

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

Consolidated financial statements
For the year ended 31 December 2016

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

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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	
<p>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.</p>	<p>We involved our IT specialists to test the operating effectiveness of controls over the billing information systems.</p>
<p>Revenue is calculated in the billing information systems based on input data and then transferred to the accounting system.</p>	<p>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.</p>
<p>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.</p>	<p>We subsequently applied a combination of substantive analytical procedures and tests of detail to obtain assurance over the reported output of these systems.</p>

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.

**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)
Gross profit		31,024,445	24,631,723
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
PROFIT BEFORE INCOME TAX EXPENSE		21,484,518	13,281,025
Income tax expenses	11	(4,402,260)	(3,202,395)
NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		17,082,258	10,078,630

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 FINANCIAL POSITION
AS AT 31 DECEMBER 2016**
(in thousands of Tenge)

	Note	31 December 2016	31 December 2015
ASSETS			
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	-
		<u>133,467,614</u>	<u>125,125,523</u>
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
		<u>21,928,569</u>	<u>12,821,967</u>
TOTAL ASSETS		<u>155,396,183</u>	<u>137,947,490</u>
EQUITY AND LIABILITIES			
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
		<u>88,750,158</u>	<u>71,667,900</u>
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
		<u>43,604,463</u>	<u>41,894,512</u>
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
		<u>23,041,562</u>	<u>24,385,078</u>
TOTAL LIABILITIES		<u>66,646,025</u>	<u>66,279,590</u>
TOTAL EQUITY AND LIABILITIES		<u>155,396,183</u>	<u>137,947,490</u>

On behalf of the Management of the Group:

N.E. Aitzhanov
General director

23 May 2017
Astana, Kazakhstan

L. T. Nurmyhambetova
Finance director

23 May 2017
Astana, Kazakhstan

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**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)

	<u>Charter capital</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Total</u>
As at 1 January 2015	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
As at 31 December 2015	<u>11,636,404</u>	<u>9,239,137</u>	<u>50,792,359</u>	<u>71,667,900</u>
Net profit and total comprehensive income for the year	-	-	17,082,258	17,082,258
As at 31 December 2016	<u>11,636,404</u>	<u>9,239,137</u>	<u>67,874,617</u>	<u>88,750,158</u>

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

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**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
OPERATING ACTIVITIES:		
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	<u>92,035,021</u>	<u>88,759,313</u>
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	<u>(58,960,368)</u>	<u>(66,251,558)</u>
Cash generated from operating activities	<u>33,074,653</u>	<u>22,507,755</u>
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	<u>28,858,697</u>	<u>19,019,140</u>
INVESTING ACTIVITIES:		
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	<u>566,529</u>	<u>770,037</u>
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	<u>(21,261,721)</u>	<u>(16,339,775)</u>
Net cash used in investing activities	<u>(20,695,192)</u>	<u>(15,569,738)</u>

**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)

	<u>2016</u>	<u>2015</u>
FINANCING ACTIVITIES:		
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
	<hr/>	<hr/>
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)
	<hr/>	<hr/>
Total cash outflow	(22,242,491)	(51,479,418)
Net cash used in financing activities	<u>(6,915,761)</u>	<u>(4,315,048)</u>
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)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS, at the end of the year	<u>2,358,941</u>	<u>1,111,197</u>

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**

**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.

**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.

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

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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.

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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.

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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.

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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.

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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

Short-term trade payables and other trade payables are carried at their nominal value.

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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.

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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	<u>(1,163,323)</u>	<u>1,082,000</u>	<u>(81,323)</u>
Net effect	<u>137,077</u>	<u>302,000</u>	<u>439,077</u>
FINANCING ACTIVITIES:			
Cash inflow:			
Return of interest-free financial aid	-	780,000	780,000
Cash outflow:			
Interest-free financial aid given	<u>-</u>	<u>(1,082,000)</u>	<u>(1,082,000)</u>
Net effect	<u>-</u>	<u>(302,000)</u>	<u>(302,000)</u>

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.

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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.

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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	Transmission 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)
Gross profit	13,363,274	12,754,138	4,121,111	665,695	120,227	31,024,445
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
Profit before income tax expenses	10,274,363	9,775,921	1,564,731	(130,497)	-	21,484,518
Income tax expenses	(2,155,709)	(1,893,751)	(349,878)	(2,922)	-	(4,402,260)
Net profit for the year	8,118,654	7,882,170	1,214,853	(133,419)	-	17,082,258
Other key segment information						
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

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Key operating indices	2015					
	Heat and electricity production	Transmission 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)
Gross profit	11,284,685	9,730,100	2,498,517	1,071,394	47,027	24,631,723
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
Profit before income tax expenses	5,752,488	7,107,053	252,784	168,700	-	13,281,025
Income tax expenses	(1,563,675)	(1,533,756)	(62,382)	(42,582)	-	(3,202,395)
Net profit for the year	4,188,813	5,573,297	190,402	126,118	-	10,078,630
Other key segment information						
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
	82,476,864	80,601,836

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.

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7. COST OF SALES

	<u>2016</u>	<u>2015</u>
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
	<u>51,452,419</u>	<u>55,970,113</u>

8. ADMINISTRATIVE EXPENSES

	<u>2016</u>	<u>2015</u>
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
	<u>5,870,076</u>	<u>5,276,165</u>

9. SELLING EXPENSES

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

10. FINANCE COSTS

	<u>2016</u>	<u>2015</u>
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)	<u>(1,301,414)</u>	<u>(2,515,122)</u>
	<u>2,102,496</u>	<u>2,397,817</u>

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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)	-
	<u>4,402,260</u>	<u>3,202,395</u>

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%)	<u>2,713,199</u>	<u>3,056,373</u>
	31 December 2016	31 December 2015
Property, plant and equipment	(105,252,525)	(90,265,943)
Other	(34,205)	(9,250)
Gross amount	<u>(105,286,730)</u>	<u>(90,275,193)</u>
Deferred tax liabilities (20%)	<u>(21,057,346)</u>	<u>(18,055,039)</u>
Deferred tax liabilities, net	<u>(18,344,147)</u>	<u>(14,998,666)</u>

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)
	<u>(18,344,147)</u>	<u>(14,998,666)</u>

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	<u>(18,344,147)</u>	<u>(14,998,666)</u>

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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:

	<u>2016</u>	<u>2015</u>
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	<u>216,538</u>	<u>184,160</u>
Income tax expenses	<u>4,402,260</u>	<u>3,202,395</u>

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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	<u>2,670,022</u>	<u>33,524,965</u>	<u>92,594,476</u>	<u>914,535</u>	<u>323,268</u>	<u>1,325,952</u>	<u>131,353,218</u>
As at 31 December 2015	<u>2,672,979</u>	<u>19,832,430</u>	<u>58,152,652</u>	<u>959,692</u>	<u>261,184</u>	<u>40,026,750</u>	<u>121,905,687</u>

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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
	<u>1,187,026</u>	<u>2,517,829</u>

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
	<u>688,908</u>	<u>718,680</u>

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

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14. TRADE ACCOUNTS RECEIVABLE

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

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)	<u>138,415</u>	<u>60,325</u>
Allowance for doubtful debt as the end of the year	<u>(552,655)</u>	<u>(455,889)</u>

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	<u>684,958</u>	<u>922,475</u>
	<u>7,690,358</u>	<u>6,990,084</u>

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	<u>482,014</u>	<u>438,617</u>
	<u>552,655</u>	<u>455,889</u>

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

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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)
	<u>2,437,888</u>	<u>2,678,976</u>

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
	<u>8,473,982</u>	<u>963,932</u>

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
	<u>2,358,941</u>	<u>1,111,197</u>

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.

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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%
	11,636,404	100%	11,636,404	100%

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)
	25,107,868	26,772,043

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
	37,138,240	37,665,281

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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.

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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
	<u>4,817,369</u>	<u>9,155,157</u>

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	-
	<u>4,817,369</u>	<u>9,155,157</u>

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
	<u>4,715,765</u>	<u>3,673,711</u>

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

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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).

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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
Financial assets		
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
Financial liabilities		
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.

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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.

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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
31 December 2016					
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
		<u>18,409,402</u>	-	-	<u>18,409,402</u>
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)
		<u>(21,220,491)</u>	<u>(30,443,759)</u>	<u>(3,884,200)</u>	<u>(55,548,450)</u>
		<u>(2,811,089)</u>	<u>(30,443,759)</u>	<u>(3,884,200)</u>	<u>(37,139,048)</u>

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	Interest rate	Less than 1 year	1-5 years	More than 5 years	Total
31 December 2015					
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	-	(424,018)	-	-	(424,018)
		<u>(23,670,888)</u>	<u>(31,448,356)</u>	<u>(9,041,468)</u>	<u>(64,160,712)</u>
		<u>(14,699,944)</u>	<u>(31,448,356)</u>	<u>(9,041,468)</u>	<u>(55,189,768)</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:

	31 December 2016 (% per annum)
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:

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

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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.

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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 Tsentri 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.

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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-КЛ 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.