Kazakhstan Electricity Grid Operating Company JSC

Consolidated financial statements

For the year ended 31 December 2016
with independent auditor's report

CONTENTS

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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 2016, 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 financial position of the Group as at 31 December 2016 and its financial performance and its 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 our 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.

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Recoverability of receivables from Uzbekenergo JSC

The Group has a significant balance of accounts receivable from Uzbekenergo JSC as at the reporting date. The management assessment of recoverability of these accounts receivable is complex, largely subjective and based on assumptions, in particular, on forecasted ability of Uzbekenergo JSC to pay for supplied services. Therefore, this matter of the most significance in our audit.

We obtained understanding of process of the allowance for doubtful accounts receivable calculation and considered respective accounting policy of the Group. We analyzed information used by the Group for the determination of allowance for doubtful accounts receivable, including information on accounts receivable settlements before and after the reporting date, information on accounts receivable aging structure and applicable levels of accounts receivable allowance. We considered current status of negotiations and correspondence with Uzbekenergo JSC.

Information on receivables from Uzbekenergo JSC is disclosed in Note 10 to the consolidated financial statements.

Measurement of assets held in KazInvestBank and Delta Bank

Taking into account the revocation of KazInvestBank JSC license by the National Bank of the Republic of Kazakhstan, the default on bonds of Delta Bank JSC and the significant amount of assets held by the Group in these banks, the measurement of cash and deposits held in banks was one of the matters of most significance in our audit.

We analyzed available information on plans for the banks' financial rehabilitation, additional clarifications from the Group's management on plans for the bank's financial rehabilitation and evaluated the management assumptions used in measurement of assets held in KazInvestBank and Delta Bank. We also reviewed minutes of Committee on accounting for unusual transactions and preparation of financial statements of the Group and considered arrangements with the banks after reporting date. We considered correctness of classification of these assets as at the reporting date.

The information on measurement of assets held in KazInvestBank JSC and Delta Bank JSC is disclosed in Note 12 to the consolidated financial statements.

Other Information included in the Group's 2016 Annual report

Other information consists of the information included in the Group's 2016 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2016 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

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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.

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.

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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 those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters 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

Al-Farabi Ave., 77/7
050060, Almaty, Republic of Kazakhstan

28 February 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

In thousands of Tenge	**Notes**	**31 December 2016**	31 December 2015
Assets			
Non-current assets			
Property, plant and equipment	7	**500,914,390**	478,699,792
Intangible assets		**855,032**	1,036,367
Advances paid for non-current assets	7	**664,471**	1,939,241
Deferred tax asset	28	**1,093**	2,839
Investments in associates	8	**304,954**	266,815
Long-term receivables from related parties	29	**1,267,287**	1,320,245
Other long-term financial assets	11	**–**	5,968,419
Other non-current assets		**11,009**	24,496
		504,018,236	489,258,214
Current assets			
Inventories	9	**1,686,312**	1,982,353
Trade accounts receivable	10	**15,746,830**	23,431,376
VAT recoverable and other prepaid taxes		**309,268**	295,619
Prepaid income tax		**734,349**	2,902,770
Other current assets	11	**477,988**	352,190
Other short-term financial assets	12	**61,403,727**	65,572,190
Restricted cash	13	**15,626,798**	2,349,629
Cash and cash equivalents	14	**32,055,378**	9,030,762
		128,040,650	105,916,889
Non-current assets held for sale	6	**–**	161,511
Total assets		**632,058,886**	595,336,614

The accounting policies and explanatory notes on pages 7 to 50 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of Tenge	Notes	31 December 2016	31 December 2015
Equity and liabilities			
Equity			
Share capital	15	**126,799,554**	126,799,554
Treasury shares	15	**(930)**	–
Asset revaluation reserve	15	**220,890,374**	221,297,751
Other reserves	15	**(170,701)**	(170,701)
Retained earnings / (accumulated loss)		**14,565,773**	(6,949,990)
		362,084,070	340,976,614
Non-current liabilities			
Borrowings, non-current portion	16	**95,143,995**	149,139,660
Bonds payable, non-current portion	17	**47,368,104**	–
Deferred tax liability	28	**66,807,914**	64,677,142
Long-term trade and other accounts payable	18	**2,417,810**	–
		211,737,823	213,816,802
Current liabilities			
Borrowings, current portion	16	**27,334,944**	22,090,879
Bonds payable, current portion	17	**5,251,917**	–
Trade and other accounts payable	18	**16,981,635**	13,525,144
Construction obligation	19	**683,430**	683,430
Dividends payable	15	**44**	2,199,600
Advances received		**1,042,525**	751,166
Taxes payable other than income tax	20	**3,340,265**	559,515
Income tax payable		**628,322**	4,577
Other current liabilities	21	**2,973,911**	728,887
		58,236,993	40,543,198
Total liabilities		**269,974,816**	254,360,000
Total equity and liabilities		**632,058,886**	595,336,614
Book value per ordinary share (in Tenge)	15	**1,389**	1,307

Chairman of the Management Board _______________ Kazhiyev B.T.

Chief Accountant _______________ Mukanova D.T.

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The accounting policies and explanatory notes on pages 7 to 50 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

In thousands of Tenge	Notes	2016	2015
Revenue	22	**130,001,433**	110,061,459
Cost of sales	23	**(79,388,774)**	(75,542,604)
Gross profit		**50,612,659**	34,518,855
General and administrative expenses	24	**(17,640,430)**	(8,564,705)
Selling expenses		**(215,008)**	(174,438)
(Accrual)/reversal of impairment loss	7	**(79,820)**	5,353
Operating profit		**32,677,401**	25,785,065
Finance income	25	**6,535,086**	3,876,505
Finance costs	25	**(6,057,909)**	(4,788,997)
Foreign exchange gain/(loss)	26	**2,346,713**	(35,739,224)
Share of income of associates	8	**75,049**	110,121
(Loss)/income from disposal of non-current assets held for sale	6	**(85,802)**	214,488
Provision on funds placed with Kazinvestbank JSC	12	**(645,891)**	–
Other income	27	**1,413,198**	872,252
Other expenses		**(282,998)**	(277,281)
Profit/(loss) before tax		**35,974,847**	(9,947,071)
Income tax (expense)/benefit	28	**(8,384,696)**	2,167,498
Profit/(loss) for the year		**27,590,151**	(7,779,573)
Total comprehensive income/(loss) for the year		**27,590,151**	(7,779,573)
Earnings per share			
Basic and diluted profit/(loss) for the year attributable to ordinary equity holders (in tenge)	15	**106.12**	(29.92)

Chairman of the Management Board _Kazhiyev B.T._

Chief Accountant _Mukanova D.T._

The accounting policies and explanatory notes on pages 7 to 50 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

In thousands of Tenge	Notes	2016	2015
Operating activities			
Profit/(loss) before tax		**35,974,847**	(9,947,071)
Adjustments to reconcile profit/(loss) before tax to net cash flows			
Depreciation and amortisation		**22,723,743**	22,420,041
Finance costs	25	**6,057,909**	4,788,997
Finance income	25	**(6,535,086)**	(3,876,505)
Unrealized foreign exchange (gain)/loss, net		**(2,346,713)**	45,952,373
Accrual/(reversal) of allowance for doubtful accounts receivable and impairment of advances and other current assets	24	**1,290,214**	(1,969,605)
Allowance for obsolete inventories	24	**385,867**	80,681
Provision on funds placed with KazInvestBank JSC	12	**645,891**	–
Income from receipt of granted assets	27	**(872,939)**	–
Loss on disposal of property, plant and equipment and intangible assets		**127,621**	239,545
Accrual / (reversal) of impairment loss of property, plant and equipment	7	**79,820**	(5,353)
Share of income of associates	8	**(75,049)**	(110,121)
Impairment of non-current assets held for sale	6	**–**	481
Loss/(income) from disposal of non-current assets held for sale	6	**85,802**	(214,488)
Working capital adjustments			
Change in inventories		**(89,826)**	(32,989)
Change in trade accounts receivable		**7,079,287**	(6,549,880)
Change in VAT recoverable and other prepaid taxes		**(13,649)**	3,320,553
Change in other current assets		**(292,760)**	(30,129)
Change in trade and other accounts payable		**(1,343,918)**	(597,441)
Change in advances received		**291,359**	(273,399)
Change in taxes payable other than income tax		**2,780,750**	(277,921)
Change in other current liabilities		**2,247,095**	(705,175)
Cash flows from operating activities		**68,200,265**	52,212,594
Interest paid		**(5,922,591)**	(4,096,789)
Income tax paid		**(2,355,541)**	(1,072,964)
Reimbursement of CIT related to receipt of granted assets	27	**158,267**	–
Interest received		**6,219,954**	2,932,699
Net cash flows received from operating activities		**66,300,354**	49,975,540

The accounting policies and explanatory notes on pages 7 to 50 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of Tenge	Notes	2016	2015
Investing activities			
Withdrawal of bank deposits		**74,266,160**	28,500,146
Placement of bank deposits		**(65,488,341)**	(38,605,228)
Change in restricted cash		**(13,682,155)**	1,267,838
Proceeds from sale of property, plant and equipment and intangible assets		**115,209**	1,632
Purchase of property, plant, equipment		**(33,792,438)**	(23,742,222)
Purchase of intangible assets		**(130,545)**	(134,896)
Payment for construction of kindergarden		**(21,534)**	(185,337)
Repayment of loans receivable from employees		**9,354**	27,194
Reclassification of funds placed with Kazinvestbank JSC	12	**(19,826)**	–
Dividends from an associate	8	**36,910**	–
Proceeds from sale of investment in associate	6	**10,839**	–
Decrease in charter capital of an associate	6	**64,870**	–
Net cash flows used in investing activities		**(38,631,497)**	(32,870,873)
Financing activities			
Dividends paid		**(8,681,517)**	(8,858,003)
Repayment of borrowings		**(44,951,558)**	(14,194,528)
Bonds issuance	17	**49,023,111**	–
Acquisition of treasury shares	15	**(930)**	
Net cash flows used in financing activities		**(4,610,894)**	(23,052,531)
Net change in cash and cash equivalents		**23,057,963**	(5,947,864)
Net foreign exchange difference		**(33,347)**	1,016,503
Cash and cash equivalents, as at 1 January		**9,030,762**	13,962,123
Cash and cash equivalents, as at 31 December	14	**32,055,378**	9,030,762

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

Chief Accountant ______________ *Mukanova D.T.*

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The accounting policies and explanatory notes on pages 7 to 50 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

In thousands of tenge	Share capital	Asset revaluation reserve	Treasury shares	Other reserves	(Accumulated loss) / retained earnings	Total
As at 1 January 2015	126,799,554	221,756,419	–	(170,701)	11,392,194	359,777,466
Loss for the year	–	–	–	–	(7,779,573)	(7,779,573)
Total comprehensive loss	–	–	–	–	(7,779,573)	(7,779,573)
Dividends *(Note 15)*	–	–	–	–	(11,057,800)	(11,057,800)
Transfer of asset revaluation reserve *(Note 15)*	–	(458,668)	–	–	458,668	–
Other changes in equity of an associate	–	–	–	–	36,521	36,521
As at 31 December 2015	126,799,554	221,297,751	–	(170,701)	(6,949,990)	340,976,614
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 income	**–**	**–**	**–**	**–**	**27,590,151**	**27,590,151**
Dividends *(Note 15)*	**–**	**–**	**–**	**–**	**(6,481,765)**	**(6,481,765)**
Acquired treasury shares *(Note 15)*	**–**	**–**	**(930)**	**–**	**–**	**(930)**
Transfer of asset revaluation reserve *(Note 15)*	**–**	**(407,377)**	**–**	**–**	**407,377**	**–**
As at 31 December 2016	**126,799,554**	**220,890,374**	**(930)**	**(170,701)**	**14,565,773**	**362,084,070**

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

Chief Accountant *Mukanova D.T.*

KEGOC

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The accounting policies and explanatory notes on pages 7 to 50 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 2016 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 "UPS"), ensures its technical support and maintenance. The UPS 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 2016 and 2015 the Company has stakes in the following companies:

		Percentage of ownership	
Companies	**Activities**	**31 December 2016**	31 December 2015
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 2017.

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 2016. 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 2015, except for the adoption of new standards and interpretations effective from 1 January 2016. 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 2016, they did not have a material impact on the annual consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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:

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 becomes effective in relation to annual reporting period from 1 January 2016. This standard did not affect the Group's consolidated financial statements.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are applied prospectively in relation to annual period from 1 January 2016. These amendments did not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group's consolidated financial statements, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 *Agriculture*. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are applied retrospectively and did not have any impact on the Group as it does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements have to apply that change retrospectively. These amendments did not have any impact on the Group's consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Annual improvements 2012-2014 cycle

These improvements include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to the owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment is applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment is applied retrospectively.

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Annual improvements 2012-2014 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

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. The Group expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Group expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent.

(a) Classification and measurement

The Group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9. However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Group expects a significant impact on its equity due to unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

(c) Hedge accounting

The Group believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Group does not expect a significant impact as a result of applying IFRS 9. The Group will assess possible changes related to the accounting for the time value of options, forward points or the currency basis spread in more detail in the future.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. In 2017 Group will assess the effects of IFRS 15.

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.

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 are effective for annual periods beginning on or after 1 January 2017, with early application permitted. Application of amendments will result in additional disclosure provided by the Group.

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 are effective for annual periods beginning on or after 1 January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have any impact on the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

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.

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 2017, the Group plans to assess the potential effect of IFRS 16 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification (continued)

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 (UPS 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*.

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 UPS assets and unquoted AFS financial assets, and for non-recurring measurement, if any.

External valuers are involved for valuation of UPS 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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.

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 2016**	31 December 2015
USD 1	**333.29**	340.01
EUR 1	**352.42**	371.46
RUR 1	**5.43**	4.61

Average exchange rate for the year (to KZT)	**2016**	2015
USD 1	**341.73**	222.25
EUR 1	**378.25**	246.48
RUR 1	**5.12**	3.62

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale

Non-current assets and disposal groups (which may include current and non-current assets) are recognised on the consolidated statement of financial position as “held for sale” in case of its net assets value will be compensated mainly by sale during the 12 (twelve) months after the reporting date.

Assets classification is subject to change upon all the following conditions: (a) the assets are available for immediate sale in its present condition, in accordance with the conditions customary for sales of such assets; (b) the Group’s management approved the active program for searching a buyer and initiated an active implementation; (c) assets are actively marketed for a sale at a reasonable price compared to their fair value; (d) the sale is expected within one year and (e) the necessary actions to complete the sale plan indicate that it is unlikely that significant changes will be made in the plan of sale or its cancellation.

Non-current assets or disposal groups classified in the consolidated statement of financial position in the current period as held for sale are recorded in the consolidated statement of financial position separately. Liabilities directly associated with disposal group transferred in the disposal, to be transferred to the category “held for sale” and are recognized in the consolidated statement of financial position separately. Comparative information of the consolidated statement of financial position are not corrected for adjustment with classification at the end of the current reporting period.

Disposal groups are assets (current or non-current) to be disposed by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is accounted in a disposal group in case a disposal group includes units generating cash flow, which has been allocated goodwill. Non-current assets held for sale and disposal groups are valued at the lower of book value and fair value less costs of sell. Non-current assets held for sale are not amortized.

Property, plant and equipment

Property, plant and equipment, except for UPS 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.

UPS 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.

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
UPS 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Due to changes in the National Classifier of Fixed Assets of the Republic of Kazakhstan effective from 1 January 2015 "UPS Machinery and equipment" class has been separated from "UPS constructions" class. Therefore, the Group renamed "UPS constructions" into "UPS 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.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the intangible asset will generate future economic benefits;
- the availability of resources to complete the asset;
- the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future economic benefit and is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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 UPS 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

<u>Available-for-sale financial investments</u>

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.

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 (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments − initial recognition and subsequent measurement (continued)

Impairment of financial assets (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments − initial recognition and subsequent measurement (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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*.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 171,675 per month (2015: KZT 160,230) 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax (continued)

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.

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

Revaluation of property, plant and equipment

The revalued UPS 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 UPS assets refer to Level 3 in the fair value hierarchy (unobservable inputs).

The Group performed revaluation of UPS assets as at 1 June 2014. Fair value of UPS 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.

Management of the Group believes that fair value of UPS assets approximates their carrying amount at 31 December 2016.

Recoverability of non-current National Energy System assets (UPS assets)

The Group assesses assets or cash-generating units (CGU) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as levels of tariffs for regulated services, discount rates, future capital requirements, operating performance (including volumes of electricity transmission) that are subject to risk and uncertainty. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered to be impaired and is written down to its recoverable amount.

In assessing recoverable amount the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

In 2015 the Group determined main impairment indicators, including increasing levels of operational and capital expenditure as a result of significant devaluation of national currency. As a result of assessment of the recoverable amount of the Group's assets carried out by Group management, no impairment of non-current assets was revealed as at 31 December 2015.

The Group calculates recoverable amount using a discounted cash flow model. The discount rate of 9.84% was derived from the Company's post-tax weighted average cost of capital. The Development plan of the Group, which is approved for a five-year period and revised on an annual basis, is the primary source of information. It contains forecasts for volumes of electricity transmission, revenues, costs and capital expenditure.

Various assumptions such as forecasts of tariff levels for regulated services and inflation rates take into account existing prices, foreign exchange rates, other macroeconomic factors and historical trends and variability. The projection of cash flows was limited till 2020. Expenditure cash flows up to 2020 were obtained from the Group's development plan together with management's current assessment of probable changes in operational and capital expenditure. Terminal value was estimated by applying forecasted long-term growth rate of 3.5%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Recoverability of non-current National Energy System assets (UPS assets) (continued)

The key assumptions required for the recoverable amount estimation are tariffs for regulated services, volumes of electricity transmission, discount rate and long-term growth rate. The sensitivity of the headroom to changes in the key assumptions was estimated.

As at 31 December 2016 the Group performed analysis on existence of external and internal impairment indicators of non-current assets. Based on this analysis, management of the Group believes that there is no need to perform impairment test on non-current UPS assets for the purposes of consolidated financial statements as at 31 December 2016.

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. The Group increased expected repayment period for one of its customers, Uzbekenergo JSC, due to existing practice. Accordingly, accounts receivables from Uzbekenergo JSC were discounted for 1 year using discount rate of 9.5% that is the management's best estimate of the market discount rate. In December 2015 the Group revised repayment period of the receivables from Uzbekenergo JSC in accordance with repayment schedule proposed by Uzbekenergo JSC due to the fact that Uzbekenergo JSC carried out the timely payment of the receivables in accordance with the debt repayment schedule. Additionally, the Group has discounted future cash flows at 10.01% that is management's best estimate of market rate in accordance with the schedule provided. Further details are contained in *Note 10*.

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 Ekibastuz – Semey – Ust-Kamenogorsk" and "Construction of 500 kW line Semey – Aktogay – Taldykorgan – Alma" *(Note 17)*.

The coupon interest rate of issued financial instruments is variable and consists of two parts: the inflation rate and fixed margin of 2.9% per annum. Inflation rate is an increase / decrease in the consumer price index published by the Statistics

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Fair value of financial instruments (continued)

Bonds issued (continued)

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. The value of the upper inflation limit is set at 16%, lower – 5%. Current coupon rate is 18.6%.

According to the estimates of the management, 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. 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.

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	**2016**	2015
Revenue from Kazakhstan customers	**117,385,538**	99,912,697
Revenue from Uzbekistan customers	**11,254,357**	10,148,762
Revenue from Russian customers	**1,361,538**	–
Total revenue per consolidated statement of comprehensive income	**130,001,433**	110,061,459

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

For the year ended 31 December 2016 the revenue from one customer, Samruk-Energo Group, including its joint-ventures, amounted to KZT 19,974,135 thousand, arising from transmission, technical dispatching and balancing services (for the year ended 31 December 2015: KZT 17,401,767 thousand).

6. NON-CURRENT ASSETS HELD FOR SALE

In 2015 the Group made a decision on implementation of 49.9% interest in the share capital of the associate – KazEnergoProvod LLP.

On 6 May 2015 the management approved schedule plan of implementation of interest. As a result, starting from 6 May 2015, these investments are classified as non-current assets held for sale.

Long-term assets held for sale are measured at the lower of carrying amount and fair value less costs to sell. In order to fulfil this requirement, the independent appraiser assessed, as a result of which the fair value of the stake in KazEnergoProvod LLP was recognized in the amount of KZT 161,511 thousand. Due to the fact that the fair value less costs to sell is less than the carrying amount, which constituted at that date amounted to KZT 161,992 thousand was recognized as a loss in the amount of KZT 481 thousand.

In June 2016 the General meeting of shareholders of KazEnergoProvod LLP decided to reduce its charter capital up to KZT 230,000 thousand. Appropriate changes were made to the charter documents and re-registration of the legal entity. As a result of this decision, it has been recognized as a reduction of net book value of assets classified as held for sale, till KZT 96,641 thousand.

In November 2016 there were trades through electronic auction by method of price decrease. As a result of trading a buyer was determined and selling price was established which is equal to KZT 10,839 thousand. Disposal of shares in associate KazEnergoProvod LLP was completed in November 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

In thousands of Tenge	Land	Buildings	UPS constructions	Vehicles and other property, plant and equipment	Construction-in-progress	Total
Cost						
At 1 January 2015	1,529,783	13,543,582	802,315,409	30,415,857	13,342,850	861,147,481
Additions	43,449	–	47,843	826,624	23,612,941	24,530,857
Transfers	2,817	595,627	(1,583,633)	3,849,063	(2,863,874)	–
Transfers to intangible assets	–	–	–	(378)	(142,511)	(142,889)
Transfers to investment property	(46,320)	(910,536)	(159,699)	(432,269)	–	(1,548,824)
Disposals	(824)	(3,350)	(490,161)	(378,135)	(23,173)	(895,643)
At 31 December 2015	1,528,905	13,225,323	800,129,759	34,280,762	33,926,233	883,090,982
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**
Accumulated depreciation and impairment						
At 1 January 2015	–	(1,612,816)	(364,419,798)	(17,315,820)	(355,371)	(383,703,805)
Charge for the period	–	(262,308)	(19,555,680)	(2,289,621)	–	(22,107,609)
Transfers	–	679	(412,998)	412,319	–	–
Transfer to investment property	–	346,460	74,821	337,492	–	758,773
Disposals	–	2,328	260,908	373,848	19,014	656,098
Impairment reversal	–	–	–	–	5,353	5,353
At 31 December 2015	–	(1,525,657)	(384,052,747)	(18,481,782)	(331,004)	(404,391,190)
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 accrual	**–**	**–**	**–**	**–**	**(79,820)**	**(79,820)**
At 31 December 2016	**–**	**(1,797,663)**	**(402,376,114)**	**(20,263,429)**	**(389,611)**	**(424,826,817)**
Net book value						
At 1 January 2015	1,529,783	11,930,766	437,895,611	13,100,037	12,987,479	477,443,676
At 31 December 2015	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**

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

In thousands of Tenge	**31 December 2016**	31 December 2015
Cost	**267,033,110**	247,164,032
Accumulated depreciation	**(82,385,796)**	(74,224,315)
Net carrying amount	**184,647,314**	172,939,717

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

As at 31 December 2016 and 2015 cost of fully amortised property, plant and equipment, which is still in use amounted to KZT 7,507,540 thousand and KZT 8,480,667 thousand, respectively.

Capitalized borrowing costs and issued bonds

During the year ended 31 December 2016 the Group capitalized the cost of coupon interest on issued bonds net off investment income amounted to KZT 1,379,376 thousand (for the year ended 31 December 2015: nil) *(Note 17).*

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 2016 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 2015: 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 Ekibastuz − Shulbinskaya GES (Semey) − Ust-Kamenogorsk” and “Construction of 500 kW line Shulbinskaya GES (Semey) − Aktogay − Taldykorgan − Alma”).

8. INVESTMENTS IN ASSOCIATES

The Group has 20% share in Batys Transit JSC. Principal place of operations and its 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 2016**	31 December 2015
Statement of financial position		
Current assets	**3,373,844**	1,444,651
Non-current assets	**19,433,266**	20,692,201
Current liabilities	**(2,384,323)**	(1,722,382)
Non-current liabilities	**(18,898,018)**	(19,080,393)
Net assets	**1,524,769**	1,334,077

In thousands of Tenge	**31 December 2016**	31 December 2015
Group’s share in net assets	**304,954**	266,815
Carrying amount of the investment	**304,954**	266,815

In thousands of Tenge	**2016**	2015
Statement of comprehensive income		
Revenue	**5,819,979**	5,460,163
Net profit	**375,245**	550,606
Group’s share of income of Batys Transit	**75,049**	110,121

In May 2016 at the General Meeting of shareholders of Batys Transit, it was decided to allocate net profit by the end of 2015 in the form of dividends in the amount of KZT 6,151.57 per share. The Group received dividends in the amount of KZT 36,910 thousand in cash.

As of 31 December 2016 and 2015, the associates had no contingent liabilities or capital commitments.

9. INVENTORIES

In thousands of Tenge	**31 December 2016**	31 December 2015
Spare parts	**1,258,723**	1,242,830
Raw and other materials	**930,547**	852,345
Fuel and lubricants	**114,705**	125,711
Other inventory	**25,054**	28,894
Less: allowance for obsolete inventories	**(642,717)**	(267,427)
	1,686,312	1,982,353

Movement in the allowance for obsolete inventories was as follows:

In thousands of Tenge	**2016**	2015
At 1 January	**267,427**	247,478
Charge for the year *(Note 24)*	**385,867**	80,681
Write-off	**(10,577)**	(60,732)
At 31 December	**642,717**	267,427

10. TRADE ACCOUNTS RECEIVABLE

In thousands of Tenge	**31 December 2016**	31 December 2015
Trade accounts receivable	**18,400,246**	25,559,459
Less: allowance for doubtful accounts receivable	**(2,653,416)**	(1,452,512)
Less: discount of accounts receivable	**–**	(675,571)
	15,746,830	23,431,376

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

In thousands of Tenge	**2016**	2015
At 1 January	**1,452,512**	3,445,256
Charge for the year *(Note 24)*	**1,435,288**	15,375,749
Write-off	**(1,585)**	(5,893)
Reversal *(Note 24)*	**(232,799)**	(17,362,600)
At 31 December	**2,653,416**	1,452,512

As at 31 December 2016 trade receivables included receivables from customer Uzbekenergo JSC in the amount of KZT 12,338,962 thousand (31 December 2015: KZT 19,945,945 thousand).

In December 2015, the Group revised its expectations regarding the recoverability of the receivables from Uzbekenergo JSC and reversed the allowance for doubtful accounts in the amount of KZT 17,107,925 thousand due to the fact that Uzbekenergo JSC carried out the timely payment of the receivables in accordance with the debt repayment schedule that was proposed by Uzbekenergo JSC. Additionally, the Group has discounted future cash flows in accordance with the schedule provided.

Due to the fact that schedule supposed repayment of debt in October 2016, as at 30 September 2016 discount on trade receivables was fully amortized (as at 31 December 2015: KZT 675,571 thousand). For the year ended 31 December 2016 the Group recognized amortization of discount in the amount of KZT 685,493 thousand within finance income in the consolidated statement of comprehensive income.

As at 31 December 2016 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 2,422,993 thousand.

10. TRADE ACCOUNTS RECEIVABLE (continued)

The ageing analysis of trade receivables is as follows:

			Past due but not impaired			
In thousands of Tenge	**Total**	**Neither past due nor impaired**	**30-90 days**	**91-180 days**	**181-270 days**	**Above 271 days**
31 December 2016	**15,746,830**	**6,338,579**	**24,509**	**8,448,471**	**812,181**	**123,090**
31 December 2015	23,431,376	4,765,585	200,833	141,647	5,288,501	13,034,810

Trade receivables were denominated in the following currencies:

In thousands of Tenge	**31 December 2016**	31 December 2015
US dollars	**9,915,969**	19,693,177
Tenge	**5,243,358**	3,247,617
Russian rouble	**587,503**	490,582
	15,746,830	23,431,376

11. OTHER CURRENT ASSETS

In thousands of Tenge	**31 December 2016**	31 December 2015
Other receivables for property, plant and equipment and constructions	**180,123**	98,249
Deferred expenses	**107,269**	65,009
Advances paid for goods and services	**64,949**	23,155
Loans receivable from employees	**19,535**	22,623
Other	**304,560**	257,354
Less: allowance for impairment of other current assets	**(198,448)**	(114,200)
	477,988	352,190

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

In thousands of Tenge	**2016**	2015
At 1 January	**114,200**	97,987
Charge for the year *(Note 24)*	**96,265**	68,433
Reversal *(Note 24)*	**(8,540)**	(51,187)
Write-off	**(3,477)**	(1,033)
At 31 December	**198,448**	114,200

12. OTHER FINANCIAL ASSETS

In thousands of Tenge	**31 December 2016**	31 December 2015
Other long-term financial assets		
Bonds of Batys Transit	**–**	868,269
Bank deposits	**–**	5,100,150
	–	5,968,419
Other short-term financial assets		
Bank deposits	**56,682,280**	65,509,892
Funds placed with Delta Bank JSC	**3,000,000**	–
Funds placed with Kazinvestbank JSC	**1,291,782**	–
Bonds of Batys Transit	**868,269**	–
Interest accrued on bonds of Batys Transit	**207,287**	62,298
Less: allowance for impairment of funds with KazInvestBank JSC	**(645,891)**	–
	61,403,727	65,572,190
Total other financial assets	**61,403,727**	71,540,609

12. OTHER FINANCIAL ASSETS (continued)

Bonds of Batys Transit

In 2007-2009 the Group acquired bonds of Batys Transit JSC, an associate *(Note 8)*, an entity listed on the Kazakhstan Stock Exchange. The interest rate on the bonds is 14.9%. The bonds are classified as available for sale investments. Fair value is the price to sell an asset or transfer a liability, and therefore an exit price, not an entry price. The Group do not offset the unrecognised share of loss in Batys Transit with the investment in bonds, since the bonds are secured with Guarantee of the Government of Republic of Kazakhstan in accordance with guarantee agreement dated 9 January 2006.

In April 2016 the Group concluded an agreement with Batys Transit about early redemption of its bonds at nominal price of 100 tenge per unit. Batys Transit JSC plans to acquire bonds till 1 December 2017.

Deposits

As at 31 December 2016 and 2015 deposits include accrued interest income in the amount of KZT 182,185 thousand and KZT 114,722 thousand, respectively.

Funds placed with Delta Bank JSC

As at 31 December 2016 short-term deposits placed by the Group with Delta Bank JSC were equal to KZT 3,000,000 thousand. Management believes that these funds are fully recoverable regardless of bank's default on bonds in January 2017 *(Note 32).*

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 the Group has reclassified their cash balances with Kazinvestbank JSC of KZT 19,826 thousand to other financial assets (in addition to KZT 1,271,956 thousand of short-term deposits included within 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 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.

Other financial assets were denominated in the following currencies:

In thousands of Tenge	**Interest rate**	**31 December 2016**	31 December 2015
US dollars	4%-6%	**35,830,396**	68,367,375
Tenge	10%-14%	**25,573,331**	3,173,234
		61,403,727	71,540,609

13. RESTRICTED CASH

In thousands of Tenge	**31 December 2016**	31 December 2015
Cash on debt service accounts	**13,209,941**	–
Cash on reserve accounts	**2,263,220**	2,204,660
Restricted cash for return of guarantee obligations	**153,637**	144,969
	15,626,798	2,349,629

As at 31 December 2016 and 2015 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 16)*, 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.

13. RESTRICTED CASH (continued)

As at 31 December 2016 and 2015, restricted cash including funds to be payable, was denominated in the following currencies:

In thousands of Tenge	**31 December 2016**	31 December 2015
US dollars	**15,473,161**	2,204,660
Tenge	**153,637**	144,969
	15,626,798	2,349,629

14. CASH AND CASH EQUIVALENTS

In thousands of Tenge	**31 December 2016**	31 December 2015
Short-term deposits	**20,450,000**	5,036,000
Current accounts with banks, in Tenge	**9,297,895**	2,551,406
Current accounts with banks, in foreign currencies	**2,300,876**	1,434,716
Cash on hand	**4,819**	3,424
Cash at special accounts	**1,788**	5,216
	32,055,378	9,030,762

As at 31 December 2016 and 2015 the Group placed short-term deposits at banks in the total amount of KZT 20,450,000 thousand and KZT 5,036,000 thousand, respectively, at 10.5%-32% per annum. These deposits were denominated in Tenge.

As at 31 December 2016 and 2015, cash and cash equivalents were denominated in the following currencies:

In thousands of Tenge	**31 December 2016**	31 December 2015
Tenge	**29,754,502**	7,596,046
US dollars	**1,925,437**	393,010
Euro	**372,457**	1,040,794
Russian rouble	**2,487**	307
Others	**495**	605
	32,055,378	9,030,762

15. EQUITY

As at 31 December 2016 and 2015 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 2016 and 2015 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 its issued shares in amount of 1,390 shares for the total amount of KZT 930 thousand.

Dividends

On 16 October 2015 on the extraordinary General Shareholders meeting the Group declared dividends for the 1st half-year of 2015, in the amount of KZT 2,444,000 thousand that is 40.01% of net income, or 9.40 Tenge per ordinary share. In December 2015 the Group reached the agreement on deferral of dividend payment to the major shareholder – Samruk- Kazyna − in the amount of KZT 2,199,600 thousand due to 30 December 2016. The payment of dividends to other shareholders was performed in October 2015. On 31 October 2016 the Group made full repayment of its dividends payable.

15. EQUITY (continued)

Dividends (continued)

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 KEGOC JSC, which is 24.93 tenge per ordinary 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 2016 (for the year ended 31 December 2015: 260,000,000 shares). For the year ended 31 December 2016 basic and diluted earnings per share comprised 106.12 tenge (2015: loss per share 29.92 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 2016**	31 December 2015
Total assets	**632,058,886**	595,336,614
Less: intangible assets	**(855,032)**	(1,036,367)
Less: total liabilities	**(269,974,816)**	(254,360,000)
Net assets	**361,229,038**	339,940,247
Number of ordinary shares	**260,000,000**	260,000,000
Book value per ordinary share, tenge	**1,389**	1,307

Asset revaluation reserve

As at 31 December 2016 and 2015 the revaluation reserve represents revaluation surplus recognized as a result of revaluation of Group's UPS assets on 1 June 2014. Transfer of asset revaluation reserve into retained earnings, upon disposal of PPE, for the year ended 31 December 2016 amounted to KZT 407,377 thousand (for the year ended 31 December 2015: KZT 458,668 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.

16. BORROWINGS

In thousands of Tenge	**31 December 2016**	31 December 2015
International Bank of Reconstruction and Development (IBRD)	**65,140,253**	74,153,611
European Bank of Reconstruction and Development (EBRD)	**57,338,686**	97,076,928
	122,478,939	171,230,539
Less: current portion of loans repayable within 12 months	**(27,334,944)**	(22,090,879)
	95,143,995	149,139,660

As at 31 December 2016 and 2015 the accrued and unpaid interest was equal to KZT 1,115,744 thousand and KZT 1,223,400 thousand, respectively.

16. BORROWINGS (continued)

As at 31 December 2016 and 2015 the unamortized portion of loan origination fees was equal to KZT 553,726 thousand and KZT 813,886 thousand, respectively.

Loans were denominated in the following currencies:

In thousands of Tenge	**31 December 2016**	31 December 2015
US dollars	**74,236,477**	110,952,763
Euro	**48,242,462**	60,277,776
	122,478,939	171,230,539

"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 2016 and 31 December 2015 are USD 38,180 thousand (equivalent to KZT 12,725,012 thousand) and USD 49,540 thousand (equivalent to KZT 16,844,095 thousand), respectively.

"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 2016 and 31 December 2015 are USD 48,973 thousand (equivalent to KZT 16,322,355 thousand) and USD 57,129 thousand (equivalent to KZT 19,424,481 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 2016 and 31 December 2015 are Euro 112,137 thousand (equivalent to KZT 39,519,210 thousand) and Euro 129,389 thousand (equivalent to KZT 48,062,645 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 2016 and 31 December 2015 are Euro 22,749 thousand (equivalent to KZT 8,017,051 thousand) and Euro 29,248 thousand (equivalent to KZT 10,864,522 thousand), respectively;

(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 2016 and 31 December 2015 are Euro 603 thousand (equivalent to KZT 212,760 thousand) and Euro 1,811 thousand (equivalent to KZT 672,763 thousand), respectively.

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.

16. BORROWINGS (continued)

"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 2016 and 31 December 2015 are USD 40,254 thousand (equivalent to KZT 13,416,087 thousand) and USD 41,490 thousand (equivalent to KZT 14,446,957 thousand), respectively.

"Construction of the Alma 500 kW substation with connection to UPS 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 UPS 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 2016 and 31 December 2015 are USD 67,789 thousand (equivalent to KZT 22,593,244 thousand) and USD 69,572 thousand (equivalent to KZT 23,661,306 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 2016 and 31 December 2015 are USD 21,997 thousand (equivalent to KZT 7,331,269 thousand) and USD 86,763 thousand (equivalent to KZT 29,500,398 thousand), respectively;

(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 2016 and 31 December 2015 are USD 2,776 thousand (equivalent to KZT 925,255 thousand) and USD 11,431 thousand (equivalent to KZT 3,886,802 thousand) respectively.

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 2016 and 31 December 2015 are USD 2,564 thousand (equivalent to KZT 854,678 thousand) and USD 10,168 thousand (equivalent of KZT 3,457,056 thousand), respectively.

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 23,567,126 thousand) *(Note 32).*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. BONDS PAYABLE

In thousands of tenge	**31 December 2016**	31 December 2015
Nominal value of issued bonds	**47,500,000**	–
Accrued coupon interest	**5,251,917**	–
Less: discount on bonds issued	**(108,883)**	–
Less: transaction costs	**(23,013)**	–
	52,620,021	–
Less: current portion of bonds repayable within 12 months	**(5,251,917)**	–
	47,368,104	–

Under the State Program "Nurly Zhol" 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 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". The coupon rate for the first coupon period totaled to 18.6% 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. For the year ended 31 December 2016 the Group capitalized amortized discount in the amount of KZT 3,062 thousand and transaction costs in the amount of KZT 656 thousand into the cost of property, plant and equipment.

During the year ended 31 December 2016 the Group capitalized the cost of coupon interest on issued bonds net off investment income amounted to KZT 1,379,376 thousand (for the year ended 31 December 2015: nil) *(Note 7)*.

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

In thousands of Tenge	**31 December 2016**	31 December 2015
Long-term accounts payable		
Accounts payable for property, plant and equipment and construction works	**2,804,261**	–
Less: discount on accounts payable	**(386,451)**	–
	2,417,810	–
Short-term trade and other accounts payable		
Accounts payable for property, plant and equipment and construction works	**12,731,011**	8,091,105
Accounts payable for electricity purchased	**3,310,440**	4,507,777
Accounts payable for inventories, works and services	**940,184**	926,262
	16,981,635	13,525,144
	19,399,445	13,525,144

As at 31 December 2016 and 2015 trade and other accounts payable are denominated in the following currencies:

In thousands of Tenge	**31 December 2016**	31 December 2015
Tenge	**18,802,071**	12,613,812
Russian rouble	**559,834**	782,163
US dollars	**27,496**	64,961
Euro	**10,044**	64,208
	19,399,445	13,525,144

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 2017.

20. TAXES PAYABLE OTHER THAN INCOME TAX

In thousands of Tenge	**31 December 2016**	31 December 2015
Property tax *(Note 32)*	**2,657,850**	315
Contributions payable to pension fund	**195,551**	85,746
Personal income tax	**171,925**	99,382
Social tax	**156,929**	81,221
VAT payable	**115,476**	250,582
Social contribution payable	**40,580**	27,638
Other	**1,954**	14,631
	3,340,265	559,515

21. OTHER CURRENT LIABILITIES

In thousands of Tenge	**31 December 2016**	31 December 2015
Due to employees	**2,776,866**	555,197
Other	**197,045**	173,690
	2,973,911	728,887

22. REVENUE

In thousands of Tenge	**2016**	2015
Electricity transmission	**80,601,372**	73,343,942
Technical dispatch	**19,761,623**	15,071,222
Balancing of electricity production and consumption	**13,538,986**	13,017,269
Revenue from sales of purchased electricity	**10,755,485**	5,004,398
Revenue from electricity sales for compensation of the interstate balances of electricity flows	**3,704,705**	3,020,328
Revenue from power regulation services	**1,361,538**	–
Other	**1,569,884**	1,276,395
	131,293,593	110,733,554
Discounts to consumers	**(1,292,160)**	(672,095)
	130,001,433	110,061,459

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 2016 the revenue from one customer, Samruk-Energo Group, amounted to KZT 19,974,135 thousand, arising from transmission, technical dispatching and balancing services.

For the year ended 31 December 2015 the revenue from one customer, Samruk-Energo Group, amounted to KZT 17,401,767 thousand, arising from transmission, technical dispatching and balancing services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. COST OF SALES

In thousands of Tenge	**2016**	2015
Depreciation and amortization	**22,117,467**	21,774,524
Technical losses of electric energy	**16,079,993**	20,172,090
Payroll expenses and related taxes	**13,347,751**	11,446,146
Cost of purchased electricity	**10,460,213**	4,891,579
Cost of purchased electricity for compensation of interstate balances of electricity flows	**8,428,757**	8,291,914
Repair and maintenance expenses	**4,620,643**	4,954,298
Inventories	**1,349,630**	1,213,793
Security services	**1,002,730**	981,283
Other	**1,981,590**	1,816,977
	79,388,774	75,542,604

24. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of Tenge	**2016**	2015
Taxes other than income tax	**8,418,457**	5,205,055
Payroll expenses and related taxes	**4,602,616**	2,788,241
Accrual/(reversal) of allowance for doubtful receivables and impairment of advances and other current assets *(Notes 10 and 11)*	**1,290,214**	(1,969,605)
Consulting services	**840,873**	212,567
Depreciation and amortization	**545,037**	584,225
Allowance for obsolete inventories *(Note 9)*	**385,867**	80,681
Insurance	**184,393**	155,121
Business trip expenses	**156,492**	133,596
Rent expenses	**111,623**	106,469
Utilities	**91,424**	99,490
Materials	**75,988**	63,061
Trainings	**46,440**	85,615
Security services	**45,413**	37,339
Communication services	**25,312**	24,357
Bank services	**24,274**	37,804
Repair expenses	**13,556**	6,793
Other	**782,451**	913,896
	17,640,430	8,564,705

25. FINANCE INCOME/(COSTS)

In thousands of Tenge	**2016**	2015
Finance income		
Interest income from deposits, current accounts and bonds	**9,192,217**	2,958,192
Amortization of discount on accounts receivable	**829,033**	912,679
Discount on trade payable *(Note 18)*	**386,451**	–
Others	**3,644**	5,634
	10,411,345	3,876,505
Less: interest capitalized into cost of qualifying asset *(Note 7)*	**(3,876,259)**	–
	6,535,086	3,876,505
Finance costs		
Interest on borrowings	**10,091,348**	3,410,140
Commission on bank guarantees	**832,722**	615,165
Amortization of loan origination fees	**388,899**	88,122
Transaction costs on bonds issued	**575**	–
Discount on account receivable	**–**	675,570
	11,313,544	4,788,997
Less: interest capitalized into cost of qualifying assets *(Note 7)*	**(5,255,635)**	–
	6,057,909	4,788,997

26. FOREIGN EXCHANGE GAIN/(LOSS), 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 2016, the Group incurred net foreign exchange gain in the amount of KZT 2,346,713 thousand (for the year ended 31 December 2015: net foreign exchange loss in the amount of KZT 35,739,224 thousand).

27. OTHER INCOME

In thousands of Tenge	**2016**	2015
Income from receipt of granted fixed assets	**872,939**	–
Reimbursement of CIT from receipt of granted assets	**158,267**	–
Fines and penalties	**214,682**	649,655
Income from rental of buildings	**74,152**	121,237
Income from material disposal	**59,449**	49,387
Other	**33,709**	51,973
	1,413,198	872,252

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/(BENEFIT)

In thousands of Tenge	**2016**	2015
Current income tax		
Current income tax expense	**6,239,946**	64,306
Adjustments in respect of current income tax of previous year	**12,232**	(115,145)
Deferred tax		
Deferred income tax expense/(benefit)	**2,132,518**	(2,116,659)
Total income tax expense/(benefit) reported in the consolidated statement of comprehensive income	**8,384,696**	(2,167,498)

The income tax rate in the Republic of Kazakhstan is 20% in 2016 and 2015.

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	**2016**	2015
Profit/(loss) before income tax expense	**35,974,847**	(9,947,071)
Tax at statutory income tax rate of 20%	**7,194,969**	(1,989,414)
Adjustments in respect of current income tax of previous year	**12,232**	(115,145)
Interest capitalized in the cost of qualifying assets	**443,507**	–
Accrual/(reversal) of allowance for doubtful accounts receivable from non-residents	**261,561**	(385,303)
Support of producers of energy from renewable sources	**188,384**	80,534
Accrual of obsolete inventory allowance	**77,173**	16,136
Fines and penalties on property tax	**49,445**	–
Non-deductible forex loss	**–**	81,979
Other non-deductible expenses	**157,425**	143,715
Income tax expense/(benefit) reported in the consolidated statement of comprehensive income	**8,384,696**	(2,167,498)

28. INCOME TAX EXPENSE/(BENEFIT) (continued)

Tax effect on temporary differences leading to deferred income tax assets and liabilities at 31 December 2016 and 2015 is provided below:

	Consolidated statement of financial position		Consolidated statement of comprehensive income	
In thousands of Tenge	**31 December 2016**	31 December 2015	**2016**	2015
Tax losses carried forward	**–**	3,472,159	**(3,472,159)**	2,270,347
Accounts receivable	**91,758**	263,044	**(171,286)**	133,453
Accrued liabilities	**980,032**	127,625	**852,407**	(177,605)
Property, plant and equipment	**(67,878,611)**	(68,537,131)	**658,520**	(109,536)
Deferred tax (expense)/benefit			**(2,132,518)**	2,116,659
Net deferred tax liabilities	**(66,806,821)**	(64,674,303)		

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

In thousands of Tenge	**31 December 2016**	31 December 2015
Deferred tax assets	**1,093**	2,839
Deferred tax liabilities	**(66,807,914)**	(64,677,142)
Net deferred tax liabilities	**(66,806,821)**	(64,674,303)

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 2016 and 2015:

In thousands of Tenge		**Trade accounts receivable from related parties**	**Trade accounts payable to related parties**
Subsidiaries of Samruk-Kazyna Group	**2016**	**1,906,324**	**1,612,641**
	2015	1,873,643	1,734,326
Associates of Samruk-Kazyna	**2016**	**289,396**	**188,262**
	2015	322,623	205,367
Entities under joint control of Samruk-Kazyna	**2016**	**200,141**	**334,881**
	2015	314,628	686,464
Associates of the Group	**2016**	**37,099**	**10,975**
	2015	47,602	11,883

29. TRANSACTIONS WITH RELATED PARTIES (continued)

The Group had the following transactions with related parties for the year ended 31 December 2016 and 2015:

In thousands of Tenge		**Sales to related parties**	**Purchases from related parties**
Subsidiaries of Samruk-Kazyna Group	**2016**	**22,997,812**	**15,969,180**
	2015	22,452,578	12,008,135
Associates of Samruk-Kazyna	**2016**	**7,539,481**	**2,804,717**
	2015	5,794,687	1,846,301
Entities under joint control of Samruk-Kazyna	**2016**	**7,004,120**	**2,793,163**
	2015	2,791,742	10,169,968
Associates of the Group	**2016**	**300,653**	**90,194**
	2015	293,011	87,094

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 2016 the Group's borrowings of KZT 65,437,392 thousand were guaranteed by the Government of the Republic of Kazakhstan (31 December 2015: KZT 75,266,975 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%. The bonds are classified as available for sale investments. Fair value is the price to sell an asset or transfer a liability, and therefore an exit price, not an entry price and is approximately equal to carrying amount. The carrying amount of Batys Transit bonds comprised KZT 868,269 thousand as at 31 December 2016 (31 December 2015: KZT 868,269 thousand).

For the year ended 31 December 2016 interest income accrued on bonds of Batys Transit JSC, the associate, amounted to KZT 227,840 thousand (for the year ended 31 December 2015: KZT 75,084 thousand).

As of 31 December 2016 the Group had outstanding accounts receivable from Balkhash TES JSC for the sale of property, plant and equipment in the amount of KZT 184,276 thousand (31 December 2015: KZT 168,654 thousand) presented within long-term receivables from related parties. In accordance with sales agreement Balkhash TES JSC will repay the outstanding balance in December 2018. As at 31 December 2016 the discount on accounts receivable from Balkhash TES JSC comprised KZT 35,575 thousand (31 December 2015: KZT 51,197 thousand). For the year ended 31 December 2016 the amortization of discount on accounts receivable comprised KZT 15,622 thousand for the year end 31 December (2015: KZT 14,251 thousand).

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 2016 the discount on accounts receivable from Kazpost JSC comprised KZT 783,718 thousand. As of 31 December 2016 the receivable net of discount comprised KZT 1,263,134 thousand, of which KZT 1,083,011 thousand was accounted for within long-term receivables from related parties. For the year ended 31 December 2016 the Group recognized income from amortization of discount on long-term receivables from Kazpost JSC in the amount of KZT 127,918 thousand.

Total compensation to key management personnel included in personnel costs in the consolidated statement of comprehensive income was KZT 220,898 thousand for the year ended 31 December 2016 (for the year ended 31 December 2015: KZT 362,814 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.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 16 and 17).*

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 2016		
LIBOR	**60/(8)**	**(445,007)/59,334**
EURIBOR	**12/(8)**	**(57,299)/38,199**
For the year ended 31 December 2015		
LIBOR	50/(12)	(556,105)/133,465
EURIBOR	25/(25)	(149,000)/149,000

* *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.

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 2016		
US dollar	**13%/(13%)***	**(1,445,471)/1,445,471**
Euro	**15%/(15%)****	**(7,182,007)/7,182,007**
At 31 December 2015		
US dollar	60%/(20%)*	(12,215,701)/4,071,900
Euro	60%/(20%)**	(35,580,714)/11,860,238

* *in absolute terms increase/(decrease) in exchange rate of Tenge in relation to US dollar comprised 43.33/(43.33) Tenge;*

** *in absolute terms increase/(decrease) in exchange rate of Tenge in relation to Euro comprised 52.86/(52.86) 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 10)* and from its financing activities, including deposits with banks *(Notes 12, 13 and 14).* 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 10, 12, 13 and 14).*

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.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

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. At 31 December 2016 the Group had one customer Uzbekenergo JSC that owed the Group KZT 9,915,969 thousand and accounted for 63% of all trade accounts receivable outstanding (31 December 2015: KZT 18,986,981 thousand and accounted for 81%).

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 10*. The Group does not hold collateral as security.

In December 2016 National Bank of the Republic of Kazakhstan recalled the licence of Kazinvestbank JSC to conduct bank and other operations and operation in securities market and appointed a temporary administrator *(Note 12).*

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.

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 2016**	Rating 2015	**31 December 2016**	31 December 2015
ATF Bank JSC	Kazakhstan	**B-/Negative**	B-/Stable	**31,499,274**	22,113,479
National Bank Kazakhstan JSC	Kazakhstan	**BB/Stable**	BB+/Stable	**16,851,515**	1,153,623
Eurasian Bank JSC	Kazakhstan	**B/Stable**	B+/Negative	**12,765,758**	14,285,198
BankCenterCredit JSC	Kazakhstan	**B/Stable**	B+/Stable	**6,938,201**	5,968,325
ForteBank JSC	Kazakhstan	**B/Stable**	B/Stable	**5,006,158**	9,790
Bank Astana JSC	Kazakhstan	**B/Stable**	B/Stable	**4,829,510**	494,554
EximBank Kazakhstan JSC	Kazakhstan	**B/Stable**	B-/Stable	**4,436,326**	4,433,906
Qazaq Banki JSC	Kazakhstan	**B-/Stable**	B-/Stable	**4,373,053**	7,575,382
Tsesna Bank JSC	Kazakhstan	**B+/Stable**	B+/Stable	**3,170,712**	8,178,865
Capital Bank Kazakhstan JSC	Kazakhstan	**B-/Stable**	B-/Stable	**3,000,022**	408,480
Alfa-Bank JSC	Kazakhstan	**B+/Negative**	B+/Negative	**3,000,000**	245,603
Delta Bank JSC	Kazakhstan	**D**	B/Stable	**3,000,000**	–
Bank RBK JSC	Kazakhstan	**B-/Stable**	B-/ Positive	**2,441,921**	5,551,969
Qazqom JSC	Kazakhstan	**B-/Negative**	B-/Negative	**2,437,396**	2,373,367
Tengri Bank JSC	Kazakhstan	**B+/Negative**	B+/Negative	**2,017,708**	–
Nur Bank JSC	Kazakhstan	**B/Negative**	B/Stable	**1,511,630**	4,103,887
KazInvestBank JSC	Kazakhstan	**D**	B-/Stable	**645,891**	147,234
Treasury Committee of the Ministry of Finance	Kazakhstan	**Not applicable**	Not applicable	**80,383**	80,383
AsiaCredit Bank JSC	Kazakhstan	**B/Negative**	B/Stable	**70**	4,862,898
SberBank Russia JSC	Kazakhstan	**BB+/Negative**	BBB-/Negative	**–**	66
				108,005,528	81,987,009

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.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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.

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 2016						
Borrowings	**–**	**15,279,011**	**13,947,521**	**64,035,820**	**42,194,121**	**135,456,473**
Trade and other accounts payable	**–**	**16,981,635**	**–**	**2,417,810**	**–**	**19,399,445**
Bonds payable	**–**	**–**	**5,251,917**	**–**	**47,368,104**	**52,620,021**
	–	**32,260,646**	**19,199,438**	**66,453,630**	**89,562,225**	**207,475,939**
At 31 December 2015						
Borrowings	–	6,944,759	19,416,270	93,532,667	75,206,539	195,100,235
Trade and other accounts payable	–	13,525,144	–	–	–	13,525,144
	–	20,469,903	19,416,270	93,532,667	75,206,539	208,625,379

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 2016.

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 2016	31 December 2015
Debt/capital	**0.28**	0.29

In thousands of Tenge	31 December 2016	31 December 2015
Long-term borrowings and long-term bonds payable	**142,512,099**	149,139,660
Short-term borrowings and short-term bonds payable	**32,586,861**	22,090,879
Debt	**175,098,960**	171,230,539
Total liabilities	**269,974,816**	254,360,000
Equity	**362,084,070**	340,976,614
Capital	**632,058,886**	595,336,614

The structure of the Group capital includes the share capital as disclosed in *Note 15*, 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 2016**	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Available-for-sale financial assets *(Note 11)*	**868,269**	**–**	**868,269**	**–**
Non-financial assets				
UPS constructions *(Note 7)*	**416,722,746**	**–**	**–**	**416,722,746**

In thousands of Tenge	31 December 2015	Level 1	Level 2	Level 3
Financial assets				
Available-for-sale financial assets *(Note 11)*	868,269	–	–	868,269
Non-financial assets				
Long-term assets held for sale *(Note 6)*	161,511	–	–	161,511
UPS constructions *(Note 7)*	416,077,012	–	–	416,077,012

Liabilities for which fair values are disclosed

In thousands of Tenge	**31 December 2016**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities				
Borrowings *(Note 16)*	**122,478,939**	**–**	**122,478,939**	**–**
Bonds payable *(Note 17)*	**52,620,021**	**52,620,021**	**–**	**–**

In thousands of Tenge	31 December 2015	Level 1	Level 2	Level 3
Financial liabilities				
Borrowings *(Note 16)*	171,230,539	–	171,230,539	–

Fair values of financial instruments

As at 31 December 2016 and 2015 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.

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 2016.

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 "UPS" 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).*

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 2016 and 31 December 2015. 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 2016 the Group excluded from EBITDA the foreign exchange loss of KZT 2,346,713 thousand incurred during the year ended 31 December 2016.

31. COMMITMENTS AND CONTINGENCIES (continued)

Insurance

As at 31 December 2016, the Group insured property and equipment with the carrying value of KZT 157,471,141 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 2016, the Group's outstanding contractual commitments within the frameworks of this plan amount to KZT 45,623,560 thousand (31 December 2015: KZT 84,277,398 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.

Tariffs on purchase of electricity from renewable energy sources

According to the Government Decree No. 419 dated 29 April 2014, the tariffs for the purchase of electricity from renewable energy stations, which have been put into exploitation before the adoption of the *Law on Renewable Energy* No. 165-IV ("Law") dated 4 July 2009, are equal to the tariffs stipulated in the technical-economic justification of the station. For the renewable energy producing organizations that have been put into exploitation after the Law adoption fixed tariffs approved by the Government decree of the Republic of Kazakhstan No. 645 dated 12 June 2014 are applied.

Tariff on sale of electricity from renewable energy sources

Tariff on sale of electricity from renewable energy sources to contingent consumers is calculated according to the *Rules on Calculating the Tariffs on Supporting the Renewable Energy Sources* approved by the Ministry of Energy Order No. 118 dated 20 February 2015. The tariff for electricity sales includes the cost of purchase of electricity, operating costs, cost of balancing of electricity production and consumption and income, and is calculated by the Company on a regular basis.

Management believes that in 2016 the calculation and application of tariffs for the sale and purchase of electricity from renewable energy sources is carried out properly and in accordance with the applicable rules and legislation.

According to the Amendments to the legislation of Republic of Kazakhstan dated 28 December 2016, competence of the authorised body comprises the function to develop and approve pricing rules of socially significant markets (the "Rules").

Currently, the authorised body is developing the draft of respective Rules. Upon adoption of such rules, pricing procedure in calculation of the tariff to support renewable energy sources shall be performed in accordance with them.

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

At the end of 2015 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 2016 to 30 June 2017, set lower limit levels of tariffs for regulated services 2016 and 2017 by 0.01 KZT. From 1 July to 31 December 2016 the temporary compensating tariff for electricity transmission through electric grids set at 2,079 KZT/kWh (excluding VAT), the rate of technical dispatch to the grid and electricity consumption – 0,230 KZT/kWh (excluding VAT). From 1 January to 30 June 2017 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 – 0,233 KZT/kWh (excluding VAT).

32. SUBSEQUENT EVENTS

Repayment of debts from Uzbekenergo JSC

In January-February 2017 Uzbekenergo JSC made partial repayment of its debt in the amount of USD 9,220 thousand (equivalent to KZT 3,086,381 thousand) for sale of electricity transmission services in 2013-2014.

Repayment of borrowings

On 5 January 2017 the Group made full early repayment of the loan EBRD on the project "Ossakarovka Transmission Rehabilitation Project". The Group paid principal in amount of USD 27,337 thousand (equivalent to KZT 9,144,553 thousand) and interest in amount of USD 195 thousand (equivalent to KZT 65,277 thousand). Moreover, there was commission paid for early repayment in amount of USD 137 thousand (equivalent to KZT 45,723 thousand).

On 5 January 2017 the Group made half-year repayment of the loan IBRD on the project "Construction of the Alma 500 kW substation with connection of 500, 220 kW electric lines to Kazakhstan National Electricity Transmission". There was also repayment of principal in amount of USD 1,784 thousand (equivalent to KZT 596,735 thousand) and interest in amount of USD 738 thousand (equivalent to KZT 246,865 thousand).

On 9 February 2017 the Group made half-year repayment of the principal and interest in the amount of Euro 12,479 thousand (equivalent to KZT 4,312,383 thousand) and Euro 2,511 thousand (equivalent to KZT 867,781 thousand), respectively.

Payment of property tax

In January 2017 the Group repaid its property tax liability in the amount of KZT 2,402,786 thousand *(Note 20).*

Funds placed with Delta Bank JSC

In February 2017 using funds placed with Delta Bank JSC the Group made payment of its trade payables due to a contractor for the amount of KZT 1,702,253 thousand.