



The background of the page is a photograph of several white wind turbines in a green field under a clear blue sky. The turbines are arranged in a line, receding into the distance. The sky is a gradient of blue, and the field is a vibrant green. The overall image conveys a sense of clean energy and sustainability.

# CONTENTS

[Key indicators](#)

[Key events of the Year 2016 and realization of priority tasks](#)

[Message of the Chairman of the Supervisory Board](#)

[Message of General Director](#)

[About the Company](#)

- [Brief company profile](#)
- [Mission, vision, values](#)
- [Strategy and business model](#)
- [History of development of the company](#)
- [Areas of presence](#)
- [Vertical integration](#)
- [Profiles of subsidiaries](#)
- [Competitive advantages](#)

[Management reporting](#)

- [Macroeconomic overview](#)
- [Industry review](#)
- [Business environment](#)
- [Operating activity results](#)
- [Financial results](#)
- [Investment projects](#)
- [Marketing activities](#)
- [Plans for 2017](#)

[Corporate management](#)

- [Corporate management principles](#)
- [Management structure](#)
- [Corporate management System in the company](#)
- [Supervisory board](#)
- [Executive body](#)
- [Remuneration information](#)

[Risk management](#)

- [Risk managementsystem](#)

[Sustainable development report](#)

- [Environmental protection](#)
- [Social responsibility](#)
- [Charity and sponsorship](#)
- [Health and labour safety](#)

[Consolidated financial statements](#)

[Abbreviations](#)

[Contact information](#)



KEY INDICATORS



30.38

bln KZT

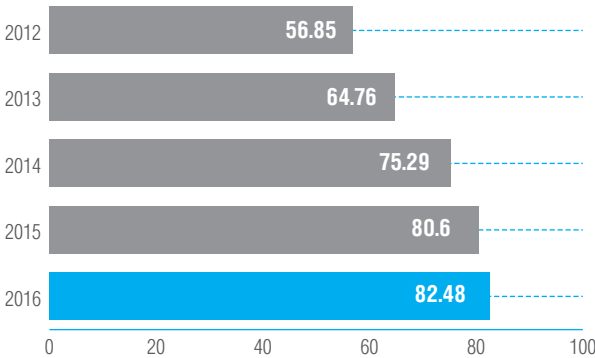
EBITDA

17.08

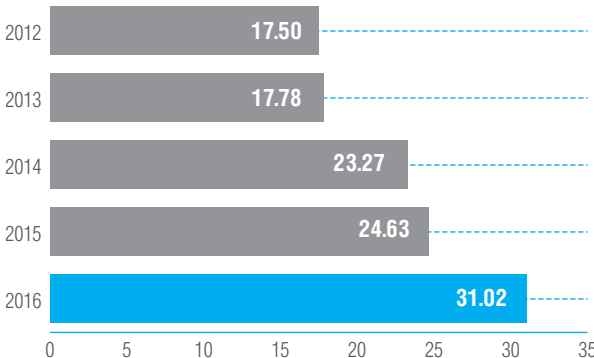
bln KZT

NET PROFIT

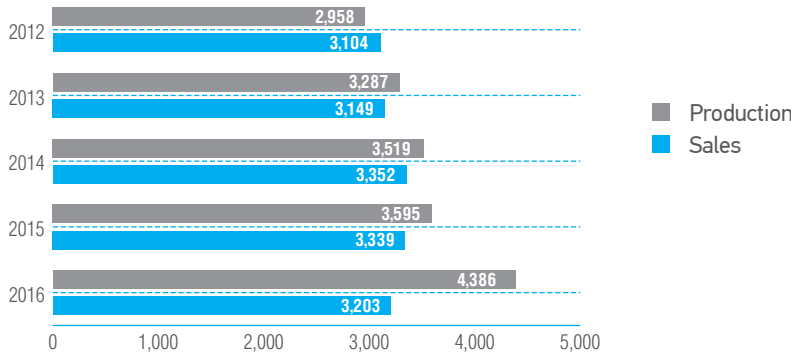
Profit, bln KZT



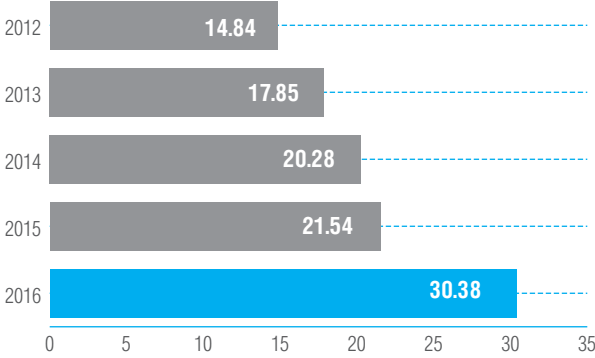
Gross profit, bln KZT



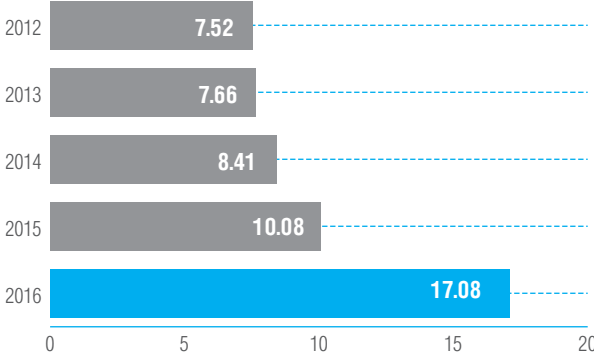
Production and sales of electric power, mln kWh



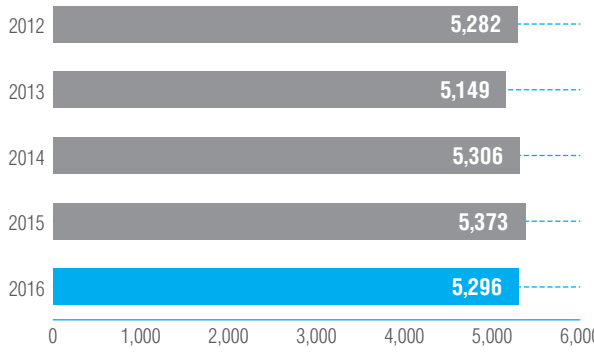
EBITDA, bln KZT



Net profit, bln KZT

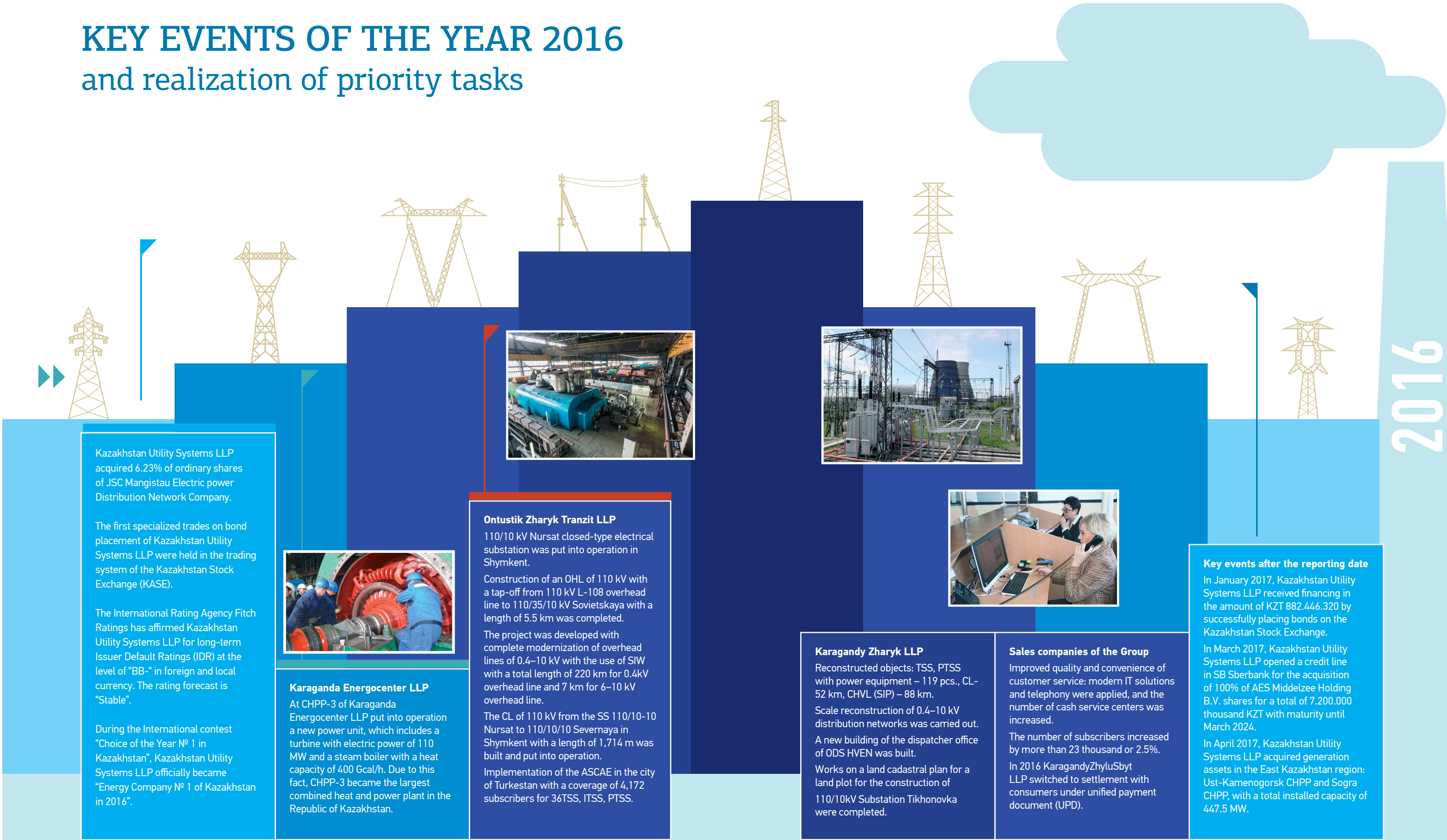


Electric power transmission, mln kWh



# KEY EVENTS OF THE YEAR 2016

## and realization of priority tasks



# MESSAGE OF THE CHAIRMAN OF THE SUPERVISORY BOARD

22%

INCREASE IN ELECTRIC POWER  
GENERATION IN 2016



## Dear ladies and gentlemen!

Let me greet you on behalf of the Supervisory Board of Kazakhstan Utility Systems LLP.

Currently there is an optimistic and predictable situation in the energy sector of the Republic of Kazakhstan. Given that the depreciation level of power plants in the country is currently 70%, the regulator and participants in the energy market are taking fundamental, timely measures to improve the situation. In particular, domestic stations are now in the active phase of modernization of fixed and generating assets. In the coming years, stable investment in the energy system of the Republic by market participants will continue. Financing of the stations owned by Kazakhstan Utility Systems LLP will be aimed at increasing the CHPP electrical and thermal capacity, reconstructing and modernizing the equipment, using innovative approaches in energy asset management.

I can say with confidence that KUS Group of Companies finished the year of 2016 with indicators demonstrating stable growth and progressive development of all three divisions – generation of electric power and heat, transmission and sales to end-users. This tells about verified financial policy and successful implementation of investment programs of all subsidiaries that are part of KUS LLP structure.

I would like to specify the record increase in electric power generation by 22% by Kazakhstan Utility Systems LLP in 2016. Such growth in the production of the main KUS product is due to the commissioning of a new power unit at Karaganda CHPP-3, which made it possible to produce 25% more electric

power and heat. This event gave a new impetus to the economy development of the whole region. The increase in the station capacity allowed them to place new energy-intensive production facilities in the Karaganda region. Small and medium businesses received additional energy support. With all innovations, Karaganda CHPP-3 has reached the capacity of 670 MW.

KUS LLP strategy includes the following areas of development: further implementation of large-scale investment programs at existing facilities, expansion of generating capacities, along with the construction of new power networks.

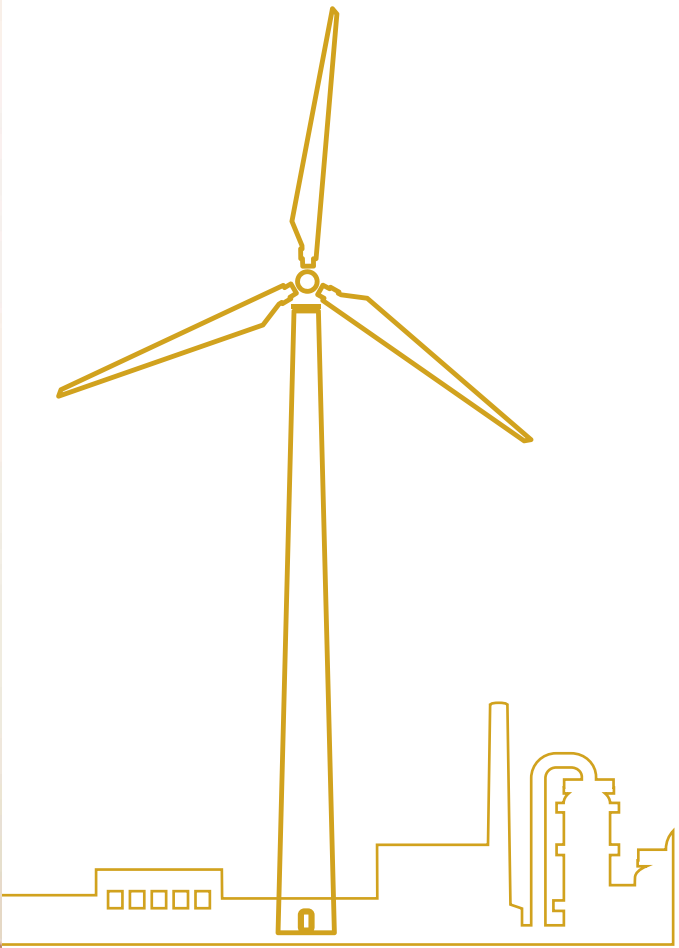
The population of our republic is steadily increasing and the domestic economy demonstrates a steady annual growth. It is natural that the energy consumption in the country will only increase. Accordingly, energy companies have a special responsibility and additional burden. Energy has always been and is a strategically important industry, directly affecting the life and well-being of citizens. We are fully aware of our responsibility and task to provide uninterrupted and high-quality energy for residents of those regions in which the KUS Group of Companies is present.

I am convinced of further successful development of the Company and its promising future. I sincerely wish all the KUS staff to realize their goals and tasks and I believe in their achievement of high results.

Sincerely, Dinmukhamet Idrissov



# MESSAGE OF GENERAL DIRECTOR



## Dear readers!

I greet you on behalf of Kazakhstan Utility Systems LLP management. By presenting this review of our company activities for the past period, I hope that it will allow you not only to get acquainted with our organization and get useful information, but it will also serve as a starting point for building mutually beneficial cooperation between us.

Our company, which is known in Kazakhstan by the “KUS” abbreviation, has been one of the main players in the Republic's electric power sector for many years. The structure of the company traditionally covers such businesses: production, transmission, distribution and supply of electric and heat energy.

From the day of its founding, KUS demonstrates only a positive growth. This is facilitated by the large and laborious work of the whole company team. The main priority of our development has always been the use of innovative solutions at our production facilities as well as scientific, innovative approach. This applies to all, without exception, KUS subsidiaries.

The past period has become especially significant for us. In 2016, we started preparing for one of the main landmark deals of our company – the acquisition of new energy assets, namely, Ust-Kamenogorsk and Sogra CHPP's – that will expand our coverage to three regions: Karaganda, South Kazakhstan and East Kazakhstan regions. We have affirmed our credit ratings: the International Rating Agency Fitch Ratings has affirmed the long-term foreign and local currency Issuer Default Ratings at “BB-” and the national long-term rating “BBB+(kaz)”, the forecast of the ratings is “Stable”. At the end of 2016, our company's EBITDA grew by 41%. By the end of 2016, our production assets have become one of the most modernized in Kazakhstan.

All these achievements did not leave unnoticed. During the International Festival-Contest “Choice of the Year” KUS was awarded the title “Energy Company of Kazakhstan № 1 in 2016”.

Those results were reached due to economic conditions of our market coverage that are being created in the republic. We are very grateful to our Government for these conditions. The reform implemented at the end of 2015 on the liberalization of market relations in the power industry positively affected the Company activities. We finished the year of 2016 with a good financial result and effectively implemented planned investment

measures, despite the fact that the maximum levels of selling tariffs for the stations were frozen until the end of 2018 at the level of 2015 prices. We were also efficient in the transmission and distribution sector. The marginal levels of transmission tariffs, which are approved for our network companies until 2020, make more certainty in our subsequent development and give us guarantees of successful implementation of adopted investment programs.

We forge ahead and are constantly developing because we work to correct our mistakes. We strive to meet the requirements of our customers as much as possible, because we understand that providing quality power supply services is the only key to success. All our efforts are aimed at achieving this goal step by step. I can proudly say that in 2016 we completed the implementation of all levels of the automated system for commercial accounting of electric power consumption (ASCAE) in the Karaganda region and have already moved to its implementation in the South Kazakhstan region. As of the end of 2016, it is possible to connect a large number of new consumers on the territory of our networks. These activities, together with the expansion of Karaganda CHPP-3 by 110 MW in 2016, actively contribute to the development of the country's economy.

Our further actions are aimed only at improving the achieved positions. In 2017, we will continue to introduce ASCAE in the South-Kazakhstan region with the main focus on the level of the retail market. As part of plans to modernize our generation and network assets, we planned significant investment inflows, mainly aimed at improving the energy and, especially, environmental efficiency of our stations, as well as changing the configuration of low-voltage networks, increasing the general networks capacity, and automating technological processes.

All completed work could not be effective without full support and confidence of the KUS Supervisory Board, for which we are very grateful.

I am confident that the solid work of the KUS team in 2017 will not only allow us to achieve the goals set, but also to prepare the basis for an even more dynamic development of the company.

Sincerely, **Nabi Aitghanov**

About the Company

- Brief company profile
- Mission, vision, values
- Strategy and business model
- History of development of the company
- Areas of presence
- Vertical integration
- Profiles of subsidiaries
- Competitive advantages

# ABOUT THE COMPANY

## BRIEF COMPANY PROFILE

Kazakhstan Utility Systems LLP (KUS, the Company or the Group) is a successful vertically integrated company in the electric power and heat power sector of the Republic of Kazakhstan.

The Group develops and implements a development strategy that meets the state’s energy policy. The main KUS development factors are modernization of existing assets, expansion in generating and power transmission capacities, as well as client focus of sales companies.

The enterprises of the KUS Group form a production chain – from the generation of electric power and heat to their delivery to the end consumer. In 2016, the company operated in two regions of the country – South Kazakhstan and Karaganda regions. All KUS enterprises have integrated single management processes that ensure effective interaction of all structural subdivisions of subsidiaries.

Since April 2017, KUS is represented in the East Kazakhstan region after acquisition of new generation assets.

KUS is a stable and creditworthy Company. In August 2016, the International Rating Agency Fitch Ratings has confirmed the KUS’s long-term foreign and local currency Issuer Default Ratings (IDR) at “BB-” level. Moreover, the agency has confirmed the company’s national long-term rating at “BBB+(kaz)” level. The rating outlook is stable. The KUS’s 12.3 bln KZT bond program also has a “BB-” rating in accordance with the long-term local currency IDR.



About the Company

- Brief company profile
- Mission, vision, values
- Strategy and business model
- History of development of the company
- Areas of presence
- Vertical integration
- Profiles of subsidiaries
- Competitive advantages

MISSION, VISION, VALUES

Mission

The Group’s mission is to ensure reliable and high-quality electric power supply to each consumer and to contribute long-term economic development and social stability in the regions of the company’s presence, their prosperity and progress.

Vision

KUS Group is an actively developing structure leading in the key segments of electric and power engineering industry of Kazakhstan, such as electric power generation, transmission and sales.

KUS carries out its activity in densely populated areas of the country experiencing power shortages.

Values

**RELIABILITY** – ensuring reliability and high quality of the services rendered by the company.

**PROFESSIONALISM, TEAM SPIRIT** – improvement of professional level of employees as one of the most important tasks of the company.

**HUMAN CAPITAL** – faith in success of common business, mutual respect and assistance to professional growth and development of each employee, understanding of interests and needs of every employee.

**INNOVATIVENESS** – continuous aspiration to improve and optimize already existing approaches and technologies as well as strenuous support and promotion of development of new products and solutions.

**THE GOAL OF KUS LLP** is to create a new value for the Company, to maintain profitability and stability of business, to ensure shareholders’ return on investment through increase in the value of assets.

In order to achieve this goal, the Company is constantly working to develop and optimize business processes, including reducing costs, increasing the efficiency of operations, improving the quality of products and services provided, and applying new advanced technologies.

The Group also sees its mission in preservation and protection of environment subject to rational management of natural resources.

The Group constantly expands the list of assets and geography of its presence by means of inclusion of various power engineering industry companies using renewable power sources and supporting promising innovative projects.

- The Company’s responsibility to the state is to ensure:**
- the ability of the Company’s energy assets networks to meet the growing demand for heat and electric power;
  - sufficiency and reproducibility of the resource base, effective management of costs;
  - effective and reasonable use of funds invested in the Company, as well as minimizing the risks of investment activity;
  - coordination of the Company’s plans and regional development plans in such a way as to meet the region’s future energy supply needs.

Kazakhstan Utility Systems LLP considers quality management, occupational safety, conservation of life, health, environmental protection as **an integral part of its mission** as a high-tech, efficient and dynamically developing company in the Republic of Kazakhstan.

The main **priorities** of Kazakhstan Utility Systems LLP which allow to ensure the quality and timely implementation of all projects are the following:

- systematic training and continuous improvement of the professional skills of the employees of the Kazakhstan Utility Systems Group, development of human resources, preservation and enhancement of human capital of KUS LLP;

- use of existing production, financial and human resources of the Kazakhstan Utility Systems Group to maximum effect to achieve the set goals;
- client-focus sales companies, providing constant feedback to consumers, improving aftersales services;
- rigorous and strict observance of the legislation of the Republic of Kazakhstan, state legal acts regulating energy policy which are obeyed by the Kazakhstan Utility Systems Group;
- construction of new power lines, expansion of generating and transmission capacities, stable growth of production performances of affiliates of the Kazakhstan Utility Systems Group.
- modernization of existing energy assets, application of innovative solutions at own production facilities, scientific, innovative approach and optimization of power consumption;
- constant focus on preservation of environmental balance in the course of operating activity of the organizations-affiliates of the Kazakhstan Utility Systems Group, application of the best practices, power efficient and safe in terms of environment and occupational safety, technical solutions during implementation of projects;
- open and transparent activities of the Kazakhstan Utility Systems Group, provision the consumers, partners, community with required information on works done by the KUS LLP, including through coverage in media, taking into account the high social significance of the product produced and sold by the Group;
- constant analysis of activity of all suppliers and contractors of Kazakhstan Utility Systems Group, establishing the long-term and mutually beneficial relationships with them.

STRATEGY AND BUSINESS MODEL

The Strategy of Kazakhstan Utility Systems LLP

Kazakhstan Utility Systems Group is among leading energy companies of the country. The strategic goal of the KUS is to join top3 largest energy companies of the Kazakhstan in 5 years.

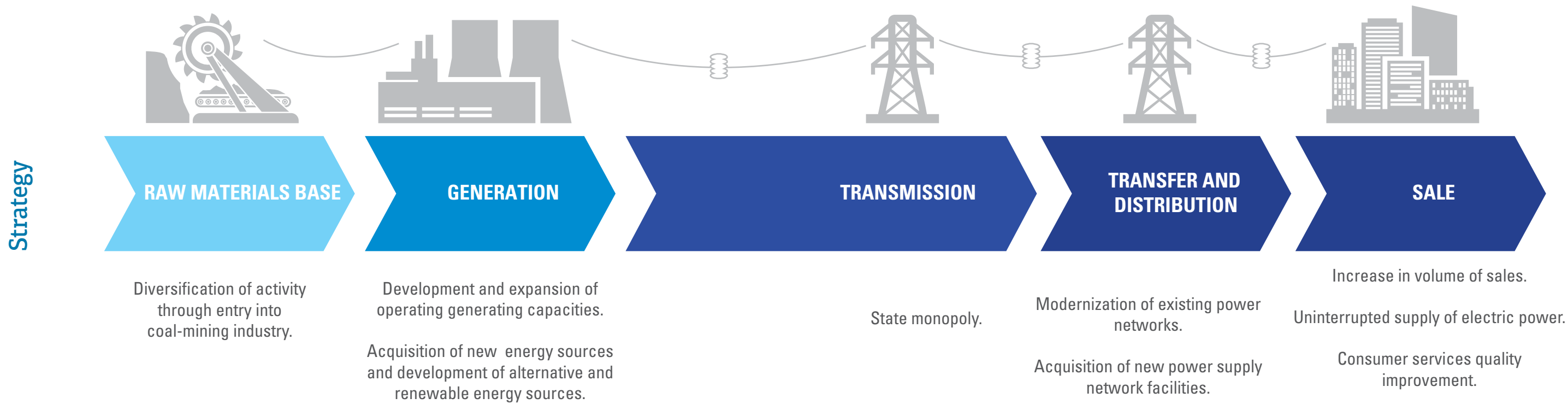
KPI Kazakhstan Utility Systems LLP for 2017

Nº	Key performance indicators	Unit	Plan for 2017
1.	EBITDA	mln KZT	36,255
2.	Capitalization	mln KZT	240,734
3.	Annual average electric power supply	MW	442
4.	Volume of electric power transport	(mln kWh)	5,235
5.	Networks losses	%	13.37



- About the Company
  - Brief company profile
  - Mission, vision, values
  - Strategy and business model
  - History of development of the company
  - Areas of presence
  - Vertical integration
  - Profiles of subsidiaries
  - Competitive advantages

Strategy of Kazakhstan Utility Systems LLP



- Corporate development**
- The Group introduces managerial innovations, international standards of corporate governance.
  - Focus on promotion of international investments in KUS and power industry of the country.
  - The Group strives to support the development of human potential through establishing responsible relations with employees.
  - Creation of positive reputation of the company and strong brand.
  - Active promotion of company interests in terms of legislation.

About the Company

- Brief company profile
- Mission, vision, values
- Strategy and business model
- History of development of the company
- Areas of presence
- Vertical integration
- Profiles of subsidiaries
- Competitive advantages

HISTORY OF DEVELOPMENT OF THE COMPANY

2008–2010

- Kazakhstan Utility Systems LLP management company was formed on November 3, 2008.
- The Group obtained control over 100% participation interest in Ontustik Zharyk Transit LLP and Karagandy Zharyk LLP for the purpose of creation of vertically integrated power generation and transmission company.
- In 2010, the Group became a participant of Karaganda Energocenter LLP (KEC) by means of making an additional contribution into authorized capital and redistribution of shares among participants.

2011

- Obtaining of control over 100% participation interest in KaragandyZhyluSbyt LLP, Raschetnyi servisnyi center LLP, Energopotok LLP and Ontustik Zharyk LLP for the purpose of creation of vertically integrated power generation and transmission company.
- Decision on construction of a new power generating unit (boiler + turbine) for 110MW and 185 Gcal/hour.
- Reduction of the rate of accidents at CHPP-3, CHPP-1 of Karaganda Energocenter LLP by 50%.
- Karagandy Zharyk LLP put two new substations into operation.
- Karagandy Zharyk LLP implemented an automated control and record-keeping system, 2<sup>nd</sup> stage.
- Construction of HVL-110kV of SDPP-1 – CHPP-2 of Karagandy Zharyk LLP.
- Ontustik Zharyk Transit LLP introduced an automated system of bases and consumers for the purpose of issue of technical specifications for as quick determining of connection points as possible.
- Conclusion of EPC contract for expansion of Karaganda CHPP-3, namely, for installation of power generating unit No. 6.
- Commissioning of a new turbine No. 5 of 120MW power;
- Reconstruction of belt conveyor (lines 2A, 3A, 4B) at CHPP-3 of Karaganda Energocenter LLP.
- Commissioning of cooling tower No. 4 of Karaganda Energocenter LLP.
- Implementation of automated control and record-keeping system by Karagandy Zharyk LLP, 3rd stage.
- Upgrade of transformers, development of external electric power networks for creation and maintaining of a reliable system of electric power supply.

2012–2013

- Conclusion of the agreement with Development Bank of Kazakhstan on opening of credit line in the amount of KZT 30 bln for Karaganda Energocenter LLP.
- Construction of new ash-disposal areas for dry stockpiling of wastes at CHPP-1 and CHPP-3 of Karaganda Energocenter LLP.
- Construction of “Zharyk” substation (SS) of Karagandy Zharyk LLP.
- Ontustik Zharyk Transit LLP commenced construction of “Severnaya” SS and “Nursat” SS for 110kV.
- Execution of work for reconstruction and technical upgrade of electric power transmission networks for 10/6/0.4kV in accordance with developed working projects of Karagandy Zharyk LLP.
- Creation of Energy Center LLP. Statutory activity of the company consists in production of heat and electric power. 100% participation interest in the partnership belongs to the Group of KUS.

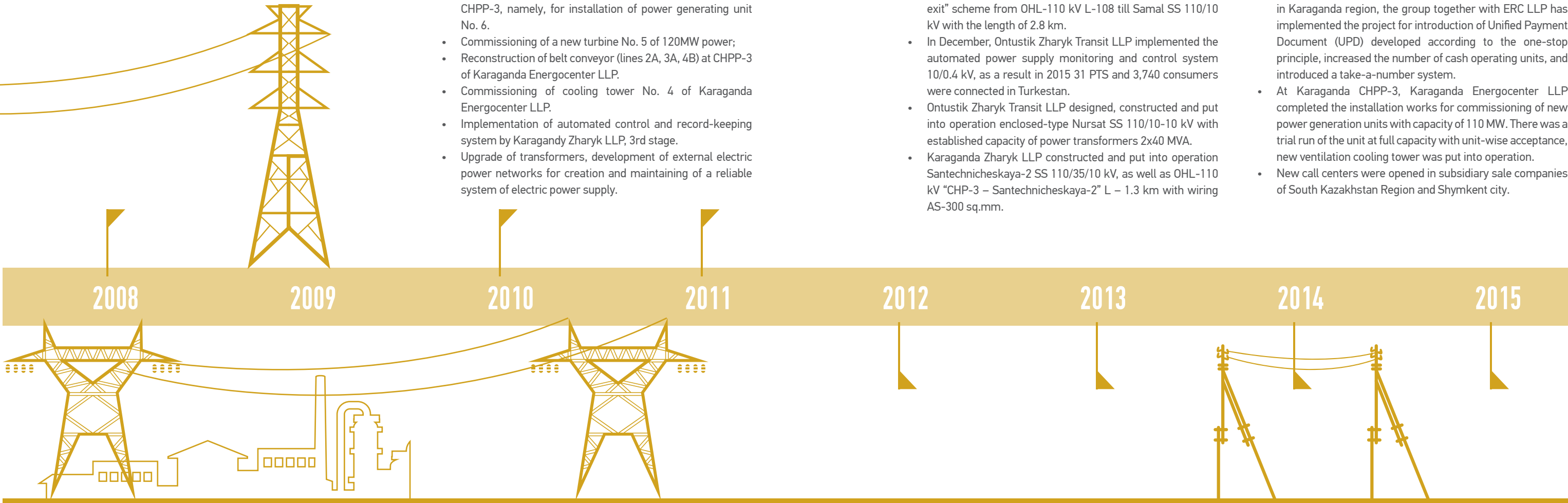
2014

- The process of Karaganda Energocenter LLP expansion through installation of turbine No. 6 and boiler No. 8 has been implemented since 2013.
- Karagandy Zharyk LLP put the following substations into operation: Zharyk SS220/110/10kV and Santechnicheskaya-2 SS 110/35/6kV.
- Ontustik Zharyk Transit LLP put into operation Severnaya substation (2x40,000kVA) and carried out construction and upgrade of 10/0.4kV networks of different voltage classes.
- “Construction of wind-powered generating plant in South Kazakhstan region” project.
- Extension of customer base and introduction of “Unified Billing System” of suppliers of all types of public utility services was carried out in subsidiary sales organizations, buildings were purchased for creation of contact centers.
- Engineering site investigations were conducted and feasibility study report was drawn up for the project of manufacturing and repair Company of the Group.

2015

- Ontustik Zharyk Transit LLP has successfully completed the construction of 0.4–10 kV networks in Taraz microdistrict of Shymkent city.
- Ontustik Zharyk Transit LLP completed the construction of the second overhead line 110 kV according to the “entry-exit” scheme from OHL-110 kV L-108 till Samal SS 110/10 kV with the length of 2.8 km.
- In December, Ontustik Zharyk Transit LLP implemented the automated power supply monitoring and control system 10/0.4 kV, as a result in 2015 31 PTS and 3,740 consumers were connected in Turkestan.
- Ontustik Zharyk Transit LLP designed, constructed and put into operation enclosed-type Nursat SS 110/10-10 kV with established capacity of power transformers 2x40 MVA.
- Karaganda Zharyk LLP constructed and put into operation Santechnicheskaya-2 SS 110/35/10 kV, as well as OHL-110 kV “CHP-3 – Santechnicheskaya-2” L – 1.3 km with wiring AS-300 sq.mm.

- In order to diversify the activity of the Group through development of alternative power industry, Zhuzimdyk Wind Farm LLP was created on July 15, 2015, in which KUS LLP owns 100% participation interest.
- For the sake of convenience of the consumers, in November, in Karaganda region, the group together with ERC LLP has implemented the project for introduction of Unified Payment Document (UPD) developed according to the one-stop principle, increased the number of cash operating units, and introduced a take-a-number system.
- At Karaganda CHPP-3, Karaganda Energocenter LLP completed the installation works for commissioning of new power generation units with capacity of 110 MW. There was a trial run of the unit at full capacity with unit-wise acceptance, new ventilation cooling tower was put into operation.
- New call centers were opened in subsidiary sale companies of South Kazakhstan Region and Shymkent city.



About the Company

- Brief company profile
- Mission, vision, values
- Strategy and business model
- History of development of the company
- Areas of presence
- Vertical integration
- Profiles of subsidiaries
- Competitive advantages

AREAS OF PRESENCE

In 2016, the Group is represented in 2 of 14 regions of Kazakhstan, namely: Karaganda and South Kazakhstan ones. Total population size of those regions is 4.3 mln people, which makes approximately 25% of the total population of the country.

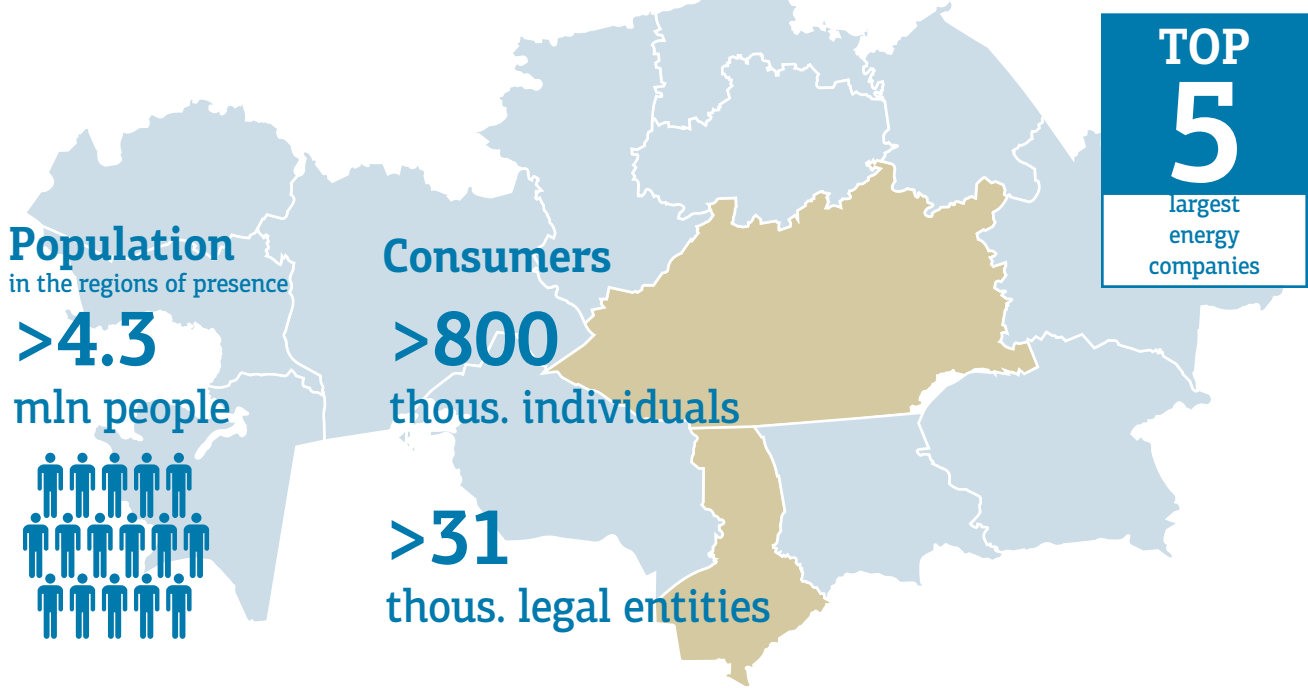
According to the results of 2016, KUS consumers consisted of 800 thousand subscribers and above 31 thousand legal entities.

In Karaganda region, the Group is focused on production of heat and electric power and chemically pure water as well as transfer, distribution and sales of electric and heat power. Activity of the Group in South Kazakhstan Region is focused only on transfer, distribution and sales of electric and heat power.

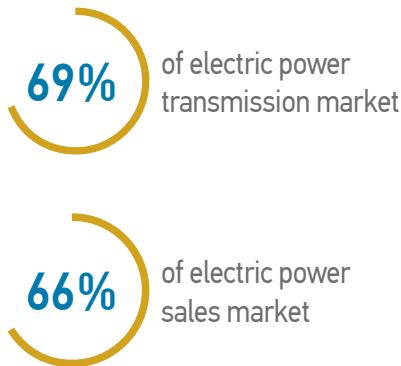
According to the results of 2016, the Group accounts for 33% of electric power generation market in Karaganda region, 28% of electric power transmission market, 70% of heat power supply (KUS supplies heat power to Karaganda City) and 69% of electric power sale market in Karaganda city and satellite towns thanks to energy sale companies of KUS.

In South Kazakhstan Region, KUS accounts for 69% of electric power transmission market and 66% of electric power sales sector.

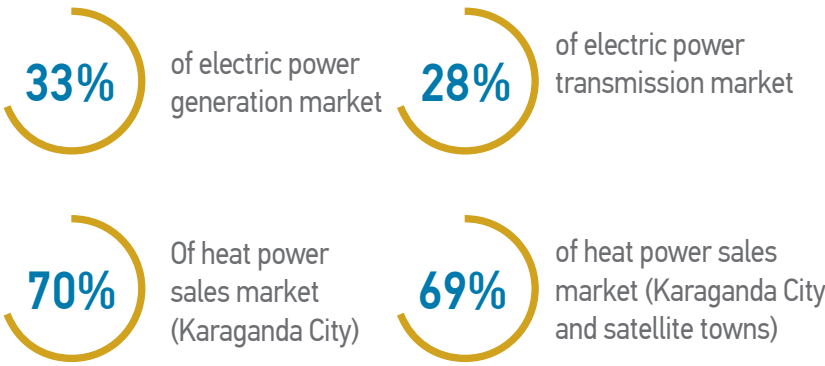
Since April 2017, KUS also operates in East-Kazakhstan region, where it acquired Ust-Kamenogorsk CHPP and Sogra CHPP.



South Kazakhstan Region



Karaganda Region



VERTICAL INTEGRATION

The Group is a vertically integrated company represented by 8 energy companies as of the end of 2016.

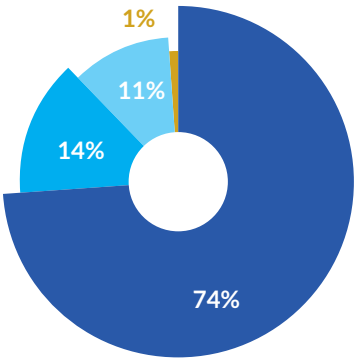
Number of employees of the Group companies in 2016 – 7.4 thousand people.

There are following segments within the Group:

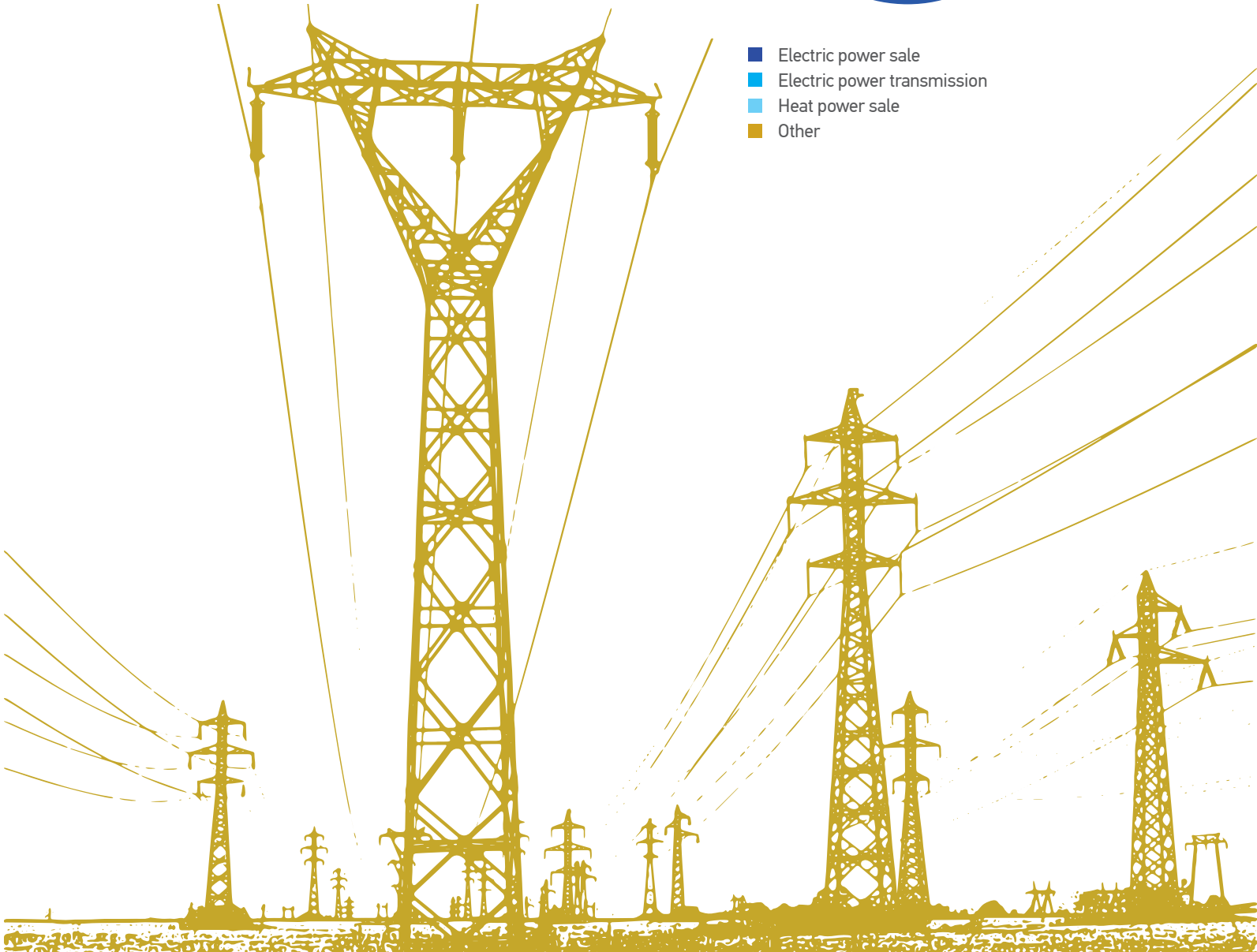
- Generation**
  - Karaganda Energocenter LLP;
  - Zhuzimdyk Wind Farm LLP.
- Transmission and distribution**
  - Karagandy Zharyk LLP;
  - Ontustik Zharyk Transit LLP.
- Sales**
  - KaragandyZhyluSbyt LLP;
  - Raschetnyi servisnyi center LLP;
  - Ontustik Zharyk LLP;
  - Energopotok LLP.

At the end of 2016, KUS provides electric power and heat supply services to areas of presence where 25% of country's population lives.

Composition of income, 2016



- Electric power sale
- Electric power transmission
- Heat power sale
- Other





About the Company

- Brief company profile
- Mission, vision, values
- Strategy and business model
- History of development of the company
- Areas of presence
- Vertical integration
- Profiles of subsidiaries
- Competitive advantages

PROFILES OF  
SUBSIDIARIES

Generation

**Karaganda Energocenter LLP** – company combining two electric power plants of the Group – Karaganda CHPP-1 and CHPP-3.

CHPP-1

- Electric power output: installed capacity – 32 MW; available capacity – 24 MW;
- Heat power output: installed capacity – 460 Gcal/hour; available capacity – 234.7 Gcal/hour.

CHPP-3

- Electric power output: installed capacity – 670 MW; available capacity – 536 MW;

- Heat power output: installed capacity – 1,429 Gcal/hour; available capacity – 1,057 Gcal/hour.

Total number of employees – 1,345 people.

**Zhuzimdyk Wind Farm LLP** – project of alternative power industry development in South Kazakhstan Region (village Shayan, Baidibekskiy district of SKR) is currently at the stage of implementation.

Installed capacity of Zhuzimdyk Wind Power Plant – 40 MW.

Transmission and Distribution

**Karagandy Zharyk LLP** – power Grid Company operating in Karaganda Region.

Electric power networks for 0.4–220kV intended for electric power supply to municipal, industrial and agricultural consumers in Karagandy City and region:

- HVL 0.4-220kV – 5,144 km;
- CL 0.4-35kV – 1,676 km;
- substations 220/110/35kV – 105 units;
- APT – 242 units;
- TSS, PTSS, DSS 6-10/0.4kV – 1,811 units.

Total number of employees – 1,576 people.

Sales

**KaragandyZhyluSbyt LLP** – retail energy sales company operating in Karaganda Region.

2 district and 2 municipal sales departments.

Number of subscribers for heat supply:

- 146,800 subscribers – individuals;
- 2,951 subscribers - legal entities.

**Raschetnyi servisnyi center LLP** – retail energy sales company operating in Karaganda Region.

2 district and 1 municipal sales departments.

Number of subscribers for power supply:

- 51,581 subscribers – individuals;
- 1,660 subscribers – legal entities.

Number of employees – 44 people.

**Ontustik Zharyk LLP** – retail energy sales company operating in South Kazakhstan Region.

18 district and 1 municipal sales departments.

Number of subscribers for power supply:

- 378,201 subscribers – individuals;
- 15,951 subscribers – legal entities.

Total number of employees – 483 people.

**Energopotok LLP** – retail energy sales company operating in South Kazakhstan Region.

5 municipal sales units.

Number of subscribers for power supply:

- 181,453 subscribers – individuals;
- 8,803 subscribers – legal entities.

Total number of employees – 249 people.

COMPETITIVE  
ADVANTAGES

- Strategic importance for the state – According to the results of 2016 year, the Group and its subsidiaries **cover with its electric power and heat power supply services 25% of Kazakhstan population (4.3 mln people)**.
- Advantages of **vertical integration, large scale and diversification** contribute to achievement by the Group of as efficient activity as possible in providing its services to its customers including more than 800 thousand subscribers-individuals and 31 thousand subscribers-legal entities at the end of 2016. KUS dominates in the regions of its operation.
- Possibility to conclude **long-term power purchase and sale agreements** allows attracting large industrial consumers who have long-term development plans.
- The Group proved itself to be **oone of the most attractive issuers** of debt instruments among the companies of real sector represented in the national market of securities. On August 1, 2016, International Rating Agency Fitch Ratings assigned KUS “BB-” Long-term foreign and local currency IDR. The Rating Agency also assigned a National Long-term Rating of “BBB+(kaz)” to the company. The Outlook is Stable.
- Absence of debt burden in foreign currency, and accordingly, present ability to endure **flexible price policy**.
- The Group is **successfully diversifying the sources of funding**.

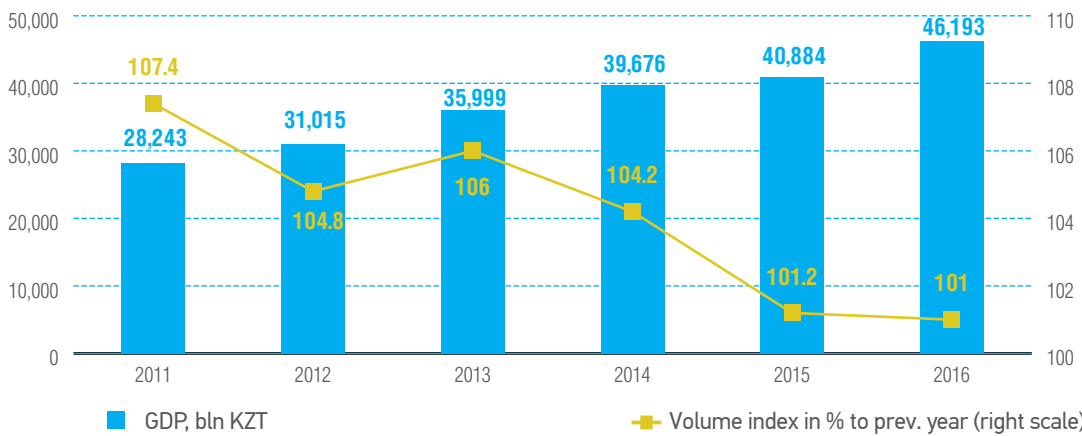


- Management reporting
  - Macroeconomic overview
  - Industry review
  - Business environment
  - Operating activity results
  - Financial results
  - Investment projects
  - Marketing activities
  - Plans for 2017

# MANAGEMENT REPORTING

## MACROECONOMIC OVERVIEW

Dynamics of gross domestic product



Source: Committee on Statistics of the MNE of the RK

The volume of the gross domestic product (GDP) produced for 2016 (according to preliminary data) amounted to KZT 46.2 trillion, an increase by 1.0 % in real terms compared to previous year. This is undoubtedly an extremely small growth for the Kazakh economy, but at the same time, we have managed to avoid a recession.

First of all, slowdown in industry brings the pressure on the GDP growth. Volume index of industrial products was 98.9% in previous year. This is largely due to decrease in the mining industry (Volume index – 97.3%). There was a decrease in production of oil (by 1.8%), coal and lignite (by 4.9%), iron ore (by

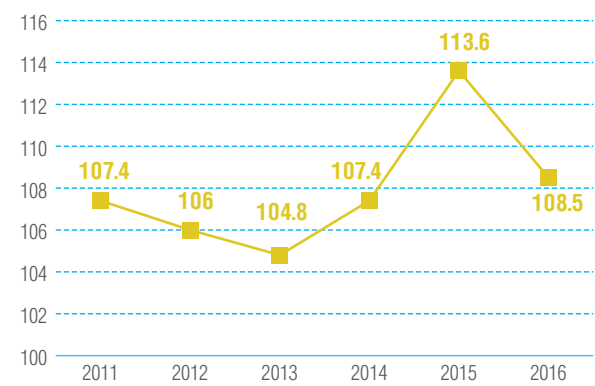
12.9%). However, there was increase in natural gas production (by 4.8%) and mining of non-ferrous metal ores (by 7.8%).

The situation in processing industry was a shade better. The growth was 0.7% and was achieved by an increase in production in the metallurgical industry (by 6.6%, share of 41.6% in processing industry) and food production (by 3.9%, share – 16.3%). GDP was supported, in particular, by agriculture (growth by 5.5%), construction (7.9%), transport (freight turnover increased by 0.5%), and retail trade (0.9%). In addition, growth of investments in fixed assets – by 5.1% had a positive impact on growth of the economy.

Management reporting

- Macroeconomic overview
- Industry review
- Business environment
- Operating activity results
- Financial results
- Investment projects
- Marketing activities
- Plans for 2017

Consumer price index, %



Source: National Bank of the RK

Foreign trade turnover of Kazakhstan in 2016 according to preliminary data was 61.95 bln US dollars, which was by 19% lower compared to the same period in 2015. In 2015, the decline was stronger and reached 36.6%. Exports in 2016 showed a decrease by 20%, in 2015 – 42.2%.

In 2016, after a significant decline in the previous year, there was an increase in oil price quotations. In 2016, the price of Brent crude increased by 43.4% on world commodities exchanges and in December 2016 amounted to USD 54.1 per barrel. However, the average cost in January–December 2016 was USD 44, which was by 15.9% lower than the cost in the same period of 2015.

The persisting complex trend of world prices for energy resources and industrial metals, which are the basis for the country's exports, reduction in the physical volume of oil production, and retardation of Russia's and China's economies, have a significant negative impact on the Kazakh economy.

According to the forecasts of the Ministry of National Economy of the Republic of Kazakhstan in 2017–2021, GDP growth will be at the level of 2.1–3.1%. In 2017, GDP is expected to increase by 2.5%. The development of the country's economy in the coming years, as indicated in the ministry's forecasts, will be characterized by moderate growth rates.

2016 year was marked by a slight appreciation of KZT against the US dollar – the exchange rate decreased by 2% over the year and reached 333.29 KZT per US dollar. KZT weakened by 17% against Russian rouble and by the end of the year the rate was KZT 5.43 per RUR 1.

The inflation rate decreased significantly compared to 2015 and amounted to 8.5% in 2016. As noted in the National Bank of Kazakhstan, the slowdown in inflation was due to the effect of a high base and stabilization of the KZT exchange rate.

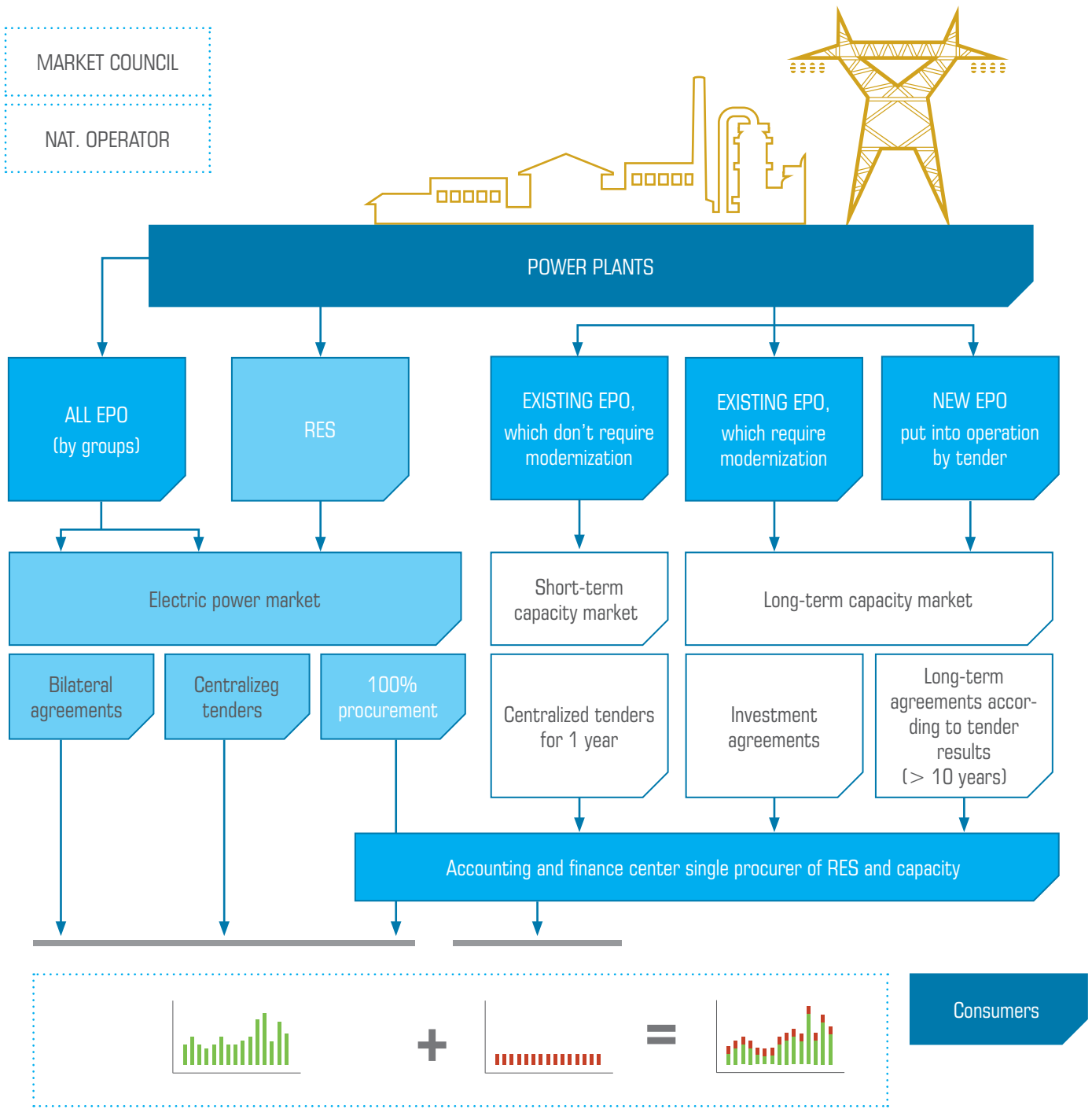
The food price index was 9.7% and the non-food price index was 9.5%. To some extent, the level of inflation was reduced by slow growth of prices for paid services for the population – 6.1%.

The nominal wages index was 113.6% in 2016, while the real wage index was 99.1%. Thus, the decline in real wages is observed for the second consecutive year.



INDUSTRY REVIEW

THE STRUCTURE OF ELECTRIC POWER MARKET





Management reporting

- Macroeconomic overview
- Industry review
- Business environment
- Operating activity results
- Financial results
- Investment projects
- Marketing activities
- Plans for 2017

# The system of electric power market

## Production

118 various power generating stations account for production of electric power in Kazakhstan. According to KEGOC data, as of January 1, 2017, their total installed capacity is 22,055.5 MW, and the available capacity is 18,789.1 MW.

The power stations are divided into power stations of national importance, industrial and regional power stations. Stations of national importance, among which are Ekibastuz SDPP-1 and Ekibastuz SDPP-2, represent large thermal stations that ensure the generation and sale of electric power to consumers on the wholesale market. This category includes high-capacity hydraulic power plants.

## Power transmission

The Unified National Energy System (NES) is a backbone power system in unified power system of the Republic of Kazakhstan which provides electric connections between regions of the country and electric power systems of neighboring states (the Russian Federation, the Kyrgyz Republic and the Republic of Uzbekistan), as well as electric power output by electric stations and its transfer to wholesale consumers. KEGOC JSC having an exclusive right for electric power transmission over the national energy system’s networks (>200kV) is a system operator and an owner of the national energy system (NES).

## Power supply

Power supply organizations (PSO) purchase electric power from power generation organizations or through centralized trading sessions and sell it further to the final retail consumers. Some

## Electric power market of the Republic of Kazakhstan

The electric power market is divided into wholesale and retail market, the heat energy market is represented only by the retail market. The system operator, the REC and other organizations that own electric grids provide free access to the electric

The industrial power plants include CHPP with combined production of electric and heat energy that supply electric power and heat to large industrial enterprises and nearby settlements. In particular, they are CHPP-3 of Karaganda Energocenter LLP and CHPP PVS, CHPP-2 of Arcelor Mittal Temirtau JSC.

The regional power plants are CHPP integrated with the territories that sell electric power through the networks of regional electric grid companies and energy transmission organizations, as well as the heat supply of nearby cities.

Regional electric networks are in balance of and operated by regional electric grid companies (REC). They provide connections within the regions, as well as the transmission of electric power to retail customers.

Energy transmission organizations carry out electric power distribution based on the corresponding agreements over their own or used electric power transmission network to the wholesale and retail market consumers or electric power supplying companies.

EPSO perform functions of guaranteeing suppliers of electric power.

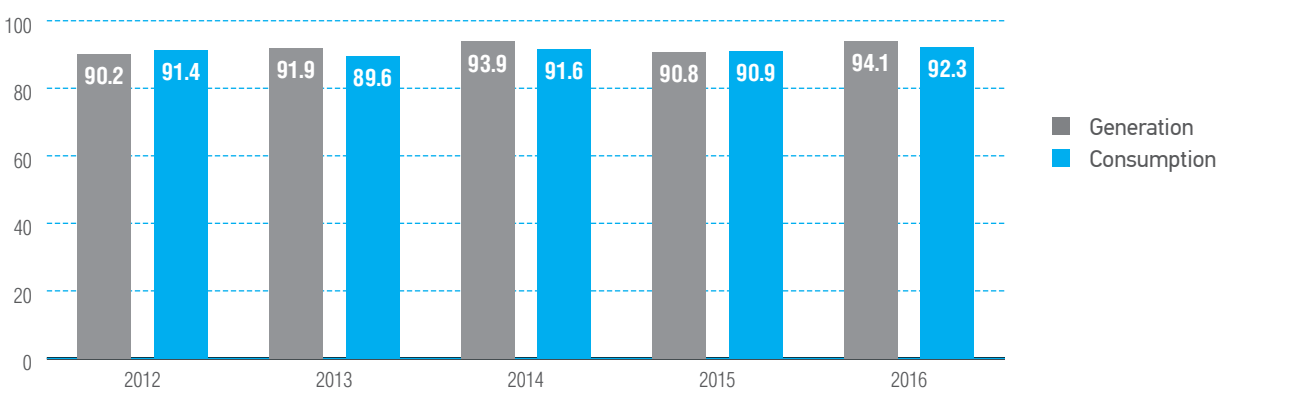
power market for all participants in the manner established by the government body that manages in the areas of natural monopolies and in regulated markets.

## Industry in 2016

Nowadays, there is no shortage of electric power and capacity in the country’s electric power system: the country has a required reserve of capacity that will be enough to meet the economy’s needs in the next 5–7 years. Slowdown in the energy consumption growth in the country in 2013–2015 with availability of this reserve formed through implementation of the program “Tariff for investments” in the period from 2009 to 2015, resulted in situation where technical capability to electric power generation exceeded the corresponding demand

from consumers. Therefore, in these years wholesale electric power prices in the excess North Zone of the country’s power system were below their marginal levels. This decline did not affect the KUS LLP due to the long period that the Company had competitive tariffs and a stable client base. In 2016, the balance of supply and demand has recovered slightly due to the economic recovery of the country and corresponding increase in consumption.

### The dynamics of generation-consumption, bln kWh



Source: KEGOC

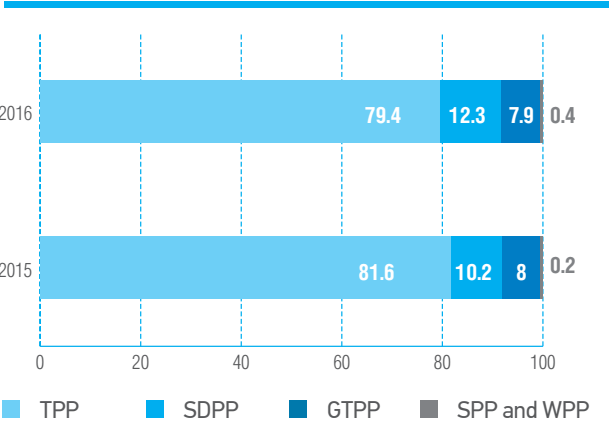
## Generation

In 2016, in Kazakhstan, electric power generation amounted to 94.1 bln kWh, and according to KEGOC data, it increased by 3.6% (by 3.3 bln kWh). The growth is primarily resulted by the increase in output at the Ekibastuz SDPP-2 (by 1.8 bln kWh, or by 55%).

SevKazEnergy Petropavlovsk (an increase of 14.2%), 3-Energortalyk (65.4%) and Zhezkazgan CHPP of Kazakhmys Energy LLP (27%) are also, among large power plants that showed an increase in output. At the same time, a number of large power plants showed a decline in output. The biggest drop in the indicator was observed in Ekibastuz SDPP-1 (by 1691.3 mln kWh, or by 15.8%). EEC JSC reduced output by 5.4%, SDPP of Kazakhmys Energy LLP by 14.2%, Zhambylskaya SDPP by 14.2% too.

The CHPP accounts for the bulk of electric power generation in Kazakhstan. However, the output in 2016 grew only by 0.8% or by 611 mln kWh. As a result, the share of CHPP in the total generation structure decreased from 81.6% to 79.4%. At the same time, the electric power generation at the hydroelectric generating station in Kazakhstan increased by 2,355.6 mln kWh, or by 25.5%, compared to 2015. The share of hybrid

### The structure of electric power output in Kazakhstan by types of power sources, %



Source: KEGOC

Management reporting

- Macroeconomic overview
- Industry review
- Business environment
- Operating activity results
- Financial results
- Investment projects
- Marketing activities
- Plans for 2017

Consumption

Electric power consumption in Kazakhstan increased by 1.5 bln kWh and amounted to 92.3 bln kWh in 2016. Consumption growth is observed in North zone – by 1.4 bln kWh (2.3%) and in West zone – by 475.7 mln kWh (4.3). At the same time, there was a decrease of 393.2 mln kWh (2%) in South zone.

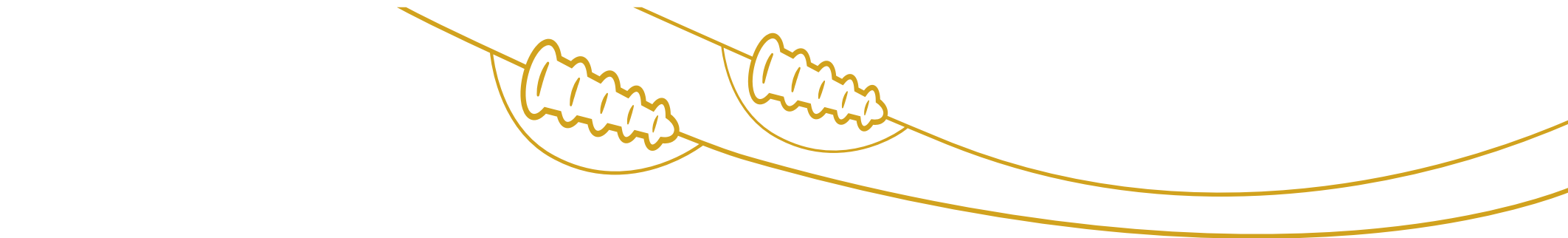
In 2016, consumption growth was particularly observed in Pavlodar region (by 3.7%), Atyrau region (10.3%) and Aktope (9.9 %). Decrease was observed in Kostanay region (by 1.9 %) and Zhambyl region (by 15.9 %).

The dynamics of electric power consumption is inextricably connected with the situation in industry, especially metallurgical and oil enterprises.

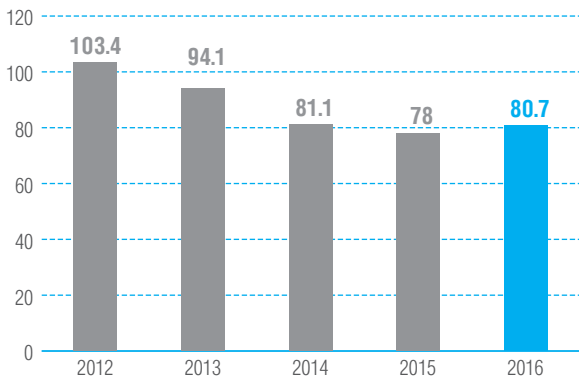
Such large electric power consumers as TNC Kazchrome JSC, Aktope FAP (17.1%), Kazakhstan Electrolysis Plant (5.5%), Arcelor Mittal Temirtau JSC (4.5%), and Aluminum of Kazakhstan JSC (4.9%) showed the growth in electric power

Transfers of energy

For 2016, the balance of electric power transfers to Russia amounted to 1.6 bln kWh (in 2015 – from Russia 471.4 mln kWh). Electric power exports to Russia grew by 1.7 bln kWh and amounted to 2.8 bln kWh. According to KEGOC, the growth was largely due to the supply of electric power from Ekibastuz SDPP-

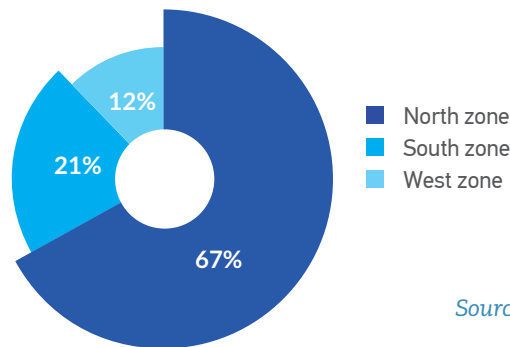


Heat production, mln Gcal



Source: Committee on statistics of the MNE of the RK

Electric power consumption structure, 2016, %



Source: KEGOC

consumption. A significant decrease in consumption was particularly observed in Kazphosphate LLC (35.5%), Corporation Kazakhmys LLP (19.7%), and Sokolovsko-Sarbaiskoye MPPA JSC (7.6%).

2 LLP in the network of PJSC IRAO. Electric power import from Russia amounted to 1,132.9 mln kWh (decrease of 24.8%).

The net-transfer to Central Asia (Kyrgyzstan) was 124.7 mln kWh.

Industry Perspectives

According to the official forecast of the Authorized body (Ministry of Energy of the Republic of Kazakhstan) stable growth of electric power consumption in the power system is expected in 2017 and the subsequent years. This forecast is quite realistic due to the country’s expanding economy.

Despite of frozen marginal selling price of 7.5 KZT/ kWh until 2018, the company expects a fairly positive influence of external factors on its activities. In 2019, the introduction of an electrical capacity market is forecasted. KUS LLP pins great hopes on the capacity market, as according to the legislation in the field of electric power, the Company will have the right to conclude off take contracts with the Single buyer under simplified procedure in this market, which will increase the guarantees of repayment of loans attracted for implementation of the investment program

in 2009–2015. This opportunity, together with the right to sell the capacity at cap rates and in the amount of technological minimum of the combined heat and power plants of KUS LLP, as well as the opportunity to sell electric energy on the energy-only market as well as on the balancing market at prices formed on the basis of the maximum prime cost and special fixed profit will allow the company not only to keep its revenues, but also to increase them.

This perspective makes the Company’s business more attractive from the investment point of view. And this is to be expected. It was for this purpose that the 2015 reforms were carried out within the framework of the Nation’s Plan “100 concrete steps”, which also address the electric power industry.

BUSINESS ENVIRONMENT

An important external condition for doing business for the Group is a level of tariffs for products sold.

Tariffs for the transmission, distribution and sales of electric power are regulated by the Committee on Regulation of Natural Monopolies and Competition Protection (CRNM and CP).

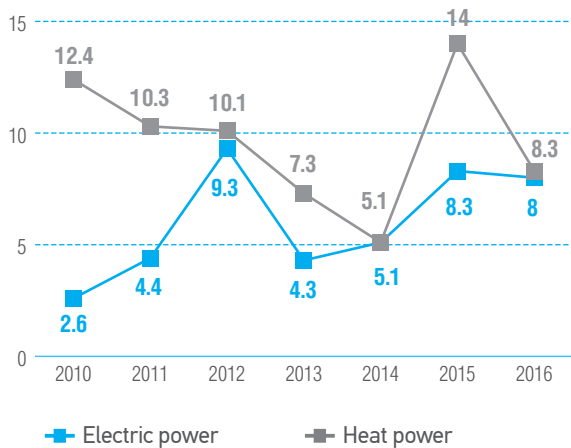
Under the current legislation, tariffs of electric network companies should provide compensation for operating costs (necessary to provide regulated services), as well as capital costs (investment program).

Tariffs for the population show stable growth in Kazakhstan, at an average increase of 6% annually over the past six years. This growth is due to an increase in tariffs for transmission and distribution services for regional and interregional networks.

Since 2016, electric power and heat power supply companies have switched to tariff setting for long-term marginal tariffs. This approach provides greater certainty to all market participants: energy workers can plan an investment program, and consumers can predict their costs.

According to the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, in 2016 the final sales prices for electric power increased by 8.3%, for heat

Dynamics of tariffs for electric and heat power in Kazakhstan, %



Source: Committee on Statistics MNE RK

power – by 8%. Last year electric power prices showed one of the lowest growths in the last decade. In 2017, in several regions of Kazakhstan, electric power tariffs increased by 6.7%.

Management reporting

Macroeconomic overview

Industry review

Business environment

Operating activity results

Financial results

Investment projects

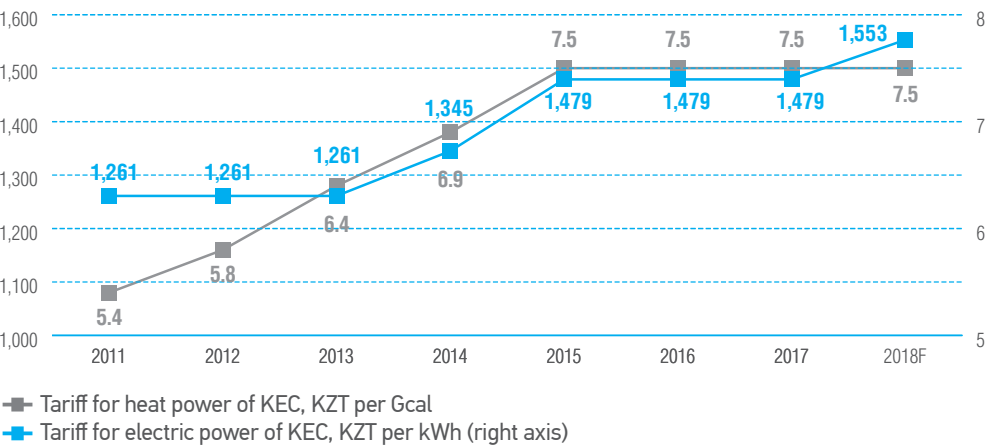
Marketing activities

Plans for 2017

Tariffs of subsidiaries

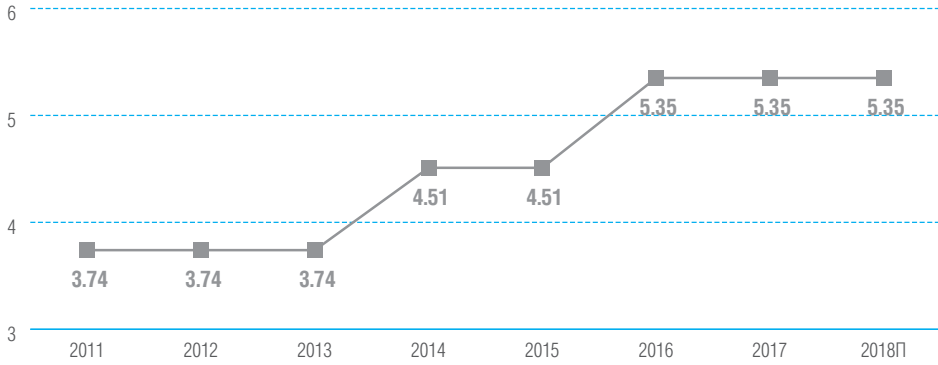
In 2016, tariffs for electric and heat power of Karaganda Energocenter LLP (KEC) remained unchanged from 2015. Tariffs for electric and heat power were determined for the company until 2018.

Tariffs for heat and electric power of KEC



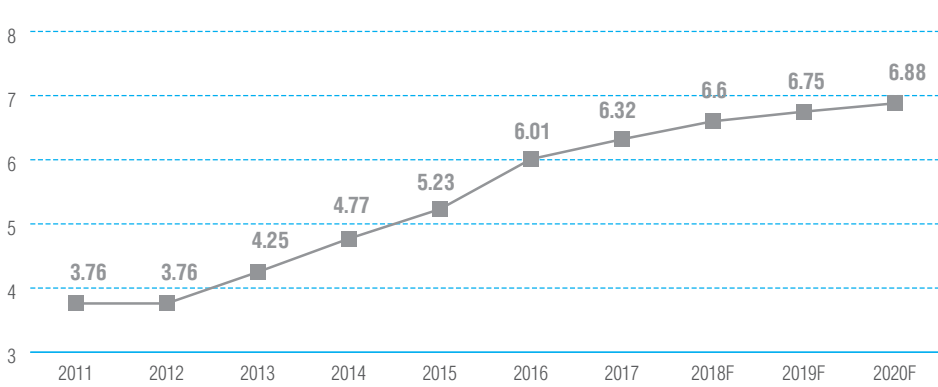
In 2016, the tariff for the electric power transmission of Karagandy Zharyk LLP (KZh) has not changed. The given tariff is determined for the company until 2020; the growth by results of seven years will make 19%.

KZh tariff for electric power transmission, KZT per kWh



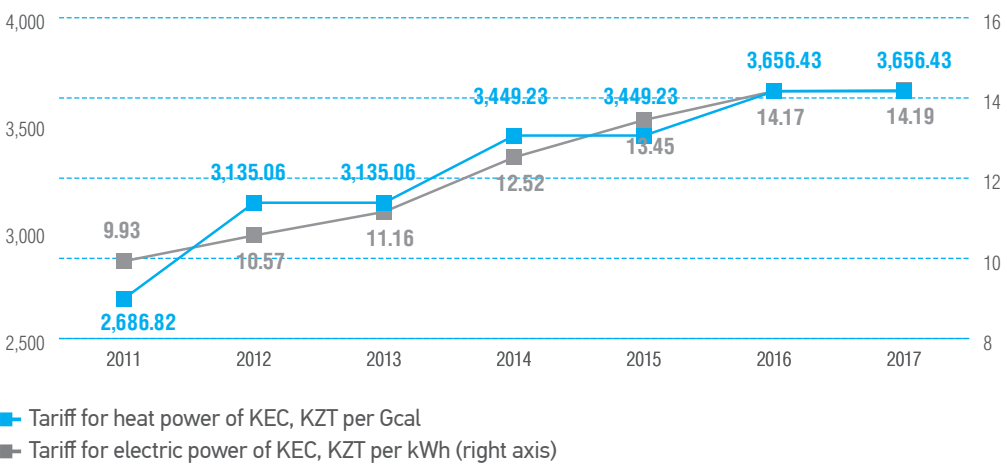
In 2016, the tariff for the electric power transmission of Ontustik Zharyk Tranzit LLP (OZhT) increased by 15%. The given tariff is determined for the company until 2020; the growth by results of seven years will make 44%.

OZhT tariffs for electric power transmission, KZT per kWh



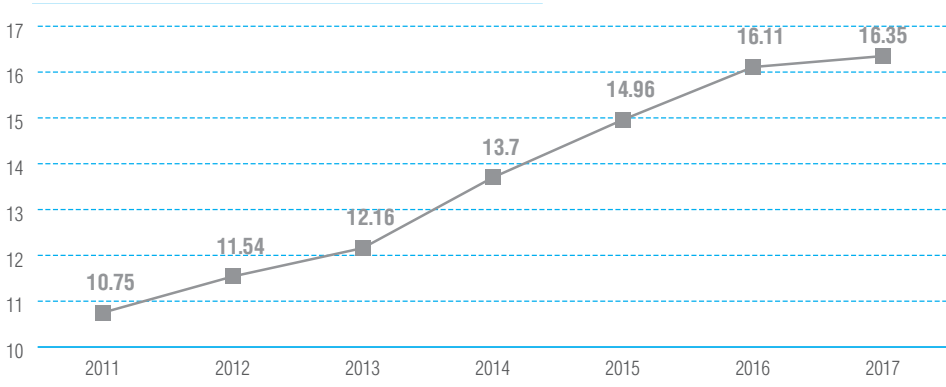
The tariff for electric power supplied by KaragandyZhylySbyt LLP (KZhS) increased by an average of 5.4% in 2016, and by 0.14% in 2017. The tariff for heat power supplied in 2016 increased by 6.0%.

KZhS tariffs for electric and heat power



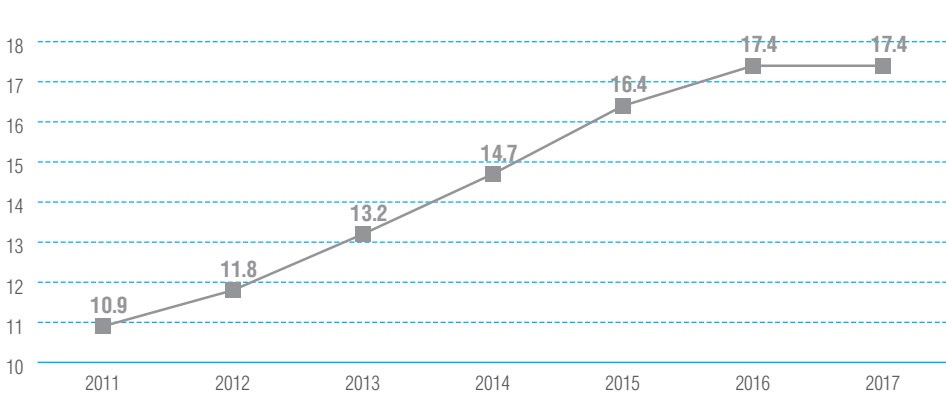
The tariff for electric power supplied by Ontustik Zharyk LLP (OZh) grew by 6.1% in 2016. In 2017, this tariff will remain at the level of 2016.

RSC tariff for electric power, KZT per kWh



The tariff for electric power supplied by Ontustik Zharyk LLP (OZh) grew by 6.1% in 2016. In 2017, this tariff will remain at the level of 2016.

OZh tariff for electric power, KZT per kWh



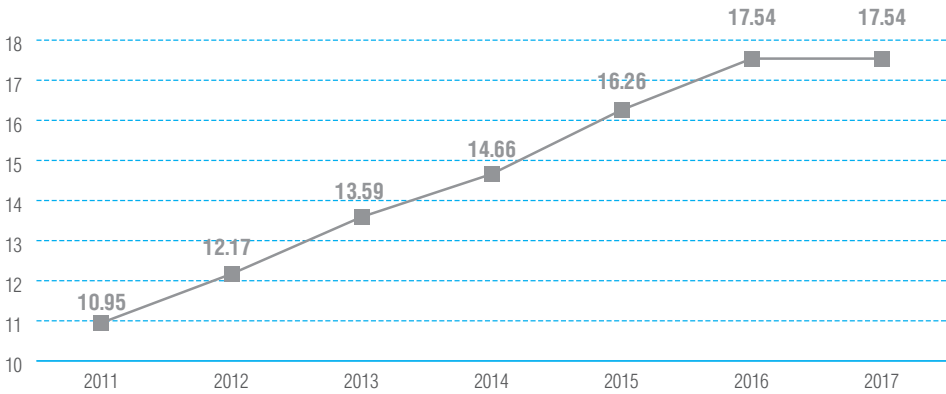


Management reporting

- Macroeconomic overview
- Industry review
- Business environment
- Operating activity results
- Financial results
- Investment projects
- Marketing activities
- Plans for 2017

In 2016, the tariff for electric power supplied by Energopotok LLP (EP) increased by 7.9%. In 2017, this tariff will remain at the level of 2016.

EP tariff for electric power, KZT per kWh



"...The main thing for us is the efficient operation of all equipment of our two Karaganda CHPPs and equipment lives' extensions. Strict adherence to the schedule, strict control over the resource development, timely replacement of the necessary components – all that concerns the equipment operation of both CHPPs – has been worked out to automatism. The new power unit of Karaganda CHPP-3 is equipped with modern, high-tech equipment that meets the highest world standards. It was a long-term project to provide the station boilers with fuel. Taking into account the expansion, fuel supply path was reconstructed with an increase in capacity of up to 550 tons/hour. By-product recovery plant was also re-equipped. As a result, due to expansion and reconstruction, the station electric power increased by 110 MW, the steam capacity of boilers increased by 670 tons/hour, which allowed providing an additional reserve of steam to cover the maximum of heat and electric loads during the heating season".

**Head of Production Service of Karaganda Energocenter LLP**  
**Damir Tutkushev**

"I am proud that I am an energy engineer devoted all my life to this profession. I have been in the industry for 30 years, 17 of those years I spent as a dispatcher of the Kelesky Distribution Zone of Ontustik Zharyk Tranzit LLP. I am confident in the development of our company, because I can see with my own eyes what changes are taking place now in the energy sector of the South Kazakhstan region. We have prepared a detailed work plan for the construction, reconstruction and modernization of electric power equipment, which we are implementing strictly according to the approved schedule."

**Senior dispatcher of Kelesky Distribution Zone of Ontustik Zharyk Tranzit LLP**  
**Tolegen Sakhov**

"...I am a native of Karaganda and live in this city for my whole life. I remember when our CHP plants were still under construction. We have severe frosts in Karaganda and winter is long, but despite the cold climate, apartments are heated even when the outside temperature drops down to –30 degrees. We are always supplied with electric power and heat. I have small grandchildren, so it is very important for us. I want to wish a good luck to CHP employees in their difficult work, so let it all turn out!"

**A resident of Karaganda, a pensioner**  
**Lyubov Ostapenko**

OPERATING ACTIVITY RESULTS

Capacities

Group production facilities in 2016 were represented by a combination of electric and heat generating sources, as well as power transmitting networks, district heating plants and substations.

Generation:

- installed electric power generating capacity of sources – 702 MW, available capacity – 560 MW;

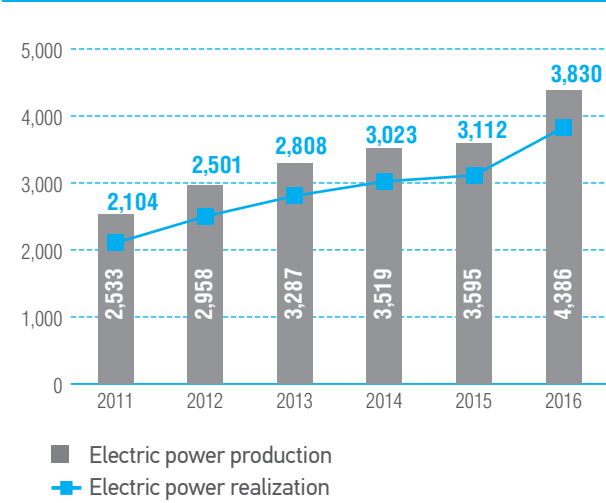
Production

Generation:

Last year the Group has completed with the growth of key production indicators. Electric power production was 4,386 mln kWh in 2016, which exceeded the same indicator of the previous year by 22%. Electric power sales reached 3,830 mln kWh and increased by 23%.

The volume of electric power production grew due to the commissioning of a new 110-MW power unit. The volume

Production and realization of electric power, mln kWh



- installed heat power capacity of sources – 1,889 Gcal/hour, available capacity – 1,291 Gcal/h.

Transmission and distribution:

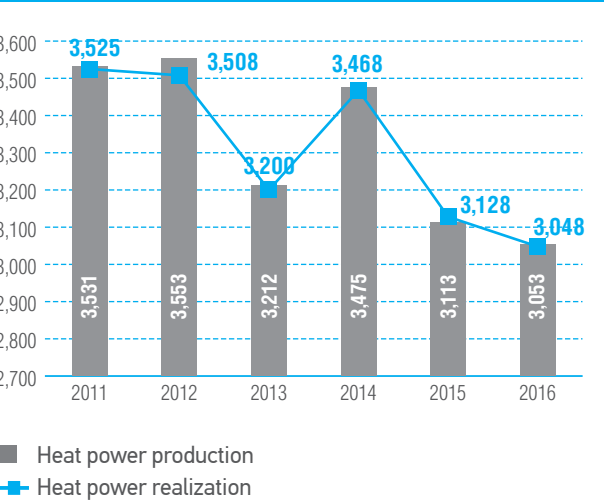
- length of 0.4-220 kV overhead lines – 27,531 km;
- length of 0.4-110 kV cable lines – 2,363 km;
- number of substations – 352 units.

of sales increased due to the increase in output, as well as by reducing the consumption of electric power for own needs.

The heat power production was 3,053 thousand Gcal in 2016, which is 2.4% lower than the results of the previous year; similarly, sales decreased and amounted to 3,048 thousand Gcal. The production and sales of the heat power decreased due to reduced circulation of hot water, as well as due to reduction of the hot water consumption by the population.

Specific consumption of conventional fuel for electric power supply is reduced by 11.1 g/ kWh compared to the level of

Production and realization of heat power, thous. Gcal



Management reporting

Macroeconomic overview

Industry review

Business environment

Operating activity results

Financial results

Investment projects

Marketing activities

Plans for 2017

2015. Specific consumption of conventional fuel for the heat power generation is reduced by 0.5 kg/Gcal compared to 2015. In addition, 2016 results had no failures of the 1<sup>st</sup> degree and

no accidents, and the number of failures of the 2<sup>nd</sup> degree was reduced by 9% relative to 2015.

Major clients in 2016

№	Customer names	volume of electric power sales		Share in %, total electric power sales volume
		2016		
		thous. kWh	thous. KZT	
	Generation			
1.	KaragandyZhyluSbyt LLP	1,007,482	7,556,118	26.30
2.	Karagandy Energosbyt LLP	381,620	2,862,153	9.96
3.	Karagandy Zharyk LLP	327,046	2,452,842	8.54
4.	Ontustik Zharyk LLP	662,749	4,970,615	17.30
5.	Raschetnyi servisnyi center LLP	196,110	1,470,823	5.12
6.	Ontustik Zharyk Tranzit LLP	93,536	701,523	2.44
7.	Energopotok LLP	533,547	4,001,605	13.93
8.	Garant Energo LLP	19,197	143,977	0.50
9.	Ankil LLP	7,241	54,306	0.19
10.	Yugenergoimpuls LLP	28,167	211,252	0.74
11.	Karagandy Su LLP	76,427	573,203	2.00
12.	Teplotranzit Karaganda LLP	65,143	488,575	1.70
13.	Kazsbytgrupp LLP	30,111	225,835	0.79
14.	Energougol 21 LLP	55,444	415,832	1.45
15.	Energosnab 21 LLP	42,684	320,132	1.11
16.	Ergo Company LLP	36,512	273,837	0.95
17.	Energosistema KT LLP	34,640	259,799	0.90
18.	Gorkomkhoz LLP	11,368	85,261	0.30
19.	Energometroservis LLP	9	70	0.00
20.	Centralized trades	17,930	135,679	0.47
21.	Others	203,198	1,523,982	5.31

Transmission and distribution

Due to timely and high-quality implementation of repair and investment programs for Karagandy Zharyk LLP in 2016, there was a decrease in the number of technological violations by 154 cases compared to 2015, a gain of transformer capacity was 14,400 kVA, standard and technical losses were reduced by 0.9%. Also, it was possible to reduce the percentage of fixed assets depreciation by 1.2%.

At year-end 2016, Ontustik Zharyk Tranzit LLP reduced the number of technological violations by 21 cases compared to 2015, the increase in transformer capacity was 42,500 kVA compared to 2015. Moreover, regulatory and technical losses were reduced by 0.74%. The percentage of fixed assets depreciation decreased by 2.5%.

"Last year, KaragandyZhyluSbyt LLP introduced a new service – professional maintenance of common engineering networks. Since our house was not serviced by the KSK, we asked KZhS. For the past 4 months, they have been servicing our house. During this time, they have already repaired all the switchboard panels on the sites; the cellars finally became dry. Moreover, in case of need, we can always call in KZhS and we immediately get specialists out".

A resident of house 30 of the microdistrict Stepnoy-4 in Karaganda  
Pakhomova Yelena

Electric power transmission rates in 2016

Name	2016	
	thous. kWh	thous. KZT
Karagandy Zharyk LLP	2,944,899	15,755,211
Ontustik Zharyk Tranzit LLP	2,351,469	14,132,329

Major consumers in 2016

Karagandy Zharyk LLP

In the reporting year, contracts were concluded with 37 consumers for transmission and/or distribution of electric power. Consumers are divided into two categories: energy supply, whose share is 62.6%, and economic entities that are end users, their share is 37.4%.

Ontustik Zharyk Tranzit LLP

In the reporting year, contracts were concluded with 12 consumers for transmission and/or distribution of electric power.

The share of clients from the power supply category was 50%, as well as economic entities.

Major clients:

- KaragandyZhyluSbyt LLP – 1,007 mln kWh
- ArsellorMitall Temirtau JSC – 623 mln kWh
- Temirzhol Energo LLP – 199 mln kWh
- RSC LLP – 196 mln kWh
- Teplotranzit LLP – 65 mln kWh

Major clients:

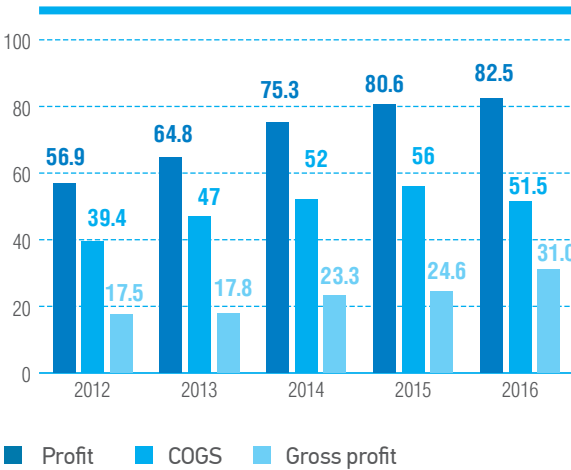
- Ontustik Zharyk LLP – 1,201 mln kWh
- Energopotok LLP – 778 mln kWh
- 3-Energoortalyk JSC – 19.5 mln kWh
- Kuatzhyluortalyk-3MUS – 12.6 mln kWh
- Yugenergoimpuls LLP – 111 mln kWh
- GarantEnergo LLP – 100 mln kWh

FINANCIAL RESULTS

Main data of income statement, mln KZT

	2016	2015
<b>Profit</b>	<b>82,476.9</b>	<b>80,601.8</b>
Cost of goods sold	–51,452.4	–55,970.1
<b>Gross profit</b>	<b>31,024.4</b>	<b>24,631.7</b>
Administrative costs	–5,870.1	–5,276.2
Selling expenses	–1,965.0	–1,574.8
Financial costs	–2,102.5	–2,397.8
Foreign exchange loss	–103.7	–2,646.2
Other profit	501.3	544.3
<b>Profit before tax</b>	<b>21,484.5</b>	<b>13,281.0</b>
Income tax expenses	–4,402.3	–3,202.4
<b>Net profit</b>	<b>17,082.3</b>	<b>10,078.6</b>

Dynamics of Income, cost of goods sold and gross profit, bln KZT



Management reporting

Macroeconomic overview

Industry review

Business environment

Operating activity results

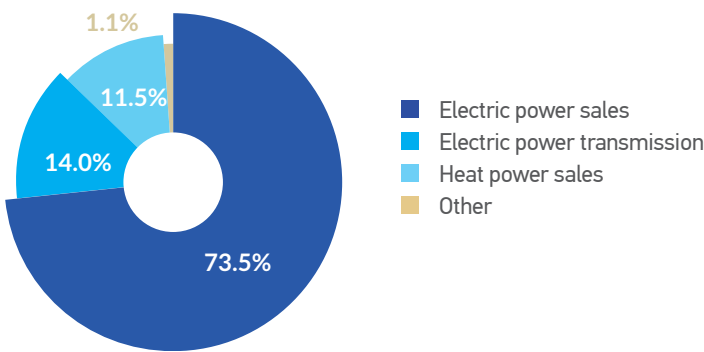
Financial results

Investment projects

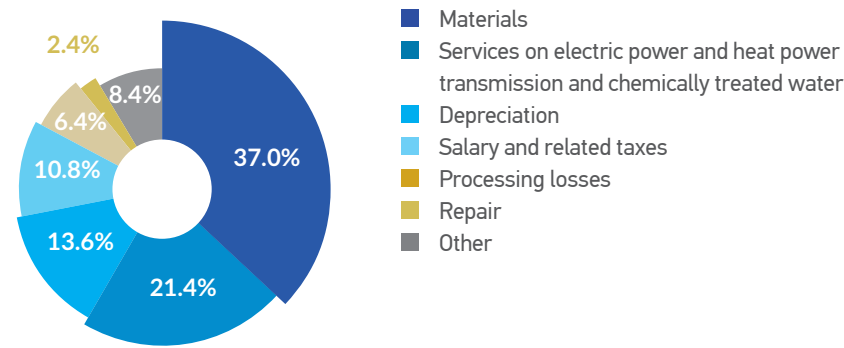
Marketing activities

Plans for 2017

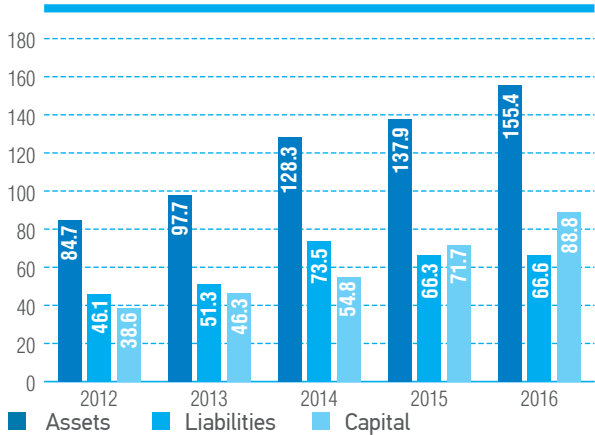
Income structure, 2016



Cost of goods sold structure, 2016



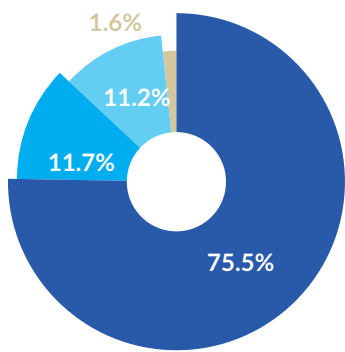
Dynamics of assets and liabilities, bln KZT



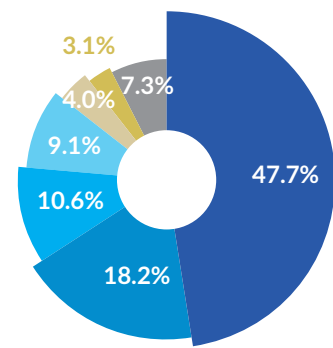
In 2016, the Company's profit increased by 2% to KZT 82.5 bln or by KZT 1.88 bln. The main share in the profit (73%) is for sales of electric power. This indicator did not change in the past year – KZT 60.6 bln. At the same time, there was a noticeable increase in the profit from electric power transmission – by 22% to KZT 11.5 bln. This direction has made 14% in the general structure of the profit. In 2016, the profit from heat power sales increased by 5% and amounted to KZT 9.5 bln.

In 2016, the cost of goods sold slightly decreased (by 8%) and amounted to KZT 51.5 bln. The cost of materials is 37% of the cost of goods sold. In 2016, the indicator dropped down by 29% to KZT 19 bln, which reduced the total cost of goods

Income structure, 2015



Cost of goods sold structure, 2015



sold. At the same time, expenses for electric power and heat power transmission slightly increased (by 8%) and, as a result, amounted to KZT 11 bln. In 2016, equipment depreciation in the cost of goods sold structure took 14% and increased by 18% (amounting to almost KZT 7 bln at the end of the year). Expenses for production personnel labor also increased (by 9%), making KZT 5.6 bln at the end of the year.

As a result of the profit growth and cost of goods sold reduction, gross profit increased by 26% to KZT 31 bln in 2016.

Among other profits and expenditures, an increase in administrative expenses is noticeable – by 11% or KZT 594 mln. At the end of the year, they amounted to KZT 5.9 bln. This increase is mainly due to the increase in tax payments by KZT 158 mln, as well as to the increase in the volume of provided charitable assistance – by KZT 288 mln.

Sales expenses increased by 25% to KZT 1.97 bln, which is associated with an increase in labor costs.

Financial expenses decreased by 12% and amounted to KZT 2.1 bln by the end of the year. In 2016, financial expenses are almost entirely represented by the cost of remuneration for bank loans less capitalized costs. In 2015, financial expenses also included consideration for other debt obligations. The absence of this expenditure in 2016 led to a general decrease in the level of financial costs.

In 2015, the Company received a significant loss from the exchange rate difference (KZT 2.6 bln) during a sharp weakening

of the national currency. In 2016, the loss from exchange rate differences in the absence of significant currency fluctuations was only KZT 103.7 mln.

As a result of the gross profit growth, and also taking into account the sharp decrease in foreign exchange losses, the Company's net profit in 2016 increased by 69% against the level of 2015 and amounted to KZT 17.1 bln.

Main data of balance sheet, mln KZT

	2016	2015
<b>Assets</b>	<b>155,396.2</b>	<b>137,947.5</b>
Long-term assets	133,467.6	125,125.5
Fixed assets	131,353.2	121,905.7
Recurring advances paid	1,187.0	2,517.8
Others	927.4	702.0
Current assets	21,928.6	12,822.0
Inventories	2,437.9	2,679.0
Trade receivable	7,690.4	6,990.1
Cash and cash equivalents	2,358.9	1,111.2
Other	9,441.4	2,041.7
<b>Liabilities</b>	<b>66,646.0</b>	<b>66,279.6</b>
Long-term liabilities	43,604.5	41,894.5
Bank loans	25,107.9	26,772.0
Deferred tax liabilities	18,384.5	14,998.7
Other	112.0	123.8
Current liabilities	23,041.6	24,385.1
Trade payable	4,817.4	9,155.2
Bank loans	11,949.6	10,789.9
Other	6,274.6	4,440.0
<b>Capital</b>	<b>88,750.2</b>	<b>71,667.9</b>
Capital stock	11,636.4	11,636.4
Additional paid-in capital	9,239.1	9,239.1
Undistributed profit	67,874.6	50,792.4

In 2016, the Company's assets increased by 13% or KZT 17.4 bln and amounted to KZT 155.4 bln. To a large extent, this is due to the growth of fixed assets – by 8% or by KZT 9.4 bln. In 2016, the construction of Zharyk and Nursat substations as well as reconstruction and modernization of CHPP-3 were completed. At the date of commissioning, the book value of constructed facilities was KZT 55.3 bln. Fixed assets account for almost 85% of all assets.

Current assets account for 14% of the total balance. In 2016, current assets increased by 71% or by KZT 9.1 bln, and amounted to KZT 21.9 bln. First of all, the growth is related to interest-free financial assistance to related parties, which in 2016 amounted to KZT 8.1 bln (KZT 682 mln in 2015).

In 2016, the company's liabilities remained almost unchanged (1% growth) and amounted to KZT 66.6 bln. Bank loans at the end of the year amount to KZT 37.06 bln or 56% of liabilities. For the year, their amount decreased by KZT 504 mln. At the same time, long-term loans amounted to KZT 25.1 bln, short-term loans – to KZT 11.9 bln. The largest loan (KZT 22.2 bln at the end of 2016) is provided by Development Bank of Kazakhstan JSC. A significant creditor is also SB JSC Sberbank of Russia, the obligations to which amounted to KZT 13.7 bln in 2016. The Group complies with all loan terms and does not allow delinquencies in principal and interest payments.

In 2016, the Company's capital increased by 24% or KZT 17.1 bln and amounted to KZT 88.8 bln. The growth was provided by an increase in retained earnings by KZT 17.1 bln (by 34%).



Management reporting

Macroeconomic overview

Industry review

Business environment

Operating activity results

Financial results

Investment projects

Marketing activities

Plans for 2017

Key performance indicators

	2016	2015
<b>Liquidity ratio</b>		
Current liquidity ratio <sup>1</sup>	0.57	0.47
Quick liquidity ratio <sup>2</sup>	0.47	0.36
<b>Benefit–cost ratios</b>		
Net profit rate, %	20.7%	12.5%
Gross profit rate, %	37.6%	30.6%
Basic earnings power <sup>3</sup>	15.0%	11.2%
Return on assets <sup>4</sup> (ROA)	11.0%	7.3%
Return on equity <sup>5</sup> (ROE)	19.2%	14.1%
EBITDA, in bln KZT	30.38	21.5
EBITDA margin	36.8%	26.7%
<b>Capital structure rations</b>		
Equity ratio <sup>6</sup>	57.1%	52.0%
Leverage ratio <sup>7</sup>	28.3%	37.4%
<b>Efficiency ratios</b>		
Inventory turnover ratio	20.11	22.32
Accounts receivable turnover period (in days)	32.48	29.49
Fixed assets turnover ratio	0.63	0.66
Assets turnover ratio	0.53	0.58
Interest coverage ratio <sup>8</sup>	11.05	6.45
Return on capital employed <sup>9</sup> (ROCE)	17.55%	13.62%

In 2016, an increase in relative coefficients of profitability became noticeable due to the net profit growth. In particular, the ROA ratio was 11% (7.3% in 2015), ROE – 19.2% (14.1% in 2015). The basic earnings power was 15.0% versus 11.2% in 2015.

Due to the outstripping obligation of asset growth, including current assets, there is also an increase in liquidity ratios. The current liquidity ratio increased from 0.47 in 2015 to 0.57 in 2016, the quick liquidity ratio was 0.47 in 2016 (0.36 in 2015). The company is trying to maintain a sufficient level of liquidity, while constantly paying attention to investment.

Capital structure ratios are maintained at an acceptable level. The equity ratio (capital share in the balance structure) was 57.1% in 2016 (52% in 2015) with a recommended value of at least 50%. The leverage ratio (liabilities to capital ratio) in 2016 was 28.3% (37.4% in 2015) and decreased due to outstripping growth in equity. The recommended value of this indicator is not more than 100%. Thus, the Group maintains a sufficient level of autonomy – demonstrates low dependence on borrowed funds and moderately high sufficiency of equity.

INVESTMENT PROJECTS

Starting from 2010 to 2016, the Group invested more than KZT 163 bln, which led to a significant improvement in the equipment efficiency and reliability. The operation factor of installed capacity for this period increased from 0.48% to 0.74% (0.53% on average in Kazakhstan).

In 2016, the volume of investments of Karaganda Energocenter LLP was about KZT 12 bln. Karaganda Energocenter LLP has completed a large-scale project to increase the installed capacity of Karaganda CHPP-3, by installing a new 110 MW power unit. Due to this, Karaganda CHPP-3 became the largest heat and electric power plant in the Republic of Kazakhstan. In addition, due to the reconstruction and modernization of existing equipment, it was possible to achieve high production indicators for generating heat power and electric power, to reduce specific fuel consumption for electric power supply, and also to reduce the consumption of electric power for own needs down to 12.7%.

In 2016, the volume of Ontustik Zharyk Transit LLP investments was KZT 4.6 bln. As part of the investment program, the following activities were implemented:

- a 110-kV cable line was constructed and put into operation from 110/10/10 Nursat substation to 110/10/10 Severnaya in Shymkent with a length of 1,714 m (two lines);
- a 110 kV overhead line was constructed with a tap-off line from 110 kV L-108 overhead line to 110/35/10 kV Sovetskaya and a length of 5.5 km;

- the project was developed with a full modernization of 0.4-10 kV overhead transmission lines with the use of self-supporting insulated wire with a total length for 0.4 kV overhead line – 219.577 km, for 6-10 kV overhead line – 6,966 km;
- ASCAE was introduced in Turkestan with a coverage of 4,172 subscribers for 36 TSS, GTKP, and PTS.

When performing all types of repairs, reconstruction and modernization of 0.4–10 kV electric networks, 16,792 worn out wooden supports were replaced with new reinforced concrete poles.

In 2016, the volume of investments of Karagandy Zharyk LLP was KZT 7.3 bln. As part of the investment program, the following activities were implemented:

- compiling a land cadastral plan for the construction of 110/10kV Substation Tikhonovka;
- reconstruction of 0.4–10 kV distribution networks: TSS, KTP-119 items, KL-52 km, KVL (SIP) – 88 km;
- internal finishing works are continuing in the new building of the ODS HVEN Dispatch Office.

The implementation of these measures has helped to reduce regulatory technical losses, as well as to improve the reliability of electric power supply to the regions covered.

MARKETING ACTIVITIES

Kazakhstan Utility Systems LLP pays special attention to the formation of its positive image, both in the energy market and among consumers. Given that electric power and heat are socially significant products, to which public attention is always focused, the Company maintains openness and transparency of all activities.

In accordance with the media plan, information on the Company activities is communicated to the public by the republican media, and interviews with the Director General of Kazakhstan Utility Systems LLP in sectoral print media and electronic media are also regularly posted. The activities of KUS affiliated

organizations are covered in full in the regional mass media (TV stories, articles in newspapers). In addition, information on activities of the Company and its subsidiaries is published on the official KUS website and the official Facebook page.

Results of the purposeful activity in PR are:

- favorable level of customer loyalty to KUS and its subsidiaries in the regions of presence;
- dynamic increase in the KUS brand awareness;
- the ability of consumers and other audiences to learn about KUS Group events in a timely manner;

<sup>1</sup> The current liquidity ratio is calculated as the ratio of current assets (excluding the prepayment for corporate income tax and other current assets) to short-term liabilities.  
<sup>2</sup> The quick liquidity ratio is calculated by dividing liquid assets (excluding the prepayment for corporate income tax and other current assets) to short-term liabilities.  
<sup>3</sup> Basic earnings power = EBIT / Assets  
<sup>4</sup> Return on assets = Net Profit / Assets

<sup>5</sup> Return on equity = Net profit / Equity  
<sup>6</sup> Equity ratio = Equity / Assets.  
<sup>7</sup> Leverage ratio = Long-term liabilities / Equity  
<sup>8</sup> Interest coverage ratio = EBIT / Interest payable .  
<sup>9</sup> Return on capital employed = EBIT / (Equity + Long-term liabilities)

Management reporting

Macroeconomic overview

Industry review

Business environment

Operating activity results

Financial results

Investment projects

Marketing activities

Plans for 2017

- increasing the attractiveness of the Company as an employer and the ability to attract qualified personnel;
- strengthening corporate cohesion, creating and supporting a sense of responsibility and adherence to the fundamental KUS values in the Group of companies'employees.

KUS conducts large-scale work, which requires coverage in media space. In 2016, among significant events and facts that arise public interest and increase consumer confidence, are the following:

- fundamental modernization of Karaganda CHPP-3, that resulted in the increase of the station power capacity by 25%;
- assignment of the Energy Company of Kazakhstan № 1 – 2016 status to KUS as a result of the “Choice of the Year” competition;
- confirmation of KUS LLP credit rating at “BB-” with “Stable” forecast by the international rating agency Fitch Ratings;
- strict compliance by Group enterprises with environmental legislation of the Republic of Kazakhstan;
- high corporate culture of KUS employees.

The Company’s image is focused on actual values of a modern society, in the context of which KUS operates. Accounting for these values allows you to form a regulated policy of interaction with all external and internal counterparties: consumers, partners, own employees. At the same time, in accordance with the dynamic situation, KUS is constantly working to adapt the image to new conditions and needs of the energy market.

Formation of a positive Company image and its maintaining at the proper level are an important task of Kazakhstan Utility Systems LLP that affects the organization’s status, the success of its activity in the market, the loyalty of consumers and partners, and the competitiveness of the Company’s energy products.

"...Energopotok LLP is constantly working to ensure maximum comfort and convenience for its subscribers. One of the main indicators of open relations with consumers is a feedback from subscribers. We have a successful call center, where employees are always ready to answer all the consumer questions. Each month, our call center operators advise about 500 consumers on various issues".

Head of Energopotok LLP Call-center  
Serik Urazov

"We annually record a steady increase in the number of consumers, a considerable number of which are different enterprises. If in 2012 Ontustik Zharyk LLP provided electric power to about 11 thousand legal entities, in 2017 this figure exceeded 16 thousand legal entities. Thus, over 5 years the growth was about 50%. The number of individual subscribers is also increasing. We are expanding the network of integrated service centers – contact centers – where any resident of the region can apply for individual contracts, discuss technical issues, reconcile accounts for payment for consumed electric power, and register electric power meters installed in apartments. The centers provide information and services on all issues of electric power supply, receive applications from the population through a telephone line, and provide inspectors with a visit to consumers. In total, 12 contact centers operate in sales of the South-Kazakhstan region".

Head of department for work with individuals  
Ontustik Zharyk LLP  
Bakhyt Rayimkhan

PLANS FOR 2017

1. Completion of generating assets acquisition in the East Kazakhstan region.
2. Successful placement of the Company’s bonds on the Kazakhstan Stock Exchange (KASE).
3. Implementation of measures to maintain and update the long-term Issuer Default Rating (IDR) in foreign and national currencies.
4. Measures to attract international strategic partners to implement the Company’s long-term development strategy.
5. Active promotion of Company interests at the legislative level. Submission of projects of all necessary amendments to the current legislation for the Company to the relevant associations (Atameken, CEA, KAZENERGY) and the authorized body.
6. A major repair of the boiler unit at st. № 4 and turbine unit at st. № 3 will be completed at Karaganda CHPP-1. Current repairs will be completed on the rest of the equipment.
7. On Karaganda CHPP-3 the following is planned:
  - a major repair of the boiler unit at station № 6, with the replacement of 90% of heating surfaces;
  - a major repair of the turbine unit at station № 1, with the reconstruction of the flow section;
  - a current repair of all boiler and turbine units;
  - a major repair of two tower cooling towers (№ 2 and № 3), with restoration of the polymer coating of about 3,000 square meters and replacement of 4,000 sprinklers;
  - a large amount of work will be associated with ash dump of Karaganda CHPP-3. It is planned to perform the 1<sup>st</sup> stage of building the 3<sup>rd</sup> section of the ash dump № 2.
8. Karagandy Zharyk LLP plans the following activities:
  - large-scale reconstruction of 10–0.4 kV distribution networks using SIW;
  - construction of a new substation “Tikhonovka”, with the transfer of the substation to the 110-kVvoltage class;
  - internal finishing works in a new freestanding building of the Dispatch Office of ODS HVEN.
9. Ontustik Zharyk Tranzit LLP plans the following activities:
  - increase of transformer capacities in load centers: at 110/35/10 kV Poltoratskoye SS in Saryagashsky District; planned replacement of an overloaded 35 kV T-3 transformer with a capacity of 2,500 kVA for 4,000 kVA;
  - reconstruction of 35–110 kV SS – replacement of physically worn out 10 kV KRUN with oil circuit breakers for new KRUNs with vacuum switches; modernization of relay protection and automation devices. Replacement of OD, KZ-35 kV and oil circuit breakers 35–110 kV with modern SF6 circuit breakers;
  - reconstruction of 0.4–10 kV distribution networks using SIW; further development of the ASCAE system;
  - preparation of design estimates for construction of 0.4–10 kV networks in settlements of Kzyl-Su, Artel, K. Marx, Shymkent.
10. Development and expansion of energy sales organizations' activities in maintenance of engineering networks and common house heat metering devices.
11. Improving the quality and convenience of energy supply to consumers through the widespread use of online payment services and the development of mobile applications.



[Corporate management](#)

[Corporate management principles](#)

[Management structure](#)

[Corporate management System in the company](#)

[Supervisory board](#)

[Executive body](#)

[Remuneration information](#)

# CORPORATE MANAGEMENT

## CORPORATE MANAGEMENT PRINCIPLES

Corporate management plays an important role in enhancing the Group’s competitiveness and economic efficiency. The most important principles of corporate management for the Group are:

- providing a balance between influence on the adoption of managerial decisions, responsibility for decisions made and interests of a participant in corporate relations;
- establishment of standards for reasonable and qualified management and proper control;
- optimization of the production structure and the effective use of the Group’s capital;
- providing transparency of the Group’s financial and business operations and reliability of reporting indicators;
- increase of investor confidence, improvement of the investment climate and increase of volumes, improvement of the structure and quality of investments.

## MANAGEMENT STRUCTURE

The Group’s corporate management structure should provide:

- protection of participants’ rights;
- recognition of interested persons’ rights provided by the law;
- timely and accurate disclosure of information on all significant issues related to the corporation;
- effective control on the Executive Body by the Supervisory Board, as well as its accountability to KUS participants.

The structure of the Group is divided into four blocks: General Meeting of Participants, Supervisory Board and its committees, Executive Body.

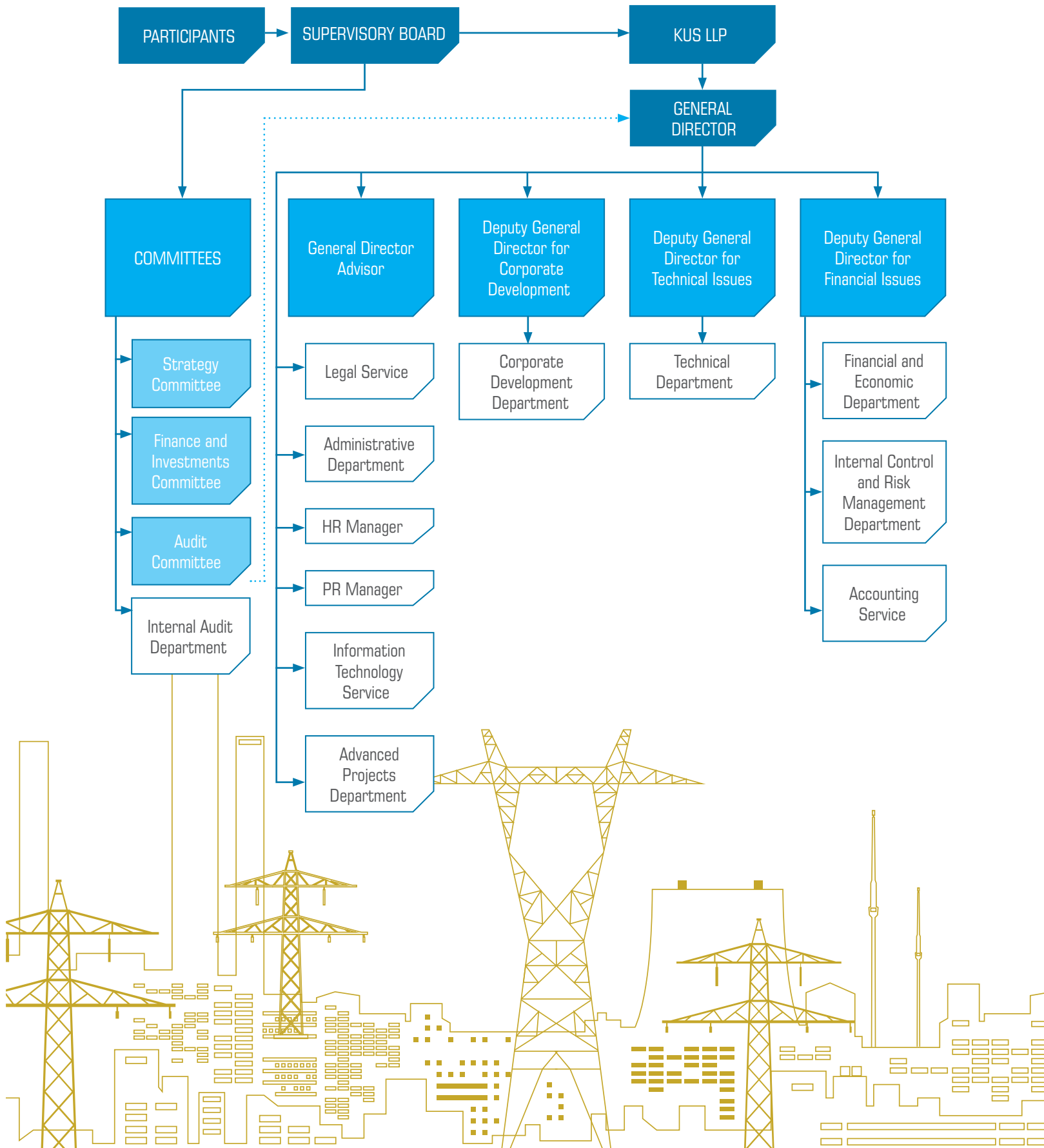
**The general meeting of participants** – is the supreme KUS body, which makes decisions on the most critical issues of the Group’s activities: changes in the charter, charter capital, brand name, formation of the Executive Body, early termination of its powers, election or termination of the Supervisory Board, approval of financial statements, loan of the Group’s property, etc.



Corporate management

- [Corporate management principles](#)
- [Management structure](#)
- [Corporate management System in the company](#)
- [Supervisory board](#)
- [Executive body](#)
- [Remuneration information](#)

# CORPORATE MANAGEMENT SYSTEM IN THE COMPANY



# SUPERVISORY BOARD

The Supervisory Board of the Group provides overall management of Group's activities, control over the activities of the Group's Executive Body, and control over financial and business activities. The exclusive competence of the Supervisory Board includes the following duties:

- identification of priority activities and approval of the Group's development strategy, medium-term development plan, as well as monitoring the implementation of the Group's strategy, plans and budgets;
- decision making on one or more consecutive transactions for acquisition and/or disposal of property by the Group, the total value of which is twenty-five and more percent of the total book value of all fixed assets belonging to the Group;
- determination of the Group production and financial policies in the form of approval of certain Group's financial and production documents, financial and production/technical norms and standards;
- controlling the quality and independence of the external auditor;
- determination of the remuneration for external auditor services;
- other issues provided for by the Group's internal rules.

**The purpose of the Supervisory Board:** is to monitor the activities of the Company's Executive Body, including ensuring the implementation of the Group's interests and protection of the participants' rights, establishing the principles and norms of the Group's activities, and ensuring understanding and compliance of the Group's obligations to participants and others. In 2016, the Supervisory Board met six times. The key focus points of the Supervisory Board were:

- review of financial statements of KUS LLP and consolidated financial statements of KUS LLP Group of Companies for 2015;
- review of the report on the work plan implementation of KUS LLP Internal Audit Division for the period from November 2015 to May 2016, as well as the work plan for 2017;
- approval of members of the Finance and Investment Committee and the Strategy Committee of KUS LLP Supervisory Board;
- consideration of the external auditor candidate for KUS Group of Companies to audit consolidated financial statements of KUS LLP for results of operations in 2016.



Corporate management

[Corporate management principles](#)

[Management structure](#)

[Corporate management System in the company](#)

[Supervisory board](#)

[Executive body](#)

[Remuneration information](#)

Members of Supervisory Board

Dinmukhamet Idrissov

Chairman of the Supervisory Board

Date of birth: December 29, 1964.

- 6.02.2014 – present time: Chairman of the Supervisory Board of Kazakhstan Utility Systems LLP;
- 1.04.2010 – present time: Chairman of the Supervisory Board of Ordabasy Group LLP.

Askar Kanafin

Member of the Supervisory Board, Member of the Strategy Committee

Date of birth: November 27, 1972.

- 6.02.2014 – present time: Member of the Supervisory Board of Kazakhstan Utility Systems LLP;
- 1.11.2013 – present time: Chairman of the Management Board of Ordabasy Group LLP;
- 9.2006 – 01.2012: General Director of Resmi Group of companies JSC;
- 1.08.2005 – 31.08.2012: Member of the Supervisory Board of Innova Investment LLP;
- 3.05.2004 – 31.08.2012: Member of the Board of Directors of Resmi Investment Finance House JSC.

Assiya Salimova

Member of the Supervisory Board, Chairman of Audit Committee

Date of birth: October 13, 1970.

- 6.02.2014 – present time: Member of the Supervisory Board of Kazakhstan Utility Systems LLP;
- 20.11.2013 – present time: Deputy Chairman of the Management Board – Compliance Director of Ordabasy Group LLP;
- 1.11.2006 – 01.02.2013: Finance Director of Kazfarm LLP.

Sultan Akhanov

Member of the Supervisory Board

Date of birth: January 31, 1984.

- 7.10.2016 – present time: Member of the Supervisory Board of Kazakhstan Utility Systems LLP;
- 9.2015 – present time: Managing Director, Ordabasy Group LLP;
- 6.2011 – 09.2015: founder, General Director, Kazsphere Group of Companies;
- 9.2010 – 06.2011: Managing Director, Kazakhstan-Malaysian Chamber of Commerce.

Supervisory Board Committees

The Supervisory Board of KUS LLP has three committees as of December 31, 2016 (established on February 6, 2014):

- Audit Committee;
- Finance and Investments Committee;
- Strategy Committee.

In 2016, Supervisory Board committees of KUS LLP met eight times. The main focus points which the Supervisory Board committees discussed were:

- budget review for 2016, taking into account adjustment of the average exchange rate of KZT against the US dollar from the second quarter to the end of the year;
- review of Company’s development scenarios taking into account the impact of the US dollar exchange rate and initiatives coming from these scenarios;
- review of draft internal regulatory documents of the Company;
- review of the Adjustment of the Company’s Budget for Revenues and Expenditures for 2016, following the results of the first half of the year;
- review of actual results of financial and economic activities of the Company for reporting periods;
- review of key performance indicators of the Company for 2017;
- review of the work plan of the Company Internal Audit Department for 2017.

The Audit Committee analyzes the preparation of Group’s financial statements, analyzes the reliability and effectiveness of internal control and risk management systems, and the effectiveness and independence of external and internal audit. In its own area of responsibility is ensuring compliance with the legislation of the Republic of Kazakhstan.

Committee Members:

- Assiya Salimova – Committee Chairman;
- Gulnara Nazkhanova – member of the committee;
- Lazzat Nurmukhambetova – member of the committee;
- Vladimir Ussenko – member of the committee.

The Finances and Investments Committee is responsible for attracting financing, establishing an effective evaluation of the funds raised, evaluating investment projects, and controlling the Group’s financial and business operations. It meets at least once a quarter.

Committee Members:

- Askar Karimullin – Committee Chairman;
- Zhuldyz Suzhikova – member of the committee;
- Lazzat Nurmukhambetova – member of the committee;
- Vladimir Ussenko – member of the committee.

The Strategy Committee makes recommendations on identifying strategic and priority areas for the Group development, and evaluates the prospects of investment projects and their impact on the Group’s value. It meets at least once every six months.

Committee Members:

- Dinmukhamet Idrissov – Committee Chairman;
- Askar Kanafin – member of the committee;
- Nabi Aitzhanov – member of the committee;
- Askar Karimullin – member of the committee.

Nomination and Remuneration Committee. As of today, the Nomination and Remuneration Committee has not been formed. The Company plans to create it in the medium term.





Corporate management

- Corporate management principles
- Management structure
- Corporate management System in the company
- Supervisory board
- Executive body
- Remuneration information

EXECUTIVE BODY

The Executive Body of the Group is managed by Director General, who reports to participants, acts on behalf of and in the interests of the Group and resolves all current issues of Group’s activities, except those that fall within the competence of the General Meeting of Participants.

Director General represents Group interests, disposes Group's properties and financial resources, concludes agreements (contracts), including labor, issues letters of attorney, opens current and other accounts in banks, approves the staffing table, issues orders and arrangements, gives instructions mandatory for all employees of the Group.

General Director, Deputies

General Director  
Nabi Aitzhanov

- Date of birth: September 11, 1980
- April 12, 2010 – present: General Director of Kazakhstan Utility Systems LLP;
  - From 2008 – 04.2010: General Director of Ontustik Zharyk Tranzit LLP;
  - From 2006 – 2008: Director of Energosbyt LLP;
  - 2005 – 2006: Deputy Director, Director of Energopotok LLP.

Deputy General Directors  
Vladimir Ussenko

- Date of birth: June 7, 1960.
- 1.2010 – present time: Deputy General Director for Technical Issues of Kazakhstan Utility Systems LLP;
  - 1.2009 – 01.2010: Head of the Corporate Management Department of Kazakhstan Utility Systems LLP;
  - 6.2008 – 09.2008: Head of the Power Stations Department of Kazakhstan Utility Systems LLP;
  - 9.2003 – 03.2008: Senior Dispatcher of the Regional Dispatching Control Center of KEGOC JSC – Almaty Inter-regional electric networks.

Lazzat Nurmukhambetova

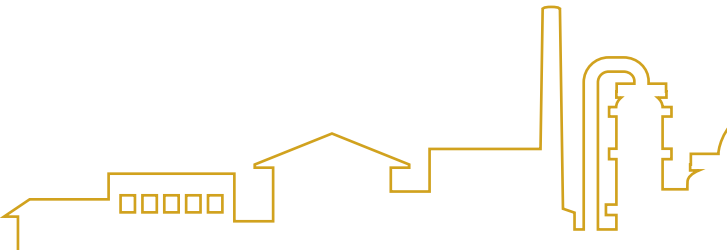
- Date of birth: February 28, 1973
- 1.2011 – present time: Deputy General Director for Financial Issues of Kazakhstan Utility Systems LLP;
  - 11.2008 – 01.2011: Chief Accountant of Kazakhstan Utility Systems LLP;
  - 10.2007 – 11.2008: Chief Accountant of Kazakhstan Utility Systems JSC;
  - 2006 – 10.2007: Head of Business Accounting Office of the Department of Accounting and Reporting of Halyk Bank Retirement Savings Plan JSC.

REMUNERATION INFORMATION

Kazakhstan Utility Systems LLP does not pay remuneration to members of the Supervisory Board, but compensates travel expenses for the members of the Supervisory Board during the period when they perform their duties related to functions of the Supervisory Board members and Supervisory Board Committees’ members of the Partnership in accordance with the legislation of the Republic of Kazakhstan, on the basis of

supporting documents (approved by the Minutes of the General Meeting of Participants of KUS LLP of 6.02.2015).

Remuneration to members of the executive body of Kazakhstan Utility Systems LLP for 2016 was KZT 45.628 thousand (in the form of wages according to the staff payroll).





# RISK MANAGEMENT

## RISK MANAGEMENT SYSTEM

The Group's risk management system is aimed at managing risks and opportunities that significantly affect the creation and preservation of the Group's value. The main goal of risk management in the Group of Companies is to achieve maximum profitability while taking a manageable level of risk. Risk management is aimed at identifying, preventing and minimizing events that may have a negative impact on achieving the objectives of the Group of Companies.

One of the important elements in the risk management system are structural subdivisions of subsidiary companies (hereinafter referred to as "SC") for each employee. SC employees face with risks on a daily basis, manage them and monitor their potential impact in functional duties of employees. Structural subdivisions are responsible for implementation of the risk management plan, timely identification and reporting of significant risks in their activities and provision of risk management proposals for inclusion in the plan of activities.

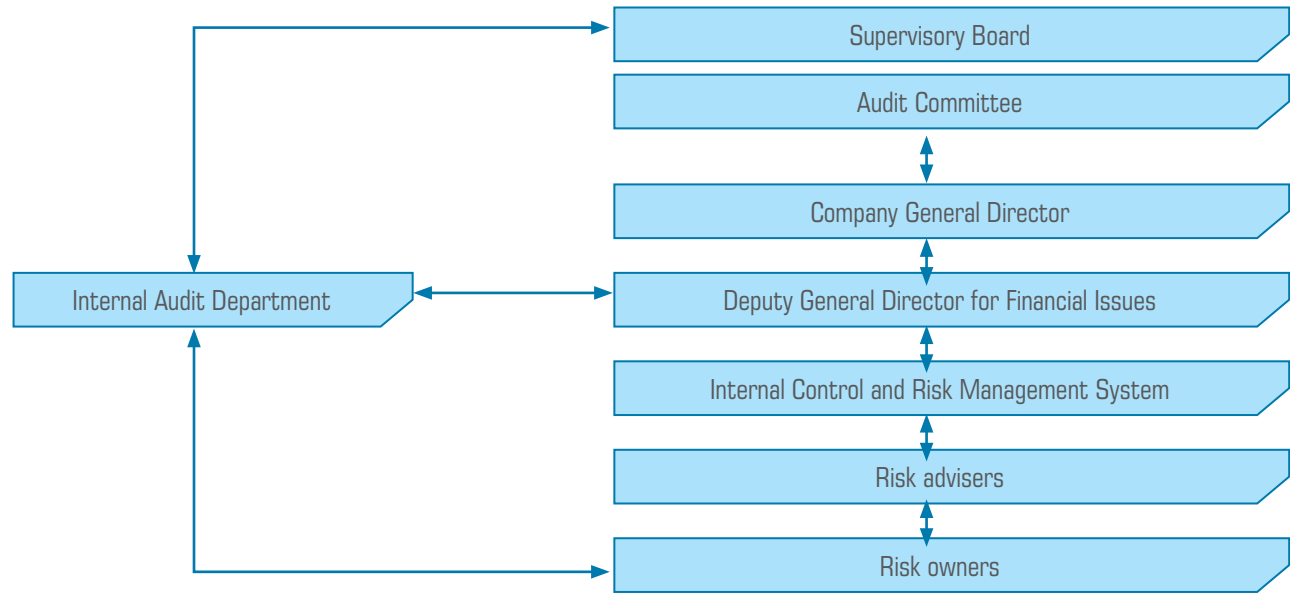
### Principles of building a risk management system

- **System approach.** Risk management is an ongoing, dynamic process that is applied to the whole Group of Companies at each level of management and in each division of the Company and SC.
- **Supervisory function of the Supervisory Board.** The Supervisory Board is an active management body of the Group of Companies that provides risk management control of the Group of Companies.
- **Responsibility for risk management.** Each employee of the Group of Companies is aware of purposes and tasks of risk management and is aware of his/her personal responsibility with regard to risk management of the Group of Companies within the scope of his/her authority, competence, and requirements of the Risk Management Manual.
- **Separation of decision-making levels.** Decisions to minimize risks are made at different levels of management, depending on the significance of risks.
- **Reference to targets.** Risk management is used in the development and formation of the Group of companies' strategy and is carried out on the basis of strategic goals and objectives of specific processes and functions.
- **Timely reporting.** The movement of risk information for decision-making is from lower control levels to higher levels. The prompt provision of information is carried out on a regular basis.
- **Creation of a corporate risk-oriented culture.** Management of the Group of Companies, Internal Control and Risk Management and Risk Supervisors ensure dissemination of risk management knowledge and skills in the Group of Companies. The Group of Companies provides an opportunity for effective information exchange and introduction of communicative norms in the framework of corporate risk management.
- **The relationship between target categories.** Risk management provides the achievement of objectives by one or more separate, but overlapping categories.

Risk management

Risk managementsystem

Risk management system structure in the Company



Internal control system

The Internal control system (hereinafter – the ICS) is a part of the corporate governance system, covering all levels of management, all processes and operations of the Group of Companies. The ICS is built into the processes and daily operations of the Group of Companies, includes procedures for

immediate informing the appropriate management level of any significant deficiencies and weaknesses in the control, together with details of the corrective actions that have been or should be taken.

Risk classification

After identifying the sources of risks, risks are identified for each of them, being classified into main 4 categories:

- 1) strategic risks are the risks of not achieving long-term corporate goals of the Group of Companies due to inadequate monitoring of implementation of strategies, and inadequate response to changing external conditions;
- 2) operational risks are the risks of losses, arising from deficiencies or errors in the internal business processes of the Group of Companies, in actions of employees and other persons, in operation of information systems, or due to external influences;

- 3) legal risks are the risks, arising as a result of violation of the legislation of the Republic of Kazakhstan, rules, regulations, prescribed procedures, internal policies, instructions and ethical standards. Legal risks also relate both to objectives in the field of compliance with requirements, and to objectives in preparation of the reporting (reliability and timing);
- 4) financial risks are the risks, arising from management of financial resources of the Group of Companies, such as cash, investments, debt instruments and derivative financial instruments. They include risks associated with the structure of capital, decrease in profitability, currency fluctuations, interest rates, credit risk, liquidity risk.

Main risks affecting implementation of the business strategy

Risk name	Risk description	Measures on key risk management
Стратегические риски		
	The risk of conceptual changes in legislation	Failure to implement the Company's adopted development plans in connection with the possible postponement / cancellation of the adopted power market model.  1. Participation in working groups on development of the draft legislative framework. 2. Analysis of the draft legislative framework. 3. Making proposals and recommendations to legislative projects. 4. Elaboration of alternative options for implementing the Company's adopted development plans
	In connection with implementation of large-scale investment projects, the impact of investment risks is unavoidable.	Risks of ineffective management of investment projects (at all stages of the life cycle of the investment project: from the preparation stage of the feasibility study up to completion of all project activities, including an assessment for the project implementation effectiveness).  1. Collegiate analysis and decision on all stages of investment projects: evaluation of costs and results, analysis of payback period. 2. Assessment and selection of the WGS Supplier in accordance with the Company's approved criteria. 3. Contractual work: examination of the draft contract, verification of authorities of the person signing the contract, timely registration of contractual relations. 4. Control over performance of contractual obligations by contracting organizations (volumes, terms, quality). 5. Control of costs and expenses made, comparison with the planned data. 6. Control over the targeted use of funds. 7. Architectural and technical supervision. 8. Preliminary tests. 9. Control over warranty terms for quality and efficiency. 10. Presence of the developed and approved investment policy / regulation.
Operating risks		
	Violation of the Labour Protection and Occupational Safety Rules	Inability to provide safe and healthy working conditions.  1. Qualification check. 2. Duty system. 3. Checking work places. 4. Compliance with requirements of the legislation on industrial safety at hazardous production facilities. 5. Control over conclusion of contracts for compulsory insurance against accidents in performance of labor, official duties; compulsory insurance of the employer's civil legal liability (CLL) – annually. 6. Provision of the production staff with milk, provision of water and drinking regime, protective clothing, special footwear, PPE, detergents and disinfectants, first-aid kits, normative and technical documentation (NTD).

The identified risks are reflected in the Map of risks against their significance:

- Red zone – Risks are critical for the Group of Companies
- Yellow zone – Risks have an average probability of occurrence
- Green zone – Risks have a low probability of occurrence

Risk management

Risk managementsystem

Risk name	Risk description	Measures on key risk management
Technological violations	<div>— severe weather and climate conditions can lead to an unplanned shutdown of production systems, lack of availability (interruptions in electric power supply) of electric power;</div> <div>— changes in weather and climate conditions lead to malfunctions in transmission and distribution systems of electric energy (the current zoning maps do not coincide with the design solutions of older lines);</div> <div>— work on equipment with a high degree of deterioration and non-compliance with the operating mode of production equipment.</div>	<div>1. Timely detection of defects as a result of inspections of equipment (planned and unplanned).</div> <div>2. Equipment testing.</div> <div>3. Conduction of current, capital and emergency repairs.</div> <div>4. Realization of the investment program on modernization and reconstruction of equipment (reduction of equipment deterioration).</div> <div>5. Availability of an emergency reserve of key hardware.</div> <div>6. Measures to prepare for the flood period.</div> <div>7. Preparations for the thunderstorm period.</div> <div>8. Measures to prepare for the autumn-winter period (AWP).</div>

Financial risks

Interest rate risk	Increase in interest rates on current liabilities.	<div>1. Risks on fluctuations in interest rates on loans are manageable, the growth of rates is excluded, since the amount of interest rates is fixed by credit agreements.</div> <div>2. Involvement, if necessary, of interest-free financial assistance from related parties.</div> <div>3. Interaction with banks and state institutions in order to optimize financial expenses (interest rate reduction).</div>
Currency risk	Change in the US dollar against the tenge.	Attraction of borrowed funds at fixed interest rates and in national currency.
Liquidity risk	Risk of the Group's insolvency and non-fulfillment of its obligations to counterparties.	<div>1. Floating capital management, tracking of consumers' payments.</div> <div>2. Daily cash balance for all the Group of Companies.</div> <div>3. Control over timeliness of payments.</div> <div>4. Quarterly monitoring of covenant performance.</div> <div>5. External and internal audit of the Group of Companies.</div> <div>6. Implemented unified system of budgeting of the Group of Companies and consolidation.</div> <div>7. Attraction of overdrafts.</div>

Risk name	Risk description	Measures on key risk management
Legal risks		
Violation of requirements of the environmental legislation of the Republic of Kazakhstan in terms of emissions	The lack of approved amounts of greenhouse gas emissions for heat and power plants in Kazakhstan creates a risk of violating the environmental legislation in terms of exceeding the allocated quota volumes, and, as a result, possible costs for acquiring potentially missing quotas and fines in case of exceeding the allocated quotas.	<div>1. Systematic initiation of amendments and proposals to regulatory legal acts of the authorized body in the field of ecology with regard to establishing fair and sufficient requirements for greenhouse gas emissions.</div> <div>2. Participation in working groups under chairmanship of the authorized body in the field of ecology upon the issues of amending the regulatory legal framework.</div>





[Sustainable development report](#)

[Environmental protection](#)

[Social responsibility](#)

[Charity and sponsorship](#)

[Health and labour safety](#)

# SUSTAINABLE DEVELOPMENT REPORT



## ENVIRONMENTAL PROTECTION

The main assets of the Group, that have an impact upon the environment, are generating capacities of Karaganda Energocenter LLP. In accordance with the principle of materiality in disclosure of information, the Company discloses issues of environmental protection specifically for this subsidiary organization in the annual report.

Karaganda Energocenter LLP considers environmental protection activities as an integral part of its daily work, fully aware of the need to maintain the ecological balance, to ensure environmentally sustainable socio-economic development of the society. In 2016, the Company successfully confirmed compliance of the current environmental management system with requirements of the standard ISO 14001.

Responsible attitude to the environment is a key principle of the Environmental Policy of Karaganda Energocenter LLP. The purpose of this Policy is to minimize the negative impact on the environment, to increase the level of environmental safety, responsibility for ensuring environmental protection,

energy saving and rational use of natural and energy resources within the Company’s activities. The leadership of Karaganda Energocenter LLP takes responsibility for implementation of obligations, undertaken under the Environmental Policy for continuous improvement and prevention of pollution, as well as compliance with applicable legislative and other requirements, to which Karaganda Energocenter LLP is related in terms of its environmental aspects. Every employee of the Company, as well as contracting organization, working within the Company’s interests, is acquainted with the Environmental Policy of Karaganda Energocenter LLP.

Karaganda Energocenter LLP annually forms the Environmental Program, which defines necessary environmental measures, as well as expenses for their implementation.

In 2016, the following environmental protection measures were carried out by efforts of the enterprise itself and by outside organizations:

### Karaganda CHPP -1

- Process flow tests for the ARU (ash removal unit) boilers БК3-50 № 1–5 and ПТБП-100 № 1–3.
- Revision and repair of worn-out units, elimination of suction cups at the ARU boiler units БК3-50 № 1–5.
- Revision and repair of worn-out units, elimination of suction cups at the ARU boiler units ПТБП-100 № 1–3.
- Monitoring of impacts on atmospheric air at the border of the sanitary protection and residential areas.
- Conduction of instrumental measurements of emissions of harmful substances into the atmosphere from boiler units of the station.
- Repair and partial replacement of lock valves of water-heating circulating boilers (WHCB).
- Repair and revision of pumping clarified water.
- Protection against contamination with ash and slag waste of land plots adjacent to the ash dump by filling ash dump beaches with loamy soil (dust suppression) in a summer season.
- Monitoring of the soil cover.
- Replacement of mercury-containing lamps with LED light fittings.
- Secondary use of waste oils, industrial-rubber waste, tare from paint for own needs.
- Alienation of waste to interested private and legal entities for processing, disposal and placement.
- Conduction of tests for the radiation quality of ash and slag wastes, fuel oil and coal.
- Development of normative documentation in the field of ecology.
- Advanced training in the field of ecology.
- Periodical watering of the territory for the works performed at the ash disposal areas with the help of rain devices (special purpose vehicles).
- The technical stage for recultivation of dry storage sites for ash and slag wastes.

### Karaganda CHPP-3

- Repair and partial replacement of burner devices and restoration of the shell of the Kotler design on boiler units № 1, 2.
- Process flow tests for the ARU boiler units № 1–7.
- Revision and repair of worn-out units, elimination of suction cups at the ARU boiler units № 1–7.
- Replacement of “Venturi” pipes and scrubbers onto the 2<sup>nd</sup> generation emulsifiers on boiler unit № 2.

Sustainable development report

Environmental protection

Social responsibility

Charity and sponsorship

Health and labour safety

- Repair and partial replacement of lock valves on water conducts.
- Rational use of land resources and reduction of land pollution by industrial waste.
- Landscaping of the territory.
- Reduction of volumes of wastes formation of the amber level of danger.
- Consecutive replacement of lead accumulator batteries with modern maintenance-free or low-maintenance accumulator batteries with a long service life.
- Alienation of waste to interested private and legal entities for processing, disposal and placement.
- Advanced training in the field of ecology.

In total, Karaganda Energocenter LLP spent KZT 333,439 thousand for implementation of measures for environmental protection.

Training of the Company’s personnel responsible for environmental issues is carried out on a regular basis, which raises awareness of employees of the stations about their duties and responsibilities in the field of environmental protection.

The risk management system has been successfully operating in Karaganda Energocenter LLP aimed at ensuring continuity and stabilization of activities by limiting the impact of internal and external negative factors on the activities of Karaganda Energocenter LLP. To prevent the negative impact on the environment, Karaganda Energocenter LLP annually conducts

Atmospheric air protection

Karaganda Energocenter LLP is a large subsoil user and contributes significantly to atmospheric air pollution in Karaganda.

In accordance with requirements of the environmental legislation of the Republic of Kazakhstan, normative documents (maximum permitted emissions (MPE), environment impact assessment (EIA)) have been developed for CHPP-1 and CHPP-3 and maximum permissible concentrations (MPC) have been determined.

In accordance with Art. 69 of the Environmental Code of the Republic of Kazakhstan for 2016 permits for emissions to the environment were received in relation to CHPP-1 and CHPP-3.

To reduce the technogenic impact on the environment, all boiler units of the CHPP are equipped with an ash removal system.

In the period from 2013–2016 reconstruction of ash removal units scrubbers with a Venturi pipe (96.6% ash removal efficiency) to the 2<sup>nd</sup> generation battery emulsifiers (efficiency coefficient of ash removal of 99.5–99.6%) was performed at the stations.

the environmental risks assessment and determines measures to reduce them, which, in 2016, were fully implemented.

When considering projects for construction, reconstruction, modernization of equipment and facilities, Karaganda Energocenter LLP makes assessment of completeness of all types of the environmental impact and develops measures to reduce them.

All environmental risks of Karaganda Energocenter LLP in 2016 were under controlled conditions, the details of risks are identified in the Company’s register of environmental aspects.

The size of the sanitary protection zones of CHPP-1 and CHPP-3 are determined in accordance with the Sanitary Regulations “Sanitary and Epidemiological Requirements for the Establishment of the Sanitary Protection Zone of Production Facilities” approved by Order No. 237 of the Ministry of National Economy of the Republic of Kazakhstan dated March 20, 2015. Based on these Regulations, CHPP-1 refers to the enterprises of 2 hazard class, with the size of the sanitary protection zone (SPZ) of 500 m. CHPP-3 refers to the enterprises of 1 hazard class, with the size of the sanitary protection zone (SPZ) of 1,000 m.

Based on Article 40 of the Environmental Code of the Republic of Kazakhstan and in accordance with the sanitary classification of production facilities, the industrial sites of CHPP-1 and CHPP-3 refer to category 1.

In 2016 a new power unit was commissioned at CHPP-3, which is equipped with a dry-type ash removal unit (electrofilter with efficiency coefficient of ash removal of 99.75%).

Implementation of measures for reconstruction of ash removal units over the last 3 years has significantly reduced ash emissions.

In accordance with requirements of the Technical Regulations, a stationary gas analytical complex is installed on the boilers of CHPP-3, which allows continuous monitoring of concentrations of harmful substances in flue gases at each boiler unit.

In order to comply with requirements of the environmental legislation of the Republic of Kazakhstan and to reduce emissions of pollutant substances operational monitoring is carried out at CHPP-1 and CHPP-3, which includes: calculation of emissions to the environment from stationary sources, accounting for manufactured products, consumption of raw materials and materials, the number of working hours of each unit, the quality and composition of the burned fuel.

Reduction of ash emissions in 2016 is confirmed by the results of industrial environmental monitoring conducted by an independent, accredited organization.

The volume of gross emissions from stationary sources in 2016 amounted to 37,398 tons at an established standard of 44,346 tons per year.

According to the Code of the Republic of Kazakhstan “On Taxes and Other Mandatory Payments to the Budget” emissions from mobile sources are not calculated, based on the calculation of

payments for emissions from mobile sources, the amount of fuel used is applied. Transportation of workers, raw materials, materials used for the Company’s activities and performance of works is carried out for insignificant distances and no significant impact on the environment.

In 2016, tax payments for emissions of pollutant substances from stationary sources amounted to KZT 254,622 thousand, from mobile sources (transport) – KZT 771 thousand.

Types of emissions (tons / year)	2014	2015	2016
Karaganda CHPP-1			
Total, including:	2,326.737	2,150.031	2,451.883
Ash (dust inorganic SiO <sub>2</sub> – 70–20%)	1,120.589	560.107	520.195
Nitrogen oxides (NO <sub>x</sub> )	161.598	225.552	289.698
Sulphur dioxide (SO <sub>2</sub> )	801.076	1,095.522	1,347.914
Carbonic oxide (CO)	57.406	82.488	108.137
Other	186.068	186.362	185.939
Karaganda CHPP-3			
Total, including:	36,635.071	32,184.320	34,946.119
Ash (dust inorganic SiO <sub>2</sub> – 70–20%)	16,386.592	10,946. 686	7,210.676
Nitrogen oxides (NO <sub>x</sub> )	8,492.204	9,199.528	10,358.444
Sulphur dioxide (SO <sub>2</sub> )	11,394.335	11,493.650	16,704.490
Carbonic oxide (CO)	247.181	297.732	548.783
Other	114,759	246.724	123.726
Total for Karaganda Energocenter LLP	38,961.808	34,334.351	37,394.002

In accordance with requirements of the environmental legislation of the Republic of Kazakhstan in 2016, an inventory of greenhouse gas emissions from the burned fuel (coal, fuel oil) at CHPP-1 and CHPP-3 was conducted.

Karaganda CHPP-1

- carbon dioxide (CO2) – 406,331 tons;
- methane (CH<sub>4</sub>) – 4.47 tons (t.eqv.CO<sub>2</sub> – 93.98);

Karaganda CHPP-3

- carbon dioxide (CO<sub>2</sub>) – 5,457,420.93 tons;
- methane (CH<sub>4</sub>) – 37.55 tons (t.eqv.CO<sub>2</sub> – 788.67);
- nitrous oxide (N<sub>2</sub>O) – 74.21 tons (t.eqv.CO<sub>2</sub> – 23 005.94).

Verified reports in due time are transferred to authorized bodies in the field of environmental protection.

In 2016 Karaganda Energocenter LLP emitted into the atmosphere 5,888,521.18 tons (in CO<sub>2</sub> equivalent) of greenhouse gases, including:

- nitrous oxide (N<sub>2</sub>O) – 2.84 tons (t.eqv.CO<sub>2</sub> – 880.66).

The increase in greenhouse gas emissions in 2016 is justified by the increase in the thermal and electric energy production, caused by commissioning of a new power unit at CHPP-3.

In its activities, Karaganda Energocenter LLP does not release ozone-depleting substances that affect climate changes.

Sustainable development report

Environmental protection

Social responsibility

Charity and sponsorship

Health and labour safety

Waste management

In the course of production activities, industrial and household waste is generated at CHPP-1 and CHPP-3, which are related to the green and amber level of danger.

In accordance with requirements of the environmental legislation of the Republic of Kazakhstan, regulatory documents for waste management (low radioactive waste (LRW), waste management program, hazardous waste passport) have been developed for CHPP-1 and CHPP-3).

In total, the Company produces more than 28 types of waste:

1. Amber level waste:
  - worked off ion-exchange resins;
  - worked off mercury-containing lamps;
  - worked off mercury-containing devices (thermometers);
  - worked off lead-acid batteries;
  - B class waste of medical point;
  - oily rags;
  - worked off car filters;
  - worked off oils;
  - containers for paints and lacquers;
  - worked off wooden railway sleepers.
2. Green level waste:
  - ash and slag;
  - scrap of non-ferrous metals;
  - scrap of ferrous metals;
  - tails of welding electrodes;
  - worked off tires;
  - municipal solid waste;
  - worked off air filters;
  - food waste;
  - heat-insulating waste;
  - construction waste;
  - waste from operation of office and electronic equipment;
  - worked off protective clothing;
  - garden waste;
  - industrial wood residue;
  - waste of rubber products;
  - waste of electrical insulating material;
  - abrasive – metal dust;
  - scrap of abrasive products.

In 2016, a total of 1,445,436.053 tons of industrial and domestic wastes were generated at CHPP-1 and CHPP-3, including: amber level waste – 133,436 tons and green level waste – 1,445,302.617 tons.

Water resources

In accordance with the technological process, a circulating water supply system operates at CHPP-1 and CHPP-3. For replenishment of losses in the circulating water supply system and household needs, drinking quality water is used at CHPP-1 and CHPP-3. At CHPP-1 water comes from ArcelorMittal Temirtau JSC and Karagandy Su LLP. The volume

In accordance with requirements of the environmental legislation of the Republic of Kazakhstan and regulatory documents, the Company records the formation, authorization, accumulation, storage, disposal of industrial and domestic waste.

In 2016, 36 117 tons of industrial and household waste were disposed of on industrial sites of the stations, 3,786.026 tons of waste was transferred to third parties for disposal on a contractual basis, 1,441,613.910 tons of ash-and-slag wastes were placed in storage basins (ash disposal areas). Ash and slag wastes of CHPP-1 are located on the ash disposal areas of 24 hectares, which are a hydraulic structure. In 2016, the Department of state assets and procurement of Karaganda city handed over to Karaganda Energocenter LLP, on a contractual basis, into trust management the ash disposal areas for dry storage of 40 hectares. In accordance with the project, the expiration period for exploitation of these ash disposal areas is planned for 2027–2028.

Ash-and-slag wastes of CHPP-3 on the basis of the “Trust Management Agreement” are stored in the 1<sup>st</sup> and 2<sup>nd</sup> sections of ash dump № 2 of 188.5203 hectares, owned by City Communal Services of Karaganda city LLP. The operational lifetime of the 1<sup>st</sup> and 2<sup>nd</sup> sections of ash dump № 2 ends in 2019. In 2016 PE “INFORM TECH” developed a project “Reconstruction of ash dump № 2 of Karaganda CHPP-3 by build-up an embank of the 3<sup>rd</sup> section”. Implementation of this project will prolong the operational lifetime of ash dump № 2 by 3.5 years.

As of December 31, 2016, total 6,269,279.121 tons of ash and slag wastes were accumulated at the ash disposal areas of the stations, among them:

- CHPP-1 – 674,743.888 tons;
- CHPP-3 – 5,594,535.233 tons.

At the same time, payments for emissions upon the placement of ash and slag wastes in 2016 amounted to KZT 50.471.332.

In 2016, the income from the sale of industrial and domestic waste amounted to KZT 41,717.960, including:

- ash and slag wastes sale – KZT 8,575,901;
- sale of spent ion-exchange resins – KZT 280,973;
- sale of worked off lead-acid batteries – KZT 263,250;
- scrap of ferrous and non-ferrous metals – KZT 32,271,208;
- scrap paper – KZT 26,628.

of water consumption by CHPP-1 in 2016 amounted to 843,592 tons, including: from ArcelorMittal Temirtau JSC – 520,911 tons, Karagandy Su LLP – 322,681 tons. Of which: consumption for technological needs amounted to 800,730 tons, household needs – 42,862 tons. The circulating water supply of CHPP-1

in 2016 amounted to 3,145.2 thousand tons, whereas re-use – 881 thousand tons.

Water supply of Karaganda CHPP-3 is made on a contractual basis from treatment facilities of Karagandy Su LLP.

The volume of water consumption of CHPP-3 in 2016 amounted to 15,281,366 tons, including 14,967,379 tons for technological needs, for households needs – 313,987 tons. At the same time, the circulating water supply in the cycle of CHPP-3 amounted to – 606,507.5 thousand tons, whereas re-use –1,694.9 thousand tons.

Residential wastewater of CHPP-1 and CHPP-3 are allocated on a contractual basis to the treatment facilities of Karagandy SU LLP. Discharges to the terrain and water facilities are not carried out.

Land resources

The main impact on re-contamination of the soil can be caused by ash and slag wastes generated by combustion of fuel in the furnace of the boiler and stored in the ash disposal areas of CHPP-1 and CHPP-3. To prevent the risk of soil contamination at the stations, measures are annually elaborated to avoid dusting of the ash disposal areas.

At the end of the heating season at CHPP-1 to avoid dusting of the ash disposal areas works to cover ash and slag waste with loamy soil (a layer of loam not less than 30 cm) are carried out.

Energy saving

Karaganda Energocenter LLP

The main objective of energy saving and energy efficiency improvement of Karaganda Energocenter LLP is to reduce the volume of consumed energy resources, including by reducing consumption of energy resources for own needs, reducing the specific consumption of resources for the production of electric power and heat, reducing fuel resources for the production of thermal and electric power, improvement of mechanisms for controlling energy costs and equipping Karaganda Energocenter LLP with electric and thermal energy meters.

Based on the results of the last repair campaign and implementation of a number of programs aimed at energy saving in 2016, Karaganda Energocenter LLP reduced energy consumption for own needs up to 12.7%, reduced the specific consumption of conventional fuel for electric power supply from 360.1 g / kWh up to 350.4 g / kWh, for heat supply from 199.1 to 191.3 kg/Gcal, the consumption of chemically purified water (CPW) for own needs of Karaganda CHPP-3 decreased by 240,086 tons. The use of drinking water for technological needs

In the course of industrial environmental monitoring, the stations continuously monitor the quality of incoming water from Karagandy Su LLP and ArcelorMittal Temirtau JSC, as well as domestic hot water (DHW). As a result of the conducted monitoring, incoming and transmitted water meets sanitary and epidemiological requirements.

Monthly samples of sewage from fecal and storm sewerage, clarified water from the ash disposal areas, circulating water are selected at the stations. The quality of these waters meets requirements of the Regulations for pipeline technical maintenance.

In accordance with requirements of the Water and Ecological Code of the Republic of Kazakhstan, surface and groundwater monitoring is carried out in the ash disposal areas of CHPP-1 and CHPP-3. Based on the results of monitoring conducted by an independent accredited organization in 2016, no significant impact on groundwater and surface water was detected.

At the ash dump of CHPP-3 to avoid dusting of ash and slag waste, the water level in the bowl and overwash of ash and slag beaches are monitored daily.

Based on the results of soil cover monitoring carried out in 2016 by an independent accredited organization, significant influence of CHPP-1 and CHPP-3 on soil resources was not revealed.

of the stations has decreased, the volume of circulating water supply has increased.

The increase in average hourly electrical capacity by 90.3 MW or 22% occurred in relation to the increase in electric power generation due to implementation of a number of energy-efficient measures, the largest of which was “Expansion of Karaganda CHPP-3 by installing an energy boiler unit type E-670 paired with a heating turbine type T-100/110” and “Reconstruction of a turbo-unit of type T-110 / 120–130 st. № 2 with replacement of middle and low pressure rotors”.

Restoration of heat insulation of the heating network at Karaganda CHPP-1 allowed to reduce heat losses in the amount of 1,598 Gcal / year. Replacement of heating sections of high-pressure heater (HPH) t/a st. № 3 at Karaganda CHPP-3 resulted in an increase in the average feedwater temperature at 13 °C.



Sustainable development report

Environmental protection

Social responsibility

Charity and sponsorship

Health and labour safety

Expansion of Karaganda CHPP-3 by installing an energy boiler unit type E-670 paired with a heating turbine type T-100/110 made it possible to reduce coal consumption by 176,220 tons. Reconstruction of a turbo-unit of type T-110 / 120–130 st. № 2 of Karaganda CHPP-3 with replacement of middle and low pressure rotors with replacement of middle and low pressure rotors, also allowed to reduce coal consumption in the amount of 74,900 tons. Transfer of steam heating of separate buildings and premises of CHPP-3 to hot water allowed to reduce heat losses to 22,504 Gcal. Replacement of the PE-500-180 feeding pump at CHPP-3 allowed to minimize the risks of failure of one of the feeding pumps by 77.6 Gcal / hour or 66.7 MW. The use of IOMS-1 antiscaling composition in the circulating water supply system of CHPP-3 allowed to reduce water consumption for

charging cooling towers, as a result of IOMS-1 supply to the circulation system, 136,849 m³ were saved.

In accordance with the Law of the Republic of Kazakhstan “On Energy Saving and Energy Efficiency Improvement” in 2014 Karaganda Energocenter LLP, based on the concluded agreement with EL-Nur-Service LLP at Karaganda CHPP-1 and CHPP-3, in accordance with requirements of “Guidelines for Conducting an Energy Audit” approved by Oder № 1115 of the Government of the Republic of Kazakhstan dated August 31, 2008, the energy audit was conducted, according to which results a conclusion on energy saving and energy efficiency dated 11.12.2014 was issued.

energy efficiency of the production within the existing integrated management system of Karagandy Zharyk LLP.

The energy analysis is carried out on the basis of monitoring and measuring energy consumption..

Karagandy Zharyk LLP

In connection with implementation of the energy management system based on the international standard ISO 50001, Karagandy Zharyk LLP has established requirements for a periodic energy analysis and energy planning to increase

Information on results of implementation of the action plan for energy saving and energy efficiency increase for 2016 by Karagandy Zharyk LLP

№	Name of measure	Implementation period	Actual investments for the reporting period (including VAT), tenge	Actual effect of savings from implementation of measures for the reporting period		
				Name of energy resource	in physical terms	in monetary terms (including VAT), tenge
1.	Switching off transformers in small load modes in substations with two or more transformers.	During the year (organizational event)	–	electrical energy (kWh)	1,638,339	13,914,348
2.	Reducing consumption of electrical energy for own needs of substations	During the year (organizational event)	–	electrical energy (kWh)	1,747,783	14,843,851
3.	Reconstruction and construction of Distribution Substation-0.4 / 6-10kV	During the year	3,626,636,055	electrical energy (kWh)	2,041,534	17,338,667
4.	Replacement of thermal insulation on the Company's heat pipelines	December, 2016	363,890	heat energy (Gcal)	115,89	680,158
5.	Installation of GLONASS / GPS system	December, 2016	9,681,956	POL (liter)	77,400	9,520,200

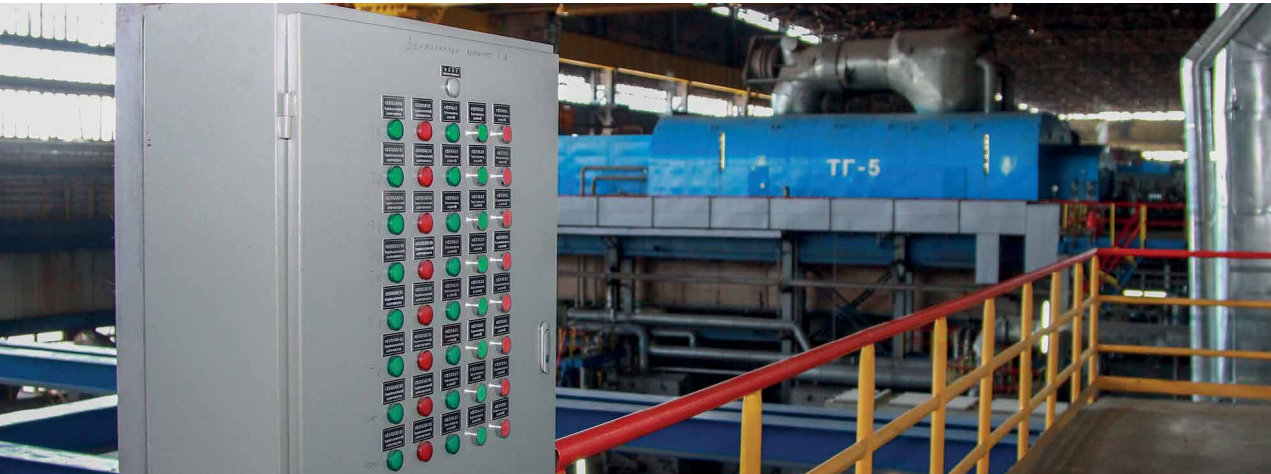
Ontustik Zharyk Tranzit LLP

On the basis of Order No.904 of the Government of the Republic of Kazakhstan dated 29.08.2013 “On Approval of the Energy Saving Program” of Ontustik Zharyk Tranzit LLP, a Comprehensive Energy Saving Plan for the South-Kazakhstan region for 2015–2020 was developed and approved jointly with

Akimat of the South Kazakhstan region. The action plan was developed on the basis of the approved investment program of the Partnership aimed at reducing the regulatory and technical losses in electric networks.

Information on results of implementation of the action plan for energy saving for 2015–2016 years by Ontustik Zharyk Tranzit LLP

Measures	2015 year			2016 year		
	Volume	Funds, mln tenge	Effect, kWh	Volume	Funds, mln tenge	Effect, kWh
Replacement of branch lines from Overhead line-0.38 kV to buildings (self-supporting insulated conductor)	7,983 km	113.3	47,898	7,561 km	115.9	45,366
Replacement of overloaded, installation and commissioning of additional power transformers at existing Substations -35 kV	1 pcs.	156.7	72,000	–	–	–
Replacement of overloaded, installation and commissioning of additional power transformers on existing transformer substations, Packaged Transformer Substation-10-6 kV	62 pcs.	154.9	47,432	82 pcs.	229.0	105,160
Replacement of underloaded power transformers on existing transformer substations, Packaged Transformer Substation-10-6 kV	4 pcs.	4.2	8,400	2 pcs.	5.1	6,000
Replacement of wires on overloaded lines (self-supporting insulated conductor)	44.3 km	346.6	389,374	64.4 km	544.6	566,632
Economic effect of implementation	–	775.7	565,104	–	894.6	723,158



Sustainable development report

Environmental protection

Social responsibility

Charity and sponsorship

Health and labour safety

# SOCIAL RESPONSIBILITY

## Corporate social responsibility

The Corporate social responsibility (CSR) – is an integral and very important part of the Group's activities.

### Key principles of activity of KUS

- Quality provision of services, which, ultimately, is a guarantee of active social and economic development of the areas of presence.
- Fair and timely remuneration of the Company's employees, as well as ensuring safe working conditions and creating all conditions necessary for career growth, personal and professional development of each employee.
- Responsibility for preservation of the environment before the state and society as a whole.

## Human Resources Management Policy

**The purpose of the Group's Human Resources Management Policy** – through the operation of effective personnel management technologies, is to create quality human resources consistent with the Group's strategic goals, to strengthen and develop the Group's human capital, to create and develop additional competitive advantages of the Group, among which the key place is devoted to development of human resources and introduction of a motivation system.

### Main principles of the Human Resources Management Policy:

- 1. Proactivity.**  
The Group creates conditions for employees' interests in the success of the common cause, encourages their initiative, provides opportunities for realizing the potential, career and professional growth in various fields.
- 2. Transparency and openness.**  
The system of selection and promotion of employees in the Group provides a sufficiently high level of professionalism of employees and transparency of recruitment procedures.
- Career growth of employees is carried out on the basis of an objective assessment of the results of their work, business

This, first of all, is due to the fact that the quality of life in the regions, where Kazakhstan Utility Systems LLP is present, is determined, to a large extent, by the quality of products produced by the Company and provision of jobs.

The CSR principles are observed in all business processes of the Group, being an integral part of business planning and an indispensable tool for preventing contingencies and conflicts.

The Group seeks to conduct an open, transparent business, to comply impeccably with the legislation of the Republic of Kazakhstan and to correspond to international CSR standards.

qualities, as well as professional competence. The Group ensures openness at all stages of the human resource management process.

**3. Integratedness.**  
The Group ensures integratedness of the human resource management process with all business processes.

**4. Succession.**  
The Group supports mentoring as an effective measure to improve professional skills, especially among young specialists. The specialists are trained and share accumulated skills and knowledge with their colleagues.

Professional development of employees is carried out through processes of career development planning, the personnel reserve management.

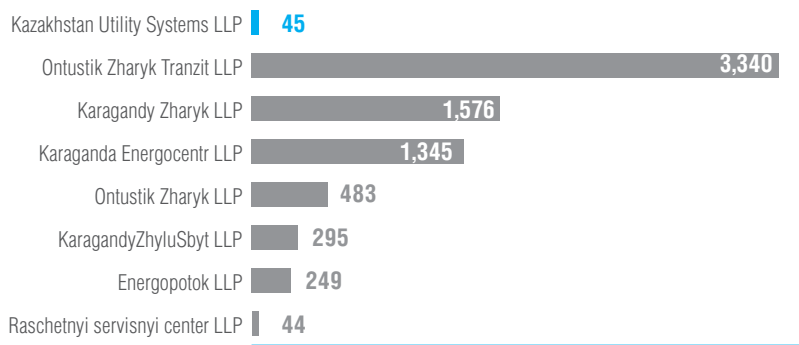
- 5. Motivation of employees.**  
Basic principles of effective motivation of employees:
- the payment terms are set in such a way as to motivate employees to work efficiently and must be competitive in order to attract highly qualified specialists;
  - the remuneration system is transparent and understandable;

- the remuneration level depends on the achievement by the Group of agreed goals and objectives in general and by individual employees.

### Number of personnel

The number of personnel of the Group as of December 31, 2016 amounted to 7,377 people.

### Number of personnel, 2016



### Personnel structure by category and sex

Personnel structure of the Group is characterized by a high proportion of males – 75%. Males in the category “workers” account for 78.1% because of the specifics of their activities.

The number of officials is 8.1% of the total number of employees. In this category, the proportion of males is 86.8%, whereas the proportion of females – 13.2%.

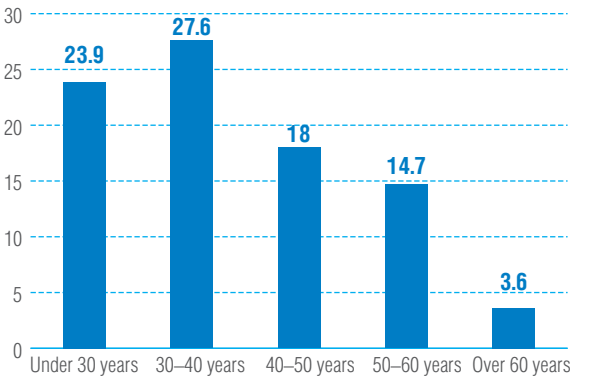
Personnel category	Total		Of them: male		Female	
	persons	%	persons	%	persons	%
Staff strength	7,377	100	5,537	75	1,840	25
Officials	600	8.1	521	86.8	79	13.2
Specialists	1,561	21.2	940	60.2	621	39.8
Workers	5,216	70.7	4,076	78.1	1,140	21.9

### Personnel structure by age

In the Group, the proportion of employees under the age of 40 is 51.1% of the total. The share of employees in the age category over 60 years is 3.6%.

The Group is interested in attracting young specialist and gives them an opportunity to gain work experience, skills and take their initiative to improve the work efficiency. For this purpose, there are organized various practices for students under social partnership contracts, dual training is organized as well. The dual system of vocational education is a recognized form of training that combines theoretical training in an educational institution and industrial training at a manufacturing enterprise.

### Age structure of employees



Sustainable development report

- Environmental protection
- Social responsibility
- Charity and sponsorship
- Health and labour safety

Each student, new employee is assigned a mentor, according to contracts on dual training and the personnel adaptation program, in order to ensure continuity and transfer of professional knowledge and skills. The Group employs 226 young specialists with technical/vocational education.

Training and development of personnel

The system of personnel training is aimed at acquiring by employees of theoretical knowledge and practical skills necessary to achieve the Group’s strategic goals.

- Main training objectives:
- 1) increasing personnel work efficiency;
  - 2) ensuring the professional level for the personnel required by the position;
  - 3) ensuring the accumulation and transfer of knowledge within the Company;
  - 4) increasing loyalty of employees to the Company;
  - 5) preparation of the personnel reserve.

The Group conducts measures aimed at attracting young specialist to achieve the optimal combination of young initiative employees and experienced, highly professional employees.

For the purposes of a structured approach to training and development of the personnel, the Annual Training Plan for a calendar year is approved. The Plan includes training related to advanced training, preparation for the profession, re- attestation, obtaining a related specialty to ensure timely training of the new personnel and performance of works.

In 2016, 4,539 people were trained, which comprises 61.5% of the total number of employees, including 4,019 employees upon compulsory training, which amounted to 54.5%. In 2016, the total amount of training costs was 43.4 mln tenge.

Compulsory training, 4,019 employees, 54.5%



Attraction of young specialists

In 2016, 327 students passed the production and pre-graduation practice in the Group’s subsidiaries, of which 198 people were admitted. On the production facilities of Karaganda Energocenter LLP there are conducted field trips on an ongoing basis.

A number of employees of Karaganda Energocenter LLP take part in the activities of educational institutions: participation in state examination commissions for admission of final examinations for future power engineers, graduates of the Polytechnic College during the academic year; conduction of

practical exercises, reviewing technical works of students. Moreover, employees participate in scientific-technical and scientific-practical conferences, seminars, organized by the KarSU named after. Ye.A. Buketov.

The enterprise provides a potential resource for mentoring, encouraging employees to transfer their accumulated knowledge and skills to colleagues. The plans suggest creation of a training center on the basis of the CHPP to enhance professional qualifications of the production staff.

Motivation and remuneration of personnel

In 2016, the increase in wages in the Group averaged to 8.9%. The Group’s subsidiaries have a flexible payment system aimed at meeting the key performance indicators of each employee

Intangible motivation

In order to increase employee loyalty and ensure safety in the daily performance of work duties, the following measures were organized:

- provision and organization of integrated catering for workers of Karaganda CHPP-1; Karaganda CHPP-3 at preferential rates;
- provision of preferential travel costs for workers of Karaganda CHPP-1; Karaganda CHPP-3 on the approved routes along the city with coverage of the main areas of the city (Maykuduk, Prishakhtinsk, Sortirovka, Yugo-Vostok);
- provision with bus services in winter periods from October to March in Ontustik Zharyk LLP annually;
- annual allocation of funds for sports and recreational activities in Raschetnyi servisnyi center LLP: rent of a sports hall (for basketball, volleyball, mini-football) and a swimming pool.

Corporate events

Employees of the Group’s subsidiaries participate actively every year in professional, as well as in sports and recreational activities, both at the enterprise level and at the district, regional and (international) levels. Practice of sports competitions within the enterprises allows the teams to take prizes in external competitions. In 2016 the team of Karagandy Zharyk LLP became one of the top three among operational and repair brigades of electric networks in the Republican professional competitions in Almaty region, having once again proved its skills and professionalism.

For organization of a healthy lifestyle, visits of sports halls (two gyms) by workers from Karaganda CHPP-1, Karaganda CHPP-3 and the Central Office were organized. Hereunder, workers have an opportunity to play mini-football, volleyball, table tennis, visit the gym and swimming pool.

The Group’s subsidiaries in Karaganda city organize a trip twice a year for fishing (winter and spring fishing). In summer months there is organized a summer rest based on the principle of “da off trip voucher”, when employees with families leave for the summer rest to Karkaralinsk, Balkhash, Bayan-aul. The organization of the summer rest is a joint event: held by the trade union and the employer, which compensates a part of the cost of trip vouchers.

on a monthly basis. This payment system allows to stimulate employees to work effectively, to introduce innovations in everyday activities for increase of labor productivity.

There are annually conducted events with giving awards, certificates of honor, titles in order to increase motivation for effective work, stimulating employees for achieving high production results in the Group’s subsidiaries.

By the end of 2016, 224 employees were awarded with corporate awards for their effective labor activities, 70 employees with state awards, 3 employees with the CIS Electric Power Council, 42 employees with awards from Kazakhstan Electrical Power Association (KEPA), 11 employees were awarded the title of “Merited Power Engineer”, 12 employees with the title of “Honorary Power Engineer”, 5 employees with awards from “KAZENERGY” ALE, 11 employees with certificates from the regional council of energy veterans.

The Group has a tradition to celebrate a professional holiday – Power Worker Day on December 22. Traditionally it passes with solemn handing of certificates of appreciation, letters of thanks, medals to distinguished workers during the event.

The Group’s subsidiaries within the many years tradition, participate in citywide events dedicated to the celebration of Nauryz Meiramy holiday, and establish a yurt in the center of the city. Here, one can get acquainted with national traditions, taste national dishes.

In addition, employees of the Group’s subsidiaries take an active part in regional, city and district volunteer clean-ups.

Every year the Group organizes team-building events (team buildings), with a trip to nature, which contributes to consolidation of the collective, increases collective loyalty and motivation.



Sustainable development report

Environmental protection

Social responsibility

Charity and sponsorship

Health and labour safety

# CHARITY AND SPONSORSHIP

Karaganda Energocenter LLP provides free outpatient treatment to employees, according to the agreement concluded with the medical institution City center of primary medical and sanitary assistance LLP. The funds are allocated in the amount of 1% of the payroll budget from the budget for expenditures on financing, sports development and promotion of a healthy lifestyle of employees annually. The Company partially compensates for the payment of electrical energy by transferring funds to the personal accounts of pensioners.

Raschetnyi servisnyi center LLP renders sponsorship assistance to employees, former employees of the Company. In particular, in 2016, sponsorship assistance for medical services was provided to retired employee Rozhkova Ye.A., who had worked in the Company for more than 10 years.

The subsidiaries under memorandums, concluded with local executive bodies, provide charitable assistance to veterans of the Great Patriotic War, and fringe benefits to pensioners living alone.

On Kurban Ayt holiday, Ontustik Zharyk LLP annually provides material assistance to the orphanage and disabled children in Tolebi district, the village of Koksayek.

KaragandyZhyluSbyt LLP provided sponsorship assistance in the form of writing off heat energy debts to charitable institutions “Umyt”, “Karagandy” in 2016.

Significant sponsorship support was provided to the city mosque in the form of purchase and installation of a heat-metering device (heat meter) on its territory. Sponsorship assistance for orphanages as a part of the social project is based on obtaining information about the real needs of orphans, and is determined by appropriate effective support methods. Significant material and financial sponsorship assistance is also provided to separate low-income families.

In 2016, in honor of celebration of the “Nauryz” holiday assistance was rendered to 36 low-income families, basic essential food products were procured and delivered.

In June 2016, employees of Energopotok LLP rendered material assistance to the population of Aktobe, having suffered from the terrorist actions.



# HEALTH AND LABOUR SAFETY

Management of the Group considers introduction of measures aimed at protection of labour, protection of health and ensuring safety of employees as an integral part of its activity and paramount obligation of managerial personnel at all levels.

From the moment of the Group foundation, amount of funds annually allocated to labour protection and occupation safety has been growing constantly. The Group set the following tasks to itself in the field of occupational safety and labour protection:

- creation of healthy and safe labour conditions at each workplace;
- reduction of the occupational accidents level;
- reduction of the occupational diseases incidence level;
- increase in the level of responsibility of each employee, regardless of his profession or position for compliance with duties in the field of health and safety at workplaces;
- constant increase in the level of safety of working conditions due to ensuring trouble-free operation of equipment, introduction of new technologies and application of modern personal protective equipment.

In 2016, the Company spent over KZT 248 mln to programs and measures for labor protection, industrial and fire safety.

For the purpose of achievement of the above specified objectives, Security Service, Occupational Safety, Civil Defense and Emergency Response Services were established by each company of the Group. These services carry out their activity in accordance with the current legislation of the Republic of Kazakhstan as well as provisions of regulating and guidance materials on the issues of occupational safety and labour protection, system of occupational safety standards, common and industry rules of safety in different spheres of industrial activity, rules and means of control over compliance of technical condition of equipment with the requirements of safe work execution, rules, requirements, instructions and other regulatory legal acts of labour protection and occupational safety.

"...Last year, a team of specialists from Karagandy Zharyk LLP entered three leaders of the Republican professional competitions among operational and repair teams of electric networks, once again proving their skills and professionalism. Traditionally they were attended by the best of the best – employees of the largest energy companies from various regions of the republic. Uninterrupted and high-quality power supply to consumers is the main task of power engineers. The prompt elimination of emergency shutdowns is the responsibility imposed upon us, and we are proud that our work was deservedly appreciated".

**Head of Bukhar-Zhyrau district of electric networks of Karagandy Zharyk LLP**  
**Konstantin Kim**

Every subsidiary has developed its internal code of occupational safety and labour protection practices. Nevertheless, principle of employees' life and health priority over the results of production activity is the only and main principle for all companies of the Group.

In September 2016, in Almaty there were held the regular republican professional competitions of power engineers of regional electric grid companies. The purpose of the competition was to improve the skills of the personnel, the level of operation and reduction of injuries in maintenance of electrical networks, demonstration of modern methods of work, as well as exchange of experiences. According to the results of the competition, one of the best teams, having taken the honorary second place, was the team of Karagandy Zharyk LLP.

# CONSOLIDATED FINANCIAL STATEMENTS

**LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES**

**STATEMENT OF MANAGEMENT’S RESPONSIBILITIES  
FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of Limited Liability Partnership Kazakhstan Utility Systems and its subsidiaries (hereinafter jointly named the “Group”) as at 31 December 2016, and the consolidated results of its operations, cash flows and changes in owner’s equity for the year then ended, in compliance with International Financial Reporting Standards (hereinafter “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 IFRS 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 of 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.

Consolidated financial statements of the Group for the year ended 31 December 2016 were approved by the management and authorized for issue on 23 May 2017.

On behalf of the Management of the Group:

**N.E. Aitzhanov**  
General director

23 May 2017  
Astana, Kazakhstan



**L. T. Nurmuhambetova**  
Finance director

23 May 2017  
Astana, Kazakhstan



[Consolidated financial statements](#)



Deloitte, LLP  
36 Al Farabi Ave.,  
Almaty, 050059,  
Republic of Kazakhstan

Tel: +7 (727) 258 13 40  
Fax: +7 (727) 258 13 41  
almaty@deloitte.kz  
www.deloitte.kz

INDEPENDENT AUDITOR’S REPORT

To the Participants of Limited Liability Partnership Kazakhstan Utility Systems:

Opinion

We have audited the consolidated financial statements of Limited Liability Partnership Kazakhstan Utility Systems (the “Company”) and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position as at 31 December 2016, 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, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISA”). 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”) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Kazakhstan, 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 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.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Revenue recognition	
As disclosed in Note 6 to the consolidated financial statements, revenue from the sale of electricity by the selling companies of the Group amounted to 53,028,823 thousand tenge, which represent 64% of total revenue of the Group.	We involved our IT specialists to test the operating effectiveness of controls over the billing information systems.
Revenue is calculated in the billing information systems based on input data and then transferred to the accounting system.	Our tests assessed the controls in place to ensure all electricity delivered to customers and approved tariffs are input into and processed through the billing systems, allowing us to rely on the controls in place within the revenue system.
Recognition of revenue from the sale of electricity to customers was determined to be a key audit matter as it is reliant on the billing systems output, which is dependent on both the capture of electricity usage data by the system and the correct tariffs being input and applied.	We subsequently applied a combination of substantive analytical procedures and tests of detail to obtain assurance over the reported output of these systems.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. Please see [www.deloitte.com/ru/about](http://www.deloitte.com/ru/about) for a detailed description of the legal structure of Deloitte CIS.



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

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

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

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




Consolidated financial statements

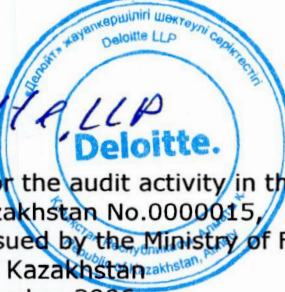
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.


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.

  
Olga Belonogova  
Engagement partner  
Certified public accountant  
Oregon, USA  
License No.10687  
dated 2 December 2003

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

  
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

  
Nurlan Bekenov  
General Director  
Deloitte, LLP

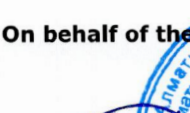
23 May 2017  
Almaty, the Republic of Kazakhstan

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(in thousands of Tenge)

	Note	2016	2015
Revenue	6	82,476,864	80,601,836
Cost of sales	7	(51,452,419)	(55,970,113)
<b>Gross profit</b>		<b>31,024,445</b>	<b>24,631,723</b>
Administrative expenses	8	(5,870,076)	(5,276,165)
Selling expenses	9	(1,965,015)	(1,574,792)
Finance costs	10	(2,102,496)	(2,397,817)
Interest income		355,211	212,444
Dividend income		7,531	-
Foreign exchange loss		(103,669)	(2,646,249)
Other income, net		138,587	331,881
<b>PROFIT BEFORE INCOME TAX EXPENSE</b>		<b>21,484,518</b>	<b>13,281,025</b>
Income tax expenses	11	(4,402,260)	(3,202,395)
<b>NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>17,082,258</b>	<b>10,078,630</b>

On behalf of the Management of the Group:

  
N.E. Aitzhangov  
General director

23 May 2017  
Astana, Kazakhstan

  
L. T. Nurmuhambetova  
Finance director

23 May 2017  
Astana, Kazakhstan

The notes on pages 12-43 form an integral part of these consolidated financial statements. Independent auditor's report is on pages 2-6.

Consolidated  
financial  
statements

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2016  
(in thousands of Tenge)

	Note	31 December 2016	31 December 2015
<b>ASSETS</b>			
NON-CURRENT ASSETS:			
Property, plant and equipment	12	131,353,218	121,905,687
Long-term advances paid	13	1,187,026	2,517,829
Investment property		334,985	283,050
Long-term financial investments		249,055	-
Intangible assets		151,398	290,623
Goodwill		128,334	128,334
Deferred tax assets	11	40,400	-
Other non-current assets		23,198	-
		133,467,614	125,125,523
CURRENT ASSETS:			
Inventories	15	2,437,888	2,678,976
Trade accounts receivable	14	7,690,358	6,990,084
Advances paid	13	688,908	718,680
Prepaid corporate income tax		278,492	359,098
Other current assets	16	8,473,982	963,932
Cash and cash equivalents	17	2,358,941	1,111,197
		21,928,569	12,821,967
<b>TOTAL ASSETS</b>		<b>155,396,183</b>	<b>137,947,490</b>
<b>EQUITY AND LIABILITIES</b>			
EQUITY:			
Charter capital	18	11,636,404	11,636,404
Additional paid-in capital		9,239,137	9,239,137
Retained earnings		67,874,617	50,792,359
		88,750,158	71,667,900
NON-CURRENT LIABILITIES:			
Bank loans	19	25,107,868	26,772,043
Deferred tax liabilities	11	18,384,547	14,998,666
Other non-current liabilities		112,048	123,803
		43,604,463	41,894,512
CURRENT LIABILITIES:			
Trade accounts payable	20	4,817,369	9,155,157
Bank loans	19	11,949,582	10,789,891
Corporate income tax payable		81,978	135,703
Other taxes payable		1,476,868	630,616
Other accounts payable and accrued liabilities	21	4,715,765	3,673,711
		23,041,562	24,385,078
<b>TOTAL LIABILITIES</b>		<b>66,646,025</b>	<b>66,279,590</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>155,396,183</b>	<b>137,947,490</b>

On behalf of the Management of the Group:

N.E. Aitzhanov  
General director  
23 May 2017  
Astana, Kazakhstan

L. T. Nurmuhambetova  
Finance director  
23 May 2017  
Astana, Kazakhstan

The notes on pages 12-43 form an integral part of these consolidated financial statements. Independent auditor's report is on pages 2-6.

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN OWNER'S EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(in thousands of Tenge)

	Charter capital	Additional paid-in capital	Retained earnings	Total
<b>As at 1 January 2015</b>	4,802,304	9,239,137	40,713,729	54,755,170
Contribution to the charter capital	6,834,100	-	-	6,834,100
Net profit and total comprehensive income for the year	-	-	10,078,630	10,078,630
<b>As at 31 December 2015</b>	<b>11,636,404</b>	<b>9,239,137</b>	<b>50,792,359</b>	<b>71,667,900</b>
Net profit and total comprehensive income for the year	-	-	17,082,258	17,082,258
<b>As at 31 December 2016</b>	<b>11,636,404</b>	<b>9,239,137</b>	<b>67,874,617</b>	<b>88,750,158</b>

On behalf of the Management of the Group:

N.E. Aitzhanov  
General director  
23 May 2017  
Astana, Kazakhstan

L. T. Nurmuhambetova  
Finance director  
23 May 2017  
Astana, Kazakhstan

The notes on pages 12-43 form an integral part of these consolidated financial statements. Independent auditor's report is on pages 2-6.



Consolidated  
financial  
statements

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2016  
(in thousands of Tenge)

	2016	2015
<b>OPERATING ACTIVITIES:</b>		
Sale of services and goods	76,662,507	80,268,510
Advances received	13,192,170	7,930,893
Other proceeds	2,180,344	559,910
Total cash inflow	92,035,021	88,759,313
Payments to suppliers for goods and services	(29,330,024)	(25,686,407)
Salary payments	(7,491,029)	(6,771,285)
Other payments to the budget	(5,605,286)	(5,126,761)
Advances paid	(14,498,433)	(27,120,943)
Other payments	(2,035,596)	(1,546,162)
Total cash outflow	(58,960,368)	(66,251,558)
Cash generated from operating activities	33,074,653	22,507,755
Interest received	30,157	-
Interest paid	(3,257,439)	(3,261,185)
Corporate income tax	(988,674)	(227,430)
Net cash generated by operating activities	28,858,697	19,019,140
<b>INVESTING ACTIVITIES:</b>		
Sale of property, plant and equipment	836	179,141
Return of financial aid given	198,529	520,400
Dividends	7,531	-
Other cash inflows	359,633	70,496
Total cash inflow	566,529	770,037
Advances paid for acquisition of non-current assets	(2,373,569)	(6,070,345)
Purchase of property, plant and equipment and materials for capital repair	(18,417,944)	(10,155,129)
Purchase of equity instruments	(249,055)	-
Purchase of intangible assets	(16,519)	(32,978)
Financial aid given	(204,634)	(81,323)
Total cash outflow	(21,261,721)	(16,339,775)
Net cash used in investing activities	(20,695,192)	(15,569,738)

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in thousands of Tenge)

	2016	2015
<b>FINANCING ACTIVITIES:</b>		
Bonds issue	100,000	-
Return of financial aid given (see Note 23)	-	780,000
Financial aid received	1,398,630	-
Loans received	13,828,100	39,550,270
Contribution to charter capital	-	6,834,100
Total cash inflow	15,326,730	47,164,370
Repayment of loans	(14,357,731)	(34,206,298)
Redemption of bonds	(100,000)	-
Financial aid given (see Note 23)	(7,457,000)	(1,082,000)
Repayment of financial aid received	(321,260)	-
Interest paid	(6,500)	-
Repayment of liabilities to Falah Investment B.V.	-	(16,191,120)
Total cash outflow	(22,242,491)	(51,479,418)
Net cash used in financing activities	(6,915,761)	(4,315,048)
NET CHANGE IN CASH	1,247,744	(865,646)
CASH AND CASH EQUIVALENTS, at the beginning of the year	1,111,197	1,978,004
Effect of changes in foreign exchange rates on cash balances held in foreign currencies	-	(1,161)
CASH AND CASH EQUIVALENTS, at the end of the year	2,358,941	1,111,197

On behalf of the Management of the Group:

N.E. Aitghanov  
General director

23 May 2017  
Astana, Kazakhstan

L. T. Nurmuhambetova  
Finance director

23 May 2017  
Astana, Kazakhstan

The notes on pages 12-43 form an integral part of these consolidated financial statements. Independent auditor's report is on pages 2-6.



Consolidated  
financial  
statements

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016  
*(in thousands of Tenge, unless otherwise stated)*

1. NATURE OF OPERATIONS

The principal activities of Limited Liability Partnership Kazakhstan Utility Systems (hereinafter the “Company”) and its subsidiaries (hereinafter jointly named the “Group”) include production of heat, electric energy and chemically purified water in the Karaganda region and transmission and distribution of electric energy in the Karaganda and South-Kazakhstan regions, and supply of electric energy in the Karaganda and South-Kazakhstan regions, and supply of electric and heat energy in Karaganda region.

Limited Liability Partnership Kazakhstan Utility Systems was established and registered with the Department of Justice of Almaty on 3 November 2008. Date of last re-registration is 24 December 2014 in the Department of Justice of Esil district of the Department of Justice of Astana city.

As at 31 December 2016 the participants of the Company are M.K. Idrissova with 99% ownership interest and Z.M. Ismailova with 1% ownership interest, individuals, citizens of the Republic of Kazakhstan (31 December 2015: 99% and 1%, accordingly).

The Group consists of the Company and the following subsidiaries:

Name	Ownership interest	Type of activities
Karaganda Energotsentr LLP	100%	Production of heat, electric energy and chemically purified water in the Karaganda region.
Karagandy Zharyk LLP	100%	Transmission and distribution of electric energy in the Karaganda region.
Ontustik Zharyk Transit LLP	100%	Transmission and distribution of electric energy in the South-Kazakhstan region.
Karagandy ZhyluSbyt LLP	100%	Supply of heat and electric energy to the customers in the Karaganda region.
Raschetny Servisny Tsentr LLP	100%	Supply of electric energy to the customers in the Karaganda region.
Ontustik Zharyk LLP	100%	Supply of electric energy to the customers in the South-Kazakhstan region.
Energopotok LLP	100%	Supply of electric energy to the customers in the South-Kazakhstan region
Energy Center LLP	100%	Production of heat, electric energy in the Karaganda region
Vetropark Zhuzymdyk LLP	100%	Production of electric energy in the South-Kazakhstan region

The Group is a natural monopolist in the production of heat energy and a major supplier of electric power in the South-Kazakhstan and Karaganda regions.

According to the Law of the Republic of Kazakhstan “On Natural Monopolies and Regulated Markets”, the tariffs of subsidiaries of the Company for services are to be agreed and approved by the Department of the Committee of the Republic of Kazakhstan on Regulation of Natural Monopolies and Protection of Competition in the South-Kazakhstan and Karaganda regions (hereinafter the “Committee”) (see Note 3).

Legal name of the Company	Limited Liability Partnership Kazakhstan Utility Systems
Legal address	14/3, Kunayev str., Astana, the Republic of Kazakhstan
Legal registration number	№94881-1910-TOO from 24 December 2014

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
*(in thousands of Tenge, unless otherwise stated)*

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

Amendments and new interpretations to IFRS adopted in the current period

In the current year, the Group has adopted amendments to IFRS and new interpretation published by the International Accounting Standards Board (“IASB”) that are mandatorily effective for an accounting period that begins on or after 1 January 2016.

- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment entities: Applying the Consolidation Exception;
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations;
- Amendments to IAS 1 Disclosure Initiative;
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation;
- Amendments to IFRS 14 Regulatory Deferral Accounts;
- Amendments to IAS 27 Equity Method in Separate Financial Statements;
- Annual Improvements to IFRS 2012-2014 Cycle.

The adoption of the above mentioned Standards and Interpretations has not led to any changes in the Group’s accounting policies. The amendments did not materially affect the consolidated financial statements of the Group.

New and revised IFRS in issue but not yet effective

The Group has not applied the following new and revised IFRS that have been issued but are not yet effective:

	Effective for accounting periods beginning on or after
IFRS 9 Financial instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers (and Amendments to IFRS 15)	1 January 2018
IFRS 16 Leases	1 January 2019
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The effective date will be determined later, early adoption is possible.
Amendments to IAS 7 Disclosure Initiative	1 January 2017
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
IAS 40 Transfers or property to, or from, investment property	1 January 2018
Annual improvements to IFRS 2014-2016 Cycle	

IFRS 9 Financial instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014, the IASB issued the final version of IFRS 9, which introduces a requirement to incorporate impairment of financial assets, as well as some changes to the requirements for the classification and measurement of financial assets. IFRS 9 will replace the current standard IAS 39 *Financial Instruments: Recognition and Measurement*.

The management of the Group anticipates that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Group’s financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group undertakes a detailed review.



[Consolidated financial statements](#)

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
*(in thousands of Tenge, unless otherwise stated)*

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations. The standard is effective for annual reporting periods beginning on 1 January 2018.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition.

Five steps of the model include the following:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract;
5. Recognise revenue when (or as) the entity satisfies a performance obligation.

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. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios, such as the moment of revenue recognition, variable consideration, the costs incurred in respect of the transaction and contract execution and other. Furthermore, new extensive disclosures are introduced.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Management of the Group expects that the adoption of IFRS 15 Revenue from Contracts with Customers in the future may have an impact on amount and timing of revenue recognition. However, it is not practicable to assess the impact of applying IFRS 15 before undertaking a detailed analysis.

Management anticipates that adoption of other above-mentioned new standards will not significantly impact on the consolidated financial statements of the Group at the moment of adoption.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements of the Group have been prepared in accordance with IFRS.

Going concern

These consolidated financial statements have been prepared on the assumption that the Group is a going concern. This assumes the realization of assets and repayment of liabilities in normal business environment in near future. Management believes that the Group will be able to realize its assets and discharge its liabilities in the normal course of the business. Management of the Group also believes that the Group will continue as a going concern in the foreseeable future.

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
*(in thousands of Tenge, unless otherwise stated)*

As at 31 December 2016, current liabilities exceeded the current assets of the Group by 1,112,993 thousand tenge (2015: 11,563,111 thousand tenge). Though, as at 31 December 2016, the Group had positive net equity and generated net profit and positive cash flows from operating activities for 2016. The Group forecasts profits for 2017 due to increased revenues and cost savings. The Group also has the opportunity, if necessary, of refinancing the payment schedule of loans and attract additional long-term financing. Management of the Group monitors on a regular basis the Group’s compliance with all significant conditions of loan agreements, as well as the Group’s ability to carry out timely payments on loans. As a result of the above, Management believes that the Group will continue as a going concern in the foreseeable future.

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 categorized 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 measurement 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.

Functional and presentational currencies

These consolidated financial statements are presented in Kazakhstan Tenge (hereinafter “tenge”). Tenge is the functional currency of the Company and its subsidiaries and presentation currency of the Group. 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 recognized 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 recognized 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.



Consolidated  
financial  
statements

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in thousands of Tenge, unless otherwise stated)

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

	31 December 2016	31 December 2015
Exchange rates at the end of the year (to tenge)		
1 US Dollar	333.29	339.47
1 Russian rouble	5.43	4.65
Average exchange rates for the year (to tenge)		
1 US Dollar	344.52	222.25
1 Russian rouble	4.95	3.62

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (subsidiaries). Entity is considered to be controlled 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.

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 consolidated statement of profit or loss and other 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 policy.

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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the company and the amount of revenue and expected transaction costs can be measured reliably. Proceeds on sale are recognized net of value added tax.

The Group generates revenue from the sale, transmission and distribution of electric power, heat power and chemically purified water. Revenue is recognized as services are provided. Revenue from regulated services is recognized on the basis of tariffs approved by the Committee.

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in thousands of Tenge, unless otherwise stated)

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 recognized in the financial statements unless the financing is related to a qualifying asset in which case the relevant amount is capitalized to the acquisition cost of the asset.

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 recognized 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 extra-budgetary funds in respect of employment in the current period, is recognized 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

Tax currently payable 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 or substantively enacted by the end of the reporting period.

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.



Consolidated  
financial  
statements

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
*(in thousands of Tenge, unless otherwise stated)*

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 derecognized 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 derecognized.

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 capitalized only when they increase the future economic benefits from the use of the asset. All other costs are recognized in profit or loss as an expense when incurred.

Depreciation is accrued and recognized 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
Transport	1-47
Other	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.

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
*(in thousands of Tenge, unless otherwise stated)*

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 recognized 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 recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized 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 recognized immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets ‘at fair value through profit or loss’, ‘held-to-maturity’ investments, ‘available-for-sale’ (hereinafter - “AFS”) financial assets and loans and receivables. The classification depends on the nature and purpose of acquiring of the financial assets and is determined at the time of initial recognition.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on 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 debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.



LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in thousands of Tenge, unless otherwise stated)

Available-for-sale financial assets

Listed shares and listed redeemable notes held by the Group that are traded in an active market are classified as AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the financial investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss in the period of disposal or impairment. The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

Loans and accounts receivable

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized using the effective interest method.

Cash

Cash comprises petty cash and cash at banks. Restrictions on their availability are disclosed in the notes to the consolidated financial statements.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset.

Financial liabilities

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at Fair value through Profit and loss' or 'other financial liabilities'.

Other financial liabilities

Other financial liabilities, including loans and borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period.

Trade and other accounts payable

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in thousands of Tenge, unless otherwise stated)

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

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 the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation. When 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, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Related party transactions

In preparation of these consolidated financial statements the following parties were viewed as related:

A party is related to an entity if:

- a) directly, or indirectly through one or more intermediaries, the party:
  - i) controls, or is controlled by, or is under common control with, the Group (this includes holding companies, parents and other subsidiaries under a single parent;
  - ii) has an interest in the Group that gives then significant influence over the Group; or
  - iii) that has joint control over the Group;
- b) the party is an associate of the Group;
- c) the party is a joint venture of which the Group is a member;
- d) the party is a member of the key management personnel of the Group or its parent;
- e) the party is a close member of the family of any individual referred to in (a) or (d);
- f) the party is an entity controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e);
- g) the party is a post-employment defined benefit plan for the benefit of employees of the Group or an entity related to the Group.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Change in classification

Since 2016, the Group has decided to represent the issuance of interest-free financial aid to the ultimate shareholder and parties related to him in the financial activities of the cash flow statement, as these transactions are treated as transactions with the owner of the business. In this regard, the Group has respectively modified the classification in the cash flow statement for 2015.



Consolidated  
financial  
statements

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in thousands of Tenge, unless otherwise stated)

Comparative data in the cash flow statement for 2015 has been revised respectively:

Consolidated statement of cash flows	2015 (as issued)	Effect of reclassification	2015 (as revised)
INVESTING ACTIVITIES:			
Cash inflow:			
Return of interest-free financial aid	1,300,400	(780,000)	520,400
Cash outflow:			
Interest-free financial aid given	(1,163,323)	1,082,000	(81,323)
Net effect	137,077	302,000	439,077
FINANCING ACTIVITIES:			
Cash inflow:			
Return of interest-free financial aid	-	780,000	780,000
Cash outflow:			
Interest-free financial aid given	-	(1,082,000)	(1,082,000)
Net effect	-	(302,000)	(302,000)

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. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Below are key assumptions and sources of uncertainty that affect the estimates made at the reporting date, which may result in significant adjustments to carrying values of assets and liabilities during the next financial year.

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 if 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

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Determining whether there is an indicator of assets is based on a large number of factors such as: the expected growth of the engineering industry, forecast cash flows, changes in the availability of funding in the future; technological obsolescence, discontinuance of services, current replacement costs and other changes in conditions that indicate the existence of impairment.

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in thousands of Tenge, unless otherwise stated)

If such indicators exist, the recoverable amount of property, plant and equipment is estimated and compared to the carrying amount of the asset. If the carrying amount exceeds the recoverable amount of an asset, impairment is recognized. The recoverable amount is the higher of two values: 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, which management believes reflects current market assessments of the time value of money and the risks specific to the assets. The change in the estimated recoverable amount can lead to impairment or recovery in future periods.

Based on the analysis, impairment indicators as at 31 December 2016 have not been identified.

Allowance for doubtful debts

Management estimates the likelihood of repayment of trade and other receivables from customers based on assumptions about the Group’s ability to realize its assets by reference to its best estimate. As a result of changes in general economic conditions or other similar circumstances after the reporting date the management may come to conclusions that may differ from the conclusions made in the preparation of these consolidated financial statements.

Taxation

Various Kazakhstan legislative acts and regulations are not always clearly written and their interpretation is dependent on the opinions of the local tax inspectors and the Ministry of Finance of the Republic of Kazakhstan. It’s not uncommon for differences of opinions between local, regional and national tax authorities. The current charging regime fines and penalties in respect of the alleged violations and identified Kazakhstan laws, regulations and standards, quite severe. At the same time, in the case of accrual of the tax authorities of additional taxes, current fines and penalties are set in a large amount; a penalty payment is 50% of the amount of additional taxes and penalties amount of 13.75% of the amount of tax paid late. As a result, penalties and interest may exceed the amount of additional taxes.

The Group’s management believes that the Group has paid or accrued all applicable taxes. In unclear cases, the Group has accrued tax liabilities based on management’s estimates. The Group’s policy involves the formation of reserves in the period in which there is the possibility of losses, the amount of which can be determined with reasonable accuracy.

Because of the uncertainties associated with Kazakhstan’s tax system, the ultimate amount of taxes, penalties and interest may exceed the amount expensed to date and accrued as at 31 December 2016. It’s almost impossible to determine the amount of unasserted claims that may arise, if any, occur, or the likelihood of any unfavorable outcome.

Deferred tax assets

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

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.



Consolidated  
financial  
statements

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in thousands of Tenge, unless otherwise stated)

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

- the production of heat and electricity;
- the transmission and distribution of electricity;
- the sale of heat and electricity;
- others.

The Group follow 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.

Key operating indices	2016					
	Heat and electricity production	Transmis- sion and distribution of electricity	Heat energy and electricity sales	Other	Elimination	Total
Revenue from sales to external customers	8,742,184	11,518,744	61,788,426	427,510	-	82,476,864
Intersegment revenue	24,575,554	18,368,796	33,875	238,185	(43,216,410)	-
Cost of sales, total	(19,954,464)	(17,133,402)	(57,701,190)	-	43,336,637	(51,452,419)
<b>Gross profit</b>	<b>13,363,274</b>	<b>12,754,138</b>	<b>4,121,111</b>	<b>665,695</b>	<b>120,227</b>	<b>31,024,445</b>
Administrative expenses	(2,118,419)	(1,543,501)	(1,565,188)	(821,160)	178,192	(5,870,076)
Selling expenses	-	(770,319)	(1,293,592)	-	98,896	(1,965,015)
Finance costs	(1,239,058)	(822,601)	(34,337)	(6,500)	-	(2,102,496)
Interest income	303,207	623	38,792	12,589	-	355,211
Dividend income	-	-	-	7,531	-	7,531
Foreign exchange loss	(103,363)	-	-	(306)	-	(103,669)
Other income, net	68,722	157,581	297,945	11,654	(397,315)	138,587
<b>Profit before income tax expenses</b>	<b>10,274,363</b>	<b>9,775,921</b>	<b>1,564,731</b>	<b>(130,497)</b>	<b>-</b>	<b>21,484,518</b>
Income tax expenses	(2,155,709)	(1,893,751)	(349,878)	(2,922)	-	(4,402,260)
<b>Net profit for the year</b>	<b>8,118,654</b>	<b>7,882,170</b>	<b>1,214,853</b>	<b>(133,419)</b>	<b>-</b>	<b>17,082,258</b>
<b>Other key segment information</b>						
Capital expenditures for property, plant and equipment	8,507,355	8,466,672	101,954	36,346	-	17,112,327
Depreciation of property, plant and equipment	3,213,663	3,918,217	112,378	23,718	-	7,267,976

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in thousands of Tenge, unless otherwise stated)

Key operating indices	2015					
	Heat and electricity production	Transmis- sion and distribution of electricity	Heat energy and electricity sales	Other	Elimination	Total
Revenue from sales to external customers	10,305,212	9,448,802	60,000,152	847,670	-	80,601,836
Intersegment revenue	17,753,403	16,508,826	30,481	223,724	(34,516,434)	-
Cost of sales, total	(16,773,930)	(16,227,528)	(57,532,116)	-	34,563,461	(55,970,113)
<b>Gross profit</b>	<b>11,284,685</b>	<b>9,730,100</b>	<b>2,498,517</b>	<b>1,071,394</b>	<b>47,027</b>	<b>24,631,723</b>
Administrative expenses	(1,678,470)	(1,526,778)	(1,398,297)	(917,977)	245,357	(5,276,165)
Selling expenses	-	(688,377)	(1,042,824)	-	156,409	(1,574,792)
Finance costs	(1,459,880)	(815,271)	(57,410)	(65,256)	-	(2,397,817)
Interest income	175,158	-	37,286	-	-	212,444
Foreign exchange loss	(2,650,433)	(21)	-	4,205	-	(2,646,249)
Other income, net	81,428	407,400	215,512	76,334	(448,793)	331,881
<b>Profit before income tax expenses</b>	<b>5,752,488</b>	<b>7,107,053</b>	<b>252,784</b>	<b>168,700</b>	<b>-</b>	<b>13,281,025</b>
Income tax expenses	(1,563,675)	(1,533,756)	(62,382)	(42,582)	-	(3,202,395)
<b>Net profit for the year</b>	<b>4,188,813</b>	<b>5,573,297</b>	<b>190,402</b>	<b>126,118</b>	<b>-</b>	<b>10,078,630</b>
<b>Other key segment information</b>						
Capital expenditures for property, plant and equipment	9,945,854	6,941,856	210,218	23,955	-	17,121,883
Depreciation of property, plant and equipment	2,093,282	3,829,145	97,823	23,397	-	6,043,647

6. REVENUE

	2016	2015
Sale of electricity	60,600,620	60,874,847
Transmission of electric power	11,518,744	9,448,802
Sale of heat power	9,461,147	9,006,710
Sale of chemically purified water	468,371	423,807
Lease of buildings	391,565	499,914
Other	36,417	347,756
	<b>82,476,864</b>	<b>80,601,836</b>

Revenue from the sale of electricity by the selling companies of the Group for 2016 and 2015 amounted to 53,028,823 thousand tenge and 51,845,557 thousand tenge, respectively.



Consolidated  
financial  
statements

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
*(in thousands of Tenge, unless otherwise stated)*

7. COST OF SALES

	2016	2015
Materials	19,028,187	26,690,751
Services of transmission of electric, heat power and chemically purified water	11,027,387	10,196,151
Depreciation	6,998,195	5,912,941
Payroll and related taxes	5,555,581	5,105,490
Technical losses	3,278,995	2,217,425
Repairs	1,248,866	1,734,869
Other	4,315,208	4,112,486
	<b>51,452,419</b>	<b>55,970,113</b>

8. ADMINISTRATIVE EXPENSES

	2016	2015
Payroll and related taxes	2,375,893	2,330,986
Taxes, other than income tax	1,101,460	943,450
Billing system support	506,455	416,075
Charity	315,549	27,635
Consulting services	229,958	354,063
Accrual of allowance for doubtful debts (Note 14)	210,238	135,307
Depreciation and amortization	152,265	144,513
Unused vacation provision	137,366	167,511
Materials	95,294	91,430
Security services	85,280	143,856
Other	660,318	521,339
	<b>5,870,076</b>	<b>5,276,165</b>

9. SELLING EXPENSES

	2016	2015
Payroll and related taxes	1,566,685	1,259,446
Other	398,330	315,346
	<b>1,965,015</b>	<b>1,574,792</b>

10. FINANCE COSTS

	2016	2015
Interest on bank loans	3,397,414	3,507,186
Interest on other non-current liabilities	-	1,395,922
Other	6,496	9,831
	3,403,910	4,912,939
Less capitalised costs (see Note 12)	(1,301,414)	(2,515,122)
	<b>2,102,496</b>	<b>2,397,817</b>

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
*(in thousands of Tenge, unless otherwise stated)*

11. TAXATION

	2016	2015
Current income tax expenses	1,188,454	297,198
Deferred income tax expenses	3,345,481	2,905,197
Prior years income tax adjustment	(131,675)	-
	<b>4,402,260</b>	<b>3,202,395</b>

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.

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to deferred tax assets and liabilities as at 31 December 2016 and 2015 as follows:

	31 December 2016	31 December 2015
Tax loss carry forward	12,362,060	14,150,745
Unused vacation provision	529,145	553,109
Allowance for doubtful debts	519,605	452,465
Taxes	109,755	72,936
Ash dump restoration	40,280	47,460
Provision for slow-moving and obsolete inventories	5,150	5,150
Gross amount	13,565,995	15,281,865
Deferred tax assets (20%)	2,713,199	3,056,373
	<b>31 December 2016</b>	<b>31 December 2015</b>
Property, plant and equipment	(105,252,525)	(90,265,943)
Other	(34,205)	(9,250)
Gross amount	(105,286,730)	(90,275,193)
Deferred tax liabilities (20%)	(21,057,346)	(18,055,039)
Deferred tax liabilities, net	<b>(18,344,147)</b>	<b>(14,998,666)</b>

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

	31 December 2016	31 December 2015
Deferred tax assets	40,400	-
Deferred tax liabilities	(18,384,547)	(14,998,666)
	<b>(18,344,147)</b>	<b>(14,998,666)</b>

Movement in deferred tax assets/liabilities were as follows:

	2016	2015
Deferred tax liabilities at the beginning of the period, net	(14,998,666)	(12,093,469)
Recognized in profit or loss	(3,345,481)	(2,905,197)
Deferred tax liabilities at the end of the period, net	<b>(18,344,147)</b>	<b>(14,998,666)</b>



Consolidated  
financial  
statements

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
*(in thousands of Tenge, unless otherwise stated)*

Below is a reconciliation of income tax at 20% to the actual income tax expense recorded in the statement of profit or loss and other comprehensive income:

	2016	2015
Profit before income tax expense	21,484,518	13,281,025
Statutory tax rate	20%	20%
Theoretical income tax expense at statutory rate	4,296,904	2,656,205
Unused tax losses not recognized as deferred tax assets	20,493	-
Prior years income tax adjustment	(131,675)	-
Interest expenses on liability to Falah Investment B.V.	-	279,184
Forex expenses on liability to Falah Investment B.V.	-	82,846
Other permanent differences	216,538	184,160
Income tax expenses	4,402,260	3,202,395

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
*(in thousands of Tenge, unless otherwise stated)*

12. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery and equipment	Vehicles	Other	Construction in progress	Total
Initial cost							
As at 1 January 2015	2,647,215	22,085,063	69,119,462	2,100,067	364,064	39,850,470	136,166,341
Additions	25,764	28,088	273,861	79,942	71,859	16,642,369	17,121,883
Disposals	-	(81,376)	(262,926)	(23,430)	(12,798)	(165,992)	(546,522)
Internal transfers	-	3,523,636	12,694,004	-	7,452	(16,225,092)	-
As at 31 December 2015	2,672,979	25,555,411	81,824,401	2,156,579	430,577	40,101,755	152,741,702
Additions	8,720	114,713	135,309	181,480	52,415	16,619,690	17,112,327
Disposals	(11,677)	(97,830)	(555,183)	(5,968)	(9,287)	(45,723)	(725,668)
Internal transfers	-	14,939,379	40,275,204	-	60,182	(55,274,765)	-
As at 31 December 2016	2,670,022	40,511,673	121,679,731	2,332,091	533,887	1,400,957	169,128,361
Accumulated depreciation							
As at 1 January 2015	-	(4,724,629)	(19,013,489)	(968,064)	(125,648)	(75,005)	(24,906,835)
Charged for the year	-	(1,010,881)	(4,743,052)	(236,439)	(53,275)	-	(6,043,647)
Disposals	-	12,529	84,792	7,616	9,530	-	114,467
As at 31 December 2015	-	(5,722,981)	(23,671,749)	(1,196,887)	(169,393)	(75,005)	(30,836,015)
Charged for the year	-	(1,290,863)	(5,702,226)	(225,623)	(49,264)	-	(7,267,976)
Disposals	-	27,136	288,720	4,954	8,038	-	328,848
As at 31 December 2016	-	(6,986,708)	(29,085,255)	(1,417,556)	(210,619)	(75,005)	(37,775,143)
Net carrying amount							
As at 31 December 2016	2,670,022	33,524,965	92,594,476	914,535	323,268	1,325,952	131,353,218
As at 31 December 2015	2,672,979	19,832,430	58,152,652	959,692	261,184	40,026,750	121,905,687



[Consolidated financial statements](#)

**LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**  
*(in thousands of Tenge, unless otherwise stated)*

As at 31 December 2016 and 2015, the cost of fully amortized property, plant and equipment of the Group amounted to 4,930,976 thousand tenge and 4,039,076 thousand tenge, respectively.

As at 31 December 2016 and 2015, the property, plant and equipment of the Group with the carrying amount of 64,308,658 thousand tenge and 58,289,919 thousand tenge, respectively, were pledged as collateral on loans received from SB JSC Sberbank of Russia, JSC Tsesnabank and JSC Development Bank of Kazakhstan (see Note 19).

As at 31 December 2016 and 2015, the Group’s construction in progress is mainly represented by items under construction as part of the program of existing capacity expanding, reconstruction and technical re-equipment of 10-0.4 kW electrical networks and reconstruction of 10/6/0.4 kW electrical distribution networks.

In 2016, the construction of the substation Zharyk and Nursat was completed, and the reconstruction and modernization of CHP-3 was completed. At the date of commissioning, the carrying value of the constructed facilities was of 55,274,765 thousand tenge.

For the years ended 31 December 2016 and 2015, the Group capitalized finance costs of 1,301,414 thousand tenge and 2,515,122 thousand tenge to the property, plant and equipment (see Note 10).

**13. ADVANCES PAID**

	31 December 2016	31 December 2015
Advances for non-current assets	1,123,157	1,545,584
Advances for capital repairs of property, plant and equipment	63,869	972,245
	<b>1,187,026</b>	<b>2,517,829</b>

As at 31 December 2016 long-term advances paid are mainly represented by advances given to suppliers and contractors for the construction of substations and modernization and reconstruction of high-voltage lines and capital repair of the property, plant and equipment.

Current advances paid are presented as follows:

	31 December 2016	31 December 2015
Advance for the delivery of materials and other assets	404,044	522,683
Advance for work and services	284,864	195,997
	<b>688,908</b>	<b>718,680</b>

During 2016 and 2015, no allowance for doubtful debts was accrued.

**LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**  
*(in thousands of Tenge, unless otherwise stated)*

**14. TRADE ACCOUNTS RECEIVABLE**

	31 December 2016	31 December 2015
Trade accounts receivable	8,243,013	7,445,973
Less allowance for doubtful debts	(552,655)	(455,889)
	<b>7,690,358</b>	<b>6,990,084</b>

The average settlement period of receivables from customers of the services on the territory of the Republic of Kazakhstan is 34 days.

Movement of allowance for doubtful debts is presented as follows:

	2016	2015
Allowance for doubtful debts at the beginning of the year	(455,889)	(470,913)
Accrued for the year (see Note 8)	(348,653)	(195,632)
Written off for the year	113,472	150,331
Recovered for the year (see Note 8)	138,415	60,325
<b>Allowance for doubtful debt as the end of the year</b>	<b>(552,655)</b>	<b>(455,889)</b>

The aging analysis of not impaired trade accounts receivable is presented below:

	31 December 2016	31 December 2015
Up to 30 days	2,262,527	3,735,566
30-60 days	3,878,279	2,006,466
60-90 days	864,594	325,577
Over 90 days	684,958	922,475
	<b>7,690,358</b>	<b>6,990,084</b>

The aging analysis of impaired trade accounts receivable:

	31 December 2016	31 December 2015
30-60 days	30,365	7,430
60-90 days	40,276	9,842
More than 90 days	482,014	438,617
	<b>552,655</b>	<b>455,889</b>

As at 31 December 2016 and 2015, trade accounts receivable were denominated in tenge.



LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
*(in thousands of Tenge, unless otherwise stated)*

15. INVENTORIES

	31 December 2016	31 December 2015
Raw materials	1,184,481	1,321,728
Fuel	850,912	1,028,783
Spare parts	396,252	316,967
Goods for resale	871	6,507
Other	10,522	10,141
Less: provision for slow-moving and obsolete inventories	(5,150)	(5,150)
	<b>2,437,888</b>	<b>2,678,976</b>

16. OTHER CURRENT ASSETS

	31 December 2016	31 December 2015
Prepaid expenses	71,192	53,561
Other taxes recoverable	42,687	48,178
Other current assets	8,360,103	862,193
	<b>8,473,982</b>	<b>963,932</b>

As at 31 December 2016 and 2015, other current assets are presented by interest-free financial aid provided to related parties of 8,139,000 thousand tenge and 682,000 thousand tenge, respectively (see Note 23).

17. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash in saving accounts, in tenge	1,206,434	175,872
Cash on bank accounts, in tenge	891,942	754,524
Cash in transit	202,408	98,473
Cash on hand	58,157	82,328
	<b>2,358,941</b>	<b>1,111,197</b>

As at 31 December 2016 cash on bank accounts include the required minimum balance on deposits of 6,150 thousand tenge, which is restricted in use.

In 2016, the Group’s subsidiaries Karaganda Energotsentr LLP and Karagandy Zharyk LLP opened deposits in SB JSC Sberbank of Russia with terms until 20 August 2017 and 21 December 2017 with an 8.3% interest rate. Withdrawal of cash from deposits is possible at any time, without loss of the amount of remuneration, except for the required minimum balance on the deposit.

As at 31 December 2016 and 2015, cash was denominated in tenge.

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
*(in thousands of Tenge, unless otherwise stated)*

18. 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. The charter capital of the Company as at 31 December 2016 and 2015 amounted to 11,636,404 thousand tenge.

The following table shows participants' interests in the charter capital of the Group as at 31 December 2016 and 2015:

Participant	31 December 2016		31 December 2015	
	Amount, in thousands tenge	Share capital	Amount, in thousands tenge	Share ownership
M.K. Idrissova	11,636,403	99%	11,636,403	99%
Z.M. Ismailova	1	1%	1	1%
	<b>11,636,404</b>	<b>100%</b>	<b>11,636,404</b>	<b>100%</b>

19. BANK LOANS

	31 December 2016	31 December 2015
JSC Development Bank of Kazakhstan	22,249,633	19,225,386
SB JSC Sberbank of Russia	13,659,299	16,706,042
JSC Tsesnabank	972,430	1,476,665
Interest accrued	256,878	257,188
	37,138,240	37,665,281
Unamortized portion of the one-off origination fee	(80,790)	(103,347)
	37,057,450	37,561,934
Less current portion of the loans maturing within 12 months	(11,949,582)	(10,789,891)
	<b>25,107,868</b>	<b>26,772,043</b>

Bank loans have the following maturities:

	31 December 2016	31 December 2015
On demand or within one year	11,949,582	10,789,891
One to two years	8,647,638	9,026,810
Two to three years	5,899,891	6,734,983
Three to five years, inclusive	7,739,002	6,129,237
Above 5 years	2,902,127	4,984,360
	<b>37,138,240</b>	<b>37,665,281</b>



LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in thousands of Tenge, unless otherwise stated)

SB JSC Sberbank of Russia

On 30 July 2015 the Group, represented by a subsidiary Karaganda Energotsentr LLP, signed an agreement on opening a non-revolving credit line with SB JSC Sberbank of Russia to the reimbursement of investment costs in the implementation of the investment project Expansion of Karaganda Heat and Power Station-3 for a period of 5 years, until 30 July 2020. Interest on the loan was determined at the rate of 13.75% per annum, with monthly repayment of interest and principal, starting from 25 January 2016.

On 29 June 2015, the Group represented by its subsidiary Karagandy Zharyk LLP, signed No.15-09004-05-KJ bank loan agreement with SB JSC Sberbank of Russia in the amount of 1,500,000 thousand tenge for the financing of the investment program of priority measures of reconstruction, modernization and development of power lines of Karagandy Zharyk LLP for 2011-2015, to perform work on the reconstruction and modernization of electric power lines 10-0.4kV, with fixed rate of 13.75% per annum, maturing 29 June 2020. The loan is pledged by property, plant and equipment of Karagandy Zharyk LLP with the carrying value of 34,376,684 thousand tenge (31 December 2015: 30,212,474 thousand tenge) (see Note 12).

In July 2016, Karagandy Zharyk LLP agreed with the bank the rescheduling of principal payments under the loan agreements, which led to the transfer of part of 2016 payments to future periods and, consequently, to an increase of following quarterly payments. Other terms of loan agreements, including maturities and interest rates, remained unchanged.

JSC Development Bank of Kazakhstan

On 19 June 2012 the Group, represented by a subsidiary Karaganda Energotsentr LLP, opened a credit line from JSC Development Bank of Kazakhstan totaling 200,000 thousand USD to finance its investment project for the construction of a power-generating unit. Financing under this credit line is provided in tenge.

During 2016 under this credit line, funds were used in the amount of 6,383,100 thousand tenge (2015: 5,639,670 thousand tenge) with maturity until 15 August 2022. The loan is repayable quarterly by equal shares, starting from 15 August 2015. The annual interest rate was set at 7% and interest is payable on quarterly basis. The loan is pledged by property, plant and equipment of Karaganda Energotsentr LLP with the carrying value of 28,914,512 thousand tenge (31 December 2015: 26,818,905 thousand tenge) (see Note 12).

JSC Tsesnabank

On 8 October 2014, the Group, represented by a subsidiary Ontustik Zharyk Transit LLP, signed a General Loan Agreement No.950/0120-14 with JSC Tsesnabank for the loan of 1,300,000 thousand tenge for the period of 36 months. The annual interest rate was set at 11%. Principal and interest repaid during the term of this agreement. The purposes of the loan is the reconstruction of overhead electro power lines and the modernization of equipment. The loan is pledged by property, plant and equipment of Ontustik Zharyk Transit LLP with carrying value of 1,017,462 thousand tenge (31 December 2015: 1,258,540 thousand tenge) (see Note 12).

Unamortized portion of a one-time commission represented by the commission of SB JSC Sberbank of Russia for opening a credit line and the commission of JSC Development Bank of Kazakhstan for the provision of the letter of credit and guarantees.

As at 31 December 2016 and 2015, the Group did not have any delays in the payment of principal or interest.

In 2016 and at 31 December 2016 the Group complied with all covenants under the loan agreements.

As at 31 December 2016 and 2015, bank loans were denominated in tenge.

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in thousands of Tenge, unless otherwise stated)

Bonds

On 15 December 2015, the Group registered the first bond program in the National Bank of the Republic of Kazakhstan with a total value of 12.34 billion tenge. The first bond issue was announced in the amount of 2.62 billion tenge for period of 10 years and 10% annual interest rate.

On March 2016 as part of the first bond issue of the first bond program the Group placed unsecured debt securities on the Kazakhstan Stock Exchange with 100,000 bonds at a price of 1,000 tenge per bond for a period of 10 years. Fixed annual coupon rate is 10%.

On 23 November 2016, the Group repurchased 100,000 bonds with a nominal value of 1,000 tenge and paid coupon interest in the amount of 6,500 thousand tenge to bondholders.

On 9 December 2016, changes in the terms of the first bond issue were registered, according to these changes the interest rate was 15%, the maturity period was reduced to 5 years.

20. TRADE ACCOUNTS PAYABLE

	31 December 2016	31 December 2015
Trade payables for property, plant and equipment	233,185	6,244,292
Trade payables for goods and services	4,584,184	2,910,865
	<b>4,817,369</b>	<b>9,155,157</b>

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

As at 31 December, trade accounts payable were denominated in the following currencies:

	31 December 2016	31 December 2015
Tenge	4,811,996	4,499,279
US Dollars	2,772	4,655,878
Russian roubles	2,601	-
	<b>4,817,369</b>	<b>9,155,157</b>

21. OTHER ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	31 December 2016	31 December 2015
Advances received	1,978,869	2,196,985
Salary payable	566,724	497,766
Provision for unused vacation	556,324	554,942
Other accounts payable	1,613,848	424,018
	<b>4,715,765</b>	<b>3,673,711</b>

Other accounts payable is represented by the short-term repayable interest-free financial aid received from third parties.



Consolidated  
financial  
statements

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in thousands of Tenge, unless otherwise stated)

22. EMPLOYEE BENEFIT

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 of 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 171,443 tenge per month (2015: 160,230 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 2016 and 2015, 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.

23. 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.

Transactions between the Company and its subsidiaries are eliminated upon consolidation and are not disclosed in this note. Transactions between the Group and its related parties are described below.

The nature of related party relationships for the related parties with which the Group entered into significant transactions or had significant outstanding balance at 31 December 2016 and 2015 is represented below.

For the years ended 31 December 2016 and 2015, the Group had trading operations with the following operations with related parties:

	Sales		Acquisitions	
	2016	2015	2016	2015
Related parties	-	491	68,589	3,013

Other operations

In 2016, the Group provided interest free financial aid to the related party, D.A. Idrisov, of 6,957,000 thousand tenge (in 2015: 1,082,000 thousand tenge). As at 31 December 2016, financial aid given were equal to 7,639,000 thousand tenge (2015: 682,000 thousand tenge).

In 2016, the Group provided interest free financial aid to the related party, Ordabasy Group LLP, of 500,000 thousand tenge. As at 31 December 2016, financial aid given amounted to 500,000 thousand tenge.

This financial aid given to related parties is not pledged. It is repayable and will be repaid in cash until 31 December 2017 (see also Note 26 with the disclosure of financial aid repayment after the reporting date).

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(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 2016 and 2015 amounted to 452,922 thousand tenge and 399,169 thousand tenge, respectively.

24. 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 capital structure of the Group consists of the charter capital, as described in Note 18, 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 recognized in respect of each class of financial assets, financial liabilities and equity instruments.

Financial instrument categories

As at 31 December 2016 and 2015, financial instruments were presented as following:

	31 December 2016	31 December 2015
<strong>Financial assets</strong>		
Long-term financial investments	249,055	-
Trade accounts receivable	7,690,358	6,990,084
Other current assets (excluding prepaid expenses and other taxes recoverable)	8,360,103	862,193
Cash and cash equivalents	2,358,941	1,111,197
<strong>Financial liabilities</strong>		
Bank loans (current and non-current portions)	37,057,450	37,561,934
Other non-current liabilities	112,048	123,803
Trade accounts payable	4,817,369	9,155,157
Other trade accounts payable and accrued liabilities (excluding advances received, provisions for unused vacation and salaries payable)	1,613,848	424,018

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, interest rate risk in respect of fair value), credit risk and liquidity risk. A description of the Group’s risk management policies in relation to those risks is as follows.



LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in thousands of Tenge, unless otherwise stated)

Credit risk management

Credit risk is the risk that a counterparty fails to fulfill 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 trade accounts receivable (see Note 14) and financial aid given (see Note 16). The Group does not expect its counterparties to default, except for contractors, for which the Group has established an allowance for doubtful debts.

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.

Due to the fact that financial aid has been issued to a related party, the Group estimates the risk of non-reimbursement as low. The carrying amount of financial assets recorded in the consolidated financial statements reflects the maximum amount of credit risk of the Group.

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 financial statements.

Currency risk management

The carrying amounts of the Group’s trade accounts payable denominated in foreign currencies as at 31 December 2016 and 2015 are as follows:

	Liabilities	
	31 December 2016	31 December 2015
US Dollars	2,772	4,655,878

Foreign currency sensitivity analysis

The Group is mainly exposed to the risk associated with the change in the exchange rate of the US Dollar.

The following table details the Group’s sensitivity to a 20% increase and decrease in KZT 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) accounts payable and b) accounts receivables of the Group, when accounts payable/receivable are denominated in the currency other than the currency of the creditor or debtor.

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in thousands of Tenge, unless otherwise stated)

The following table details the change in financial assets and liabilities in case of 20% strengthening of tenge against a relevant currency. A positive number below indicates an increase in profit for the reporting period, and a negative number a decrease in profits. For a 20% weakening of tenge against the relevant currency there would be an equal and opposite impact on the profit.

	US Dollar impact	
	2016	2015
Accounts payable	554	931,176

Interest rate risk policy management

The Group is exposed to interest rate risk as the Group obtains 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.

Liquidity risk and interest rate risk tables

The following tables detail 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	Total
<b>31 December 2016</b>					
Trade accounts receivable	-	7,690,358	-	-	7,690,358
Other current assets	-	8,360,103	-	-	8,360,103
Cash, interest bearing	8%	1,206,434	-	-	1,206,434
Cash, interest free	-	1,152,507	-	-	1,152,507
		18,409,402	-	-	18,409,402
Bank loans	-	(14,677,226)	(30,443,759)	(3,884,200)	(49,005,185)
Trade accounts payable	-	(4,817,369)	-	-	(4,817,369)
Other non-current liabilities	-	(112,048)	-	-	(112,048)
Other accounts payable and accrued liabilities	-	(1,613,848)	-	-	(1,613,848)
		(21,220,491)	(30,443,759)	(3,884,200)	(55,548,450)
		(2,811,089)	(30,443,759)	(3,884,200)	(37,139,048)



Consolidated  
financial  
statements

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in thousands of Tenge, unless otherwise stated)

	Interest rate	Less than 1 year	1-5 years	More than 5 years	Total
<b>31 December 2015</b>					
Trade accounts receivable	-	6,990,084	-	-	6,990,084
Other current assets	-	862,193	-	-	862,193
Cash, interest bearing	5.6-10%	164,970	-	-	164,970
Cash, interest free	-	953,697	-	-	953,697
		<u>8,970,944</u>	<u>-</u>	<u>-</u>	<u>8,970,944</u>
Bank loans	-	(14,091,713)	(31,448,356)	(9,041,468)	(54,581,537)
Trade accounts payable	-	(9,155,157)	-	-	(9,155,157)
Other accounts payable and accrued liabilities	-	<u>(424,018)</u>	<u>-</u>	<u>-</u>	<u>(424,018)</u>
		<u>(23,670,888)</u>	<u>(31,448,356)</u>	<u>(9,041,468)</u>	<u>(64,160,712)</u>
		<u><b>(14,699,944)</b></u>	<u><b>(31,448,356)</b></u>	<u><b>(9,041,468)</b></u>	<u><b>(55,189,768)</b></u>

Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties on commercial terms on the valuation date, regardless of the immediate observability of this value or its determination by another method. Since most of the Group’s financial instruments are with no existing market mechanisms available to determine fair value, assumptions based on current economic conditions and specific risks inherent in the instrument should be used for fair value measurement.

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.

The average interest rates on the credit market as at 31 December 2016 were as follows:

	<b>31 December 2016 (% per annum)</b>
In tenge	
Maturity over 1-5 years	15.10%
Maturity over 5 years	12.00%

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 2016, fair value of financial assets and liabilities did not differ significantly from their carrying amount, except for the following:

	<b>Carrying amount as at 31 December 2016</b>	<b>Fair value as at 31 December 2016</b>
<b>Financial liabilities recognized at amortized cost:</b>		
Long-term bank loans (Level 2)	37,057,450	33,634,186

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
(in thousands of Tenge, unless otherwise stated)

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.

25. CONTINGENT LIABILITIES

Contractual commitments

Contractual commitments to purchase property, plant and equipment as at 31 December 2016 amounted to 3,734,442 thousand tenge (31 December 2015: 1,553,157 thousand tenge).

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. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to significant decrease in national export revenue. On 20 August 2015, the Government and the National Bank of Kazakhstan announced a transition to a new monetary policy based on free-floating tenge exchange rate, and cancelled the currency corridor. In 2015 and in the first quarter of 2016 tenge depreciated significantly against major foreign currencies.

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 is at this stage difficult to determine.

Taxation and regulatory environment

At present, 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 proceeding the year of tax audit; however, under certain circumstances reviews may cover longer periods. Consequently, the Company may incur additional tax liabilities that may arise as a result of tax audits. These factors create more significant tax risks in Kazakhstan than in countries with a more developed tax system.

Regulation of activity

The activity of the subsidiaries, Karaganda Energotsentr LLP and Karaganda ZhyluSbyt LLP, are regulated by the Law of the Republic of Kazakhstan (RK) “On Natural Monopolies and Regulated Markets” as they are monopolists in the area heat energy production and the supply of heat and electricity, respectively.



Consolidated  
financial  
statements

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
*(in thousands of Tenge, unless otherwise stated)*

The activity of Karaganda Energotsentr LLP is regulated by the Law of RK “On Natural Monopolies and Regulated Markets” because it is the monopolist in the area of heat energy production, and by the Law of RK “On Electric Power” for the production of electricity. According to the laws, tariffs for the production of heat energy are subject to approval by the Committee, and tariffs for the production of electricity are subject to approval by the Ministry of Energy of RK.

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

The activities of the subsidiaries, Karagandy Zharyk LLP and Ontustik Zharyk Tranzit LLP, are also regulated by the Law of RK “On Natural Monopolies and Regulated Markets”, as they are monopolists in the area of transmission and/or distribution of electricity. Under this law, tariffs for transmission and/or distribution of electricity are subject to agreement and 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

In November 2016, investment program for 2016-2020 was approved according to the order of the Committee department for Karagandy Zharyk LLP. 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 approved the investment program for 2016-2022; this investment program includes actions for implementation of an automated system for commercial accounting of electric power and energy (ASKUE), the construction of new power grids and other activities.

Management believes that it meets the requirements of investment programs.

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 consolidated 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.

26. EVENTS AFTER THE REPORTING DATE

Return of financial aid

During the period from January to April 2017 related party D.A. Idrissov repaid interest free financial aid in the amount of 4,935,000 thousand tenge.

LIMITED LIABILITY PARTNERSHIP  
KAZAKHSTAN UTILITY SYSTEMS AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)  
*(in thousands of Tenge, unless otherwise stated)*

During the period from January to April 2017 related party Ordabasy Group LLP repaid interest free financial aid in the amount of 500,000 thousand tenge.

Attracting of additional funding

On 11 January 2017, the Company raised additional financing in the amount of 851,546 thousand tenge by placement of bonds on the Kazakhstan Stock Exchange within the scope of the previously announced volume. Bonds’ nominal value is 1,000 tenge per unit with a period of 4.3 years. The fixed annual coupon rate is 15%.

On 8 February 2017, the Group’s subsidiary Ontustik Zharyk Transit LLP attracted a bank loan in the amount of 2,400,000 thousand tenge with a fixed interest rate of 13.7% for a period of up to 4 years.

On 10 March 2017, the Company opened a credit line №17-11791-01-KЛ in SB JSC Sberbank for the acquisition of 100% shares of AES Middelzee Holding B.V. on the total amount of 7,200,000 thousand tenge with a maturity until 10 March 2024. The loan is repayable in equal quarterly installments from 17 July 2017. Interest on the loan is determined at a rate of 13.75% per annum and repaid on a quarterly basis.

Acquisition of subsidiaries

On 13 January 2017 the purchase-sale contract was signed for 100% outstanding shares of the company AES Middelzee Holding B.V., which owns 99.99% share in AES Shygys Energy LLP, and 0.01% share in AES Shygys Energy LLP between Kazakhstan Utility Systems LLP (Buyer) и Arnika Beteiligungsverwaltungs GMBH (Seller) in the amount of 30,027 thousand US Dollars. In turn, AES Shygys Energy LLP owns 100% share in AES Ust-Kamenogorsk CHP LLP и AES Sogrinsk CHP LLP. Part of contract value in the amount of 5,263 thousand US Dollars is intended to repay a loan of AES Sogrinsk CHP LLP to European Bank for Reconstruction and Development. Prepayments for this transaction in the amount of 6,005 thousand US Dollars (20%) was made on 16 January 2017 (equivalent to 1,994,153 thousand tenge at the exchange rate on the date of payment).

The condition for the completion of the transaction was the receipt by the Buyer the written approval of the shares acquisition from the Committee for Regulation of Natural Monopolies and Protection of Competition under the Ministry of National Economy of the Republic of Kazakhstan, as well as the completion by the Seller of the pre-sale restructuring.

On 29 March 2017 final payment was made of 24,022 thousand US Dollars (equivalent to 7,562,720 thousand tenge at the exchange rate on the date of payment). As at 7 April 2017, purchase and sale transaction was completed. Therefore, the Group acquired a 100% stake in operating companies AES Ust-Kamenogorsk CHP LLP and AES Sogrinsk CHP LLP.

These companies were acquired as part of the expansion of the Group's activities for the production of heat and electric energy in the East Kazakhstan region.

Due to the fact that at the date of this report the necessary valuation of the fair value of acquired assets and liabilities, as well as the allocation of the purchase price to assets and liabilities were incomplete the Group does not disclose this information. The Group expects to complete the valuation of the fair value of acquired assets and liabilities and the allocation of the purchase price to the acquired assets and liabilities in the consolidated financial statements for 2017.

27. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements for the year ended 31 December 2016 were approved by the Group’s management and authorized for issue on 23 May 2017.



# ABBREVIATIONS

APR	Accidents prevention rules
ASCAE	Automated System for Commercial Accounting of Electric power consumption
CHPP	Combined heat and power plant
CL	Cable line
CPS	Condensation power station
CSR	Corporate social responsibility
DP	Distribution point
EBIT	Earnings before interest, taxes
EBITDA	Earnings before interest, taxes, depreciation and amortization
EP	Energopotok LLP
EP	Environmental protection
EPC	Engineering, procurement and construction
EPPNTOR	Electric power plants and networks technical operation rules
ESC	Energy service company
ETL	Electric power transmission line
FS	Feasibility study
Gcal	Gigacalorie
Gcal/h	Gigacalorie per hour
IDR	Issuer Default Rating
ITS	Integrated transformer substation
KASE	Kazakhstan Stock Exchange JSC
KEA	Kazakhstan Electric power Association
KEC	Karaganda Energocenter LLP
KEGOC	Kazakhstan Electric power Grid Operating Company JSC
KZh	Karagandy Zharyk LLP
KZhS	KaragandyZhyluSbyt LLP
km	kilometer
KPI	Key Performance Indicator
KUS	Kazakhstan Utility Systems LLP
kV	Kilovolt
kWh	Kilowatt-hour
LE	Legal entity
LLP	Limited Liability Partnership



M	Meter
MNE RK	Ministry of National Economy of the Republic of Kazakhstan
MW	Megawatt
NEN	National Electric Network
ODS HVEN	Operative dispatching service of high-voltage electrical networks
OHL	Overhead line
OS	Occupational safety
OZh	Ontustik Zharyk LLP
OZhT	Ontustik Zharyk Tranzit LLP
POL	Petroleum, oil and lubricants
PP	Private person
PTO	Power transmitting organization
ROA	Return on assets
ROCE	Return on capital employed
ROE	Return on equity
RPGC	Regional power grid companies
RPS	Renewable power sources
RSC	Raschetnyi servisnyi center LLP
SIW	Self-supporting insulated wire
SKR	South Kazakhstan region
SS	Substation
TPP	Thermal power plant
TS	Transformer substation
WPP	Wind power plant

# CONTACT INFORMATION

## Kazakhstan Utility Systems LLP

14/3, D. Kunayev str., Astana, 010000, Republic of Kazakhstan  
Fax: +7 (7172) 27 94 73  
E-mail: kks.priemnaya@kus.kz  
Website: www.kus.kz

## AUDITOR

Deloitte LLP  
36, al-Farabi Avenue, Almaty, 050059, Republic of Kazakhstan  
Tel.: +7 (727) 258 13 40  
Fax: +7 (727) 258 13 41  
E-mail: almaty@deloitte.kz  
Website: www2.deloitte.com

## REGISTRAR

The Integrated Securities Registrar JSC  
Bldg. 30A/3, Satpayev str., Almaty, 050040, Republic of Kazakhstan  
Tel.: +7 (727) 272 47 60  
Fax: +7 (727) 272-47-60, internal 230  
E-mail: info@tisr.kz  
Website: www.tisr.kz