KAZAKHSTAN UTILITY SYSTEMS LIMITED LIABILITY PARTNERSHIP AND ITS SUBSIDIARIES

Consolidated Financial Statements
for the Year Ended 31 December 2017

KAZAKHSTAN UTILITY SYSTEMS LIMITED LIABILITY PARTNERSHIP AND ITS SUBSIDIARIES

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AND ITS SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of Kazakhstan Utility Systems Limited Liability Partnership and its subsidiaries (hereinafter jointly named the "Group") as at 31 December 2017, and the consolidated results of its operations, consolidated cash flows and consolidated changes in owner's equity for the year then ended, in compliance with International Financial Reporting Standards (hereinafter - "IFRS").

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

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

Management is also responsible for:

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

Consolidated financial statements of the Group for the year ended 31 December 2017 were approved by management and authorised for issue on 31 May 2018.

On behalf of Management of the Group:

Казахстанские коммунальные системы

N. E. Aitzhanov
General Director

31 May 2018
Astana, Kazakhstan

S. A. Akhanov
Finance Director

Deloitte, LLP
36 Al Farabi Avenue
Almaty, 050059,
Republic of Kazakhstan

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INDEPENDENT AUDITOR'S REPORT

To the Participants of Kazakhstan Utility Systems Limited Liability Partnership:

Opinion

We have audited the consolidated financial statements of Kazakhstan Utility Systems Limited Liability Partnership (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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?
Provisional accounting for Ust-Kamenogorsk CHP LLP and Mangistau Electricity Distribution Network Company JSC acquisition transactions As discussed in Note 12, during the reporting period the Group made a number of acquisitions with the consideration of 7,249,590 thousand tenge for Ust-Kamenogorsk CHP LLP and 3,797,685 thousand tenge for Mangistau Electricity Distribution Network Company JSC. The initial accounting for business combinations was not completed as at 31 December 2017. On 7 April 2017, the Group entered into a transaction to acquire Ust-Kamenogorsk CHP LLP, as a result of which a provisional gain from a bargain purchase of 12,298,837 thousand tenge was recognised in the statement of profit or loss. The fair value of Ust-Kamenogorsk CHP LLP assets and liabilities was measured by the Group's internal experts, except for the property, plant and equipment valuation carried out by an independent appraiser. On 18 October 2017, the Group entered into a transaction to acquire interest in Mangistau Electricity Distribution Network Company JSC, as a result of which provisional gain from a bargain purchase of 5,541,898 thousand tenge was recognised in the statement of profit or loss. As at the reporting date, the independent appraiser's valuation of net assets was not completed, and as a result, the Group's internal experts performed a provisional measurement of the fair value of assets and liabilities. Since after acquisition of the interest in Mangistau Electricity Distribution Network Company JSC, the Group became the owner of 45.86% of voting shares, management applied judgment to determine the existence of control. This issue was determined to be a key audit matter due to the materiality of the provisional amount of a gain from a bargain purchase, the subjective nature of assumptions and judgments used in the fair value measurement of the assets acquired and liabilities assumed, and the need to apply judgment in determining the date of acquisition and gaining control.	We examined transaction terms, assessed their consequences for accounting and carried out procedures in relation to management's provisional measurement of the fair value of the assets acquired, liabilities recognised and the calculation of a gain from a bargain purchase. *Acquisition of Ust-Kamenogorsk CHP LLP* Jointly with our valuation specialists, we challenged a methodology and key assumptions used by the Group to determine the fair value of net assets. In particular, we analysed the reasonableness of the discount rate and the correctness of tariffs, which are the most sensitive indicators in property, plant and equipment valuation model. We also evaluated the competence and independence of the valuation specialist involved by the Group for valuation of the property, plant and equipment. *Acquisition of Mangistau Electricity Distribution Network Company JSC* A significant area of judgment was the determination of the acquisition date. We have analysed the requirements of the IFRS 10 *Consolidated Financial Statements* to assess and identify factors that indicate the existence of control and assessed adequacy of the related disclosures. To determine the fair value of the net assets acquired, jointly with our valuation specialists, we tested the methodology and key assumptions used by management of the Group. In particular, we analysed the reasonableness of the applied discount rate, the correctness of tariffs and the planned volumes of services, which are the most sensitive indicators in the valuation model of property, plant and equipment. In addition, we analysed the reasonableness of the discount rates used by management to determine the provisional amount of the fair value of bonds recognised on the balance sheet and the rates used to calculate the present value of deferred consideration. We reconciled the amount of consideration paid for the acquisition of Ust-Kamenogorsk CHP LLP and Mangistau Electricity Distribution Network Company JSC with the contract terms and bank statements. We checked calculations of the provisional gain from a bargain purchase recognised in the statement of profit or loss for mathematical accuracy. We tested the disclosure of business combination for completeness and compliance with IFRS requirements.
Revenue recognition As discussed in Note 6 to the consolidated financial statements, revenue from the sale of electricity by the selling companies of the Group amounted to 55,241,879 thousand tenge, which represent 57% of the Group's total revenue. Revenue is calculated in the billing information systems based on input data from individual metering devices and tariffs and then transferred to the accounting system.	With the assistance of our IT specialists we tested the operating effectiveness of controls over the billing information systems, including in respect of the following: • Capture of data on electricity supplied to consumers and their accounting; • Authorization of changing tariffs and the input of this information into the billing information systems;

Recognition of revenue from the sale of electricity to customers was determined to be a key audit matter as the accuracy and the amount of revenue are reliant on the billing information systems output, which is dependent on both accuracy of the capturing and processing of electricity consumption data and application of the correct tariffs in the systems.	• Verification of data transfer from the billing information system to the accounting system. We applied combination of substantive analytical procedures and tests of details to verify the amount and accuracy of revenue recognition, obtained from these systems.

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.

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

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

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

Olga Belonogova Engagement Partner Certified public accountant Oregon, USA License No.10687 dated 2 December 2003	Daulet Kuatbekov Qualified Auditor of the Republic of Kazakhstan Qualification certificate No.0000523 dated 15 February 2002 Acting General Director Deloitte, LLP

Deloitte, LLP

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

31 May 2018
Almaty, Republic of Kazakhstan

KAZAKHSTAN UTILITY SYSTEMS LIMITED LIABILITY PARTNERSHIP AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017
(in thousands of Tenge)

	Notes	2017	2016
Revenue	6	97,337,035	82,476,864
Cost of sales	7	(66,087,670)	(51,452,419)
Gross profit		**31,249,365**	**31,024,445**
General and administrative expenses	8	(6,388,741)	(5,870,076)
Selling expenses	9	(2,148,142)	(1,965,015)
Finance costs	10	(4,812,517)	(2,102,496)
Finance income		652,805	355,211
Other income, net	11	18,759,036	138,587
Share of profit of associate	12	150,329	-
Dividend income		17,224	7,531
Foreign exchange loss, net		(30,268)	(103,669)
PROFIT BEFORE INCOME TAX EXPENSE		**37,449,091**	**21,484,518**
Income tax expenses	14	(3,973,072)	(4,402,260)
NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**33,476,019**	**17,082,258**

On behalf of Management of the Group:

N. E. Aitzhanov
General Director

31 May 2018
Astana, Kazakhstan

S. A. Akhanov
Finance Director

31 May 2018
Astana, Kazakhstan

Казахстанские коммунальные системы

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

(in thousands of Tenge)

	Notes	31 December 2017	31 December 2016
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	15	203,095,669	131,353,218
Advances paid	16	3,152,062	1,187,026
Long-term financial investments		-	249,055
Other non-current assets		885,850	637,915
Deferred tax assets	14	63,470	40,400
Total non-current assets		207,197,051	133,467,614
CURRENT ASSETS:			
Trade accounts receivable	17	9,958,231	7,690,358
Inventories	18	3,786,086	2,437,888
Advances paid	16	780,574	688,908
Prepaid corporate income tax		443,120	278,492
Other current assets	19	2,916,460	8,473,982
Cash and cash equivalents	20	6,444,524	2,358,941
		24,328,995	21,928,569
Assets classified as held for sale	21	3,125,587	-
Total current assets		27,454,582	21,928,569
TOTAL ASSETS		**234,651,633**	**155,396,183**
EQUITY AND LIABILITIES			
EQUITY:			
Charter capital	22	11,636,404	11,636,404
Additional paid-in capital		9,239,137	9,239,137
Retained earnings		96,699,636	67,874,617
Equity attributable to owners of the Company		117,575,177	88,750,158
Non-controlling interests	23	11,497,333	-
Total equity		129,072,510	88,750,158
NON-CURRENT LIABILITIES:			
Loans and bonds	24	41,396,656	25,107,868
Deferred tax liabilities	14	28,913,770	18,384,547
Other non-current liabilities	25	3,329,667	112,048
Total non-current liabilities		73,640,093	43,604,463
CURRENT LIABILITIES:			
Loans and bonds	24	15,752,223	11,949,582
Trade accounts payable	26	4,911,834	4,817,369
Other accounts payable and accrued liabilities	27	8,558,620	4,715,765
Other taxes payable	28	2,179,717	1,476,868
Corporate income tax payable		82,115	81,978
		31,484,509	23,041,562
Liabilities directly associated with assets classified as held for sale	21	454,521	-
Total current liabilities		31,939,030	23,041,562
TOTAL LIABILITIES		**105,579,123**	**66,646,025**
TOTAL EQUITY AND LIABILITIES		**234,651,633**	**155,396,183**

On behalf of Management of the Group:

N. E. Aitzhanov
General Director

31 May 2018
Astana, Kazakhstan

S. A. Akhanov
Finance Director

31 May 2018
Astana, Kazakhstan

Казахстанские коммунальные системы

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

**CONSOLIDATED STATEMENT OF CHANGES IN OWNER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**
(in thousands of Tenge)

	Notes	Charter capital	Additional paid-in capital	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total
As at 1 January 2016		11,636,404	9,239,137	50,792,359	71,667,900	-	71,667,900
Net profit and total comprehensive income for the year		-	-	17,082,258	17,082,258	-	17,082,258
As at 31 December 2016		**11,636,404**	**9,239,137**	**67,874,617**	**88,750,158**	**-**	**88,750,158**
Net profit and total comprehensive income for the year		-	-	33,476,019	33,476,019	-	33,476,019
Payment of dividends	22	-	-	(4,651,000)	(4,651,000)	-	(4,651,000)
Acquisition of non-controlling interests arising on the acquisition of a subsidiary	23	-	-	-	-	11,497,333	11,497,333
As at 31 December 2017		**11,636,404**	**9,239,137**	**96,699,636**	**117,575,177**	**11,497,333**	**129,072,510**

On behalf of Management of the Group:

N. E. Aitzhanov
General Director

31 May 2018
Astana, Kazakhstan

S. A. Akhanov
Finance Director

31 May 2018
Astana, Kazakhstan

Қазақстан Республикасы Алматы қаласы Жауапкершілігі шектеулі серіктестігі * Республика Казахстан г. Алматы Товарищество с ограниченной ответственностью * Казахстанские коммунальные системы

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

KAZAKHSTAN UTILITY SYSTEMS LIMITED LIABILITY PARTNERSHIP AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of Tenge)

	Notes	2017	2016
OPERATING ACTIVITIES:			
Sale of services and goods		108,211,180	89,854,677
Other proceeds		1,616,173	2,180,344
Total cash inflow		109,827,353	92,035,021
Payments to suppliers for goods and services		(57,350,977)	(43,828,457)
Salary payments		(9,154,447)	(7,491,029)
Other payments to the budget		(8,824,951)	(5,605,286)
Other payments		(1,725,421)	(2,035,596)
Total cash outflow		(77,055,796)	(58,960,368)
Cash generated from operations		32,771,557	33,074,653
Interest received		189,436	30,157
Interest paid on loans and bonds		(5,028,043)	(3,257,439)
Corporate income tax		(1,862,819)	(988,674)
Net cash generated by operating activities		**26,070,131**	**28,858,697**
INVESTING ACTIVITIES:			
Sale of property, plant and equipment		105	836
Return of financial aid given		30,000	198,529
Dividends received		17,224	7,531
Other proceeds		5,000	359,633
Prepayment for disposal of subsidiary	27	1,682,059	-
Total cash inflow		1,734,388	566,529
Purchase of property, plant and equipment and materials for capital repair and advances paid for acquisition of non-current assets		(15,182,851)	(20,791,513)
Purchase of equity instruments		-	(249,055)
Purchase of intangible assets		(16,279)	(16,519)
Financial aid given		(80,000)	(204,634)
Net cash outflow on acquisition of subsidiaries	12	(7,855,315)	-
Other payments		(3,845)	-
Total cash outflow		(23,138,290)	(21,261,721)
Net cash used in investing activities		**(21,403,902)**	**(20,695,192)**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in thousands of Tenge)

	Notes	2017	2016
FINANCING ACTIVITIES:			
Bonds issue	24	882,446	100,000
Return of financial aid given to the participant	30	8,128,000	-
Financial aid received		976,224	1,398,630
Loans received	24	21,318,820	13,828,100
Other proceeds		48,733	-
Total cash inflow		31,354,223	15,326,730
Repayment of loans	24	(26,039,791)	(14,357,731)
Redemption of bonds		-	(100,000)
Financial aid given to the participant	30	(60,000)	(7,457,000)
Repayment of financial aid received		(1,125,500)	(321,260)
Dividends payment	22	(4,651,000)	-
Other payments		(25,869)	(6,500)
Total cash outflow		(31,902,160)	(22,242,491)
Net cash used in financing activities		**(547,937)**	**(6,915,761)**
NET CHANGE IN CASH		4,118,292	1,247,744
CASH AND CASH EQUIVALENTS, at the beginning of the year		2,358,941	1,111,197
Effect of changes in foreign exchange rates on cash balances held in foreign currencies		19,165	-
CASH AND CASH EQUIVALENTS, at the end of the year	**20**	**6,496,398**	**2,358,941**

On behalf of Management of the Group:

N. E. Mizhanov
General Director

31 May 2018
Astana, Kazakhstan

S. A. Akhanov
Finance Director

31 May 2018
Astana, Kazakhstan

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

Казахстанские коммунальные системы

(in thousands of Tenge, unless otherwise stated)

1. NATURE OF OPERATIONS

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

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

As at 31 December 2017, 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 2016: 99% and 1%, accordingly).

Since a number of the Group's entities are monopolists in the production of thermal power in the Karaganda and East-Kazakhstan regions, in the electricity supply in the Karaganda region and in the electricity transmission in the Karaganda, South-Kazakhstan and Mangistau regions, the activities of these entities are regulated by the Law of the Republic of Kazakhstan On Natural Monopolies and the tariffs for the above mentioned services are subject for approval by the Committee on Regulation of Natural Monopolies and Protection of Competition under the Ministry of National Economy of the Republic of Kazakhstan (the "Committee") (Notes 3 and 32).

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

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

Amendments to IFRSs affecting amounts reported in the consolidated financial statements

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

- Amendments to IAS 7 *Disclosure Initiative*;
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses;*
- *Annual Improvements to IFRSs 2014-2016 Cycle – amendments to IFRS 12.*

Amendments to IAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of bonds and borrowings (Note 24) and certain other financial liabilities. A reconciliation between the opening and closing balances of these items is provided in Note 24. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in note 24, the application of these amendments has had no impact on the Group's consolidated financial statements.

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual Improvements to IFRSs - 2014-2016 Cycle

The Group has applied the amendments to IFRS 12 included in the *Annual Improvements to IFRSs 2014-2016 Cycle* for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group.

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Group's consolidated financial statements.

New and revised IFRS in issue but not yet effective

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

- IFRS 9 *Financial Instruments*[1];
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)*[1];
- IFRS 16 *Leases*[2];
- IFRS 17 *Insurance Contracts*[3];
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*[1];
- IFRIC 23 *Uncertainty Over Income Tax Treatments*[2];
- Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*[1];
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4];
- Amendments to IAS 40 – *Transfers of Investment Property*[1];
- Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1];
- Amendments to IFRS 9 – *Prepayment Features With Negative Compensation*[2];
- Amendments to IAS 28 – *Long-Term Interests in Associates and Joint Ventures*[2];
- Annual Improvements to IFRSs 2014-2016 Cycle[1];
- Annual Improvements to IFRSs 2015-2017 Cycle[2].

[1] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.
[4] Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

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. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The Group plans to apply the standard on the required date of application. During 2017, the Group made a preliminary analysis of all three aspects of IFRS 9. This preliminary analysis was based on current available information and is subject to review and change after a more detailed analysis that includes reasonable and appropriate information, including perspective information. The Group does not expect a significant impact on its financial position and equity, except for the application of IFRS 9 requirements for impairment identification. The Group expects a change in the impairment loss methodology and plans to perform a detailed analysis in the future to assess its impact.

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 when it becomes effective.

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:

- Stage 1: Identify the contract with the customer;
- Stage 2: Identify the performance obligations in the contract;
- Stage 3: Determine the transaction price;
- Stage 4: Allocate the transaction price to the performance obligations in the contracts;
- Stage 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. Furthermore, extensive disclosures are required by IFRS 15.

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.

The management is still in the process of assessing the full impact of the application of IFRS 15 on the consolidated financial statements of the Group and it is not practicable to provide a reasonable financial estimate of the effect until the management completes the detailed review. As a result, the above preliminary assessment is subject to change. The Group intends to apply IFRS 15 retrospectively with the recognition of total initial effect on the date of initial application.

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 *Leases* and the related interpretations when it becomes effective.

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

Management of the Group is currently analysing the potential impact of IFRS 16 application and it is not practicable to provide a reasonable estimate of the financial effect until management completes the review.

The management does not anticipate that the application of other new standards will have a material impact on the Group's consolidated financial statements when become effective.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Going concern

These consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern. This assumes the realization of assets and repayment of liabilities in the normal course of the business in the foreseeable 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.

As at 31 December 2017, current liabilities exceeded the current assets of the Group by 4,484,448 thousand tenge (31 December 2016: 1,112,993 thousand tenge). However, as at 31 December 2017, the Group had positive equity, generated net profit and positive cash flows from operating activities for 2017. The Group forecasts profits for 2018 as a result of increase in revenues driven by business expansion 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 terms of loan agreements, as well as the Group's ability to carry out timely payments on loans. As 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 categorised into levels based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value 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.

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

Functional and presentational currencies

These consolidated financial statements are presented in 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.

(in thousands of Tenge, unless otherwise stated)

Foreign currency transactions

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

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

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

	31 December 2017	31 December 2016
Exchange rates at the end of the year (in tenge)		
1 US Dollar	332.33	333.29
1 Russian rouble	5.77	5.43
1 Euro	398.23	352.42
Average exchange rates for the year (in tenge)	**2017**	**2016**
1 US Dollar	326.08	344.52
1 Russian rouble	5.59	4.95
1 Euro	368.5	378.3

Offsetting

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

Basis of consolidation

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

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

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

Non-controlling interests

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

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

Business combinations

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

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

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

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

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

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

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

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

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

Non-current assets classified as held for sale

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

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

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

Revenue recognition

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

Revenue is recognised 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 recognised net of value added tax.

The Group generates revenue from the production, transmission and distribution of electricity and thermal power, supply of electricity and thermal power, and chemically purified water production. Revenue is recognised as services are provided. Revenue from regulated services is recognised on the basis of tariffs approved by the Committee.

Deferred income

In accordance with decision No. 1044 of the Republic of Kazakhstan Government dated 8 October 2004, the subsidiary Mangistau Electricity Distribution Network Company JSC, over which the Group acquired control in the reporting period (Note 12), received in previous periods funds from customers for the construction of power transmission network or the current infrastructure reconstruction. Such funds are interest-free and are repayable within twenty five years. The funds received from customers were initially recognised at their fair value and subsequently carried at amortised cost.

The difference between the proceeds and the fair value is recognised as deferred income. Deferred income is recognised in the statement of comprehensive income over the useful lives of property, plant and equipment.

Loans

Interest bearing bank loans and overdrafts are carried at the proceeds received, net of direct issue costs. Borrowing costs are accounted for on an accrual basis and recognised in the financial statements unless the financing is related to a qualifying asset in which case the relevant amount is capitalised 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 recognised in profit or loss in the period in which they are incurred.

Remuneration to employees

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

Income tax

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

Current income tax

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 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.

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

Property, plant and equipment

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

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

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

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

	Years
Buildings and constructions	2-83
Machinery and equipment	1-75
Vehicles	1-47
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. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately as expenses, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

Inventories

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

Financial instruments

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

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

Financial assets

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 amortised 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.

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 recognised 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 recognised 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 recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised 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 amortised cost using the effective interest method, less any impairment. Interest income is recognised 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.

Impairment of financial assets

Financial assets, other than those recognised at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For equity investments, classified as available-for-sale a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as loans and trade accounts receivable, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of loans and accounts receivable could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, determined by the agreements of the Group, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and accounts receivable, where the carrying amount is reduced through the use of an allowance account. When loans and accounts receivable are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises 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 recognise 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, trade and other payables, are initially measured at fair value, net of transaction costs.

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

Trade and other accounts payable

Short-term trade other accounts payable are carried at their nominal value.

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 recognised 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 recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Liabilities on reclamation of ash disposal area

Liabilities on reclamation of ash disposal area on occupied land are recognised in respect of estimated future costs on decommissioning and rehabilitation of land, as well as rehabilitation of environment, waste collection and reclamation of affected land in the reporting period, when respective damage of environment takes place. Provision is discounted and the effect of discounting is recognised in profit or loss as finance costs. When recognising a provision, respective asset is capitalised, as it brings future economic benefits, and depreciated over the useful lives of the related assets. Provision is annually reviewed for any changes in estimates, discount rate and useful lives.

Contingent liabilities and assets

Contingent liabilities are not recognised in the consolidated statement of financial position, but are disclosed in the notes to consolidated financial statements, unless the probability of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the statement of financial position but are disclosed in the financial statements when an inflow of economic benefits is probable.

Dividends

The Group recognises an obligation to distribute cash to participants when the distribution is approved and no longer depends on discretion of the Group. The corresponding amount is recognised directly in equity. Dividends are disclosed in the consolidated financial statements when they are proposed before the reporting date or proposed or declared after the reporting date but before consolidated financial statements are authorised for issue.

(in thousands of Tenge, unless otherwise stated)

Change in classification

Consolidated statement of cash flows

In preparing the consolidated financial statements for 2017, the Group decided to present cash flows from advances received in line "sale of services and goods" and from advances paid in line "payments to suppliers for goods and services" in the operating activities of the statement of cash flows as in accordance with IAS 7, such form of presentation is acceptable and reflects the substance of transactions performed by the Group.

The Group also has decided to record advances paid for the acquisition of non-current assets presented through investing activities of statement of cash flows in line "purchase of property, plant and equipment and materials for capital repair" as these are similar transactions. Therefore, the Group respectively changed the classification in the statement of cash flows for 2016.

Comparative data in the cash flow statement for 2016 has been revised respectively:

Consolidated statement of cash flows	2016 (as issued)	Effect of reclassification	2016 (as revised)
OPERATING ACTIVITIES:			
Cash inflows:			
Sale of services and goods	76,662,507	13,192,170	89,854,677
Advances received	13,192,170	(13,192,170)	-
Cash outflows:			
Payments to suppliers for goods and services	(29,330,024)	(14,498,433)	(43,828,457)
Advances paid	(14,498,433)	14,498,433	-
Net effect	**(46,026,220)**	**-**	**(46,026,220)**
INVESTING ACTIVITIES:			
Cash outflows:			
Advances paid for the acquisition of non-current assets	(2,373,569)	2,373,569	-
Purchase of property, plant and equipment and materials for capital repair	(18,417,944)	(2,373,569)	(20,791,513)
Net effect	**(20,791,513)**	**-**	**(20,791,513)**

Consolidated statement of financial position

Certain reclassifications have been made to the consolidated statement of financial position as at 31 December 2016 to conform to the presentation as at 31 December 2017 as current year presentation provides better view of the financial position of the Group. In 2017, the Group consolidated the presentation of investment property, intangible assets and goodwill in other non-current assets in the consolidated statement of financial position. Therefore, the Group has respectively changed its classification in the consolidated statement of financial position as at 31 December 2016.

Consolidated statement of financial position	31 December 2016 (as issued)	Effect of reclassification	31 December 2016 (as revised)
ASSETS			
NON-CURRENT ASSETS:			
Investment property	334,985	(334,985)	-
Intangible assets	151,398	(151,398)	-
Goodwill	128,334	(128,334)	-
Other non-current assets	23,198	614,717	637,915
	637,915	**-**	**637,915**

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Significant judgements in applying accounting policies

Control over subsidiary Mangistau Electricity Distribution Network Company JSC ("MEDNC" or "MEDNC JSC")

MEDNC is recognised as a subsidiary of the Group, although as at 31 December 2017 the Group owned only 45.86% of MEDNC voting shares. MEDNC shares are traded on the Kazakhstan Stock Exchange ("KASE"). On 18 October 2017, the Group acquired a 39.32% interest in MEDNC, with the Group's share totalling 45.86%, while the remaining 54.14% were distributed among other participants, with 39.32% of common shares held by KBI Energy LLP and 13.54% by Unified Accumulative Pension Fund JSC (UAPF JSC).

On 14 December 2017, UAPF JSC agreed to sell its share to new shareholders owning 30% or more shares in MEDNC. Shares of UAPF JSC were to be purchased by KUS LLP and KBI Energy LLP in the ratio of 50:50. As a result of UAPF JSC offering, the Company launched the share purchase process, which was completed on 11 January 2018, and as a result of which the Company became the owner of 52.63% of MEDNC common shares. The 52.63% ownership interest represents the absolute majority of MEDNC voting shares and is sufficient to exercise control over MEDNC by KUS LLP.

According to assessment made to determine existence of control, management concluded that the current right for the purchase of UAPF JSC shares received by the Company on 14 December allows the Company to prevail over other shareholders in directing of the principal activities of MEDNC, despite the fact that the transaction for the purchase of 6.77% shares was completed on 11 January 2018 and therefore the Group has control over MEDNC since 14 December 2017. If management had concluded that a 45.86% interest was insufficient to exercise control, the subsidiary MEDNC would instead have been accounted for as an investment in an associate using the equity method of accounting.

Key sources of estimation uncertainty

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

Useful lives of property, plant and equipment

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

Impairment of assets

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 impairment 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.

If such indicators exist, the recoverable amount of assets is estimated and compared to the carrying amount of the asset. If the carrying amount exceeds the recoverable amount of an asset, impairment is recognised. 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 2017 have not been identified.

Allowance for doubtful debts

Management estimates of allowance for doubtful debts of trade and other receivables requires from management its best estimates of assumptions used regarding the Group's ability to recover these assets. 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

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

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

Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, fines and penalties may exceed the amount of accrued taxes to date and for the year ended 31 December 2017. 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 reporting date and reduced to the extent that it is no longer probable that there will be sufficient taxable income to use all or part of the deferred tax asset. The assessment is based on judgments about expected performance.

Business combination

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

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

As at the reporting date, the Group did not complete the initial accounting for the business combination because additional time was required to analyse all facts and circumstances that existed at the acquisition date. Accordingly, provisional amounts of assets acquired, liabilities assumed, non-controlling interests and a gain from a bargain purchase that may be adjusted during the measurement period (one year from the acquisition date) were presented in the consolidated financial statements. The Group expects to complete the initial accounting for acquisitions in the annual consolidated financial statements for 2018, as a result of which the above amounts may be adjusted.

5. SEGMENT INFORMATION

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

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

- the production of thermal power and electricity;
- the transmission and distribution of electricity;
- the sale of thermal power 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.

(in thousands of Tenge, unless otherwise stated)

	2017					
Key operating indices	**Thermal power and electricity production**	**Transmission and distribution of electricity**	**Thermal power and electricity sales**	**Other**	**Elimination**	**Total**
Revenue from sales to external customers	19,782,425	12,466,056	64,500,107	588,447	-	97,337,035
Intersegment revenue	26,622,835	19,769,302	31,091	400,372	(46,823,600)	-
Cost of sales, total	(33,146,298)	(18,298,543)	(61,442,262)	-	46,799,433	(66,087,670)
Gross profit	**13,258,962**	**13,936,815**	**3,088,936**	**988,819**	**(24,167)**	**31,249,365**
General and administrative expenses	(2,238,185)	(1,812,343)	(1,556,136)	(1,111,981)	329,904	(6,388,741)
Selling expenses	(42,997)	(831,158)	(1,301,462)	-	27,475	(2,148,142)
Finance costs	(3,379,993)	(604,609)	(60,018)	(850,352)	82,455	(4,812,517)
Finance income	505,278	24,283	75,322	130,376	(82,454)	652,805
Other income, net	237,104	83,539	305,824	18,465,782	(333,213)	18,759,036
Share of profit of associate	-	-	-	150,329	-	150,329
Dividend income	-	-	-	17,224	-	17,224
Foreign exchange gain/(loss), net	9,913	-	(383)	(39,798)	-	(30,268)
Profit before income tax expense	**8,350,082**	**10,796,527**	**552,083**	**17,750,399**	**-**	**37,449,091**
Income tax (expenses)/benefit	(1,619,100)	(2,250,428)	(120,903)	17,359	-	(3,973,072)
Net profit for the year	**6,730,982**	**8,546,099**	**431,180**	**17,767,758**	**-**	**33,476,019**
Other key segment information						
Capital expenditures for property, plant and equipment	5,409,939	8,015,337	95,605	244,208	-	13,765,089
Depreciation of property, plant and equipment	6,144,840	4,248,664	49,335	33,831	-	10,476,670

	2016					
Key operating indices	**Thermal power and electricity production**	**Transmission and distribution of electricity**	**Thermal power 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**
General and 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)
Finance income	303,207	623	38,792	12,589	-	355,211
Other income, net	68,722	157,581	297,945	11,654	(397,315)	138,587
Dividend income	-	-	-	7,531	-	7,531
Foreign exchange loss, net	(103,363)	-	-	(306)	-	(103,669)
Profit before income tax expense	**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

(in thousands of Tenge, unless otherwise stated)

6. REVENUE

	2017	2016
Sale of electricity	70,299,007	60,600,620
Sale of thermal power	13,536,552	9,461,147
Transmission of electricity	12,466,056	11,518,744
Sale of chemically purified water	428,672	468,371
Lease of buildings	378,991	391,565
Other	227,757	36,417
	97,337,035	82,476,864

Revenue from the sale of electricity by the selling companies of the Group for 2017 and 2016 amounted to 55,241,879 thousand tenge and 53,028,823 thousand tenge, respectively.

The increase in revenue was mainly due to the acquisition of subsidiaries in 2017 (Note 12). The sale of electricity and thermal power increased by 2,357,302 thousand tenge due to revenue of Sogrinsk CHP LLP ("SCHP") and by 8,861,227 thousand tenge due to revenue of Ust-Kamenogorsk CHP LLP ("UK CHP").

7. COST OF SALES

	2017	2016
Materials	25,527,647	19,028,187
Services of transmission of electricity, thermal power and chemically purified water	12,889,922	11,027,387
Depreciation	10,255,599	6,998,195
Payroll and related taxes	7,237,019	5,555,581
Technical losses	3,224,432	3,278,995
Repairs	1,467,036	1,248,866
Other	5,486,015	4,315,208
	66,087,670	51,452,419

8. GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Payroll and related taxes	2,864,029	2,375,893
Taxes, other than income tax	1,433,793	1,101,460
Billing system support	414,938	506,455
Consulting services	316,974	229,958
Depreciation and amortization	220,497	152,265
Materials	116,244	95,294
Security services	97,996	85,280
Charity	76,969	315,549
Unused vacation provision	74,776	137,366
(Recovery)/accrual of allowance for doubtful debts (Note 17)	(128,026)	210,238
Other	900,551	660,318
	6,388,741	5,870,076

9. SELLING EXPENSES

	2017	2016
Payroll and related taxes	1,745,465	1,566,685
Other	402,677	398,330
	2,148,142	1,965,015

(in thousands of Tenge, unless otherwise stated)

10. FINANCE COSTS

	2017	2016
Interest on bank loans and bonds	5,085,982	3,397,414
Other	23,662	6,496
	5,109,644	3,403,910
Less capitalised costs (Note 15)	(297,127)	(1,301,414)
	4,812,517	**2,102,496**

11. OTHER INCOME, NET

	2017	2016
Gain from a bargain purchase of subsidiaries (Note 12)	18,631,734	-
Loss on change in the fair value of assets classified as held for sale (Note 21)	(169,862)	-
Other income, net	297,164	138,587
	18,759,036	**138,587**

12. ACQUISITION OF SUBSIDIARIES

In 2017, the Group acquired the following subsidiaries:

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

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

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

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

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

(in thousands of Tenge, unless otherwise stated)

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

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

(ii) Acquisition of Mangistau Electricity Distribution Network Company JSC

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

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

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

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

The conditions for the transaction completion were prepayment, the Committee's written approval of the shares acquisition and providing the seller with the guarantee of instalment.

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

As at 18 October 2017, the deferred consideration of the Group for MEDNC shares was 3,024,615 thousand tenge. The Group determined the fair value of these payables using the refinancing rate of the National Bank of the Republic of Kazakhstan of 10.25%. The present value of deferred consideration was 2,501,188 thousand tenge. The current portion of this debt of 909,130 thousand tenge was recognised in other current liabilities (Note 27).

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

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

(in thousands of Tenge, unless otherwise stated)

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

The necessary fair value measurement of the assets acquired and liabilities assumed, of the equity interest held before acquisition date and of consideration transferred for the net assets acquired and, accordingly, the purchase price allocation to the assets and liabilities of MEDNC, UK CHP and SCHP, were not completed. Accordingly, provisional amounts of the assets acquired, liabilities assumed, non-controlling interests, cost of consideration transferred, value of the equity interest held before acquisition date and a gain from a bargain purchase, which may be adjusted during the measurement period, were presented in the consolidated financial statements. The Group expects to complete the initial accounting for acquisitions within one year from the date of acquisition, as stipulated in para 45-49 of IFRS 3 *Business Combinations*. Corresponding adjustments, if any, will be reflected in the annual consolidated financial statements for 2018.

Provisional amounts of assets acquired and liabilities recognised at the dates of acquisition presented as follows:

	UK CHP	SCHP	MEDNC	Total
Current assets				
Cash and cash equivalents	2,339,243	258,115	400,697	2,998,055
Trade and other receivables	2,147,116	347,655	518,196	3,012,967
Inventories	1,111,819	344,401	253,914	1,710,134
Other current assets	886,154	88,475	198,434	1,173,063
Non-current assets				
Property, plant and equipment	30,550,006	2,552,796	40,412,719	73,515,521
Other non-current assets	290,331	12,895	188,514	491,740
Current liabilities				
Loans	(2,361,524)	-	(2,893,458)	(5,254,982)
Trade and other payables	(978,092)	(253,346)	(1,408,928)	(2,640,366)
Other current liabilities	(561,027)	(179,036)	(1,242,817)	(1,982,880)
Non-current liabilities				
Loans	(9,214,381)	-	(9,932,068)	(19,146,449)
Deferred tax liabilities	(4,576,453)	(29,159)	(3,731,442)	(8,337,054)
Other non-current liabilities	(84,765)	(44,514)	(1,527,461)	(1,656,740)
	19,548,427	**3,098,282**	**21,236,300**	**43,883,009**

As at 31 December 2017, the non-controlling interest (54.14%) in MEDNC was determined in proportion to the ownership interest in the recognised identifiable net assets, the provisional estimate of which was 11,497,333 thousand tenge.

Provisional gain arising on acquisition

	UK CHP	SCHP	MEDNC	Total
Consideration transferred	7,249,590	2,307,283	-	9,556,873
Fair value of equity interest held before the business combination:	-	-	4,197,069	4,197,069
Value of 6.54% interest			*249,055*	*249,055*
Value of 39.32% interest			*3,797,685*	*3,797,685*
Profit from equity participation			*150,329*	*150,329*
Plus: non-controlling interests	-	-	11,497,333	11,497,333
Less: fair value of identifiable net assets acquired	(19,548,427)	(3,098,282)	(21,236,300)	(43,883,009)
Total gain from a bargain purchase	**(12,298,837)**	**(790,999)**	**(5,541,898)**	**(18,631,734)**

Based on this provisional measurement, the Group received a gain on acquisition of UK CHP and SCHP, which is explained by the fact, the purchase price was agreed based on AES Corporation's strategy for the global portfolio balancing and withdrawing from participation in coal-fired plants. Based on this provisional measurement, the Group received gain on MEDNC acquisition.

(in thousands of Tenge, unless otherwise stated)

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

Net cash payments under the acquisitions

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

Impact of acquisitions on the Groups financial results

As a result of the acquisition of subsidiaries UK CHP, SCHP and MEDNC, the Group's profit for the year increased by 13,016,140 thousand tenge, 322,106 thousand tenge and 5,541,898 thousand tenge, respectively, including a gain from a bargain purchase of 12,298,837 thousand tenge, 790,999 thousand tenge and 5,541,898 thousand tenge, respectively. The Group's revenue increased by 8,861,227 thousand tenge attributable to UK CHP and by 2,357,302 thousand tenge attributable to SCHP. The revenue of MEDNC as a subsidiary had no impact on the consolidated statement of profit or loss.

13. SUBSIDIARIES

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

Name	Type of activities	Place of incorporation and operation	Ownership interest/ voting power held by the Group 31 December 2017	31 December 2016
Karaganda Energocentre LLP	Production of thermal power, electricity and chemically purified water in the Karaganda region	Republic of Kazakhstan	100%	100%
Karagandy Zharyk LLP	Electricity transmission and distribution in the Karaganda region	Republic of Kazakhstan	100%	100%
Ontustik Zharyk Transit LLP	Electricity transmission and distribution in the South-Kazakhstan region	Republic of Kazakhstan	100%	100%
Karagandy ZhyluSbyt LLP	Thermal power and electricity supply in the Karaganda region	Republic of Kazakhstan	100%	100%
Raschetny Servisny Tsentr LLP	Electricity supply in the Karaganda region	Republic of Kazakhstan	100%	100%
Ontustik Zharyk LLP	Electricity supply in the South-Kazakhstan region	Republic of Kazakhstan	100%	100%
Energopotok LLP	Electricity supply in the South-Kazakhstan region	Republic of Kazakhstan	100%	100%
Energy Center LLP	Production of thermal power, electricity in the Karaganda region	Republic of Kazakhstan	100%	100%
Windfarm Zhuzimdyk LLP	Production of electricity in the South-Kazakhstan region	Republic of Kazakhstan	100%	100%
Ust-Kamenogorsk CHP LLP	Production of thermal power and electricity in the East-Kazakhstan region	Republic of Kazakhstan	100%	0%
Sogrinsk CHP LLP	Production of thermal power and electricity in the East-Kazakhstan region	Republic of Kazakhstan	100%	0%
Shygys Energy LLP	Production entities management	Republic of Kazakhstan	100%	0%
Heat & Power Holding B.V.	Production entities management	Netherlands	100%	0%
Mangistau Electricity Distribution Network Company JSC	Electricity transmission and distribution in the Mangistau region	Republic of Kazakhstan	45.86%	6.54%

(in thousands of Tenge, unless otherwise stated)

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

Principal activity	Number of wholly owned subsidiaries 31 December 2017	31 December 2016
Production of thermal power and electricity	5	3
Electricity transmission and distribution	2	2
Sale of thermal power and electricity	4	4
Other	2	0
	13	9

As at 31 December 2017, Mangistau Electricity Distribution Network Company JSC was not wholly owned by the Group.

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

	At 31 December 2017			
Name of subsidiary	Place of incorporation and principal place of busisness	Proportion of ownership interest and voting rights held by non-controlling interests	Profit attributable to non-controlling interests	Accumulated non-controlling interests
MEDNC	Republic of Kazakhstan	54.14%	-	11,497,333

Basis of consolidation of this subsidiary at 31 December 2017 is disclosed in Notes 4 and 12.

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

	31 December 2017
Current assets	1,371,241
Non-current assets	40,601,233
Current liabilities	(5,545,203)
Non-current liabilities	(15,190,971)
Equity attributable to owners of the Company	9,738,967
Non-controlling interests	11,497,333

Since during the period from 18 October to 31 December 2017 the Group accounted for MEDNC as an associate, below is a summary of MEDNC statement of profit or loss for that period.

	For the period from 18 October to 31 December 2017
Revenue	2,052,910
Expenses	(1,158,571)
Profit and total comprehensive income for the period	**894,339**
Profit from continuing operations	327,800
Profit and total comprehensive income for the period	**327,800**
Ownership interest	45.86%
The Group's share of profit of associate	150,329
Dividends paid to non-controlling interests	-

(in thousands of Tenge, unless otherwise stated)

14. TAXATION

	2017	2016
Current income tax expenses	1,655,627	1,188,454
Deferred income tax expenses	2,208,221	3,345,481
Prior years income tax adjustment	109,224	(131,675)
	3,973,072	**4,402,260**

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

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

	2017	2016
Profit before income tax expense	37,449,091	21,484,518
Statutory tax rate	20%	20%
Theoretical income tax expense at statutory rate	7,489,818	4,296,904
Provisional gain from acquisition and other income exempt from taxation	(3,755,413)	-
Unused tax losses not recognised as deferred tax assets	107,520	20,493
Prior years income tax adjustment	109,224	(131,675)
Other permanent differences	21,923	216,538
Income tax expenses	**3,973,072**	**4,402,260**

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

	31 December 2017	31 December 2016
Deferred tax assets	63,470	40,400
Deferred tax liabilities	(28,913,770)	(18,384,547)
	(28,850,300)	**(18,344,147)**
Deferred tax liabilities reclassified in liabilities directly associated with assets held for sale (Note 21)	(39,122)	-
	(28,889,422)	**(18,344,147)**

(in thousands of Tenge, unless otherwise stated)

Movement in deferred tax assets and liabilities was as follows:

2017	**At the beginning of the year**	**Recognised in profit or loss**	**Acquisitions (Note 12)**	**Reclassified to assets held for sale**	**At the end of the year**
Deferred tax (liabilities)/ assets in relation to:					
Liabilities					
Property, plant and equipment	(21,050,505)	(469,094)	(9,261,853)	463,578	(30,317,874)
Accrued expenses	(6,841)	(8,585)	(189,377)	-	(204,803)
	(21,057,346)	(477,679)	(9,451,230)	463,578	(30,522,677)
Assets					
Tax losses carried forward	2,472,412	(1,764,996)	696,732	(386,808)	1,017,340
Interest payable	-	22,330	16,075	-	38,405
Liabilities on reclamation of ash disposal area	8,056	7,675	14,344	(7,794)	22,281
Allowance for doubtful debts	103,921	(57,102)	23,120	(1,534)	68,405
Provision for unused vacations	105,829	1,102	4,427	(5,586)	105,772
Provision for slow-moving and obsolete inventories	1,030	-	7,111	-	8,141
Taxes	21,951	6,379	1,306	(3,046)	26,590
Prepaid expenses	-	-	279,505	(19,688)	259,817
Other	-	54,070	71,556	-	125,626
	2,713,199	(1,730,542)	1,114,176	(424,456)	1,672,377
Deferred tax liabilities, net	**(18,344,147)**	**(2,208,221)**	**(8,337,054)**	**39,122**	**(28,850,300)**

2016	**At the beginning of the year**	**Recognised in profit or loss**	**At the end of the year**
Deferred tax (liabilities)/assets in relation to:			
Liabilities			
Property, plant and equipment	(18,053,189)	(2,997,316)	(21,050,505)
Other	(1,850)	(4,991)	(6,841)
	(18,055,039)	(3,002,307)	(21,057,346)
Assets			
Tax losses carried forward	2,830,150	(357,738)	2,472,412
Provision for unused vacations	110,622	(4,793)	105,829
Allowance for doubtful debts	90,492	13,429	103,921
Taxes	14,587	7,364	21,951
Liabilities on reclamation of ash disposal area	9,492	(1,436)	8,056
Provision for slow-moving and obsolete inventories	1,030	-	1,030
	3,056,373	(343,174)	2,713,199
Deferred tax liabilities, net	**(14,998,666)**	**(3,345,481)**	**(18,344,147)**

(in thousands of Tenge, unless otherwise stated)

15. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery and equipment	Vehicles	Other	Construction in progress	Total
Initial cost							
As at 1 January 2016	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
Additions	51,057	14,854	403,524	339,945	64,036	12,891,673	13,765,089
Disposals	(103,788)	(1,559,755)	(597,069)	(20,693)	(4,871)	(496,057)	(2,782,233)
Internal transfers	-	1,834,270	10,680,214	-	1,429	(12,515,913)	-
Acquisitions through business combinations (Note 12)	476,692	10,307,629	55,752,173	664,343	247,434	6,067,250	73,515,521
Reclassified to assets held for sale	(59,491)	(526,068)	(2,284,606)	(19,634)	(7,421)	(89,589)	(2,986,809)
As at 31 December 2017	3,034,492	50,582,603	185,633,967	3,296,052	834,494	7,258,321	250,639,929
Accumulated depreciation and impairment							
As at 1 January 2016	-	(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)
Charged for the year	-	(2,180,364)	(8,011,800)	(280,584)	(3,922)	-	(10,476,670)
Disposals	-	100,713	197,775	12,277	8,950	-	319,715
Reclassified to assets held for sale	3,351	82,961	454,095	11,408	5,885	-	557,700
Impairment of assets held for sale (Note 21)	(3,351)	(31,439)	(133,506)	(1,141)	(425)	-	(169,862)
As at 31 December 2017	-	(9,014,837)	(36,578,691)	(1,675,596)	(200,131)	(75,005)	(47,544,260)
Net carrying amount							
As at 31 December 2017	**3,034,492**	**41,567,766**	**149,055,276**	**1,620,456**	**634,363**	**7,183,316**	**203,095,669**
As at 31 December 2016	**2,670,022**	**33,524,965**	**92,594,476**	**914,535**	**323,268**	**1,325,952**	**131,353,218**

(in thousands of Tenge, unless otherwise stated)

In 2017, additions of property, plant and equipment are mainly represented by the modernisation and reconstruction of electricity production, transmission and distribution equipment. At the date of commissioning, the carrying amount of commissioned facilities and capital repairs amounted to 12,515,913 thousand tenge.

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

In 2017, disposals of property, plant and equipment are mainly represented by the cost of buildings and constructions sold during 2017 to the real estate management company (Note 30).

For the years ended 31 December 2017 and 2016, the Group capitalised finance costs of 297,127 thousand tenge and 1,301,414 thousand tenge, respectively, to property, plant and equipment (Note 10).

As at 31 December 2017 and 2016, the Group's construction in progress is mainly represented by items under construction as part of the program of existing capacity expansion, reconstruction and technical re-equipment of 10-0.4 kW electrical networks and reconstruction of 10/6/0.4 kW electrical distribution networks.

As at 31 December 2017 and 2016, the cost of fully depreciated property, plant and equipment of the Group amounted to 6,342,857 thousand tenge and 4,930,976 thousand tenge, respectively.

As at 31 December 2017 and 2016, the property, plant and equipment of the Group with the carrying amount of 95,061,670 thousand tenge and 64,308,658 thousand tenge, respectively, were pledged as collateral on loans received from Sberbank of Russia SB JSC, Tsesnabank JSC, Development Bank of Kazakhstan JSC and Altyn Bank JSC (Note 24).

Other recognised property, plant and equipment impairment losses for the year were 169,862 thousand tenge. Losses occurred because the Group estimated non-current assets classified as held for sale at the lower of the residual value at the date of reclassification and the fair value less costs to sell. Impairment losses are included in the statement of profit and loss through other expenses (Note 11).

16. ADVANCES PAID

	31 December 2017	31 December 2016
Advances for non-current assets	2,006,894	1,123,157
Advances for capital repairs of property, plant and equipment	1,145,168	63,869
	3,152,062	**1,187,026**

As at 31 December 2017, long-term advances paid are mainly represented by advances to suppliers and contractors for the construction of substations, modernization and reconstruction of the high-voltage lines, as well as for capital repair of the property, plant and equipment.

Current advances paid are presented as follows:

	31 December 2017	31 December 2016
Advances for the delivery of materials and other assets	448,619	404,044
Advances for works and services	331,955	284,864
	780,574	**688,908**

(in thousands of Tenge, unless otherwise stated)

During 2017 and 2016, no allowance for doubtful debts was recognised.

17. TRADE ACCOUNTS RECEIVABLE

	31 December 2017	31 December 2016
Trade accounts receivable	10,361,757	8,243,013
Less: allowance for doubtful debts	(403,526)	(552,655)
	9,958,231	7,690,358

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

Movement in the allowance for doubtful debts is presented as follows:

	2017	2016
Allowance for doubtful debts at the beginning of the year	(552,655)	(455,889)
Accrued for the year (Note 8)	(54,019)	(348,653)
Written off for the year	14,020	113,472
Recovered for the year (Note 8)	182,045	138,415
Reclassified to assets held for sale	7,083	-
Allowance for doubtful debt as the end of the year	**(403,526)**	**(552,655)**

The Group recognises an allowance for doubtful debts of 100% against all accounts receivables ages over 1 year, as past experience shows that receivables not paid within this period is not recoverable. Allowances for doubtful debts are recognised against trade receivables between 30 days and 360 days based on estimated irrecoverable amounts determined by reference to past default experience and analysis of the counterparty's current financial position.

Trade receivables of the Group include amounts that are past due at the end of the reporting period (see aging analysis of receivables below) for which the Group has not recognised an allowance for doubtful debts because there has been no significant change in credit quality and the amounts are still considered recoverable. The Group has not recognised an allowance for receivables from related parties as management has no doubt about settlement of this receivable.

Below is the aging analysis of trade receivables that are past due but not impaired:

	31 December 2017	31 December 2016
Up to 30 days	8,001,930	2,262,527
30-60 days	677,841	3,878,279
60-90 days	301,163	864,594
Over 90 days	977,297	684,958
	9,958,231	7,690,358

The aging analysis of impaired trade receivables:

	31 December 2017	31 December 2016
30-60 days	16,404	30,365
60-90 days	14,615	40,276
More than 90 days	372,507	482,014
	403,526	552,655

As at 31 December 2017 and 2016, trade accounts receivable were denominated in tenge.

(in thousands of Tenge, unless otherwise stated)

18. INVENTORIES

	31 December 2017	31 December 2016
Raw materials	1,473,033	1,184,481
Fuel	1,720,402	850,912
Spare parts	487,959	396,252
Goods for resale	7,171	871
Other	134,631	10,522
Less: Provision for slow-moving and obsolete inventories	(37,110)	(5,150)
	3,786,086	2,437,888

An increase in inventories was mainly due to the acquisition of the subsidiaries Ust-Kamenogorsk CHP LLP and Mangistau Electricity Distribution Network JSC (Note 12), the balance of inventories of which as at 31 December 2017 was 1,263,205 thousand tenge and 253,914 thousand tenge, respectively.

19. OTHER CURRENT ASSETS

	31 December 2017	31 December 2016
Receivables from the sale of property, plant and equipment	1,898,594	-
Other taxes recoverable	353,037	42,687
Prepaid expenses	110,981	71,192
Other current assets	553,848	8,360,103
	2,916,460	8,473,982

As at 31 December 2017 and 2016, other current assets included interest-free financial aid provided to related parties of 71,000 thousand tenge and 8,139,000 thousand tenge, respectively (Note 30). The rest of other current assets were mainly represented by other accounts receivable and receivables from employees.

Receivables from the sale of property, plant and equipment include receivables from a related party of 1,709,449 thousand tenge (Note 30). No allowance for receivables from related parties was accrued as management of the Group has no doubt about settlement of this receivable.

20. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash on bank accounts, in tenge	2,774,081	891,942
Cash on saving accounts, in tenge	1,684,860	1,206,434
Cash on bank accounts, in US dollars	883,665	-
Cash on bank accounts, in Euro	824,517	-
Cash in transit, in tenge	158,929	202,408
Cash on hand, in tenge	95,855	58,157
Cash on brokers' accounts, in tenge	22,617	-
	6,444,524	2,358,941
Cash and cash equivalents included in the group of assets classified as held for sale (Note 21)	51,874	-
	6,496,398	2,358,941

(in thousands of Tenge, unless otherwise stated)

As at 31 December 2017, cash on saving accounts was represented by deposits in Sberbank of Russia SB JSC and Tsesnabank JSC. These deposits are denominated in tenge and are placed with an initial maturity of up to 12 months and interest rate of 7-8.5% and 11% per annum, respectively (31 December 2016: deposits in Sberbank of Russia SB JSC with interest rate of 8.3%). Withdrawal of cash from deposits is possible at any time, without loss of interest amount, except for minimum deposit balance of 51,000 thousand tenge.

21. ASSETS CLASSIFIED AS HELD FOR SALE

As at 31 December 2017, the Group classified assets of its subsidiary Sogrinsk CHP LLP into assets held for sale.

	31 December 2017
Assets of the subsidiary classified as held for sale	3,295,449
Less impairment of assets	(169,862)
Total assets classified as held for sale	3,125,587
Liabilities directly associated with assets classified as held for sale	(454,521)
Total	**2,671,066**
Intragroup loan from Shygys Energy LLP payable by SCHP	(421,675)
Total cost under purchase contract	**2,249,391**

On 14 December 2017, the Group entered into a purchase and sale agreement for a 100% interest in Sogrinsk CHP LLP with Long Life Energy FZE for the amount of 6,800 thousand US dollars (2,249,391 thousand tenge). Prepayment under this transaction of 5,100 thousand US dollars (1,684,430 thousand tenge) was made on 18 December 2017, the remaining amount of 1,700 thousand US dollars (564,961 thousand tenge) is payable within 5 working days from the date of re-registration of the acquired object in the relevant state body. The SCHP sale transaction was completed in the 1st quarter of 2018. Ownership and control were transferred to Long Life Energy FZE on 14 February 2018 from the date of Sogrinsk CHP LLP re-registration.

At the date of reclassification to assets held for sale and as at 31 December 2017, the Group recognised impairment loss of 169,862 thousand tenge (Note 11), as the management believes that the fair value (estimated based on the existing purchase contract) less costs to sell is below the carrying amount of these assets.

At the reporting date, the major classes of assets and liabilities of the business are as follows (taking into account the elimination of intra-group balances):

	31 December 2017
Current assets	
Cash and cash equivalents	51,874
Trade receivables	342,347
Inventories	243,876
Other current assets	54,204
Non-current assets	
Property, plant and equipment	2,429,110
Other non-current assets	4,176
Current liabilities	
Trade and other payables	(205,286)
Other current liabilities	(171,147)
Non-current liabilities	
Deferred tax liabilities	(39,122)
Other non-current liabilities	(38,966)
Net assets classified as held for sale	**2,671,066**

22. EQUITY

Charter capital

Kazakhstan Utility Systems LLP was incorporated on 3 November 2008. In 2015, the main participant of the Company made contributions to the charter capital of the Company of 6,834,100 thousand tenge, thus, the Charter capital was increased to 11,636,404 thousand tenge. As at 31 December 2017 and 2016, the charter capital of the Company amounted to 11,636,404 thousand tenge.

As at 31 December 2017 and 2016, the interests of each participant in the charter capital of the Group represented as follows:

	31 December 2017		31 December 2016	
Participant	**Amount, in thousands tenge**	**Share capital**	**Amount, in thousands tenge**	**Share capital**
M. K. Idrissova	11,636,403	99%	11,636,403	99%
Z. M. Ismailova	1	1%	1	1%
	11,636,404	**100%**	**11,636,404**	**100%**

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

No dividends by results of 2015 were declared or paid.

23. NON-CONTROLLING INTERESTS

Since the initial accounting for the acquisition of MEDNC, UK CHP and SCHP is not complete at the reporting date, the value of non-controlling interests recorded in the consolidated financial statements is provisional and may be adjusted during the measurement period (Note 12).

	2017
At the beginning of the year	-
Non-controlling interests in profit for the year	-
Non-controlling interests arising on the acquisition of subsidiary (Note 12)	11,497,333
At the end of the year	**11,497,333**

(in thousands of Tenge, unless otherwise stated)

24. LOANS AND BONDS

	31 December 2017	31 December 2016
Development Bank of Kazakhstan JSC	18,380,131	22,249,633
Sberbank of Russia SB JSC	13,200,864	13,659,299
Bonds issued	7,656,271	-
Bank CenterCredit JSC	7,178,040	-
Halyk Savings Bank of Kazakhstan JSC	4,765,166	-
Altyn Bank JSC	4,507,568	-
Tsesnabank JSC	350,000	972,430
Other loans	497,299	-
Interest payable	673,391	256,878
	57,208,730	**37,138,240**
Unamortised part of one-off origination fee	(59,851)	(80,790)
	57,148,879	**37,057,450**
Less current portion of loans maturing within 12 months	(15,752,223)	(11,949,582)
	41,396,656	**25,107,868**

Loans and issued bonds mature as follows:

	31 December 2017	31 December 2016
On demand or within one year	15,752,223	11,949,582
One to two years	11,788,666	8,647,638
Two to three years	9,456,677	5,899,891
Three to five years, inclusive	13,560,347	7,739,002
Above 5 years	6,650,817	2,902,127
	57,208,730	**37,138,240**

Reconciliation of liabilities arising from financing activities

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

			Non-cash changes		
	1 January 2017	Financing cash flows (i)	Acquisition of subsidiaries (Note 12)	Other changes (ii)	31 December 2017
Loans	(37,057,450)	4,720,971	(17,601,905)	469,074	(49,469,310)
Bonds issued	-	(882,446)	(6,799,526)	2,403	(7,679,569)
Other borrowings (Note 27)	(1,377,370)	149,276	-	142,094	(1,086,000)
	(38,434,820)	**3,987,801**	**(24,401,431)**	**613,571**	**(58,234,879)**

(i) The cash flows from loans, bonds and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the consolidated statement of cash flows.

(ii) Other changes include interest accruals and payments, amortisation of one-off origination fee, effect of loan interest rate revision and offset transactions.

Development Bank of Kazakhstan JSC

On 19 June 2012, the Group, represented by a subsidiary Karaganda Energocentre LLP, opened a credit line in Development Bank of Kazakhstan JSC totalling 200,000 thousand US dollars to finance investment project for the construction of a power-generating unit. The credit line consists of cash financing of 135,000 thousand US dollars to cover a letter of credit for the purposes of payment under the power-generating unit construction contract with KB China Machinery Engineering Corporation. The loan is repayable in equal quarterly instalments within 10 years period starting from 15 August 2015 until 2022. Interest was set at 7% per annum and repayable on a quarterly basis. Financing under this credit line is provided in tenge. As at 31 December 2017, payables to the supplier, KB China Machinery Engineering Corporation, was repaid in full. The loan was secured by property, plant and equipment of the Company with the carrying amount of 64,148,595 thousand tenge (31 December 2016: 28,914,512 thousand tenge) (Note 15).

As at 31 December 2017, the outstanding balance of the principal amount of Karaganda Energocentre LLP payable to Development Bank of Kazakhstan JSC was 18,380,131 thousand tenge.

Sberbank of Russia SB JSC

On 30 July 2015, the Group, represented by a subsidiary Karaganda Energocentre LLP, entered into agreement on opening a non-revolving credit line with Sberbank of Russia SB JSC for the reimbursement of investment costs under the investment project "Expansion of Karaganda CHP-3" for a period of 5 years until 30 July 2020. Interest was set at 13.75% per annum, with monthly repayment of interest and principal. As at 31 December 2017, the outstanding balance under this loan was 3,825,091 thousand tenge.

On 10 March 2017, the Group, represented by the parent company Kazakhstan Utility Systems LLP, received a loan of 6,638,820 thousand tenge from Sberbank of Russia SB JSC for the acquisition of a 100% interest in Heat & Power Holding B.V. (formerly Middelzee Holding B.V.), under a purchase contract dated 13 January 2017 between the parent company and Arnika Beteiligungsverwaltungs GmbH, with the fixed interest rate of 12.5%. The quarterly repayment of principal and interest under the tranche started from 17 July 2017 with maturity until 10 March 2024. As at 31 December 2017, the outstanding principal balance was 6,392,937 thousand tenge.

This loan is secured by 70% of the Company's shares in Shygys Energy LLP and Heat & Power Holding B.V. and property, plant and equipment of Karagandy Zharyk LLP with the carrying amount of 10,139,368 thousand tenge.

The loans of the Group, represented by a subsidiary Karagandy Zharyk LLP, from Sberbank of Russia SB JSC are represented by a credit line opened on 29 June 2015 to finance the reconstruction, technical re-equipment and modernisation of property, plant and equipment under the Investment Program for 2016-2020. For 2017 and 2016, the effective interest rate under this credit line was 10.98%. As at 31 December 2017, the outstanding balance under this loan was 2,982,836 thousand tenge. During 2017, there were no changes in the terms of this loan. This loan is secured by property, plant and equipment with carrying amount of 10,139,368 thousand tenge (31 December 2016: 34,376,684 thousand tenge) (Note 15).

Guarantors for the loans received from Development Bank of Kazakhstan JSC and Sberbank of Russia SB JSC are D. A. Idrissov and M. K. Idrissova. Guarantor under the loan agreement between Sberbank of Russia SB JSC and Karaganda Energocentre LLP is also Development Bank of Kazakhstan JSC.

Tsesnabank JSC

On 11 December 2013, the Group, represented by a subsidiary Energopotok LLP, jointly with Ontustik Zharyk Transit LLP and Ontustik Zharyk LLP entered into an agreement with Tsesnabank JSC for the provision of overdrafts with a credit limit of 800,000 thousand tenge for replenishment of working capital for a period of 12 months, with a fixed interest rate of 9% per annum. The amount of principal and interest accrued are repayable on monthly basis. On 16 July 2014, the Group signed an addendum to this agreement with a renewable limit of 1,400,000 thousand tenge and an extension of the period until 7 June 2017. In addition, on 1 July 2017, the Group signed an addendum to this agreement to extend the period until 7 July 2018.

Under this agreement, as at 31 December 2017, the Group's obligation, represented by a subsidiary Ontustik Zharyk Transit LLP, was repaid in full. In addition, during 2017 under this agreement, the Group, represented by a subsidiary Energopotok LLP, received cash of 450,000 thousand tenge and repaid 100,000 thousand tenge. As at 31 December 2017, the outstanding balance on this loan was 350,000 thousand tenge.

During the reporting period, the Group, represented by a subsidiary Ontustik Zharyk Transit LLP, repaid the obligation to Tsesnabank JSC of 393,939 thousand tenge under the General Loan Agreement dated 8 October 2014. As at 31 December 2016, this loan is secured by property, plant and equipment of Ontustik Zharyk Transit LLP of 1,017,462 thousand tenge (Note 15).

Bank CenterCredit JSC

On 1 February 2017, the Group, represented by a subsidiary Ontustik Zharyk Transit LLP, with the Bank CenterCredit JSC entered into a credit line agreement of 2,400,000 thousand tenge for a period of 48 months. The interest rate was set at 13.7% per annum. The principal amount and interest are repaid on monthly basis, the principal is repaid in equal instalments. The purpose of the loan is the overhead power lines reconstruction and equipment modernisation. This loan is secured by property, plant and equipment of Ontustik Zharyk Transit LLP with the carrying amount of 3,831,659 thousand tenge (Note 15). As at 31 December 2017, the outstanding balance of the principal was 1,911,538 thousand tenge.

As at 31 December 2017, the Group's loan with outstanding principal of 5,266,502 thousand tenge from Bank CenterCredit JSC is represented by the loan of the acquired subsidiary MEDNC JSC, which was received on 4 August 2016 for a total amount of 6,400,000 thousand tenge for a period of 7 years. The loan was granted for the purposes of the investment program implementation. The interest rate was 17% per annum. Principal is repaid in equal instalments.

Altyn Bank JSC

As at 31 December 2017, the Group's loans from Altyn Bank JSC were represented by loans of the acquired subsidiary Ust-Kamenogorsk CHP LLP. On 14 March 2016, Ust-Kamenogorsk CHP LLP entered into a credit line agreement with Altyn Bank JSC with interest rate of 20% per annum and maturity in 2021. On 25 March 2016, the entity received a loan of 5,519,800 thousand tenge under an agreement to finance turbine No.12 construction.

As at the date of obtaining control over Ust-Kamenogorsk CHP LLP (Note 12), the Group recorded this loan at its fair value discounted at market interest rate of 15.7%.

On 25 August 2017, an addendum was concluded to change the interest rate to 12.5% per annum. The Group paid a fee of 48,704 thousand tenge for changing the loan terms. As at 31 December 2017, the outstanding balance of this loan was 4,507,568 thousand tenge.

Halyk Savings Bank of Kazakhstan JSC

As at 31 December 2017, the loans of the Group from Halyk Savings Bank of Kazakhstan JSC are represented by loans of the acquired subsidiary Ust-Kamenogorsk CHP LLP. On 10 February 2016, subsidiary Ust-Kamenogorsk CHP LLP entered into credit line agreement with Halyk Savings Bank of Kazakhstan JSC with the interest rate of 20% per annum and with the maturity in 2021. In 2016, the entity received 5,519,800 thousand tenge under this agreement to finance turbine No.12 construction and replenishment of working capital.

As at the date of obtaining control over Ust-Kamenogorsk CHP LLP (Note 12), the Group recorded this loan at its fair value discounted at market interest rate of 15.7%.

On 24 August 2017, an addendum was concluded to change the interest rate to 12.5% per annum. The Group paid a fee of 51,748 thousand tenge for changing the loan terms. As at 31 December 2017, the outstanding balance of this loan was 4,765,166 thousand tenge.

Loans from Altyn Bank JSC and Halyk Savings Bank of Kazakhstan JSC are secured by property, plant and equipment in the form of movable and immovable property of 16,942,048 thousand tenge (Note 15).

Bonds issued

In January 2017, the Group, represented by the parent company, issued unsecured debt securities for the amount of 851,546 bonds at a price of 1 thousand tenge per bond for a period of 4.3 years. The fixed annual coupon rate is 15%.

As at 31 December 2017, the remaining part of the Group's obligations under the bonds is represented by the borrowings of the acquired subsidiary MEDNC JSC. In April 2013, MEDNC JSC issued and placed 1,680,000 thousand coupon bonds of the sixth issue, denominated in tenge, at a par value of 1 tenge, with a discount of 108,103 thousand tenge and interest rate of 8% per annum. The bonds of the sixth issue were issued without security on the Kazakhstan Stock Exchange and were purchased by Samruk-Energy JSC.

During 2014, MEDNC JSC issued and placed 2,400,000 thousand coupon bonds of the seventh issue, denominated in tenge, at a par value of 1 tenge, with a discount of 178 thousand tenge and interest rate of 9%. Bonds of the seventh issue were issued without security on the Kazakhstan Stock Exchange and were purchased by BCC Invest JSC, a subsidiary of Bank CenterCredit JSC.

During 2015, MEDNC JSC issued and placed 2,464,500 thousand coupon bonds indexed to US dollars of the eighth issue at par value of 1 tenge, with a discount of 160,143 thousand tenge and at interest rate of 8% per annum. The bonds of the eighth issue were issued without security on the Kazakhstan Stock Exchange and were purchased by ZIM CAPITAL JSC. The bonds were issued for the purpose of financing the approved investment program for 2013-2015.

As at the date of gaining control over MEDNC JSC (Note 12), the Group recorded MEDNC JSC bonds in the consolidated financial statements at their fair value discounted at market interest rate of 15.5%.

In June 2017, MEDNC JSC issued and placed 1,500,000 thousand short-term coupon bonds of the ninth issue at par value of 1 tenge, maturing in 12 months since the date of issue - in June 2018, with the interest rate of 15% per annum. Bonds of the ninth issue were issued without security on the Kazakhstan Stock Exchange and were purchased by 18 holders, the main of which are: Centras Securities JSC, Nomad Life JSC, BCC Invest JSC, IC Nomad Insurance JSC and Tsesna Garant JSC, who are holders of 1,105,317 bonds (73.7%). The share of the remaining holders individually do not exceed 4% of the total number of issued bonds of the ninth issue.

Other loans

Loans from consumers

Other loans are loans of the acquired subsidiary MEDNC JSC. In accordance with decision No. 1044 of the Republic of Kazakhstan Government dated 8 October 2004, the MEDNC JSC received funds from customers for the construction of power transmission network or the current infrastructure reconstruction. Such funds are interest-free and due for repayment within twenty five years. The funds received from customers are initially recognised at their fair value determined using the effective interest rate method at the prevailing market rate (2009: 16%, 2008: 16% and 2007: 12%), and subsequently recognised at amortised cost in long-term loans. As at 31 December 2017, the amount of loans from consumers for connection of additional capacity was 497,299 thousand tenge. The difference between the funds received and its fair value is recognised as deferred income (Note 25).

(in thousands of Tenge, unless otherwise stated)

As at 31 December 2017 and 2016, all loans of the Group are denominated in tenge, except for indexed bonds. The indexed bonds of the eighth issue are denominated in tenge, however their nominal value is adjusted for the change in the US dollar exchange rate against the tenge.

As at 31 December 2017 and 2016, The Group had no delays in principal and interest payments on loans and bonds.

Compliance with loan covenants

Under the loan agreements, the Group has to comply with financial and non-financial covenants. Management believes that the companies within the Group and the Group itself fully comply with the restrictive terms of the loan agreements with the Development Bank of Kazakhstan JSC, Tsesnabank JSC, Bank CenterCredit JSC, Altyn Bank JSC and Halyk Savings Bank of Kazakhstan JSC. As at 31 December 2017, with respect to two financial covenants, Debt/(EBITDA-CAPEX) and Total CAPEX of the Group Companies, the Group received a waiver confirming non-application of covenants and non-application of penalties under the loan agreement concluded between Kazakhstan Utility Systems LLP and Sberbank of Russia SB JSC. The Group is in the process of negotiating of new thresholds for 2018 with the bank.

25. OTHER NON-CURRENT LIABILITIES

	31 December 2017	31 December 2016
Accounts payable for MEDNC shares	1,558,024	-
Deferred income	1,418,085	-
Other	353,558	112,048
	3,329,667	**112,048**

Deferred income is mainly represented by deferred income of MEDNC JSC of 1,397,523 thousand tenge (Note 24).

Accounts payable for MEDNC shares are represented by the non-current portion of the accounts payable of Kazakhstan Utility Systems LLP for the purchase of Mangistau Electricity Distribution Network JSC shares (Note 12).

26. TRADE ACCOUNTS PAYABLE

	31 December 2017	31 December 2016
Trade payables for goods and services	3,655,926	4,584,184
Trade payables for property, plant and equipment	1,255,908	233,185
	4,911,834	**4,817,369**

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 2017	31 December 2016
Tenge	4,868,919	4,811,996
US Dollars	29,337	2,772
Russian roubles	13,578	2,601
	4,911,834	**4,817,369**

(in thousands of Tenge, unless otherwise stated)

27. OTHER ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	31 December 2017	31 December 2016
Advances received	4,577,997	1,978,869
Current portion of payables for MEDNC shares (Note 12)	909,130	-
Salary payable	741,647	566,724
Provision for unused vacation	582,713	556,324
Other accounts payable	1,747,133	1,613,848
	8,558,620	**4,715,765**

The advances received include an advance of 5,100 thousand US dollars (1,682,059 thousand tenge at the exchange rate at the date of advance receipt) received by the subsidiary Heat & Power Holding B.V. from Long Life Energy FZE for the sale of a 100% interest in Sogrinsk CHP LLP (Notes 21 and 33).

Other accounts payable are mainly represented by interest-free short-term loans received from third parties of 1,086,000 thousand tenge (2016: 1,377,370 thousand tenge).

28. OTHER TAXES PAYABLE

	31 December 2017	31 December 2016
Valued added tax	1,599,390	1,098,244
Obligations for pension contributions	151,516	106,442
Individual income tax	105,415	75,791
Other taxes	323,396	196,391
	2,179,717	**1,476,868**

29. EMPLOYEE BENEFITS

In accordance with the Law of the Republic of Kazakhstan On Pension Benefits in the Republic of Kazakhstan effective from 1 January 1998, which replaced solidary pension system with the accumulation pension system, all employees are entitled to a guaranteed pension proportional to the length of their service, if any, as 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 183,435 tenge per month (2016: 171,443 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 2017 and 2016, 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.

30. 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.

(in thousands of Tenge, unless otherwise stated)

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

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

The nature of related party relationships for those related parties with which the Group entered into significant transactions or had significant balances outstanding as at 31 December 2017 and 2016 are detailed below.

For the years ended 31 December 2017 and 2016, the Group had trading operations and operations on sale of assets with the following related parties:

	Purchases	
	2017	2016
Related parties	231,768	68,589

	Other accounts receivable		Other accounts payable	
	2017	2016	2017	2016
Related parties	1,709,449	-	131,327	68,589

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

As at 31 December 2017, other receivables arose from the sale of the Group's assets of 1,589,812 thousand tenge (excluding VAT) to a related party whose primary business is asset management. The assets were sold at a price close to the residual cost at the date of sale. This debt with aging of 3-6 months is not secured. The Group did not recognise a provision for this debt, as management has no doubt about the settlement of these receivables.

Other transactions

As at 31 December 2017, a financial aid given to the related party, D. A. Idrissov, amounted to 11,000 thousand tenge (2016: 7,639,000 thousand tenge). During 2018, D. A. Idrissov repaid the financial aid of 7,628,000 thousand tenge.

As at 31 December 2017, the Group provided a short-term repayable interest free financial aid to the related party, Ordabasy Group LLP, of 60,000 thousand tenge (31 December 2016: 500,000 thousand tenge). During 2017, the amount of financial aid repaid by Ordabasy Group LLP was 500,000 thousand tenge.

This financial aid given to related parties is not secured. It is repayable and is due for repayment in cash until 31 December 2018.

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 2017 and 2016 amounted to 193,590 thousand tenge and 181,038 thousand tenge, respectively.

(in thousands of Tenge, unless otherwise stated)

31. FINANCIAL INSTRUMENTS

Capital management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximizing the return to the participants through the optimization of the debt and equity balance. The strategy of the Group did not change in comparison to 2016.

The capital structure of the Group consists of the charter capital, non-controlling interests, as described in Notes 22 and 23, additional paid-in capital and retained earnings.

Significant accounting policies

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

Financial instrument categories

As at 31 December 2017 and 2016, financial instruments were presented as following:

	31 December 2017	31 December 2016
Financial assets		
Long-term accounts receivable	31,264	-
Trade accounts receivable	9,958,231	7,690,358
Other current assets (excluding prepaid expenses and other taxes recoverable)	2,452,442	8,360,103
Cash and cash equivalents	6,444,524	2,358,941
Financial liabilities		
Bank loans (current and non-current portions)	57,148,879	37,057,450
Other non-current liabilities	1,911,582	112,048
Trade accounts payable	4,911,834	4,817,369
Other accounts payable and accrued liabilities (excluding advances received, provisions for unused vacation and salaries payable)	2,656,263	1,613,848

Financial risk management objectives

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

Credit risk management

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

Credit risk primarily relates to trade accounts receivable (Note 17), cash and bank deposits (Note 20) and other current assets. The Group does not expect its counterparties to default, except for contractors, for which the Group has established an allowance for 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.

(in thousands of Tenge, unless otherwise stated)

The Group places deposits in Kazakhstan and foreign banks. Management of the Group periodically reviews credit ratings of these banks in order to exclude credit risks. Accordingly, the allowance for impairment of bank deposits is not required.

		Rating		At 31 December	
Banks	**Location**	**2017**	**2016**	**2017**	**2016**
Sberbank SB JSC	Republic of Kazakhstan	BB-	-	2,621,259	1,383,138
ABLV Bank	Republic of Latvia	-	-	1,684,430	-
Altyn Bank JSC	Republic of Kazakhstan	BB	BB	596,721	-
Tsesnabank JSC	Republic of Kazakhstan	B+	B+	587,428	165,183
Bank CenterCredit JSC	Republic of Kazakhstan	B	B	295,388	-
Others	Republic of Kazakhstan, USA	-	-	404,514	550,055
				6,189,740	**2,098,376**

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

The Group did not analyse the credit rating of ABLV Bank, which is located in Latvia, as the Group's cash placed with this bank received from the sale of the subsidiary (Note 21) was transferred as a loan to a related party on 5 January 2018 (Note 33).

Market risk

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

Currency risk management

As at 31 December 2017 and 2016, the carrying amounts of the Group's accounts payable and cash, denominated in foreign currencies, and bonds indexed to the US dollars are as follows:

	US dollars		Euro	
	31 December 2017	**31 December 2016**	**31 December 2017**	**31 December 2016**
Cash	883,665	-	824,517	-
Accounts payable	29,337	2,772	-	-
Bonds indexed to US dollars	2,369,381	-	-	-

Foreign currency sensitivity analysis

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

The following table details the Group's sensitivity to a 20% increase and decrease in tenge against the relevant foreign currencies. 20% is the sensitivity rate used in internal foreign currency risk reports to the key management and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 20% change in foreign currency rates. The sensitivity analysis includes a) 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.

(in thousands of Tenge, unless otherwise stated)

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

	US dollar impact		Euro impact	
	2017	2016	2017	2016
Cash	(176,733)	-	(164,903)	-
Accounts payable	5,867	554	-	-
Bonds indexed to US dollars	473,876	-	-	-

Interest rate risk policy management

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

Liquidity risk management

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

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

(in thousands of Tenge, unless otherwise stated)

	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
		18,409,402	-	-	18,409,402
Loans	7%-13.75%	(14,677,226)	(30,443,759)	(3,884,200)	(49,005,185)
Trade accounts payable	-	(4,817,369)	-	-	(4,817,369)
Other non-current liabilities	-	-	(112,048)	-	(112,048)
Other accounts payable and accrued liabilities	-	(1,613,848)	-	-	(1,613,848)
		(21,108,443)	(30,555,807)	(3,884,200)	(55,548,450)
		(2,699,041)	(30,555,807)	(3,884,200)	(37,139,048)

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. As no readily available market exists for a large part of the Company's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument.

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

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

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.

(in thousands of Tenge, unless otherwise stated)

As at 31 December 2017, 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 2017	Fair value as at 31 December 2017
Financial liabilities recognised at amortised cost:		
Long-term bank loans (Level 2)	57,148,879	54,628,161

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.

32. CONTINGENT LIABILITIES

Contractual commitments

As at 31 December 2017, contractual commitments for purchase of property, plant and equipment and capital investments amounted to 6,248,622 thousand tenge (31 December 2016: 3,734,442 thousand tenge).

Under the MEDNC shares purchase transaction, on 20 September 2017 (Note 12), the Group and KBI Energy LLP entered into a contract with Samruk-Energy JSC for the redemption of the sixth issue of MEDNC bonds totalling 1,253,250 items (626,625 items to each buyer) owned by Samruk-Energy JSC. The contract amount was 1,538,402 thousand tenge and is to be paid in equal instalments during 2020-2023. This obligation was not accounted for when determining the amount of consideration payable, as the ownership for these bonds passes to the buyer from the date of starting payment of the purchase price, i.e. from 2020.

Operating environment

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

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2016, the oil price decreased significantly, which led to significant decrease in national export revenue.

Management of the Group is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future. However, the impact of further economic developments on future operations and consolidated financial position of the Group may be significant.

Taxation and regulatory environment

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

Regulation of activity

The activity of a subsidiary Karaganda Energocentre LLP is regulated by the Law of the Republic of Kazakhstan (RK) On Natural Monopolies because it is the monopolist in the area of thermal power production, and by the Law of RK On Electric Power for the electricity production. According to the laws, tariffs for the production of thermal power 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 activities of the subsidiaries Ust-Kamenogorsk CHP LLP and Sogrinsk CHP LLP are regulated by the Law of RK On Natural Monopolies as they are monopolists in the area of thermal power production, and by the Law of RK On Electric Power for the electricity production. According to the laws, tariffs for the production of thermal power 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 the Business Code of RK ("Code"), as the entity is the monopolist in the distribution of thermal power and a dominant in the area of electricity supply. According to this law and the Code, tariffs for thermal power supply are subject to approval by the Committee, and tariffs for electricity supply are subject to agreement with the Committee.

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

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

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

Investment programs

On 18 August 2015, in relation to Ust-Kamenogorsk CHP LLP, the Department of the Committee approved, upon agreement with Energy, Housing and Utilities Administration of the East-Kazakhstan Region ("Energy, Housing and Utilities Administration"), an investment program for 2016-2020 in the amount of 5,465,806 thousand tenge. The amount of investment commitments indicated in the program for 2017, taking into account adjustments approved by the Department of the Committee and agreed with the Energy, Housing and Utilities Administration, was 1,142,518 thousand tenge due to the sale of thermal power.

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

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

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

Terms of loan agreements

Under the loan agreements, the Group has to comply with financial and non-financial covenants. Management believes that the companies within the Group and the Group itself fully comply with the restrictive terms of the loan agreements with the Development Bank of Kazakhstan JSC, Tsesnabank JSC, Bank CenterCredit JSC, Altyn Bank JSC and Halyk Savings Bank of Kazakhstan JSC. As at 31 December 2017, with respect to two financial covenants, Debt/(EBITDA-CAPEX) and Total CAPEX of the Group, the Group received a waiver confirming non-application of covenants and non-application of penalties under the loan agreement concluded between Kazakhstan Utility Systems LLP and Sberbank of Russia SB JSC. The Group is in the process of negotiating of new thresholds for 2018 with the bank.

Legal claims

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

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

33. EVENTS AFTER THE REPORTING DATE

Acquisition of additional shares of a subsidiary Mangistau Electricity Distribution Network Company JSC

On 11 January 2018, the Group, represented by the parent company, acquired additional 136,090 common shares (6.77%) of the subsidiary MEDNC JSC for 272,181 thousand tenge from Unified Accumulative Pension Fund JSC.

Thus, as at the date of issue of these consolidated financial statements, the Group owned 50.19% of the outstanding shares of MEDNC JSC with 52.63% of voting shares.

Issue of loans

On 5 January 2018, the Group, represented by a subsidiary Heat & Power Holding B.V., issued a loan to a related party (Dragon Fortune PTE. LTD) of 5,100 thousand US dollars based on a loan agreement dated 29 December 2017, with interest rate of 2% per annum and maturity until 18 December 2018.

Loans received

During the first half of 2018, a subsidiary Mangistau Electricity Distribution Network Company JSC repaid the outstanding loan received from Bank CenterCredit JSC of 5,266,502 thousand tenge and interest of 298,740 thousand tenge by entering on 16 March 2018 into a loan agreement with the European Bank for Reconstruction and Development. This loan agreement was concluded with the intention to repay previously existed loan from Bank CenterCredit JSC and finance the investment program of a subsidiary MEDNC JSC. The total amount of the loan agreement is 14,000,000 thousand tenge, of which 7,000,000 thousand tenge was allocated to refinance the loan from Bank CenterCredit JSC, 1,500,000 thousand tenge was allocated to repay commercial bonds and the remaining amount was allocated to finance the investment program of MEDNC JSC.

On 21 February 2018, the Group, represented by Karaganda Energocentre LLP, concluded addendums to assets pledge contracts with Development Bank of Kazakhstan JSC. According to addendums, property, plant and equipment pledge contracts of Karaganda Energocentre LLP, concluded to secure the Group's obligations to Development Bank of Kazakhstan JSC (Notes 15 and 24), cover the security of obligations of YDD Corporation LLP to Development Bank of Kazakhstan JSC under a credit line agreement of 24,120,000 thousand tenge concluded on 16 February 2018.

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

- of up to 12,962,500 thousand Russian roubles, at interest rate of 10.75% per annum and for a period of up to 24 months (Agreement 1) to provide a loan to Ansagan Petroleum JSC for further refinancing of the earlier received loan from Halyk Bank JSC;
- of up to 12,962,500 thousand Russian roubles, at interest rate of 11.5% per annum and for a period of up to 84 months (Agreement 2) to refinance the above credit line under the Agreement 1. The availability period under Agreement 2 is until 14 June 2020;
- of up to 1,320,000 thousand Russian roubles, at interest rate of 10.75% per annum and for a period of up to 60 months (Agreement 3) to provide loans to subsidiaries to finance investment costs.

These credit lines were secured by collaterals.

On 28 May 2018, the Company received a part of cash under Agreement 1, which was allocated to provide a loan to Ansagan Petroleum JSC.

Earlier, on 1 February 2018, the Group, represented by the parent company, provided a full joint guarantee to secure the obligations of the related party Ansagan Petroleum JSC to Halyk Bank of Kazakhstan JSC.

Tariffs

From 1 January 2018, the Group has agreed with the Committee an increase in tariffs for electricity transmission and distribution services from 6.32 to 6.60 tenge per kWh (in the South-Kazakhstan region) and from 4.54 to 4.63 tenge per kWh (in the Mangistau region), for electricity supply tariff of Energopotok LLP from 17.54 to 18.83 tenge per kWh (in the South-Kazakhstan region), of Raschetny Servisny Tsentr LLP from 16.11 to 16.65 tenge per kWh, and Karaganda ZhyluSbyt LLP from 14.21 to 14.27 tenge per kWh (in the Karaganda region), for thermal power supply from 3,656.43 to 3,830.48 tenge per Gcal (in the Karaganda region), for thermal power production from 1,479.42 to 1,604.71 tenge per Gcal (in the Karaganda region) and from 2,348.1 to 2,682.56 tenge per Gcal (in the East-Kazakhstan region).

34. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements for the year ended 31 December 2017 were approved by management of the Group and authorized for issue on 31 May 2018.