group recognized a lease liability recognized for immovable property that was previously classified as an operating lease in accordance with IAS 17. Based on an amount equal to the lease liabilities of 5 years, a right-of-use asset was recognized as defined in IFRS 16. The Group recognises the interest expense on the lease liability and the depreciation expense on the right-of-use asset separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. LEASE LIABILITIES (continued)

The carrying amount of lease liabilities and their changes over the period are presented below:

In thousands of Tenge	**2019**
As at 31 December 2018	-
Effect of recognition of IFRS 16	530,606
At 1 January 2019	530,606
Change in lease agreements	**(55,733)**
Finance costs *(Note 22)*	**49,329**
Sum of rental payments during the period	**(128,347)**
At 31 December 2019	**395,855**
Current portion	**114,651**
Non-current portion	**281,204**

24. CORPORATE INCOME TAX EXPENSES

Corporate income tax expense comprises the following for the years ended 31 December:

In thousands of Tenge	**2019**	2018
Current corporate income tax expense	**1,733,050**	1,800,959
Deferred income tax expense/(benefit)	**157,954**	(4,159)
Adjustments with respect to corporate income tax of prior periods	**41,177**	1,292
	1,932,181	1,798,092

A reconciliation of corporate income tax expenses applicable to profit before income tax at the statutory income tax rate to current corporate income tax expense was as follows for the years ended 31 December:

In thousands of Tenge	**2019**	2018
Profit before taxes	**9,824,743**	9,071,580
Statutory tax rate	**20%**	20%
Income tax at statutory income tax rate	**1,964,949**	1,814,316
Adjustments with respect to corporate income tax of prior periods	**41,177**	1,292
Effect of various statutory tax rates	**4,823**	3,282
Non-taxable income from recognition of fair value of the loan	**(77,102)**	3,727
Accrual of provision for other estimated liabilities	**-**	5,200
Other non-taxable income	**(1,666)**	(29,725)
	1,932,181	1,798,092

24. CORPORATE INCOME TAX EXPENSE (continued)

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

In thousands of Tenge	31 December 2018	**Origination and decrease of temporary differences in the statement of comprehensive income**	**31 December 2019**
Deferred tax assets			
Accrued expenses	176,741	**78,140**	**254,881**
Tax losses carried forward	94,681	**(3,055)**	**91,626**
Employee benefit liabilities	48,370	**(38,987)**	**9,383**
Provision for obsolete inventories	9,719	**(1,073)**	**8,646**
Provisions for doubtful debts	8,359	**(4,116)**	**4,243**
Taxes	4,360	**(4,360)**	**-**
Other	152,304	**6,240**	**158,563**
	494,534	**32,789**	**527,342**
Deferred tax liabilities			
Property, plant and equipment	(1,476,090)	**(190,743)**	**(1,666,833)**
	(1,476,090)	**(190,743)**	**(1,666,833)**
Net deferred income tax liabilities	(981,556)	**(157,954)**	**(1,139,491)**

In thousands of Tenge	31 December 2017	Origination and decrease of temporary differences in the statement of comprehensive income	31 December 2018
Deferred tax assets			
Accrued expenses	123,664	53,077	176,741
Employee benefit liabilities	38,390	9,980	48,370
Tax losses carried forward	66,884	27,797	94,681
Taxes	11,243	(6,883)	4,360
Provisions for doubtful debts	11,381	(3,022)	8,359
Provision for obsolete inventories	7,206	2,513	9,719
Other	118,805	33,499	152,304
	377,573	116,961	494,534
Deferred tax liabilities			
Property, plant and equipment	(1,363,228)	(112,802)	(1,476,090)
	(1,363,228)	(112,802)	(1,476,090)
Net deferred income tax liabilities	(985,655)	4,159	(981,556)

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

25. RELATED PARTY TRANSACTIONS

Related party transactions were made on terms agreed to between the parties. Purchase and sale transactions are made on terms that may not necessarily be at market rates. Outstanding balances at the year-end are unsecured, short-term and settlement occurs in cash, except as discussed below. As at 31 December 2019 and 2018, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. RELATED PARTY TRANSACTIONS (continued)

Sales and purchases with related parties for the periods ended 31 December 2019 and 2018 and the balances with related parties at 31 December 2019 and 2018, were as follows:

In thousands of Tenge	**2019**	2018
Sale of goods		
Entities under common control of ultimate controlling party	**1,785,105**	989,461
Purchase of goods, raw materials and spare parts		
Entities under common control of ultimate controlling party	**2,024,445**	1,698,831

In thousands of Tenge	**2019**	2018
Trade receivables *(Note 7)*		
Entities under common control of ultimate controlling party	**14,498**	38,093
Trade payables *(Note 15)*		
Entities under common control of ultimate controlling party	**15,025**	70,572

The total compensation to key management personnel included in the general and administrative expenses in the accompanying consolidated statement of comprehensive income amounted to 301,124 thousand Tenge and 343,143 thousand Tenge for the years ended 31 December 2019 and 2018, respectively (21 and 18 persons, respectively). Compensation to key management personnel includes salary stated in the employment agreement and bonuses paid based on the operating results of the year.

26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES

The Group's main financial instruments comprise bank loans, cash and cash equivalents, accounts receivable and payable. The main risks arising from the Group's financial instruments are foreign currency risk and credit risk. The Group further monitors the market risk and liquidity risk arising from all financial instruments.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk is not significant as the Group's borrowings have fixed interest rate.

Foreign currency risk

As a result of significant payables, cash and cash equivalents and receivables denominated in the US Dollars, Euro, Russian Roubles and Kyrgyz Soms, the Group's consolidated financial position can be affected significantly by movement in the following exchange rates: US Dollar / Tenge, Euro / Tenge, Russian Rouble / Tenge, Kyrgyz Som / Tenge and United Kingdom Pound / Tenge.

The following table demonstrates the sensitivity to a reasonably possible changes in the exchange rates of US Dollar, Euro, Russian Rouble, Kyrgyz Som to Tenge, with all the variables held constant, of the Group's profit before income tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Group's equity.

26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

Foreign currency risk (continued)

In thousands of Tenge	2019 Increase/ (decrease) in basis points	2019 Effect on profit before tax	2018 Increase/ (decrease) in a basis point	2018 Effect on profit before tax
US Dollar	**+12.00%**	**188,227**	+14.00%	97,427
	-9.00%	**(141,170)**	−10.00%	(69,591)
Euro	**+12.00%**	**10,135**	+14.00%	(47,486)
	-9.00%	**(7,602)**	-10.00%	33,918
Russian Rouble	**+12.00%**	**15,878**	+14.00%	43,324
	-12.00%	**(15,878)**	-9.00%	(27,851)
GBP	**+12.00%**	**(195)**	–	–
	-9.00%	**146**	–	–
Kyrgyz Som	**+4.64%**	**17,630**	+8.69%	26,506
	-4.64%	**(17,630)**	-8.69%	(26,506)

Credit risk

The Group trades only with recognised, creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in *Note 7*. The Group has no significant concentrations of credit risk.

With respect to credit risk arising from other financial assets of the Group, comprising cash and cash equivalents and other financial assets, the Group's exposure to credit risk arises from default of counterparty, with a maximum exposure equal to the carrying amount of these financial instruments *(Note 10)*.

Cash and cash equivalents

The Group places deposits with Kazakhstan banks *(Note 10)*. The Group's management reviews credit ratings of these banks periodically to eliminate extraordinary credit risk exposure.

The table below shows the balances of bank deposits in banks at the balance sheet date using Standard & Poor's credit rating symbols:

	Rating			
In thousands of Tenge	**2019**	2018	**2019**	2018
Cash and cash equivalents				
CitiBank	**A-**	A	**3,830,996**	1.718.848
Alfa Bank	**BB-**	BB-	**3,292,164**	2.722.226
VTB Bank	**BBB-**	-	**3,154,817**	–
Sberbank SB	**BBB-**	-	**2,762,815**	–
Shinhan Bank Kazakhstan**	**BBB+**	A+	**2,000,030**	2.001.068
Bank CenterCredit	**B**	B	**543,700**	3.419.314
Optima Bank**	**B-**	B-	**312,434**	1.546
Halyk Bank Kazakhstan	**BB**	BB	**9,951**	200.099
Bank RBK	**B-**	B-	**–**	5.783
Total cash and cash equivalents*			**15,906,907**	10.068.884

* *Cash and cash equivalents comprise cash on current and deposit bank accounts.*

** *Rating of a parent company.*

26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial instruments. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The Group finances its investment activities using cash obtained from operating activities and current loans.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2019 and 2018, based on contractual undiscounted payments:

In thousands of Tenge	On demand	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
At 31 December 2019						
Trade accounts payable	**–**	**2,126,803**	**–**	**–**	**–**	**2,126,803**
Loans	**–**	**248,155**	**641,531**	**2,448,552**	**–**	**3,338,238**
	–	**2,374,958**	**641,531**	**2,448,552**	**–**	**5,465,041**
At 31 December 2018						
Trade accounts payable	–	1,459,304	–	–	–	1,459,304
Loans	–	11,694	204,945	659,496	–	876,135
Dividends	–	75,581	–	–	–	75,581
	–	1,546,579	204,945	659,496	–	2,411,020

Changes in liabilities resulting from financing activities

In thousands of Tenge	1 January 2019	Reclassification of non-current portion to current portion	Cash flows	Proceeds from loans	Accrual of discount *(Note 22)*	Unwinding of discount *(Note 22)*	31 December 2019
Current portion of loans	179,674	**793,326**	**(212,077)**	**–**	**–**	**–**	**760,923**
Non-current portion of loans	587,015	**(793,326)**	**–**	**2,322,817**	**(439,314)**	**53,804**	**1,730,996**
	766,689	**–**	**(212,077)**	**2,322,817**	**(439,314)**	**53,804**	**2,491,919**

In thousands of Tenge	1 January 2018	Reclassification of non-current portion to current portion	Cash flows	Proceeds from loans	Accrual of discount *(Note 22)*	Unwinding of discount *(Note 22)*	31 December 2018
Current portion of loans	587,034	166,707	(574,067)	–	–	–	179,674
Non-current portion of loans	475,906	(166,707)	–	259,182	(23,508)	42,142	587,015
	1,062,940	–	(574,067)	259,182	(23,508)	42,142	766,689

Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount.

Cash flows requirements are monitored on a regular basis and management provides for availability of sufficient funds required to fulfil any liabilities when they arise. The management of the Group believes that any possible fluctuations of future cash flows associated with a monetary financial instrument will not have material impact on the Group's operations.

Market risk

Market risk relates to possible fluctuations in the value of financial instruments due to changes in market interest rates. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions.

26. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and 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 made by the Group in the capital management objectives, policies or processes in 2019 and 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital. The Group's policy is to keep the ratio not greater than 1.0. The Group includes interest bearing loans and borrowings, trade accounts payable and other financial liabilities within net debt. Capital includes equity attributable to the equity holders of the Parent.

The Group's debt-to-equity ratio at the period end was as follows:

In thousands of Tenge	**2019**	2018
Loans	**2,491,919**	766,689
Trade accounts payable	**2,126,803**	1,459,304
Net debt	**4,618,722**	2,225,993
Equity attributable to shareholders of the Parent	**45,751,373**	40,045,229
Debt-equity ratio	**0.10**	0.06

Fair values

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the consolidated statement of financial position:

	Carrying amount		Fair value	
In thousands of Tenge	**31 December 2019**	31 December 2018	**31 December 2019**	31 December 2018
Financial assets				
I level				
Cash and cash equivalents	**15,840,041**	9,898,203	**15,840,041**	9,898,203
II level				
Trade receivables	**1,197,048**	1,030,216	**1,197,048**	1,030,216
	17,037,089	10,928,419	**17,037,089**	10,928,419
Financial liabilities				
II level				
Loans and borrowings	**2,491,919**	766,689	**2,491,919**	766,689
Trade accounts payable	**2,126,803**	1,459,304	**2,126,803**	1,459,304
Dividends	**-**	75,581	**-**	75,581
	4,618,722	2,301,574	**4,618,722**	2,301,574

The carrying amount of cash and cash equivalents, trade accounts receivable, trade accounts payable and other current monetary assets and liabilities approximates their fair value due to the short-term maturity of these financial instruments. Interest bearing bank loans and borrowings are stated at amortized costs which approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. COMMITMENTS AND CONTINGENCIES

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 recording of income and expense and other items in the IFRS financial statements. The current regime of penalties and interest related to unreported and discovered violations of Kazakhstan law are severe. Fines are generally 80% of any 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 5 (five) calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and fines, if any, may be in excess of the amount expensed to date and accrued at 31 December 2019. As at 31 December 2019 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained.

Legal proceedings

The Group is subject to various legal proceedings related to its business operations. The Group believes that current or potential proceedings, individually or separately, may not have a significant impact on the financial position or financial performance of the Group.

The Group assesses the probability of a liability and forms an allowance in the consolidated financial statements only if there is the likelihood that actual events that can lead to this responsibility will take place and the amount of such liability can be reasonably estimated.

Contractual commitments on capital expenditures

As at 31 December 2019 the Group had contractual obligations with respect to capitalized services in the amount of 255,829 thousand Tenge (2018: 2,106 thousand Tenge).

28. SEGMENT REPORTING

The Group's management analyses segment information on the basis of IFRS numbers. Segment profit is assessed on the basis of gross profit and net profit results.

The Group's operating segments have a separate structure and governance corresponding to the types of output where all segments represent strategic business lines servicing various markets.

The Group's activities cover the two main operating segments: The Almaty segment, which mainly supplies products to Almaty, all oblasts of the Republic of Kazakhstan except Southern Kazakhstan as well as for export to Russia and other countries, and Shymkent segment, which mainly supplies products to the Southern Kazakhstan, Kyrgyzstan and Uzbekistan.

Information on comprehensive income as well as assets and liabilities on operating segments of the Group for 2019 is presented in the table below:

In thousands of Tenge	Almaty	Shymkent	Elimination	Total
Sale of goods to external customers	58,423,556	4,961,976	-	63,385,532
Sale of goods to other segments	15,474,998	15,528,951	(31,003,949)	-
Gross profit	14,053,720	1,731,441	(243,544)	15,541,617
Finance income	584,892	475,907	-	1,060,799
Finance costs	(60,499)	(120,214)	-	(180,713)
Depreciation and amortisation	(1,058,674)	(457,649)	-	(1,516,323)
Corporate income tax expense	1,677,685	254,496	-	1,932,181
Profit for the year	6,558,190	1,127,534	206,838	7,892,562
Other segment information				
Provisions for obsolete inventories, doubtful accounts receivable, advances paid	(59,341)	(19,526)	-	(78,867)
Segment assets	50,553,392	16,494,775	(12,419,586)	54,628,581
Segment liabilities	10,520,820	9,199,847	(10,843,459)	8,877,208

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. SEGMENT REPORTING (continued)

Elimination represents elimination of intracompany transactions and balance of settlements.

Transactions between operating segments are made at terms agreed between the parties that could differ from market conditions.

Information on comprehensive income as well as assets and liabilities on operating segments of the Group for 2018 is presented in the table below:

In thousands of Tenge	Almaty	Shymkent	Elimination	Total
Sale of goods to external customers	51,643,056	7,521,176	-	59,164,232
Sale of goods to other segments	18,295,116	15,058,296	(33,353,412)	-
Gross profit	13,724,470	2,006,128	(233,035)	15,497,563
Finance income	473,268	104,649	-	577,917
Finance costs	(13,389)	(92,238)	-	(105,627)
Depreciation and amortisation	(773,196)	(341,322)	-	(1,114,518)
Corporate income tax expense	1,591,863	206,229	-	1,798,092
Profit for the year	6,265,314	969,082	39,092	7,273,488
Other segment information				
Provisions for obsolete inventories and doubtful accounts receivable, advances paid	(47,047)	(13,908)	-	(60,955)
Segment assets	41,267,361	9,612,085	(4,668,773)	46,210,673
Segment liabilities	5,747,852	3,489,406	(3,071,871)	6,165,387

Breakdown of the Group's export and domestic revenue is presented as follows:

In thousands of Tenge	**2019**	2018
Domestic sales	**48,990,531**	45,677,438
Export sales	**14,395,001**	13,486,794
Total revenue	**63,385,532**	59,164,232