KAZAKHSTAN UTILITY SYSTEMS LIMITED LIABILITY PARTNERSHIP AND ITS SUBSIDIARIES

Consolidated Financial Statements
for the Year Ended 31 December 2018

KAZAKHSTAN UTILITY SYSTEMS LIMITED LIABILITY PARTNERSHIP AND ITS SUBSIDIARIES

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of Kazakhstan Utility Systems Limited Liability Partnership and its subsidiaries (the "Group") as at 31 December 2018, and the consolidated results of its operations, consolidated cash flows and consolidated changes in owner's equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and reliable system of internal control throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation of the Republic of Kazakhstan and IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2018 were approved by management and authorised for issue on 29 May 2019.

On behalf of the Management of the Group:

N. E. Altzhanov
General Director

S. A. Akhanov
Finance Director

29 May 2019
Nur-Sultan, Kazakhstan

Казахстанские коммунальные системы

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Participants of Kazakhstan Utility Systems Limited Liability Partnership:

Qualified Opinion

We have audited the consolidated financial statements of Kazakhstan Utility Systems Limited Liability Partnership and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in owner's 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, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

As at 31 December 2018 loans of the Company issued to related parties are reflected in the consolidated statement of financial position in the amount of 58,511,332 thousand tenge and the related interest income recognized in the consolidated statement of profit or loss and other comprehensive income in the amount of 3,224,923 thousand tenge. The Company did not assess the fair value of these loans as at the date of their initial recognition and did not estimate the amount of expected credit losses as at 31 December 2018, which is not in accordance with the requirements of IFRS 9 Financial Instruments. We were unable to determine the effect of this discrepancy on the value of these loans issued to related parties as at 31 December 2018 and on the statement of profit or loss and other comprehensive income for 2018.

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* (the "IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matters described in the Basis for Qualified Opinion section, we determined the matters described below to be the key audit matters to be communicated in our report.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit?
Accounting for the acquisition of Mangistau Electricity Distribution Network Company JSC As discussed in Note 13, during 2017, the Group acquired Mangistau Electricity Distribution Network Company JSC for the consideration of 3,797,685 thousand tenge. In the financial statements for 2017, the fair value of assets and liabilities, as well as gain from a bargain purchase, were reflected based on the results of a preliminary assessment made by the Group's internal experts. As allowed by IFRS 3 Business Combinations, management completed the accounting for the acquisition during 2018, the evaluation period, in the result of which net asset value and gain from a bargain purchase increased by 32,263 thousand tenge and 14,796 thousand tenge, respectively, and amounted to 21,268,563 thousand tenge and 5,556,694 thousand tenge, respectively. The assessment was carried out by the Group with the assistance of an independent appraiser. This issue was classified as key audit matter to our audit due to the materiality of the amount of gain from a bargain purchase, as well as due to the subjectivity of assumptions and judgments in assessing the fair value of the assets acquired and the liabilities assumed.	We read the terms of the transaction, as well as assessed it's accounting implications and carried out the procedures regarding the final fair value assessment of the acquired assets performed by the Group, liabilities assumed and the calculation of the gain from a bargain purchase. We assessed the competence and objectivity of the external independent appraiser. With the help of our internal specialists, we read the report of an independent appraiser and assessed the relevance of fixed assets valuation methods. The valuation was made on the basis of (a) the cost method and (b) the analysis of sales of similar objects, adjusted for differences with the revalued assets. Also, the method of discounted cash flows was used to assess the validity of the calculated amount of the cost of compensation, taking into account the accumulated depreciation. We have verified the conformity of assessment methods to International Valuation Standards. We assessed the relevance of the appraiser's basic assumptions, including the weighted average cost of capital of 13.3%, and confirmed that these assumptions were supported by the available evidence. In respect of the liabilities assumed, we assessed the appropriateness of the methods, as well as the discount rates used to assess the fair value of debt securities issued and accounts payable for additional capacity arrangements, recognized by the acquired Company, using work of our internal specialists. We evaluated the reasonableness of the rates used to determine present value of the consideration for the acquired business. We checked the disclosure of information on the acquisition of the business for completeness and compliance with the requirements of IFRS.
Assessment of potential impairment of property, plant and equipment of Ust-Kamenogorsk CHP LLP Due to the presence of impairement indicators, in particular, changes in the legislation regulating tariffs from 1 January	We performed the following procedures: • obtained understanding of the Group's workflows over accounting and impairment assessment of property, plant and equipment; • evaluated the conformity of the applied methodology and the model used by

2019 and decrease in the actual level of tariffs for electricity generation services, the Group conducted an impairment test of property, plant and equipment of its subsidiary Ust-Kamenogorsk CHP LLP. We identified the impairment of property, plant and equipment as key audit matter due to the fact that estimation of the value in use involves significant judgments and estimates regarding future market and economic conditions and the results of financial and economic activities of the cash generating unit. Moreover it is sensitive to changes in the key assumptions. Detailed information about estimates used in the impairment test for property, plant and equipment is disclosed in Note 4.	management to calculate the value in use to the requirements of IAS 36 Impairement of Assets; • we used work of specialists to check basic parameters and logic of the model; analyzed key assumptions used by management in determining the discount rate for ten-year cash flows projection, including assumptions regarding the level of growth of revenues and expenses based on historical data of the subsidiary and market forecasts; we confirmed that the assumptions were supported by the available evidence; • examined the requirements of the Law of the Republic of Kazakhstan On Electric Power Industry and other legal norms in terms of determining tariffs in order to confirm the validity of management's assumptions regarding tariffs embedded in the model; • performed a sensitivity analysis of the model to changes in key assumptions to check whether there would be an impairment when using less optimistic scenarios, within a range of reasonably possible changes in relation to the discount rate and growth of tariff rates; • checked the completeness and correctness of the information disclosed in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon. The 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 when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, which constitute the key audit matters included herein.

Daulet Kuatbekov
Qualified Auditor
of the Republic of Kazakhstan
Qualification certificate No. 0000523
dated 15 February 2002

Daulet Kuatbekov
Acting General Director
Deloitte, LLP
State license for the audit activity in the Republic of Kazakhstan No. 0000015, type MFU-2, issued by the Ministry of Finance of the Republic of Kazakhstan
dated 13 September 2006

Alua Yessimbekova
Engagement Partner
Certified Public Accountant
New Hampshire, USA
License № 07348
dated 12 June 2014

29 May 2019
Almaty, the Republic of Kazakhstan

KAZAKHSTAN UTILITY SYSTEMS LIMITED LIABILITY PARTNERSHIP AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018
(in thousands of Tenge)

	Notes	2018	2017 (restated)[1]
Revenue	6	128,639,008	97,337,035
Cost of sales	7	(91,928,630)	(66,087,670)
Gross profit		**36,710,378**	**31,249,365**
General and administrative expenses	8	(8,537,171)	(6,388,741)
Selling expenses	9	(2,664,901)	(2,148,142)
Finance costs	10	(8,631,683)	(4,812,517)
Finance income	11	3,687,716	652,805
Other income, net	12	676,690	18,773,832
Share of profit of associate		-	150,329
Dividend income		-	17,224
Foreign exchange loss, net	32	(3,316,643)	(30,268)
PROFIT BEFORE INCOME TAX EXPENSE		**17,924,386**	**37,463,887**
Income tax expenses	15	(4,324,836)	(3,973,072)
PROFIT FOR THE YEAR		**13,599,550**	**33,490,815**
Other comprehensive income for the year			
Items that may later be reclassified to profit or loss:			
Exchange differences from the recalculation of foreign units		265,151	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**265,151**	**-**
TOTAL INCOME FOR THE YEAR		**13,864,701**	**33,490,815**
Profit for the year attributable to:			
Owners of the Company		12,731,185	33,490,815
Non-controlling shares	24	868,365	-
		13,599,550	**33,490,815**
Total comprehensive income attributable to:			
Company Owners		12,996,336	33,490,815
Non-controlling shares	24	868,365	-
		13,864,701	**33,490,815**

On behalf of the Management of the Group:

Казахстанские коммунальные системы

N. E. Aitzhanov
General Director

29 May 2019
Nur-Sultan, Kazakhstan

S. A. Akhanov
Finance Director

29 May 2019
Nur-Sultan, Kazakhstan

The notes below form an integral part of these consolidated financial statements.

[1] Restated to the final fair value measurement for the acquisition of Mangistau Electricity Distribution Network Company JSC (Note 3).

KAZAKHSTAN UTILITY SYSTEMS LIMITED LIABILITY PARTNERSHIP AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

(in thousands of Tenge)

	Notes	31 December 2018	31 December 2017 (restated)[2]
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	16	215,004,134	203,751,869
Advances paid	17	1,905,698	3,152,062
Loans given to realted parties	31	58,511,332	-
Other non-current assets		1,030,162	885,850
Deferred tax assets	15	101,879	63,470
Total non-current assets		**276,553,205**	**207,853,251**
CURRENT ASSETS:			
Trade accounts receivable	18	10,082,632	9,958,231
Inventories	19	4,194,232	3,786,086
Advances paid	17	1,103,116	780,574
Prepaid corporate income tax		527,282	443,120
Other current assets	20	1,896,114	2,916,460
Cash and cash equivalents	21	5,458,604	6,444,524
		23,261,980	**24,328,995**
Assets classified as held for sale		-	3,125,587
Total current assets		**23,261,980**	**27,454,582**
TOTAL ASSETS		**299,815,185**	**235,307,833**
EQUITY AND LIABILITIES			
EQUITY:			
Charter capital	23	11,636,404	11,636,404
Additional paid-in capital		9,239,137	9,239,137
Reserve of exchange differences		265,151	-
Retained earnings		109,479,603	96,714,432
Equity attributable to owners of the Company		130,620,295	117,589,973
Non-controlling interests	24	10,947,184	11,514,800
Total equity		**141,567,479**	**129,104,773**
NON-CURRENT LIABILITIES:			
Loans and debt securities issued	25	92,414,556	41,918,821
Deferred tax liabilities	15	30,361,273	28,913,770
Other non-current liabilities	26	3,057,173	3,329,667
Total non-current liabilities		**125,833,002**	**74,162,258**
CURRENT LIABILITIES:			
Loans and debt securities issued	25	14,055,724	15,853,995
Trade accounts payable	27	8,492,942	4,911,834
Other accounts payable and accrued liabilities	28	7,919,908	8,558,620
Other taxes payable	29	1,759,318	2,179,717
Corporate income tax payable		186,812	82,115
		32,414,704	**31,586,281**
Liabilities directly associated with assets classified as held for sale		-	454,521
Total current liabilities		**32,414,704**	**32,040,802**
TOTAL LIABILITIES		**158,247,706**	**106,203,060**
TOTAL EQUITY AND LIABILITIES		**299,815,185**	**235,307,833**

On behalf of the Management of the Group:

N. E. Aitzhanov
General Director

29 May 2019
Nur-Sultan, Kazakhstan

S. A. Akhanov
Finance Director

29 May 2019
Nur-Sultan, Kazakhstan

The notes below form an integral part of these consolidated financial statements.

[2] Restated to the final fair value measurement for the acquisition of Mangistau Electricity Distribution Network Company JSC (Note 3).

KAZAKHSTAN UTILITY SYSTEMS LIMITED LIABILITY PARTNERSHIP AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN OWNER'S EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of Tenge)

	Charter capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total
As at 1 January 2017	**11,636,404**	**9,239,137**	**-**	**67,874,617**	**88,750,158**	**-**	**88,750,158**
Net profit and total comprehensive income for the year (restated)	-	-	-	33,490,815	33,490,815	-	33,490,815
Payment of dividends (Note 23)	-	-	-	(4,651,000)	(4,651,000)	-	(4,651,000)
Acquisition of non-controlling interests in connection with the acquisition of a subsidiary (restated)	-	-	-	-	-	11,514,800	11,514,800
As at 31 December 2017 (restated)[3]	**11,636,404**	**9,239,137**	**-**	**96,714,432**	**117,589,973**	**11,514,800**	**129,104,773**
Effect of the application of IFRS 9 (Note 2)	-	-	-	(1,387,077)	(1,387,077)	(14,918)	(1,401,995)
Recalculated balance as at 1 January 2018	**11,636,404**	**9,239,137**	**-**	**95,327,355**	**116,202,896**	**11,499,882**	**127,702,778**
Net profit for the year	-	-	-	12,731,185	12,731,185	868,365	13,599,550
Other comprehensive income for the year	-	-	265,151	-	265,151	-	265,151
Total comprehensive income for the year	-	-	265,151	12,731,185	12,996,336	868,365	13,864,701
Adjustment resulting from a change in non-controlling interest	-	-	-	1,421,063	1,421,063	(1,421,063)	-
As at 31 December 2018	**11,636,404**	**9,239,137**	**265,151**	**109,479,603**	**130,620,295**	**10,947,184**	**141,567,479**

On behalf of the Management of the Group:

N. E. Aitzhanov
General Director

29 May 2019
Nur-Sultan, Kazakhstan

S. A. Akhanov
Finance Director

29 May 2019
Nur-Sultan, Kazakhstan

The notes below form an integral part of these consolidated financial statements.

[3] Restated to the final fair value measurement for the acquisition of Mangistau Electricity Distribution Network Company JSC (Note 3).

KAZAKHSTAN UTILITY SYSTEMS LIMITED LIABILITY PARTNERSHIP AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018
(in thousands of Tenge)

	Notes	2018	2017
OPERATING ACTIVITIES:			
Sale of services and goods		138,865,328	108,211,180
Other proceeds		2,083,942	1,616,173
Total cash inflow		**140,949,270**	**109,827,353**
Payments to suppliers for goods and services		(78,273,105)	(57,350,977)
Salary payments		(11,652,464)	(9,154,447)
Other payments to the budget		(10,708,690)	(8,824,951)
Other payments		(3,991,236)	(1,725,421)
Total cash outflow		**(104,625,495)**	**(77,055,796)**
Cash generated from operations		36,323,775	32,771,557
Interest received		274,552	189,436
Interest paid on loans and debt securities issued		(7,131,984)	(5,028,043)
Corporate income tax paid		(2,586,231)	(1,862,819)
Net cash generated by operating activities		**26,880,112**	**26,070,131**
INVESTING ACTIVITIES:			
Sale of property, plant and equipment		161,848	105
Return of loans issued		166,250	-
Return of financial aid given		-	30,000
Dividends received		-	17,224
Prepayment for disposal of subsidiary	22	543,456	1,682,059
Other proceeds		595,884	5,000
Total cash inflow		**1,467,438**	**1,734,388**
Purchase of property, plant and equipment and materials for capital repair and advances paid for acquisition of non-current assets		(20,440,335)	(15,182,851)
Purchase of intangible assets		(23,289)	(16,279)
Financial aid given		-	(80,000)
Net cash outflow on acquisition of subsidiaries		(1,181,312)	(7,855,315)
Other payments		(10,709)	(3,845)
Total cash outflow		**(21,655,645)**	**(23,138,290)**
Net cash used in investing activities		**(20,188,207)**	**(21,403,902)**

KAZAKHSTAN UTILITY SYSTEMS LIMITED LIABILITY PARTNERSHIP AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)
(in thousands of Tenge)

	Notes	2018	2017
FINANCING ACTIVITIES:			
Debt securities issued	25	-	882,446
Return of financial aid given to the participant	31	-	8,128,000
Financial aid received	25	2,367,003	976,224
Loans received	25	82,919,316	21,318,820
Other proceeds		-	48,733
Total cash inflow		**85,286,319**	**31,354,223**
Repayment of loans	25	(35,710,827)	(26,039,791)
Redemption of debt securities issued	25	(1,500,000)	-
Issuance of a loan to an enterprise under common control	31	(51,941,315)	-
Financial aid given to the related party	31	(2,980,466)	
Financial aid given to the participant	31	-	(60,000)
Repayment of financial aid received	25	(776,384)	(1,125,500)
Dividends payment		(22,923)	(4,651,000)
Other payments		(179,620)	(25,869)
Total cash outflow		**(93,111,535)**	**(31,902,160)**
Net cash used in financing activities		**(7,825,216)**	**(547,937)**
NET CHANGE IN CASH		(1,133,311)	4,118,292
CASH AND CASH EQUIVALENTS, at the beginning of the year	21	6,496,398	2,358,941
Effect of changes in foreign exchange rates on cash balances held in foreign currencies		95,517	19,165
CASH AND CASH EQUIVALENTS, at the end of the year	21	**5,458,604**	**6,496,398**

On behalf of the Management of the Group:

N. E. Aitzhanov	**S. A. Akhanov**
General Director	**Finance Director**
29 May 2019	29 May 2019
Nur-Sultan, Kazakhstan	Nur-Sultan, Kazakhstan

Казахстанские коммунальные системы

The notes below form an integral part of these consolidated financial statements.

(in thousands of Tenge, unless otherwise stated)

1. NATURE OF OPERATIONS

The principal activities of Kazakhstan Utility Systems Limited Liability Partnership (the "Company", "KUS" LLP) and its subsidiaries (hereinafter jointly named the "Group") include generation of thermal power, electricity and chemically purified water in the Karaganda and East-Kazakhstan region, transmission and distribution of electricity in the Karaganda, South-Kazakhstan and Mangistau regions, and supply of electricity in the South-Kazakhstan region, and supply of electric and thermal power in the Karaganda region.

Kazakhstan Utility Systems Limited Liability Partnership was established and registered with the Department of Justice of Almaty on 3 November 2008. The date of last re-registration is 26 December 2014 in the Yessil District Justice Agency of the Justice Department of Astana city.

As at 31 December 2018 and 2017, the participants of the Company are represented by the individuals, citizens of the Republic of Kazakhstan, as M.K. Idrissova with 99% ownership interest and Z.M. Ismailova with 1% ownership interest, accordingly.

Since a number of the Group's subsidiaries are monopolists in the generation of thermal power in Karaganda and East-Kazakhstan regions, in the electricity supply in the Karaganda region and in the electricity transmission in Karaganda, South-Kazakhstan and Mangistau regions, the activities of these entities are regulated by the Law of the Republic of Kazakhstan On Natural Monopolies and the tariffs for the abovementioned services are subject for approval by the Committee on Regulation of Natural Monopolies and Protection of Competition under the Ministry of National Economy of the Republic of Kazakhstan (the "Committee") (Notes 3 and 33).

Legal name of the Company	**Kazakhstan Utility Systems Limited Liability Partnership**
Legal address	14/3, Kunayev str., Nur-Sultan, the Republic of Kazakhstan
Business identification number	BIN 081140000288

As at 31 December 2018 the total number of employees of the Group was 8,575 employees (31 December 2017: 8,855 employees).

2. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Standards affecting consolidated financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these consolidated financial statements:

- IFRS 9 Financial Instruments;
- IFRS 15 Revenue from Contracts with Customers;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions;
- IAS 40 (amendments) Transfers of Investment Property;
- Ammendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts;
- Annual improvements to IFRS's 2014-2016 Cycle.

The application of these amendments has had no significant effect on the Group's consolidated financial statements, except of IFRS 9 Financial Instruments.

IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow not to restate comparatives.

The Group adopted the modified retrospective approach, reflecting the overall cumulative effect of the first application of the standard through the opening balance of retained earnings as at 1 January 2018.

IFRS 9 introduced new requirments for:

1. The classification and measurement of financial assets and financial liabilities;
2. Impairment af financial assets; and
3. General hedge accounting.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

The group has applied IFRS 9 in accordance with the transitional provisions set out in the standard:

a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Debt instruments that are subsequently measured at amortized cost or at FVOCI are subject to impairment. Please see point (b) below.

The management of the Group reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Group's financial assets in terms of their classification and measurement:

- financial assets classified as held to maturity, as well as loans and receivables, which according to IAS 39 were measured at amortized cost, continue to be measured at amortized cost according to IFRS 9, as they are held as part of the business model to receive the contractual cash flows and such cash flows are exclusively payments in respect of the principal amount of the debt and interest on the outstanding amount of the principal amount of the debt.

Note below tabulates the change in classification of the Group's financial assets upon application of IFRS 9.

b) Impairment of financial assets:

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses on:

1. debt instruments measured subsequently at amortized cost or at FVTOCI;
2. trade receivables and other current assets;
3. cash in credit institutions;
4. financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

c) Accounting for modifications or exchanges of debt that do not lead to derecognition.

Gain or loss arising from a modification of a financial liability accounted for at amortized cost is recognized in profit or loss. Gain or loss is calculated as the difference between the original cash flows and the discounted present value of future cash flows in accordance with the new terms and conditions of the contract, discounting them using the initial effective interest rate of the financial instrument. The Group recalculated the effect of debt modifications or exchanges as at 1 January 2018 that do not lead to derecognition in accordance with the new requirements of IFRS 9, and recognized the difference between the book value of financial liabilities arising from the application of IFRS 9, in the amount of 156,572 thousands tenge in the composition of retained earnings.

(in thousands of Tenge, unless otherwise stated)

The table below demonstrates the reconciliation of the classification of financial assets and financial liabilities according to the prior measurement categories in accordance with IAS 39 with their new measurement categories adopted during the transition to IFRS 9 on 1 January 2018. Financial lines that were not affected by the changes were not included in this table. As a result, subtotals and grand totals cannot be calculated on the basis of the amounts presented below:

	IAS 39		IFRS 9		The effect of applying IFRS 9
	Accounting method	**Amount**	**Accounting method**	**Amount**	**Amount**
Financial assets					
Cash and cash equivalents	Amortized cost (Loans and receivables)	6,444,524	Amortized cost	6,436,150	(8,374)
Trade accounts receivables	Amortized cost (Loans and receivables)	9,958,231	Amortized cost	9,219,684	(738,547)
Other current assets	Amortized cost (Loans and receivables)	2,452,442	Amortized cost	1,251,155	(1,201,287)
Financial liabilities					
Loans	Amortized cost	(57,148,879)	Amortized cost	(56,992,307)	156,572
Total effect of initial application of IFRS 9					**(1,791,636)**

The effect of applying IFRS 9 is disllosed in equity net of deferred tax of 389,641 thousand tenge (Note 15).

The accounting policy on the impairment of financial assets and significant estimates and judgments used in the impairment of the Group's financial assets are described in details in Notes 3 and 4.

IFRS 15 Revenue from Contracts with Customers

In the current year, the Group has applied IFRS 15 "Revenue from Contracts with Customers" (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

Based on the analysis of the Group's regular revenue streams for the year ended 31 December 2017, the terms of individual contracts and based on the facts and circumstances that existed on that date, the application of the new standard starting from 1 January 2018 did not affect the consolidated financial statements, except for disclosing more information. Thus, the comparative data for 2017 was not recalculated, and the opening balance of retained earnings as at 1 January 2018 was not revised.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Revenue is recognized net of VAT.

IFRS 15 uses the term "contractual asset" and "contractual obligation" to describe what is most commonly known as the term "advances received". However, the standard does not prohibit the use of alternative terms in the statement of financial position. The Group has not applied the terminology used by IFRS 15.

The Group has no significant contracts in which the period between the transfer of the promised goods or services to the client and the payment by the client exceeds one year. Therefore, the Group does not adjust the transaction price for the time value of money.

The Group applied a modified retrospective application, but the application of IFRS 15 did not have a significant impact on the financial position and performance of the Group.

New and revised IFRSs issued but not yet effective

At the date of approval of these consolidated financial statements, the Group has not applied the following new and revised IFRSs that have been issued but have not yet entered into force:

- IFRS 16 Leases[1];
- IFRS 17 Insurance Contracts[3];
- Amendments to IFRS 9 Prepayment Features with Negative Compensation[1];
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures[1];
- Annual improvements to IFRSs – 2015-2017 cycle[1];
- Amendments to IFRS 19 Plan Amendment, Curtailment or Settlement[1];
- Amendments to IFRS 10 Effective Date of Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates[4];
- IFRIC 23 Uncertainty over Income Tax Treatments[1];
- Amendments to IFRS 3 Business Combinations[2];
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors[2];

[1] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2020, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2020, with earlier application permitted.
[4] Effective date will be determined later, early application is possible.

IFRS 16 Leases

IFRS 16 provides a single model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and all the related Interpretations.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

The Group plans initial application of IFRS 16 on 1 January 2019, using a modified retrospective approach. The cumulative effect of the initial application of IFRS 16 will be recognized as an adjustment to the opening retained earnings as at 1 January 2019 without recalculation of comparative information. When applying a modified retrospective approach to leases previously classified as operating leases in accordance with IAS 17, the lessee may, for each lease agreement, elect to apply any practical simplifications or not. The Group is in the process of estimating the possible effect of the use of practical simplifications.

The Group is currently estimating the impact of the new standard on financial results. The Group is reviewing its agreements, which may contain a lease, and evaluating new disclosure requirements.

Management of the Group expects that the application of other standards, amendments and interpretations, effective from 1 January 2019 and later, will not have a significant impact on the consolidated financial statements at the time of their initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Going concern

These consolidated financial statements have been prepared in accordance with IFRS, based on the assumption that the Group will adhere to the principle of going concern. As at 31 December 2018, the Group's current liabilities exceeded current assets by 9,152,724 thousand tenge, retained earnings amounted to 109,479,603 thousand tenge (31 December 2017: 4,586,220 thousand tenge and 96,714,432 thousand tenge, respectively). Also, for the year ended 31 December 2018, the Group generated net income of 13,599,550 thousand tenge. Net cash from operating activities amounted to of 26,880,112 thousand tenge.

Current liabilities are mainly represented by the current portion of long-term loans of 14,055,724 thousand tenge and trade accounts payables of 8,492,942 thousand tenge. Based on previous experience, the Group will be able, if necessary, to agree on the maturity dates with creditors. Also, the Group is able, if necessary, to refinance the loan repayment schedule and attract additional long-term financing. The Group's management monitors on a regular basis the Group's compliance with all the significant terms of the loan arangements, as well as the ability of the Group's entities to make timely repayments of loans.

The Group is the dominant in the market for the generation, transportation and sale of electricity, thermal power and chemically purified water in the largest regions of the country. When assessing the continuity assumptions, management considered the financial position of the Group, expected future financial results, loans, available credit funds, expected tariffs, as well as other factors that have an impact on the ability to meet obligations to creditors. The management of the Group assessed its cash requirements, including borrowing obligations and its development plans. After conducting the relevant analysis, management concluded that the Group has sufficient resources to continue operations and pay its liabilities, and that it is appropriate to apply the principle of continuous operations when preparing these consolidated financial statements.

As a result of the foregoing, in the opinion of management, the Group will continue its operations in the foreseeable future.

These consolidated financial statements do not contain any adjustments that might be required if the Group could not adhere to the going concern principle.

Basis of preparation

These consolidated financial statements of the Group have been prepared on the historical cost basis, except for the financial instruments that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into levels based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value evaluation in its entirety, which are described as follows:

- Level 1 – inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 – inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – inputs are unobservable inputs for the asset or liability.

The Company and its subsidiaries, registered in the Republic of Kazakhstan, maintain their accounting records in accordance with IFRS, foreign subsidiaries of the Group maintain their accounting records in accordance with the law of the countries, in which they operate. These consolidated financial statements have been prepared from the statutory accounting records of the Company and its subsidiaries and have been adjusted to conform to IFRS.

Functional and presentational currencies

These consolidated financial statements are presented in Kazakhstani Tenge (hereinafter "tenge"). Tenge is the functional currency of the Company and its subsidiaries in Kazakhstan and presentation currency of the consolidated financial statements. All amounts presented in Tenge are rounded to the (nearest) thousands.

Foreign currency transactions

In preparing the financial statements of each individual Group's entity, transactions in currencies other than the functional currency ("foreign currencies") are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not restated.

Exchange differences on monetary items arising from changes in exchange rates are recognised in the profit or loss in the period in which they arise except for exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest cost on those foreign currency borrowings.

(in thousands of Tenge, unless otherwise stated)

Exchange rates for the currencies in which the Group had material transactions are as follows:

	31 December 2018	31 December 2017
Exchange rates at the end of the year (in tenge)		
1 US dollar	384.20	332.33
1 Russian rouble	5.52	5.77
1 Euro	439.37	398.23
Average exchange rates for the year (in tenge)	**2018**	**2017**
1 US dollar	344.90	326.08
1 Russian rouble	5.50	5.59
1 Euro	406.77	368.5

Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statement of consolidated financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense are not offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (subsidiaries). Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses 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 listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the share of the Company's holding of voting rights relative to the share and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company 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 relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in owner's equity of the Company.

Non-controlling interests

Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to the Company.

Non-controlling interests are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from parent owner's equity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that IFRS 5.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRSs.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Non-current assets classified as held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (disposal groups) classified as held for sale are measured at the lower of a) their previous carrying amount, and b) fair value less costs to sell.

Revenue recognition

The Group recognizes revenue when (or as) the obligation to perform is fulfilled by transferring the promised product or service (i.e., asset) to the customer. Revenues are measured at the transaction price or part thereof equal to the amount of compensation the right to which the Group expects to receive in exchange for transferring the promised assets to the buyer, excluding amounts received from third parties (for example, net of recoverable taxes).

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the ordinary course of business, less value added tax ("VAT").

The Group generates revenue from the generation, transmission and distribution of electric and thermal power, supply of electric and thermal power, and production of chemically purified water. Revenue is recognised over time (settlement month) and is measured using output method (the transaction price for electricity, thermal power and chemically purified water volumes realized). The basis of measurement of revenue from regulated services are tariffs approved by the Committee.

Revenue from other services is measured over time using output method.

Deferred income

In accordance with the decision of the Government of the Republic of Kazakhstan No.1044 dated 8 October 2004, a subsidiary Mangistau Regional Electricity Network Company JSC[4], over which the Group acquired control in 2017, received funds in prior periods from customers on the construction of infrastructure for connection to the electricity transmission network or reconstruction of the current infrastructure. Such funds are interest-free and repayable within twenty-five years. Funds received from customers were initially recognized at their fair value, and subsequently funds are stated at amortized cost. The difference between the funds received and its fair value is recognized as deferred income. Deferred income is recognized in the statement of profit or loss and other comprehensive income during the useful life of property, plant and equipment.

Loans

Interest bearing bank loans and overdrafts are carried at the proceeds received, net of direct issue costs. Borrowing costs are accounted for on an accrual basis and recognised in the consolidated financial statements unless the financing is related to a qualifying asset. In the given case the corresponding amount is capitalized in the cost of the qualified asset acquired.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Remuneration to employees

Remuneration to employees including compensation for unused vacation and bonuses and corresponding payments to non-budgetary funds in respect of employment in the current period, is recognised as an expense for the period when it is earned.

Income tax

Income tax expenses represent the sum of the amount of current and deferred tax payable.

Current income tax

Current income tax is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Current income tax is calculated using tax rates that have been enacted by the end of the reporting period.

[4] The former name is Mangistau Electricity Distribution Network Company JSC. Renamed in October 2018.

Deferred income tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and any accumulated impairment losses. When an item of property, plant and equipment includes components with different useful lives, they are accounted for as separate items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon its disposal or when no future economic benefits are expected to flow to the company from its use or disposal. Any income or expense arising after the derecognition of an asset (determined as the difference between the net profit on disposal and the carrying amount of the asset) is included in profit or loss in the period in which the asset was derecognised.

Costs incurred to replace the component of an item of property, plant and equipment accounted for separately are capitalized at the present value of depreciable component. Other subsequent expenditures are capitalised only when they increase the future economic benefits from the use of the asset. All other costs are recognised in profit or loss as an expense when incurred.

Depreciation is accrued and recognised in profit or loss on a straight-line basis over the expected useful life of certain assets. Depreciation is charged from the date of acquisition of the asset, or in respect of self-constructed, from the completion of construction and beginning operation of the asset. Depreciation is accrued on the following average estimated periods of useful life of assets:

	Years
Buildings and constructions	2-83
Machinery and equipment	1-75
Vehicles	1-47
Others	1-66

The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Impairment of property, plant and equipment

The Group assesses at each reporting date whether there is any indication that property, plant and equipment have suffered an impairment loss. If any such indication exists, the entity shall estimate the recoverable amount of the asset (if any). If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, the corporate assets are allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is calculated as the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately as expenses, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the statement of comprehensive income, unless the relevant asset is carried at a revised amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion, marketing, selling and delivery.

Financial instruments

Financial assets and financial liabilities are recognised when the entity of the Group becomes a party to the contractual relationship of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All transactions for the purchase or sale of financial assets on standard terms are recognized and ceased to be recognized at the date of the transaction. Standard purchase or sale transactions represent the purchase or sale of financial assets that require the delivery of assets within the time limit established by the rules or agreements adopted in the relevant market.

All recognized financial assets are subsequently fully valued either at amortized or fair value, depending on the classification of financial assets.

Classification of financial assets

Debt instruments that meet the following conditions should be subsequently measured at amortized cost:

- The financial asset is held within the business model, the purpose of which is to withhold financial assets in order to obtain the contractual cash flows, and
- The contractual terms of the financial asset result in the receipt of cash flows on specified dates, which are solely payments on the principal amount of the debt and interest on the outstanding portion of the principal amount of the debt.

Debt instruments that comply with the following conditions are subsequently measured at fair value through other comprehensive income (FVTOCI):

- The financial asset is held in the framework of a business model, the goal of which is achieved both by obtaining contractual cash flows and by selling financial assets; and
- The contractual terms of a financial asset result in the receipt of cash flows on specified dates, which are exclusively payments on the principal amount of the debt and interest on the outstanding portion of the principal amount of the debt.

By default, all other financial assets are measured at fair value through profit or loss (FVTPL).

<u>Effective interest method</u>

The effective interest method is a method for calculating the amortized cost of a debt instrument and the distribution of interest income over the relevant period.

For financial assets other than acquired or created impaired financial assets (i.e. assets that are impaired upon initial recognition), the effective interest rate is the discount rate of expected future cash receipts (including all payments received or made on a debt instrument which are an integral part of the effective interest rate, transaction costs and other premiums or discounts), excluding expected credit losses for the expected period to maturity of debt instrument or (if applicable) for a shorter period to the book value at the time of initial recognition of the debt instrument. For acquired or created credit and impaired financial assets, the effective interest rate adjusted for credit risk is calculated by discounting expected future cash flows, including expected credit losses, to the amortized cost of a debt instrument at the time of its initial recognition.

The amortized cost of a financial instrument is the amount in which a financial asset is estimated at initial recognition, minus payments on the principal amount of the debt, plus the amount of accumulated depreciation calculated using the effective interest method - the difference between the initial amount and the amount to be paid upon occurrence maturity adjusted for the estimated loss allowance. The gross book value of a financial asset is the amortized cost of a financial asset prior to adjustment, taking into account any provisions for possible losses).

The Group's financial assets are represented by loans and receivables, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for receivables and loans for which the repayment period exceeds 12 months after the date of the consolidated statement of financial position. They are classified as non-current assets.

The Group consolidated statement of financial position include the following financial assets that are recorded at amortized cost:

- loans issued,
- trade accounts receivables from the main activity,
- other current assets, and
- funds in credit institutions.

Impairment of financial assets

The Group revised the impairment methodology in accordance with IFRS 9 for each class of these assets. The overall effect of a change in impairment methodology as at 1 January 2018 is shown above in the table. The group revised the impairment methodology in accordance with IFRS 9 for each class of these assets.

Trade accounts receivables

The Group applies a simplified approach to trade receivables, which is based on the credit losses expected over the life of the financial instrument. In this case, the default is determined based on the days of delay.

Loans issued

The probability of default on loans issued is calculated on the basis of external ratings; in the absence of an external rating, an internal rating is used. The default on loans issued is determined if the delay is more than 210 days, or due to the inability to fulfill obligations as a result of financial difficulties of the counterparty.

Other current assets

For other current assets, the Group recognizes expected credit losses over the entire term in the event that there is a significant increase in credit risk since the initial recognition. However, if as at the reporting date there is no significant increase in the credit risk of a financial instrument since the initial recognition, the Group should estimate the provision for losses on this financial instrument in an amount equal to the 12-month expected credit losses.

Funds in credit institutions

At each reporting date, the Group distributes financial instruments at a stage in the manner described below. IFRS 9 aims to ensure that an organization uses a multi-factor and holistic approach to credit risk analysis, so that potential deterioration in credit risk can be detected at a relatively early stage.

Funds in credit institutions are represented by such assets as cash and cash equivalents, short-term and long-term financial investments, cash with restricted use. Financial assets in the form of funds in credit institutions meet the definition of default if the delay is more than 210 days, or due to the inability to fulfill obligations as a result of financial difficulties of the credit institution.

The probability of default of a credit institution is calculated based on external ratings.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 120 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Derecognition of financial assets

The Group derecognises financial assets only in the event of termination of contractual rights to cash flows on them or in the case of transfer of a financial asset and corresponding risks and benefits to another organization. If the Group does not transfer or retain all of the major risks and rewards of ownership of the asset and continues to control the transferred asset, then it continues to reflect its interest in the asset and the possible liabilities associated with it for the respective amounts. If the Group retains almost all the risks and rewards of ownership of the transferred financial asset, the Group continues to recognize this financial asset, and reflects the funds received from the transfer in the form of a secured loan.

When derecognising a financial asset measured at amortized cost, the difference between the carrying amount of the asset and the amount received and receivable is recognized in profit or loss.

Financial liabilities

The Group's financial liabilities are represented by the category "other financial liabilities", which are carried at amortized cost. Other financial liabilities of the Group include loans and debt securities issued, trade trade payables and other payables.

Trade payables and other payables

Trade payables and other payables are charged on the fact that the counterparty has fulfilled its contractual obligations. The Group initially accounts trade payables and other payables, excluding advances received, at fair value and subsequently at amortized cost using the effective interest method.

Loans and debt securities issued

Loans are initially recorded at fair value less transaction costs incurred. Loans are subsequently measured at amortized cost; any difference between the amount of funds received (less transaction costs) and cost to maturity is recognized in the statement of profit or loss and other comprehensive income during the loan period using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of this liability for at least twelve months after the date of the statement of financial position.

The effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Liabilities for the recultivation of the ash dump

Liabilities for the recultivation of the ash dump on the occupied area are formed in relation to the estimated future costs on closure and restoration facilities, as well as environmental restoration, waste disposal and restoration of affected areas in the reporting period in which the corresponding environmental disturbance occurs. The provision is discounted, with the effect of discounting being expensed as incurred and recognized in profit or loss as finance costs. When a reserve is created, the corresponding asset is capitalized, if it results in future benefits, and is amortized over the useful life of the relevant assets. The reserve is reviewed annually for changes in terms of cost estimates, discount rates and operating dates.

Contingent liabilities and assets

Contingent liabilities are not recognized in the consolidated statement of financial position, but disclosed in the consolidated financial statements, unless an outflow of funds from their redemption is unlikely. A contingent asset is not recognized in the consolidated statement of financial position, but disclosed in the consolidated financial statements when an inflow of economic benefits is probable.

Dividends

The Group recognizes an obligation to distribute cash to participants when the distribution is approved and no longer remains at the discretion of the Group. The corresponding amount is recognized directly in equity. Dividend information is disclosed if it was recommended prior to the date of the statement of financial position and recommended or announced after the date of the statement of financial position, but before the date of approval of the consolidated financial statements for issue.

(in thousands of Tenge, unless otherwise stated)

Recalculation of comparative information

In 2018, within 1 year from the date of acquisition, the Group completed the initial accounting of its acquisition of Mangistau Regional Electricity Network Company JSC in order to reflect the totals of the fair value of assets acquired and liabilities assumed, non-controlling interests and gain from a bargain purchase in the consolidated financial statements. Adjustment of amounts estimated preliminarily to be recognized at the date of acquisition were recorded retrospectively. Accordingly, comparative data for 2017 and as at 31 December 2017 has been recalculated. The recalculation did not have a significant effect on the consolidated statement of cash flows.

The items of the consolidated statement of financial position and the consolidated statement of profit or loss and other comprehensive income that were not affected by the changes were not included in the table. As a result, subtotals and grand totals cannot be calculated on the basis of the amounts presented below.

Impact on the consolidated statement of financial position:

As at 31 December 2017	**Issued**	**Effect of adjustment**	**Restated**
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	203,095,669	656,200	203,751,869
Total non-current assets	**207,197,051**	**656,200**	**207,853,251**
TOTAL ASSETS	**234,651,633**	**656,200**	**235,307,833**
EQUITY AND LIABILITIES			
EQUITY:			
Retained earnings	96,699,636	14,796	96,714,432
Equity attributable to owners of the Company	117,575,177	14,796	117,589,973
Non-controlling interests	11,497,333	17,467	11,514,800
Total equity	**129,072,510**	**32,263**	**129,104,773**
NON-CURRENT LIABILITIES:			
Loans and debt securities issued	41,396,656	522,165	41,918,821
Total non-current liabilities	**73,640,093**	**522,165**	**74,162,258**
CURRENT LIABILITIES:			
Loans and debt securities issued	15,752,223	101,772	15,853,995
Total current liabilities	**31,939,030**	**101,772**	**32,040,802**
TOTAL LIABILITIES	**105,579,123**	**623,937**	**106,203,060**
TOTAL EQUITY AND LIABILITIES	**234,651,633**	**656,200**	**235,307,833**

Impact on the consolidated statement of profit or loss and other comprehensive income:

2017	**Issued**	**Effect of adjustment**	**Restated**
Other income, net	18,759,036	14,796	18,773,832
NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**33,476,019**	**14,796**	**33,490,815**

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant judgements in applying accounting policies

Control over subsidiary Mangistau Regional Electricity Network Company JSC ("MRENC" or "MRENC JSC") [5]

As at 31 December 2018 and 2017, MRENC was recognized as a subsidiary of the Group, while the Group owned, the shares in MRENC in the amount of 52.63% and 45.86% of the voting shares, respectively. The shares of MRENC are traded on the Kazakhstan Stock Exchange ("KASE"). As at 31 December 2018, the remaining 47.37% (31 December 2017: 54.14%) were distributed among other participants, out of which 46.09% of common shares were owned by KBI Energy LLP (31 December 2017: 39.32%).

On 18 October 2017, the Group acquired a 39.32% interest in MRENC, resulting in the Group's share of 45.86%. On 14 December 2017, the approval was obtained from UAPF JSC (Unified Accumulative Pension Fund JSC) on the sale of its share to new shareholders owning 30% or more of the MRENC shares. Shares of UAPF JSC were to be purchased by KKS LLP and KBI Energy LLP in the ratio of 50:50. As a result of the proposal received from the UAPF JSC, the Company started the share repurchase process, which was completed on 11 January 2018, and as a result of which the Company became the owner of 52.63% of common shares of MRENC. This participation share of 52.63% represents the absolute majority of voting shares of MRENC and is sufficient to exercise control over MREC by KKS LLP.

Based on the results of the assessment on the presence of control, the management concluded that the right to repurchase shares of UAPF JSC, which was obtained by the Company on 14 December, despite the fact that the execution of the repurchase transaction was completed on 11 January 2018, allows the Company to prevail over the rest shareholders in managing significant activities of the MRENC and, therefore, the Group exercised control over the MRENC since 14 December 2017.

Evaluation of the business model

The classification and measurement of financial assets depends on whether the contractual cash flows are solely payments on the principal amount of the debt and interest on the outstanding part, as well as on the objectives of the business model.

Significant increase in credit risk

As disclosed in Notes 2 and 3, expected credit losses are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. The asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

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[5] The former name is Mangistau Electricity Distribution Network Company JSC. Renamed in October 2018.

Key sources of estimation uncertainty

Below are key assumptions about the future and other key sources of uncertainty in estimates for the end of the reporting period that are likely to lead to significant adjustments in the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. The assessment of the useful life of an asset depends on such factors as economic use, maintenance program, technological improvements and other business conditions. The assessment by management of useful lives of property, plant and equipment reflects the relevant information available as at the date of these consolidated financial statements.

Impairment of assets

Each Group entity is a separate cash-generating unit ("CGUs"), as it is the smallest group of assets that generates cash inflows largely independently of the cash flows generated by other assets of the Group, and the lowest level at which the Group performs control over the reimbursement of assets. Accordingly, each entity aseesses the existence of impairment indicators of the carrying value of tangible and intangible assets at each reporting date on its own. The determination of the presence of asset impairment indicators is based on a large number of factors such as: expected growth in the energy industry, change in tariffs, estimated cash flows, changes in the availability of financing in the future, technological obsolescence, termination of services, current replacement costs and other changes in conditions that indicate the existence of an impairment.

If such indicators exist, the recoverable amount of the assets is estimated and compared with the book value of the assets. If the carrying amount exceeds the recoverable amount of the assets, impairment is recognized. The recoverable amount is determined as the largest of two values: the fair value of the assets minus the cost of the sale and the value of use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate, which, in the opinion of management, reflects the current market estimate of the time value of money and the risks inherent in assets. A change in the estimated recoverable amount may result in impairment or its recovery in future periods.

In 2018, a number of orders were issued by the Ministry of Energy of the Republic of Kazakhstan toward changes in the approved marginal tariffs on electricity and on maintance services of electricity readiness, and also a number of orders establishing the methodology on determination of fixed profit that is considered when determining the marginal tariff on electricity and balancing that are effective since 2019. These facts were considered by the management of the subsidiary Ust-Kamenogorsk CHP LLP as indicators of subsidiary fixed assets impairement as at 31 December 2018. As at 31 December 2018 the carrying amount of fixed assets of Ust-Kamenogorsk CHP LLP is 30,748,093 thousand tenge (31 December 2017: 30,633,254 thousand tenge).

To support the insignificancy of the events discussed above on the recoverability of susidiary fixed assets value as at 31 December 2018, an impairment test was performed, considering the latest changes.

As at 31 December 2018, based on the estimation of the value in use of the subsidiary fixed assets, no impairment was identified. At the same time, the value in use calculation is sensitive in particular to the following assumptions:

- Tariffs on electricity;
- Discount rate.

The forecast period for the impairment test of assets is more than five years, as the management of the Group believes that results from operations of the Group's entities can be predicted with sufficient accuracy for a period more than five years, considering the fact that in the activities of the subsidiary during the forecast period are not expected to change significantly.

(in thousands of Tenge, unless otherwise stated)

Electricity tariffs

In accordance with the Law of the Republic of Kazakhstan "On Electricity Industry", an energy producing organization independently sets the selling price for electricity, but not higher than the marginal tariff for electricity of the relevant group of energy producers selling electricity. If necessary, the marginal tariffs are adjusted on annual basis. The marginal tariff is approved by the Ministry of Energy of the Republic of Kazakhstan for the groups of energy-producers, basing on type of power plants, given capacity, type of fuel used, distance from the location of fuel.

Per Order of the Minister of Energy of the Republic of Kazakhstan No.475 dated 5 December 2018 "On approval of the group of energy producing organizations that sell electricity", the Company was identified in "Group 7" of energy producing organizations, respectively. Per Order of the Minister of Energy of the Republic of Kazakhstan No.514 dated 14 December 2018 the marginal tariff for the increase electricity for this group at 5.69 tenge/kWh was approved effective from 1 January 2019 for a period of seven years, broken down by years.

However, within the framework of the current legislation, the management of the Group plans to propose an adjustment to the marginal tariffs on electricity. The management of the Group expects that the increase in the marginal tariff will be approved by the authorized body.

Accordingly, in 2019 the forecast of the marginal tariff for electricity per unit in kWh is based on the tariff approved by the Order of the Minister of Energy of the Republic of Kazakhstan No.514 dated 14 December 2018. Starting from 2020, the forecast tariff was calculated using the rules on the approval of the marginal tariff for electricity, as well as methods for determining fixed profit, approved by the Order of the Ministry of Energy of the Republic of Kazakhstan No.413 dated 28 November 2017 and edited on 14 December 2018, based on the forecast costs according to the Group budget and an adjusting factor for calculating the fixed profit for projected period. The adjusting factor for calculating fixed income for a subsidiary is set at 12%.

Based on the above, the management of the Group made an assumption on an increase of electricity tariffs, taking into account the projected inflation rate for the period from 2020 to 2027. Thus, the following forecasted weighted average tariffs were used to calculate the recoverable amount of assets:

	2019	2020	2021	2022	2023	2024	2025	2026	2027
Electricity tariff (tenge per 1 kWh)	5.69	6.70	7.03	7.38	7.73	8.09	8.47	8.46	8.83
Tariff for the maintenance of electricity readiness (thousands of Tenge / (MW * month))	590	700	700	700	700	700	753	753	753

Discount rate

The discount rate of 16.91% was calculated taking into account the current market assessment of risks inherent to the Group, and was estimated based on the weighted average cost of capital for the industry. In the future, further changes in the discount rate may be necessary to reflect the changing risks inherent to the industry and changes in the weighted average cost of capital.

Sensitivity analysis

According to the results of impairment test, the book value of the subsidiary assets as at 31 December 2018 was not lower than the recoverable amount. Accordingly, impairment losses in 2018 were not recognized.

Taking into account economic uncertainty, if the marginal tariff for electric energy remains at the level of 5.69 tenge/kWh for 2019-2025, the recoverable value of the assets of the subsidiary will be less than their book value by 10,039,000 thousand tenge. In case of reduction of the marginal tariff or sales volumes of electricity incorporated in the model by 10%, the recoverable value of the Group assets will be less than their book value by 330,786 thousand tenge.

Based on the analysis performed as at 31 December 2018, no indicators of impairment were identified in other Group entities.

Calculation of the amount of impairment of receivables and other current assets

In estimating expected credit losses, the Group uses reasonable and supported forward-looking information based on assumptions about the future movement of various economic factors and how these factors will affect each other.

Loss on default is the assessment of losses arising from default of a financial instrument. The indicator is based on the difference between the cash flows provided for by the contract and the cash flows that the lender expects to receive, taking into account the cash flows from collateral and the inherent means of improving the credit quality of the instrument.

Deferred tax assets

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that there will be sufficient taxable income to use all or part of the deferred tax asset. The assessment is based on judgments about expected performance.

Taxation

Kazakhstan legislative acts and regulations are not always clearly written and their interpretation can depend on the opinion of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. Instances of inconsistent treatments between local, regional and national tax authorities are quite usual. The current regime of accrual of penalties and fines related to reported and discovered violations of Kazakhstani laws, decrees and related regulations are severe. At the same time, in the case of accrual of the additional taxes by tax authorities, existing fines and penalties are set in considerable amounts; 50% of penalty payment for additional accrued tax and 13.75% of penalty payment for late payment of tax. As a result, fines and penalties may exceed the amount of additional taxes.

The Group management believes that the Group has paid or accrued all taxes that are applicable. When practice concerning the allowance of taxes was unclear, the Group has accrued tax liabilities based on the management's reasonable estimates. The Group's policy assumes accrual of reserves in the accounting period in which a loss is deemed probable and the amount can be reasonably determined.

Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, fines and penalties may exceed the amount of accrued taxes to date and for the year ended 31 December 2018. It's almost impossible to determine the amount of unasserted claims that may arise, if any, occur, or the likelihood of any unfavorable outcome.

Evaluation of legal issues

The Group participates in various legal proceedings related to its business activities. The Group uses estimates of the likelihood of an adverse outcome being under consideration or potential claims and their impact on the financial position or the results of the financial and economic activities of the Group. Estimates are based on the probability of winning or losing the dispute and the amount of probable payouts. Differences between estimates and actual amounts paid, if any, arise in future reporting periods may have a significant effect on the Group's financial performance.

Business combination

Management determines and allocates the purchase price of the acquired business to the assets acquired and liabilities assumed as at the business combination date. The purchase price allocation process requires the use of significant estimates and assumptions, including fair value measurement of the acquired assets. While the management uses its best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the date of acquisition, estimates and assumptions are inherently uncertain and subject to refinment. Examples of critical estimates include but are not limited to:

- the fair value of property, plant and equipment, including the discount rate, tariffs and planned volumes of services included in the property, plant and equipment valuation model; and
- the discount rate used to estimate the fair value of loans and debt securities issued.

As at the reporting date, the Group completed the initial accounting for business combinations (within one year from the date of acquisition). Accordingly, the consolidated financial statements present the final estimated values of the assets acquired, liabilities assumed, non-controlling interests and gains from a bargain acquisition (Note 13).

5. SEGMENT INFORMATION

Information provided to the management of the Group responsible for decision making in respect of operating activity, for the purpose to allocate resources and assess results by segment, deals with the types of services provided to produce, transmission, distribute and sell electricity. To generate the Group's reporting segments, none of its operating segments were combined, except for other products (chemically purified water) and services, which individually do not exceed quantity thresholds.

In particular, the Group's reporting segments are the following:

- the generation of thermal power and electricity;
- the transmission and distribution of electricity;
- the sale of heat and electricity;
- others.

The Group follows a number of profitability indices such as pre-tax profit, profit for the year and gross profit. Despite this, profit for the year is used to allocate resources and assess segment performance.

(in thousands of Tenge, unless otherwise stated)

	2018					
Key operating indices	**Thermal power and electricity generation**	**Transmission and distribution of electricity**	**Thermal power and electricity sales**	**Others**	**Elimination**	**Total**
Revenue from sales to external customers	33,048,906	24,404,638	70,921,232	264,232	-	128,639,008
Intersegment revenue	20,078,132	21,522,732	29,685	409,798	(42,040,347)	-
Cost of sales, total	(39,803,049)	(27,056,034)	(67,001,094)	-	41,931,547	(91,928,630)
Gross profit	**13,323,989**	**18,871,336**	**3,949,823**	**674,030**	**(108,800)**	**36,710,378**
General and administrative expenses	(2,653,489)	(3,211,939)	(1,694,141)	(1,418,557)	440,955	(8,537,171)
Selling expenses	(20)	(1,043,022)	(1,647,653)	-	25,794	(2,664,901)
Finance costs	(2,954,065)	(777,919)	(79,892)	(4,905,724)	85,917	(8,631,683)
Finance income	178,888	156,854	58,378	3,341,470	(47,874)	3,687,716
Other income/(expense), net	714,746	185,842	329,711	(157,617)	(395,992)	676,690
Exchange gain/(loss), net	120	(524,296)	220	(2,792,687)	-	(3,316,643)
Profit before income tax expense	**8,610,169**	**13,656,856**	**916,446**	**(5,259,085)**	**-**	**17,924,386**
Income tax expense	(1,400,780)	(2,723,775)	(200,281)	-	-	(4,324,836)
Net profit/(loss) for the year	**7,209,389**	**10,933,081**	**716,165**	**(5,259,085)**	**-**	**13,599,550**
Other key segment information						
Capital expenditures for property, plant and equipment	5,744,953	18,236,299	233,189	23,330	-	24,237,771
Depreciation of property, plant and equipment	6,419,226	5,720,840	108,184	26,999	-	12,275,249

(in thousands of Tenge, unless otherwise stated)

	2017					
Key operating indices	**Thermal power and electricity generation**	**Transmission and distribution of electricity**	**Thermal power and electricity sales**	**Others**	**Elimination**	**Total**
Revenue from sales to external customers	19,782,425	12,466,056	64,500,107	588,447	-	97,337,035
Intersegment revenue	26,622,835	19,769,302	31,091	400,372	(46,823,600)	-
Cost of sales, total	(33,146,298)	(18,298,543)	(61,442,262)	-	46,799,433	(66,087,670)
Gross profit	**13,258,962**	**13,936,815**	**3,088,936**	**988,819**	**(24,167)**	**31,249,365**
General and administrative expenses	(2,238,185)	(1,812,343)	(1,556,136)	(1,111,981)	329,904	(6,388,741)
Selling expenses	(42,997)	(831,158)	(1,301,462)	-	27,475	(2,148,142)
Finance costs	(3,379,993)	(604,609)	(60,018)	(850,352)	82,455	(4,812,517)
Finance income	505,278	24,283	75,322	130,376	(82,454)	652,805
Other income, net	237,104	83,539	305,824	18,480,578	(333,213)	18,773,832
Share of profit of associate	-	-	-	150,329	-	150,329
Dividend income	-	-	-	17,224	-	17,224
Foreign exchange gain/(loss), net	9,913	-	(383)	(39,798)	-	(30,268)
Profit before income tax expense	**8,350,082**	**10,796,527**	**552,083**	**17,765,195**	**-**	**37,463,887**
Income tax (expense)/benefit	(1,619,100)	(2,250,428)	(120,903)	17,359	-	(3,973,072)
Net profit for the year	**6,730,982**	**8,546,099**	**431,180**	**17,782,554**	**-**	**33,490,815**
Other key segment information						
Capital expenditures for property, plant and equipment	5,409,939	8,015,337	95,605	244,208	-	13,765,089
Depreciation of property, plant and equipment	6,144,840	4,248,664	49,335	33,831	-	10,476,670

6. REVENUE

	2018	2017
Sale of electricity	86,618,560	70,299,007
Transmission of electricity	24,404,638	12,466,056
Sale of thermal power	16,979,569	13,536,552
Sale of chemically purified water	362,463	428,672
Lease of buildings	37,749	378,991
Other	236,029	227,757
	128,639,008	**97,337,035**

The increase in revenue from the transmission of electricity is mainly due to the acquisition of MRENC JSC as a subsidiary. Thus, the revenue from the transmission of electricity of MRENC JSC for 2018 was 11,899,944 thousand tenge. Revenues from the sale of electricity by the Group's sales enterprises for 2018 and 2017 were of 61,503,365 thousand tenge and 55,241,879 thousand tenge, respectively.

All revenue from contracts with customers of the Group is recognized over the period.

(in thousands of Tenge, unless otherwise stated)

7. COST OF SALES

	2018	2017
Materials	40,596,421	25,527,647
Services of transmission of electricity, thermal power and chemically purified water	15,571,156	12,889,922
Depreciation	11,950,568	10,255,599
Payroll and related taxes	9,347,806	7,237,019
Technical losses	5,687,271	3,224,432
Repairs	2,583,302	1,467,036
Other	6,192,106	5,486,015
	91,928,630	**66,087,670**

8. GENERAL AND ADMINISTRATIVE EXPENSES

	2018 г.	2017 г.
Payroll and related taxes	3,122,677	2,864,029
Taxes, other than income tax	2,187,734	1,433,793
Consulting services	520,730	316,974
Rental costs	421,812	230,560
Accrual/(recovery) of allowance for expected credit losses (Notes 18 and 20)	305,907	(128,026)
Bank fees	293,375	60,383
Depreciation and amortization	280,507	220,497
Unused vacation reserve	118,671	74,776
Transportation cost	112,050	27,175
Charity	110,023	76,969
Other	1,063,685	1,211,611
	8,537,171	**6,388,741**

9. SELLING EXPENSES

	2018	2017
Payroll and related taxes	1,998,876	1,745,465
Other	666,025	402,677
	2,664,901	**2,148,142**

10. FINANCE COSTS

	2018	2017
Interest on bank loans and debt securities issued	9,175,017	5,085,982
Other	870,751	23,662
	10,045,768	5,109,644
Less capitalised costs (Note 16)	(1,414,085)	(297,127)
	8,631,683	**4,812,517**

11. FINANCE INCOME

	2018 г.	2017 г.
Interest income	3,682,576	652,805
Other finance income	5,140	-
	3,687,716	**652,805**

(in thousands of Tenge, unless otherwise stated)

Interest income for the year ended 31 December 2018 includes interest income related to the issuance of a loan to Ansagan Petroleum JSC of 3,224,923 thousand tenge (2017: nil).

12. OTHER INCOME, NET

	2018	2017 (restated)
Gain from a bargain purchase of subsidiaries (Note 13)	-	18,646,530
Loss from change in fair value of assets held for sale (Note 16)	-	(169,862)
Other income, net	676,690	297,164
	676,690	**18,773,832**

13. ACQUISITION OF SUBSIDIARIES

In 2017 the Group acquired the following subsidiaries:

	Primary activities	Date of control acquisition	Share on the date of acquiring control	Voting shares acquired in 2018	Conside-ration amount
Ust-Kamenogorsk CHP LLP (i)	Generation of thermal power and electricity	7 April 2017	100%	100%	7,249,590
Sogrinsk CHP LLP (i)	Generation of thermal power and electricity	7 April 2017	100%	100%	2,307,283
Mangistau Regional Electricity Network Company JSC (ii)	Electricity transmission and distribution	14 December 2017	45.86%	39.32%	3,797,685
Shygys Energy LLP (i)	Generation entities management	7 April 2017	100%	100%	-
Heat & Power Holding B.V. (i)	Generation entities management	7 April 2017	100%	100%	-

These entities were acquired to expand the Group's activities on thermal power and electricity generaton in the East-Kazakhstan region and the electricity transmission and distribution in the Mangistau region.

(i) Acquisition of Ust-Kamenogorsk CHP LLP and Sogrinsk CHP LLP

The amount of consideration for the acquired entities is paid as follows:

	UK CHP	SCHP	Total
Cash	7,249,590	650,333	7,899,923
EBRD loan repayment	-	1,656,950	1,656,950
Total	**7,249,590**	**2,307,283**	**9,556,873**

On 7 April 2017, the Group acquired a 100% ownership interest in operating companies Ust-Kamenogorsk CHP LLP and Sogrinsk CHP LLP from Arnika Beteiligungsverwaltungs GMBH through the acquisition of 100% outstanding share capital of Heat & Power Holding B.V., which owns a 99.99% ownership interest in Shygys Energy LLP, and the acquisition of a 0.01% ownership interest in Shygys Energy LLP. The total amount of the transaction was 30,027 thousand US dollars (9,556,873 thousand tenge). In its turn, Shygys Energy LLP owns 100% of shares in Ust-Kamenogorsk CHP LLP and Sogrinsk CHP LLP. As at the acquisition date, the purchase price is fully paid.

(in thousands of Tenge, unless otherwise stated)

A part of the consideration under the contract of 5,236 thousand US dollars was intended to repay a loan of the Sogrinsk CHP LLP to European Bank for Reconstruction and Development ("EBRD").

On 14 February 2018 Heat & Power Holding B.V. subsidiary sold 100% share in Sogrinsk CHP LLP for 6,800 thousand US dollars (2,328,236 thousand tenge) (Note 22).

(ii) Acquisition of Mangistau Regional Electricity Network Company JSC

The amount of consideration for the acquired 39.32% voting shares was as follows:

	MRENC
Cash	1,296,497
Fair value of deferred consideration	2,501,188
Total	**3,797,685**

On 8 January 2016, the Group acquired 6.54% of Mangistau Regional Electricity Network Company JSC ordinary shares for 249,055 thousand tenge.

On 20 September 2017, the Group jointly with KBI Energy LLP entered into a contract with Samruk-Energy JSC for the acquisition of 1,580,467 ordinary shares of MRENC JSC, wherein 790,234 shares (39.32%) were acquired by the Group and 790,233 shares were acquired by KBI Energy LLP. The amount payable by the Group under the contract was 4,321,111 thousand tenge. The prepayment for this transaction of 1,296,497 thousand tenge (30%) was made on 2 October 2017.

As at 18 October 2017, the transaction for purchase and sale of 39.32% shares was completed. Acquired shares were pledged to Samruk-Energy JSC as a security until full execution of obligations. The final payment for shares will be paid no later than August 2020.

As at 18 October 2017, the deferred consideration of the Group for MRENC shares was 3,024,615 thousand tenge. The Group determined the fair value of these payables using the refinancing rate of the National Bank of the Republic of Kazakhstan of 10.25%. The present value of deferred consideration was 2,501,188 thousand tenge. As at 31 December 2018, the current portion of this debt of 1,014,334 thousand tenge was recognized as part of other current liabilities (31 December 2017: 909,130 thousand tenge) (Note 28).

Accordingly, on 18 October 2017, the Group recognised an investment in an associate of 4,046,740 thousand tenge, including the previously recognised investment of 249,055 thousand tenge, and started to account for MRENC using the equity method. The income from equity participation for the period from 18 October to 31 December 2017 was 150,329 thousand tenge.

As disclosed in Note 4, based on the assessment of the Company's control over MRENC, the management concluded that the control was obtained from 14 December 2017. Accordingly, from 31 December 2017, the assets and liabilities of MRENC as a subsidiary were recorded in the consolidated financial statements.

On 11 January 2018, the Group, represented by the parent company, additionally acquired from the United Accumulative Pension Fund JSC 136,090 ordinary shares (6.77%) of MRENC JSC subsidiary for 272,181 thousand tenge. Thus, as at 31 December 2018, the Group owns 50.19% of the placed shares of MRENC JSC, the ownership share of voting shares is 52.63%.

Under the MRENC shares purchase transaction, on 20 September 2017, the Group and KBI Energy LLP entered into a contract with Samruk-Energy JSC for the redemption of the sixth issue of MRENC bonds totalling 1,253,250 items (626,625 items to each buyer) owned by Samruk-Energy JSC. The contract amount was 1,538,402 thousand tenge and is to be paid in equal instalments during 2020-2023. This obligation was not accounted for when determining the amount of consideration payable, as the ownership for these bonds passes to the buyer from the date of starting payment of the purchase price, i.e. from 2020.

(in thousands of Tenge, unless otherwise stated)

As disclsed in Note 2, in 2018, within 1 year from the date of acquisition, the Group completed the initial accounting of the acquisition of Mangistau Regional Electricity Network Company JSC in order to reflect in the consolidated financial statements the total fair value of the assets acquired and liabilities assumed, non-controlling values interest and profit from the acquisition. Adjustments to previously estimated amounts recognized at the date of acquisition were recorded retrospectively.

The fair value of assets acquired and recognized liabilities at acquisition dates is as follows:

	UK CHP	SCHP	MRENC (restated)	Total (restated)
Current assets				
Cash and cash equivalents	2,339,243	258,115	400,697	2,998,055
Trade and other receivables	2,147,116	347,655	518,196	3,012,967
Inventories	1,111,819	344,401	253,914	1,710,134
Other current assets	886,154	88,475	198,434	1,173,063
Non-current assets				
Property, plant and equipment	30,550,006	2,552,796	41,068,919	74,171,721
Other non-current assets	290,331	12,895	188,514	491,740
Current liabilities				
Loans	(2,361,524)	-	(2,995,230)	(5,356,754)
Trade and other payables	(978,092)	(253,346)	(1,408,928)	(2,640,366)
Other current liabilities	(561,027)	(179,036)	(1,242,817)	(1,982,880)
Non-current liabilities				
Loans	(9,214,381)	-	(10,454,233)	(19,668,614)
Deferred tax liabilities	(4,576,453)	(29,159)	(3,731,442)	(8,337,054)
Other non-current liabilities	(84,765)	(44,514)	(1,527,461)	(1,656,740)
	19,548,427	**3,098,282**	**21,268,563**	**43,915,272**

As at 31 December 2017, the non-controlling interest (54.14%) in the MRENC was determined in proportion to the part of the participation share in the recognized amount of identifiable net assets, the valuation of was of 11,514,800 thousand tenge.

Revenue from acquisition

	UK CHP	SCHP	MRENC (restated)	Total (restated)
Consideration transferred	7,249,590	2,307,283	-	9,556,873
Fair value of equity interest held before the business combination:	-	-	4,197,069	4,197,069
Value of 6.54% interest			*249,055*	*249,055*
Value of 39.32% interest			*3,797,685*	*3,797,685*
Profit from equity participation			*150,329*	*150,329*
Plus: non-controlling interests	-	-	11,514,800	11,514,800
Less: fair value of identifiable net assets acquired	(19,548,427)	(3,098,282)	(21,268,563)	(43,915,272)
Total gain from a bargain purchase	**(12,298,837)**	**(790,999)**	**(5,556,694)**	**(18,646,530)**

Based on this preliminary assessment, the Group received a gain from the acquisition of UK CHP and Sogrinsk CHP, which is explained by the purchase price, which was agreed on the basis of the adopted strategy of AES Corporation (AES Corporation) to balance the global portfolio and withdraw from participation in coal-fired power plants.

(in thousands of Tenge, unless otherwise stated)

Based on this assessment, the Group received a gain from the acquisition of the MRENC. The seller determined the cost of 39.32% of ordinary shares based on an independent evaluation. The Company participated in three bids held by the seller, two of which were declared invalid. Based on the results of the last bid, the Company won an auction and purchased shares at the current price. The fair value of the previous participation interest also includes the cost of 6.54% of common shares of 249,055 thousand tenge and income from equity participation in MRENC during the period from 18 October to 31 December 2017 of 150,329 thousand tenge.

Net cash payments under the acquisitions

2017	**UK CHP**	**SCHP**	**MRENC**	**Total**
Consideration paid in cash	7,249,590	2,307,283	1,296,497	10,853,370
Less: cash and cash equivalent balances acquired	(2,339,243)	(258,115)	(400,697)	(2,998,055)
	4,910,347	**2,049,168**	**895,800**	**7,855,315**

In 2018, the Company made another payment of 909,131 thousand tenge, per purchase and sale agreement of 39.32% shares in MRENC JSC from Samruk-Energy JSC, and also paid 272,181 thousand tenge to Unified Accumulation Pension Fund to JSC for repurchase of 6.77% shares of MRENC JSC.

14. SUBSIDIARIES

The Group's structure includes the Company and the following subsidiaries:

Name	**Type of activities**	**Place of incorporation and operation**	**Ownership interest/ voting power held by the Group 31 December 2018**	**31 December 2017**
Karaganda Energocentre LLP	Generation of thermal power, electricity and chemically purified water in the Karaganda region	Republic of Kazakhstan	100%	100%
Karagandy Zharyk LLP	Electricity transmission and distribution in the Karaganda region	Republic of Kazakhstan	100%	100%
Ontustik Zharyk Transit LLP	Electricity transmission and distribution in the South-Kazakhstan region	Republic of Kazakhstan	100%	100%
Karagandy ZhyluSbyt LLP	Thermal power and electricity supply in the Karaganda region	Republic of Kazakhstan	100%	100%
Raschetny Servisny Tsentr LLP	Electricity supply in the Karaganda region	Republic of Kazakhstan	100%	100%
Ontustik Zharyk LLP	Electricity supply in the South-Kazakhstan region	Republic of Kazakhstan	100%	100%
Energopotok LLP	Electricity supply in the South-Kazakhstan region	Republic of Kazakhstan	100%	100%
Energy Center LLP	Generation of thermal power, electricity in the Karaganda region	Republic of Kazakhstan	100%	100%
Windfarm Zhuzimdyk LLP	Electricity generation in the South-Kazakhstan region	Republic of Kazakhstan	100%	100%
Ust-Kamenogorsk CHP LLP	Generation of thermal power and electricity in the East-Kazakhstan region	Republic of Kazakhstan	100%	100%
Shygys Energy LLP	Generation entities management	Republic of Kazakhstan	100%	100%
Heat & Power Holding B.V.	Generation entities management	Netherlands	100%	100%
Mangistau Regional Electricity Network Company JSC	Electricity transmission and distribution in the Mangistau region	Republic of Kazakhstan	52.63%	45.86%
Sogrinsk CHP LLP	Generation of thermal power and electricity in the East-Kazakhstan region	Republic of Kazakhstan	-	100%

(in thousands of Tenge, unless otherwise stated)

Information about the composition of the Group at the end of the reporting date is as follows:

	Number of wholly-owned subsidiaries	
Principal activity	**31 December 2018**	**31 December 2017**
Thermal power and electricity generation	4	5
Electricity transmission and distribution	2	2
Sale of heat and electricity	4	4
Other	2	2
	12	**13**

Mangistau Regional Electricity Network Company JSC is partly owned by the Group.

Non-wholly owned subsidiary that have material non-controlling interests

Year	Name of subsidiary	Place of incorporation and principal place of activity	Proportion of ownership interest and voting rights held by non-controlling interests	Profit attributable to non-controlling interests	Carrying value if the non-controlling interests
31 December 2018	MRENC	Kazakhstan	47.37%	868,365	10,947,184
31 December 2017	MRENC	Kazakhstan	54.14%	-	11,514,800

Detailed movement on non-controlling interests is provided in Note 24.

Summariesed financial information on the Group's subsidiary with material non-controlling interests is presented below.

	31 December 2018	31 December 2017
Current assets	3,166,371	1,371,241
Non-current assets	45,694,610	41,257,433
Current liabilities	(1,933,696)	(5,646,975)
Non-current liabilities	(23,717,335)	(15,713,136)
Shareholder equity	12,262,766	9,753,763
Non-controlling shares	10,947,184	11,514,800

	2018
Revenue	11,899,944
Expenses	(10,066,790)
Profit and total comprehensive income for the year	**1,833,154**
Profit and total comprehensive income attributable to company owners	964,789
Profit and total comprehensive income attributable to non-controlling interests	868,365
Profit and total comprehensive income for the year	**1,833,154**
Net cash inflow from operating activities	4,722,389
Net cash outflow from investing activities	(6,783,093)
Net cash inflow from financial activities	3,955,386
Net cash inflow	**1,894,682**

(in thousands of Tenge, unless otherwise stated)

15. TAXATION

	2018	2017
Current income tax expenses	2,517,361	1,655,627
Deferred income tax expenses	1,798,735	2,208,221
Prior years income tax adjustment	8,740	109,224
	4,324,836	**3,973,072**

Deferred taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities recorded for financial reporting and tax accounting purposes. Deferred tax assets and liabilities are calculated at the rates expected to apply during the period of recovery of assets or repayment of obligations.

Below is a reconciliation of income tax at 20% to the actual income tax expense recorded in the consolidated statement of comprehensive income:

	2018	2017 (restated)
Profit before income tax expense	17,924,386	37,463,887
Statutory tax rate	20%	20%
Theoretical income tax expense at statutory rate	3,584,877	7,492,777
Provisional gain from acquisition and other income exempt from taxation	-	(3,758,372)
Unused tax losses not recognised as deferred tax assets	784,502	107,520
Prior years income tax adjustment	8,740	109,224
Other permanent differences	(53,283)	21,923
Income tax expenses	**4,324,836**	**3,973,072**

Below is the analysis of deferred tax assets and liabilities in the consolidated statement of financial position:

	31 December 2018	31 December 2017
Deferred tax assets	101,879	63,470
Deferred tax liabilities	(30,361,273)	(28,913,770)
	(30,259,394)	**(28,850,300)**
Deferred tax liabilities reclassified in liabilities directly associated with assets held for sale	-	(39,122)
	(30,259,394)	**(28,889,422)**

(in thousands of Tenge, unless otherwise stated)

Movement in deferred tax assets and liabilities was as follows:

2018	**At the beginning of the year**	**Recognised in equity (Note 2)**	**Recognised in profit or loss**	**At the end of the year**
Deferred tax (liabilities)/assets in relation to:				
Liabilities				
Property, plant and equipment	(30,317,874)	-	(941,018)	(31,258,892)
Accrued expenses	(204,803)	-	58,043	(146,760)
	(30,522,677)	**-**	**(882,975)**	**(31,405,652)**
Assets				
Tax losses carried forward	1,017,340	-	(1,012,446)	4,894
Interest payable	38,405	-	6,515	44,920
Liabilities on restoration of ash disposal area	22,281	-	124,239	146,520
Allowance for doubtful debts	68,405	389,641	39,131	497,177
Provision for unused vacations	105,772	-	(7,424)	98,348
Provision for slow-moving and obsolete inventories	8,141	-	-	8,141
Taxes	26,590	-	13,151	39,741
Deferred income	259,817	-	(13,055)	246,762
Other	125,626	-	(65,871)	59,755
	1,672,377	**389,641**	**(915,760)**	**1,146,258**
Deferred tax liabilities, net	**(28,850,300)**	**389,641**	**(1,798,735)**	**(30,259,394)**

2017	**At the beginning of the year**	**Recognised in profit or loss**	**Acquisitions (Note 13)**	**Reclassified to assets held for sale**	**At the end of the year**
Deferred tax (liabilities)/ assets in relation to:					
Liabilities					
Property, plant and equipment	(21,050,505)	(469,094)	(9,261,853)	463,578	(30,317,874)
Accrued expenses	(6,841)	(8,585)	(189,377)	-	(204,803)
	(21,057,346)	**(477,679)**	**(9,451,230)**	**463,578**	**(30,522,677)**
Assets					
Tax losses carried forward	2,472,412	(1,764,996)	696,732	(386,808)	1,017,340
Interest payable	-	22,330	16,075	-	38,405
Liabilities on reclamation of ash disposal area	8,056	7,675	14,344	(7,794)	22,281
Allowance for doubtful debts	103,921	(57,102)	23,120	(1,534)	68,405
Provision for unused vacations	105,829	1,102	4,427	(5,586)	105,772
Provision for slow-moving and obsolete inventories	1,030	-	7,111	-	8,141
Taxes	21,951	6,379	1,306	(3,046)	26,590
Prepaid expenses	-	-	279,505	(19,688)	259,817
Other	-	54,070	71,556	-	125,626
	2,713,199	**(1,730,542)**	**1,114,176**	**(424,456)**	**1,672,377**
Deferred tax liabilities, net	**(18,344,147)**	**(2,208,221)**	**(8,337,054)**	**39,122**	**(28,850,300)**

(in thousands of Tenge, unless otherwise stated)

16. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery and equipment	Vehicles	Other	Construction in progress	Total
Initial cost							
As at 1 January 2017	**2,670,022**	**40,511,673**	**121,679,731**	**2,332,091**	**533,887**	**1,400,957**	**169,128,361**
Additions	51,057	14,854	403,524	339,945	64,036	12,891,673	13,765,089
Disposals	(103,788)	(1,559,755)	(597,069)	(20,693)	(4,871)	(496,057)	(2,782,233)
Internal transfers	-	1,834,270	10,680,214	-	1,429	(12,515,913)	-
Acquisitions through business combinations (Note 13)	476,692	10,642,055	56,035,091	690,156	260,477	6,067,250	74,171,721
Reclassified to assets held for sale	(59,491)	(526,068)	(2,284,606)	(19,634)	(7,421)	(89,589)	(2,986,809)
As at 31 December 2017 (restated)	**3,034,492**	**50,917,029**	**185,916,885**	**3,321,865**	**847,537**	**7,258,321**	**251,296,129**
Additions	4,618	23,911	1,010,965	457,399	283,044	22,457,834	24,237,771
Disposals	(35,677)	(91,155)	(541,341)	(111,867)	(194,872)	(10,496)	(985,408)
Internal transfers	-	-	2,498,339	-	-	(2,498,339)	-
As at 31 December 2018	**3,003,433**	**50,849,785**	**188,884,848**	**3,667,397**	**935,709**	**27,207,320**	**274,548,492**
Accumulated depreciation and impairment							
As at 1 January 2017	**-**	**(6,986,708)**	**(29,085,255)**	**(1,417,556)**	**(210,619)**	**(75,005)**	**(37,775,143)**
Accrued for the year	-	(2,180,364)	(8,011,800)	(280,584)	(3,922)	-	(10,476,670)
Disposals	-	100,713	197,775	12,277	8,950	-	319,715
Reclassified to assets held for sale	3,351	82,961	454,095	11,408	5,885	-	557,700
Impairment of assets for sale	(3,351)	(31,439)	(133,506)	(1,141)	(425)	-	(169,862)
As at 31 December 2017	**-**	**(9,014,837)**	**(36,578,691)**	**(1,675,596)**	**(200,131)**	**(75,005)**	**(47,544,260)**
Accrued for the year	-	(1,668,197)	(10,145,981)	(311,068)	(150,003)	-	(12,275,249)
Disposals	-	1,546	166,565	50,808	56,232	-	275,151
As at 31 December 2018	**-**	**(10,681,488)**	**(46,558,107)**	**(1,935,856)**	**(293,902)**	**(75,005)**	**(59,544,358)**
Net book value							
As at 31 December 2018	**3,003,433**	**40,168,297**	**142,326,741**	**1,731,541**	**641,807**	**27,132,315**	**215,004,134**
As at 31 December 2017 (restated)	**3,034,492**	**41,902,192**	**149,338,194**	**1,646,269**	**647,406**	**7,183,316**	**203,751,869**

(in thousands of Tenge, unless otherwise stated)

In 2018, additions of property, plant and equipment are mainly represented by the modernisation and reconstruction of electricity generation, transmission and distribution equipment. At the date of commissioning, the carrying amount of commissioned facilities and capital repairs amounted to 2,498,339 thousand tenge.

For the years ended 31 December 2018 and 2017, the Group capitalized finance costs of 1,414,085 thousand tenge and 297,127 thousand tenge to property, plant and equipment (Note 10), respectively.

As at 31 December 2018, the Group's construction in progress is mainly represented by facilities such as the construction of a 220 kW power transmission line in the Aktau-Karazhanbas section, the modernization of a 110 kW outdoor switchgear in Aktau city, the construction of a power transmission line 110 kW at the substation Uzen to PLATO substation, modernization of a 6 kW 110 kW indoor switchgear at Promzona Substation, construction of a 110/10 kW Tikhonovka substation in the Karaganda region, overhaul of the ash dump No.2 (Section 3) in the Karaganda region. As at 31 December 2017, the Group's construction in progress is mainly represented by items under construction as part of the program of existing capacity expansion, reconstruction and technical re-equipment of 10-0.4 kW electrical networks and reconstruction of 10/6/0.4 kW electrical distribution networks.

As at 31 December 2018 and 2017, the cost of fully depreciated property, plant and equipment of the Group amounted to 10,532,691 thousand tenge and 6,342,857 thousand tenge, respectively.

As at 31 December 2018 and 2017, the property, plant and equipment of the Group with the carrying amount of 99,631,106 thousand tenge and 95,061,670 thousand tenge, respectively, were pledged as collateral on loans received from Sberbank Russia JSC, EBRD, Sberbank of Russia SB JSC, Tsesnabank JSC, Development Bank of Kazakhstan JSC and Altyn Bank JSC (Note 25).

For the year ended 31 December 2018, the Group did not recognize impairment losses on property, plant and equipment. Other recognized losses from impairment of property, plant and equipment for 2017 were 169,862 thousand tenge. Losses occurred because the Group estimated non-current assets classified as held for sale at the lower of the residual value at the date of reclassification and the fair value less costs to sell. Impairment losses are included in the statement of profit and loss through other expenses (Note 12).

17. ADVANCES PAID

Long-term advances paid are presented as follows:

	31 December 2018	31 December 2017
Advances for non-current assets	1,200,990	1,145,168
Advances for capital repairs of property, plant and equipment	704,708	2,006,894
	1,905,698	**3,152,062**

As at 31 December 2018, long-term advances paid are mainly represented by advances to suppliers and contractors for the construction of substations, modernization and reconstruction of the high-voltage lines.

Current advances paid are presented as follows:

	31 December 2018	31 December 2017
Advances for the delivery of materials and other assets	444,784	448,619
Advances for works and services	658,332	331,955
	1,103,116	**780,574**

(in thousands of Tenge, unless otherwise stated)

18. TRADE ACCOUNTS RECEIVABLE

	31 December 2018	31 December 2017
Trade accounts receivable	11,494,890	10,361,757
Less allowance for expected credit losses	(1,412,258)	(403,526)
	10,082,632	**9,958,231**

			Overdue		
31 December 2018	**Total**	**Not overdue**	**up to 120 days**	**from 120 to 210 days**	**more than 210 days**
Gross book value	11,494,890	210,186	9,931,524	487,821	865,359
Expected credit losses (%)	-	0%	0.001%-5.35%	0.09%-44.84%	100%
Allowance for expected credit losses	(1,412,258)	-	(426,973)	(119,926)	(865,359)
Book value	10,082,632	210,186	9,504,551	367,895	-

Movement in the allowance for expected credit losses is presented as follows:

	2018	2017
Allowance for doubtful debts at the beginning of the year	(403,526)	(552,655)
Adjustment due to the application of IFRS 9 (Note 2)	(738,547)	-
Allowance for expected credit losses under IFRS 9 at the beginning of the year	(1,142,073)	(552,655)
Accrued for the year (Note 8)	(1,093,327)	(54,019)
Written off for the year	-	14,020
Recovered for the year (Note 8)	823,142	182,045
Reclassified to assets held for sale	-	7,083
Allowance for expected credit losses	**(1,412,258)**	**(403,526)**

The Group reflects the allowance for expected credit losses of 100% of all trade accounts receivable for a period of more than 210 days, since past experience shows that receivables that have not been paid during this period are usually not repaid. For trade accounts receivable from 0 to 120 days, allowance for expected credit losses are reflected based on estimates based on past experience and analysis of the current financial position of the counterparty.

As at 31 December 2018 and 2017, trade accounts receivable were denominated in tenge.

19. INVENTORIES

	31 December 2018	31 December 2017
Raw materials	1,673,569	1,473,033
Fuel	1,629,753	1,720,402
Spare parts	843,313	487,959
Goods for resale	4,141	7,171
Other	90,010	134,631
Less: Provision for slow-moving and obsolete inventories	(46,554)	(37,110)
	4,194,232	**3,786,086**

(in thousands of Tenge, unless otherwise stated)

20. OTHER CURRENT ASSETS

	31 December 2018	31 December 2017
Receivables from the sale of property, plant and equipment	1,312,046	1,898,594
Other taxes recoverable	558,236	353,037
Prepaid expenses	123,310	110,981
Other current assets	1,139,531	553,848
Less allowance for expected credit losses	(1,237,009)	-
	1,896,114	**2,916,460**

Movement in the allowance for expected credit losses is presented as follows:

	2018	2017
Provision for doubtful debts at the beginning of the year in accordance with IAS 39	-	-
Adjustment due to the application of IFRS 9 (Note 2)	(1,201,287)	-
Provision for expected credit losses under IFRS 9 at the beginning of the year	(1,201,287)	-
Accrued per year (Note 8)	(75,000)	-
Recovered for the year (Note 8)	39,278	
Allowance for expected credit losses	**(1,237,009)**	**-**

As at 31 December 2018 and 2017, ther current assets included interest-free financial aid provided to related parties of 71,000 thousand tenge (Note 31). The rest of other current assets were mainly represented by other accounts receivable and receivables from employees.

As at 31 December 2018 and 2017 financial assets within other current assets were denominated in tenge.

21. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash on savings accounts in tenge	4,117,977	1,684,860
Cash in bank accounts in tenge	950,648	2,774,081
Cash in transit, in tenge	387,207	158,929
Cash on hand, in tenge	69,750	95,855
Cash in bank accounts, in US dollars	-	883,665
Cash in bank accounts in Euro	-	824,517
Cash on brokerage accounts in tenge	-	22,617
Less allowance for expected credit losses	(66,978)	-
	5,458,604	**6,444,524**
Cash and cash equivalents included in the group of assets held for sale	-	51,874
	5,458,604	**6,496,398**

As at 31 December 2018, cash on saving accounts was represented by deposits in Sberbank of Russia SB JSC and Nurbank JSC. These deposits are denominated in tenge and placed with an initial maturity of up to 12 months and an annual interest rate of 5.85% and 11%, respectively (31 December 2017: deposits in the Sberbank of Russia SB JSC and Tsesnabank JSC with interest rate 7-8.5% and 11%, respectively). Withdrawal of cash from deposits is possible at any time, without loss of interest amount, except for minimum deposit balance of 51,000 thousand tenge.

(in thousands of Tenge, unless otherwise stated)

22. ASSETS CLASSIFIED AS HELD FOR SALE

On 14 December 2017, the Group entered into a purchase and sale agreement for a 100% interest in Sogrinsk CHP LLP with Long Life Energy FZE for the amount of 6,800 thousand US dollars (2,328,236 thousand tenge). Prepayment under this transaction of 5,100 thousand US dollars (1,682,059 thousand tenge) was made on 18 December 2017, the remaining amount of 1,700 thousand US dollars (595,331 thousand tenge) was paid on 6 April 2018. The SCHP sale transaction was completed in the 1st quarter of 2018. Ownership and control were transferred to Long Life Energy FZE on 14 February 2018 from the date of Sogrinsk CHP LLP re-registration.

Remuneration received

	2018
Cash and cash equivalents	2,328,236
Loans issued	421,675
Total remuneration received	**2,749,911**

Net assets of Sogrinsk CHP LLP at the date of disposal were as follows:

	31 January 2018
Current assets	
Cash and cash equivalents	51,875
Trade accounts receivables	313,477
Inventories	238,320
Other current assets	83,072
	686,744
Non-current assets	
Property, plant and equipment	2,424,960
Other non-current assets	13,883
	2,438,843
Current liabilities	
Trade and other accounts payables	(200,435)
Other current liabilities	(175,998)
	(376,433)
Non-current liabilities	
Deferred tax liabilities	(39,122)
Other non-current liabilities	(38,966)
	(78,088)
Net assets disposed	**2,671,066**

Gain on disposal of a subsidiary

	2018
Remuneration received	2,749,911
Net assets disposed	(2,671,066)
Gain on disposal	**78,845**

The Group recognized a gain on disposal of 78,845 thousand tenge in the consolidated statement of profit or loss and other comprehensive income.

Net cash inflow from disposal of a subsidiary

	2018	2017
Cash and cash equivalents	595,331	1,682,059
Less disposed cash and cash equivalents	(51,875)	-
	543,456	**1,682,059**

23. EQUITY

Charter capital

Kazakhstan Utility Systems LLP was incorporated on 3 November 2008. In 2015, the main participant of the Company made contributions to the charter capital of the Company of 6,834,100 thousand tenge, thus, the Charter capital was increased to 11,636,404 thousand tenge. As at 31 December 2018 and 2017, the charter capital of the Company amounted to 11,636,404 thousand tenge.

As at 31 December 2018 and 2017, the interests of each participant in the charter capital of the Group represented as follows:

	31 December 2018		31 December 2017	
Participant	**Amount, in thousands of tenge**	**Share capital**	**Amount, in thousands of tenge**	**Share capital**
M. K. Idrissova	11,636,403	99%	11,636,403	99%
Z. M. Ismailova	1	1%	1	1%
	11,636,404	**100%**	**11,636,404**	**100%**

During 2018, dividends for 2017 were not declared or paid.

During 2017, in accordance with the decision of the General Meeting of Participants dated 17 May 2017, the Company declared and paid dividends for 2016 in the amount of 4,651,000 thousand tenge.

In 2018, Mangistau Regional Electricity Network Company JSC subsidiary paid dividends on preferred shares of 22,923 thousand tenge.

24. NON-CONTROLLING INTERESTS

	2018	2017 (restated)
At the beginning of the year	11,514,800	-
Adjustment due to the application of IFRS 9	(14,918)	-
At the beginning of the year (restated)	11,499,882	-
Share of profit for the year	868,365	-
Adjustment resulting from a change in non-controlling interest	(1,421,063)	-
Non-controlling interest arising on acquisition (Note 13) (restated)	-	11,514,800
At the end of the year	**10,947,184**	**11,514,800**

(in thousands of Tenge, unless otherwise stated)

25. LOANS AND DEBT SECURITIES ISSUED

	Currency	Rate	31 December 2018	31 December 2017 (restated)
Sberbank of Russia JSC	Russian rouble	10.75%	54,381,928	-
Sberbank of Russia SB JSC	Tenge	9.00%-13.75%	16,002,006	13,200,864
Development Bank of Kazakhstan JSC	Tenge	7%	14,510,629	18,380,131
European Bank for Reconstruction and Development	Tenge	8.44% (floating)	9,000,000	-
Bonds issued	Tenge	8%-15%	4,284,070	5,650,688
Bonds issued	Indexable to US dollar	8%	2,966,572	2,441,075
European Bank for Reconstruction and Development	US dollar	1.7%	2,036,260	-
Bank CenterCredit JSC	Tenge	13.7%	1,291,622	7,178,040
Tsesnabank JSC	Tenge	11%	550,000	350,000
Halyk Savings Bank of Kazakhstan JSC	Tenge	12.5%	-	4,765,166
Altyn Bank JSC	Tenge	12.5%	-	4,507,568
Other loans	Tenge		547,916	685,744
Accrued Interest			1,406,682	673,391
			106,977,685	**57,832,667**
Non-depreciated part of a one-time payment for loan processing			(507,405)	(59,851)
			106,470,280	**57,772,816**
Less current portion of loans payable within 12 months			(14,055,724)	(15,853,995)
			92,414,556	**41,918,821**

Loans and debt securities issued mature as follows:

	31 December 2018	31 December 2017 (restated)
On demand or within one year	14,055,724	15,853,995
One to two years	63,180,295	12,310,831
Two to three years	9,203,430	9,456,677
Three to five years, inclusive	9,904,851	13,560,347
After 5 years	10,633,385	6,650,817
	106,977,685	**57,832,667**

Sberbank of Russia JSC

In May 2018, the parent company entered into agreements on the receipt by the Group, represented by the parent company, of financing in the form of 3 non-revolving credit lines at Sberbank of Russia JSC:

- In the amount of not more than 12,962,500 thousand Russian roubles, with an interest rate of 10.75% per annum, up to 24 months (Contract 1), in order to provide a loan to Ansagan Petroleum JSC, a related party (Note 31), for further refinancing of a previously borrowed loan in Halyk Savings Bank of Kazakhstan JSC.
- In the amount of not more than 12,962,500 thousand Russian roubles, with an interest rate of 11.5% per annum, up to 84 months (Contract 2), in order to refinance the above-mentioned credit line under the Contract 1. The period of availability under this Contract 2 is before 14 June 2020.
- In the amount of not more than 1,320,000 thousand Russian roubles, with an interest rate of 10.75% per annum, for a period of up to 60 months (Contract 3), in order to provide loans to subsidiaries to finance investment costs.

51% of share in the charter capital of the parent company owned by M.K. Idrisova, and 1% share held by Zh.M. Ismailova, as well as 100% share in Karaganda Energocenter LLP, Ontustik Zharyk Transit LLP and Karagandy Zharyk LLP were declared as pledge under these contracts. Also, guarantees of individuals were provided.

On 28 May 2018, the Company received part of the funds under Contract 1, which were used to issue loans to Ansagan Petroleum JSC. On 6 November 2018, the Company received part of the funds under Contract 3.

Sberbank of Russia SB JSC

On 10 March 2017, the Group, represented by the parent company, received a loan from Sberbank of Russia SB JSC of 6,638,820 thousand tenge to acquire 100% of the shares of Heat & Power Holding B.V. (former name - Middelzee Holding BV), under a purchase contract dated 13 January 2017 between the parent company and Arnika Beteiligungsverwaltungs GmbH, with the fixed interest rate of 12.5%, the quarterly payment of principal and interest on the tranche began on 17 July 2017 up to 10 March 2024. As at 31 December 2018, the principal debt amounted to 5,409,409 thousand tenge. This loan is secured by 70% of the Company's shares in Shygys Energy LLP and Heat & Power Holding B.V. and property, plant and equipment of Karagandy Zharyk LLP with the carrying amount of 17,527,850 thousand tenge (31 December 2017: 10,139,368 thousand tenge).

The loan of Karagandy Zharyk LLP subsidiary from Sberbank of Russia SB JSC, provided as part of the Investment Program for 2011-2015, is secured by property, plant and equipment with carrying amount of 17,527,850 thousand tenge (31 December 2017: 10,139,368 thousand tenge).

On 26 June 2018, Ust-Kamenogorsk CHP LLP subsidiary entered into an agreement with Sberbank of Russia SB JSC on opening a credit line with an interest rate of 12.5% per annum with a maturity period of up to 2021. Within this credit line, the subsidiary received 7,711,485 thousand tenge in order to refinance loans from Halyk Savings Bank of Kazakhstan JSC and Altyn Bank JSC. In 2018, the subsidiary repaid the main debt of 1,077,393 thousand tenge. This loan is secured by property, plant and equipment with the carrying amount of 16,637,240 thousand tenge.

Development Bank of Kazakhstan JSC

On 21 February 2018, the Group, represented by Karaganda Energocentre LLP, entered into additional agreements of property pledge agreements with Development Bank of Kazakhstan JSC. According to additional agreements, property pledge agreements of Karaganda Energocentre LLP, concluded in order to secure the Group's obligations to Development Bank of Kazakhstan JSC under the credit line dated 19 June 2012, extends to securing the obligations of YDD Corporation LLP to Development Bank of Kazakhstan JSC under the agreement on opening a credit line concluded on 16 February 2018 in the amount of 24,120,000 thousand tenge.

As at 31 December 2018, the loan from Development Bank of Kazakhstan JSC is secured by property, plant and equipment with the carrying amount of 61,505,475 thousand tenge (31 December 2017: 64,148,595 thousand tenge)

D.A. Idrisov and M.K. Idrisova are the guarantors of loans received from Development Bank of Kazakhstan JSC and Sberbank of Russia SB JSC. Also Development Bank of Kazakhstan JSC is the guarantor under the loan agreement between the Sberbank of Russia SB JSC and Karaganda Energocenter LLP.

European Bank for Reconstruction Development

On 16 March 2018, the Group, represented by MRENC JSC, entered into a loan agreement with European Bank for Reconstruction and Development JSC (hereinafter referred to as "EBRD") to provide financing in the amount of 12,300,000 thousand tenge from the bank's usual resources and 5,300,000 US dollars from the special Green Climate Fund ("GCF") administered by the EBRD. The GCF was established at the Conference of the Parties to the UN Framework Convention on Climate Change in 2010. Its goal is to assist in reducing greenhouse gas emissions in developing countries, as well as assist in the process of adaptation of vulnerable communities to the inevitable consequences of climate change.

As part of this loan agreement, during 2018, the subsidiary received several tranches in the amount of 9,000,000 thousand tenge from the usual EBRD resources and 5,300,000 US dollars from the funds of the GCF for a period of ten years, with the beginning of the repayment of the principal debt after two years from the date of receipt of funds. Loan funds from GCF were provided only to finance the modernization and strengthening of the electrical grid and the expansion of the integration of renewable energy sources into the electrical grid.

The payment of interest for loans is quarterly. The interest rate for a loan received in US dollars from GCF funds is 1.7% per annum. The interest rate for a loan received in tenge is calculated as follows: loan margin 3.5% per annum plus 1% EBRD commission plus inflation rate. The inflation rate is calculated using official published data of the National Bank of the Republic of Kazakhstan. For 2018, the effective interest rate on the loan in tenge was 8.44%. The received funds from EBRD resources were used to repay the remaining loan amount from Bank CenterCredit JSC in the amount of 5,029,057 thousand tenge, and also to repurchase ninth-issue short-term commercial bonds in the amount of 1,500,000 thousand tenge. The subsidiary plans to use the remaining funds to the implementation of the investment program.

Bank CenterCredit JSC

During the first half of 2018, MRENC JSC subsidiary repaid the loan received from Bank CenterCredit JSC of 5,266,502 thousand tenge including the amount of 5,029,057 thousand tenge by entered into a loan agreement with the EBRD on 16 March 2018.

The fulfillment of the obligations of the subsidiary, Ontustik Zharyk Transit LLP, under the credit line agreement dated 1 February 2017, is secured by property, plant and equipment with a carrying value of 3,960,541 thousand tenge (31 December 2017: 3,831,659 thousand tenge).

Halyk Savings Bank of Kazakhstan JSC and Altyn Bank JSC

In 2018, Ust-Kamenogorsk CHP LLP subsidiary early repaid loans received from Halyk Savings Bank of Kazakhstan JSC and Altyn Bank JSC, fully repaying its loan obligations. As at 31 December 2017, property, plant and equipment in the form of movable and immovable property with a carrying value of 16,942,048 thousand tenge were used as the pledge for this loan.

At the date of receipt of control over Ust-Kamenogorsk CHP LLP (Note 13), the Group recognized these loans from Halyk Savings Bank of Kazakhstan JSC and Altyn Bank JSC at fair value with discount rate of 15.7%.

(in thousands of Tenge, unless otherwise stated)

Other loans

Loans from consumers

Other loans comprise of loans of the acquired subsidiary MRENC JSC. In accordance with decision No.1044 of the Republic of Kazakhstan Government dated 8 October 2004, the MRENC JSC received funds from customers for the construction of power transmission network or the current infrastructure reconstruction. Such funds are interest-free and due for repayment within twenty five years. The funds received from customers are initially recognised at their fair value determined using the effective interest rate method at the prevailing market rate (2009: 16%, 2008: 16% and 2007: 12%), and subsequently recognized at amortised cost in long-term loans. As at 31 December 2018, the amount of loans from consumers for connection of additional capacity was 547,916 thousand tenge (31 December 2017: 684,586 thousand tenge). The difference between the funds received and its fair value is recognised as deferred income (Note 26).

At the date of receipt of control over MRENC JSC (Note 13), the Group reflected loans from consumers in the consolidated financial statements at fair value with the discount market interest rate 13.17%.

Debt securities issued

As at 31 December debt securities issued included the following:

Enterprise of the Group	Debt securities issued by price	Maturity date	Exchange	31 December 2018	31 December 2017 (restated)
KKS LLP	15% tenge bonds	2021	KASE	856,744	856,744
MRENC JSC	8% bonds of the 6th issue in tenge	2023	KASE	1,405,944	1,286,973
MRENC JSC	9% bonds of the 7th issue in tenge	2024	KASE	2,021,382	1,888,519
MRENC JSC	8% bonds of the 8th issue, indexed to the US dollar	2025	KASE	2,966,572	2,441,075
MRENC JSC	15% tenge bonds	2018	KASE	-	1,618,452
	Total debt securities issued			**7,250,642**	**8,091,763**
	Current portion of issued debt securities			-	1,618,452
	Long-term portion of debt securities issued			7,250,642	6,473,311
				7,250,642	**8,091,763**

The indexed bonds of the eighth issue are denominated in tenge, but their nominal value is adjusted for the change in the US dollar relative to the tenge. The indexed nominal value of one bond is calculated as the product of the nominal value and the ratio of the official US dollar rate to the tenge set at the morning trading session for the US dollar on the Kazakhstan Stock Exchange on the date of coupon payment/redemption of the bond to the similar rate at the date of the bond circulation start.

At the date of receipt of control over MRENC JSC (Note 13), the Group reflected the bonds of MRENC JSC in the consolidated financial statements at fair value with discount market interest rate 13.17%.

As at 31 December 2018 and 2017, the Group had no delays in payments of principal and interest on loans and debt securities issued.

(in thousands of Tenge, unless otherwise stated)

Movement of obligations arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	1 January 2018 (restated)	Cash flows from financing activities (i)	Other changes (ii)	31 December 2018
Loans	(49,657,755)	(47,208,489)	(2,330,096)	(99,196,340)
Debt securities issued	(8,115,061)	1,500,000	(658,879)	(7,273,940)
Other borrowings (Note 28)	(1,086,000)	(1,590,619)	585,200	(2,091,419)
	(58,858,816)	**(47,299,108)**	**(2,403,775)**	**(108,561,699)**

	1 January 2017	Cash flows from financial activities (i)	Non-monetary changes: Acquisition of subsidiaries (Note 12)	Non-monetary changes: Other changes (ii)	31 December 2017 (restated)
Loans	(37,057,450)	4,720,971	(17,790,350)	469,074	(49,657,755)
Debt securities issued	-	(882,446)	(7,235,018)	2,403	(8,115,061)
Other borrowings (Note 28)	(1,377,370)	149,276	-	142,094	(1,086,000)
	(38,434,820)	**3,987,801**	**(25,025,368)**	**613,571**	**(58,858,816)**

(i) Cash flows from loans and borrowings, debt securities issued and other borrowings amount to the net amount of receipts and payments on borrowed funds in the cash flow statement.

(ii) Other changes include interest accrued and interest payments, amortization of a one-time consideration for arranging loans, the effect of revising the interest rate on a loan, and netting transactions.

Compliance with loan covenants

As at 31 December 2018, management believes that the companies within the Group and the Group itself fully comply with the revised restrictive terms of loan agreements with Development Bank of Kazakhstan JSC, Bank CenterCredit JSC, Sberbank of Russia JSC, Sberbank of Russia JSC and EBRD.

26. OTHER NON-CURRENT LIABILITIES

	31 December 2018	31 December 2017
Deferred income	1,347,671	1,418,085
Payable for MRENC shares	801,033	1,558,024
Others	908,469	353,558
	3,057,173	**3,329,667**

As at 31 December 2018, deferred income was mainly represented by deferred income of MRENC JSC of 1,332,250 thousand tenge (31 December 2017: 1,397,523 thousand tenge) (Note 25).

Accounts payable for MRENC shares are represented by the non-current portion of the accounts payable of Kazakhstan Utility Systems LLP for the purchase of Mangistau Regional Electricity Network Company JSC shares.

Financial liabilities within other non-current liabilities are denominated in tenge.

(in thousands of Tenge, unless otherwise stated)

27. TRADE ACCOUNTS PAYABLE

As at 31 December, trade accounts payables represented as payable for property, plant and equipment, as well as for goods and services, are denominated in the following currencies:

	31 December 2018	31 December 2017
Tenge	8,370,841	4,868,919
US dollars	117,752	29,337
Russian roubles	4,349	13,578
	8,492,942	**4,911,834**

The average credit period for acquisition of inventories and a major part of services on the territory of the Republic of Kazakhstan is 34 days.

28. OTHER ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	31 December 2018	31 December 2017
Advances received under contracts with customers	2,945,376	2,895,938
Current portion of payable for MRENC shares (Note 13)	1,014,334	909,130
Salary payable	905,169	741,647
Provision for unused vacation	647,838	582,713
Prepayment for the sale of a subsidiary	-	1,682,059
Other accounts payable	2,407,191	1,747,133
	7,919,908	**8,558,620**

As at 31 December 2018, advances by type of activity received under contracts with customers that will be recognized as revenue in the next reporting period are presented below. In accordance with the transitional provisions stipulated by IFRS 15, the comparable information as at 31 December 2017 is not disclosed.

Advances by type of activities	31 December 2018
Sale of electricity	1,765,012
Transmission of electricity	1,059,088
Sale of thermal power	121,276
	2,945,376

The revenue recognized in the reporting period, which was included in the balance of advances received under contracts with customers, at the beginning of the period is as follows:

	2018
Sale of electricity	1,429,597
Transmission of electricity	1,305,501
Sale of thermal power	157,691
Others	3,149
	2,895,938

Other accounts payable are mainly represented by interest-free short-term loans received from third parties of 2,091,419 thousand tenge (2017: 1,086,000 thousand tenge).

Financial liabilities as part of other accounts payables are denominated in tenge.

(in thousands of Tenge, unless otherwise stated)

29. OTHER TAXES PAYABLE

	31 December 2018	31 December 2017
Value added tax	1,043,114	1,599,390
Obligations for pension contributions	179,537	151,516
Personal income tax	142,149	105,415
Other taxes	394,518	323,396
	1,759,318	**2,179,717**

30. EMPLOYEE BENEFITS

In accordance with the Law of the Republic of Kazakhstan On Pension Benefits in the Republic of Kazakhstan effective from 1 January 1998, which replaced solidary pension system with the accumulation pension system, all employees are entitled to a guaranteed pension proportional to the length of their service, if any, as at 1 January 1998. They are also eligible for pension payments from accumulation pension funds made from individual retirement savings which arose as a result of mandatory contributions by employees in the amount of 10% of their salary. However, in accordance with the Kazakhstan legislation starting from 1 January 2016 deductions from each employee's salary shall not exceed 212,500 tenge per month (2017: 183,435 tenge per month). These amounts are expensed as incurred. Payments to the pension fund are deducted from an employee's salary and included in other payroll costs in the statement of comprehensive income.

As at 31 December 2018 and 2017, the Group had no further obligations to its current and former employees with respect to pension benefits, health care for the retired employees, insurance benefits or pension compensation.

31. RELATED PARTY TRANSACTIONS

For the purposes of these consolidated financial statements, parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The related parties may enter into transactions that might not be necessarily available to unrelated parties, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and related parties are disclosed below.

The nature of related party relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding as at 31 December 2018 and 2017 are detailed below.

(in thousands of Tenge, unless otherwise stated)

For the years ended 31 December 2018 and 2017, the Group had trading operations and operations on sale of assets with the following related parties:

	Sales		Purchases	
	2018	**2017**	**2018**	**2017**
Related parties	-	1,709,449	111,215	231,768

	Other accounts receivable		Other accounts payable	
	31 December 2018	**31 December 2017**	**31 December 2018**	**31 December 2017**
Related parties	1,288,618	1,709,449	-	131,327
Less allowance for expected credit losses	(1,129,078)	-	-	-
	159,540	**1,709,449**	**-**	**131,327**

	Financial aid provided	
	31 December 2018	**31 December 2017**
Related parties	76,000	76,000

Related party transactions are presented excluding value-added tax (VAT), balances on settlements with debtors and creditors are presented including VAT.

Loans issued

	Currency	Interest rate	Maturity	31 December 2018	31 December 2017
Ansagan Petroleum JSC	Tenge	10.75%	14 May 2020	53,420,923	-
Mustafin D.E.	Tenge	-	23 May 2020	3,129,486	-
Dragon Fortune PTE. LTD	US dollars	2.00%	18 December 2022	1,960,923	-
Total loans to related parties				**58,511,332**	**-**

The Group, represented by its subsidiary, Heat and Power Holding B.V., issued a loan to a related party (Dragon Fortune PTE. LTD) in the amount of 5,100 thousand US Dollars, based on a loan agreement dated 29 December 2017, with an interest rate of 2% per annum. The loan is repayable at the end of the term.

Interest income for 2018 on the loan issued to Ansagan Petroleum JSC was of 3,224,923 thousand tenge.

Other transactions

As at 31 December 2018, a financial aid provided to the related party, D.A. Idrissov is 11,000 thousand tenge (2017: 11,000 thousand tenge). During 2018, D.A. Idrissov did not repay the financial aid (2017: 7,628,000 thousand tenge).

As at 31 December 2018, a financial aid provided to the related party, Ordabasy Group LLP, is 60,000 thousand tenge (31 December 2017: 60,000 thousand tenge). During 2018, financial aid was not paid off (2017: 500,000 thousand tenge).

(in thousands of Tenge, unless otherwise stated)

Key management personnel remuneration

Key management personnel remuneration is determined at participants' meetings and by senior management based on human resources management policy, staff schedule, individual employment agreements, resolutions of participants' meetings and orders on awarding bonuses.

Remuneration paid to the key management personnel of the Group for the years ended 31 December 2018 and 2017 amounted to 198,658 thousands tenge and 193,590 thousand tenge, respectively.

32. FINANCIAL INSTRUMENTS

Capital management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximizing the return to the participants through the optimization of the debt and equity balance. The strategy of the Group remains unchanged in comparison to 2017.

The capital structure of the Group consists of the charter capital, non-controlling interests, as described in Notes 23 and 24, additional paid-in capital and retained earnings.

Significant accounting policies

Note 3 to these consolidated financial statements contains a summary of significant accounting policies and methods adopted, including criteria for recognition, an evaluation framework and method by which gains and losses are recognised in respect of each class of financial assets, financial liabilities and equity instruments.

Financial instrument categories

As at 31 December 2018 and 2017, financial instruments were presented as following:

	31 December 2018	31 December 2017
Financial assets		
Loans issued	58,511,332	-
Long-term accounts receivable	-	31,264
Trade accounts receivable	10,082,632	9,958,231
Other current assets (excluding prepaid expenses and other taxes recoverable)	1,214,568	2,452,442
Cash and cash equivalents	5,458,604	6,444,524
Financial liabilities		
Bank loans (current and non-current portions)	106,470,280	57,772,816
Other non-current liabilities	1,709,502	1,911,582
Trade accounts payable	8,492,942	4,911,834
Other accounts payable and accrued liabilities (excluding advances received, provisions for unused vacation, salaries payable and prepayment for the sale of a subsidiary)	3,421,525	2,656,263

Financial risk management objectives

The Group monitors and manages the financial risks related to the Group's business through internal risk reports, which analyze risk probability and its expected exposure. These risks include market risk (including currency risk and risk in respect of fair value change in the result of interest rates fluctuations), credit risk and liquidity risk. A description of the Group's risk management policies in relation to those risks is presented below.

(in thousands of Tenge, unless otherwise stated)

Credit risk management

Credit risk is the risk that a counterparty fails to fulfil its obligations to the Group, which will result in the Group suffering financial losses. The Group adopted a policy of doing business only with creditworthy counterparties to reduce the risk of a financial loss due to default. The Group's exposure and creditworthiness of counterparties are constantly monitored.

Credit risk primarily relates to loans issued (Note 31), trade accounts receivable (Note 18), cash and bank deposits (Note 21) and other current assets. The Group does not expect its counterparties to default, except for contractors, for which the Group has established an allowance for expected credit losses.

The concentration of credit risks is assessed as low due to the fact that the Group sells to a significant number of different customers, including both legal entities and individuals.

The Group places deposits in Kazakhstan and foreign banks. Management of the Group periodically reviews credit ratings of these banks in order to exclude credit risks.

		Rating		At 31 December	
Banks	**Location**	**2018**	**2017**	**2018**	**2017**
Sberbank SB JSC	Republic of Kazakhstan	BB-	BB-	2,453,879	2,621,259
Nurbank JSC	Republic of Kazakhstan	B-	-	2,280,234	
Tsesnabank JSC	Republic of Kazakhstan	B-	B+	202,043	587,428
Bank CenterCredit JSC	Republic of Kazakhstan	B	B	120,493	295,388
Altyn Bank JSC	Republic of Kazakhstan	BBB-	BB	4,654	596,721
ABLV Bank	Latvian Republic	-	-	-	1,684,430
Others	Republic of Kazakhstan, USA	-	-	7,322	404,514
				5,068,625	**6,189,740**

Credit ratings are presented in accordance with the rating according to Standard & Poor's agency.

The Group did not analyze the credit rating of ABLV Bank, which is located in Latvia, as the Group's cash placed with this bank received from the sale of the subsidiary (Note 22) was transferred as a loan to a related party, Dragon Fortune PTE. LTD, on 5 January 2018 (Note 31).

Market risk

The Group's activities are exposed to possible changes in exchange rates (see Currency risk management) and interest rates (see Interest rate risk management). The Group does not enter into agreements for derivative financial instruments to manage its exposure to interest rate risk and currency risk, as management believes that such exposure will have no significant effect on the consolidated financial statements.

Currency risk management

Forex loss for 2018 was 3,316,643 thousand tenge (2017: 30,268 thousand tenge), mostly formed in the result of revaluation of obligation on loans in the foreign currency using the exchange rate on the reporing date.

(in thousands of Tenge, unless otherwise stated)

As at 31 December 2018 and 2017, the carrying amounts of the Group's loans accounts payable and cash, denominated in foreign currencies, and bonds indexed to the US dollars are as follows:

	US dollars		Euro		Russian roubles	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Loans issued	1,960,923	-	-	-	-	-
Cash	-	883,665	-	824,517	-	-
Accounts payable	(117,752)	(29,337)	-	-	(4,349)	(13,578)
Bonds indexed to the US dollar	(2,966,572)	(2,441,075)	-	-	-	-
Loans received	(2,036,260)	-	-	-	(54,381,928)	-

Foreign currency sensitivity analysis

The Group is mainly exposed to the risk associated with the change in the exchange rate of the US dollar and Russian rouble.

The following table details the Group's sensitivity to a 20% increase and decrease in tenge against the relevant foreign currencies. 20% is the sensitivity rate used in internal foreign currency risk reports to the key management and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 20% change in foreign currency rates. The sensitivity analysis includes a) loans received and bonds indexed to the US dollar, b) accounts payable and c) loans issued and accounts receivables of the Group, when accounts it is denominated in the currency other than the currency of the creditor or debtor.

A positive number below indicates an increase in profit for the reporting period in a case of 20% strengthening of tenge against a relevant currency. For a 20% weakening of tenge against the relevant currency there would be an equal and opposite impact on the profit.

	US dollars effect		Euro effect		Russian roubles effect	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Loans issued	(392,185)	-	-	-	-	-
Cash	-	(176,733)	-	(164,903)	-	-
Accounts payable	23,550	5,867	-	-	870	2,716
Bonds indexed to the US dollar	593,314	488,215	-	-	-	-
Loans received	407,252	-	-	-	10,876,386	-

Interest rate risk policy management

The Group is exposed to interest rate risk as the Group receives loans. The risk is managed by the Group through raising borrowings at fixed interest rates. The Group considers this risk as insignificant.

Liquidity risk management

The ultimate responsibility for liquidity risk management rests with the owners of the Group that created the necessary liquidity risk management system for the Group's management on management of liquidity and short, medium- and long-term financing. The Company manages liquidity risk by maintaining appropriate reserves, through continuous monitoring of estimated and actual cash flows and comparing the maturity of financial assets and liabilities.

(in thousands of Tenge, unless otherwise stated)

Liquidity risk and interest rate risk tables

The following tables reflect the Group's contractual maturities on its non-derivative financial assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of financial assets and liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

	Interest rate	Less than 1 year	1-5 years	More than 5 years	Undefined	Total
31 December 2018						
Loans issued	0%-10.75%	-	66,309,677	-	-	66,309,677
Trade accounts receivable	-	10,082,632	-	-	1,412,258	11,494,890
Other current assets	-	1,214,568	-	-	-	1,214,568
Cash, interest bearing	5.85%-11%	4,213,039	-	-	-	4,213,039
Cash, interest free	-	1,407,605	-	-	-	1,407,605
		16,917,844	**66,309,677**	**-**	**1,412,258**	**84,639,779**
Loans and debt securities issued	1.7%-15%	(21,651,886)	(95,662,115)	(12,575,645)	-	(129,889,646)
Trade accounts payable	-	(8,492,942)	-	-	-	(8,492,942)
Other non-current liabilities	10.25%	-	(2,009,620)	-	-	(2,009,620)
Other accounts payable and accrued liabilities	-	(3,421,525)	-	-	-	(3,421,525)
		(33,566,353)	**(97,671,735)**	**(12,575,645)**	**-**	**(143,813,733)**
		(16,648,509)	**(31,362,058)**	**(12,575,645)**	**1,412,258**	**(59,173,954)**

	Interest rate	Less than 1 year	1-5 years	More than 5 years	Undefined	Total
31 December 2017						
Trade accounts receivable	-	9,958,231	31,264	-	-	9,989,495
Other current assets	-	2,452,442	-	-	-	2,452,442
Cash, interest bearing	7.5%-11%	1,684,860	-	-	-	1,684,860
Cash, interest free	-	4,759,664	-	-	-	4,759,664
		18,855,197	**31,264**	**-**	**-**	**18,886,461**
Loans	7%-15%	(21,539,606)	(43,860,341)	(9,541,256)	-	(74,941,203)
Trade accounts payable	-	(4,911,834)	-	-	-	(4,911,834)
Other non-current liabilities	-	-	(1,911,582)	-	-	(1,911,582)
Other accounts payable and accrued liabilities	-	(2,656,263)	-	-	-	(2,656,263)
		(29,107,703)	**(45,771,923)**	**(9,541,256)**	**-**	**(84,420,882)**
		(10,252,506)	**(45,740,659)**	**(9,541,256)**	**-**	**(65,534,421)**

Fair value of financial instruments

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, regardless of whether that price is directly observable or estimated using another valuation technique. As no readily available market exists for a large part of the Company's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument.

The following methods and assumptions were used by the Group to calculate the fair value of financial instruments:

- The carrying amount of cash and cash equivalents approximates their fair value due to the short-term nature of these financial instruments.
- For assets and liabilities with a maturity of less than twelve months, the carrying amount is approximates the fair value due to the short-term nature of these financial instruments.
- For financial assets and liabilities with a maturity of more than twelve months, the fair value is the present value of the estimated future cash flows, discounted using effective rates existing at the end of the reporting year.

(in thousands of Tenge, unless otherwise stated)

The calculation of the bank loans' fair value was made by discounting the expected future cash flows for individual loans during the settlement repayment period using the market rates prevailing at the end of the corresponding year for loans with similar maturities and credit rating parameters.

As at 31 December 2018, fair value of financial assets and liabilities did not differ significantly from their carrying amount, except for the following:

	Carrying amount as at 31 December 2018	Fair value as at 31 December 2018
Financial assets recognised at famortized cost:		
Loans issued (Level 2)	58,511,332	50,217,304
Financial liabilities recognised at amortized cost:		
Long-term bank loans (Level 2)	(106,019,330)	(105,367,819)

The fair values of the long-term financial liabilities included in the category of Level 2 of the hierarchy have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties.

33. CONTINGENT LIABILITIES

Contractual commitments

As at 31 December 2018, contractual commitments for purchase of property, plant and equipment and capital investments amounted to 1,493,868 thousand tenge (31 December 2017: 6,248,622 thousand tenge).

Under the MRENC shares purchase transaction, on 20 September 2017 (Note 13), the Group and KBI Energy LLP entered into a contract with Samruk-Energy JSC for the redemption of the sixth issue of MRENC bonds totalling 1,253,250 items (626,625 items to each buyer) owned by Samruk-Energy JSC. The contract amount was 1,538,402 thousand tenge and is to be paid in equal instalments during 2020-2023. This obligation was not accounted for when determining the amount of consideration payable, as the ownership for these bonds passes to the buyer from the date of starting payment of the purchase price, i.e. from 2020.

Operating environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the political environment.

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. Management of the Group is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future. However, the impact of further economic developments on future operations and consolidated financial position of the Group may be significant.

Taxation and regulatory environment

At present time, the Republic of Kazakhstan has a number of laws relating to various taxes levied by both national and regional authorities. Laws on these taxes have not been in effect for a considerable amount of time compared to more developed markets, so the application of their provisions is often not clear or not established. Accordingly, few precedents have been established regarding tax issues, and there are differing views on the legal interpretation of laws. In accordance with the law, the tax authorities may impose significant penalties on fines and penalties for late or incorrect filing of tax returns and/or tax payments. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for five calendar years preceding the year of tax audit; however, under certain circumstances reviews may cover longer periods. Consequently, the Group may be exposed to additional tax liabilities that may arise as a result of tax audits. These factors create more significant tax risks in the Republic of Kazakhstan than in countries with a more developed tax system.

Regulation of activity

The activity of a subsidiary Karaganda Energocentre LLP is regulated by the Law of the Republic of Kazakhstan On Natural Monopolies because it is the monopolist in the area of thermal power generation, and by the Law of the Republic of Kazakhstan On Electricity for the electricity generation. According to the laws, tariffs for the generation of thermal power are subject to approval by the Committee, and tariffs for the generation of electricity are subject to approval by the Ministry of Energy of Republic of Kazakhstan.

The activities of the subsidiaries Ust-Kamenogorsk CHP LLP and Sogrinsk CHP LLP are regulated by the Law of the Republic of Kazakhstan On Natural Monopolies as they are monopolists in the area of thermal power generation, and by the Law of Republic of Kazakhstan On Electricity for the electricity generation. According to the laws, tariffs for the generation of thermal power are subject to approval by the Committee, and tariffs for the generation of electricity are subject to approval by the Ministry of Energy of the Republic of Kazakhstan.

The activity of Karaganda ZhyluSbyt LLP is regulated by the Law of the Republic of Kazakhstan On Natural Monopolies and the Business Code of Republic of Kazakhstan ("Code"), as the entity is the monopolist in the distribution of thermal power and a dominant in the area of electricity supply. According to this law and the Code, tariffs for thermal power supply are subject to approval by the Committee, and tariffs for electricity supply are subject to agreement with the Committee.

The activities of the subsidiaries, Karagandy Zharyk LLP, Ontustik Zharyk Tranzit LLP and MRENC JSC, are also regulated by the Law of Republic of Kazakhstan On Natural Monopolies, as they are monopolists in the area of transmission of electricity. Under this law, tariffs for transmission of electricity are subject to approval by the Committee.

The activities of the subsidiaries, Raschetny Servisny Tsentr LLP, Ontustik Zharyk LLP and Energopotok LLP are regulated by the Code since they are dominant in the area of electricity supply.

The Group believes that it complies with all the requirements of the Committee, as well as other established requirements.

Investment programs

On 18 August 2015, the Department of the Committee for the Regulation of Natural Monopolies and Protection of Competition in the East Kazakhstan Region ("DCRNM&PC"), in agreement with the Akimat of the East Kazakhstan Region ("Akimat of the EKR"), approved the investment program ("Program") for the period from 2016 to 2020 in the amount of 5,465,806 thousand tenge. The actual amount of investment commitments for 2018, taking into account the adjustment agreed and approved with DCRNM&PC and Akimat of the EKR, is 1,179,219 thousand tenge (of which 1,166,224 thousand tenge approved) due to the sale of thermal power (in 2017: 1,203,869 thousand tenge from 1,142,518 thousand tenge approved). Ust-Kamenogorsk CHP LLP reported to DCRNM&PC on the execution of the Program for 2018 to the sale of thermal power.

In November 2016, investment program for 2016-2020 for Karagandy Zharyk LLP was approved by the order of the Committee Department. This investment program includes actions for the reconstruction and construction of Substation 35/110/220 kW, design, construction and reconstruction of high-voltage line 35/110kW, reconstruction of 0.4-6-10 kW electrical network, other activities and payment of principal.

In September 2015, Ontustik Zharyk Transit LLP approved the investment program for 2016-2022; this investment program includes actions for implementation of an automated system for commercial accounting of electricity and energy (ASKUE), the construction of new power grids and other activities.

In accordance with the order of the Committee on approval of the investment program of MRENC JSC for 2016-2020, taking into account adjustments №84-OD dated 29 November 2017, investment obligations of MRENC JSC as at 31 December 2018 amounted to 4,287,208 thousand tenge. As at 31 December 2018, the subsidiary completed the investment plan for the amount of 4,302,898 thousand tenge (without capitalization of interest on loans). The percentage of implementation of the investment plan for 2018 was 100%.

Management believes that it complies with the requirements of investment programs.

Terms of loan agreements

Under the loan agreements, the Group has to comply with financial and non-financial covenants. As at 31 December 2018, management believes that the companies within the Group and the Group itself fully comply with the revised restrictive terms of loan agreements with Development Bank of Kazakhstan JSC, Bank CenterCredit JSC, Sberbank of Russia JSC, Sberbank of Russia JSC and EBRD.

Legal claims

The Group is subject to various legal proceedings related to business operations, such as property damage claims. The management does not believe that such pending or potential claims, individually or in aggregate, are likely to have any material negative impact on the Group's financial position or financial results of its operations.

The Group assesses the likelihood of occurrence of significant liabilities and accrues provisions in its financial statements only when it is probable that the events giving rise to a liability will occur and the amount of the liability can be reliably estimated.

In the ordinary course of business, the Group may be subject to legal proceedings and lawsuits. The management of the Group believes that the final obligation, if any, arising from such legal proceedings and claims will not have a material adverse effect on the future financial position or core activities of the Group.

In 2018, the prosecutor's office of the Mangistau region filed a lawsuit against the DNMRC with respect to the recognition of the order on approval of tariffs No.129-OD dated 24 November 2015 to be illegal. The subsidiary, MRENC JSC, in this lawsuit was involved as a third party. On 7 November 2018, according to the results of the court proceedings, a decision was made that invalidated and canceled the mentioned order in the part of overestimated labour and remenuration costs in the approved tariff budget. As a result, DNMRC sent to the MRENC a prescription on taking measures to adjust the overestimated expenditures on labor on remuneration costs in the approved tariff estimate, which was appealed by MRENC JSC in court.

As a result of the review of the MRENC JSC appeal, was left unsatisfied. Along with that, the court decided that the Group, to satisfy of the appealed requirement is obliged to submit an application for approval of the compensating tariff, taking into account the impossibility of reimbursement of labor costs and the measures taken by the claimant to adjust the costs of remuneration. At the same time, the amount of expenses, as well as the name and list of articles of the tariff estimates to be adjusted, are determined by the natural monopoly entity on its own. However, this decision did not enter into force, since an appeal was filed, which, by virtue of the requirements of the legislation, is to be considered within two months from the date when the case is submitted to the board.

Accordingly, MRENC JSC has a conditional obligation to compensate for the amount of overstatement in the tariff budget, the implementation of which depends on the outcome of the proceedings. However, given the fact that the amount of the tariff adjustment at the time of issuance of these consolidated financial statements cannot be reliably estimated and that the final court decision has not yet entered into legal force, the management of MRENC JSC believes that there is a possible risk of tariffs rediction in the future but its impact on the financial information reflected in these consolidated financial statements cannot be reliably estimated.

34. EVENTS AFTER THE REPORTING DATE

Tariffs

From 1 January 2019, the Group agreed with the Committee to lower the tariff for electricity transmission and distribution services from 6.59 to 5.93 tenge per kW/h (in the South Kazakhstan region), from 4.56 to 4.53 (in the Mangistau region), from 5.35 to 5.31 (in the Karaganda region) for the supply of electricity to Energopotok LLP from 18.82 to 17.54 tenge per kW/h. (in the South Kazakhstan region) and the Raschetny Servisny Tsentr LLP from 16.53 to 16.21 tenge per kW / h., Karagandy ZhyluSbyt LLP from 14.065 to 13.564 tenge per kW/h. (in the Karaganda region), and for the generation of thermal power from 2,648.57 to 2,603.25 tenge per Gcal (in the East Kazakhstan region). For the generation of electricity from 7.5 tenge to 5.88 tenge per kW/h in the Karaganda region and up to 5.69 tenge per kW/h in the East Kazakhstan region.

35. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements for the year ended 31 December 2018 were approved by management of the Group and authorized for issue on 29 May 2019.