Kazakhstan Electricity Grid Operating Company JSC

Consolidated financial statements

For the year ended 31 December 2017
with independent auditor's report

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Independent auditor's report

To the Shareholders of Kazakhstan Electricity Grid Operating Company JSC

Opinion

We have audited the consolidated financial statements of Kazakhstan Electricity Grid Operating Company JSC and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	*How our audit addressed the key audit matter*
Recoverability of financial assets	
The measurement of cash and deposits held with banks and other financial assets from third parties, was the most significant matter in our audit taking into account its amount, management judgement involved and financial difficulties which Delta Bank JSC, KazInvest Bank JSC, RBK Bank JSC and Eximbank Kazakhstan JSC faced in 2017. The Group's disclosure in respect of the measurement of financial assets is included in Note 4 to the consolidated financial statements, and detailed trade accounts receivable and other financial assets disclosures are included in *Notes 9* and *11* to the consolidated financial statements, respectively.	We analyzed available information on plans for these banks' financial rehabilitation, additional clarifications from the Group's management and evaluated the management assumptions used in measurement of assets placed with these banks. In addition, we analyzed management assumptions used in determination of the amount of allowance for doubtful financial assets in relation to alternative methods of the financial assets recovery, information on accounts receivable aging structure and settlements before and after the reporting date. We have also analyzed uncertainties impacting classification of these assets as at reporting date. We assessed the completeness and correctness of information disclosed in the consolidated financial statements.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

From the matters communicated with the Audit Committee, we determine this matter was the most significant in the audit of the consolidated financial statements of the current period and are therefore the key audit matter. We describe this matter in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Paul Cohn.

Ernst & Young LLP

Paul Cohn
Audit Partner

Adil Syzdykov
Auditor

Auditor Qualification Certificate
No. МФ - 0000172 dated 23 December 2013

Gulmira Turmagambetova
General Director
Ernst & Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2, No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

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28 February 2018

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	6	**535,294,178**	500,914,390
Intangible assets		**1,038,637**	855,032
Advances paid for non-current assets	6	**742,325**	664,471
Deferred tax asset	28	**2,252**	1,093
Investments in associate	7	**782,081**	304,954
Long-term receivables from related parties	29	**1,009,981**	1,267,287
Other financial assets, non-current portion	11	**1,091,823**	–
Other non-current assets		**17,129**	11,009
		539,978,406	504,018,236
Current assets			
Inventories	8	**1,875,434**	1,686,312
Trade accounts receivable	9	**7,764,693**	15,746,830
VAT recoverable and other prepaid taxes		**961,745**	309,268
Prepaid income tax		**1,584,041**	734,349
Other current assets	10	**652,589**	477,988
Other financial assets, current portion	11	**25,107,392**	61,403,727
Restricted cash	12	**3,445,617**	15,626,798
Cash and cash equivalents	13	**47,577,783**	32,055,378
		88,969,294	128,040,650
Total assets		**628,947,700**	632,058,886

The accounting policies and explanatory notes on pages 7 to 53 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of Tenge	Notes	31 December 2017	31 December 2016
Equity and liabilities			
Equity			
Share capital	14	**126,799,554**	126,799,554
Treasury shares	14	**(930)**	(930)
Asset revaluation reserve	14	**220,858,720**	220,890,374
Other reserves	14	**(170,701)**	(170,701)
Retained earnings		**26,680,917**	14,565,773
		374,167,560	362,084,070
Non-current liabilities			
Borrowings, non-current portion	15	**64,229,182**	95,143,995
Bonds payable, non-current portion	16	**83,649,023**	47,368,104
Deferred tax liability	28	**66,666,573**	66,807,914
Trade and other accounts payable, non-current portion	17	**298,327**	2,417,810
Government grant, non-current portion	18	**100,786**	–
Finance lease obligations, non-current portion		**8,961**	–
		214,952,852	211,737,823
Current liabilities			
Borrowings, current portion	15	**9,502,895**	27,334,944
Bonds payable, current portion	16	**4,407,719**	5,251,917
Trade and other accounts payable, current portion	17	**18,763,337**	16,981,635
Construction obligation		**683,430**	683,430
Advances received		**2,048,415**	1,042,525
Government grant, current portion	18	**27,487**	–
Finance lease obligations, current portion	29	**3,996**	–
Taxes payable other than income tax	20	**958,525**	3,340,265
Income tax payable		**5,385**	628,322
Dividends payable		**87**	44
Other current liabilities	21	**3,426,012**	2,973,911
		39,827,288	58,236,993
Total liabilities		**254,780,140**	269,974,816
Total equity and liabilities		**628,947,700**	632,058,886
Book value per ordinary share (in Tenge)	14	**1,435**	1,389

Chairman of the Management Board

Kazhiyev B.T.

Chief Accountant

Mukanova D.T.

The accounting policies and explanatory notes on pages 7 to 53 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

In thousands of Tenge	Notes	2017	2016
Revenue	22	**152,379,817**	130,001,433
Cost of sales	23	**(89,399,369)**	(79,388,774)
Gross profit		**62,980,448**	50,612,659
General and administrative expenses	24	**(13,142,395)**	(17,640,430)
Selling expenses		**(246,651)**	(215,008)
Impairment of property, plant and equipment	6	**(196,982)**	(79,820)
Operating profit		**49,394,420**	32,677,401
Finance income	25	**3,593,207**	6,535,086
Finance costs	25	**(4,523,948)**	(6,057,909)
Foreign exchange (loss)/gain	26	**(4,356,244)**	2,346,713
Share of income of associates	7	**477,127**	75,049
Impairment of other financial assets	11	**(2,241,155)**	(645,891)
Loss from disposal of non-current assets held for sale		**–**	(85,802)
Other income	27	**506,849**	1,413,198
Other expenses		**(208,562)**	(282,998)
Profit before tax		**42,641,694**	35,974,847
Income tax expense	28	**(9,760,378)**	(8,384,696)
Profit for the year		**32,881,316**	27,590,151
Total comprehensive income for the year		**32,881,316**	27,590,151
Earnings per share			
Basic and diluted profit for the year attributable to ordinary equity holders of the parent company (in Tenge)	14	**126.47**	106.12

Chairman of the Management Board — *Kazhiyev B.T.*

Chief Accountant — *Mukanova D.T.*

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

In thousands of Tenge	Notes	2017	2016
Operating activities			
Profit before tax		**42,641,694**	35,974,847
Adjustments to reconcile profit before tax to net cash flows			
Depreciation and amortisation		**22,935,831**	22,723,743
Finance costs	25	**4,523,948**	6,057,909
Finance income	25	**(3,593,207)**	(6,535,086)
Unrealized foreign exchange loss/(gain), net		**4,356,244**	(2,346,713)
Changes in allowance for doubtful accounts receivable and impairment of advances paid and other current assets	24	**(1,044,203)**	1,290,214
Allowance for obsolete inventories	24	**86,128**	385,867
Impairment of other financial assets	11	**2,241,155**	645,891
Loss on disposal of property, plant and equipment and intangible assets		**21,978**	127,621
Impairment of property, plant and equipment	6	**196,982**	79,820
Income from receipt of granted fixed assets	27	**–**	(872,939)
Share of income of associate		**(477,127)**	(75,049)
Income from amortization of government grants		**(9,162)**	–
Interest income from other financial assets		**(30,248)**	–
Loss from disposal of non-current assets held for sale		**–**	85,802
Working capital adjustments			
Change in inventories		**(259,801)**	(89,826)
Change in trade accounts receivable		**9,013,514**	7,079,287
Change in VAT recoverable and other prepaid taxes		**(652,080)**	(13,649)
Change in other current assets		**(199,879)**	(292,760)
Change in trade and other accounts payable		**1,065,361**	(1,343,918)
Change in advances received		**1,005,890**	291,359
Change in taxes payable other than income tax		**(2,381,704)**	2,780,750
Change in other current liabilities		**451,170**	2,247,095
Cash flows from operating activities		**79,892,484**	68,200,265
Interest paid		**(4,186,436)**	(5,922,591)
Coupon interest paid		**(8,835,000)**	–
Income tax paid		**(10,467,054)**	(2,355,541)
Interest received		**5,436,517**	6,219,954
Reimbursement of corporate income tax related to receipt of granted assets		**–**	158,267
Net cash flows received from operating activities		**61,840,511**	66,300,354

The accounting policies and explanatory notes on pages 7 to 53 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of Tenge	Notes	2017	2016
Investing activities			
Withdrawal of bank deposits		**97,295,695**	74,266,160
Placement of bank deposits		**(64,311,770)**	(65,488,341)
Change in restricted cash		**13,165,083**	(13,682,155)
Reclassification to other financial assets		**(1,299,715)**	(19,826)
Proceeds from sale of property, plant and equipment and intangible assets		**215,161**	115,209
Purchase of property, plant, equipment		**(53,999,831)**	(33,792,438)
Purchase of intangible assets		**(410,278)**	(130,545)
Repayment of loans receivable from employees		**10,406**	9,354
Payment for construction of kindergarden		**–**	(21,534)
Dividends from an associate		**–**	36,910
Proceeds from sale of investment in associate		**–**	10,839
Decrease in charter capital of an associate		**–**	64,870
Net cash flows used in investing activities		**(9,335,249)**	(38,631,497)
Financing activities			
Dividends paid	14	**(19,897,651)**	(8,681,517)
Repayment of borrowings		**(53,433,954)**	(44,951,558)
Bonds issuance		**36,271,080**	49,023,111
Acquisition of treasury shares		**–**	(930)
Net cash flows used in financing activities		**(37,060,525)**	(4,610,894)
Net change in cash and cash equivalents		**15,444,737**	23,057,963
Effect of net foreign exchange difference		**77,668**	(33,347)
Cash and cash equivalents, as at 1 January		**32,055,378**	9,030,762
Cash and cash equivalents, as at 31 December	13	**47,577,783**	32,055,378

Chairman of the Management Board _______________ *Kazhiyev B.T.*

KEGOC

Chief Accountant _______________ *Mukanova D.T.*

The accounting policies and explanatory notes on pages 7 to 53 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

In thousands of Tenge	Share capital	Asset revaluation reserve	Treasury shares	Other reserves	(Accumulated loss) / retained earnings	Total
As at 1 January 2016	126,799,554	221,297,751	–	(170,701)	(6,949,990)	340,976,614
Profit for the year	–	–	–	–	27,590,151	27,590,151
Total comprehensive loss	–	–	–	–	27,590,151	27,590,151
Dividends *(Note 14)*	–	–	–	–	(6,481,765)	(6,481,765)
Acquisition of treasury shares *(Note 14)*	–	–	(930)	–	–	(930)
Transfer of asset revaluation reserve *(Note 14)*	–	(407,377)	–	–	407,377	–
As at 31 December 2016	126,799,554	220,890,374	(930)	(170,701)	14,565,773	362,084,070
Profit for the year	–	–	–	–	**32,881,316**	**32,881,316**
Total comprehensive income	–	–	–	–	**32,881,316**	**32,881,316**
Dividends *(Note 14)*	–	–	–	–	**(19,897,694)**	**(19,897,694)**
Transactions with the Shareholders *(Note 14)*	–	–	–	–	**(900,132)**	**(900,132)**
Transfer of asset revaluation reserve *(Note 14)*	–	**(31,654)**	–	–	**31,654**	–
As at 31 December 2017	**126,799,554**	**220,858,720**	**(930)**	**(170,701)**	**26,680,917**	**374,167,560**

Chairman of the Management Board _______________ *Kazhiyev B.T.*

Chief Accountant _______________ *Mukanova D.T.*

The accounting policies and explanatory notes on pages 7 to 53 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL INFORMATION

Kazakhstan Electricity Grid Operating Company JSC ("the Company" or "KEGOC") was established in accordance with the Government Resolution No. 1188 dated 28 September 1996 by transferring of some assets of the former National Energy System "Kazakhstanenergo".

As at 31 December 2017 the Company's major shareholder was Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna") (90 percent plus one share). Samruk-Kazyna is controlled by the Government of the Republic of Kazakhstan.

On 19 December 2014 the Company placed 25,999,999 ordinary shares (10 percent minus one share) at 505 Tenge per share on the Kazakhstan Stock Exchange under the "People's IPO" programme.

KEGOC is the national company which provides electricity transmission, dispatch and electricity production-consumption balancing services in Kazakhstan. As the state-appointed system operator, the Company provides centralized dispatching control, ensures parallel work with energy systems of other countries, maintains the balance in energy system, provides system services and acquires auxiliary services from wholesale entities at energy market, as well as transmits electricity through unified power system (the "NES"), ensures its technical support and maintenance. The NES consists of substations, distribution devices, interregional and international power transmission lines which provide the output of electricity of electrical stations with the voltage of 220 kW and more.

As of 31 December 2017 and 2016 the Company has stakes in the following companies:

		Percentage of ownership	
Companies	**Activities**	**31 December 2017**	31 December 2016
Energoinform JSC	Maintenance of the KEGOC's IT system	**100%**	100%
Accounting and Finance Center for the support of renewable energy resources LLP	Centralised sales and purchase of electricity produced by energy producers using renewable energy sources and delivery into the electricity grid of the Republic of Kazakhstan	**100%**	100%

The Company and its subsidiaries are hereafter referred as the "Group".

The Group's operating activities are regulated by the Law of the Republic of Kazakhstan dated 9 July 1998 No. 272-I *On Natural Monopolies and Regulated Markets* (the "Law") as the Group is a natural monopolist in electricity transmission, technical dispatch and electricity production-consumption balancing services. According to the Law, the Group's electricity transmission, technical dispatch and electricity production-consumption tariffs are approved by the Committee of the Republic of Kazakhstan for the Regulation of Natural Monopolies and Protection of Competition under the Ministry of National Economy of the Republic of Kazakhstan (the "Committee").

The Company's registered office is located at 59 Tauelsyzdyk Ave., Astana, 010000, the Republic of Kazakhstan.

These consolidated financial statements were authorised for issue by the Chairman of the Management Board and Chief Accountant on 28 February 2018.

2. BASIS OF PREPARATION

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

These consolidated financial statements have been prepared on a historical cost basis, except for certain classes of property, plant and equipment, which are stated at revalued amounts and available for sale financial assets that have been measured at fair value as described in the accounting policies and notes to these consolidated financial statements. The consolidated financial statements are presented in Kazakhstan Tenge ("Tenge" or "KZT") and all values are rounded to the nearest thousands, except when otherwise indicated.

2. BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, in accordance with IFRS requirements, as would be required if the Group had directly disposed of the related assets or liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective from 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2017, they did not have a material impact on the annual consolidated financial statements of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

The nature and the impact of each new standard or amendment is described below:

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 *Statement of Cash Flows* are part of the IASB's *Disclosure Initiative* and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. These amendments result in the additional disclosures provided in *Note 30*.

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

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

These amendments did not have any impact on the Group.

Annual improvements 2014-2016 cycle

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Annual improvements 2014-2016 cycle (continued)

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments are applied retrospectively and did not have any impact on the Group as the Group does not apply the consolidation exception.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. In 2017 the Group has completed detailed impact assessment of all three aspects of IFRS 9. This assessment may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when IFRS 9 is fully adopted. Overall, the Group expects no significant impact on its statement of financial position and equity, including the effect of applying the impairment requirements of IFRS 9. The Group expects an increase in the amount of the allowance for losses, which will have a negative impact on equity as described below.

(a) Classification and measurement

Bonds of "Batys Transit" JSC, as well as trade receivables are withheld for receipt of cash flows stipulated in the contract, and are expected to result in cash flows that are exclusively payments to the principal and interest. The Group has analyzed the characteristics of contractual cash flows for these instruments and concluded that they meet the criteria for valuation at amortized cost under IFRS 9. Therefore, these instruments are not reclassified.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply a simplified approach and record lifetime expected losses on all trade receivables. As of the date of this financial statements the Group has not get completed assessment of the effect of adoption of IFRS 9 on the impairment provision.

(c) Hedging

The Group does not have hedging arrangements. According, adoption of IFRS 9 will not have effect on that matter.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers

The Group provides services for the transmission, technical dispatching and balancing of electricity production and consumption in Kazakhstan. Activities are carried out through separate identifiable contracts with customers.

(a) Provision of services

Due to regulation by the state, these contracts are typical, and as a result of entering into these agreements, “KEGOC” JSC has only duties related to ensuring equal conditions for all consumers and provision of services directly. However, “KEGOC” JSC does not have the authority to guarantee or negotiate special conditions.

Despite the fact that the planned volumes of regulated services rendered by “KEGOC” JSC are fixed by the annex to the concluded contracts, the actual figures may significantly differ from the contractual. Therefore the Group recognizes revenue on a monthly basis based on the actual indications of the metering devices reflected in the document “Actual Balance of production-consumption of electric energy in the wholesale electricity market of the Republic of Kazakhstan”, compiled by the National Dispatch Center of the System Operator. Actual volumes of provision of regulated services directly depend only on the state of demand for electricity, that is, on the economic condition of the Republic of Kazakhstan, the increase/decrease in electricity consumption of large electricity consumers, weather conditions, etc. These factors are external and do not depend on the “KEGOC” JSC activities.

Therefore, “KEGOC” JSC recognizes revenue from regulated services on a monthly basis based on actual metering devices, which is in accordance with the requirements of IFRS 15. Consequently, revenue recognition in accordance with IFRS 15 will not result in changes in records.

The activities of “Accounting and Finance Center for the support of renewable energy sources” LLP of electricity is driven by the Decree of the Republic of Kazakhstan *On Supporting the Use of Renewable Energy Sources*, while the contracts for “Accounting and Finance Center for the support of renewable energy sources” LLP are typical and fix only the obligations for monthly invoicing and quarterly reconciliation checks.

“Accounting and Finance Center for the support of renewable energy sources” LLP does not generate a principal-agent relationship, since when concluding contracts for the purchase and sale of electricity all risks and benefits pass from the seller of electricity to “Accounting and Finance Center for the support of renewable energy sources” LLP and from “Accounting and Finance Center for the support of renewable energy sources” LLP to the end user. Transition to revenue recognition in accordance with IFRS 15 will not cause changes in accounting for “Accounting and Finance Center for the support of renewable energy sources” LLP.

Contracts of “Energoinform” JSC, in addition to contracts for the provision of contractual works, require the fixing of the monthly cost of services, which is defined as 1/12 of the annual cost of services. Revenues are recognized in the amount of this monthly service cost.

Contracts for the provision of contractual services set a lot of responsibilities, while the text of contracts does not always provide a division of the price of the contract for individual duties. In this case, revenue under contracts for contracting works is recognized as the acts of the services rendered (works performed) are signed. In the future, in order to streamline the recognition of revenue, it is proposed to distribute the price of the contract for individual duties within the framework of a separate annex to the concluded contracts.

The contract for the provision of contractual works contain warranty conditions, according to which “Energoinform” JSC is obliged to carry out a gratuitous correction of errors, defects and other inconsistencies of the technical specification fixed by the contract. According to the current accounting procedures, these guarantees have the nature of a contingent liability and are not recognized in records, which corresponds to IFRS 15. Thus, in general, the procedure for recognizing the revenue of “Energoinform” JSC complies with the requirements of IFRS 15.

Therefore, the existing procedure for recognizing the Group’s revenue meets the requirements of IFRS 15, the Group does not have the effect of switching to revenue accounting in accordance with IFRS 15.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

(b) Requirements for the presentation and disclosure of information

IFRS 15 contains more detailed requirements for the presentation and disclosure of information than for existing IFRS. The presentation requirements make significant changes to existing practices and significantly increase the amount of information required to be disclosed in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are completely new, and the Group estimates that some of these disclosure requirements will have a significant impact. In particular, the Group expects that the volume of notes to the financial statements will increase due to the disclosure of significant judgments used in determining the price of the contractual transaction that provide for variable reimbursement and how this transaction price was allocated to performance obligations, adopted in assessing the separate selling price of each duty for execution.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. These amendments did not have any impact on the Group's consolidated financial statements.

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 16 Leases (continued)

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts*, a new comprehensive standard for financial reporting for insurance contracts that addresses the recognition and measurement, presentation and disclosure of information. When IFRS 17 enters into force, it will replace IFRS 4 *Insurance Contracts*, which was issued in 2005. IFRS 17 applies to all types of insurance contracts (that is, life insurance and insurance other than life insurance, direct insurance and reinsurance), regardless of the type of organization that issues them, as well as certain guarantees and financial instruments with conditions discretionary participation. There are several exceptions to the scope of application. The main purpose of IFRS 17 is to provide a model for accounting for insurance contracts, which is more efficient and consistent for insurers. Unlike IFRS 4, which is mainly based on previous local accounting policies, IFRS 17 provides a comprehensive model for accounting for insurance contracts, covering all relevant aspects of accounting. IFRS 17 is based on a general model, supplemented by the following:

- Certain modifications for insurance contracts with direct participation in investment income (variable compensation method);
- Simplified approach (award-based approach) mainly for short-term contracts.

IFRS 17 becomes effective for accounting periods beginning on or after 1 January 2021, and comparative information is required. Earlier application is permitted provided that the organization also applies IFRS 9 and IFRS 15 at the date of the first application of IFRS 17 or before it. This standard is not applicable to the Group.

Amendments to IAS 40 Transfers of Investment Property from Category to Category

The amendments clarify when an organization should transfer real estate objects, including real estate in the process of construction or development, into a category or from the category of investment real estate. The amendments state that a change in the nature of use occurs when a property starts or ceases to comply with the definition of investment property and there is evidence of a change in the nature of its use. The change in management's intentions regarding the use of the property itself does not indicate a change in the nature of its use. Organizations should apply these amendments prospectively for changes in the nature of use that occur at the commencement date of the annual reporting period in which the organization applies the amendments for the first time, or after that date. The organization shall re-analyze the classification of the real estate held at that date and, if applicable, effect the transfer of the property to reflect the conditions that exist on that date. Retrospective application is permitted in accordance with IAS 8, but only if possible without the use of more recent information. The amendments become effective for annual periods beginning on or after 1 January 2018. Early application is permitted subject to disclosure. The Group will apply these amendments when they come into force. However, as the Group's current business is eligible for clarification, the Group does not expect that it will have an impact on its consolidated financial statements.

Annual improvements in IFRS, period 2014-2016 (issued in December 2016)

These improvements include the following:

IFRS 1 First-time Adoption of International Financial Reporting Standards – removal of short-term exemptions for first-time adopters of IFRS.

The short-term exemptions provided for in paragraphs E3-E7 of IFRS 1 have been removed because they have fulfilled their function. These amendments come into force on 1 January 2018. These amendments do not apply to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Annual improvements in IFRS period, 2014-2016 (issued in December 2016) (continued)

IAS 28 Investments in Associates and Joint Ventures – clarification that a decision to measure investment items at fair value through profit or loss should be made separately for each investment.

The amendments clarify the following:

- An organization that specializes in venture capital investments, or another similar organization, may decide to measure investments in associates and joint ventures at fair value through profit or loss. This decision is taken separately for each investment upon initial recognition.
- If an organization that is not an investment organization itself has a share in an associate or a joint venture that are investment organizations, then in the application of the equity method such an organization may decide to retain the fair value estimate applied by its associate or joint venture that is an investment organizations, to its own interests in subsidiaries. Such decision shall be taken separately for each associated organization or joint venture that is an investment organization for a later date: (a) the date of initial recognition of the associate or joint venture that is an investment organization; (b) the date on which the associate or joint venture becomes investment undertakings; and (c) the date on which the associate or joint venture that is an investment institution first becomes a parent organization.

These amendments are applied retrospectively and go into effect on 1 January 2018. Earlier application is permissible. If the organization applies these amendments for an earlier period, it must disclose this fact. These amendments do not apply to the Group.

Amendments to IFRS 4 Application of IFRS 9 Financial Instruments in conjunction with IFRS 4 Insurance Contracts

These amendments eliminate the problems arising from the application of the new standard on financial instruments, IFRS 9, before the introduction of IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments provide for two options for organizations, issuing insurance contracts: a temporary exemption from the application of IFRS 9 and the method of imposition. Temporary exemption applies for the first time for reporting periods beginning on or after 1 January 2018. The organization may decide to apply the imposition method when it first applies IFRS 9 and apply this method retrospectively to financial assets classified at the entity's discretion when moving to IFRS 9. In doing so, the organization recounts the comparative information to reflect the method of imposing, if and only if it recalculates comparative information when applying IFRS 9. These amendments do not apply to the Group.

Clarification of IFRIC 22 Foreign Currency Transactions and Prepayment

The clarification explains that the date of the transaction for the purpose of determining the exchange rate to be used in the initial recognition of the relevant asset, expense or income (or part thereof) upon the derecognition of a non-monetary asset or a non-monetary obligation arising from the commission or receipt of advance payment is the date , to which the organization initially recognizes a non-monetary asset or a non-monetary liability arising from the commission or receipt of a prepayment. In the case of several transactions of making or receiving prepayment, the organization must determine the date of the transaction for each payment or receipt of advance payment. Organizations can apply this explanation retrospectively. Alternatively, the organization may apply clarification prospectively for all assets, expenses and revenues within the scope of the clarification initially recognized on or after that date:

(i) The beginning of the reporting period in which the organization applies this clarification for the first time; or

(ii) The beginning of the previous reporting period presented as comparative information in the financial statements of the reporting period in which the organization applies this clarification for the first time. The amendment becomes effective for annual periods beginning on or after 1 January 2018. Early application is allowed provided this fact is disclosed. However, as the Group's current business is eligible for clarification, the Group does not expect it to have an impact on its consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Annual improvements in IFRS, period 2014-2016 (issued in December 2016) (continued)

Clarification of IFRIC 23 Uncertainty about the Rules for Calculating Income Tax

The clarification deals with the accounting for income tax when there is uncertainty in tax interpretations, which affects the application of IAS 12. The clarification does not apply to taxes or fees that are not within the scope of IAS 12, nor does it contain specific requirements , relating to interest and penalties associated with uncertain tax interpretations. In particular, the clarification addresses the following issues:

- Whether the organization considers indefinite tax interpretations separately;
- Assumptions that the organization makes with regard to the verification of tax interpretations by tax authorities;
- How the organization determines the taxable profit (tax loss), the tax base, unused tax losses, unused tax benefits and tax rates;
- How the organization considers changes in facts and circumstances.

The organization must decide whether to consider each indefinite tax interpretations separately or together with one or more other undefined tax interpretations. It is necessary to use an approach that will allow to predict the result of uncertainty resolution with more accuracy. The amendment becomes effective for annual periods beginning on or after 1 January 2019. Certain exemptions are allowed upon passage. The Group will apply the clarification from the date of its entry into force. The Group does not expect that it will have an impact on its consolidated financial statements.

Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realized or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 (twelve) months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 (twelve) months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 (twelve) months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 (twelve) months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

The Group measures financial instruments, such as, available for sale (“AFS”) financial assets at fair value at each balance sheet date, and non-financial assets (NES assets) at fair value when fair value differs materially from their carrying value. Also, fair values of financial instruments measured at amortized cost are disclosed in *Note 30*.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

Fair value is the price that would be received from sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 − valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 − valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's finance management determines the policies and procedures for both recurring fair value measurement, such as NES assets and unquoted AFS financial assets, and for non-recurring measurement, if any.

External valuers are involved for valuation of NES assets. Involvement of external valuers is decided upon annually by the finance management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The finance management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the finance management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the finance management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The finance management, in conjunction with the Group's external values, also compares each the changes in the fair value of each asset of revalued class of property, plant and equipment in accordance with Group accounting policy with relevant external sources to determine whether the change is reasonable.

The finance management and external values discusses the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions

The Group's consolidated financial statements are presented in Tenge ("KZT"), which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date.

All differences arising on settlement or translation of monetary items are recognized in consolidated statement of comprehensive income with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

Exchange rates for foreign currencies in which the Group had significant transactions are represented as follows:

Exchange rate as at the end of the year (to KZT)	31 December 2017	31 December 2016
USD 1	**332.33**	333.29
EUR 1	**398.23**	352.42
RUR 1	**5.77**	5.43

Average exchange rate for the year (to KZT)	2017	2016
USD 1	**326.08**	341.73
EUR 1	**368.65**	378.25
RUR 1	**5.59**	5.12

Property, plant and equipment

Property, plant and equipment, except for NES assets, are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

NES assets are measured at fair value less accumulated depreciation and impairment losses recognized at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

A revaluation reserve is recorded in OCI and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in consolidated statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings.

Depreciation is computed on a straight-line basis over the estimated useful lives set out in the following table:

Buildings	60 years
NES assets	
Power transmission lines	50 years
Constructions	10-30 years
Machinery and equipment	12-30 years
Vehicles and other property, plant and equipment	
Other machinery and equipment	7-25 years
Vehicles	11 years
Computers and other data processing equipment	4-10 years
Furniture	7 years
Other property, plant and equipment	3-15 years

Land is not depreciated.

Due to changes in the National Classifier of Fixed Assets of the Republic of Kazakhstan effective from 1 January 2015 “NES Machinery and equipment” class has been separated from “NES constructions” class. Therefore, the Group renamed “NES constructions” into “NES assets” for the purposes of financial statements.

The useful lives and residual values of property, plant and equipment are reviewed annually and, where applicable, adjustments are made on a prospective basis. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amounts of the carrying amount of property, plant and equipment and on depreciation expenses recognized in the consolidated statement of comprehensive income.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognized.

Intangible assets

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets of the Group, excluding capitalised development costs, are not capitalised and expenditure is reflected in the profit and loss in the period in which expenditure is incurred.

Intangible assets of the Group consist primarily of licenses and software. Intangible assets are amortized on a straight-line basis over their estimated useful lives, generally from 3 to 20 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

At each reporting date, the Group assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on value in use, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of 5 (five) years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the consolidated statement of comprehensive income in expense categories consistent with the function of the impaired asset, except for NES assets previously revalued with the revaluation taken to OCI. For such assets, the impairment is recognized in OCI up to the amount of any previous revaluation. For assets previously impaired, except for goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Investments in associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investment in its associate is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognized its share of any changes, when applicable, in the consolidated statement of changes in equity.

Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associate (continued)

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying amount, then recognized the loss as 'Share of profit of an associate' in profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognized any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Financial instruments − initial recognition and subsequent measurement

Financial assets

Initial recognition and measurement

The Group's financial assets include cash and cash equivalents, short-term and long-term deposits, restricted cash, other financial assets, trade and other accounts receivable, quoted and unquoted financial instruments.

Financial assets at initial recognition are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

<u>Loans and receivables</u>

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

The EIR amortisation is included in interest income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income in finance costs for loans and operating expenses for receivables.

<u>Held-to-maturity investments</u>

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the EIR, less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as interest income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income in finance costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments − initial recognition and subsequent measurement (continued)

Financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for sale reserve to the profit or loss in finance costs. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management’s intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets.

Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held to maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in other comprehensive income is amortised to gain or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the profit or loss.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments − initial recognition and subsequent measurement (continued)

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as finance income in the consolidated statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance expense in the consolidated statement of comprehensive income.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss − measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income − is removed from other comprehensive income and recognised in the consolidated statement of comprehensive income. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments − initial recognition and subsequent measurement (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated statement of comprehensive income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities at initial recognition are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings, and bonds issued.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of comprehensive income.

Trade and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

Offsetting of financial instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory

Inventories are accounted for on a FIFO basis.

Inventories are valued at the lower of cost and net realizable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity till 3 (three) months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Restricted cash

In accordance with loan agreements on projects financing signed with International Bank for Reconstruction and Development (the "IBRD") and European Bank for Reconstruction and Development (the "EBRD"), the Group opened bank escrow accounts, necessary for debt service. Cash, held on these bank accounts, can be used exclusively for the purposes of planned payments on interest and principal loan amounts. If cash is restricted in use for the period not exceeding 12 (twelve) months from the reporting date, such cash is treated as current asset and an appropriate disclosure is provided in the notes to the consolidated financial statements. If cash is restricted in use for the period exceeding 12 (twelve) months from the reporting date, such cash is reflected within non-current assets.

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 an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income, net of any reimbursement.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised:

Rendering of services

Revenue from rendering of services is recognised by reference to the stage of completion.

The Group receives its revenue from rendering of transmission services of electricity from power generators to wholesale and major customers, technical dispatching of the input of electricity into the energy system and consumption of electricity, organization of balancing of electricity producing and consumption and ensuring a contractual power supply with energy systems of neighbouring countries and other.

Tariffs for services of electricity transmission, technical dispatch, organization of balancing of production/consumption of electricity are approved by the Committee.

Revenues from providing a contractual power supply with energy systems of neighbouring countries are recognised in accordance with terms of contracts conducted on the basis of Agreement between the Government of Republic of Kazakhstan and Russian Federation *On Measures Securing Parallel Operation of Unified Power Systems of the Republic of Kazakhstan and Russian Federation*.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in the consolidated statement of comprehensive income.

Equipment received from customers

The Group receives certain property, plant and equipment items from its customers. The Group assesses whether each transferred item meets the definition of an asset, and if so, recognises the transferred asset as property, plant and equipment. At initial recognition, its cost is measured at fair value, or the construction cost of equipment received, and a corresponding amount is recognised as other income as the Group has no future performance obligations. If future performance obligations exist such income should be deferred over the performance obligation period or useful life of the equipment whichever comes earlier.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Lease

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognised in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Pension obligations

In accordance with the legislation of the Republic of Kazakhstan, the Group deducted 10% of employees' salaries, but no more than KZT 183,443 per month (2016: KZT 171,675) to accumulative pension funds. Pension fund payments are withheld from employees' salaries and included with payroll expenses in the consolidated statement of comprehensive income when they are incurred. The Group has no other retirement benefit obligations.

Current income tax

Current income tax assets and liabilities for the current and previous periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current income tax (continued)

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Dividends

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

Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed in the consolidated financial statements unless the possibility of any outflow in settlement is remote.

A contingent asset is not recognised in the consolidated financial statements but disclosed in the consolidated financial statements when an inflow of economic benefits is probable.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosures, and the disclosure of contingent liabilities and assets. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Revaluation of property, plant and equipment

The revalued NES assets constitute one class of asset under IFRS 13, based on the nature, characteristics and risks of the property. Input data for determining the fair value of NES assets refer to Level 3 in the fair value hierarchy (unobservable inputs).

The Group performed revaluation of NES assets as at 1 June 2014. Fair value of NES assets was determined by using the cost approach. The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (current replacement cost). Cost approach has been used due to highly specialized nature of the assets and because there is no history of such assets ever being sold.

The appraised current replacement cost has been further compared to the recoverable amount identified based on discounted cash flows model. The cash flows are derived from the budget for the next 5 (five) years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested.

As a result of the assessment, the amount of KZT 415,708,160 thousand was recognised as a fair value as of 1 June 2014.

In assessment of the fair value the following main assumptions have been applied:

Discount rate (WACC)	11.61%
Long term growth rate	2.88%
Remaining useful life of the primary asset	40 years

An increase in the discount rate by 0.5% or a reduction in long term growth rate by 0.5% would result in a decrease in the fair value of Group's property, plant and equipment for approximately KZT 9,089,485 thousand or KZT 9,602,177 thousand, respectively.

As at 31 December 2017, the management of the Group carried out an analysis of the relevance of the revaluation of the assets. The value of the assets of the NES was analyzed taking into account the movement of the building price index according to the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan. This analysis showed a slight increase in the value of the assets of the NES against the total value of assets. To confirm the results of the analysis and determine the absence of depreciation of NES assets the Group made a calculation of the recoverable amount of assets using the discounted cash flow model.

In estimating the fair value in 2017, the following key assumptions were applied:

Discount rate (WACC)	12.55%
Long term growth rate	5.88%

The calculation of the assumptions was based on the methodology applied by the appraiser in 2014. The Group's development plan, approved for a five-year period and revised every year, was the main source of information for estimating cash flows, as it contains projections for the amount of electricity transmission, revenues, expenses and capital expenditures of the Group. Various assumptions, such as projections of the tariff level for regulated services and inflation rates, take into account existing prices, foreign exchange rates, other macroeconomic factors and historical trends and fluctuations. The estimated cash flows were limited until 2028. Expenses until 2028 were projected on the basis of the Company's budget and development plan, as well as current management estimates of the Group, potential changes in operating and capital expenditures. The post-forecast cost is estimated by applying the estimated long-term growth rate of 5.55%.

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

Revaluation of property, plant and equipment (continued)

Thus, the Group‘s assets have no signs of impairment, while the size of the asset growth estimated by the index method is a small amount of 4.82% of the total value of assets. Management of the Group believes that the fair value of the NES assets is approximately equal to their carrying value as at 31 December 2017.

Accounts receivable

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. The Group's estimate of uncollectible overdue amounts is as follows: 31-90 days − 5%, 91-180 days − 20%, 181-360 days − 50% and above 361 days − 100%. Changes in the economy or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. Further details are contained in *Note 9*.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and benefit already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

As the Group assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised in the consolidated financial statements, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value reported in the consolidated financial statements.

Bonds issued

Under the government program "Nurly Zhol", in June 2016 the Group issued coupon bonds at Kazakhstan Stock Exchange JSC to finance the project "Construction of 500 kW line Semey – Aktogay – Taldykorgan – Alma" *(Note 16)*.

The first tranche was issued in June 2016. The coupon interest rate of the first tranche of the first tranche of the bonds is variable and consists of two parts: the inflation rate calculated as an increase/decrease in the consumer price index published by the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan within the last 12 (twelve) months preceding the 2 (two) months before the start date of the new coupon period, and fixed margin of 2.9% per annum. The value of the upper limit of inflation is set at 16%, the lower limit – 5%.

The coupon rate for the first tranche of coupon bonds for the first and second periods amounted 18.6% and 10.6%, respectively. The coupon rate for the second tranche is 11.5%.

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

Fair value of financial instruments (continued)

Bonds issued (continued)

According to the estimates of the management of the Group, coupon rate corresponds to the market rate. As the market rate in relation to the duration of debt financing, at the end of the treatment period repayment of the nominal amount of the bonds can serve as an interest rate on long-term coupon bonds by the Ministry of Finance of the Republic of Kazakhstan – MEUZHKAM. The coupon rate of these bonds also consist of two parts: the consumer price index and a fixed margin of 0.1%. Unlike the bonds MEUZHKAM, the Group's bonds are not secured, so the difference in the amount of fixed margin is due to the risk premium. Thus, the nominal value of issued bonds has been recognized as the fair value.

Bonds of Special financial company DSFK

On 28 December 2017, in accordance with the Decree of the Government of the Republic of Kazakhstan dated 7 November 2017, the Group acquired bonds of Special Financial Company DSFK LLP ("DSFK bonds") using the funds placed with RBK Bank JSC ("RBK Bank"). The nominal value of deposits placed with RBK Bank before the transaction was KZT 1,498,249 thousand. DSFK bonds carry coupon interest of 0.01% per annum (paid annually) and mature in 15 years. The bonds are secured by a financial guarantee of Kazakhmys Corporation LLP of KZT 411,883 thousand. The guarantee is exercisable upon request of the Group not earlier than the fifth anniversary after the inception of the bonds.

Management of the Group believes that at 31 December 2017 DSFK bonds are non-recoverable. Accordingly, management of the Group believes that fair value of DSFK bonds is limited to their recoverable amount that is equal to the fair value of the guarantee. Fair value of the guarantee was identified using discount rate of 13.4% that deemed to be a market rate, and amounted to KZT 223,554 thousand at 31 December 2017.

5. OPERATING SEGMENTS INFORMATION

Operating segments

For management purposes, the Group is organized into one business unit, operating a Kazakhstan electricity grid for rendering services of electricity transmission, technical dispatch of electricity supply to the network and consumption of electricity, balancing of electricity generation and consumption. This operating segment represents the only reportable segment of the Group.

Geographic information

Revenues from external customers based on the locations of the customers represent the following:

In thousands of Tenge	**2017**	2016
Revenue from Kazakhstan customers	**143,380,886**	117,329,103
Revenue from Russian customers	**8,533,164**	11,254,357
Revenue from Uzbekistan customers	**415,637**	1,339,456
Revenue from Kyrgys customers	**50,130**	78,517
Total revenue per consolidated statement of comprehensive income	**152,379,817**	130,001,433

Management analyses the Group's revenue and profit before tax determined in accordance with IFRS.

For the year ended 31 December 2017 the revenue from one customer, Samruk-Energo Group, including its joint-ventures, amounted to KZT 34,927,661 thousand, arising from transmission, technical dispatching and balancing services (for the year ended 31 December 2016: KZT 19,974,135 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT AND ADVANCES PAID FOR NON-CURRENT ASSETS

In thousands of Tenge	Land	Buildings	NES constructions	Vehicles and other property, plant and equipment	Construction-in-progress	Total
Cost						
At 1 January 2016	1,528,905	13,225,323	800,129,759	34,280,762	33,926,233	883,090,982
Additions	9,923	1,251	725,913	1,532,260	42,652,202	44,921,549
Transfers	745	542,633	20,036,244	2,269,176	(22,848,798)	–
Transfers to intangible assets	–	–	–	–	(4,497)	(4,497)
Disposals	–	(1,125)	(1,793,056)	(446,176)	(26,470)	(2,266,827)
At 31 December 2016	1,539,573	13,768,082	819,098,860	37,636,022	53,698,670	925,741,207
Additions	**91,876**	**1,170**	**12,447**	**1,690,149**	**55,456,478**	**57,252,120**
Transfers	**106,109**	**43,137**	**25,626,002**	**112,966**	**(25,888,214)**	**–**
Transfers to intangible assets	**–**	**–**	**–**	**–**	**(5,922)**	**(5,922)**
Disposals	**–**	**(4,479)**	**(478,260)**	**(441,276)**	**(52,180)**	**(976,195)**
At 31 December 2017	**1,737,558**	**13,807,910**	**844,259,049**	**38,997,861**	**83,208,832**	**982,011,210**
Accumulated depreciation and impairment						
At 1 January 2016	–	(1,525,657)	(384,052,747)	(18,481,782)	(331,004)	(404,391,190)
Charge for the period	–	(273,150)	(19,931,194)	(2,200,004)	–	(22,404,348)
Transfers	–	583	(15,680)	15,097	–	–
Disposals	–	561	1,623,507	403,260	21,213	2,048,541
Impairment reversal	–	–	–	–	(79,820)	(79,820)
At 31 December 2016	–	(1,797,663)	(402,376,114)	(20,263,429)	(389,611)	(424,826,817)
Charge for the period	**–**	**(282,089)**	**(19,949,441)**	**(2,340,279)**	**–**	**(22,571,809)**
Transfers	**–**	**506**	**(6,372)**	**5,866**	**–**	**–**
Disposals	**–**	**2,939**	**392,823**	**432,438**	**50,376**	**878,576**
Impairment	**–**	**–**	**–**	**–**	**(196,982)**	**(196,982)**
At 31 December 2017	**–**	**(2,076,307)**	**(421,939,104)**	**(22,165,404)**	**(536,217)**	**(446,717,032)**
Net book value						
At 1 January 2016	1,528,905	11,699,666	416,077,012	15,798,980	33,595,229	478,699,792
At 31 December 2016	1,539,573	11,970,419	416,722,746	17,372,593	53,309,059	500,914,390
At 31 December 2017	**1,737,558**	**11,731,603**	**422,319,945**	**16,832,457**	**82,672,615**	**535,294,178**

If NES assets were measured using the cost model, net of accumulated depreciation, the carrying amount would be as follows:

In thousands of Tenge	**31 December 2017**	31 December 2016
Cost	**292,153,754**	267,033,110
Accumulated depreciation	**(93,709,808)**	(82,385,796)
Net carrying amount	**198,443,946**	184,647,314

As at 31 December 2017 and 2016 cost of fully amortised property, plant and equipment, which is still in use amounted to KZT 9,811,707 thousand and KZT 7,507,540 thousand, respectively.

Capitalized borrowing costs and issued bonds

During the year ended 31 December 2017 the Group capitalized the cost of coupon interest on issued bonds net off investment income amounted to KZT 5,080,040 thousand (for the year ended 31 December 2016: KZT 1,379,376 thousand) *(Note 25).*

6. PROPERTY, PLANT AND EQUIPMENT AND ADVANCES PAID FOR NON-CURRENT ASSETS (continued)

Construction in progress

Construction in progress is mainly represented by equipment and construction works as part of the implementation of the project “Construction of 500 kW line Shulbinskaya GES (Semey) – Aktogay – Taldykorgan – Alma”.

Advances paid for non-current assets

As at 31 December 2017 advances paid for non-current assets mainly represent prepayments made to suppliers for construction work related to the project “Construction of 500 kW line Shulbinskaya GES (Semey) − Aktogay − Taldykorgan − Alma” (as at 31 December 2016: the advanced paid for non-current assets mainly represent prepayments made to suppliers for construction work related to the project “Construction of 500 kW line Shulbinskaya GES (Semey) − Aktogay − Taldykorgan − Alma”).

7. INVESTMENTS IN ASSOCIATES

The Group has 20% share in Batys Transit JSC. Principal place of operations and country of incorporation of Batys Transit JSC (“Batys Transit”) is the Republic of Kazakhstan. The main activity of Batys Transit is realization of a project on construction and exploitation of interregional power line, which connects the North Kazakhstan region with Aktobe region. Batys Transit has bonds traded on the Kazakhstan Stock Exchange. The following table illustrates the summarised financial information about Batys Transit:

In thousands of Tenge	**31 December 2017**	31 December 2016
Statement of financial position		
Current assets	**6,491,949**	3,373,844
Non-current assets	**19,202,560**	19,433,266
Current liabilities	**(1,790,165)**	(2,384,323)
Non-current liabilities	**(19,993,941)**	(18,898,018)
Net assets	**3,910,403**	1,524,769

In thousands of Tenge	**31 December 2017**	31 December 2016
Group’s share in net assets	**782,081**	304,954
Carrying amount of the investment	**782,081**	304,954

In thousands of Tenge	**2017**	2016
Statement of comprehensive income		
Revenue	**8,212,486**	5,819,979
Net profit	**2,385,635**	375,245
Group’s share of income of Batys Transit	**477,127**	75,049

As of 31 December 2017 and 2016, the associates had no contingent liabilities or capital commitments.

8. INVENTORIES

In thousands of Tenge	**31 December 2017**	31 December 2016
Spare parts	**1,299,634**	1,258,723
Raw and other materials	**1,060,824**	930,547
Fuel and lubricants	**147,297**	114,705
Other inventory	**23,363**	25,054
Less: allowance for obsolete inventories	**(655,684)**	(642,717)
	1,875,434	1,686,312

8. INVENTORIES (continued)

Movement in the allowance for obsolete inventories was as follows:

In thousands of Tenge	**2017**	2016
At 1 January	**642,717**	267,427
Charge for the year *(Note 24)*	**86,128**	385,867
Write-off	**(73,161)**	(10,577)
At 31 December	**655,684**	642,717

9. TRADE ACCOUNTS RECEIVABLE

In thousands of Tenge	**31 December 2017**	31 December 2016
Trade accounts receivable	**9,174,896**	18,400,246
Less: allowance for doubtful accounts receivable	**(1,409,589)**	(2,653,416)
Less: discount of accounts receivable	**(614)**	–
	7,764,693	15,746,830

Movement in the allowance for doubtful accounts receivable was as follows:

In thousands of Tenge	**2017**	2016
At 1 January	**2,653,416**	1,452,512
Charge for the year *(Note 24)*	**2,384,698**	1,435,288
Write-off	**(1,903)**	(1,585)
Reversal *(Note 24)*	**(3,626,622)**	(232,799)
At 31 December	**1,409,589**	2,653,416

As at 31 December 2017 trade receivables included receivables from customer Uzbekenergo JSC in the amount of KZT 1,229,827 thousand (31 December 2016: KZT 12,338,962 thousand). The decrease in debt is due to its repayment by the customer.

As at 31 December 2017 due to the non-compliance with new repayment schedule, the Group accrued an allowance for outstanding part of receivable from Uzbekenergo JSC in the amount of KZT 1,157,339 thousand (31 December 2016: KZT 2,422,993 thousand).

The ageing analysis of trade receivables is as follows:

		Neither past due	**Past due but not impaired**			
In thousands of Tenge	**Total**	**nor impaired**	**30-90 days**	**91-180 days**	**181-270 days**	**Above 271 days**
31 December 2017	**7,764,693**	**7,285,148**	**262,541**	**81,974**	**49,289**	**85,741**
31 December 2016	15,746,830	6,338,579	24,509	8,448,471	812,181	123,090

Trade receivables were denominated in the following currencies:

In thousands of Tenge	**31 December 2017**	31 December 2016
Tenge	**7,099,960**	5,243,358
Russian rouble	**591,967**	587,503
US dollars	**72,766**	9,915,969
	7,764,693	15,746,830

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. OTHER CURRENT ASSETS

In thousands of Tenge	**31 December 2017**	31 December 2016
Other receivables for property, plant and equipment and constructions	**399,974**	180,123
Advances paid for goods and services	**329,372**	64,949
Loans receivable from employees	**13,652**	19,535
Deferred expenses	**3,628**	107,269
Other	**318,608**	304,560
Less: discount of other current assets	**(18,567)**	–
Less: allowance for impairment of other current assets	**(394,078)**	(198,448)
	652,589	477,988

Movement in the provision for impairment of other current assets are as follows:

In thousands of Tenge	**2017**	2016
At 1 January	**198,448**	114,200
Charge for the year *(Note 24)*	**252,209**	96,265
Reversal *(Note 24)*	**(54,488)**	(8,540)
Write-off	**(2,091)**	(3,477)
At 31 December	**394,078**	198,448

11. OTHER FINANCIAL ASSETS

In thousands of Tenge	**31 December 2017**	31 December 2016
Other long-term financial assets		
Bonds of Batys Transit	**868,269**	–
Bonds of Special financial company DSFK	**223,554**	–
	1,091,823	–
Other short-term financial assets		
Bank deposits	**22,466,094**	56,682,280
Funds placed with Eximbank Kazakhstan JSC	**2,658,640**	–
Funds placed with Delta Bank JSC	**1,297,742**	3,000,000
Funds placed with Kazinvestbank JSC	**1,282,483**	1,291,782
Interest accrued on bonds of Batys Transit	**65,405**	207,287
Bonds of Batys Transit	**–**	868,269
Less: allowance for impairment of funds with KazInvestBank JSC	**(1,282,483)**	(645,891)
Less: allowance for impairment of funds with Delta Bank JSC	**(1,230,000)**	–
Less: discount on funds placed with Eximbank Kazakhstan JSC	**(150,489)**	–
	25,107,392	61,403,727
Total other financial assets	**26,199,215**	61,403,727

Movement in the allowance for impairment of funds with KazInvestBank JSC are as follows:

In thousands of Tenge	**2017**	2016
At 1 January	**645,891**	–
Charge for the year	**1,934,334**	645,891
Reversal	**(67,742)**	–
At 31 December	**2,512,483**	645,891

Bonds of Special financial company DSFK LLP

On December 28, 2017, in accordance with the Decree of the Government of the Republic of Kazakhstan dated 7 November 2017, the Group acquired bonds of Special Financial Company DSFK LLP (“DSFK”) using the funds placed with RBK Bank JSC (“RBK Bank”). The nominal value of deposits placed with RBK Bank before the transaction was KZT 1,498,249 thousand. Management believes that deposits with RBK Bank were impaired by 25% prior to acquisition of DSFK bonds. Accordingly, management recognized impairment of these financial assets of KZT 374,563 thousand within profit and loss.

11. OTHER FINANCIAL ASSETS (continued)

Bonds of Special financial company DSFK LLP (continued)

Management also concluded that further loss on acquisition of the DSFK bonds of KZT 900,132 thousand, pursuant to the Decree of the Government, represents results of the transaction with the Shareholders and should be recognized directly in equity.

Bonds of Batys Transit

In 2007-2009 the Group acquired bonds of Batys Transit JSC, an associate, an entity listed on the Kazakhstan Stock Exchange. The bonds of Batys Transit are guaranteed of the Government of Republic of Kazakhstan in accordance with guarantee agreement dated 9 January 2006. The interest rate on the bonds is 8.4%. The bonds were previously classified as assets-held-to-sale. Fair value is the price to sell an asset or transfer a liability, and therefore an exit price, not an entry price.

As of 31 December 2017, due to the loss of the power of the agreement on early repurchase of the bonds by issuer, the Group reclassified the bonds into long-term financial assets held-to-maturity.

Deposits

As at 31 December 2017 and 2016 deposits include accrued interest income in the amount of KZT 187,568 thousand and KZT 182,185 thousand, respectively.

Funds placed with Delta Bank JSC

Due to the deterioration in the credit rating and financial performance of Delta Bank, as at 31 December 2017, the Group‘s management made a decision to accrue a provision for impairment of the funds held by Delta Bank in the amount of 100% of the balance.

In November 2017, by Decree of the Board of the National Bank of the Republic of Kazakhstan (National Bank), Delta Bank was deprived of the license to operate banking and other transactions, and in this connection, an agreement was signed between the Group and a major shareholder of Delta Bank on debt repayment. In accordance with the agreement, Delta Bank’s debt was reclassified from other financial assets to other current assets *(Note 10)*. In January 2018, according to the agreement, part of the debt was repaid in cash in the amount of KZT 67,742 thousand.

Funds placed with Kazinvestbank JSC

In December 2016 according to the order of Management Board of the National Bank of the Republic of Kazakhstan (“National Bank”), the licence of Kazinvestbank JSC to conduct bank operations was recalled and a temporary administrator was appointed. As a result in 2016 the Group has reclassified their cash balances with Kazinvestbank JSC to other financial assets and reassessed their recoverability. Recoverability of balances with Kazinvestbank JSC will depend on the actions taken by the temporary administrators and the National Bank. As a result of the assessment as at 31 December 2016 the Group has accrued a provision for impairment of 50% of the outstanding balances in the consolidated financial statements representing their best estimate of future recoverability of these assets.

As a result of the determination of the recoverability estimate as of 31 December 2017 the Group accrued a 100% provision for impairment of balances in this consolidated financial statement, which reflects the best estimate of the recoverability of these assets.

Funds placed with Eximbank Kazakhstan JSC

As at 31 December 2017, the Group’s deposit in Eximbank Kazakhstan was equal to KZT 2,658,640 thousand. In accordance with the agreement, the deposit term expired in November 2017. The deposit was not returned by Eximbank to the Group. In February 2018, the international rating agency S & P Global Ratings lowered the long-term and short-term credit ratings of the Eximbank Kazakhstan to "CCC+/C" from "B-/B".As a result of negotiations with representatives of Eximbank Kazakhstan and analysis conducted by the Group, the management of the Group concluded that the funds are fully recoverable and will be returned within one year. In this regard, as at 31 December 2017, the Group assessed the impact of the one year delay in receiving the amount and recognized a discount of KZT 150,489 thousand.

11. OTHER FINANCIAL ASSETS (continued)

Funds placed with Eximbank Kazakhstan JSC (continued)

Other financial assets were denominated in the following currencies:

In thousands of Tenge	**Interest rate**	**31 December 2017**	31 December 2016
US dollars	1%-6%	**13,926,861**	35,830,396
Tenge	10%-14%	**12,272,354**	25,573,331
		26,199,215	61,403,727

12. RESTRICTED CASH

In thousands of Tenge	**31 December 2017**	31 December 2016
Cash on reserve accounts	**2,409,232**	2,263,220
Cash on debt service accounts	**877,554**	13,209,941
Restricted cash for return of guarantee obligations	**158,831**	153,637
	3,445,617	15,626,798

As at 31 December 2017 and 2016 restricted cash represents cash held on a debt service account and reserve account.

According to the terms of the loan agreements with IBRD and EBRD, the Group's creditors, the Group accumulates cash on a special debt service bank account opened with Kazakhstan bank during the semi-annual period preceding the scheduled date of payment of principal, interest and commission fees related to the IBRD and EBRD loans.

In accordance with the terms of the guarantee agreements with the Government of the Republic of Kazakhstan, the guarantor of the Group's loans *(Note 15)*, the Group is obliged to hold cash on a special reserve account opened in a Kazakhstan bank. The Group is obliged to reserve cash for at least 110% of the upcoming semi-annual payment of principal, interest and commission fees of the IBRD loans.

As at 31 December 2017 and 2016, restricted cash including funds to be payable, was denominated in the following currencies:

In thousands of Tenge	**31 December 2017**	31 December 2016
US dollars	**3,286,786**	15,473,161
Tenge	**158,831**	153,637
	3,445,617	15,626,798

13. CASH AND CASH EQUIVALENTS

In thousands of Tenge	**31 December 2017**	31 December 2016
Short-term deposits, in Tenge	**37,158,812**	20,450,000
Current accounts with banks, in foreign currencies	**6,556,281**	2,300,876
Current accounts with banks, in Tenge	**3,854,403**	9,297,895
Cash on hand	**8,110**	4,819
Cash at special accounts	**177**	1,788
	47,577,783	32,055,378

As at 31 December 2017 and 2016 the Group placed short-term deposits with banks at 5%-11.5% per annum.

13. CASH AND CASH EQUIVALENTS (continued)

As at 31 December 2017 and 2016, cash and cash equivalents were denominated in the following currencies:

In thousands of Tenge	**31 December 2017**	31 December 2016
Tenge	**41,021,502**	29,754,502
US dollars	**6,553,858**	1,925,437
Russian rouble	**2,132**	2,487
Euro	**–**	372,457
Others	**291**	495
	47,577,783	32,055,378

14. EQUITY

As at 31 December 2017 and 2016 share capital of the Company comprised of 260,000,000 shares for the total amount of KZT 126,799,554 thousand that were issued and fully paid.

The Group placed 25,999,999 ordinary shares at a price of KZT 505 at the Kazakhstan stock exchange under the People's IPO program. On 19 December 2014 the contribution to share capital of KZT 13,129,999 thousand was received. As at 31 December 2017 and 2016 authorized capital is presented net of the cost of the consulting services related to the issue of shares under People's IPO of KZT 692,568 thousand.

Treasury shares

In November 2016 the Group reacquired on the open market 1,390 of own shares for the total amount of KZT 930 thousand.

Dividends

On 28 October 2016 on the special General shareholders meeting it was approved to distribute 40% of net profit received as a result of 1st half-year of 2016. Amount of distributable dividends comprises KZT 6,481,765 thousand to all ordinary shareholders of the Company, which is 24.93 Tenge per ordinary share.

On 12 May 2017 shareholders approved distribution of 50% of 2016 net profit (less net profit received in the first half of 2016). Amount to be paid comprises KZT 7,313,761 thousand to all ordinary shareholders of the Company, which is 28.13 Tenge per ordinary share.

In October 2017, shareholders approved the distribution of 70% of net income received in first half of 2017. The amount of dividends to be distributed is 12,583,933 thousand Tenge for all holders of common shares of the Company, which is equal to 48.40 Tenge per one common share.

Earnings per share

Basic and diluted earnings per share are calculated by dividing net profit for the period by the weighted average number of ordinary shares outstanding during the period. The Group had weighted average ordinary shares outstanding in the amount of 259,998,610 shares during the year ended 31 December 2017 (for the year ended 31 December 2016: 259,998,610 shares). For the year ended 31 December 2017 basic and diluted earnings per share comprised 126.47 Tenge (2016: profit per share 106.12 Tenge).

Book value per share

In accordance with the decision of the Exchange Board of the Kazakhstan Stock Exchange JSC ("KASE") dated 4 October 2010 financial statements shall disclose book value per share (ordinary and preferred) as of the reporting date, calculated in accordance with the KASE rules.

In thousands of Tenge	**31 December 2017**	31 December 2016
Total assets	**628,947,700**	632,058,886
Less: intangible assets	**(1,038,637)**	(855,032)
Less: total liabilities	**(254,780,140)**	(269,974,816)
Net assets	**373,128,923**	361,229,038
Number of ordinary shares	**260,000,000**	260,000,000
Book value per ordinary share, Tenge	**1,435**	1,389

14. EQUITY (continued)

Asset revaluation reserve

As at 31 December 2017 and 2016 the revaluation reserve represents revaluation surplus recognized as a result of revaluation of Group's NES assets on 1 June 2014. Transfer of asset revaluation reserve into retained earnings, upon disposal of PPE, for the year ended 31 December 2017 amounted to KZT 31,654 thousand (for the year ended 31 December 2016: KZT 407,377 thousand).

Other reserves

Other reserves represent accumulated reserve on available for sale investments. After initial measurement, available for sale investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the other reserves until the investment is derecognised. Fair value is the price to sell an asset or transfer a liability.

Operations with shareholders

In accordance with the decision of the shareholder of the Group Samkruk-Kazyna, in exchange for the deposit of RBK Bank JSC in December 2017, the Group acquired 1,498,249,243 bonds at a nominal value of KZT 1 per bond for a total of KZT 1,498,249 thousand with a coupon interest of 0.01% per annum with a maturity of 15 years *(Note 11)*. The bonds are additionally guaranteed by the shareholder of RBK Bank JSC – Kazakhmys Corporation LLP for the amount of KZT 411,883 thousand.

The Group recognized the fair value of bonds equal to the amount of the guarantee adjusted for the time factor, in amount of KZT 223,554 thousand. Part of the cost of bringing the value of bonds to fair value in the amount of KZT 374,562 thousand was recognized as a part of impairment in the statement of comprehensive income, the remaining amount of KZT 900,132 thousand is recognized as the transactions with shareholders.

15. BORROWINGS

In thousands of Tenge	**31 December 2017**	31 December 2016
International Bank of Reconstruction and Development (IBRD)	**56,378,222**	65,140,253
European Bank of Reconstruction and Development (EBRD)	**17,353,855**	57,338,686
	73,732,077	122,478,939
Less: current portion of loans repayable within 12 months	**(9,502,895)**	(27,334,944)
	64,229,182	95,143,995

As at 31 December 2017 and 2016 the accrued and unpaid interest was equal to KZT 657,683 thousand and KZT 1,115,744 thousand, respectively.

As at 31 December 2017 and 2016 the unamortized portion of loan origination fees was equal to KZT 339,820 thousand and KZT 553,726 thousand, respectively.

Loans were denominated in the following currencies:

In thousands of Tenge	**31 December 2017**	31 December 2016
US dollars	**56,378,222**	74,236,477
Euro	**17,353,855**	48,242,462
	73,732,077	122,478,939

"Kazakhstan National Electricity Transmission Rehabilitation Project"

In 1999 the Group received the following credit line facilities for the purpose of implementation of the "Kazakhstan National Electricity Transmission Rehabilitation Project", USD 140,000 thousand from IBRD for the 20 (twenty) years period, secured by a guarantee of the Government of the Republic of Kazakhstan. The loan is repayable by annual instalments commencing 2005. An interest at LIBOR base rate plus general spread is payable semi-annually. The outstanding balances as at 31 December 2017 and 31 December 2016 are USD 26,170 thousand (equivalent to KZT 8,697,076 thousand) and USD 38,180 thousand (equivalent to KZT 12,725,012 thousand), respectively.

15. BORROWINGS (continued)

"North-South Electricity Transmission Project"

In 2005 for the purpose of implementation of the Phase II of the "North-South Electricity Transmission Project", the Group received a credit line facility of USD 100,000 thousand provided by IBRD for a period of 17 (seventeen) years of which first 5 (five) years are a grace period. This credit line facility is secured by a guarantee of the Government of the Republic of Kazakhstan. An interest at LIBOR dollar rate plus general spread is paid semi-annually. In 2011 the non-disbursed part of this IBRD credit line in the amount of USD 1,918 thousand was cancelled due to the fact that actual costs incurred within this project were less than expected. The outstanding balances as at 31 December 2017 and 31 December 2016 are USD 40,818 thousand (equivalent to KZT 13,564,953 thousand) and USD 48,973 thousand (equivalent to KZT 16,322,355 thousand), respectively.

"Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2"

In 2008, for the realization of the "Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2" the Group opened the following credit lines:

(a) Two credit-line facilities of euro 127,500 thousand and euro 75,000 thousand from EBRD for 15 (fifteen) years, of which the first 4 (four) years are a grace period. An interest at the interbank six months EURIBOR rate plus a 3.85% margin is payable semi-annually. The outstanding balances as at 31 December 2017 and 31 December 2016 are euro 43,130 thousand (equivalent to KZT 17,175,458 thousand) and euro 112,137 thousand (equivalent to KZT 39,519,210 thousand), respectively;

(b) A credit line facility of euro 47,500 thousand from EBRD for 12 (twelve) years, of which the first 4 (four) years are a grace period. An interest at the interbank six months EURIBOR rate plus a 3.55% margin is payable semi-annually. The outstanding balances as at 31 December 2017 the debt under the above credit line is fully repaid and as at 31 December 2016 are euro 22,749 thousand (equivalent to KZT 8,017,051 thousand);

(c) A credit line facility of euro 5,000 thousand from EBRD for 9 (nine) years, of which the first 4 (four) years are a grace period. An interest at the interbank six months EURIBOR rate plus a 2.75% margin is repayable semi-annually. The outstanding balances as at 31 December 2017 the debt under the above credit line is fully repaid and as at 31 December 2016 are euro 603 thousand (equivalent to KZT 212,760 thousand).

In November 2013 the Group concluded supplementary agreement, according to which the second credit line was decreased from euro 75,000 thousand to euro 53,443 thousand.

In December 2014 the unused part of loan from the EBRD amounted to euro 5,028 thousand was cancelled due to the fact that actual expenses were lower than expected.

In August 2017, the Group early repaid two semi-annual principal payments under the loan in the amount of 23,751 thousand euros (equivalent to KZT 9,405,550 million), which were scheduled to be paid in February and August 2018. In November 2017, the Group early repaid four semiannual principal payments of the loan in the amount of 44,253 thousand euros (equivalent to KZT 17,410,008 thousand), which were scheduled to be paid in February and August 2019 and 2020.

"Moinak Electricity Transmission Project"

In 2009, for the realization of the "Moinak Electricity Transmission Project" a credit line facility from IBRD of USD 48,000 thousand was opened for 25 (twenty five) years, of which the first 5 (five) years are a grace period. The credit line facility is secured by the guarantee of the Government of the Republic of Kazakhstan. An interest rate is USD LIBOR rate plus fixed spread 0.85% is payable semi-annually. In May 2013 unused portion of the credit line from the IBRD in the amount of USD 3,274 thousand was cancelled due to the fact that the amount of actual expenses incurred in the course of the project was less than expected. The outstanding balances as at 31 December 2017 and 31 December 2016 are 38,017 thousand (equivalent to KZT 12,634,253 thousand) and USD 40,254 thousand (equivalent to KZT 13,416,087 thousand), respectively.

15. BORROWINGS (continued)

"Construction of the Alma 500 kW substation with connection to NES of Kazakhstan with the voltage of 500, 200 kW"

In 2010 for the realization of the project "Construction of the Alma 500 kW substation with connection to NES of Kazakhstan with the voltage of 500, 200 kW" the Group received a credit line facility of USD 78,000 thousand from IBRD for 25 (twenty five) years, of which the first 5 (five) years are a grace period. The credit line facility is secured by a guarantee of the Government of the Republic of Kazakhstan. An interest at LIBOR dollar rate plus fixed spread 1.15% is repayable semi-annually. In July 2014 undeveloped part of the credit line from the IBRD in the amount USD 6,644 thousand has been cancelled due to the fact that the amount of actual costs was less than expected costs. The outstanding balances as at 31 December 2017 and 31 December 2016 are USD 64,221 thousand (equivalent to KZT 21,342,474 thousand) and USD 67,789 thousand (equivalent to KZT 22,593,244 thousand), respectively.

"Ossakarovka Transmission Rehabilitation Project"

In 2011, for refinancing of EBRD and DBK loans received in 2004-2005 for realization of the Phases I, II and III of the "North-South Electricity Transmission Project" the Group opened the following credit lines for realization of the "Ossakarovka Transmission Rehabilitation Project":

(a) Two credit-line facilities of USD 77,293 thousand and USD 44,942 thousand, from EBRD for a 15 (fifteen) years. An interest at the interbank six months LIBOR rate plus a 3.95% margin is payable semi-annually. The outstanding balances as at 31 December 2017 the debt under the above credit line is fully repaid and as at 31 December 2016 USD 21,997 thousand (equivalent to KZT 7,331,269 thousand);

(b) A credit-line facility of USD 17,973 thousand, from EBRD for 12 (twelve) years. An interest at the interbank six months LIBOR rate plus a 3.70% margin is payable semi-annually. The outstanding balances as at 31 December 2017 the debt under the above credit line is fully repaid and as at 31 December 2016 USD 2,776 thousand (equivalent to KZT 925,255 thousand).

In 2011, for execution of "Reconstruction of the Ossakarovka 220 kW power line" the Group received from EBRD credit lines for the amounts of USD 12,900 thousand (A2, B1b) and USD 1,900 thousand (B2b). The credit lines were provided for 12 (twelve) years, of which the first 3 (three) years is a grace period. An interest at the interbank six months LIBOR rate plus 3.95% (A2, B1b) and 3.70% (B2b) margin is payable semi-annually. The outstanding balances as at 31 December 2017 the debt under the above credit line is fully repaid and as at 31 December 2016 USD 2,564 thousand (equivalent to KZT 854,678 thousand).

In May 2014 the Group concluded supplementary agreement, according to which the undisbursed amount of the second tranche of EBRD credit line was decreased from USD 14,800 thousand to USD 11,691 thousand. In December 2016 the Group made partial repayment in the amount of USD 70,222 thousand (equivalent to KZT 23,567,126 thousand). In January 2017, the full prepayment of the outstanding balance was made in the amount of 27,337 thousand USD dollars (equivalent in KZT 9,144,553 thousand).

16. BONDS PAYABLE

In thousands of Tenge	**31 December 2017**	31 December 2016
Nominal value of issued bonds	**83,800,000**	47,500,000
Accrued coupon interest	**4,407,719**	5,251,917
Less: discount on bonds issued	**(101,305)**	(108,883)
Less: transaction costs	**(49,672)**	(23,013)
	88,056,742	52,620,021
Less: current portion of bonds repayable within 12 months	**(4,407,719)**	(5,251,917)
	83,649,023	47,368,104

16. BONDS PAYABLE (continued)

Under the State Program "Nurly Zhol" the Group placed two tranches of coupon bonds on JSC "Kazakhstan Stock Exchange" in order to finance the projects "Construction of 500 kW line Ekibastuz – Semey – Ust'-kamenogorsk" and "Construction of 500 kW line Semey – Ak-togay – Taldykorgan – Alma":

(a) During the period from June to August 2016 the Group issued coupon bonds with nominal amount of KZT 47,500,000 thousand under floating interest rate equal to the inflation rate in Republic of Kazakhstan plus 2.9% with the maturity in 2031. The coupon rate for the first coupon period from 26 May 2016 to 26 May 2017 is 18.6% per annum. The coupon rate for the second coupon period from 26 May 2017 to 26 May 2018 is 10.6% per annum.

All bonds under this program were acquired by United Pension Saving Fund. Cash received was initially placed on short-term bank deposits.

Bonds were issued with discount in the amount of KZT 111,945 thousand.

(b) In August 2017, the Group placed the second tranche of coupon bonds amounting to KZT 36,300,000 thousand with a fixed rate of 11.5%.

The received cash has been temporarily placed on short-term bank deposits.

For the year ended 31 December 2017 the Group capitalized in the cost of property, plant and equipment a depreciated discount of KZT 7,578 thousand and amortized transaction costs in the amount of KZT 2,261 thousand. During the year ended 31 December 2017 the Group capitalized the cost of coupon interest on issued bonds, net of investment income of KZT 5,080,040 thousand (for the year ended 31 December 2016: KZT 1,379,376 thousand).

17. LONG-TERM AND SHORT-TERM TRADE AND OTHER ACCOUNTS PAYABLE

In thousands of Tenge	**31 December 2017**	31 December 2016
Long-term accounts payable		
Accounts payable for property, plant and equipment and construction works	**332,584**	2,804,261
Less: discount on accounts payable	**(34,257)**	(386,451)
	298,327	2,417,810
Short-term trade and other accounts payable		
Accounts payable for property, plant and equipment and construction works	**13,183,438**	12,731,011
Accounts payable for electricity purchased	**4,207,638**	3,310,440
Accounts payable for inventories, works and services	**1,372,261**	940,184
	18,763,337	16,981,635
	19,061,664	19,399,445

As at 31 December 2017 and 2016 trade and other accounts payable are denominated in the following currencies:

In thousands of Tenge	**31 December 2017**	31 December 2016
Tenge	**18,020,295**	18,802,071
Russian rouble	**1,025,703**	559,834
US dollars	**7,893**	27,496
Euro	**7,773**	10,044
	19,061,664	19,399,445

Long-term accounts payable are represented by the amounts withheld from the amount of the works performed under contractual agreements as a guarantee of performance of obligations.

In September 2017, the Group signed an agreement with the contractor under the project "Construction of 500 kW line Shulbinskaya GES (Semey) – Aktogay – Taldykorgan – Alma" for the purpose of early repayment of part of the withheld amounts related to the long-term accounts payable. Thus, the Group has amortized the discount on this debt in the amount of KZT 408,695 thousand and reclassified long-term accounts payable in the amount of KZT 3,982,454 thousand in the short-term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. GOVERNMENT GRANT

In thousands of Tenge	**31 December 2017**	31 December 2016
At 1 January	**–**	–
Received for a year	**137,435**	–
Recognized in profit or loss	**(9,162)**	–
At 31 December	**128,273**	–
Less current portion	**(27,487)**	–
Long-term part	**100,786**	–

The state subsidy was provided by the Asian Development Bank in coordination with the Government of the Republic of Kazakhstan for the acquisition of licenses for software. In connection with these subsidies, the Group does not have any unfulfilled conditions or contingent liabilities.

19. CONSTRUCTION OBLIGATION

On 28 November 2013 in accordance with the decision of the Board of Samruk-Kazyna, the Group was committed to construct a kindergarten in Astana city and transfer it upon completion to the Akimat of Astana. In 2014, the Group has estimated construction costs and signed a contract with the construction company. Accordingly, the Group recognized a liability for construction in total amount of KZT 683,430 thousand and the corresponding distribution to shareholders. Completion of the construction of the kindergarten is postponed to 2018.

20. TAXES PAYABLE OTHER THAN INCOME TAX

In thousands of Tenge	**31 December 2017**	31 December 2016
Contributions payable to pension fund	**281,451**	195,551
Personal income tax	**250,580**	171,925
Social tax	**230,499**	156,929
VAT payable	**118,608**	115,476
Social contribution payable	**72,765**	40,580
Property tax *(Note 31)*	**2,563**	2,657,850
Other	**2,059**	1,954
	958,525	3,340,265

21. OTHER CURRENT LIABILITIES

In thousands of Tenge	**31 December 2017**	31 December 2016
Due to employees	**3,210,561**	2,776,866
Other	**215,451**	197,045
	3,426,012	2,973,911

22. REVENUE

In thousands of Tenge	**2017**	2016
Electricity transmission	**94,600,803**	80,601,372
Technical dispatch	**21,853,659**	19,761,623
Revenue from sales of purchased electricity	**15,399,538**	10,755,485
Balancing of electricity production and consumption	**14,961,056**	13,538,986
Revenue from electricity sales for compensation of the interstate balances of electricity flows	**4,084,672**	3,704,705
Revenue from power regulation services	**415,637**	1,361,538
Other	**1,392,527**	1,569,884
	152,707,892	131,293,593
Discounts to consumers	**(328,075)**	(1,292,160)
	152,379,817	130,001,433

22. REVENUE (continued)

Discounts to customers are authorised by the Committee of the Republic of Kazakhstan for the Regulation of Natural Monopolies.

During the year ended 31 December 2016 the Group recognised revenue from power regulation services to Uzbekenergo JSC for 2015 and 2016 year in the amount of KZT 1,361,538 thousand as a result of agreement reached with Uzbekenergo JSC.

For the year ended 31 December 2017 the revenue from one customer, Samruk-Energo Group, amounted to KZT 34,927,661 thousand, arising from transmission, technical dispatching and balancing services (for the year ended 31 December 2016: KZT 19,974,135 thousand).

23. COST OF SALES

In thousands of Tenge	**2017**	2016
Depreciation and amortization	**22,288,566**	22,117,467
Technical losses of electric energy	**18,225,994**	16,079,993
Cost of purchased electricity	**14,908,997**	10,460,213
Payroll expenses and related taxes	**14,521,162**	13,347,751
Cost of purchased electricity for compensation of interstate balances of electricity flows	**9,654,277**	8,428,757
Repair and maintenance expenses	**5,263,450**	4,620,643
Inventories	**1,373,422**	1,349,630
Security services	**1,078,054**	1,002,730
Other	**2,085,447**	1,981,590
	89,399,369	79,388,774

24. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of Tenge	**2017**	2016
Taxes other than income tax	**6,851,098**	8,418,457
Payroll expenses and related taxes	**4,249,990**	4,602,616
Depreciation and amortization	**585,988**	545,037
Consulting services	**427,315**	840,873
Insurance	**236,960**	184,393
Expenses for the Board of Directors	**144,490**	130,745
Business trip expenses	**125,793**	156,492
Rent expenses	**118,211**	111,623
Expenses for the rights to use the software	**110,527**	104,386
Utilities	**95,540**	91,424
Trainings	**91,114**	46,440
Allowance for obsolete inventories *(Note 8)*	**86,128**	385,867
Materials	**75,701**	75,988
Accrual of allowance for doubtful receivables and impairment of advances paid and other current assets *(Notes 9 and 10)*	**(1,044,203)**	1,290,214
Other	**987,743**	655,875
	13,142,395	17,640,430

25. FINANCE INCOME/(COSTS)

In thousands of Tenge	**2017**	2016
Finance income		
Interest income from deposits, current accounts and bonds	**6,205,274**	9,192,217
Discount on trade payable *(Note 17)*	**156,046**	386,451
Amortization of discount on accounts receivable	**140,477**	829,033
Others	**2,173**	3,644
	6,503,970	10,411,345
Less: interest capitalized into cost of qualifying asset *(Note 6)*	**(2,910,763)**	(3,876,259)
	3,593,207	6,535,086
Finance costs		
Interest on borrowings	**10,729,293**	10,091,348
Commission on bank guarantees	**794,285**	832,722
Discount on account receivable	**660,963**	–
Amortization of loan origination fees	**328,082**	388,899
Transaction costs on bonds issued	**1,736**	575
Interest expense on finance leases	**392**	–
	12,514,751	11,313,544
Less: interest capitalized into cost of qualifying assets *(Note 6)*	**(7,990,803)**	(5,255,635)
	4,523,948	6,057,909

26. FOREIGN EXCHANGE (LOSS)/GAIN, NET

On 20 August 2015 the National Bank of Republic of Kazakhstan and the Government of the Republic of Kazakhstan decided to shift to freely floating currency exchange rate as a part of implementation of inflation targeting program. As a result of change of exchange rate of Tenge for the year ended 31 December 2017, the Group incurred net foreign exchange gain in the amount of KZT 4,356,244 thousand (for the year ended 31 December 2016: net foreign exchange loss in the amount of KZT 2,346,713 thousand).

27. OTHER INCOME

In thousands of Tenge	**2017**	2016
Fines and penalties	**332,590**	214,682
Income from rental of buildings	**74,152**	74,152
Income from material disposal	**31,809**	59,449
Income from amortization of Government grants	**9,162**	–
Income from receipt of granted fixed assets	**–**	872,939
Reimbursement of CIT from receipt of granted assets	**–**	158,267
Other	**59,136**	33,709
	506,849	1,413,198

Other income for the year ended 31 December 2016 include the income from gratuitous receipt of certain items of property, plant and equipment, including substation and transmission lines, from the Group's customers Caspian Pipeline Consortium – K JSC and Altaypollimetally LLP in the amount of KZT 872,939 thousand. In addition, the Group received KZT 158,267 thousand from Caspian Pipeline Consortium – K JSC as reimbursement of CIT from transfer of granted assets.

28. INCOME TAX EXPENSE

In thousands of Tenge	**2017**	2016
Current income tax		
Current income tax expense	**9,907,788**	6,239,946
Adjustments in respect of current income tax of previous year	**(4,910)**	12,232
Deferred tax		
Deferred income tax expense/(benefit)	**(142,500)**	2,132,518
Total income tax expense reported in the consolidated statement of comprehensive income	**9,760,378**	8,384,696

The income tax rate in the Republic of Kazakhstan is 20% in 2017 and 2016.

A reconciliation of the 20% income tax rate and actual income tax recorded in the consolidated statement of comprehensive income is provided below:

In thousands of Tenge	**2017**	**2016**
Profit before income tax expense	**42,641,694**	35,974,847
Tax at statutory income tax rate of 20%	**8,528,339**	7,194,969
Adjustments in respect of current income tax of previous year	**(4,910)**	12,232
Interest capitalized in the cost of qualifying assets	**582,153**	443,507
(Reversal)/accrual of allowance for doubtful accounts receivable from non-residents	**(250,800)**	261,561
Support of producers of energy from renewable sources	**271,629**	188,384
Accrual of obsolete inventory allowance	**17,226**	77,173
Fines and penalties on property tax	**18,987**	49,445
Impairment of financial investments	**448,231**	129,178
Other non-deductible expenses	**149,523**	28,247
Income tax expense reported in the consolidated statement of comprehensive income	**9,760,378**	8,384,696

Tax effect on temporary differences leading to deferred income tax assets and liabilities at 31 December 2017 and 2016 is provided below:

	Consolidated statement of financial position		**Consolidated statement of comprehensive income**	
In thousands of Tenge	**31 December 2017**	31 December 2016	**2017**	2016
Tax losses carried forward	**–**	–	**–**	(3,472,159)
Accounts receivable	**98,112**	91,758	**252,354**	(171,286)
Accrued liabilities	**638,843**	980,032	**(341,189)**	852,407
Property, plant and equipment	**(67,401,276)**	(67,878,611)	**477,335**	658,520
Deferred tax expense/(benefit)			**388,500**	(2,132,518)
Net deferred tax liabilities	**(66,664,321)**	(66,806,821)		

Deferred tax assets and liabilities reflected in the consolidated statement of financial position is presented as follows:

In thousands of Tenge	**31 December 2017**	31 December 2016
Deferred tax assets	**2,252**	1,093
Deferred tax liabilities	**(66,666,573)**	(66,807,914)
Net deferred tax liabilities	**(66,664,321)**	(66,806,821)

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

29. TRANSACTIONS WITH RELATED PARTIES

Related parties include key management personnel of the Group, enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by the Group's key management personnel and other entities controlled by the Government. The related party transactions were made on terms agreed between the parties that may not necessarily be at market rates, except for regulated services, which are provided based on tariffs available to related and third parties.

The following table provides the balances of trade accounts payable to/receivable from related parties as at 31 December 2017 and 2016:

In thousands of Tenge		Trade accounts receivable from related parties	Trade accounts payable to related parties
Subsidiaries of Samruk-Kazyna Group	**2017**	**2,783,369**	**1,264,918**
	2016	1,906,324	1,612,641
Associates of Samruk-Kazyna	**2017**	**395,840**	**537,332**
	2016	289,396	188,262
Entities under joint control of Samruk-Kazyna	**2017**	**199,497**	**6,967**
	2016	200,141	334,881
Associates of the Group	**2017**	**29,140**	**17,194**
	2016	37,099	10,975

The Group had the following transactions with related parties for the year ended 31 December 2017 and 2016:

In thousands of Tenge		Sales to related parties	Purchases from related parties
Subsidiaries of Samruk-Kazyna Group	**2017**	**37,601,709**	**21,295,283**
	2016	22,997,812	15,969,180
Associates of Samruk-Kazyna	**2017**	**7,988,875**	**1,602,714**
	2016	7,539,481	2,804,717
Entities under joint control of Samruk-Kazyna	**2017**	**4,799,287**	**33,829**
	2016	7,004,120	2,793,163
Associates of the Group	**2017**	**375,228**	**85,049**
	2016	300,653	90,194

The Group's sales to related parties mainly represent electricity transmission, technical dispatch and services on organizing and balancing of electricity production and consumption services. The Group's purchases from related parties mainly represent communication services, energy services and purchase of electricity.

As at 31 December 2017 the Group's borrowings of KZT 56,657,386 thousand were guaranteed by the Government of the Republic of Kazakhstan (31 December 2016: KZT 65,437,392 thousand).

In 2007-2009 the Group acquired bonds of an associate, Batys Transit JSC, an entity listed on the Kazakhstan Stock Exchange. The interest rate on the bonds is 8.4%. The bonds are classified as assets-held-to-maturity. The carrying amount of Batys Transit bonds comprised KZT 868,269 thousand as at 31 December 2017 (31 December 2016: KZT 868,269 thousand).

For the year ended 31 December 2017 interest income accrued on bonds of Batys Transit JSC, the associate, amounted to KZT 65,405 thousand (for the year ended 31 December 2016: KZT 227,840 thousand).

As at 31 December 2017 the Group had outstanding accounts receivable from Balkhash TES JSC for the sale of property, plant and equipment of KZT 201,284 thousand (31 December 2016: KZT 184,276 thousand) presented within other current assets. In accordance with the sales agreement Balkhash TES JSC should repay the outstanding balance in December 2018. In connection with the suspension of construction of Balkhash TES JSC, the management of the Group made a decision to accrue impairment allowance for the receivable of 100%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. TRANSACTIONS WITH RELATED PARTIES (continued)

On 30 September 2015 the Group has sold buildings and constructions with equipment and land located in Astana city to its related party Kazpost JSC for KZT 2,161,476 thousand. In accordance with sales agreement Kazpost JSC will repay the outstanding balance by equal monthly payments until June 2027. Accordingly, the Group discounted the future cash flows using discount rate of 10.37%, which is the Group Management's best estimate of market rate. As of 31 December 2017 the discount on accounts receivable from Kazpost JSC comprised KZT 660,250 thousand. As of 31 December 2017 the receivable net of discount comprised KZT 1,190,104 thousand, of which KZT 1,009,981 thousand was accounted for within long-term receivables from related parties. For the year ended 31 December 2017 the Group recognized income from amortization of discount on long-term receivables from Kazpost JSC in the amount of KZT 123,468 thousand.

In 2017, the Group entered into a long-term contract with the related company Samruk-Kazyna Business Contract LLP for granting the rights to use the software for rent. Since the rights to use the software will be transferred to the Group at the end of the contract period, the Group has recognized the finance lease liability. As of 31 December 2017, the debt was KZT 12,957 thousand.

Total compensation to key management personnel included in personnel costs in the consolidated statement of comprehensive income was KZT 434,374 thousand for the year ended 31 December 2017 (for the year ended 31 December 2016: KZT 542,242 thousand). Compensation to key management personnel mainly consists of contractual salary and performance compensation based on operating results.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Group's investment projects and operations. The Group has trade and other receivables, cash and short-term and long-term deposits that arrive directly from its operations. The Group also holds available-for-sale investments.

The Group is exposed to interest rate risk, foreign currency risk, credit risk and liquidity risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term and short-term borrowings with floating interest rates *(Note 15 and 16)*.

The Group limits its interest rate risk by monitoring changes in interest rates in the currencies in which the borrowings are denominated. The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in interest rates with all other variables held constant.

In thousands of Tenge	Increase/(decrease) in basis points*	Effect on profit before tax
For the year ended 31 December 2017		
LIBOR	**70/(8)**	**(393,671)/44,991**
EURIBOR	**25/(1)**	**(42,939)/1,718**
For the year ended 31 December 2016		
LIBOR	60/(8)	(445,007)/59,334
EURIBOR	12/(8)	(57,299)/38,199

* *1 basis point = 0.01%.*

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility than in prior years.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's financing activities. Also, the Group's exposure to the risk of changes in foreign exchange rates relates to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency).

The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar and euro exchange rate, with all other variables held constant. The Group's exposure to foreign currency changes for all other currencies is not material.

In thousands of Tenge	**Increase/(decrease) in exchange rate**	**Effect on profit before tax**
At 31 December 2017		
US dollar	**10%/(10%)***	**(3,244,534)/3,244,534**
Euro	**13,5%/(9,5%)****	**(2,343,820)/1,649,355**
At 31 December 2016		
US dollar	13%/(13%)	(1,445,471)/1,445,471
Euro	15%/(15%)	(7,182,007)/7,182,007

* *In absolute terms increase/(decrease) in exchange rate of Tenge in relation to US dollar comprised 33.23/(33.23) Tenge;*

** *In absolute terms increase/(decrease) in exchange rate of Tenge in relation to euro comprised 53.76/(37.83) Tenge.*

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities, primarily trade receivables *(Note 9)* and from its financing activities, including deposits with banks *(Notes 11, 12 and 13)*. The Group's exposure and the creditworthiness of its counterparties are controlled constantly. It is the Group's policy to enter into financial instruments with a diversity of creditworthy parties. The maximum exposure to the credit risk is represented by the carrying value of each financial asset *(Notes 9, 10, 11, 12 and 13).*

Book value of financial assets recognized in the consolidated financial statements of the Group less impairment allowance reflects the maximal extent of the Group's credit risk.

Customer credit risk is managed subject to the Group's established policy, procedures and control relating to customer credit risk management. The outstanding customer receivables are regularly monitored by the Group management.

An impairment analysis is performed by Group management at each reporting date on an individual basis for all customers based on number of days the receivables are overdue. The calculation is based on actual incurred historical data. The maximum exposure to the credit risk is represented by the carrying value of each class of financial assets disclosed in Note 11. The Group does not hold collateral as security.

During 2016-2017, due to the deterioration in the quality of the loan portfolio, a number of banks in the Republic of Kazakhstan experienced financial difficulties. These banks sought help from the National Bank. Some banks were deprived of a license to conduct banking and other operations by the National Bank *(Note 11)*.

The Group is exposed to credit risk from its operating activities and investing activities. With regard to investing activities, the Group mainly places deposits with Kazakhstan banks.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The following table shows the balance of cash and cash equivalents and bank deposits placed in banks at the reporting date using the credit rating agency "Standard & Poor's" and "Fitch" less accrued provisions.

In thousands of Tenge	**Location**	**Rating 2017**	Rating 2016	**31 December 2017**	31 December 2016
ForteBank JSC	Kazakhstan	**B3/Positive**	B/Stable	**19,605,491**	5,006,158
National Bank Kazakhstan JSC	Kazakhstan	**BB/Negative**	BB/Stable	**15,455,437**	16,851,515
BankCenterCredit JSC	Kazakhstan	**B/Stable**	B/Stable	**13,354,885**	6,938,201
ATF Bank JSC	Kazakhstan	**B3/Positive**	B-/Negative	**12,748,136**	31,499,274
Tsesna Bank JSC	Kazakhstan	**B+/Negative**	B+/Stable	**8,361,222**	3,170,712
EximBank Kazakhstan JSC	Kazakhstan	**CCC**	B/Stable	**2,570,204**	4,436,326
Qazqom JSC	Kazakhstan	**B+/Negative**	B-/Negative	**2,409,507**	2,437,396
Nur Bank JSC	Kazakhstan	**B-/Negative**	B/Negative	**968,004**	1,511,630
Kassa Nova Bank JSC	Kazakhstan	**B/Negative**	B/Negative	**302,842**	–
Eurasian Bank JSC	Kazakhstan	**B/Negative**	B/Stable	**133,424**	12,765,758
Treasury Committee of the Ministry of Finance	Kazakhstan	**Not applicable**	Not applicable	**80,383**	80,383
Delta Bank JSC	Kazakhstan	**D**	D	**67,742**	3,000,000
KazInvestBank JSC	Kazakhstan	**D**	D	**–**	645,891
Qazaq Banki JSC	Kazakhstan	**B-/Negative**	B-/Stable	**–**	4,373,053
Bank Astana JSC	Kazakhstan	**B-/Stable**	B/Stable	**–**	4,829,510
Capital Bank Kazakhstan JSC	Kazakhstan	**B-/Stable**	B-/Stable	**–**	3,000,022
Alfa-Bank JSC	Kazakhstan	**BB-/Stable**	B+/Negative	**–**	3,000,000
Bank RBK JSC	Kazakhstan	**CCC**	B-/Stable	**–**	2,441,921
Tengri Bank JSC	Kazakhstan	**B+/Negative**	B+/Negative	**–**	2,017,708
AsiaCredit Bank JSC	Kazakhstan	**B-/Stable**	B/Negative	**–**	70
SberBank Russia JSC	Kazakhstan	**BB+/Positive**	BB+/Negative	**–**	–
				76,057,277	108,005,528

Liquidity risk

The management of the Group has built an appropriate liquidity risk management framework in accordance with the short, medium and long-term funding and liquidity management requirements. The Group manages its liquidity risk by maintaining adequate reserves, bank loans and credit lines, by monitoring projected and actual cash flows and comparing maturity dates of financial assets and liabilities.

The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. The Group has access to a sufficient variety of sources of funding and debt maturing within 12 (twelve) months can be rolled over with existing lenders.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

In thousands of Tenge	On demand	Due more than 1 month but not later than 3 months	Due more than 3 months but not later than 1 year	Due more than 1 year but not later than 5 years	Due more than 5 years	Total
At 31 December 2017						
Borrowings	**–**	**1,454,277**	**9,322,742**	**42,087,100**	**31,588,145**	**84,452,264**
Bonds payable	**–**	**–**	**4,407,719**	**–**	**83,649,023**	**88,056,742**
Trade and other accounts payable	**–**	**18,763,337**	**–**	**298,327**	**–**	**19,061,664**
	–	**20,217,614**	**13,730,461**	**42,385,427**	**115,237,168**	**191,570,670**
At 31 December 2016						
Borrowings	–	15,279,011	13,947,521	64,035,820	42,194,121	135,456,473
Bonds payable	–	–	5,251,917	–	47,368,104	52,620,021
Trade and other accounts payable	–	16,981,635	–	2,417,810	–	19,399,445
	–	32,260,646	19,199,438	66,453,630	89,562,225	207,475,939

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximise the shareholder's value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2017.

The Group monitors capital using a debt to capital ratio, which is debt divided by total capital. The Group's objective is to keep the ratio not higher than 0.5. Debt is considered to be equal to all borrowings. Capital is considered to be equal to the total liabilities and entire equity.

	31 December 2017	31 December 2016
Debt/capital	**0.26**	0.28

In thousands of Tenge	**31 December 2017**	31 December 2016
Long-term borrowings and long-term bonds payable	**147,878,205**	142,512,099
Short-term borrowings and short-term bonds payable	**13,910,614**	32,586,861
Debt	**161,788,819**	175,098,960
Total liabilities	**254,780,140**	269,974,816
Equity	**374,167,560**	362,084,070
Capital	**628,947,700**	632,058,886

The structure of the Group capital includes the share capital as disclosed in *Note 14*, reserves and retained earnings.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The following table provides the fair value measurement hierarchy of the Group’s assets and liabilities:

Assets measured at fair value

In thousands of Tenge	**31 December 2017**	**Level 1**	**Level 2**	**Level 3**
Non-financial assets				
NES constructions *(Note 7)*	**422,319,945**	**–**	**–**	**422,319,945**

In thousands of Tenge	31 December 2016	Level 1	Level 2	Level 3
Financial assets				
Available-for-sale financial assets *(Note 12)*	868,269	–	–	868,269
Non-financial assets				
NES constructions *(Note 7)*	416,722,746	–	–	416,722,746

Liabilities for which fair values are disclosed

In thousands of Tenge	**31 December 2017**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities				
Borrowings *(Note 15)*	**73,732,077**	**–**	**73,732,077**	**–**
Bonds payable *(Note 16)*	**88,056,742**	**88,056,742**	**–**	**–**
Obligations under finance leases	**12,957**	**–**	**12,957**	**–**

In thousands of Tenge	31 December 2016	Level 1	Level 2	Level 3
Financial liabilities				
Borrowings *(Note 15)*	122,478,939	–	122,478,939	–
Bonds payable *(Note 16)*	52,620,021	–	52,620,021	–

Fair values of financial instruments

As at 31 December 2017 and 2016 the management assessed that the fair value of financial instruments of the Group, such as trade accounts receivable and payable, other financial assets, cash and cash equivalents, cash restricted in use, approximates their carrying amounts largely due to the short-term maturities of these instruments. Borrowings are stated at amortized costs which approximate their fair values.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Changes in liabilities arising from financing activities

In thousand Tenge	**1 January 2017**	**Cash flows**	**Foreign exchange movement**	**New leases**	**Other**	**31 December 2017**
Borrowings	**122,478,939**	**(53,433,954)**	**4,931,247**	**–**	**(244,155)**	**73,732,077**
Bonds payable	**52,620,021**	**27,436,080**	**–**	**–**	**8,000,641**	**88,056,742**
Finance leases obligations	**–**	**(992)**	**–**	**13,160**	**789**	**12,957**
Total liabilities from financing activities	**175,098,960**	**(25,998,866)**	**4,931,247**	**13,160**	**7,757,275**	**161,801,776**

In thousand Tenge	1 January 2016	Cash flows	Foreign exchange movement	New leases	Other	31 December 2016
Borrowings	171,230,539	(44,951,559)	(3,952,545)	–	152,504	122,478,939
Bonds payable	–	54,275,028	–	–	(1,655,007)	52,620,021
Finance leases obligations	–	–	–	–	–	–
Total liabilities from financing activities	171,230,539	9,323,469	(3,952,545)	–	(1,502,503)	175,098,960

31. COMMITMENTS AND CONTINGENCIES

Operating environment

The Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Kazakhstan economy has been negatively impacted by a drop in oil prices. Interest rates in Tenge remain high. Combination of these factors resulted in a reduced access to capital, a higher cost of capital, increased uncertainty regarding further economic growth, which could negatively affect the Company's financial position, results of operations and business prospects. Management of the Group believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for 5 calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2017.

From 1 January 2015 National classifier of Republic of Kazakhstan Tax Code *Classifier of Fixed Assets* (the "COF") became effective. This classifier was approved by Decree of the Head of Technical Regulation and Metrology Committee of the Ministry of Investment and Development of Republic of Kazakhstan dated 7 November 2014. New version of COF supposes reclassification of part of fixed assets from "NES" assets group into "Machinery and Equipment" group. The Group applied new version of COF for calculation of property tax in 2015 and 2016. As a result of implementation of new version of COF, the Group received annual savings of resources. In 2016 there is an issue raised by tax authorities that COF is not registered in the judicial bodies. In the tax authorities' view, absence of standard documents in the judicial bodies loses its validity. Therefore, new version of COF was abolished according to the Decision of Technical Regulation and Metrology Committee of the Ministry of Investment and Development of Republic of Kazakhstan dated 23 July 2016. Due to the factors above, the Group reclassified fixed assets and made additional property tax accrual in the amount of KZT 2,630,504 thousand for 2015 and 2016, including fines and penalties in amount of KZT 256,639 thousand *(Note 20).*

31. COMMITMENTS AND CONTINGENCIES (continued)

Compliance with loan covenants

From 1999 till 2011 the Group concluded loan facility agreements with EBRD and IBRD (the "Creditors") of which are effective for the amounts of 506 million US dollars and 228 million euro *(Note 16)*. According to the Loan facility Agreements concluded between the Group and the Creditors, the Group has to comply with the following covenants:

- Current ratio of not less than 1:1;
- Total debt to total capital of not more than 50%;
- Earnings before interest, income tax, depreciation and amortization ("EBITDA") to interest expense of not less than 3:1;
- Net debt to EBITDA of not more than 4:1;
- Self-financing ratio of not less than 20%;
- Debt service ratio of not less than 1.2.

Management believes that the Group complied with all existing loan covenants with EBRD and IBRD as at 31 December 2017 and 31 December 2016. The Group excludes from EBITDA the foreign exchange loss, as management believes that foreign exchange loss meets definition of non-cash impairment and as such shall be excluded from the calculation of EBITDA as provided in the loan agreement. As of 31 December 2017 the Group excluded from EBITDA the foreign exchange loss of KZT 4,356,244 thousand incurred during the year ended 31 December 2017.

Insurance

As at 31 December 2017, the Group insured property and equipment with the carrying value of KZT 170,542,342 thousand. The insurance payment is limited to the carrying value of property and equipment. The Group does not insure its other property. Since absence of any insurance does not imply a reduction of the cost of assets or occurrence of any liabilities, no provision has been made in these consolidated financial statements for unexpected expenses associated with damage or loss of these assets.

Capital commitments

To ensure the stable and reliable performance of the national electricity grid, the Group developed a capital investment plan. As at 31 December 2017, the Group's outstanding contractual commitments within the frameworks of this plan amount to KZT 21,463,464 thousand (31 December 2016: KZT 45,623,560 thousand).

Due to the fact that a significant part of the plan on capital investments and, open contracts in particular, consist of equipment and spare parts purchased outside of the Republic of Kazakhstan, there is a likelihood of fluctuations in the value of contractual obligations. The main cause of these variations is the effect of changes in exchange rates caused by the transition to the regime of free-floating exchange rate in the framework of the implementation of target-based inflation.

Tariff for electricity transmission and technical dispatch services supply to the grid and electricity consumption

At the end of 2016 was sent to report on implementation of the tariff estimate to the Committee following the consideration of which the order of the Committee has been defined temporary compensating tariff for regulated services for the period from 1 July 2017 to 30 June 2018, set lower limit levels of tariffs for regulated services. From 1 July to 31 December 2017 the temporary compensating tariff for electricity transmission through electric grids set at 2.2457 KZT/kWh (excluding VAT), the rate of technical dispatch to the grid and electricity consumption – 0.2339 KZT/kWh (excluding VAT). From 1 January to 30 June 2018 a temporary compensating tariff for electricity transmission through electric grids will be 2.245 KZT/kWh (excluding VAT), the rate of technical dispatch to the grid and electricity consumption – 0.2489 KZT/kWh (excluding VAT).

32. SUBSEQUENT EVENTS

Repayment of loans

In January 2018, the Group made a repayment of loan under the IBRD loan for the project "Construction of the Alma 500 kW substation with connection to NES of Kazakhstan with the voltage of 500, 200 kW". The Group repaid its principal debt in the amount of USD 1,784 thousand (equivalent to KZT 588,922 thousand) and an interest in the amount of USD 857 thousand (equivalent to KZT 282,824 thousand).

In February 2018, the Group paid the interest for the "Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2" in the amount of EUR 780 thousand (equivalent to KZT 312,081 thousand).