KEGOC

ANNUAL REPORT

2017

CONTENTS

ABOUT COMPANY

KAZAKHSTAN ELECTRICITY GRID OPERATING COMPANY (KEGOC) JOINT-STOCK COMPANY (HEREINAFTER REFERRED TO AS 'KEGOC', THE 'COMPANY') WAS ESTABLISHED IN ACCORDANCE WITH RESOLUTION OF THE GOVERNMENT OF THE REPUBLIC OF KAZAKHSTAN NO. 1188 DATED 28 SEPTEMBER 1996 TITLED 'ACTIONS TO RESTRUCTURE POWER SYSTEM MANAGEMENT IN THE REPUBLIC OF KAZAKHSTAN'. THE DATE OF INITIAL STATE REGISTRATION OF KEGOC IS 11 JULY 1997.

Until 2006, 100 % of KEGOC shares had been owned by the Government. In 2006, government's share (100%) was transferred to Samruk JSC (the Kazakhstan holding company for management of public assets) as a payment for the placed shares. In 2008, Samruk-Kazyna JSC (the sovereign wealth fund) was established through merger of Kazyna JSC (the sustainable development fund) and Samruk. Thus Samruk-Kazyna became a legal successor of Samruk.

On 18 December 2014 as part of the Programme for public offering of shares of affiliates and subsidiaries of Samruk-Kazyna Sovereign Wealth Fund (hereinafter referred to as 'Samruk-Kazyna') on the stock market, KEGOC placed 25,999,999 authorized ordinary shares on the Kazakhstan Stock Exchange through subscription.

As on 31 December 2017, the number of authorised and placed common shares of the Company was 260,000,000, of which 234,000,001 shares (90% plus one share) belong to Samruk-Kazyna, the major shareholder, and 25,998,609 shares (9.9995%) belong to minority shareholders, the remaining 1,390 shares (0.0006%) were repurchased by KEGOC.

Address: 59, Tauyelsizdik Ave., Almaty District, Z00T2D0, Astana, Kazakhstan.

The mission of the Company is to ensure the reliable operation and effective development of Kazakhstan Unified Power System (UPS) in accordance with state-of-the-art technical, economic, environmental requirements and occupational health-and-safety standards.

In accordance with the laws of the Republic of Kazakhstan in electric power industry, KEGOC as a system operator of the unified power system of the Republic of Kazakhstan and as such it is engaged in the following core activities:

- electricity transmission in the national power grid;
- technical dispatching of the electricity supply to the grid and electricity consumption;
- management of the electricity production and consumption balancing.

The above mentioned services in Kazakhstan are the area of a natural monopoly, which is why KEGOC's operations shall be regulated by the Law of the Republic of Kazakhstan 'On natural monopolies'.

KEGOC operations cover the entire territory of the Republic of Kazakhstan. The structure of the Company

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MES BRANCHES AND NDC SO

includes 9 intersystem electric networks branches (MES branches) and the National Dispatch Centre of the System Operator branch (NDC SO).

On 29 December 2016 the Management Board of KEGOC decided to close the Representation of KEGOC in Almaty. The state registration of liquidation of the Representative Office in the justice bodies was completed on 2 March 2017.

KEGOC has subsidiaries: EnergoInform JSC and Financial Settlement Centre for Renewable Energy Sources Support LLP. Energoinform is engaged in maintenance of National Power Grid equipment and provide telecommunication support for the Company's activities. The Financial Settlement Centre for Renewable Energy Sources Support LLP was established in 2013 to encourage investments in renewable energy sector and increase the share of renewable energy in the Kazakhstan energy mix through government-guaranteed and centralized electricity purchase from all renewable energy facilities (who have chosen such support scheme) in accordance with the fixed rates. More detailed information about subsidiaries is given in Appendix 1.

KEGOC is also a co-founder (20 % of shares) of Batys Transit JSC established in 2005 to implement the project for the construction of inter-regional power transmission line linking the North Kazakhstan with Aktobe oblast.

As on 31 December 2017, KEGOC's MES branches have on their balance sheet 363 of 0.4-1150 kV overhead transmission lines with a total length of 25,707,248 km (ckt), including:

- **1150 kV OHTL,** 1,421 km;
- **500 kV OHTL,** 7,403 km;
- **330 kV OHTL,** 1,864 km;
- **220 kV OHTL,** 1,4511 km;
- **110 kV OHTL,** 353 km;
- **35 kV OHTL,** 44 km.
- **10 kV OHTL,** 92 km;
- **6 kV OHTL,** 13 km;
- **0.4 kV OHTL,** 6 km.

As on 31 December 2017, KEGOC's MES branches have on their balance sheet 78 of 35-1150 kV electric substations with the installed transformer capacity of 36,660.05 MVA, including:

- **1,150 kV,** 3 substations of 9,384.1 MVA;
- **500 kV,** 18 substations of 15,446 MVA;
- **220 kV,** 54 substations of 11,136.25 MVA;
- **110 kV,** 1 substation of 5 MVA;
- **35 kV,** 2 substations of 23.2 MVA.

Equipment installed on KEGOC's substations includes:

- **272** of **1150-10 kV** power transformers and autotransformers (8 of them are owned by third parties);
- **184** of **1150-35 kV** shunt reactors (9 of them are owned by third parties);
- **1,572** of **1150-35 kV** air-blast, oil, SF6, and vacuum circuit breakers (97 of them are owned by third parties);
- **1,583** units of **1150-35 kV** voltage transformers (64 of them are owned by third parties);
- **3,706** units **of 1150-35 kV** current transformers (244 of them are owned by third parties);
- **111** storage batteries (2 of them are owned by third parties);
- **45** compressor units;
- **118** devices and tools for the treatment of solid insulation and transformer oil;
- **63,296** of relay protection and automation and emergency automation devices;
- **32,134** metering devices.

GEOGRAPHY OF OPERATIONS

OHTLS LENGTH

25,707.248

KM (CIRCUITS)

78

ELECTRIC SUBSTATIONS

LETTER FROM THE CHAIRMAN OF KEGOC’S BOARD OF DIRECTORS

KUANYSH BEKTEMIROV

Chairman of KEGOC’s Board of Directors

Dear shareholders!

The results of 2017 clearly demonstrated the ability of KEGOC to efficiently provide the full range of quality services to our clients, and demonstrated the financial stability and a high level of business process management. The main indicator of successful financial performance in 2017 was the amount of net profit of about KZT 32.9 billion, which was the highest in our 20-year history.

One of the main priorities of KEGOC is observing the rights of our shareholders. In the reporting year, the total amount of paid dividends was KZT 19.9 billion. Since the initial public offering as a part of the government's 'People's IPO' programme in 2014, the Company's shareholders have been paid KZT 37.4 billion of dividends.

In the reporting year, as part of a mandate vested upon us by the President Nazarbayev's message titled 'Third modernization of Kazakhstan: global competitiveness' our business we have been following the requirements of 'Digital Kazakhstan', the programme developed by the Government of the Republic of Kazakhstan. We need to find our niche in a country's strategy of creating the new technological order.

One of the keys to the Company's high performance was the observance of high standards of corporate governance based on the best world practices and enshrined in the KEGOC's Corporate Governance Code. A great contribution to it was made by the Board of Directors, consisting of highly professional, experienced directors who are qualified in all areas necessary for making effective decisions. The composition of the Board of Directors of KEGOC in 2017 did not change and remained well balanced as it included representatives of a major shareholder and independent directors. This existing membership delivered unbiased and quality managerial decisions taking into account the interests of various stakeholders, and consistent with the company's development strategy. As a result, KEGOC's corporate governance rating is one of the highest in Samruk-Kazyna group of companies.

In 2017, the directors paid a lot of their attention to improving the system of labour protection, creating safe working conditions and information security. Thus, the Board of Directors approved an action plan to improve the OSH management system and introduced a monitoring system for the plan by establishing individual responsibility of the Company's managers.

The Board of Directors paid special attention to the implementation of the Business Transformation Programme initiated by Samruk-Kazyna to establish effective administration, increase the Company's profitability, create favourable investment conditions, and support the introduction of innovative technologies: the Board approved the Roadmap for the implementation of the programme, and quarterly monitored its progress. In 2017, the Company introduced a new organizational structure, which was developed taking into account the best practices and was based on the analysis of the existing business processes and the KPI tree. As a result, the size of the administrative apparatus has been reduced from 15% to 12%.

The decisions adopted by the Board of Directors of KEGOC in 2017, the continuous monitoring of the goals and objectives progress contributed to the effective development of the Company and the achievement of high production and financial performance. As a result, the whole range of production and financial achievements of the reporting period was another important step for the future growth and achievement of the strategic goal of KEGOC: to become in 2025 a world-class company and a regional centre of competence in the electric power industry.

I would like to thank the shareholders for their trust in KEGOC, and the team for working hard for the benefit of the Company and its shareholders.

Kuanysh Bektemirov
Chairman of KEGOC's
Board of Directors

LETTER FROM THE CHAIRMAN OF KEGOC'S MANAGEMENT BOARD

BAKYTZHAN KAZHIYEV

Chairman of KEGOC's Management Board

2017 was the year of celebration of the 20th anniversary of KEGOC.

The Company's operations were highly appreciated by Nursultan Nazarbayev, the President of the Republic of Kazakhstan. In his congratulatory letter, the Leader of the Nation noted that today the history of KEGOC, with its many thousands of employees, is inextricably linked with the history of development of the country's economy. The Head of State stressed that the Company, as the System Operator of the Kazakhstan's Unified Power System, provides reliable power supply to all sectors of the economy.

KEGOC has been effectively fulfilling its obligations of developing the National Power Grid and ensuring reliable operation of the Unified Power System of Kazakhstan.

In 2017 Kazakhstan saw the increase in electricity generation and consumption compared to 2016: electricity generation grew by 8.8% (or by 8.3 billion kWh) and amounted to 102.4 billion kWh; electricity consumption grew by 6% (or by 5.5 billion kWh) and reached 97.9 billion kWh. The amount of services provided by KEGOC grew by an average of 9%.

In 2017, the jubilee year, the Company achieved its best historical financial performance. The Company's shares also showed high liquidity and stable growth. Their value in November 2017 reached a historical maximum of KZT 1,434 per share. This is almost three times higher than the nominal price.

The past year was also successful in terms of developing international relations with regional partners. The Company positively resolved the issue of non-payment by the energy system of Uzbekistan. Through the KEGOC's efforts Uzbekenergo fully repaid the main debt to KEGOC under contracts for the supply of electricity and power control for 2011-2017. The total amount of debt paid by Uzbekenergo was about USD 143 million.

The Company see the social issues as the top priority. Over the past few years, KEGOC has been the leader in Samruk-Kazyna group of companies in social stability rating. According to the results of the survey, this rating in 2017 grew from 82% to 88%, and, as a result, the Company became the country-wide leader.

In 2018, KEGOC also faces serious challenges.

The company plans to complete one of its largest investment project, the 500 kV North-East-South Electricity Transmission Construction Project being a part of 'Nurly-Zhol' Government's Programme.

The Company will continue the implementation of the Business Transformation Programme and development of the Concept and Roadmap for business digitalization.

The Company plans to update its development strategy taking into account the changing trends in the electric power sector.

Summarizing the above, I would like to express my gratitude to the partners of the Company and to all stakeholders for effective collaboration. I am absolutely positive that in 2018 our cooperation will be as productive as it was in the previous years.

Bakytzhan Kazhiyev
Chairman of KEGOC's
Management Board

KEY EVENTS IN 2017

5 JANUARY

The Company early repaid the EBRD loan of USD 151.9 million that was raised to complete 'Ossakarovka Transmission Rehabilitation Project'.

24 FEBRUARY

The Board of Directors of KEGOC took the decision to change the number of members of KEGOC's Management Board (for more details, see the 'Corporate Governance' section).

12 MAY

The Annual General Meeting of KEGOC's Shareholders approved the annual financial statements, distribution of the net income, decision to pay dividends on ordinary shares, the amount of the dividend per one ordinary share of KEGOC for 2016, the new revision of KEGOC's Charter, and other issues.
Also, the General Meeting of Shareholders decided to allocate 50% of net income for 2016 among all holders of KEGOC ordinary shares.

26 MAY

The 26th meeting of the Coordination Electric Power Council of Central Asia was held in Almaty under the chairmanship of KEGOC.

9 JUNE

'Transformation. New Level' info day was held. The speakers at the info day were the sponsors, Company managers and project managers. The event was also attended by the representatives of Samruk Kazyna group of companies: KazMunayGas, Kazpost, Samruk-Energy, Kazakhstan Temirsholy, and Kazatomprom.

27 JUNE

KEGOC announced payment of dividends on its ordinary shares for 2016.

14 JULY

KEGOC held an international conference titled 'Development of Electric Power Systems – Problems and Prospects' in line with the 'energy of the future' global trend as a part of 'Astana EXPO-2017' international exhibition and to celebrate the 20-year anniversary of KEGOC.

28 JULY

Moody's confirmed Baa3 rating of KEGOC and changed the rating outlook from Negative to Stable.

7 AUGUST

KEGOC early repaid EUR 23.8 million of two semi-annual payments for 2018 under EUR 228.41 million loan extended by the European Bank for Reconstruction and Development for the implementation of Kazakhstan Electricity Transmission Rehabilitation Project, phase 2.

29 AUGUST

29 August 2017 KEGOC successfully placed the second bond issue on Kazakhstan Stock Exchange (KASE) with total amount KZT 36.3 billion (11.5% yield, 15 year maturity).

5 SEPTEMBER

Fitch confirmed 'BBB-' ratings of KEGOC with 'Stable' forecast.

21 SEPTEMBER

KEGOC's team took the first place in the competition for knowledge of the state language held among employees of Samruk-Kazyna group of companies.

29 SEPTEMBER

The Central Communications Service of the Ministry of Information and Communications held press conference titled 'Current Issues in Power Industry Development' including Bakytzhan Kazhiyev, KEGOC's Chairman of Management Board, as a speaker.

26 OCTOBER

The extraordinary General Meeting of KEGOC's Shareholders approved the interim financial statements, the net income distribution, payment of dividends per ordinary share and the amount of dividends per one KEGOC's ordinary share for H1 2017.

Also, the General Meeting of Shareholders decided to allocate 70% of net income for H1 2017 among all holders of KEGOC ordinary shares.

10 NOVEMBER

KEGOC paid dividends on KEGOC's ordinary shares for H1 2017.

24-25 NOVEMBER

In the city of Karaganda, KEGOC held a sport event for the employees of KEGOC dedicated to the Independence Day of the Republic of Kazakhstan and the 20th anniversary of KEGOC

DECEMBER

In December 2017, Uzbekenergo fully repaid the debt to KEGOC under contracts for the supply of electricity and power control service for 2011-2017.

MARKET OVERVIEW

STATE REGULATION. STRUCTURE OF POWER INDUSTRY IN KAZAKHSTAN

The main policy-maker in the electric power industry is the Government of Kazakhstan. The Ministry of Energy of Kazakhstan is the public authority to manage the industry. The Committee of Atomic and Energy Supervision and Control under the Kazakhstan Ministry of Energy is the public authority to supervise and monitor the industry.

The Committee on Regulation of Natural Monopolies and Protection of Competition and Consumer's Rights under the Ministry of National Economy of the Republic of Kazakhstan is the public authority that monitors and regulates the state monopoly activities (including KEGOC as a natural monopoly) and manages the protection of competition and restriction of monopolistic operations.

The Unified Power System (UPS) of Kazakhstan is a combination of power plants, transmission lines and substations.

The electric power industry in Kazakhstan includes the following sectors:

- electricity generation;
- electricity transmission;
- electricity supply;
- electricity consumption;
- other activities in electric power industry.

Electricity generation

Electricity in Kazakhstan is generated by 128 power plants of various forms of ownership. As of 1 January 2017, the total installed capacity of the power plants in Kazakhstan was 21,672.9 MW; and the available capacity was 18,791.4 MW.

Electricity transmission

Electric networks in Kazakhstan include 0.4-1,150 kV substations, switchgears and electricity transmission lines connecting them to transmit and/or distribute electricity. The backbone grid in Kazakhstan UPS is **the National Power Grid (NPG)** that provides electric connections between the regions of the country and with the power systems of the neighbouring countries (the Russian Federation, the Kyrgyz Republic and the Republic of Uzbekistan) and deliver electricity from the power plants to the wholesale consumers. KEGOC owns 220 kV and above substations, switchgears, interregional and/or interstate transmission lines being a part of the NPG including lines used for connection of power plants.

Regional electric networks provide electric connections inside the regions and deliver electricity to the retail consumers and belong to and are being operated by **the regional electric network companies (REC).**

Power transmission organisations transfer electricity using their own or third party's power networks (rent, lease, trust management and other types of use) based on the contracts with the wholesale and retail market consumers or energy supplying organisations.

Electricity supply

The Kazakhstan electricity market power supply sector includes power supply organisations, which purchase electricity directly from power generators or at the centralized auctions and further sell it to the end retail consumers. Some of power supply organisations have a role of the 'guaranteed power supplier'.

Other activities in electric power industry

Research and design in power industry, market researches and forecasting, managing the issues of adopting new energy-efficient and environmentally friendly technologies are completed by research and design institutes, such as **KazNIPIEnergoprom, Energiya, KazSelEnergoProyekt, Chokin Kazakh Research Institute of Power Engineering and Almaty University of Power Engineering & Telecommunications, Nazarbayev University, Energy System Researches LLP.**

KEGOC is a member of Kazakhstan Electricity Association, KazEnergy Association, Atameken National Chamber of Entrepreneurs, Association of Competition Development and Commodity Markets, Kazakhstan Association of Taxpayers and ECR Pool participant.

KAZAKHSTAN ELECTRICITY MARKET

The electricity market has two levels: wholesale and retail.

The functional design of the wholesale electricity market in Kazakhstan includes:

- **Decentralized electricity market** (bilateral contracts of electricity purchase and sale);
- **Centralized electricity market,** which is based on short-term (spot-trade), mid-term (week, month) and long-term (quarter, year) electricity trading; The operator of the centralized electricity trading market is KOREM;
- **Real-time balancing market** operating for physical and subsequent financial settlement of hourly imbalances arising within the operating day between actual and contractual generation and consumption of electricity in the Unified Power System of Kazakhstan with the reference generation and consumption schedule approved by the System Operator. The physical settlement on the balancing market of imbalances will be the responsibility of the System Operator, and the financial settlement of imbalances will be the responsibility of the Financial Centre. The Financial Settlement Centre in the balancing electricity market is Energoinform. Currently the balancing electricity market in Kazakhstan operates in simulation mode (up to 1 January 2019 in accordance with Order of the Minister of Energy No. 676 dated 30 November 2015).
- **System and ancillary service market,** where the System Operator renders the system services and acquires the ancillary services from the Kazakhstan electricity market participants in order to comply with the state standards of reliable operation of Kazakhstan UPS and electric power quality. The Ministry of Energy of Kazakhstan (Order No. 61 dated 17 October 2014) assigned KEGOC the role of the System Operator of UPS of Kazakhstan;
- **Capacity market** operating to attract investments in the new electrical capacity that is sufficient to meet the demand for electricity and maintain the forecasted level of the electric capacity in Kazakhstan UPS. In accordance with the Low on Electric Power Industry in Kazakhstan, the commissioning of the capacity market is expected on 1 January 2019.

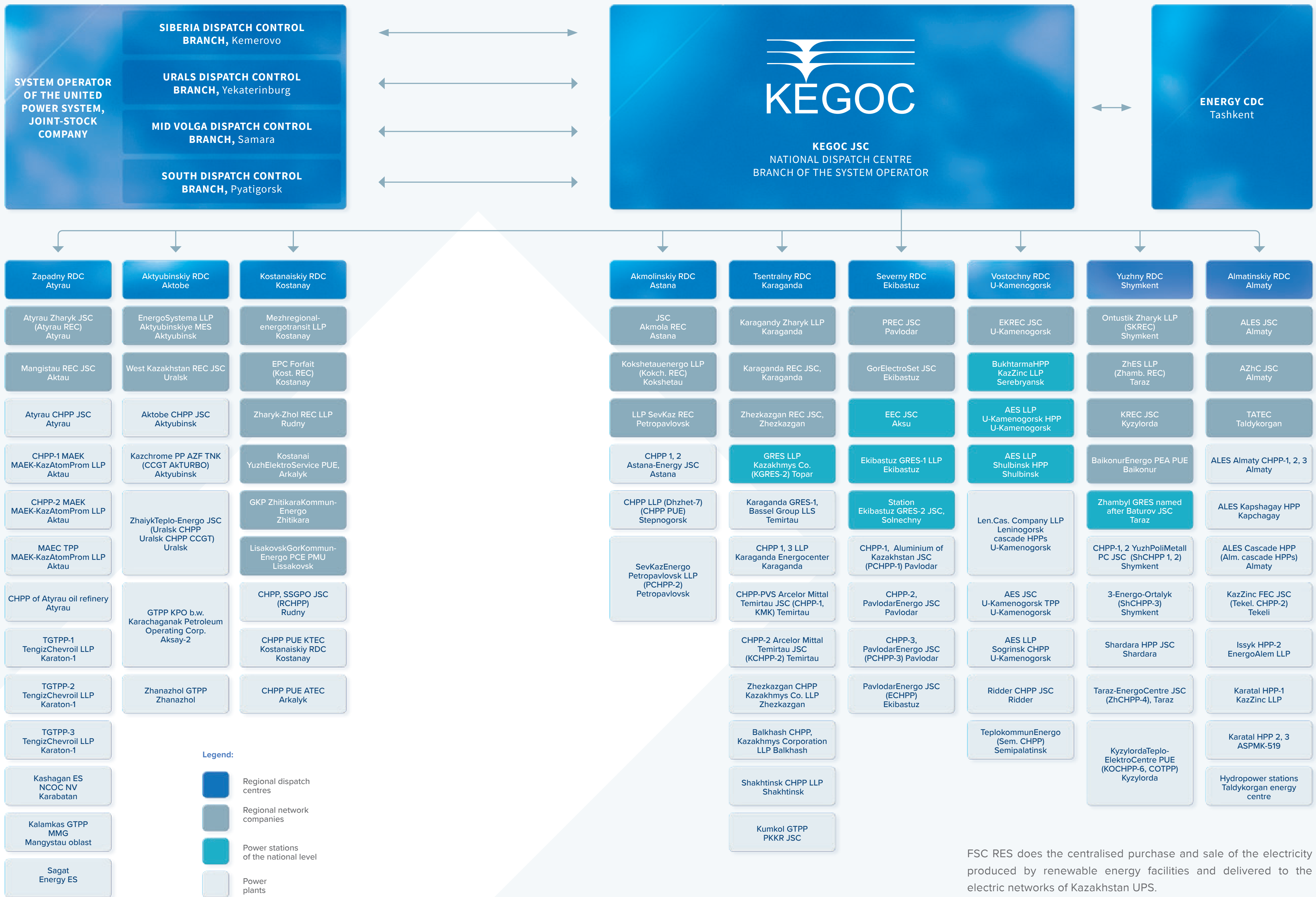
The participants of the wholesale electricity market are:

- the power generating organisations that supply electricity to the wholesale market in the amount of not less than 1 MW of the daily average (baseline) capacity;
- the power transmission organisations;
- the power supply organisations that do not have their own electrical networks and buy electricity on the wholesale electricity market with a view to resale it in the amount of not less than 1 MW of the daily average (baseline) capacity;

- the consumers who buy electricity on the wholesale market in the amount of not less than 1 MW of the daily average (baseline) capacity;
- the System Operator, which is Kazakhstan Electricity Grid Operating Company (KEGOC);
- the operator of the centralized electricity trading market, which is KOREM;
- the Financial Settlement Centre for Renewable Energy Sources Support;

The centralized dispatch control of Kazakhstan UPS is the task of the National Dispatch Centre of the System Operator (NDC SO), the branch of KEGOC. The centralized operational and dispatch control in Kazakhstan UPS is organised as direct operational subordination of nine regional dispatch centres (RDCs) to NDC SO; these RDCs are the structural subdivisions of KEGOC branches: Interconnection Electric Networks (MES branches).

The structure of operational dispatch control of the Kazakhstan UPS (as on 01.01.2018)



FSC RES does the centralised purchase and sale of the electricity produced by renewable energy facilities and delivered to the electric networks of Kazakhstan UPS.

ELECTRICITY BALANCE

Electricity consumption in Kazakhstan in 2017 compared to 2016 increased by 5,545.0 million kWh or 6.0%. Consumption increased by 3,113.0 million kWh (5.0%) in Zone North, by 893.7 million kWh (7.8%) in Zone West and by 1,538.3 million kWh (8.1%), and in Zone South of Kazakhstan. The most significant increase in electricity consumption was registered in the Pavlodar oblast by 1043.7 million kWh (5.9%), Aktobe oblast by 628.1 million kWh (11.9%), Atyrau oblast by 826.2 million kWh (17.5%), Karaganda oblast by 912.0 million kWh (5.8%), and Zhambyl oblast by 611.3 million kWh (19.2%). Consumption decreased by 55.4 million kWh (1.1%) in Mangystau oblast.

The electricity production in the Republic of Kazakhstan in 2017 was 102,383.6 million kWh, which is higher than in 2016 by 8,307.1 million kWh or by 8.8%.

In 2017, electricity production in Kazakhstan UPS exceeded consumption by 4,527.0 million kWh.

The net power flow in the reporting period on the border with Russia amounted to 4528.2 million kWh (in 2016 net power flow to Russia was 1640.2 million kWh). Electricity export to Russia amounted to 5,788.1 million kWh, which is 3015.0 million kWh higher than in 2016. Electricity import from Russia was 1,259.9 million kWh, which is 127.0 million kWh higher than in 2016. Both export and import are presented here net of the balancing electricity provided by Russia.

The net power flow from the Central Asia (Kyrgyzstan) amounted to 1.2 million kWh. The export of electricity to Kyrgyzstan was 7.7 million kWh; the import was 8.9 million kWh.

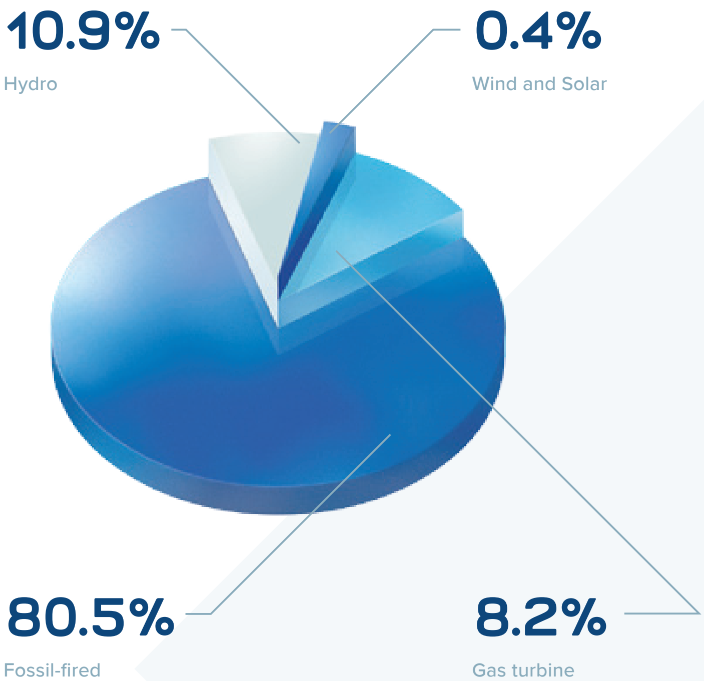
The increase in electricity consumption in 2017 had an impact on KEGOC's performance: the amount of transmission, technical dispatching, and balancing services provided by the Company for its clients: power generators, power transmission utilities, power suppliers, and electric power consumers.

OPERATING ACTIVITY OF KEGOC

Electricity Transmission

The actual amount of the transmission services in the national power grid in 2017 amounted to 42,737.3 million kWh, which is higher than in 2016 by 3,523.8 million kWh or 9.0%. The increase is mainly due to the growth in the amount of services for the wholesale electricity market participants, as well as the growth of the amount of exported electric energy.

Structure of Electricity Generation in the Unified Power System of Kazakhstan in 2017



In 2017, KEGOC under the contract with FGC UES transmitted electricity across KEGOC's networks from the Russia through Kazakhstan back to the Russia. The amount of this transit was 1,981.2 million kWh which is by 1,649.3 million kWh less than in 2016.

Major customers, million kWh

Ekibastuz GRES-1 LLP named after Nurzhanov	4,706
TemirZholEnergo LLP	3,195
AlmatyEnergoSbyt LLP	2,324
Kazchrome Transnational Company JSC	2,093
Federal Grid Company of Unified Energy System (FGC UES) PJSC	1,981
KazZinc LLP	1,974
Kazphosphate LLP	1,697
ShygysEnergoTrade LLP	1,642
Almaty Power Stations JSC	1,445
Ontustik Zharyk LLP	1,210

Technical Dispatch Control

The actual amount of the technical dispatching of supply and consumption in the grid in 2017 was 93,610.0 million kWh, which is higher than in 2016 by 7,871.4 million kWh or 9.2%. This growth is caused by higher amount of electricity generation by both regional and major generators.

Major customers, million kWh

Ekibastuz GRES-1 LLP named after Nurzhanov	14,015
Eurasian Energy Corporation JSC	13,886
Kazakhmys Energy LLP	5,876
Ekibastuz GRES-2 Power Station JSC	5,215
Almaty Power Stations JSC	5,070
MAEK Kazatomprom LLP	3,916
Karaganda Energocenter LLP	3,789
PavlodarEnergo JSC	3,476
KazZinc LLP	3,442
SevKazEnergo LLP	2,834

Management of Electricity Production and Consumption Balancing

The actual amount of electricity production and consumption balancing management in the grid in 2017 was 174,534.7 million kWh, which is higher than in 2016 by 12,918.7 million kWh or 8.0%. This growth is caused by higher amount of electricity generation and consumption on the wholesale market in Kazakhstan.

Major customers, million kWh

Eurasian Energy Corporation JSC	23,177
Ekibastuz GRES-1 LLP named after Nurzhanov	14,015
Kazakhmys Energy LLP	6,522
ArcelorMittal Temirtau JSC	6,248
KazZinc LLP	6,111
Astana REC JSC	6,039
AlmatyEnergoSbyt LLP	5,768
Ekibastuz GRES-2 Power Station JSC	5,171
Almaty Power Stations JSC	5,139
MAEK Kazatomprom LLP	4,602

Electricity purchase/sale transactions

In 2017 KEGOC purchased electricity:

- to balance hourly unscheduled power flows between the energy systems of Kazakhstan and Russia with the total amount of 1,020.4 million kWh worth KZT 9,654.3 million (purchased from the external sources: Inter RAO (Russia), and internal sources: Ekibastuz GRES-1 LLP, MAEK Kazatomprom LLP, and Batys Power LLP);
- to balance the unscheduled power flows between the energy systems of Kazakhstan and the Kyrgyzstan in the amount of 8.9 million kWh worth KZT 58.1 million (purchased from the energy system of Kyrgyzstan);
- to balance the unscheduled power flows from the energy system of Kazakhstan to the energy system of Kyrgyz Republic in the amount of 7.7 million kWh worth KZT 48.0 million (purchased from: Ekibastuz GRES-1 and AES Shulbinsk HPP power plants).

In 2017, KEGOC sold electricity:

- to balance hourly unscheduled power flows between the energy systems of Kazakhstan and Russia with the total amount of 1,020.4 million kWh worth KZT 4,084.7 million (to Inter RAO (Russia));
- to balance the unscheduled power flows between the energy systems of Kazakhstan and the Kyrgyzstan in the amount of 7.7 million kWh worth KZT 50.1 million (to energy system of Kyrgyzstan).

KEGOC'S DEVELOPMENT STRATEGY

POWER INDUSTRY IN THE REPUBLIC OF KAZAKHSTAN IS VERY IMPORTANT FOR THE NATIONAL ECONOMY BECAUSE THE KEY NATIONAL INDUSTRIES SUCH AS METALLURGY AND OIL AND GAS PRODUCTION ARE THE HIGHLY ENERGY INTENSIVE INDUSTRIES. ACCORDINGLY, THE COMPETITIVENESS OF THE PRODUCTION INDUSTRIES IN KAZAKHSTAN AND THE LIVING STANDARDS RELY HEAVILY ON THE RELIABILITY AND QUALITY OF ENERGY SUPPLY TO CONSUMERS.

Based on the functions performed by KEGOC in the electric power industry in accordance with the laws of the Republic of Kazakhstan and taking into account governmental programme documents and expectations of Samruk-Kazyna as a major shareholder the Company developed KEGOC's Long-term Development Strategy to 2025. According to KEGOC's Long-term Development Strategy the company's strategic goals are:

1. RELIABLE OPERATION OF THE UNIFIED POWER SYSTEM OF KAZAKHSTAN

2. STABLE FINANCIAL POSITION OF THE COMPANY AND CASH FLOWS FOR SHAREHOLDERS AND DEVELOPMENT

3. SUSTAINABLE DEVELOPMENT

These goals and strategic operational, financial, economic and social performance indicators will support the company on its way to 2025 vision of the strategy: to become a world-class company and the regional centre of expertise in the power industry.

The key areas of a particular attention of the company in the coming years are:

- changes in electricity consumption trends in Kazakhstan because of a deeper penetration of renewable energy generation, the modernization of the economy of Kazakhstan (Industry 4.0), and the impact of electricity and capacity markets on electricity consumption;
- the need to foster and catalyse the investments in creation and implementation of the most effective technical solutions in transmission networks;
- the need to improve the legal and regulatory framework in the electricity sector, given the launch in 2019 of the balancing and capacity markets, and the creation of a common energy market in the Eurasian Economic Union.

To achieve this KEGOC's immediate objectives are set to:

- establish a direct relationship between revenues and the quality of services provided by the system operator in order to increase efficiency of the main strategic KPIs, such as SML (System Minutes Lost), ENS (Energy Not Supplied) and WWP (Work Without Problems – percentage of the system's operating time without failures);
- increase the efficiency of the system operator's forecasting demand, generation from renewable energy sources;
- systematise the approach to the formation of a portfolio of business initiatives and projects (new technologies, innovations, digitalization, etc.) in order to make better use of investments and ensure further improvement of the network, as well as reduce the technological consumption (losses) of electricity;
- increase the accountability of the company's management for sustainable development, and the achievement of established environmental, safety, and HR targets;
- ensure compliance with the Corporate Governance Code, improve corporate governance in order to improve the Corporate Governance Rating;
- review/update the development strategy of KEGOC taking into account the business digitalization policy with the elements of the fourth industrial revolution, and also taking into account changes in the development trends in the electric power sector;
- maintain regularity of the publicly disclosed mandatory commercial and physical performance of the Unified Power System of Kazakhstan.

KEGOC continues the planned implementation of the Business Transformation Programme to account for the changes taking place in the power sector of Kazakhstan and the role of the system operator of the UPS of Kazakhstan that has become more critical due to deeper penetration in the operation management of the power system at all levels. The transformation programme is mainly designed to establish effective administration, create a system of incentives to increase the profitability of the company, create favourable investment conditions, and support innovative technologies.

In 2017 the Company has already completed three of four stages of the Programme and started the decisive 'Implementation' stage, which shall implement the initiatives designed at the previous stages. All initiatives were grouped into 7 projects of the Company's Project Portfolio.

The Company developed the targeted business processes; implemented target organizational structure where the level of top management was reduced to only one level of management – managing directors; and updated the Company's performance evaluation system using the KPI tree.

The largest and most complex project in terms of the number of engaged Company's employees and costs is the enterprise process management project using SAP as a platform. For this main project, the Company signed a contract with TerraLink for consulting services to develop the project's methodology.

The project is progressing in accordance with the approved basic plan. The remaining projects shall improve the reliability of the UPS operations, increase profitability of the Company, optimize and increase the reliability of the data used, and improve customer relationships.

goal 1.

RELIABLE OPERATION OF THE UNIFIED POWER SYSTEM OF KAZAKHSTAN

MAIN RESULTS IN 2017

THE COMPANY CONTINUED IMPLEMENTATION OF THE FOLLOWING INVESTMENT PROJECTS:

- CONSTRUCTION OF 500 KV OVERHEAD TRANSMISSION LINE IN THE NORTH-EAST-SOUTH TRANSIT, STAGE 2
- PAVLODAR ELECTRICITY TRANSMISSION REINFORCEMENT PROJECT

THE PROJECTS OF TECHNOLOGICAL DEVELOPMENT OF KEGOC ARE INCLUDED IN THE GOVERNMENT'S PROGRAMME TITLED 'DIGITAL KAZAKHSTAN' UNDER THE NAME 'AUTOMATION OF CONTROL OF OPERATION STATE OF THE UNIFIED ENERGY SYSTEM OF KAZAKHSTAN'

GOALS FOR 2018

COMPLETE CONSTRUCTION OF 500 KV OHTL SHULBINSK HPP (SEMEY) – AKTOGAY – TALDYKORGAN – ALMA

CONTINUE TO IMPLEMENT 'REHABILITATION OF THE NATIONAL POWER GRID' PROJECT THAT SHALL CHANGE THE GENERAL AGING TREND OF TRANSMISSION LINES

NETWORK RELIABILITY

In 2017, KEGOC registered 280 emergency shutdowns in electric networks (which is 4% more than in 2016): 155 of them were restored to the stable operation by successful operation of automatic reclosing devices, and 125 ended in a shutdown because automatic reclosure was not successful. In 2017, the Company recorded and investigated 52 technological disturbances including: one failure class 1 (in Akmolinskiye MES branch due to unfavourable weather conditions) and 51 failures class 2. There were serious failures. In 2016, the Company recorded 41 technical disturbances class 2. There were no serious failures or class 1 failures. The total number of technical disturbances as compared to 2016 increased by 27 %.

ELECTRICITY LOSSES

6.2%

The growth of the total number of technical disturbances in 2017 is due to unfavourable weather conditions: storm winds and other natural phenomena caused 34 technical disturbances (65.4% of the total).

In 2017 the Company recorded 38 technical disturbances on power lines which are 73% of the total. Thirteen of the total number of technical disturbances damaged the transmission line elements.

In 2017 the Company recorded 14 technical disturbances on substations which are 27 % of the total. Four of the total number of technical disturbances damaged the primary equipment.

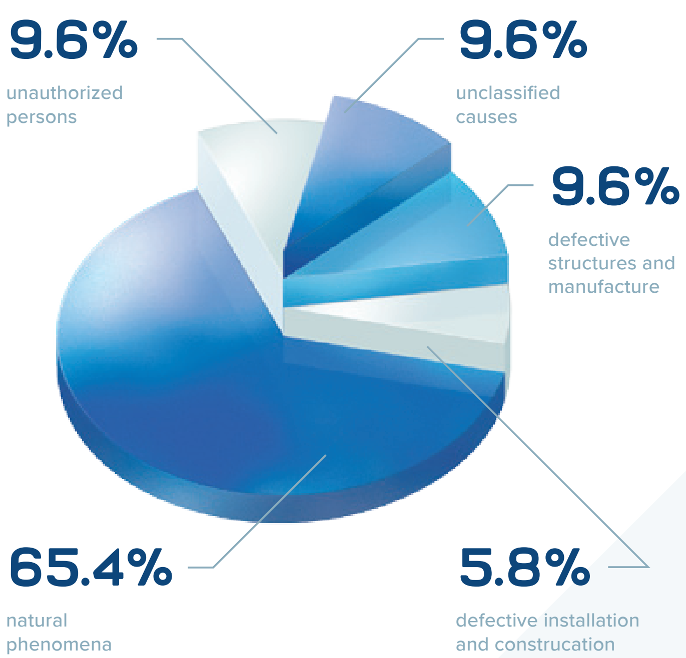
The total undersupply of electricity in 2017 increased and amounted to 246.7 thousand kWh versus 56.7 thousand kWh in 2016. This undersupply for two types of causes: natural phenomena occurrence and the actions of unauthorized persons and organizations, and the growth is due only to occurrence of the natural phenomena (161.6 thousand kWh or 65% of the total volume).

As a result of measures taken by the Company to ensure labour discipline, improve the quality of operation and repair of equipment there were no technical disturbances due to erroneous actions of personnel and unsatisfactory maintenance in 2017.

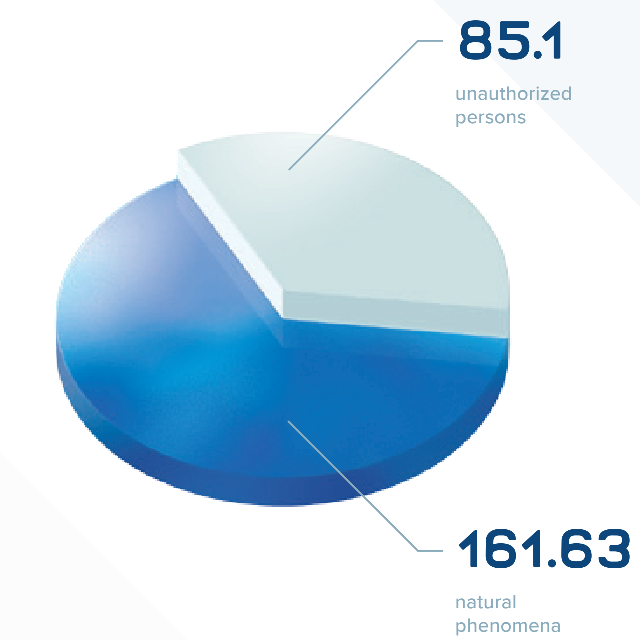
SML

1.04 MINUTES

Technical disturbances by qualification attributes:



Electricity undersupply (MWh) by qualification attributes:



WWP

98.99%

The Company defined SML (System Minutes Lost) and WWP (Percentage of Work Without Problems) to assess the network reliability level. In 2017 SML was 1.04 minutes and WWP was 98.99% which is similar to reliability performance of the peer system operators of electric networks according to the results of completed benchmarking study.

INVESTMENT ACTIVITY

In order to increase efficiency, reduce technical losses, increase the reliability of the NPG operation and the capacity of the networks, the Company continues to actively implement investment projects. In 2017 the Company disbursed KZT 57.6 billion (including KZT 5.1 billion of capitalized loan interest) vs. KZT 65.4 billion of the planned capital investments (including KZT10.8 billion of capitalized loan interest). The Company completed 96.3% of the planned amount of work excluding the capitalized loan interest.

In 2017 the Company invested KZT107.6 billion in capex projects including: construction of 500 kV Shulbinsk HPP (Semey)-Aktogay-Taldykorgan-Alma transmission line under the 'Construction of 500 kV North-East-South transit' project included into 'Nurly-Zhol' the government's programme) and Pavlodar Electricity Transmission Reinforcement Project. Over the two years, KEGOC constructed 544 km of 500 kV Shulbinsk HPP (Semey) -Aktogay-Taldykorgan-Alma transmission line of the total length of 883 km, including 380 km in 2017.

The project work also included construction and installation at the new 500 kV Taldykorgan and Aktogay substations and expanded 500 kV Semey and Alma substations. Two 220 kV 125 MVA autotransformers were installed at the Pavlodar substation under Pavlodar Electricity Transmission Reinforcement Project.

The Company disbursed 100% of capital investments planed for maintaining the current level of operations in 2017 in the amount of KZT 5.3 billion.

In 2017, the Scientific and Technical Council of KEGOC approved the feasibility study titled 'Inspection and assessment of the technical state of 220-500 kV transmission lines including the development of feasibility study for 'Rehabilitation of the National Power Grid' project in Aktyubinskiye MES, Sarbaiskiye MES, and Zapadnye MES branches of KEGOC. The project includes 26 high-voltage overhead transmission lines geographically located in Kostanaiskaya, Aktyubinskaya, West Kazakhstan, and Atyraskaya oblasts.

The project objective:

- extend the service life by at least 30 years;
- improve the transmission conditions;
- increase of permissible transmission capacity and reduce losses.

The Company completed evaluation of the technical condition of the facilities, analysis of the reasons for the line shutdowns, preparation of the technical conclusion, review of the advanced technologies in the electric power industry, and the options for rehabilitation of the overhead lines.

In 2018, KEGOC plans to complete the project for 'Construction of 500 kV Shulbinsk HPP (Semey) — Aktogay — Taldykorgan — Alma transmission line' being a part of a larger nation wide 'Nurly Zhol' government programme for 2015-2019 and continue the project for 'Rehabilitation of the National Power Grid'.

THREE OHTLS COMMISSIONED WITH THE LENGTH OF MORE THAN

610 KM

TECHNOLOGICAL DEVELOPMENT

In the modern world, the Company's technological development is the driver of growth and business development that creates new opportunities and prospects for the Company's operations.

In 2017, KEGOC launched the following projects of technological development to increase the reliability, manageability, and observability of the UPS of Kazakhstan:

- introduction of the centralized system of emergency control automatics.
- introduction of automatic frequency and power flow control.

- introduction of a monitoring and control system based on synchrophasor technologies (WAMS / WACS).

The main impact of these projects shall be the higher transmission capacity of the grid without additional grid construction, smaller deviations of power at the border with Russia, and lower level of consumer outages during technological disruptions in the network.

The projects are included in the government's programme titled 'Digital Kazakhstan' under the name 'Automation of control of operation state of the Unified Energy System of Kazakhstan'.

Applied technologies and equipment energy efficiency increase, energy-saving programme development and technological power consumption optimization are among the Company's main objectives. The technical electricity loss means the electricity loss resulting from the physical processes in conductors and electrical equipment that occur during the electricity transmission across transmission lines; therefore, planning and introduction of measures to reduce electricity losses are aimed at optimizing the actual technical loss amounts. The actual electricity losses in KEGOC's networks in 2017 amounted to 2,798.7 million kWh or 6.2 % of electricity supplied to the grid, this being within the standards established by the Committee on Regulation of Natural Monopolies and Protection of Competition. This indicator is strategic for the Company and reflects the efficiency of its operations.

In 2017 the Company proceeded with the Feasibility Study of Corona Losses Mitigation in Kazakhstan NPG. The work is carried out with participation of NURIS (Nazarbayev University's scientific subdivision). The work studies possible ways to reduce corona losses in 500 kV KEGOC's networks by using technologies to treat the surface of high-voltage overhead transmission line conductors. Corona losses reach 30% of total losses in KEGOC's grid. Accordingly, the positive research outcome and application of the relevant technological solutions NPG-wide will have a significant economic impact.

Also this year, together with ORGRES Engineering Centre (Russia), KEGOC started a scientific research to determine the causes and develop counteractions that will reduce electric power losses in 500 kV transmission lines of KEGOC equipped with OPGW that were reported to have high level of losses.

In order to achieve the Company's goal of ensuring reliable operation of the UPS of Kazakhstan and successful technological development, the IT Development Program has the following objectives: provision of services at the required level; introduction of advanced solutions in the industry, and deeper penetration of IT into the Company's business.

To achieve these goals, the Company have set the specific tasks and projects that shall bring qualitative change to business performance and introduce automation to end-to-end business processes through the transition to software-as-service (SaS) model of IT services, use of modern methods of managing IT costs, and balancing flexibility and reliability of the provided services.

One of the first steps to achieve these goals is the initiatives to implement the automation of corporate processes, the transfer to SaS, cloud printing equipment, and infrastructure-as-service model.

In the future, the Company will continue to implement large-scale projects in IT, telecommunications, and technological systems to ensure the reliable operation of the UPS of Kazakhstan.

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RATIONALIZATION PROPOSALS

The Company pays a lot of attention to innovation and invention activity by encouraging personnel's technical creativity. In 2017 the Company's employees developed 30 rationalisation proposals aimed at improving operational efficiency, labour productivity, and reliable power supply. E.g. the device for replacing tension string of insulators on 220 kV overhead lines, proposed by the employees of Severnye MES branch, now helps eliminating the excessive sag of tension insulator strings during its replacement and increases safety and quality of the repair work. This rationalisation proposal is recommended to be used in other branches of the Company. The invention of the employees of Akmolinskiye MES branch, which protects the line insulation and conductors of high-voltage lines from pollution, improved reliability of the network, and was also recommended for use in other branches of the Company.

goal

2. STABLE FINANCIAL POSITION OF THE COMPANY AND CASH FLOWS FOR SHAREHOLDERS AND DEVELOPMENT

MAIN RESULTS IN 2017

THE SECOND BOND ISSUE SUCCESSFULLY PLACED ON THE KAZAKHSTAN STOCK EXCHANGE (KASE) WITH TOTAL AMOUNT OF

36.3 KZT BILLION

UZBEKENERGO REPAID THE ACCOUNTS RECEIVABLE

THE OUTSTANDING AMOUNT UNDER THE LOANS IS PARTIALLY EARLY REPAID

PLANS FOR 2018

IMPROVE THE COMPANY’S CORPORATE GOVERNANCE AS FOLLOWS: ‘PERFORMANCE OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD’, ‘RISK MANAGEMENT, INTERNAL CONTROL AND AUDIT’ AND ‘SUSTAINABLE DEVELOPMENT’

TARIFF POLICY

For fulfilling the mission to ensure the NPG reliable operation, KEGOC's main income source is the regulated services cap tariffs approved by the authorized body.

When implementing the large infrastructure investment projects the company adheres to the tariffs gradual increase policy. Kazakhstan Law on Natural Monopolies refers the following KEGOC's services to the natural monopoly services:

- electricity transmission via networks of the National Power Grid;
- technical dispatching of the electricity supply to the grid and electricity consumption;
- management of electricity generation and consumption balancing.

Once established, KEGOC has been consistently improving the tariff policy of regulated services, and playing an active role in activities of relevant organisations to improve the tariff policy.

In accordance with the laws KEGOC submits applications to the CRNMPCCR under the Kazakhstan Ministry of National Economy seeking approval (revision) of tariffs for regulated services referring to the natural monopoly.

The Company's tariffs are set on a costs-plus basis, whereby the Company, in order to set a tariff for a certain period of time, considers the corresponding estimates of operating and financial costs and a fair rate of return on capital.

In 2013, KEGOC turned to applying the cap tariff levels. The principles of calculating the cap tariffs are similar to the calculation of annual tariffs except that the cap tariffs shall be approved for a period of several consecutive years. The cap tariffs make it possible for the Company to plan its capacity for long periods, and shareholders have the opportunity to get more information about the Company.

In accordance with the established procedures, KEGOC applied to the CRNMPCCR seeking for approval of the cap tariffs and tariff estimates for KEGOC's regulated services for a long-term period. Based on the consideration results, CRNMPCCR's Order No. 388-ОД dated 21 September 2015 approved the cap tariffs and tariff estimates for KEGOC's regulated services for a five-year period from 01 January 2016 to 31 December 2020.

tenge per kWh	2016	2017	2018	2019	2020
electricity transmission	2.080	2.246	2.496	2.823	2.797
technical dispatching	0.231	0.234	0.249	0.306	0.306
generation and consumption balancing management	0.084	0.086	0.091	0.098	0.098

Following the consideration of the report on execution of the tariff estimate for 2016, the CRNMPCCR approved temporary compensatory tariffs for KEGOC's regulated services:

1. effective since 1 January 2017 till 30 June 2017 as follows:
   - 2.245 KZT/kWh for electricity transmission;
   - 0.233 KZT/kWh for technical dispatching of electricity supply to the grid and consumption.
2. effective since 1 July 2017 till 31 December 2017 as follows:
   - 2.2457 KZT/kWh for electricity transmission;
   - 0.2339 KZT/kWh for technical dispatching of electricity supply to the grid and consumption.
3. effective since 1 January 2018 till 30 June 2018 as follows:
   - 2.4957 KZT/kWh for electricity transmission;
   - 0.2489 KZT/kWh for technical dispatching of electricity supply to the grid and consumption.

The Company annually arranges hearings to report its activities with respect to regulated services (goods, works) to strengthen the protection of consumers' rights, ensure transparency of activities for consumers and other interested parties. The main principles of conducting the annual reporting hearings are to ensure publicity and transparency of the Company's activities and preserve the balance of consumer interests.

ANALYSIS OF FINANCIAL AND ECONOMIC INDICATORS

The financial and economic results in 2017 were positive due to the following factors: UzbekEnergo finally repaid the accounts receivable and the Company early repaid a part of its outstanding debt.

In addition, to ensure stable cash flow in the future, KEGOC implements large investment projects. In 2017, the most of the capital investments were used to implement the 500 kV OHTL Shulbinsk HPP – Aktogay – Taldykorgan – Alma Construction Project, which is an integral part of the 500 kV North-East-South Electricity Transmission Project. The project to be financed, on 29 August 2017 KEGOC successfully placed the second bond issue on Kazakhstan Stock Exchange JSC (KASE) with total amount of KZT 36.3 billion (15 year maturity, fixed coupon interest amount). The company will use the raised funds to timely complete the 500 kV North–East–South construction project as a part of the Government's Nurly-Zhol programme. This project is aimed at increasing the transit potential of the National Power Grid in North-East-South direction, ensuring the reliability of electricity supply, and covering the electricity shortages in the East Kazakhstan and Almaty regions, increasing the energy independence of Kazakhstan's NPG and creating conditions for the development of border areas.

NET INCOME GREW BY 19.2%

Analysis of the implementation of planned income and expenditure indicators

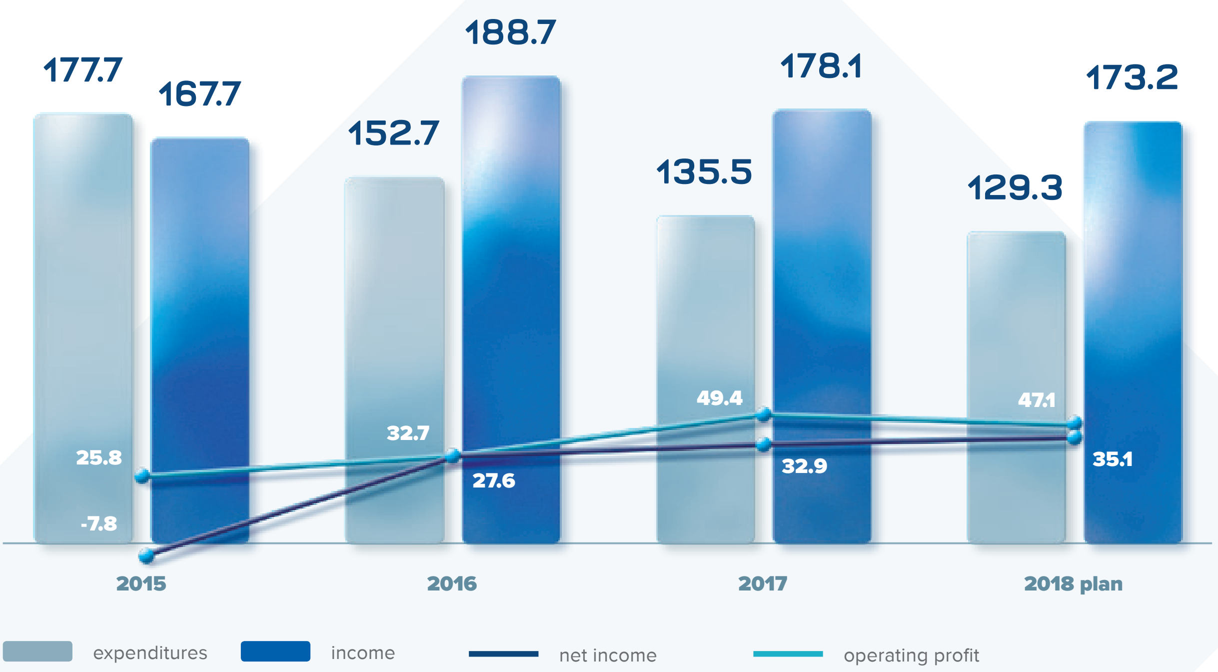
	2017 plan	2017 actual	Deviation	Main reasons for deviations
Consolidated income	**156,975.65**	**178,134.83**	**+13.5%**	
operating income	153,887.52	152,379.82	-1.0%	Non-fulfilment of the plan for income from the sale of electricity to compensate for unscheduled consumption as there was no unscheduled consumption. Non-fulfilment of the plan for income from the sale of electricity to compensate for imbalances due to reduction of the number of transactions. Decrease of income from the sale of electricity generated by the RES.
non-operating income	3,108	25,775.00		Accrual of currency exchange losses. Overfulfilment of the plan for income from deposit operations. Accrual of income from Batys Transit's equity participation.
Consolidated expenditures	**122,505.24**	**135,493.13**	**+10.6%**	
cost of sales	102,923.38	89,399.37	-13.1%	Reduction of expenditures for purchase of electricity: • to compensate for unscheduled consumption due to the absence of unscheduled consumption, reduction of costs for electricity purchase, • to compensate for imbalances due to reduction of the number of transactions, • to compensate for the technical losses as a result of decreased average purchase price as part of the optimization of procurement procedures, • generated by RES facilities as a result decreased generated volume. The expenditures for services on power regulation and electricity transmission over the third parties networks reduced as a result of optimization of the UPS operating mode and the schedule for main equipment withdrawal for repairs.
General and administrative expenses	14,288.71	13,142.39	-8.0%	Restoration of the previously accrued provision for UzbekEnergo's debts. Reduction of expenditures associated with SAP-based ERP system implementation as a result of changes in the terms of implementation.

Analysis of income and expenditure indicators for 2017 against 2016

	2016	2017	deviation	Main reasons
Consolidated income	**188,716.29**	**178,134.83**	**-5.6%**	
Operating income	130,001.44	152,379.82	+17.2%	Growth of the volumes of services provided and tariffs for them. Growth of the volumes from the sale of electricity generated by the RES.
Non-operating income	58,734.84	25,775.00		Reduction of foreign exchange gains.
Consolidated expenditures	**152,741.44**	**135,493.13**	**-11.3%**	
cost of sales	79,388.77	89,399.37	+12.6%	Increase in the expenditures for purchase of RES electricity. Increase in the expenditures on purchase of electricity: • to compensate for technical losses, • to compensate for imbalances. Increase in labour costs for operating personnel.
general and administrative expenses	17,640.42	13,142.39	-25.5%	Accrual in 2016 of property tax for 2015 and 2016, due to the change in the fixed assets classifier. Accrual in 2016 of the provision for UzbekEnergo's debt.

All of the above factors influenced the operating profit and financial result based on 2017 results.

Dynamics of financial and economic indicators, million tenge



Any information concerning the plans referred to in this Annual Report is forward-looking and reflects the current views of KEGOC with respect to future events and is exposed to certain risks, uncertainties and assumptions relating to the business, financial condition, operating results, growth strategy and liquidity of KEGOC.

CORPORATE GOVERNANCE

KEGOC continues systematic work on improving the corporate governance setting high goals for achieving the level of the world's leading companies. For this purpose, the Company aims to ensure:

- efficient exercise of shareholders' rights;
- efficient balanced dividend policy;
- efficient performance of the Board of Directors and Management Board of KEGOC;
- sustainability and efficient stakeholders interaction system;
- proper disclosure of information about the Company to stakeholders;
- improved risk management and internal control systems.

CORPORATE GOVERNANCE RATING

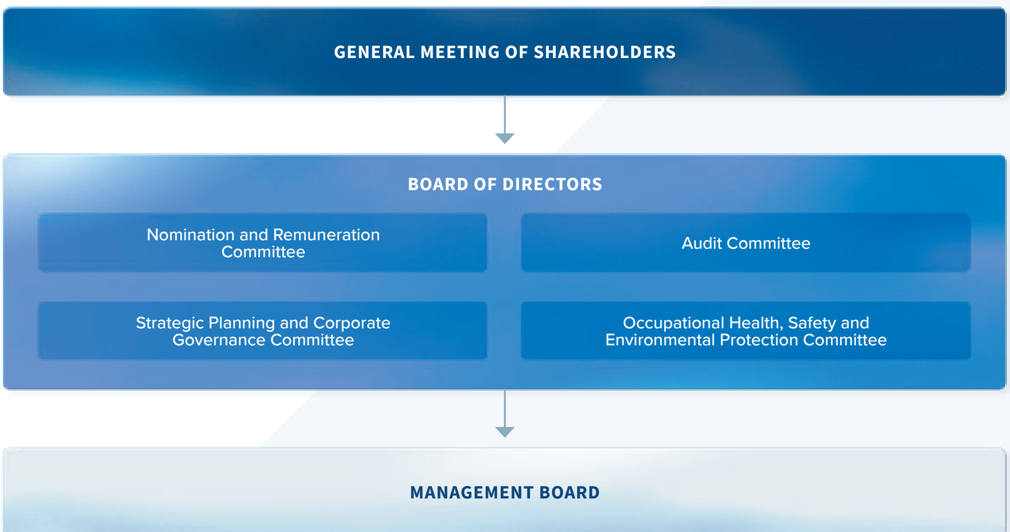
BB

Equity

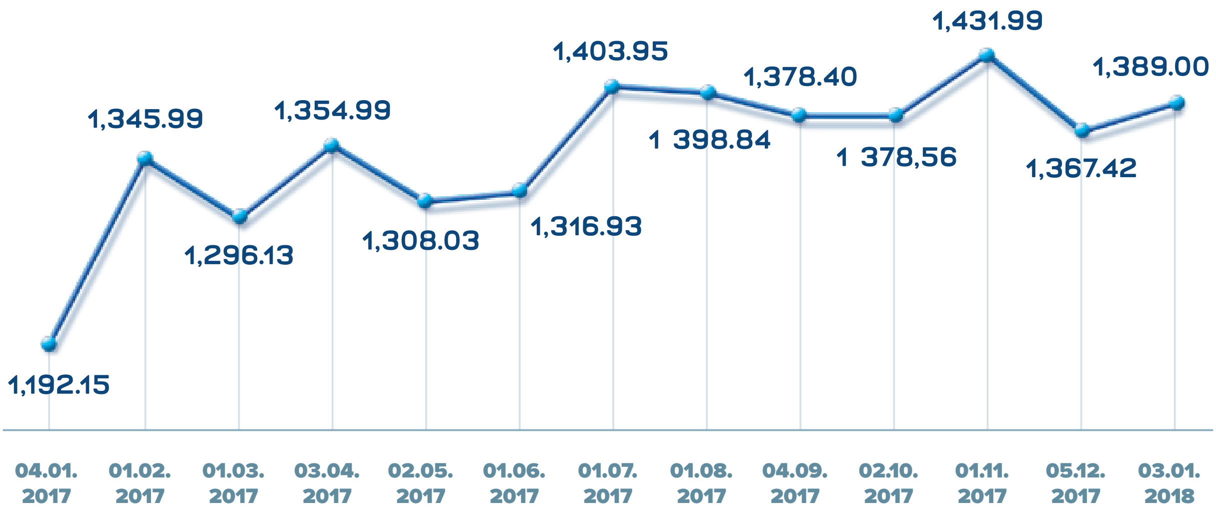
The number of KEGOC's ordinary shares placed on the Kazakhstan organized securities market was 10 % less one share or 25,999,999 (twenty-five million nine hundred and ninety-nine thousand nine hundred and ninety-nine). The price of one ordinary KEGOC share was five hundred and five (505) tenge.

As on 31 December 2017, the number of authorised and placed ordinary shares of the Company was 260,000,000, of which 234,000,001 shares (90% plus one share) belong to Samruk-Kazyna, the major shareholder, and 25,998,609 shares (9.9995%) belong to minority shareholders, the remaining 1,390 shares (0.0006%) were repurchased by KEGOC.

In 2017 there was no material transaction or changes to shares and shareholders that own five or more per cent of the number of the placed shares of the Company.



Change in the market valuation of share in 2017, KZT



Data source – Kazakhstan Stock Exchange (www.kase.kz)

In accordance with the laws and the Regulations on the General Meeting of Shareholders, KEGOC's shareholders are entitled to participate in managing the Company as set forth in the laws and the Charter of the Company; receive dividends; receive information on the Company's business; receive statements from the registrar or nominee holder confirming its ownership of the securities; propose to the General Meeting of KEGOC's Shareholders a candidate for election to the Board of Directors of the Company; contest in the courts the decisions adopted by the Company's bodies; a part of the Company's equity in case of its dissolution.

General Meeting of Shareholders

The General Meeting of Shareholders is the superior body of KEGOC running its activities in accordance with the Law of the Republic of Kazakhstan on Joint-Stock Companies, the Charter, and the Regulations on the General Meeting of KEGOC's Shareholders. In 2017 KEGOC held two General Meetings of Shareholders:

On 12 May 2017 the annual General Meeting of Shareholders was held where:

- claims from the shareholders in relation to KEGOC's activities and its officers and results of consideration of such claims were reviewed.
- the annual financial statements and distribution of the net income were approved; the decision to pay dividends on ordinary shares and the amount of dividends per ordinary share of KEGOC for 2016 was made,
- the new revision of Charter was approved,
- the new revision of the Methodology for valuation of shares for repurchase by KEGOC on the unorganized securities market was approved;
- the new revision of the Rules of selection and election of the members of KEGOC's Board of Directors and the Rules of remuneration and reimbursement of expenses of the members of KEGOC's Board of Directors were approved;

On 26 October 2017 the extraordinary General Meeting of Shareholders was held where:

- the interim financial statements and distribution of the net income were approved; the decision to pay dividends on ordinary shares and the amount of dividends per ordinary share of KEGOC for H1 2017 was made;
- amendments to the Regulations on KEGOC dividend policy were approved;
- thresholds and targets of consolidated KEGOC's financial stability coefficients for 2017-2019 were established;
- amendments to KEGOC's Charter were approved.

Dividend Policy

The dividend policy of KEGOC observes the interests of shareholders in respect to the amount of dividend payments, contributes to the Company's investment attractiveness and its capitalization; respects and strictly observes the rights of shareholders stipulated by the Laws of the Republic of Kazakhstan. The dividends could be paid in case of the availability of net profit of the Company for a reporting period, or retained profits; the absence of restrictions on payment of dividends envisaged by the laws of the Republic of Kazakhstan, and given the decision of the General Meeting of Shareholders.

The source of dividends is the net income for the appropriate financial year or half-year, or retained profits accrued on the basis of the consolidated financial statements of KEGOC prepared in accordance with the IFRS. A proposal on allocation of the net income for the fiscal year or half-year is prepared by the Company's Board of Directors. The amount allocated for payment of dividends shall be at least 40 % of the net income. The decision to pay dividends on KEGOC's ordinary shares based on the results of the year is made by the annual General Meeting of Shareholders after the Company's annual financial statements have been approved. The decision to pay dividends on KEGOC's ordinary shares based on the results of the half-year may be made by the extraordinary General Meeting of Shareholders within three months after the Company's annual financial statements have been audited for the corresponding period.

The General Meeting of Shareholders, having reviewed proposals of the Board of Directors, at its discretion, makes a decision to pay dividends on KEGOC's ordinary shares, approves the amount of dividend per KEGOC's ordinary share, and defines a date of dividend payment.

Dividend History

Period for which the dividends are paid	H1 2015	2016*	H1 2017
Amount of the dividend per ordinary share, KZT	9.4	53.06	48.4
Total amount of accrued dividends, KZT thousand	2,444,000	13,795,526	12,583,933
Share of net profit as per IFRS assigned for payment of dividends, %	40.01%	50%	70%
Name of the issuer governing body that took decision to pay dividends	General Meeting of Shareholders	General Meeting of Shareholders	General Meeting of Shareholders
Date of the meeting of the issuer governing body where the decision was taken relating to payment of dividends, date and number of minute	Minutes of Meeting No. 2 dated 16 October 2015	Minutes of Meeting No. 5 dated 28 October 2016, No. 6 dated 12 May 2017	Minutes of Meeting No. 7 dated 26 October 2017
Date of preparing the list of persons having the right to dividends	30 October 2015	13 November 2016, 22 May 2017	6 November 2017

** Dividends for 2016 were approved separately for H1 2016 (KZT 24.93 per share, Minutes of the General Meeting No. 5 dated 28 October 2016) and for H2 2016 (KZT 28.13 per share, Minutes of the General Meeting No. 6 dated 12 May 2017).*

Board of Directors

Members of the Board of Directors as of 31 December 2017

ELECTED ON 31 JANUARY 2012 AND ON 8 MAY 2012 BY THE DECISIONS OF THE MANAGEMENT BOARD OF SAMRUK-KAZYNA[1], ON 30 APRIL 2015 BY THE GENERAL MEETING OF SHAREHOLDERS OF KEGOC.

KUANYSH BEKTEMIROV

Chairman of KEGOC's Board of Directors

Born in 1970, nationality: Kazakhstan.

Education: Al-Farabi Kazakh State University majoring in Physics (1993), Kazakh National Agrarian University, Electrical Engineer (2004).

Work experience for the last five years:

- From July 2017, Co-managing Director for Asset Optimization of Samruk-Kazyna Sovereign Wealth Fund joint stock company;
- 2014 – 2016, Chief Asset Management Officer, Samruk-Kazyna;
- 2012 – 2014, Managing Director, Samruk-Kazyna;
- 2011 – 2012, CEO, AstanaEnergoContract.

Participation in the management bodies of other organizations:

- Chairman of the Board of Directors of Samruk-Energy;
- Chairman of the Board of Directors of Tau-Ken Samruk National Mining Company;
- Member of the Board of Directors of KazAtomProm;
- Chairman of the Supervisory Board of United Chemical Company LLP.

Shares owned in KEGOC or its subsidiaries: none.

ELECTED ON 24 OCTOBER 2011 AND ON 8 MAY 2012 BY THE DECISIONS OF THE MANAGEMENT BOARD OF SAMRUK-KAZYNA; ON 30 APRIL 2015 BY THE GENERAL MEETING OF SHAREHOLDERS OF KEGOC.

ANATOLIY SPITSYN

Independent Director, Chairman of the Strategic Planning and Corporate Governance Committee, member of the Audit Committee of the Board of Directors of KEGOC

Born in 1939, nationality: Russian Federation.

Education: Odessa Institute of Marine Engineers majoring in Civil Engineering (1962), Academy of Social Sciences Graduate School of the CPSU Central Committee (1972).

Work experience for the last five years:

- Since 2013: Director of the Institute of Strategic Studies of the Eurasian Economic Community Integration Problems;
- 2010 – 2013: Professor of Economics and Finance Department, Public Sector, IIPAM, Russian Presidential Academy of National Economy and Public Administration;
- Member of the Union of Architects of the USSR and the Russian Federation;
- First Vice President of the Eurasian Club of Scientists.

Participation in the management bodies of other organizations:

- Chairman of the Supervisory Board of Karagandy Compound Alloy Plant;
- Member of the Board of Directors of Samruk-Energy.

Doctor of Economics, Professor, Member of the Russian Academy of Natural Sciences, Vice-President of the Russian Academy of Natural Sciences.

Shares owned in KEGOC or its subsidiaries: none.

[1] Before public offering of the Company's shares on the Kazakhstan stock market in 2014, Samruk-Kazyna had been the only shareholder of KEGOC.

LUCA SUTERA

Independent Director, Chairman of the Audit Committee, member of the Nomination and Remuneration Committee under KEGOC's Board of Directors

ELECTED ON 8 MAY 2012 BY THE DECISION OF THE MANAGEMENT BOARD OF SAMRUK-KAZYNA; ON 30 APRIL 2015 BY THE GENERAL MEETING OF SHAREHOLDERS OF KEGOC.

Born in 1971, nationality: Italy.

Education: Bocconi University, Italy – Master's Degree in Business Economics (1997), Global Executive MBA – I.E. Business School, Spain (2012). International certification – CPA (Certified Public Accountant), international certification of members of Boards of Directors of the British Institute of Directors (Chartered Director IoD).

Work experience for the last five years:

- Since 2015: Chief Financial Officer of the group, member of the Management Board at Nebras POWER (Qatar National Energy Company);
- 2011 – 2015: Senior Vice President & Chief Financial Officer at Global power & water business (Abu Dhabi National Energy Company (TAQA), UAE).

Since April 2014: member of IoD (UK Institute of Directors).

Since April 2011: Member of the Russian Association of Independent Non-Executive Directors.

Participation in the management bodies of other organizations:

- Member of the Board of Directors of Samruk-Energo.

Shares owned in KEGOC or its subsidiaries: none.

DOMINIQUE FACHE

Independent Director, Chairman of the Occupational Health, Safety and Environmental Protection Committee, member of the Audit Committee of the Board of Directors of KEGOC

ELECTED ON 30 APRIL 2015 BY THE GENERAL MEETING OF SHAREHOLDERS.

Born in 1949, nationality: France.

Education: University of Sorbonne, France (1972), degree in Engineering, Lomonosov Moscow State University, Russia.

Work experience for the last five years and participation in the management bodies of other organizations:

- Since 2016: Chairman of RTF Board of Directors;
- Since 2013: Member of the Board of Directors at Sophia Antipolis Science Park, France;
- 2008 – 2013: Chairman of the Board of Directors, President of EnelOGK-5.

Founder of a series of science and innovation events, conferences and festivals for Sophia Antipolis science park, founder of Club de Nice, which organises European Energy Forum.

Shares owned in KEGOC or its subsidiaries: none.

ELECTED ON 30 APRIL 2015 BY THE GENERAL MEETING OF SHAREHOLDERS OF KEGOC.

Born in 1955, nationality: UK, Poland and Northern Ireland.
Education: MEng degree in Electrical Engineering (1977), PhD degree in Engineering (1980), Warsaw University of Technology, Poland.
Work experience for the last five years:

- Since 2014: Director of the Skoltech Center for Energy Systems, Skolkovo Institute of Science and Technology.
- 2009 – 2013: Chair of Electrical Power and Control, Director for research work at the School of Engineering and Computing Sciences, Durham University, UK.

Shares owned in KEGOC or its subsidiaries: none.

JANUSZ BIALEC

Independent Director, Chairman of the Nomination and Remuneration Committee, member of the Strategic Planning and Corporate Governance Committee under KEGOC's Board of Directors

ELECTED 28 OCTOBER 2016 BY THE GENERAL MEETING OF SHAREHOLDERS OF KEGOC.

Born in 1946, nationality: Kazakhstan.
Education: Lenin Kazakh Polytechnic Institute, Almaty, majoring in Electrical Engineering (1968), Business and Management Centre of Gatton College of Business and Economics, University of Kentucky, USA (1996).
Work experience for the last five years:

- 2004 – 2016: Chair of the Management Board at KOREM.

Candidate of Technical Sciences, author of the monograph *Formation of the electricity market in Kazakhstan.* Participated in the formation of the national grid, in the introduction of unique transmission lines and 1150-500 kV substations, and the largest electricity generators: Aksuiyskaya GRES, Ekibastuz GRES. Participated in the development and introduction of: external power supply design of Tengiz oil and gas field; implementation of Kazakhstan Electricity Transmission Rehabilitation Project; the electricity and capacity market project in Kazakhstan, the First Electricity Law in 1995; all regulatory and legal documents relating to operation of the electricity market in Kazakhstan.
Shares owned in KEGOC or its subsidiaries: none.

SUINSHLIK TIYESSOV

member of KEGOC's Board of Directors, representative of Samruk-Kazyna, member of the Strategic Planning and Corporate Governance Committee, and of the Occupational Health, Safety and Environmental Protection Committee

ZHANNA YEGIMBAYEVA

Member of KEGOC's Board of Directors, representative of Samruk-Kazyna, member of the Nomination and Remuneration Committee and the Occupational Health, Safety and Environmental Protection Committee under KEGOC's Board of Directors

ELECTED ON 28 OCTOBER 2016 BY THE GENERAL MEETING OF SHAREHOLDERS OF KEGOC.

Born in 1953, nationality: Kazakhstan.
Education: Kirov Kazakh State University, Lawyer.
Work experience for the last five years:

- Since 2016: Advisor at Baiterek National Holding JSC;
- 2011 – 2016: Deputy Head of the Office of the Prime Minister of the Republic of Kazakhstan.

Participation in the management bodies of other organizations:

- Member of the Board of Directors of KazAgro National Management Holding JSC;
- Member of the Board of Directors of Kazakhstan Engineering NC JSC.

Shares owned in KEGOC or its subsidiaries: none.

BAKYTZHAN KAZHIYEV

Member of the Board of Directors of KEGOC, Chairman of the Management Board of KEGOC

ELECTED ON 31 MAY 2011, ON 8 MAY 2012 BY THE DECISIONS OF THE MANAGEMENT BOARD OF SAMRUK-KAZYNA; ON 30 APRIL 2015 BY THE GENERAL MEETING OF SHAREHOLDERS OF KEGOC.

Born in 1964, nationality: Kazakhstan.
Shares owned in KEGOC or its subsidiaries: none.

The process of selection and election of members to the Board of Directors of KEGOC is regulated by the Rules approved by the General Meeting of Shareholders on 12 May 2017 developed in accordance with the Law of the Republic of Kazakhstan On Joint-Stock Companies and the Charter of KEGOC, which also defines the criteria for the election of independent directors. The Board of Directors includes four independent directors or 50% of the total members of KEGOC Board of Directors.

Competence of the members of the Board of Directors

Members of the Board of Directors	Kuanysh Bektemirov	Anatoliy Spitsyn	Luca Sutera	Janusz Bialek	Dominique Fache	Zhanna Yegimbayeva	Suinshlik Tiyessov	Bakytzhan Kazhiyev
Experience in the sector/total work experience, years	19/25	7/62	21/21	5/38	46/46	1/43	50/50	32/32
Core competencies								
Knowledge of the industry								
Work experience in the production of the industry								
Deep knowledge of the industry								
Technical skills/ experience								
Specific skills and experience								
Financial capability								
Deep knowledge of finance								
Deep knowledge of marketing								
Deep knowledge of social and environmental issues								
Experience in management and jurisprudence								
Corporate governance								
Transformation								
Experience in IPO								
Development and implementation of the strategy								
International experience								

Information on attendance at the meetings in praesentia of the Board of Directors and Committees of the Board of Directors

Members of the Board of Directors	Meeting of the Board of Directors	Strategic Planning and Corporate Governance Committee	Nomination and Remuneration Committee	Occupational Health, Safety and Environmental Protection Committee	Audit Committee
Kuanysh Bektemirov, representative of major shareholder	9/9 Chairman of the Board of Directors	—	—	—	—
Anatoliy Spitsyn, Independent Director	9/9	8/8 Chairman of the Committee	1/1*	1/1*	10/10
Luca Sutera, Independent Director	9/9	1/1*	9/9	1/1*	10/10 Chairman of the Committee
Dominique Fache, Independent Director	8/9	1/1*	1/1*	5/6 Chairman of the Committee	10/10
Janusz Bialek, Independent Director	7/9	7/8	7/9 Chairman of the Committee	1/1*	1/1*
Suinshlik Tiyessov, Representative of major shareholder	9/9	8/8	—	6/6	—
Zhanna Yegimbayeva, Representative of major shareholder	9/9	—	9/9	6/6	—
Bakytzhan Kazhiyev, Chairman of Management Board of KEGOC JSC	9/9	—	—	—	—
Rustem Sauranbayev, Expert without the right to vote		5/7			
Saltanat Satzhan, Expert without the right to vote					7/9
Daulet Karimov, Expert without the right to vote			7/8	5/5	

** Due to the decision of the Board of Directors to establish new Committees, since 27 January 2017 the mentioned directors (experts) have not been the members of these Committees.*

In 2017, the Board of Directors held nine (9) meetings in praesentia and two (2) meetings in absentia, where 155 issues were considered with relevant decisions made. The major issues are as follows:

Strategic, financial, economic and investment issues	• reviewed annual/interim financial statements, proposed to the General Meeting of Shareholders the procedure for distributing the net income and amounts of KEGOC's dividends • reviewed progress reports on the Investment Programme, large investment projects, Innovation and Technology Development Strategy of KEGOC • approved a list of strategic key performance indicators (KPI) of the first level with the calculation methodology and key parameters of KEGOC portfolio • approved KEGOC Development Plan (Business Plan) for 2018-2022, and reviewed quarterly reports on the implementation of KEGOC Development Plan for 2017-2021 • made decisions on the conclusion of non-arms length transactions • made a decision on the second bond issue within the first bond program of KEGOC • approved 2017-2018 Road Map for KEGOC's Business Transformation Programme
Corporate governance and sustainability issues	• approved the Action Plan for KEGOC corporate governance improvement and KEGOC corporate governance code introduction for 2017-2021; reviewed the quarterly reports on the plan implementation • approved the Report on compliance/non-compliance with the principles and provisions of the Corporate Governance Code for 2016 • reviewed the Performance Report of the Board of Directors and its committees, the Chairman and members of the Board of Directors and employees of the Internal Audit Service following the performance results of the Board of Directors for 2016. • approved the Professional Development Program for each member of the Board of Directors • included monitoring and evaluation of the Business Transformation Programme implementation in the competence of the Strategic Planning and Corporate Governance Committee • approved the Action Plan to improve the OSH management system of KEGOC, reviewed the quarterly Health and Safety Reports • approved the Annual Report and the Sustainability Report for 2016
Risk management, internal control and audit issues	• approved risk appetite for 2018, Risk Register, Risk Map, Key Risk Management Action Plan, tolerance levels and key risk indicators for 2018, and reviewed quarterly risk reports • approved the Action Plan to ensure the financial stability of KEGOC • approved Currency and Interest Risk Hedging Policy and Rules for securing the continuity of KEGOC's operations • reviewed IAS performance reports, the IAS's Annual Audit Plan • introduced changes into the Guidelines on Risk Management System, Internal Control System Standard, Regulations on Arrangement and Works Performance on the Internal Control System at KEGOC, and Internal Audit Rules
HR policy issues	• approved new membership of KEGOC's Management Board • approved motivational map of the key performance indicators of members of the Management Board and reviewed quarterly reports on their execution • reviewed the Report on KEGOC's Succession Plan in 2016 • approved the Rules of social support to KEGOC employees in a new edition • approved amendments and addenda to the Organizational Structure and the total staff number of the Executive Administration (head office) • approved the Rules for election and early termination of the powers of the Chairman and members of KEGOC's Management Board
Performance of subsidiaries	• reviewed the issues regarding the annual and extraordinary General Meeting of Batys Transit JSC shareholders • approved financial statements of EnergoInform and FSC RES for 2016 • considered the payment of dividends on ordinary shares and approved the amount of dividends per EnergoInform's ordinary share for 2016 • approved amendments and addenda to EnergoInform's Charter;

Besides, the Board of Directors in 2017 made the decisions to:

1. introduce amendments to KEGOC Board of Directors' decision (Minutes 1) dated 24 January 2014 on Making a material transaction through the contract for long-term procurement of work package including turn-key construction of 500 kV OHTL Shulbinsk HPP (Semey) – Aktogai – Taldykorgan – Alma.
2. Conclude the following non-arms length transactions:

- with Batys Transit for conclusion of amendment agreements to the securities contracts dated 05 October 2007;
- between Batys Transit and Aktyubinskiye MES branch for maintenance of Batys Transit equipment installed at 220 kV outdoor switchgear at 500 kV Ulke SS and 220 kV OHTL Ulke – Kazchrome 1 and Ulke – Kazchrome 2;
- between Batys Transit and Aktyubinskiye MES branch for maintenance of Batys Transit equipment installed at 500 kV outdoor switchgear at 500 kV Ulke SS and 500 kV OHTL Zhitikara – Ulke;
- between Batys Transit and Sarbaiskiye MES branch for maintenance of Batys Transit equipment installed at 500 kV outdoor

switchgear at 500 kV Zhitikara SS and 500 kV OHTL Zhitikara – Ulke SS;

- between Balkhash TPP and Almatinskiye MES Branch of KEGOC for operational maintenance of Balkhash TPP equipment installed at No. 122 Vodozabor SS (one 6 kV bay);
- between Tengizchevroil LLP and Zapadnye MES branch for maintenance of Tengizchevroil LLP equipment installed at 220 kV Kulsary SS (two 10 kV bays);
- between Kazakhstan-China Pipeline LLP and Tsentralnye MES branch for maintenance of Kazakhstan-China Pipeline LLP equipment installed at 220 kV Balkhashskaya SS (two 110 kV bays);
- between Kazakhstan-China Pipeline LLP and Tsentralnye MES branch for maintenance of Kazakhstan-China Pipeline LLP equipment installed at 500 kV Agadyr SS (transformer T-2, one 220 kV bay, six 35 kV bays, five 10 kV bays).

In addition, the members of the Board of Directors of KEGOC took part in the international conference 'Development of Electric Power Systems – Problems and Prospects' in line with the 'energy of the future' global trend became known worldwide as part of 'Astana EXPO-2017' international exhibition and celebration of the 20-year anniversary of KEGOC. Independent directors Luka Sutera and Janusz Bialek were speakers at the 'Astana EXPO-2017' international exhibition, Anatoliy Spitsyn took part in IX Astana Economic Forum and made a presentation on the topic 'Future Energy and Innovative Economy'.

KEGOC established the following committees to review the most important issues and prepare recommendations to the Board of Directors:

- Strategic Planning and Corporate Governance Committee;
- Nomination and Remuneration Committee;
- Occupational Health, Safety and Environmental Protection Committee;
- Audit Committee.

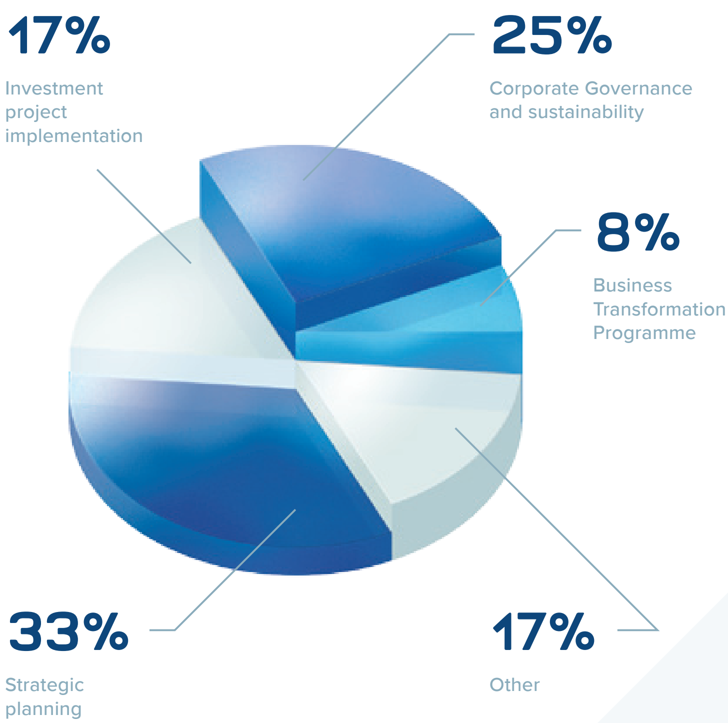
Strategic Planning and Corporate Governance Committee

The committee's operations shall be governed by the Regulations on the Committee for Strategic Planning and Corporate Governance.

Composition of the Committee:

- Anatoliy Spitsyn, Chairman of the Committee, Independent Director;
- Suinshlik Tiyessov;
- Janusz Bialek, Independent Director;
- Rustem Sauranbayev,Expert without the right to vote.

Key issues reviewed by the Strategic Planning and Corporate Governance Committee



Functions of the Committee:

Work out and submit to the Board of Directors the recommendations relating to:

- priority areas of activity and strategic planning ;
- implementation of investment programs and major investment projects;
- improvement of corporate governance and sustainability;
- implementation of Business Transformation Programme.

In 2017 the Committee held 8 meetings in praesentia and reviewed 24 issues.

Nomination and Remuneration Committee

The committee's operations shall be governed by the Regulations on the Nomination and Remuneration Committee.

Composition of the Committee:

- Janusz Bialek, Chairman of the Committee, Independent Director;
- Luca Sutera, Independent Director;
- Zhanna Yegimbayeva;
- Daulet Karimov, Expert without the right to vote.

Functions of the Committee:

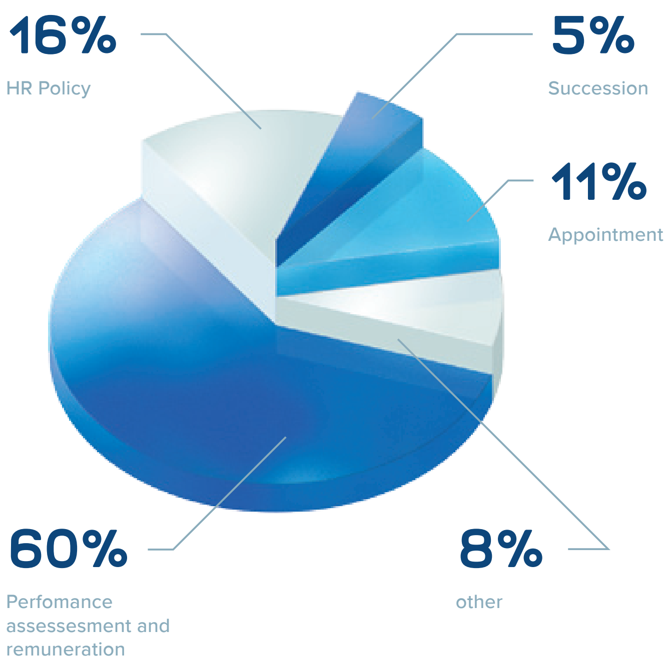
Work out and submit to the Board of Directors the recommendations relating to:

- the membership, terms of powers of the Management Board, election of the Chairman of the Management Board and its members and early termination of powers based on the evaluation of their performance results and skills;
- planning of succession of the Board of Directors and the Management Board;
- ensuring continuing and objective assessment of the performance of the Board of Directors, IAS and the Corporate Secretary;
- ensuring effective HR policy, labour payment and remuneration system, as well as social support, professional development and training of employees.

In 2017 the Committee held nine meetings in praesentia and reviewed 38 issues.

In addition, members of the Committee in 2017 took an active part in the process of stage-by-stage selection of employees for new positions and positions with changes in job descriptions (job-matching), including the CEO-1 management team.

Key issues reviewed by the Nomination and Remuneration Committee



Occupational Health, Safety and Environmental Protection Committee

The Committee's operations shall be governed by the Regulations on the Occupational Health, Safety and Environmental Protection Committee.

Composition of the Committee:

- Dominique Fache, Chairman of the Committee, Independent Director;
- Suinshlik Tiyessov;
- Zhanna Yegimbayeva;
- Daulet Karimov, Expert without the right to vote.

Functions of the Committee:

Work out and submit to the Board of Directors the recommendations relating to:

- the policy and procedures for ensuring occupational health, safety and environmental protection;
- monitoring of strategic KPIs of KEGOC relating to the occupational health, safety and environmental protection, and achievement of goals in this area;
- sustainability in terms of occupational health, safety and environmental protection.

In 2017 the Committee held six meetings in praesentia and reviewed ten issues, including:

- the Concept of development of KEGOC labour safety system.
- The Action Plan to improve the OSH management system;
- quarterly Health and Safety Reports of KEGOC.

In addition, a recommendation was made to include the LTIFR indicator in the KPI motivational map of the Managing Director for Business Asset Management of KEGOC.

Audit Committee

The Committee's operations shall be governed by the Regulations on the Audit Committee.

Composition of the Committee:

- Luca Sutera, Chairman of the Committee, Independent Director;
- Anatoliy Spitsyn, Independent Director;
- Dominique Fache, Independent Director;
- Saltanat Satzhan, Expert without the right to vote.

Functions of the Committee:

Work out and submit to the Board of Directors the recommendations relating to:

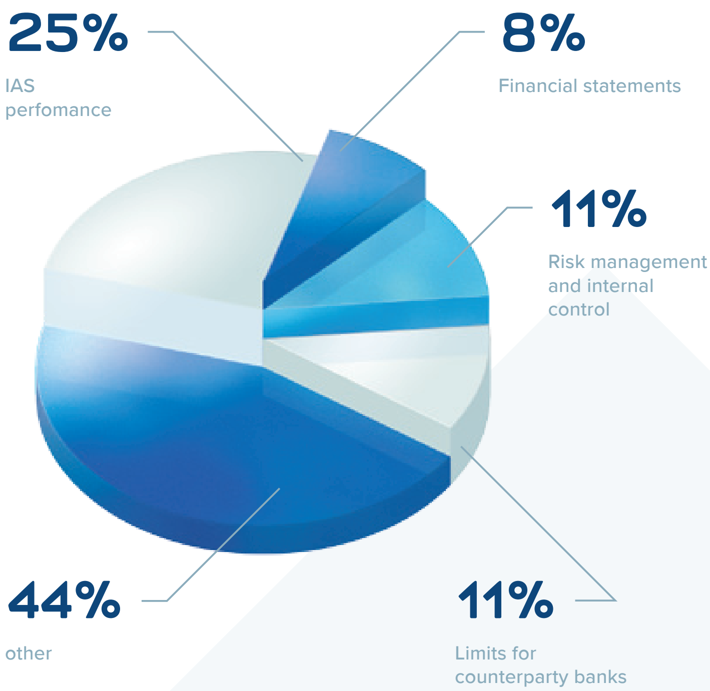
- establishment of effective control system for financial and economic activities of the Company (including the completeness and accuracy of financial statements);
- control over reliability and effectiveness of the internal control and risk management systems and over execution of corporate governance documents;
- control over internal and external audit independence, and over the process ensuring enforcement of the laws of the Republic of Kazakhstan.

In 2017 the Committee held ten meetings in praesentia and reviewed 71 issues.
Also, the Audit Committee members held three meetings with the representatives of Ernst & Young, which was selected to conduct the audit of 2016-1018 financial statements, and discussed audit results of KEGOC consolidated financial statements.
On the whole, the performance of the Board of Directors in 2017 contributed to the efficient development of the Company, the achievement of strategic goals and objectives determined by the Company for short-term, medium-term and long-term periods. The Board of Directors played an active role in the improvement of the corporate governance in KEGOC, the internal control and risks management mechanisms in respect of wide range of business-processes.

Management Board of KEGOC

The day-to-day activities of KEGOC are managed by the Management Board, an executive collegial body, which makes the decisions on the Company business related issues that are beyond the competence of other bodies. The Management Board shall act in accordance with the Law of the Republic of Kazakhstan On Joint Stock Companies, KEGOC's Charter, Corporate Governance Code and Regulations on the Management Board.
Determination of the membership, terms of powers of the Management Board, election of the Chairman of the Management Board and its members and early termination of powers refer to the exclusive competence of the Board of Directors of KEGOC.
Due to transition to the new organizational structure of KEGOC approved on 1 June 2016 by the decision of the Board of Directors of KEGOC dated 24 February 2017, the membership of KEGOC's Management Board was determined as 6 members.

Key issues reviewed by the Audit Committee



Composition of KEGOC's Management Board as of 31 December 2017

BAKYTZHAN KAZHIYEV

Chairman of KEGOC's Management Board

EXPERIENCE IN THE SECTOR IS 31 YEARS.

Born in 1964, nationality: Kazakhstan.
Education: Technical Education – Alma-Ata Power Engineering Institute majoring in Power Systems and Networks (1986) and Economic Education – Karaganda State Technical University majoring in Economics (2007).
Work experience for the last five years:

- Since 31 May 2011, Chairman of the Management Board at KEGOC.

Shares owned in KEGOC or its subsidiaries: none.

SERIK OSPANOV

Managing Director for Strategy and Business Transformation

EXPERIENCE IN THE SECTOR IS 24 YEARS.

Born in 1973, nationality: Kazakhstan.
Education: Technical Education – Semey State University majoring in Machinery and Apparatus for Food Production (1997) and Economic Education – Ryskulov State Kazakh Academy majoring in Economics and Management (1999).
Work experience for the last five years:

- Since February 2017, Managing Director for Strategy and Business Transformation of KEGOC;
- Since December 2015, First Deputy Chairman of the Management Board of KEGOC;
- January 2015 – December 2015, Chairman of the Supervisory Board of Arkharly-Maibuirek;
- February 2012 – December 2014, First Deputy Chairman of the Management Board, Advisor to the Chairman of the Management Board, Samruk-Energy.

Functions at KEGOC: manage the strategic planning process, business initiatives, cooperate with development institutions and international financial organizations, manage projects and, implementation of transformation projects. Chairman of the Board of Directors of the subsidiary EnergoInform.
Shares owned in KEGOC or its subsidiaries: none.

EXPERIENCE IN THE SECTOR IS 17 YEARS.

Born in 1968, nationality: Kazakhstan.

Education: Economic Education – Ryskulov Kazakh State Academy of Management majoring in Marketing and Commerce (1994) and Technical Education – Toraigyrov Pavlodar State University majoring in Electrical Power Systems and Grids (2005).

Work experience for the last five years:

- Since February 2017, Managing Director for Business Assets Management;
- December 2015 – February 2017, Deputy Chairman of the Management Board of KEGOC for Operations;
- February 2012 – December 2012, First Deputy Chairman of Management Board of KEGOC.

Functions at KEGOC: Plan activities on operation, repairs, maintenance of production assets; elaborate policies and procedures for assets management including the assets maintenance standards; develop and implement the medium-term development programme of MES branches; ensure reliable and efficient operation of MES branches, operation and rehabilitation of relay protection and substation automation, and metrological support of operations.

Shares owned in KEGOC or its subsidiaries: none.

BAKYTKHAN ZHAZYKBAYEV

Managing Director for Business Asset Management of KEGOC

EXPERIENCE IN THE SECTOR IS 40 YEARS.

Born in 1955, nationality: Kazakhstan.

Education: Technical Education – Alma-Ata Power Engineering Institute majoring in Power Supply of Industrial Enterprises and Cities (1197). PhD in Economics, Associate Professor – Economics.

Work experience for the last five years:

- Since February 2017, Managing Director for Technological Development;
- December 2015 – February 2017, Deputy Chairman of Management Board – NPG Development and Corporate Governance;
- April 2011 – December 2015, Managing Director for NPG Development, Managing Director for NPG Development and System Services, KEGOC.

Functions at KEGOC: : manage the technical policy of KEGOC; develop NPG, elaborate plans and projects, feasibility studies and feasibility studies for NPG development projects; develop Kazakhstan UPS electricity and capacity balance forecasts for the 7-year period; cooperate with integration associations and organizations in the power industry; manage research and development; monitor, analyse and rate technological consumption (losses) of electricity in the NPG; coordinate renewable development activities; coordinate the approval by the System Operator of technological connection to the UPS of Kazakhstan, power delivery designs for power plants, external power supply designs for consumers, approve and issue technical specifications for connection to the grid.

Chairman of the Supervisory Board of subsidiary FSC RES.

Shares owned in KEGOC or its subsidiaries: none.

ASKERBEK KUANYSHBAYEV

Managing Director for Technological Development

TOLEGEN SAFUANI

Managing Director for Legal Support and Security

EXPERIENCE IN THE SECTOR IS 13 YEARS.

Born in 1979, nationality: Kazakhstan.

Education: Legal Education – Kazakh State Law Academy majoring in Legal Science (2000), Economic Education – Kazakh University of Technology and Business majoring in State and Local Administration (2013), Master of Economics.

Work experience for the last five years:

- Since June 2017, Managing Director for Legal Support and Risks of KEGOC;
- April 2012 – June 2017, Head of Legal Department, KEGOC.

Functions at KEGOC: legal issues, introduce and improve the systems of risk management, internal control, corporate governance, business continuity and IMS; ensure economic, technical and information security; manage claims-related work; obtain and maintain a corporate governance rating.

Member of EnergoInform's Board of Directors, Member of the Supervisory Board of subsidiary FSC RES.

Shares owned in KEGOC or its subsidiaries: none.

AIBEK BOTABEKOV

Managing Director for Finance and Accounting

EXPERIENCE IN THE SECTOR IS 20 YEARS.

Born in 1976, nationality: Kazakhstan.

Education: Economic Education – Buketov Karaganda State University majoring in International Relations and Economics (1997), Nazarbayev University (2016), Master of Business Administration.

Work experience for the last five years:

- Since February 2017, Managing Director for Finance and Accounting;
- June 2009 – February 2017, Managing Director for Economics, KEGOC.

Functions at KEGOC: manage financial and economic issues, pricing, manage and coordinate KEGOC's shares listing at KASE; interact with minority shareholders and other holders of KEGOC securities; prepare the consolidated audited financial statements of KEGOC, cooperate with financial institutions and audit companies, manage the management reporting system.

Member of the Board of Directors of associate Batys Transit JSC.

Shares owned in KEGOC or its subsidiaries: none.

The main principles of the Management Board activity are to serve interests of shareholders to the maximum extent, ensure fairness, good faith, expertise, prudence, objectivity, soundness and regularity.

In 2017 KEGOC's Management Board held 29 meetings and reviewed 229 issues. In addition to the issues related to the competence of KEGOC's Board of Directors and pre-reviewed by the Management Board, the Management Board reviewed the following issues within its competence:

- approved and amended the internal documents elaborated to organize the Company's activities;
- some issues of implementation of the Business Transformation Programme;
- decisions on conclusion of transactions;
- Risk Committee performance;
- human resources management;
- other.

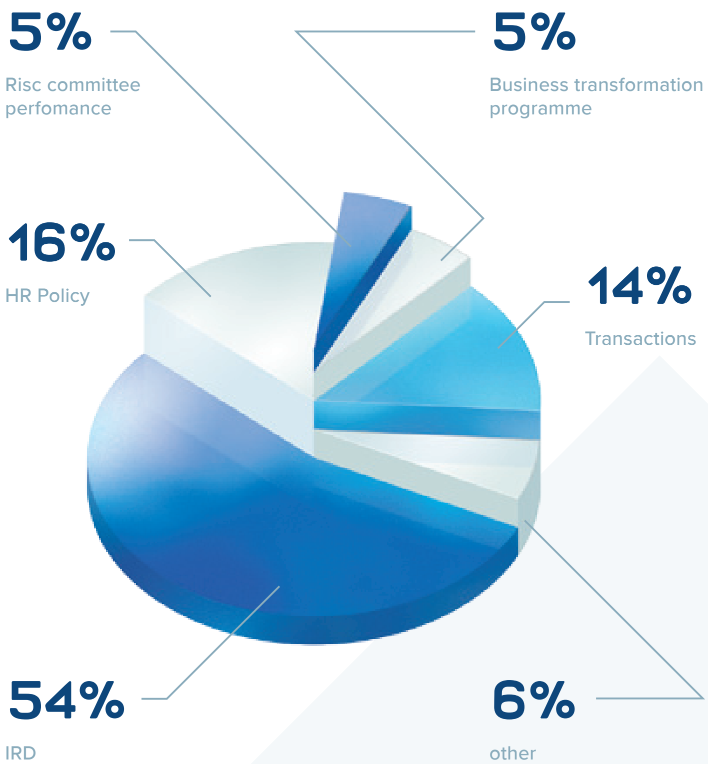
In order to preliminarily review, take collegial decisions and prepare recommendations on the supervised issues to KEGOC's Management Board, the Company established the the following advisory bodies:

1. **Investment Committee,**
2. **Risk Committee,**
3. **Budget Committee,**
4. **Human Resources Development Committee,**
5. **Debtors and Creditors Committee,**
6. **Inventory Committee.**

Assessment of performance of the Board of Directors and the Management Board

Rules on assessment of performance of the Board of Directors and its Committees, the Chairman and members of the Board of Directors of KEGOC provide for annual evaluation of performance of KEGOC's Board of Directors including during the independent corporate governance diagnostics. In 2017, Samruk-Kazyna jointly with PwC carried out the independent diagnostics of corporate governance of KEGOC, which provides for assessment of the efficiency of the Board of Directors. Based on the diagnostics results the component 'The Efficiency of the Board of Directors and the Executive Body' was rated at BB, i.e. corresponding in all material respects to the majority of established criteria.

In accordance with the Rules of remuneration and compensation of expenses for the members of the Board of Directors of KEGOC, independent directors shall be remunerated for the duration of their assignment, and the expenses associated with such assignment shall be compensated.



The remuneration of the independent directors of KEGOC includes:

- annual fixed fee;
- additional remuneration for participation in the meetings in praesentia of the committees of the Board of Directors.

Based on the decision of the General Meeting of Shareholders dated 28 October 2016, a member of the Board of Directors elected as representative of KEGOC's major shareholder (Samruk-Kazyna) for performance of the duties shall be paid a fixed annual remuneration.

The Director shall be compensated for the expenses associated with his/her travel to meetings of the Board of Directors, committees of the Board of Directors and the meetings held beyond the place of permanent residence of the independent director: (transport including transfer, accommodation, daily allowance, telephone services (except mobile) in Kazakhstan, documents scan, copy, fax, print, type services, access to the internet in Kazakhstan, courier and mail services).

The labour payment and remuneration procedure for KEGOC Management Board members shall be outlined in the Regulations on KEGOC Management Board, as well as the Rules for labour payment and remuneration to the executive employees, employees of the Internal Audit Service and the Corporate Secretary of KEGOC. The remuneration system for the Chairman and members of the Management Board includes a salary and a year-end remuneration. The year-end remuneration in KEGOC shall be paid within the limits of cash assets provided in the budget of KEGOC upon approval of the results of the financial and economic performance based on the audited financial statements. The payment of remuneration is mainly conditioned by the consolidated total income for the reporting period. The remuneration is not accrued on a constant basis. The performance of the Chairman and members of the Management Board shall be assessed using the motivational key performance indicators which shall be developed through KEGOC strategic goals cascading by specific indicators on business processes/areas of KEGOC operations in the form of KPI maps. The right to remuneration for the year-end results shall be owned by the members of the Management Board who actually worked during the reporting period not less than five (5) months, based on the KPI achievements for the reporting period. The maximum remuneration for the planned period shall be approved by the Board of Directors. Thus, the total amount paid in 2017 to the members of the Board of Directors and the Management Board of KEGOC as of 31 December 2017 amounted to KZT 372 million.

Internal Audit Service

The Internal Audit Service was established by the decision of the Board of Directors of KEGOC. As of 31 December 2017 the approved staff in the IAS was eight. The mission of the Service is to provide necessary support to the Board of Directors and the Management Board of KEGOC in performance of their duties to achieve the strategic objectives of the Company. The main objective of the IAS is to provide the Board of Directors with independent and objective information needed to secure efficient management of the Company by applying a system approach to improving the risk management, internal control and corporate governance systems.

All audit engagements in 2017 were planned with respect to the mission and the main objective of the Service. The risk-based approach was used to plan the internal audit, i.e. the priority was given to the business processes that are most vulnerable to negative events. The annual audit plan of IAS for 2017 envisaged the fulfilment of 15 engagements. The audit engagements performed by the Service in accordance with the Annual Audit Plan for 2017 included the combined checks of the Company's branches, financial statements, external audit, procurement, risk management, information technologies, projects and etc. All the engagements were performed.

Moreover, under implementation of the instruction of the Fund's Audit Committee, as well as the initiative of the Fund's IAS relating to synergistic audits at the Fund's group of companies, the Service in 2017 took part in the audit engagement 'Audit of applied controls in MIS SAP and integration with MasterPOS software' at KazMunaiGas Onimderi. In addition, the Service took part in the audit of the implementation of the Transformation Programme (PMO) to execute the Fund's instruction.

In 2017, the Service conducted investigations of four appeals submitted to the Audit Committee and one appeal made through the 'hot line' for the portfolio companies of Samruk-Kazyna. Based on the investigation results, the Audit Committee gave relevant recommendations to KEGOC's Management Board.

Following the results of the performed audit engagements in 2017, the Service provided 162 recommendations. The audited entities together with the Service developed the Corrective Action Plans to be monitored by the Service on a quarterly basis.

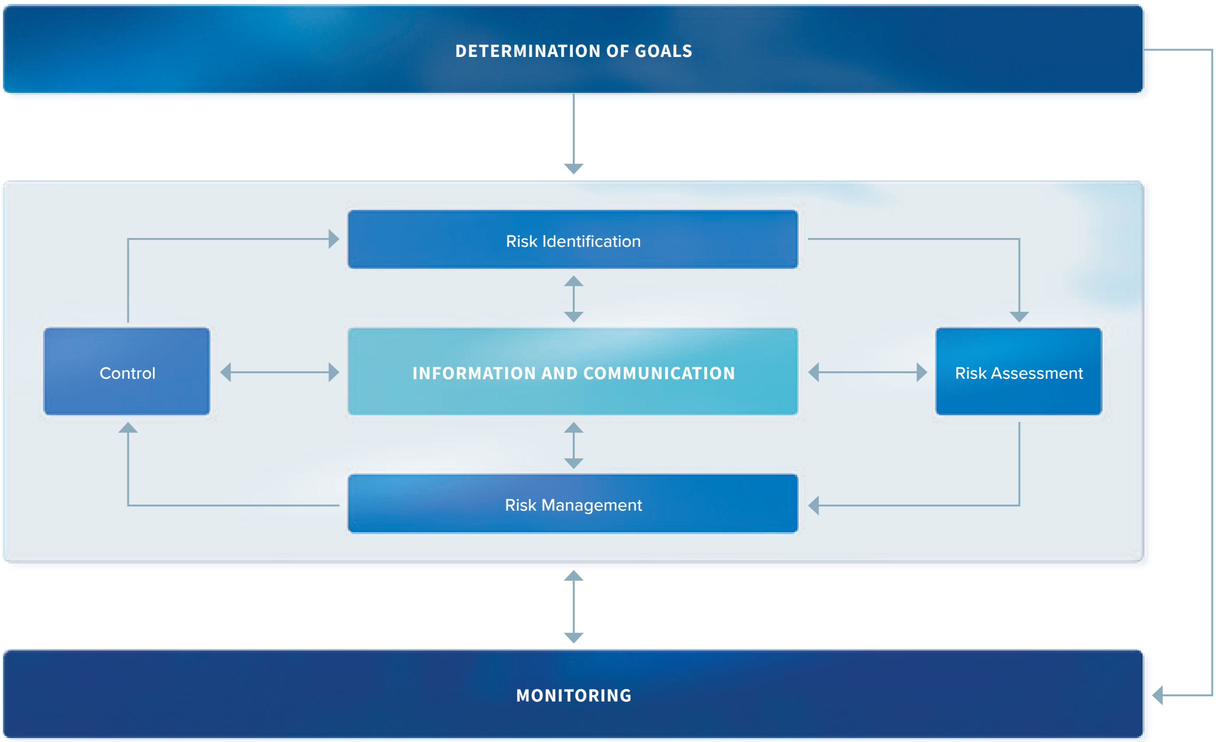
Risk Management and Internal Control

Since 2007 KEGOC has successfully implemented and operates the risk management system arranged in accordance with the best world practices of risk management and requirements of Samruk-Kazyna.

KEGOC's Risk Management System is formed on the basis of generally accepted conceptual models of risk management developed by the the Committee of Sponsoring Organizations of the Treadway Commission – COSO ERM 'Risk Management Organization. Integrated model (COSO)'.

The corporate risk management system (CRMS) is a key component of the corporate governance system aimed at timely identification of risks, their evaluation and development of risk management measures that could adversely affect the achievement of strategic and operational objectives of KEGOC.

Risk Management Process



The objective of the current CRMS is to ensure continuity and stability of KEGOC's activity through hedging the influence of internal and external adverse effects on the activity of KEGOC, which threaten the effective implementation of economic activities and reputation of the Company, the health of employees, the environment, and the property interests of shareholders.

The main principles of the risk management system are:

- engagement of KEGOC's executives in risk management;
- continuous improvement of the risk management system;
- continuous learning and knowledge sharing by the Company employees in risk management sphere;
- transparency and integrity in submitting reports and risk escalation.

The risk management involves the Board of Directors, the Management Board, the Internal Audit Services, structural units – the risk owners and the structural unit responsible for risk management.

Also the Risks Committee, which is responsible for preparation of risk management recommendations to KEGOC's Management Board, performs its functions. In 2017 the Committee held nine meetings.

KEGOC in its operations takes into account a wide range of business-related risks in categories: strategic risks, financial risks, operational risks, and legal risks. Following the risks identification and assessment, 48 risks were included into the Company's Risk Register for 2017. Risk management measures were developed and risk owners were identified for each risk. The dynamics of key risks and implementation of measures for their mitigation is monitored on a regular basis by quarterly reporting of risks to the Management Board and the Board of Directors of the Company.

The material risks which KEGOC incurred in 2017:

Key Risk	Risk management
Risk of work-related accidents	During the Company activities the personnel is exposed to the accidental risk during operations as a result of safety regulations violation or occupational diseases. To mitigate the risk, KEGOC conducts training courses on the basics of rules of traffic regulations for drivers, organizes and conducts the contest of professional skills among KEGOC wiremen in nomination 'The Best Wireman', prepares and provides videos and slides to MES branches to raise responsibility of the personnel for their own safety at the work place, provides video recording of operational switching and repairing works to detect violations with regard to the occupational health and safety with further elaboration of measures thereof, conducts inspections of the technical conditions, operation of power networks, work and fire safety to detect violations, ensures the conduction of facilities certification for working conditions in branches by qualified organizations, studies and analyses the foreign and local companies' practices in the areas of occupational and environmental safety.
Bank-counterparty credit risk	The main credit risks are associated with the cash storage in banks. The risk of loosing cash held on deposit and/or current accounts is minimized by monitoring changes in bank ratings, performance indicators and establishing the limits on balance sheet liabilities and off-sheet liabilities in the banks-counterparties.
Asset failure risks	This risk, to a greater extent, is due to the industry specific features of the Company activities, i.e. the structure of production assets. In 2017 there were three incidents due to the impact of natural phenomena. Timely response to the incidents with the use of emergency stock allowed the company to prevent electricity undersupply.
Risk of non-payment for unscheduled electricity flows and power control services by the grid operators of the IPS of Central Asia	The risk occurred due to non-payment for unscheduled electricity flows and power control services by UzbekEnergo. Through the efforts performed, Uzbekenergo fully repaid its principal debt under 2011-2017 contracts.

The Company continued to improve CRMS and made amendments to the Guidelines on KEGOC Risk Management System, approved the Currency and Interest Risk Hedging Policy and Rules for securing the continuity of KEGOC's operations.

The Internal Audit Service of Company on an annual basis, independently or involving external experts, conducts an independent assessment of the CRMS performance.

The Internal Control System (ICS) of KEGOC allows the Company to build the management system capable to promptly response to risks, control the main and supporting business processes and daily operations, as well as immediately inform the executives of the appropriate level of any material deficiencies and areas to improve.

In accordance with the Standard 'Internal Control System of KEGOC', the competences of units included in ICS is differentiated depending on their role in the processes of development, approval, implementation and assessment of ICS performance. ICS participants are the Board of Directors, the Management Board, Audit Committee, Internal Audit Service, the business units – owners of business processes, and a structural unit responsible for risk management.

In 2017, in order to improve ICS, the Board of Directors of KEGOC approved amendments to the Internal Control System Standard of KEGOC and Regulations on arrangement and performance of works on the Internal Control System of KEGOC.

In 2016-2017, KEGOC described 58 first level processes providing decomposition up to the third level and elaborated risk and control matrices and power sharing matrices.

Under the independent corporate governance diagnostics of KEGOC conducted in 2017, Samruk-Kazyna together with PwC company evaluated the

efficiency of RMS and ICS. Based on the diagnostics results the component 'Risk Management and Internal Control' was rated at BB, i.e. as corresponding in all material respects to the majority of established criteria.

Information Policy

In 2017, KEGOC continued to implement the information policy following the principles of equitable, complete, fair and prompt disclosure of information to shareholders, investors and other stakeholders.

KEGOC actively interacts with the investment community, so in 2017, in addition to timely disclosure of information on KEGOC activities affecting the interests of shareholders and investors, the Company held 'Issuer's Days' at the Kazakhstan Stock Exchange (KASE) to discuss the results of operation and business activities for 2016 and H1 2017 with the participation of representatives of key investment companies of the Republic of Kazakhstan, experts of the securities market and the media.

To form an 'investment image', KEGOC pursues a constructive dialogue between KEGOC and market experts, the negotiation process and interaction with investors, provision of information and analytical data for investors, and development of trusting relations between shareholders and investors, and the management.

To execute the rights of shareholders and provide high efficiency and availability of essentially important information for users, KEGOC ensured the publication of materials in the media, on the corporate website and the Company's pages in the social media Facebook and Twitter about the Company's operating and financial activities, the celebration of the Company's 20th anniversary and the holding of the first international conference 'Development of Electric Power Systems – Problems and Prospects' with the participation of domestic and foreign organizations. Also, in order to deliver the information about investment activity and implementation of state programs, KEGOC arranged interviews and public speakings of the Company management through briefings, industry specialized exhibitions, forums and other rating increase promotions.

To ensure the comprehensive assessment of KEGOC image among stakeholders, as well as to evaluate the information transparency and reveal the information disclosure efficiency, in 2017 an independent party conducted a reputation audit. The assessment results show the improvement of the Company's image among both staff and external experts, and the population of the Republic of Kazakhstan, as well as their favourable perception of KEGOC. Thus, in the reporting year the Company's reputation score compared to 2016 increased by 9% to 7.3 rating points, showing the growth of all main reputation parameters.

When disclosing information, KEGOC remains guided by protection of the information constituting commercial, official and other secret protected by the laws, as well as information of limited distribution.

INTERNATIONAL COOPERATION

In its activities, KEGOC interacts with power systems of other states, such as:

- Russia (Federal Grid Company of Unified Energy System, System Operator of Unified Energy System, Inter RAO),
- Kyrgyz Republic (Power Plants OJSC, Kyrgyzstan NPG OJSC),
- The Republic of Uzbekistan (UzbekEnergo OJSC),
- The Republic of Tadzhikistan (Barki Tochik open joint stock holding company).

The Russian Federation

In 2017, KEGOC continued the relations with the Russian counterparts under agreements for parallel operation signed in 2010 in pursuance with the Intergovernmental agreement on measures to ensure the parallel operation of power systems of Kazakhstan and Russia dated 20 November 2009. The following agreements govern the basic technical and financial obligations of the parties in parallel operation of Kazakhstan UPS and Russian UPS:

- agreement for parallel operation of power systems of the Republic of Kazakhstan and the Russian Federation;
- agreements for electricity procurement to cover the hourly deviations of the actual interstate power flow balance from the scheduled one between KEGOC and Inter RAO;
- agreement for electricity transmission (transit) services via KEGOC networks.

In 2017, there were electricity purchase and sale transactions under the agreements between KEGOC and Inter RAO to cover the hourly deviations of the actual power flow balance from the scheduled one on the border of Kazakhstan UPS and the Russian UPS.

In 2017, KEGOC and FGC UES in accordance with the contract arranged for electricity transmission (transit) through KEGOC's networks from the Russian Federation through the Republic of Kazakhstan back to the Russian Federation.

Central Asia

In 2017:

- under the contract between KEGOC and UzbekEnergo, services were provided to regulate (frequency) capacity for the power system of Uzbekistan in the amount of 561 MW;
- under contracts between KEGOC and the energy system of Kyrgyzstan to balance the unscheduled power flows between the energy systems of Kazakhstan and the Kyrgyzstan in the amount of 7.7 million kWh and purchase of electricity from Kyrgyzstan in the amount of 8.9 million kWh.

During the reported period, the work on establishing contractual relations with respect to other aspects of the parallel operation with power systems of Central Asia continued.

In 2017 KEGOC took part in the work of the Coordination Electric Power Council of Central Asia (CEPCA) and CIS Electric Power Council.

On 14 July 2017 KEGOC held the International Conference 'Development of Electric Power Systems – Problems and Prospects', timed to the 20th anniversary of the company and the international exhibition 'Astana EXPO-2017'.

Representatives of the Government of the Republic of Kazakhstan, ministries and departments, Samruk-Kazyna and its subsidiaries, power industry organizations and large energy companies and scientists from leading universities of the Republic of Kazakhstan took part in the conference. Furthermore, representatives of electric grid companies from 26 foreign countries including State Grid Corporation of China, FINGRID (Finland), RTE (France), TERNA (Italy) and Manitoba Hydro (Canada), and representatives of leading financial development institutions – EBRD, IBRD and the Asian Development Bank arrived to Astana to participate in the conference. Participants of the event exchanged the information on the development of electric power systems, summarized practical experience in the field of renewable energy sources, and discussed the problems and prospects for the use of new equipment and technologies.

The conference held round tables to discuss the best world practices in the management and development of the electric power industry, topical issues of the development of renewable energy sources with domestic and foreign grid companies.

goal 3.

SUSTAINABLE DEVELOPMENT

MAIN RESULTS IN 2017

INTRODUCTION OF THE NEW ORGANIZATIONAL STRUCTURE DEVELOPED TAKING INTO ACCOUNT THE BEST PRACTICES BASED ON THE ANALYSIS OF THE EXISTING BUSINESS PROCESSES AND THE KPI TREE

IMPLEMENTATION OF THE GRADING LABOUR PAYMENT SYSTEM BASED ON THE PRINCIPLES OF BOTH INTERNAL FAIRNESS AND EXTERNAL COMPETITIVENESS

STEP-BY-STEP SELECTION OF EMPLOYEES FOR NEW POSITIONS AND POSITIONS WITH CHANGES IN JOB DESCRIPTIONS (JOB-MATCHING) INCLUDING THE MANAGEMENT TEAM

ELABORATION OF THE CONCEPT FOR DEVELOPMENT OF THE OCCUPATIONAL SAFETY SYSTEM AND THE ACTION PLAN TO IMPROVE THE OSH MANAGEMENT SYSTEM OF KEGOC

DELIVERY OF THE PCB-CONTAMINATED POWER EQUIPMENT FOR DESTRUCTION

GOALS FOR 2018

STRENGTHEN THE INTEGRATION OF ENVIRONMENTAL MANAGEMENT, INDUSTRIAL SAFETY MANAGEMENT AND HEALTH PROTECTION SYSTEMS INTO ALL KEY MANAGEMENT PROCESSES OF THE COMPANY

INTRODUCE THE BEHAVIOURAL SAFETY CONTROL SYSTEM

IMPLEMENT THE PLANNING AND EMPLOYEES' TRAINING MONITORING SYSTEM BASED ON THE RESULTS OF THE ANNUAL ASSESSMENT OF THE COMPETENCE OF EMPLOYEES

DEVELOP THE COMPANY'S CORPORATE CULTURE AND UPDATE THE BUSINESS ETHICS CODE

HR POLICY

The human resources of KEGOC are the most important strategic factor for the Company's development success. KEGOC manages its human resources based on the principles of the Corporate Governance Code, Business Ethics Code, the integrated management system, HR Policy and internal documents relating to KEGOC's HR motivation. The HR Policy based on the balancing between economic and social efficiencies of HR involvement and in accordance with the Long-Term Development Strategy of KEGOC aims to:

- ensure the Company's commitment to the principles of meritocracy, including search and recruitment of personnel, training and development, assessment of employee performance and remuneration management;
- implement measures to enhance social and labour relations (feedback, reporting of the top management to the collective, monitoring of social health of the collective);
- develop corporate culture.

88%

SOCIAL STABILITY RATING

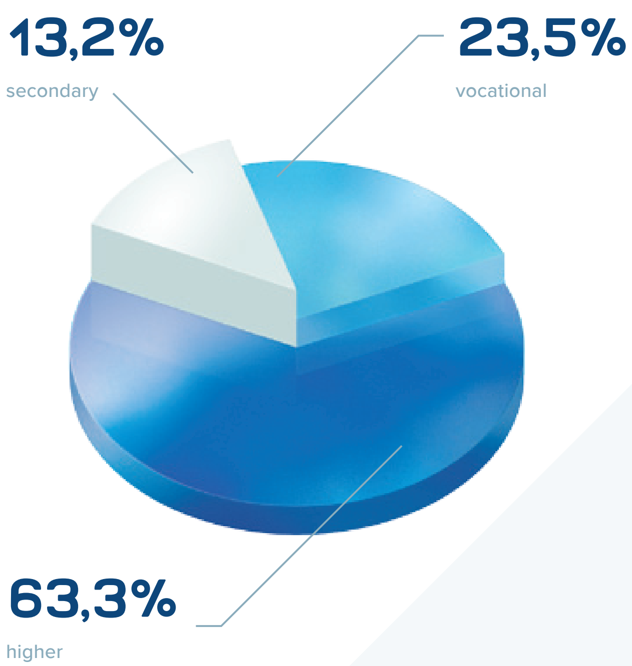
Staff listing of the Company's employees including branches as of 31 December 2017 is 4,731 people.

The forefront of the priority tasks of KEGOC is to develop the human capital. It is important for us to create conditions for attracting and retaining the best workers, disclosing the potential, growth and development of employees.

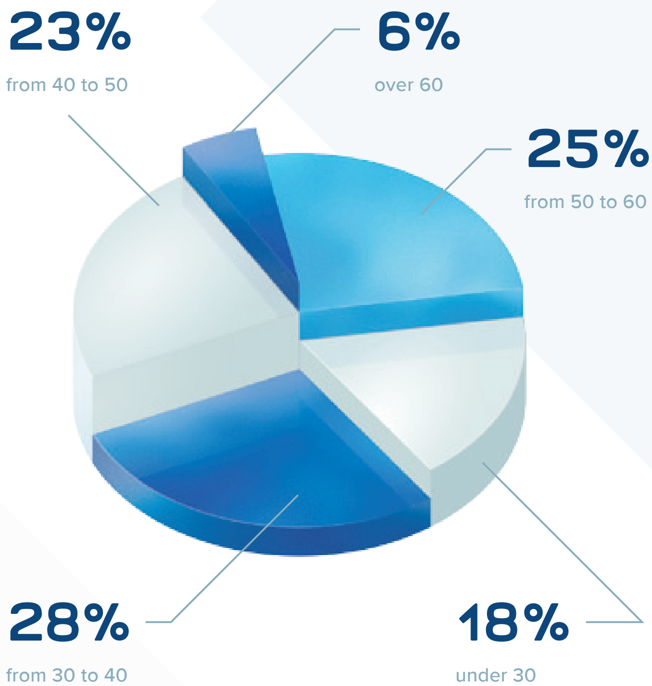
In 2017 the Company continued to implement KEGOC Business Transformation Programme under which the project 'Transition to the target organizational structure' was implemented. In the course of the project implementation, regulations on divisions, new positions and positions with the changes in job descriptions were described, the step-by-step selection of employees for new positions and positions with the changes in job descriptions (job-matching) including the management team was carried out. Moreover, the role of HR in the Company is changing – it has been transformed from 'administrative' to the role of 'HR business partner', and all HR processes are under review to create an interconnected system and to automate them.

The diagnostics of the corporate culture was performed, the competence model with the formed

Breakdown of employees by the level of education



Breakdown of employees by age



values was validated. Based on the results of this project, the Company values were updated, the Roadmap and the communication plan for the transition to the target corporate culture were formed.

All the elements of HR policy are arranged in a way to enable quick and effective adaptation of new employees and accelerate their settling in a new job. On a regular basis an employee is introduced to the organization's objectives, its activity characteristics, and the company's basic rules and expectations from employees. During the adaptation process, employees are instructed on safety as well.

KEGOC attaches great importance to the process of training and development of personnel and is guided by the following principles:

- the effectiveness of training and focus on performance and addressing specific tasks that increase the efficiency of the company;
- the forward-looking nature of training and development – supporting the company's strategic development goals;
- expediency – the choice of training programs corresponds to the goals and objectives set for the employees;
- the integrity of the development system, continuity and systematic training.

The staff training was conducted using the full range of modern teaching methods – business workshops, seminars, trainings, internships, advanced training, vocational training and retraining programs, forums and conferences. In the reporting year, 2,066 employees were trained, which is 43.67% of the headcount.

KEGOC systematically develops the talent pool project. The pool includes 293 people. In 2017, the number of vacancies with regard to the talent pool was 35, 23 of which were the employees from the talent pool. According to the KEGOC' Succession Plan, five employees were transferred to higher positions. In December 2017, the annual meeting of the members of the Board of Directors and the Management Board of KEGOC was held with the prospective employees of the company to present the results of the corporate culture diagnostics and ways to improve it.

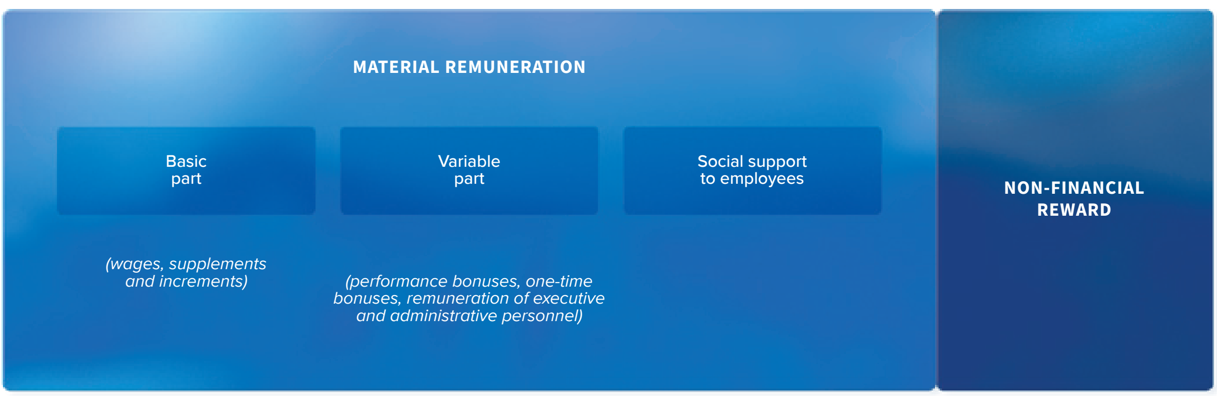
NUMBER OF EMPLOYEES

4,731

The leaders of our Company became mentors for the best graduates of higher education institutions in 2017, who had passed a multi-stage selection under the 'Zhas Orken' program for development of talented graduates. Also, the 'Best Mentor of the Year' competition was held, according to which the winner was awarded a valuable gift and a diploma. Thus, a mentoring institute is being formed in KEGOC.

In order to popularize and support the dynasties of the industry experts from the same family, and to publicly promote the succession of generations and social stability, in 2017, Samruk-Kazyna held the Labour Dynasty Day of a group of companies, in which representatives of dynasties participated.

The remuneration system in the Company:



In 2017, the grade labour remuneration system based on the principles of internal fairness and external competitiveness was introduced. The grade system made it possible to link the level of labour remuneration with the value of each position. Based on the results of works conducted, the wages of employees increased by an average of 15%.

To create favourable conditions for effective work and raise loyalty, KEGOC provides a social support to the company's employees: the recreation payment when granting the paid annual leave, on the anniversary date and the birth of child, due to the death of an employee or an employee's family members and the pensioner registered with KEGOC, to pay for the medical treatment of an employee and children – disabled, disabled from childhood irrespective of the group of physical inability and age.

Employees of retirement age are compensated upon their retirement, and one-time material assistance is provided annually on the professional holiday 'Power Engineers' Day' to the pensioners registered with the Company.

In 2017, the Company assisted in accommodation issues for 100 employees through partial repayment of rent costs, 43 employees became applicants for the acquisition of residential premises with subsequent repurchase on the terms of 'Real Estate Fund Samruk-Kazyna'.

In the reporting year, the voluntary medical insurance in case of illness covered 2,435 employees of KEGOC.

Based on the work results in 2017, 114 employees of KEGOC were rewarded with state and industry awards for special merits and 224 employees were awarded with the Company's 20th anniversary medal.

The collective labour agreement concluded between KEGOC and its employees for 2016-2020, in addition to the main provisions of the labour laws of the Republic of Kazakhstan, refers to the issues related to the social support of the Company's employees, veterans of the Great Patriotic War, equated persons and long-service power engineers, and the organization of medical care and entertainment events for the employees. The collective labour agreement covers all employees (100%) of the Company.

In 2003, the Trade Union of Kazakhstan energy industry employees – Sectoral Trade Union of Energy Industry Employees Public Association (further – Trade Union) was established. It is is arranged based on the sector operating principle and open both for the company's employees and employees of all entities of power industry, research and design institutes, pensioners, etc. The Trade Union includes more than seven thousand people, of which more than four thousand are employees of the Company. One of the main goals of the Trade Union is to ensure labour rights of its members and to regulate labour relations. The Trade Union also influences the labour payments, bonus payments to employees and discipline including disciplinary penalties and is intended to control the compliance with labour legislation, maintenance and implementation of guarantees and compensations, allowances, etc.

In 2017, the Trade Union took part in the elaboration of the General Agreement between the Government of the Republic of Kazakhstan, the republican associations of employees and the republican associations of employers for 2018-2020. The Trade Union is a member of the Committee for the development of amendments and addenda to the Labour Code of the Republic of Kazakhstan.

ENVIRONMENTAL PROTECTION

The goal of the Environmental Policy of KEGOC is to minimize the adverse environmental impact during electricity transmission and distribution.

The main areas of KEGOC Environmental Policy are:

- responsibility for environmental protection in the development of the Kazakhstan National Power Grid;
- energy-saving and the rational use of environmental and energy resources;
- compliance with the legal framework of the Republic of Kazakhstan relating to the environment, and with the requirements of ISO 14001;
- openness and accessibility of the information, including the results of environmental monitoring.

Environmental management system

The Company implemented the environmental management system (EMS), which is certified for compliance with the requirements of international standard ISO 14001. EMS operates within the integrated management system of KEGOC. The main objective of its implementation and operation is to apply new management methods that would enhance the influence on the environmental aspects of the Company's production and economic activities.

The environmental aspects management is a component of the corporate risk management system in KEGOC. For effective management in 2017 the Company developed: the register of regulatory requirements applicable to the identified environmental aspects of KEGOC; registers of environmental aspects and important environmental aspects of KEGOC for 2017. When identifying the aspects, all components of the environmental impact of the Company's activities are analysed (energy saving, water, soil, emissions, waste). Activities to manage environmental aspects are specified in the Company's Environmental Program for 2017.

'PCB-containing waste', 'transformer oil' and 'waste transformer oil' were identified as critical environmental aspects in 2017. The 'PCB-containing waste' aspect is critical due to the fact that polychlorinated biphenyl is a dangerous substance according to the Environmental Code of the Republic of Kazakhstan (red hazard level). The 'spent transformer oil' and 'transformer oil' aspects are critical due to the existence of oil-filled equipment.

Water and Soil Impact

Water consumption in KEGPC is insignificant, because water is not used in the operational procedures. There are no discharges into water facilities and relief. At the facilities of seven branches of KEGOC: water is supplied from artesian wells at Aktyubinskiye MES, Akmolinskiye MES, Almatinskiye MES, Vostochnye MES, Sarbaiskiye MES, Tsentralnye MES and Yuzhnye MES. The existing wells at the facilities of branches are operated in line with the obtained permits for special water use and under agreements with the local sanitary services.

Potential sources contaminating water and soil include transformer oil used in oil-filled equipment, as well as waste waters resulting from domestic use of water. To prevent water contamination, the oil-filled equipment of the Company is equipped with oil receiving devices or oil soak pits that prevent oil from spilling on the soil. The containment of oil receiving devices is in a satisfactory condition.

Emissions

The Long-term development strategy of KEGOC determines the goal achievement indicator of environmental protection 'Reduction of actual emissions from stationary sources compared to the standard volumes'. To achieve this indicator, MES branches in 2017 conducted the operational monitoring, namely, they kept records of hours of operation for each item of equipment and consumption of materials. The volume of gross emissions of contaminants from stationary sources amounted to 15.81 tons (the established standard – 20.7 tons). Thus, gross emissions from stationary sources (with regard to standard rate) dropped by 23 %. The fact of the reduced emissions in Aktyubinskiye MES, Almatinskiye MES, Zapadnye MES and Yuzhnye MES branches was supported by the findings of the environmental monitoring that was conducted by the specialized organisations.

Operational Wastes

The waste products at KEGOC facilities are generated in the course of operation, repair and rehabilitation of the substation equipment.

The MES branches have defined the areas for temporary safe and separate waste storage, prepared schematic maps of waste disposal on the territory of the facilities with the explication and ensure timely removal for the subsequent disposal.

In 2017 the business units of KEGOC generated 2,548.7 tonnes of waste. Waste landfill disposal costs amounted to KZT 10.6 million, waste recovery costs: KZT 11.5 million (mercury-containing waste and industrial waste according to their types). Transformer oil and scrap metal are sold to specialized organizations.

'PCB-containing waste' was defined as one of the critical environmental issues in 2017 due to the fact that 22 units of dismantled electrical equipment contaminated with PCB were on the balance sheet of the Company. To manage this issue in Q4 2017, this equipment was delivered to the specialized organization for destruction under the concluded contract.

Based on the results of the laboratory analyses planned for 2017, PCBs were not detected in the oil-filled equipment.

ACTUAL EMISSIONS FROM STATIONARY SOURCES DECREASED BY

23%

(COMPARED TO THE STANDARD VOLUMES)

OPERATIONAL SAFETY

The Long-term Development Strategy of KEGOC defines the improvement of the professional security system as the most important task to achieve the strategic vision. The Board of Directors of KEGOC pays much attention to occupational health and safety, for which purpose established a special Committee of the Board of Directors intended to develop policies and procedures, improve the system and monitor the provision of industrial safety and occupational health. So, this Committee in 2017 reviewed the Concept for Development of the Occupational Safety System and the Action Plan to improve the OSH management system. Moreover, in order to effectively implement and strengthen control, the Committee recommended the inclusion of the Plan performance KPIs into the KPI motivational maps of the executive and administrative personnel of the Company.

Safe labour conditions, low level of operational injuries, improved operational and sanitary-household and labour conditions of the employees and low level impact of harmful and adverse factors are the constant development priorities of the Company. In 2017, an assessment of harmful and hazardous production factors was carried out at all of the Company's workplaces. The register of hazards and risks of KEGOC was prepared for 2017 specifying the significant hazards and risks of KEGOC for 2017:

- electric shock during operation and repair of electrical installations of 1000 V and higher;
- electric shock during operation and with the use of lifting mechanisms;
- fall from height during climbing works and works at height.

Based on the identified hazards and risks, KEGOC's Occupational Safety and Health Management System Program for 2017 was developed and provides for risks management activities. As a result of the Program activities implementation in 2017, the Company did not record any cases of electric shock during operation and when using load-lifting mechanisms, and cases of falling from height during climbing works and works at height.

In 2017 there was one traffic accident. In connection with the accident KEGOC took the appropriate measures.

In addition, all branches conducted:

- workshops on safe organization and performance of works during a repair campaign,
- qualification tests of repair crew and check of availability of the individual protection devices, instruments, harness, and special cloths;
- target inspections of the technical operation, safety, labour protection and fire safety of facilities that resulted in the issue of violations improvement notices;
- Occupational Safety Days were held which resulted in the development of corrective measures.

Also, in 2017, the corporate training on the formation of incident safety culture was conducted for the Company's employees including the heads of MES branches.

The Company held a meeting in order to improve the work of reliability and occupational health units (groups) in improving the grid operation reliability and the occupational health of KEGOC's personnel and to exchange experience in addressing the problematic issues, attended by heads of reliability and occupational health units of all MES branches, representatives of NDC SO branch and EnergoInform.

In 2017, the Company's employees underwent medical examinations and pre-shift medical examination; the required training, completed advanced training in occupational safety and health; are provided with the necessary personal protective equipment, including electrical protection devices, special food and medicines. The employees exposed to hazards during work process received prescribed compensations based on the results of their working places assessment with regard to exposure to harmful conditions. In accordance with the laws of the Republic of Kazakhstan, all employees are provided with occupational injury insurance and third party liability insurance.

LTIFR indicator is used for assessing the safe working conditions level which shows the number of occupational accidents per 1 million worked person-hours and the rate of fatal accidents per 1000 people. LTIFR for 2017 was 0.15, the accident rate was 0.26.

KEGOC SUBSIDIARIES

APPENDIX 1

EnergoInform JSC

Mission: to ensure reliable operation and effective development of Kazakhstan UPS information and telecommunication system using the world's best practices and innovative technologies.
The sole shareholder is KEGOC.
The core operations: maintenance of information telecommunication complex of KEGOC, including: commercial metering system, SCADA, balancing electricity market, information management system, PLC, radio relay links, satellite communication, guaranteed power supply, branch exchange, fiber optic links, fire and security alarm systems and corporate services.
The charter capital of EnergoInform is KZT 2,179.7 million. The number of issued shares is 700,000; the nominal value of one share is 10,000 tenge. The number of the placed shares is 217,970.
The revenues of EnergoInform in 2017 were KZT 3,844.3 million with the total expenses of 3,470.4 million. In comparison with 2016 the revenues increased by KZT 18.3 million or 0.5%, while expenses decreased by KZT 46.0 million or 1.3%.
According to the results of operations for the reporting period the net income was KZT 273.1 million (planned – KZT 205.2 million) exceeding the 2016 actual indicator by 26.9 million tenge or 10.9%.

Financial Settlement Centre for Renewable Energy Sources Support LLP

The Financial Settlement Centre for Renewable Energy Sources Support (FSCS RES) was established in accordance with the decision of the Board of Directors of KEGOC dated 12 August 2013 and registered in the Saryarka Justice Administration under Astana Justice Department on 27 August 2013.
Kazakhstan Energy Minister Order No. 256 dated 31 March 2015 'On determination of Financial Settlement Centre for Renewable Energy Sources Support' determined FSC RES LLP.
The core activity is to ensure the centralised purchase and sale of the electricity produced by renewable energy facilities and delivered to the electric networks of Kazakhstan UPS.
KEGOC is the sole founder and participant.
As of 31 December 2017 FSC RES concluded 100 contracts with RES participants. In 2016 FSC RES sold electricity generated by RES entities to conventional consumers to the amount of 568.9 million kWh.
The total income of FSC RES based on 2017 results amounted to 15,475.9 million tenge, which is by KZT 4,655.1 million or 43% higher than in 2016. Expenses amounted to KZT 15,078.5 million exceeding 2016 by 43%. Net income based on 2017 results amounted to KZT 317.4 million (vs. plan – KZT 383.5 million), which is KZT 87.3 million or 37.9% higher than in 2016.
Subsidiaries have no significant influence on KEGOC's performance.

APPENDIX 2

KEGOC'S CORPORATE EVENTS CALENDAR FOR 2018

No.	Corporate events	Periods (date, month)*
1	Report to consumers on KEGOC's activities on rendering regulated services	**by 1 May 2018**
2	Holding the annual General Meeting of KEGOC Shareholders	**by 31 May 2018**
3	Provision of financial statements for 2017 to the Kazakhstan Stock Exchange	**by 31 May 2018**
4	Provision of financial statements for Q1 2018 to the Kazakhstan Stock Exchange	**by 15 May 2018**
5	Provision of annual report for 2017 to the Kazakhstan Stock Exchange	**by 31 July 2018**
6	Provision of financial statements for Q2 2018 to the Kazakhstan Stock Exchange	**by 14 August 2018**
7	Provision of financial statements for Q3 2018 to the Kazakhstan Stock Exchange	**by 14 November 2018**

** actual dates and the nature of the events may vary irrespective of the best efforts of KEGOC.*

APPENDIX 3

INFORMATION ON COMPLIANCE WITH KEGOC'S CORPORATE GOVERNANCE CODE PROVISIONS IN 2017

Code provision No	Principles of KEGOC's Corporate Governance Code	Complied/ Not complied/ Partially complied	Information on compliance/ non-compliance with the principles
Chapter 1. Government as a shareholder of the Fund			
1	The Company's main strategic goal is to increase long-term value and sustainable development, which is reflected in the Company's development strategy. All decisions and actions taken shall be consistent with the development strategy. Organizations carry out their activities within the framework of their core activities. New activities are allowed provided that there is no competition on this market or the Company's participation will contribute to the small and medium businesses development.	**Complied**	The company approved KEGOC's Long-Term Development Strategy until 2025 with the strategic goals as follows: ensure reliable operation of Kazakhstan's UPS; ensure stable financial position of the Company and cash flows for shareholders and development; sustainable development. All decisions and actions taken are consistent with the Strategy, which includes investment, innovation, technological and social activities. For the purpose of monitoring the Strategy implementation, the Board of Directors and the Management Board of the Company hold strategic sessions to discuss core activities, objectives, issues, risks and corrective measures. The Company's investment activities are carried out as part of the Strategy implementation. In 2017, the Company carried out its activities in accordance with the Kazakhstan Law on Natural Monopolies and the Rules for Submission and Consideration of Claims on Consent for Natural Monopolies to Carry out Other Activities, approved by Order No. 216-ОД dated 19 July 2013 of the Chairman of Kazakhstan Agency on Regulation of Natural Monopolies.
5	The Government grants the Company a complete operating autonomy and prevents interference from the Government and public bodies in operational (current) and investment activities, except for cases stipulated by the laws, regulatory acts and instructions of Kazakhstan President. The Company's bodies are completely independent in making decisions and taking any actions within their competence.	**Complied**	KEGOC interacts with the central and local public authorities and supervisory bodies on the principles of partnership and compliance with the laws of the Republic of Kazakhstan. In 2017, there were no facts of direct interference with the Company's operational activities by the Government and state bodies. All decisions on strategic and operational activity issues were taken by the Board of Directors and the Management Board independently with due regard for the governmental programme and regulatory documents.
8	The Company's investment activity is carried out on market principles according to the Strategy and is aimed at the increase of value and optimal assets structure. The Company's annual report shall disclose the low-margin and socially important projects implemented by the Company stating the sources of financing for such projects.	**Complied**	KEGOC's development strategy approved by the Board of Directors contains a portfolio of investment projects implemented to accomplish the Company's mission in Kazakhstan economy. Information on the Company's investment activities is detailed in the Annual Reports.

Code provision No	Principles of KEGOC's Corporate Governance Code	Complied/ Not complied/ Partially complied	Information on compliance/ non-compliance with the principles
14	The company shall adhere to high ethical standards and implement the necessary procedures to ensure the continuous application of these standards by all employees and partners of the Company. Notices of alleged violations shall be sent directly to the IAS or the Board of Directors. The executive body and all of its structural divisions, including the security service, shall not impede the transfer of the notices of alleged violations to the IAS or the Board of Directors.	**Complied**	The Company (officials and employees) adheres to high ethical standards and complies with the Business Ethics Code approved by the Board of Directors. All members of the Board of Directors, Management Board, and employees of the Company are familiar with the provisions of the Business Ethics Code. The Board of Directors made available a mechanism for collection and confidential consideration of information on the company's policies violation through a 'hotline' under the Audit Committee. Stakeholders can notify the Audit Committee through the Internal Audit Service about alleged violations of the law, etc. using the details published on the Company's website. In this case the confidentiality shall be observed. The Company also has the institute of ombudsman that the stakeholders can apply to in case of violation of the Business Ethics Code. The Board of Directors periodically receives reports on submitted appeals (complaints), taken actions, etc. Samruk-Kazyna JSC (hereinafter referred to as the 'Fund') has introduced a unified 'hotline' for initiative informing that the Fund's employees and other stakeholders can use to express concern about violations committed or being committed at the Fund. For the hotline administration, the Fund attracted Deloitte LLP independent organization; the new 'hotline' data are updated on KEGOC's website. In addition, the Fund implemented the Procurement Management Standard that the Fund's portfolio companies adhere to and constantly apply. In accordance with the Fund's Procurement Management Standard the Company procures among potential suppliers that have been preliminarily qualified. During the preliminary qualification the potential suppliers are evaluated by such criteria as the legal component; contractual work arranged by the potential supplier; the potential supplier's resources; quality of goods, works and services; project and risk management; occupational health and safety; environmental protection, etc.
Chapter 2. Interaction between the Fund and organizations. The Fund's role as a national managing holding			
1	The Company's corporate governance system ensures proper management and control over the Company's activities and is aimed at the growth of long-term value and sustainable development.	**Complied**	In accordance with the Company's Charter, the Board of Directors determines the Company's business areas, approves the Development Strategy and the medium-term development plan for 5 years including for the purpose of meeting the major shareholder's expectations. Thus, KEGOC's Long-Term Development Strategy until 2025 is developed taking into account the governmental plans and programmes, Samruk-Kazyna's Development Strategy and the Letter of Expectations. KEGOC's development strategy defines the following strategic goals: 'Ensure reliable operation of Kazakhstan's UPS', 'Ensure stable financial position of the Company and cash flows for shareholders and development', and 'Sustainable development'. The Management Board ensures implementation of the Strategy, development plans and achievement of the approved strategic KPI, reporting from time to time to the Board of Directors. The Board of Directors reviewed and approved KEGOC's Business Plan (Development Plan) for 2018-2022, which takes into account the major shareholder's Letter of Expectations.
2	The Company's corporate governance system is a set of processes that manage and control the Company's activities, as well as the system of relationships between the executive body, the Board of Directors, shareholders and concerned parties. The charter shall have a clearly defined and enshrined competence of bodies and procedure for decision-making.	**Complied**	The Company's corporate governance system ensures that: 1. the hierarchy of the procedure for consideration of issues and decision-making is observed: all issues submitted for consideration by the Board of Directors are carefully considered by relevant Committees of the Board of Directors; 2. powers and responsibilities between the Board of Directors, the Management Board, officials and employees are clearly separated: competences, powers and responsibility of the bodies are determined by the Charter, the Regulations on the General Meeting of Shareholders, the Board of Directors and the Management Board; Order of the Chairman of the Management Board on Distribution of Duties and Powers clearly segregates the areas of responsibility of the members of KEGOC's Management Board; the Company's structural subdivisions, including branches, carry out their activities on the basis of the Regulations on subdivisions; each position has developed job descriptions. 3. the Board of Directors and the Management Board make decisions in a timely and high-quality manner; 4. laws and internal documents of the Board of Directors and the Management Board are complied.
4	The Fund participates in the management of companies through exercising the shareholder's functions and through the Board of Directors, in accordance with the procedure established by the companies' charters and this Code. The Fund annually sends to the Chairman of the Board of Directors and representatives of the Fund in the Board of Directors of the company the shareholder's expectations for the forthcoming financial year. The companies' Boards of Directors are completely independent in decision-making within their competence established by the Company's charter. The Fund's position on certain issues is reported through the Fund's representatives in the Board of Directors of the Company.	**Complied**	As a major shareholder of the Company Samruk-Kazyna JSC participates in the management of the Company by sending letters of expectations, and through its representatives' participation in the Boards of Directors, as well as participation in the General Meetings of Shareholders. There are three representatives of the major shareholder in the Board of Directors, the four independent directors ensure the adoption of well-considered decisions.
6	The net income in favour of the Fund as a shareholder is distributed in the form of dividends based on a formal and transparent dividend policy.	**Complied**	The Company approved the Regulations on Dividend Policy, a document formalizing maximally transparent procedures for determining and paying dividends. Other redistributions, except for dividends to shareholders, are not provided.
7	The Company is managed by the Company's bodies in accordance with the competences and procedures defined by the Charter.	**Complied**	The Bodies of the Company are the supreme body – the General Meeting of Shareholders, the governing body – the Board of Directors, the collegial executive body – the Management Board. The competence of each body and the Chairmen of the Board of Directors and the Management Board is defined by KEGOC's Charter and relevant provisions. There is no duplication of functions of the Company's bodies.

Code provision No	Principles of KEGOC's Corporate Governance Code	Complied/ Not complied/ Partially complied	Information on compliance/ non-compliance with the principles
8	The Company and its officials are responsible for the growth of the Company's long-term value and sustainable development respectively, and the decisions and actions/omissions that take place in accordance with the procedure established by the laws of the Republic of Kazakhstan and internal documents. The main element in evaluation of the Company's and executive body's performance is the KPI system. The Fund sends its KPI xpectations to the Company through its representatives in the Board of Directors. The Company's Board of Directors shall approve the list and target values of the company's KPI. The Company shall develop appropriate development plans to achieve the KPI. The Company's KPI achievement is annually evaluated against the approved development plan. Such evaluation influences the remuneration of the head and members of the executive bodies, is taken into account when they are re-elected, and may also serve as basis for their early removal from office.	**Complied**	The Company's development strategy defines strategic goals including 'Ensure stable financial position of the Company and cash flows for shareholders and development', and 'Sustainable development', as well as indicators of their achievement. For the Strategy implementation, a medium-term Development Plan has been developed to ensure the efficient Strategy implementation. KEGOC's Management Board members' performance is annually evaluated using the motivational KPI that contribute to achievement of the Company performance targets which characterise efficiency of its financial and economic activity and the level of achieving its strategic goals; the responsibility for implementation of the KPI is allocated by the Board of Directors to specific job positions of executive employees. The indicator values influence the remuneration of the Management Board members, are taken into account when they are re-elected, and may also serve as basis for their early removal from office.
9	The Board of Directors of the holding company shall ensure the governance efficiency, long-term value growth and sustainable development in all legal entities that are members of its group. The efficient governance in the holding company group shall improve the operational efficiency, increase reporting quality, enhance the corporate culture and ethics standards, the openness and transparency, reduce risks and ensure proper internal control system.	**Complied**	In accordance with the Charter, KEGOC's Board of Directors makes decisions on the issues of activity, approves documents regulating the asset management issues, develops policies on appointment of officials at subsidiaries. The Company approved the Rules on interaction on the issues of ensuring the activities of KEGOC representatives at the Boards of Directors of subsidiaries and affiliates. The charters of the subsidiaries differentiate the powers and competencies of the bodies of the subsidiaries. KEGOC as a sole shareholder/founder of subsidiaries determines uniform policies in the main business areas for the whole Group. KEGOC's subsidiaries as independent organizations may develop their internal regulatory documents for finalizing/detailing purposes (in planning, risk management, etc.).
Chapter 3. Sustainable development			
1	The Company realizes the importance of its impact on the economy, environment and society, pursues the long-term development endeavouring to increase the long-term value and maintain the balance of stakeholders' interests. The approach of responsible, thoughtful and rational interaction with stakeholders will contribute to the Company's sustainable development.	**Complied**	KEGOC's development strategy defines strategic goals including 'Ensure stable financial position of the Company and cash flows for shareholders and development', and 'Sustainable development', as well as increase of the Company's long-term value, environmental protection, occupational safety, personnel management, and KPI in these areas. A comprehensive plan on the Strategy implementation includes activities aimed at achieving these goals and values, the planned KPI. The Board of Directors determines measures to improve the corporate governance including 'Sustainable development' which is a part of the Corporate Governance Code. The Company has the Risk Register and the Risk Map providing for preventive and responsive measures to prevent the implementation of risks in these three areas. The Board of Directors approved the Sustainable Development Management System Guidelines being the basis for KEGOC's Board of Directors to determine, revise and approve the general sustainable development principles of KEGOC activities and its subsidiaries, ensure the formation of the proper sustainable development system and its implementation. The Guidelines apply to the Company's subsidiaries. The provisions of this document are sent quarterly (as a specially developed methodological manual) to the Board of Directors' members and all the Company's employees for review/as a reminder. KEGOC's Management Board ensures the implementation of the sustainable development goals, objectives and indicators achievement, as determined by KEGOC's Board of Directors. All employees and officials at all levels contribute to Sustainable Development. KEGOC's Management Board as part of the Coordination Council activity on Sustainable Development and the IMS provides for a thorough, in-depth and thoughtful analysis of the internal and external situation under the three components: economic, environmental and social, which are the basis for formation of relevant plans, programmes for the implementation of the goals, objectives and achievement of indicators determined by KEGOC's Board of Directors. In 2017, the Company updated the stakeholders map being a basis for developing the Plan for communication with stakeholders. The corporate governance diagnosis revealed the sustainable development areas. In 2018, the Company plans to work more effectively to integrate the sustainable development areas with main management systems: corporate governance, risk management, internal control, strategic and business planning, etc.
2	The company shall seek to increase long-term value, ensuring its sustainable development, and balance the interests of stakeholders. The sustainable development activities shall meet the best international standards.	**Complied**	
3	The company shall ensure the consistency of its economic, environmental and social goals for sustainable development in the long term, which includes, above all, the increase of long-term value for shareholders and investors. The Company's sustainable development consists of three components: economic, environmental and social. The company shall analyse its activities and risks on these three aspects, and also seek to avoid or reduce the negative impact of its performance on stakeholders.	**Complied**	
4	The sustainable development principles are openness, accountability, transparency, ethical behaviour, respect for the stakeholders' interests, the legitimacy, respect for human rights, intolerance to corruption, inadmissibility of conflict of interest and personal example.	**Complied**	
5	The Company shall have a sustainable development management system that includes, but is not limited to, the following elements: 1. commitment to the sustainable development principles at the level of the Board of Directors, the executive body and employees; 2. analysis of the internal and external situation by three components (economy, environment and social issues); 3. identification of the sustainable development risks in social, economic and environmental areas; 4. building a stakeholder map; 5. defining the sustainable development goals and KPI, development of an action plan and determination of responsible people; 6. integration of the sustainable development into the key processes, including risk management, planning, human resources management, investments, reporting, operational activities, etc., as well as the development strategy and decision-making processes; 7. training of the officials and employees on sustainable development; 8. regular monitoring and evaluation of the sustainable development activities, evaluation of the achievement of goals and KPI, taking corrective measures, introducing the culture of continuous improvements. The Company's Board of Directors and the executive body shall ensure the formation of a proper sustainable development system and its implementation. All employees and officials at all levels contribute to sustainable development. Holding companies are responsible for sustainable development principles implementation in the whole group.	**Partially complied**	

Code provision No	Principles of KEGOC's Corporate Governance Code	Complied/ Not complied/ Partially complied	Information on compliance/ non-compliance with the principles
6	The company publishes annual reports on sustainable development to ensure its business clarity and transparency for concerned parties, taking into account the protection of information constituting official, commercial and other secrets protected by law. The sustainable development reporting shall be approved by the Board of Directors.	**Complied**	For the purpose of ensuring its business sustainable development transparency for concerned parties, KEGOC has been annually developing and publishing the sustainability report since 2009 (hereinafter referred to as the Report). The Report development ensures the protection of information constituting official, commercial and other secrets protected by law. The report is consolidated information on the sustainable development of KEGOC and its subsidiaries. When preparing the sustainability report, KEGOC is guided by generally accepted international standards: Standards for sustainable development reporting Global Reporting Initiative (GRI); standards of series AA1000. Since 2011, the Report has been certified by independent auditors for compliance with standards. The report is approved by the Board of Directors and communicated to the concerned parties through publication on the corporate website and provision on the hardcopy and electronic media. In June 2017, KEGOC's Board of Directors approved KEGOC's sustainability report 2016.
7	The company shall facilitate and promote the application of the sustainable development principles by partners.	**Complied**	Standard contracts with suppliers of goods, works and services include requirements for compliance with the laws on environment, occupational health and safety protection, labor relations, and anti-corruption legislation. In addition, they include the requirements for the Company's counterparties to follow internal rules of the Company on occupational health and safety, fire safety and environmental protection at work and at the entrance to KEGOC's premises.
Chapter 4. Rights of shareholders and fair treatment			
1	Observance of shareholders rights is a key provision for attracting investments to the Company. The company shall ensure the exercise of shareholders' rights. In case of several shareholders in the organization, a fair treatment shall be ensured to each of them.	**Complied**	The corporate governance in the Company is built in such a way as to ensure equal rights and fair treatment of all shareholders. In accordance with the legislation of the Republic of Kazakhstan, shareholders have the right to participate in the Shareholders General Meeting and vote personally or through their representative against power of attorney. The shareholders also have the right to: receive dividends in the amounts and terms determined by the decision of the General Meeting of Shareholders; receive statements from the Registrar of the Company or nominee holder confirming his/her ownership of the securities; participate in determining the number, term of office of the Board of Directors, the election of its members and the termination of their powers, as well as determining the amount and terms of remuneration; make proposals in the established procedure to the agenda of the General Meeting of Shareholders, as well as demand the convening of the extraordinary General Meeting of Shareholders; propose to the General Meeting of Shareholders of the Company a candidate for election to the Board of Directors of the Company; contest in the courts the decisions taken by the Company's bodies; apply to the Company with written inquiries about its operations and get reasoned responses within 30 days; a part of the Company's equity in case of its dissolution; when holding five or more per cent of voting shares of the Company solely or together with other shareholders, apply to the courts on own behalf in cases provided for in Articles 63 and 74 of the Law on Joint-Stock Companies, with a claim for the Company officials to compensate losses caused to the Company and to return to the Company by the Company officials and (or) their affiliated entities of income (profit) received by them as a result of conclusion of (proposals to conclude) major transactions and (or) non-arms length transactions; a pre-emptive purchase of the Company's shares or other securities, which are convertible into its shares, in accordance with the procedure established by the Law, except for the cases stipulated by laws; request and receive copies of documents provided by the laws; demand convention of an extraordinary General Meeting of Shareholders; propose to the Board of Directors to include additional items in the agenda of the General Meeting of Shareholders; request for convening a meeting of the Board of Directors; require the Company be audited by an audit organization at own expense. In 2017, there were no claims or complaints about non-compliance with shareholders' rights.
2	Rights, duties and competencies of shareholders are determined and stipulated in the current legislation and constituent documents. The shareholders' rights include, but are not limited to, timely receipt of information sufficient to make a decision in the manner prescribed by the laws of the Republic of Kazakhstan, the charter and internal documents of the organization on information disclosure; participation in the general meeting of shareholders and voting on the issues of their competence; participation in determining the number, term of office of the Board of Directors, election of its members and termination of their powers, as well as determining the amount and terms for payment of remuneration; receiving dividends in amounts and terms determined by the decision of the general meeting of shareholders on the basis of a clear and transparent dividend policy.	**Complied**	
3	In case of several shareholders in the organization, including minority shareholders, the corporate governance system shall ensure fair treatment of all shareholders and exercise of their rights, which should be enshrined in the organization's charter.	**Complied**	
Chapter 5. Efficiency of the Board of Directors and the executive body			
1	The Board of Directors is a governing body which reports to the general meeting of shareholders and ensures the strategic management of organizations and control over the activity of the executive body. The Board of Directors shall ensure the implementation of all provisions of this Code. The executive body is accountable to the Board of Directors, manages the day-to-day activities of the organization and ensures its compliance with the strategy, development plan and decisions taken by the general meeting of shareholders and the Board of Directors. The Board of Directors and the executive body shall work in a spirit of cooperation, act in the interests of the organization and make decisions based on the principles of sustainable development and fair treatment of all shareholders. The Board of Directors and the executive body shall ensure the growth of the long-term value and sustainable development of the Company.	**Complied**	In accordance with the Charter and the Regulations on the Board of Directors, the Board of Directors is a governing body which reports to the general meeting of shareholders and ensures the strategic management of organizations. The Management Board is accountable to the Board of Directors, manages the day-to-day activities and ensures implementation of the strategy, development plan and decisions made by the general meeting of shareholders and the Board of Directors. The Board of Directors and the Management Board work in a spirit of cooperation, act in the interests of the organization and make decisions based on the principles of sustainable development and fair treatment of all shareholders. See above. All decisions made in 2017 by the Board of Directors contributed to the effective operation of the Company in investment activities, implementation of the Strategy, risk management and gaining good financial results.

Code provision No	Principles of KEGOC's Corporate Governance Code	Complied/ Not complied/ Partially complied	Information on compliance/ non-compliance with the principles
2	The Board of Directors shall be sufficiently empowered to manage the organization and control the activities of the executive body. The Board of Directors shall perform its functions according to the charter and pay special attention to the following issues: 1. define the development strategy (directions and results); 2. set and monitor the key performance indicators for the development plan; 3. arrange and supervise the efficient functioning of the risk management and internal control systems; 4. approve and monitor the efficient implementation of major investment projects and other key strategic projects within the competence of the Board of Directors; 5. elect, remunerate, plan the succession and supervise the performance of the officer and members of the executive body; 6. corporate governance and ethics; 7. ensure observance in the organization of the Code provisions and corporate standards of the Fund on business ethics (Business Ethics Code).	**Partially complied**	Pursuant to KEGOC's Charter the exclusive competence of the Board of Directors includes: 1. outline priority areas of development, as well as approve the development strategy and monitor the strategy implementation; 2. approve the Development Plan and amendments thereto; 3. monitor the implementation of key performance indicators as per the Development Plan, review the quarterly reports relating to the Development Plan; 4. approve and monitor the efficient implementation of major investment projects and other key strategic projects within the competence of the Board of Directors. 12. determine the number, terms of powers of the Management Board, elect the Chairman of the Management Board and its members and early terminate their powers; 13. approve labour payment and bonus payment rules, salary rate schedule and determine the salary rates for the Chairman of the Management Board, members of the Management Board; 27. ensure the observance and analyse efficiency of the risk management system, and approve internal risk management documents, including, but not limited to, the Risk Management Policy, Rules for Risk Limiting; 28. approve quarterly risk reports; 29. approve the risk register, risk map; 30. approve the risk appetite and tolerance levels for each key risk; 62. monitor the efficiency of the corporate governance practices; 65. approve the business ethics code. In 2017, job matching was held with the participation of members of the Board of Directors. The Organizational Structure was amended. The control over the occupational health, environmental protection and information security was strengthened. In 2017, the Company updated the Business Ethics Code and defined the corporate values. The new Business Ethics Code is planned to be approved by the Board of Directors in 2018.
3	The members of the Board of Directors shall properly perform their duties and ensure the growth of the long-term value and sustainable development of the organization. The Board of Directors of the company is accountable to shareholders. This accountability is exercised through the mechanism of the general meeting of shareholders.	**Complied**	According to the Regulations on the Board of Directors, the decisions of the General Meeting of Shareholders made within its competence are mandatory for the Board of Directors. The Board of Directors annually reports on its activities to the General Meeting of Shareholders, by submitting a report on the work accomplished based on the previous year results, and by providing the Company's Annual Report for the previous year. The Board of Directors' annual report on the work accomplished to be submitted for the General Meeting of Shareholders' approval as part of the annual report, contains information as follows: 1. membership of the Board of Directors, election criteria for Independent Directors, the Chairman of the Management Board and Committees' members; 2. information on each director; 3. the number of meetings of the Board of Directors and its committees, as well as attendance of meetings by each director; 4. report on the work of the committees on the performance of their functions; 5. review of information on the work of the Board of Directors; 6. evaluation of the Company's position and prospects for its development; 7. the Board of Directors activities evaluation process; 8. measures taken to consider by the Board of Directors of the opinions of the General Meeting of Shareholders in respect of the Company.
4	The Board of Directors and its committees shall maintain the balance of skills, background and knowledge ensuring the independent, impersonal and efficient decision making for the benefit of the organization and with due account of fair treatment to all shareholders and sustainability principles.	**Complied**	The Board of Directors is formed of eight members, four of which are independent directors: Anatoliy Spitsyn, Luca Sutera, Dominique Fache, Janusz Bialek. The independent directors are specialists in finance, accounting, auditing, engineering, strategic management and power industry. **Suinshlik Tiyessov and Zhanna Yegimbayeva are the representatives of the major shareholder, having the deep knowledge in law, engineering, power industry and experience in the production area.** The Chairman of the Board of Directors is Kuanysh Bektemirov having an impeccable reputation and skills and experience in management in the industry and effectively managing the Board of Directors (according to the Board of Directors' members based on the results of the Board of Directors' performance evaluations).
5	The Board of Directors shall provide diversity in terms of experience, personal characteristics and gender composition. The Board of Directors shall include independent directors, in the amount sufficient to ensure the independence of taken decisions and fair treatment of all shareholders. The recommended number of independent directors in the Board of Directors of the company is up to fifty percent of the total number of members of the Board of Directors.	**Complied**	

Code provision No	Principles of KEGOC's Corporate Governance Code	Complied/ Not complied/ Partially complied	Information on compliance/ non-compliance with the principles
6	The General Meeting of Shareholders shall elect the members of the Board of Directors based on clear and transparent procedures with due consideration of the competencies, skills, achievements, business reputation and professional background of the candidates. When certain members or the entire membership of the Board of Directors are re-elected for another term, their contribution to the efficient operation of the organization's Board of Directors shall be taken into account. In organizations with several shareholders, the members of the Board of Directors and the Chairman of the Board of Directors shall be elected in the manner prescribed by the Law of the Republic of Kazakhstan on Joint Stock Companies and the organization's charter. In these organizations, it is recommended to involve the Nomination and Remuneration Committee of the organization's Board of Directors in determining the membership, skills and competencies required for the Board of Directors and candidates for the Board of Directors. Government servants and officials from governmental bodies are not allowed to be members of the Board of Directors of the organization. Term of office of members of the Board of Directors shall coincide with the term of office of the entire Board of Directors and shall terminate when the general meeting of shareholders makes a decision to elect the new membership of the Board of Directors. The members of the Board of Directors are elected for up to three years, and their term can be extended by other three years subject to their satisfactory performance. Any term on the Board of Directors of more than six years successively (for example, two three-year terms) shall require special consideration based on the requirement for qualitative update of the Board of Directors' membership. An independent director cannot be elected to the Board of Directors for more than nine years successively. In exceptional cases election can be made for more than nine years, the election of an independent director to the Board of Directors shall take place annually with a detailed clarification why it is necessary to re-elect this member of the Board of Directors and how it will impact the independence of decision making. Nobody shall participate in the decision making on his/her own appointment, election and re-election.	**Complied**	In accordance with the Regulations on the General Meeting of Shareholders, election of members of the Board of Directors, approval of qualification criteria set for the members of KEGOC's Board of Directors and independence criteria based on the skills, achievements, business reputation and professional experience of candidates are an exclusive competence of the General Meeting of Shareholders. In accordance with the Rules for selection and election of the members of KEGOC's Board of Directors approved by the General Meeting of Shareholders, the members of the Board of Directors are elected based on clear and transparent procedures with due consideration of the competencies, skills, achievements, business reputation and professional background of the candidates. According to the Regulations on the Board of Directors, the members of the Board of Directors are elected for a period not exceeding three (3) years. In future, provided that the performance results are good, the member can be elected for another three (3) year period. Any term on the Board of Directors of more than six (6) years successively (for example, two (2) three-year terms) requires special consideration based on the requirement for qualitative update of the Board of Directors' membership. An independent director cannot be elected to the Board of Directors for more than nine (9) years successively. In exceptional cases election can be made for more than nine (9) years. Term of office of members of the Board of Directors coincides with the term of office of the entire Board of Directors. Nobody shall participate in the decision making on his/her own appointment, election and re-election. Term of office of the Board of Directors coincides with the term of office of the members of the Board of Directors, is three years and terminates in April 2018. KEGOC's Board of Directors has no representatives of the Government or state bodies.
7	The Board of Directors shall approve the induction programme for the newly elected members of the Board of Directors, and professional development programme for each member of the Board of Directors. The Corporate Secretary shall ensure the implementation of these programmes.	**Complied**	KEGOC's Board of Directors approved the Induction Programme for newly elected members of the Board of Directors, which formalized the procedure for monitoring the implementation of this programme. The Corporate Secretary is responsible for induction of newly elected members of the Board of Directors, ensuring implementation of the programme of professional development for each member of the Board of Directors and comprehensive support to increase the efficiency of the Board of Directors.
8	The Chairman of the Board of Directors shall be responsible for overall management of the Board of Directors, ensure the members of the Board of Directors fulfil their duties in a complete and efficient manner, and ensure meaningful dialogue among the members of the Board of Directors, large shareholders and the executive body.	**Complied**	According to the Regulations on the Board of Directors, the Chairman of the Board of Directors is responsible for overall management of the Board of Directors, ensures the members of the Board of Directors fulfil their duties in a complete and efficient manner, and ensures meaningful dialogue among the members of the Board of Directors, shareholders and the Management Board. Chairman of the Board of Directors: • bears responsibility for management of the Board of Directors, ensures its efficient operation in all aspects of its responsibility and an efficient connection with shareholders; • is responsible for providing the respective interaction with shareholders; • ensures efficient contribution of the members of the Board of Directors to the activities of the Board of Directors, as well as constructive relations between members of the Board of Directors and the Management Board; • ensures efficient interaction with shareholders, and deliver the views of the Company's shareholders to the Board of Directors in general.
9	Role and functions of the Chairman of the Board of Directors and the head of the executive body shall be clearly delineated by the organization's charter, regulations on the Board of Directors and the executive body.	**Complied**	Role and functions of the Chairman of the Board of Directors and the head of the executive body are clearly delineated by the Charter, Regulations on the Board of Directors and the Regulations on KEGOC's Management Board.
10	The level of remuneration of the members of the Board of Directors shall be sufficient to attract, retain and motivate each member of the Board of Directors at the level required for the successful management of the organization. The remuneration to a member of the organization's Board of Directors shall be established in accordance with the methodology developed by the Fund, meanwhile the expected positive effect for the organization from participation of this person in the Board of Directors shall be taken into account. In organizations with several shareholders, the relevant rules for remuneration of the Board of Directors' members shall be developed on the basis of the Fund's methodology and approved by the general meeting of shareholders. The Nomination and Remuneration Committee of the Board of Directors of the organization shall make proposals on the amount of remuneration for candidates for independent directors. Nobody shall participate in the decision making on his/her own remuneration.	**Complied**	In accordance with Samruk-Kazyna's Rules for formation of the Board of Directors membership, the remuneration shall be paid only to independent directors and consist of the following components: • fixed remuneration • additional remuneration for participation in the meetings in praesentia of the committees of the Board of Directors. Should the Independent Director participate in less than a half of all the meetings in praesentia and in absentia held by the Board of Directors during the reporting period (without due cause) the fixed remuneration is not be paid. Member of the Board of Directors shall also be compensated for the travel expenses associated with participation in the meetings of the Board of Directors. According to the Regulations on the Nomination and Remuneration Committee of the Board of Directors, the Committee conducts comparative analysis of the level and efficiency of policy for remuneration to directors, and provides recommendations to the Board of Directors. Nobody participates in the decision making on his/her own remuneration. In 2017, the General Meeting of Shareholders approved the Rules for payment of remuneration and compensation for expenses of members of KEGOC's Board of Directors.

Code provision No	Principles of KEGOC's Corporate Governance Code	Complied/ Not complied/ Partially complied	Information on compliance/ non-compliance with the principles
11	The Committees of the Board of Directors shall contribute to the profound and careful consideration of issues within the competence of the Board of Directors and improvement of the quality of decisions, particularly in areas such as auditing, risk management, the proper and efficient application of the Rules for procurement of goods, works and services, the appointment and remuneration of the members of the Board of Directors and the executive body, sustainable development, including the occupational health, safety, and environmental protection. The existence of committees shall not release the members of the Board of Directors from responsibility for the decisions made within the competence of the Board of Directors.	**Complied**	All issues submitted for consideration by the Board of Directors are carefully considered beforehand by the specialized committees. In 2017, the Audit Committee examined such key issues as the financial reporting, risk issues, dividend payment and Internal Audit Service reports. The Strategic Planning Committee considered such key issues as the Action Plan for 2017-2020 on KEGOC Corporate Governance Improvement and Corporate Governance Code Introduction, report on implementation of major investment projects, Progress Report on KEGOC Development Plan (Business Plan) for 2017-2021. The Nomination and Remuneration Committee considered such key issues as KEGOC's organizational structure, appointment of members of the Board of Directors, talent pool report, performance of motivational KPI by executives, succession plans. The Occupational Health, Safety, and Environmental Protection Committee considered the issues of the Company's activities in environment and occupational health and its improvement. Committees of the Board of Directors are consultative and advisory bodies, all proposals developed by the Committees are recommendations. The Board of Directors makes the final decision with regards to the issues put for discussion, and the members of the Board of Directors are responsible for their decisions. During procurement of goods, works and services KEGOC is governed by the Fund's Rules for procurement approved by the Board of Directors of Samruk-Kazyna.
12	The preparation and holding of the meetings of the Board of Directors shall ensure maximum efficiency of its activity. To perform their duties, the members of the Board of Directors shall have access to complete, relevant and timely information. The Board of Directors shall hold its meetings regularly to ensure the efficient fulfilment of its duties. Meetings of the Board of Directors shall be held in accordance with the work plan approved before the beginning of the calendar year. Meetings of the Board of Directors and its committees shall be held in praesentia or absentia, and the number of meetings in absentia shall be minimal. Review and decision-making on particularly important and strategic issues shall only be done at the meetings of the Board of Directors in praesentia. Exceptionally, combination of both meeting forms of the Board of Directors and its committees is possible. Meetings of the Board of Directors and its Committees shall be duly minuted by the Corporate Secretary, indicating the complete discussion results and made decisions.	**Partially complied**	Materials and information on the upcoming meeting of the Board of Directors are published in advance (10 days before the meeting) on a specially designed portal for members of the Board of Directors. For the purpose of the Board of Directors' performance maximizing, laptops (tablets) are used at the meetings with all the materials and information necessary for decision-making by the Board of Directors on the agenda items. The Board of Directors approves the work plan with estimated dates of meetings for the coming year. The reporting period held 11 meetings of the Board of Directors including 9 meetings in praesentia and 2 meetings in absentia. Overall, the Board of Directors considered 155 issues including 57 unplanned issues. All key issues, a list of which is determined by the Company's Charter, were considered by the Board of Directors only in praesentia. All meetings of the Board of Directors and its Committees are minuted in detail by the Corporate Secretary and the Audit Committee Secretary. There were cases of inclusion of additional issues in the agenda with violation of the deadlines for submitting materials to the meeting of the Board of Directors, with justification for the need for consideration.
13	The Board of Directors, committees and members of the Board of Directors shall be assessed on an annual basis as part of a structured process approved by the organization's Board of Directors. This process shall comply with the Fund's methodology. Whereas, no less than once every three years the assessment shall assisted by an independent professional organization.	**Complied**	The Board of Directors' performance is annually assessed in accordance with the Rules on assessment of performance of the Board of Directors and its committees, the Chairman and members of the Board of Directors and employees of the Internal Audit Service of KEGOC, as well as the Corporate Governance Diagnostics Methods in the legal entities in which Samruk-Kazyna holds directly or indirectly over fifty per cent of voting shares. In addition, the Rules on assessment of performance of the Board of Directors and its committees, the Chairman and members of the Board of Directors and employees of KEGOC's Internal Audit Service were updated in terms of key roles distribution in the assessment.
14	The assessment shall determine the contribution of the Board of Directors and each of its members to the growth of long-term value and sustainable development of the organization, as well as identify directions and recommend measures for improvement. Results of the assessment shall be taken into account in the re-election or the early termination of powers of members of the Board of Directors.	**Complied**	
15	To efficiently organize activity of the Board of Directors and interaction between the Board of Directors, executive body with shareholders, the Board of Directors shall appoint the Corporate Secretary. The Board of Directors shall make decision on appointment of the corporate secretary, determine the term of his/her office, functions and activities, the salary amount and terms of remuneration, make a decision on establishment of the corporate secretary service (secretariat) and determine the budget of the service. The corporate secretary shall be accountable to the Board of Directors and independent of the executive body. The main duties of the Corporate Secretary shall include contribution to a timely and quality corporate decision-making by the Board of Directors, the sole shareholder, acting as advisor to the members of the Board of Directors on all issues of their activity and application of the provisions of this Code, as well as monitoring of the implementation of this Code and participation in improvement of the corporate governance. The Corporate Secretary shall also prepare a report on compliance with the principles and provisions of the Code, which is included in the annual report. This report shall contain a list of principles and provisions of the Code that are not observed, giving the relevant explanations.	**Complied**	In accordance with the Charter and internal documents of KEGOC, the Board of Directors makes decision on appointment of the Corporate Secretary, determines the term of his/her office, functions and activities, the salary amount and terms of remuneration. The Corporate Secretary is fully accountable to the Board of Directors. Appointed in 2015, KEGOC's Corporate Secretary monitors the preparation and holding of meetings of the Board of Directors of the Company, provides compilation of materials for the meeting of the Board of Directors and controls the materials accessibility. The Company established the Corporate Secretary Service to ensure execution of functions by the Corporate Secretary, the Service consists of two people. The main duties of the Corporate Secretary are to contribute to a timely and quality making of corporate decisions by the Board of Directors, the General Meeting of the Shareholders, acting as advisor to the members of the Board of Directors on all issues of their activity, and prepare a report on compliance with the principles and provisions of the Code, which is included in the annual report.
16	Companies shall establish a collegial executive body, in other organizations, and in the case of a joint venture company, it may be collegial or sole at the discretion of the shareholders. The senior manager and members of the executive body shall have high professional and personal characteristics, as well as impeccable reputation and adhere to high ethical standards.	**Complied**	In 2017, the Management Board members job matching took place, with the key role played by members of the Board of Directors and the Nomination and Remuneration Committee. The job matching includes the assessment of professional and personal characteristics, business reputation and high ethical standards. Based on the results of the conducted procedure, the members of the Company's Management Board were elected.
17	The executive body shall be accountable to the Board of Directors and manage the daily activities of the organization, responsible for implementing the strategy, development plan and decisions adopted by the Board of Directors and the general meeting of shareholders.	**Complied**	The Management Board manages the day-to-day activities, is accountable to the Board of Directors and the General Meeting of Shareholders, is responsible for implementing the strategy, Development Plan, investment plan and implementation of the decisions taken by the General Meeting of Shareholders and the Board of Directors.

Code provision No	Principles of KEGOC's Corporate Governance Code	Complied/ Not complied/ Partially complied	Information on compliance/ non-compliance with the principles
18	The Board of Directors shall elect the head and members of the executive body, determine the terms of office, the amount of official salary, and remuneration conditions. The Nomination and Remuneration Committee under the Board of Directors of the organization shall play a key role in searching and selecting candidates for the executive body and determining their remuneration. Proposals on the candidates to be elected to the collegial executive body shall be submitted by the Head of the executive body to the Board of Directors' Nomination and Remuneration Committee for consideration. In case the Board of Directors declines the candidate proposed by the head of the executive body to the same vacant position in the executive body for the second time, the right to propose a candidate to this vacant position shall pass to the Board of Directors. The Board of Directors can terminate the office of the head and members of the executive body at any time. It is recommended that the head and members of the executive body of the organization be elected for a term of up to three years. Terms of office of the head and members of the executive body shall coincide with the overall term of office of the executive body.	**Complied**	In accordance with the Charter and internal documents of KEGOC, the Board of Directors determines the quantitative composition and term of office of the Management Board, elects the Chairman and members of the Management Board, early terminates their powers, approves labour payment and bonus payment rules, salary rate schedule and determines the salary rates for the Chairman of the Management Board, members of the Management Board, approves motivational KPI of members of the Management Board. When electing members of the Management Board, the Board of Directors shall follow the provisions of the Company internal documents specifying the qualification requirements for candidates and the election procedure. Shareholders and employees of the Company who are not its shareholders can be elected as the Management Board members. The IAS employees cannot be elected as the Management Board members. Proposals on the candidates to be elected to the Management Board shall be submitted by the Chairman of the Management Board to the Board of Directors for its consideration. The Chairman of the Management Board is entitled to propose a candidate for consideration by the Board of Directors for the same position in the Management Board not more than two times. The Management Board members shall be selected and elected based on the most transparent and clear procedures defined by the Board of Directors. The Board of Directors can terminate the office of the head and members of the executive body at any time. In accordance with the Corporate Governance Code, the Management Board shall be elected for a 3-year period. In 2016, relevant amendments were made to the Regulations on KEGOC's Management Board. In 2017, when establishing KEGOC's Management Board and appointing the members of the Management Board in accordance with the new organizational structure, the members of the Management Board were elected for a 3-year period.
19	The candidate for the position of the chief executive officer of the company shall be agreed by the President or the Administration of the President of Kazakhstan in case the Company is included in the relevant list approved by the Presidential Decree of the Republic of Kazakhstan. In this case, the Companies apply the procedure established by the Code for the search and election of the head of the executive body.	**Partially complied**	In 2017, the process of appointing the Chairman of the Management Board was formalized in the Rules for election and early termination of the powers of the Chairman and members of KEGOC's Management Board, which include the procedure for approving the candidates for the Chairman of the company's Management Board.
20	The head and members of the executive body shall be assessed by the Board of Directors. The main assessment criterion is achievement of KPI. Motivational KPI of the head and members of the executive body shall be approved by the Board of Directors. Proposals on motivational KPI of members of the executive body shall be submitted to the Board of Directors' consideration by the head of the executive body. The assessment results shall have an impact on the amount of remuneration, incentives, re-election (appointment) or early termination of powers.	**Complied**	In accordance with the Charter and internal documents of KEGOC, the Board of Directors approves labour payment and bonus payment rules, salary rate schedule and determines the salary rates for the Chairman of the Management Board, members of the Management Board, approves motivational KPI of members of the Management Board. The Board of Directors approved the motivational key performance indicators of KEGOC's executives for 2017. KPI performance shall be monitored by the Board of Directors to determine the remuneration, incentives, re-election (appointment) or early termination of powers of the Management Board members. According to the Company's internal documents, the KPI for 2017 are planned to be submitted for the Board of Directors' consideration in Q1 2018.
21	The head of the executive body shall inform the Board of Directors of cases of violations of the Business Ethics Code by members of the executive body. Member of the executive body, who allowed violation of the Business Ethics Code cannot be a member of the executive body of any other organization.	**Complied**	In 2017, no cases of violation of the provisions of the Business Ethics Code by the members of the KEGOC's Management Board were registered.
22	In cases of corporate conflicts, the parties shall seek to resolve them through negotiations to ensure the efficient protection of the interests of the organization and stakeholders. The efficiency of corporate conflict prevention and settlement requires, first of all, a complete and early identification of such conflicts and clear coordination of the actions of all bodies of the organization. The corporate conflicts shall be considered by the chairman of the company's Board of Directors assisted by the corporate secretary. Should the Chairman of the Board of Directors be involved in a corporate conflict, such cases shall be considered by the Nomination and Remuneration Committee.	**Complied**	The Company developed mechanisms for the settlement of corporate conflicts, that are reflected in internal document 'KEGOC's Corporate Conflict Settlement Policy', which establishes policies and procedures for the settlement of corporate conflicts between the participants by KEGOC. This document applies to all divisions of the Company including the branches and is included in the IMS documentation. The Company's policy on settlement of corporate conflicts presumes that the conflict settlement procedure shall ensure compliance and protection of the General Meeting of Shareholders' rights as well as protection of valuable interests and goodwill of the Company. The Board of Directors considers and participates in corporate conflicts settlement, the subject matter of which is an act (omission) of the Management Board, the Chairman of the Management Board, and other employees of the Company who were delegated relevant authority or decisions taken by them. If the Corporate Conflict cannot be settled by the Chairman of the Management Board, its settlement shall be transferred to the Board of Directors' consideration. In 2017, no corporate conflicts were registered.
Chapter 6. Risk management, internal control and audit			
1	The Company shall establish an efficient risk management and internal control system aimed at providing reasonable assurance for the Company to achieve its strategic and operational goals, which is a set of organizational policies, procedures, standards of behaviour and conduct, management methods and techniques established by the Board of Directors and the executive body. The Board of Directors and the executive body shall ensure the introduction of proper risk management culture in the Company. The risk management and internal control system implementation and functioning in the Company shall have a clear regulatory framework based on best practices (COSO) and the methodology (policies) of the Fund.	**Complied**	The Company established a regulatory framework based on COSO international standard and Samruk-Kazyna's methodology: For the purpose of efficient risk management and internal control system operation at the Company, the Board of Directors has approved the following documents: • Corporate Risk Management Policy; • Guidelines on Risk Management System; • Standard on Internal Control System. To assign the roles and duties on timely risk identification and management a cooperation model was elaborated based on the concept of three levels of RMS: • Board of Directors and Internal Audit Service; • Management Board and structural units; • Risk Committee and structural subdivision responsible for the risk management.

Code provision No	Principles of KEGOC's Corporate Governance Code	Complied/ Not complied/ Partially complied	Information on compliance/ non-compliance with the principles
2	The Board of Directors of the Company shall determine the principles and approaches to arranging the risk management and internal control system based on the objectives of this system and taking into account the best practices of the work and methodology of the Fund on the risk management and internal control.	**Complied**	The Board of Directors approved the main principles of the: 1. risk management system: • engagement of KEGOC's executives in risk management; • continuous improvement of the risk management system; • continuous learning and knowledge sharing by the company employees on risk management; • transparency and integrity in submitting reports and risk escalation. 2. internal control system: • integrity; • complexity; • functioning continuity; • responsibility; • duties separation; • reporting of the internal control system participants; • unified methodological framework integrity; • proper endorsement and approval of operations; • timely reporting on any material deficiencies and weaknesses of the control; • continuous development and improvement.
3	The executive body of the Company shall ensure that the efficient risk management and internal control system is established and maintained. The risk management process shall be integrated with the planning (development strategy and plans, annual budget) and evaluation of the organization's performance (management reporting). Each official shall ensure proper consideration of risks in decision-making. The executive body shall ensure the introduction of risk management procedures by employees with relevant qualifications and experience.	**Complied**	In accordance with the Guidelines on Risk Management System and Internal Control System Standard, KEGOC's Management Board is obliged to prepare, maintain and use the procedure for risk identification, assessment and management, organize the efficient operation of the RMS and the ICS, support the structural subdivisions when introducing the risk management processes into their activity, ensure that the RMICD employees have professional qualifications. The risk management process is integrated with the planning (development strategy and plans, annual budget) and evaluation of the organization's performance (management reporting). Structural subdivisions, as the risk owners, are obliged to timely identify, analyse, assess, and manage the risks, prepare proposals for key risks mitigation and KEGOC key risks reports.
4	The Company's risk management and internal control system shall be based on a high risk management culture conducted by the executive body, which provides for the mandatory procedures for identifying, assessing and monitoring all significant risks, as well as timely and adequate measures to reduce the level of risks that could adversely affect the achievement of strategic goals, implementation of operational objectives and the company's reputation. Risk management procedures shall ensure rapid response to new risks, their clear identification and determination of risk owners. In the event of any unforeseen changes in competitive or economic environment, the risk map and its compliance with the risk appetite shall be urgently reassessed.	**Complied**	The Company's risk management system is based on a high risk management culture conducted by the executive body, which provides for the mandatory procedures for identifying, assessing and monitoring all significant risks, as well as timely and adequate measures to reduce the level of risks that could adversely affect the achievement of strategic goals, implementation of operational objectives and the company's reputation. Risk management procedures established by KEGOC ensure rapid response to new risks, their clear identification and identification of risk owners. The Company's Board of Directors annually reviews and approves the risk appetite, risk register, risk map, key risk management plan, key risk indicators and tolerance levels of KEGOC's key risks. In the event of any unforeseen changes, the risk map and its compliance with risk appetite shall be urgently reassessed. The Company provides for a permanent information interchange between the RMS levels in order to raise the risk awareness, develop the risk culture and efficient risk management.
5	The Company shall develop, approve, formalize and document the control procedures in three key areas: operational activities, preparation of financial statements and compliance with the requirements of the laws of the Republic of Kazakhstan and internal documents.	**Complied**	In 2017, the Activity Map was revised, all the Company's business processes and their control procedures were developed, which cover three key areas: operational activities, preparation of financial statements and compliance with the requirements of the laws of the Republic of Kazakhstan and internal documents.
6	The Company shall implement transparent risk management and internal control principles and approaches, risk management system training for employees and officials, as well as identification, documenting and timely communicating the necessary information to officials.	**Complied**	The company implemented the basic principles set out in paragraph 2 of this chapter. To increase risk culture, KEGOC organizes trainings and workshops on RMS and ICS for risk owners and risk coordinators and risk managers of KEGOC on an annual basis. Members of the Company's top management also take part in specialized trainings and workshops on risk management organized for top management. In 2017, the Company organized a risk management workshop for the heads of structural divisions being the Company's risk owners.

Code provision No	Principles of KEGOC's Corporate Governance Code	Complied/ Not complied/ Partially complied	Information on compliance/ non-compliance with the principles
7	The Company's Board of Directors shall take appropriate measures to ensure that the current risk management and internal control system complies with the principles and approaches thereof defined by the Board of Directors and operates efficiently. The risk reports shall be brought to the meetings of the Board of Directors at least once a quarter and discussed properly and in full.	**Complied**	According to the Guidelines on Risk Management System, in 2017 the Board of Directors reviewed and approved the risk reports on a quarterly basis.
8	The Company shall establish the IAS for systematic independent assessment of the reliability and efficiency of the risk management and internal control system, and the corporate governance practices.	**Complied**	The Internal Audit Service is established by the decision of KEGOC's Board of Directors (Minutes No. 3 dated 31 May 2006). The mission of the Service is to provide necessary support to the Board of Directors and Executive Body in performance of their duties to achieve the strategic objectives of the Company. The main objective of the Service is to provide the Board of Directors with independent and objective information needed to secure efficient management of the Company by introducing the system approach to improvement of the risk management, internal control and corporate governance systems.
9	The Company's internal audit shall be carried out through a separate structural unit, the IAS. The goals, powers and responsibilities of the IAS, qualification requirements (requirements for the internal auditors professionalism) shall be defined in the company's internal document (Regulations on the IAS). The Regulations on the IAS shall be developed and approved in accordance with the requirements of international professional standards on internal audit and the Fund's corporate internal audit standards. The organizations' Board of Directors shall be responsible for full compliance of the Regulations on IAS with the specific needs of organizations' business.	**Complied**	The Regulations on the Internal Audit Service defined the goals, powers and responsibilities of the Internal Audit Service, qualification requirements. The Regulations on the Internal Audit Service is developed in accordance with the requirements of International professional standards on internal audit and the Fund's corporate internal audit standards. The Regulations on the Internal Audit Service fully comply with the specific needs of the Company.
10	To ensure the independence and objectivity of internal audit, the IAS shall be organizationally subordinated and functionally accountable to the Board of Directors. The Board of Directors shall make decisions on the approval of plans and strategies for the operation of the IAS, budget of the IAS, determine the quantitative composition, amounts and terms of labour payment, bonus payments for the IAS employees.	**Complied**	Organizational subordination and functional accountability of the Internal Audit Service to the Board of Directors is achieved by the following conditions: 1. approval by the Board of Directors of the provisions and other policies on internal audit that regulate the goals, objectives, functions and activities of the Internal Audit Service (to be preliminarily reviewed by the audit committee); 2. approval by the Board of Directors of a risk-oriented annual audit plan (to be preliminarily reviewed by the audit committee); 3. provision to the Board of Directors (Audit Committee) of quarterly and annual reports on implementation of the annual audit plan and other information on the activities of internal audit; 4. approval by the Board of Directors of decisions on appointment, termination of appointment and remuneration of the head and employees of the internal audit department (to be preliminarily reviewed by the audit committee); 5. approval by the Board of Directors (Audit Committee) of the budget of the Internal Audit Service; 6. consideration by the Board of Directors (Audit Committee) of significant limitations of the powers of the Internal Audit Service or other restrictions that may adversely affect the implementation of internal audit.
11	The head of the IAS in organizations shall develop internal documents regulating the activities of the unit on the basis of the Fund's corporate internal audit standards and ensure their consideration and approval by the Audit Committee and the Board of Directors.	**Complied**	In the company, based on the Fund's corporate internal audit standards, the internal regulatory documents that regulate the activities of the Internal Audit Service are developed, these documents are reviewed and approved by the Audit Committee and the Board of Directors.
12	The IAS shall carry out its activities in accordance with the risk-oriented annual audit plan approved by the Board of Directors. The results of audit reports and key findings are submitted quarterly to the Board of Directors for consideration.	**Complied**	The Company's Risk Register serves as the basis for drawing up the Internal Audit Service Plan for year as the resources should focus on the business processes and business areas of the Company, which have the largest (highest) risks (factor – exposure to risk).
13	In exercising its duties the IAS shall assess the efficiency of internal control and risk management systems, assess corporate governance using generally accepted standards of internal audit and corporate standards, and the Fund's recommendations on corporate governance assessment, internal control and risk management efficiency assessment.	**Complied**	The Internal Audit Service periodically assesses the efficiency of internal control system and risk management system, the corporate governance using generally accepted standards on internal audit and corporate standards, and the Fund's recommendations on corporate governance assessment, internal control and risk management system efficiency assessment.
14	The IAS head shall develop and maintain the quality assurance and improvement programme that covers all types of internal audit activities and provides for mandatory internal and external evaluation of the IAS. Assessment of the IAS performance, its head and employees is carried out by the Board of Directors on the basis of review of the IAS reports, compliance with the deadlines for the annual audit plan implementation and reporting submission, assessment of compliance of the reports with the requirements of the standards and internal regulatory documents of the IAS.	**Complied**	The Company has developed and been implementing KEGOC Internal Audit Service's Quality Assurance and Improvement Programme approved by the Audit Committee (Minutes No. 14 dated 12 December 2013) covering all types of internal audit activity and providing for mandatory internal and external evaluation of the Internal Audit Service. The head of the Internal Audit Service bears full responsibility for the SCPP, which covers all activities of the Internal Audit Service, including the advisory activity.

Code provision No	Principles of KEGOC's Corporate Governance Code	Complied/ Not complied/ Partially complied	Information on compliance/ non-compliance with the principles
Chapter 7. Transparency			
1	In order to meet the interests of stakeholders, the Company shall timely and reliably disclose information on all important aspects of its activities, including financial standing, performance results, ownership and governance structure.	**Complied**	The Investors and Shareholders section on the Company's website contains all information disclosed in accordance with the laws of the Republic of Kazakhstan and the Listing Rules of the Stock Exchange affecting the interests of KEGOC's shareholders. All information is published on time. No facts of violation of terms and quality of information on KASE in 2017 were revealed.
2	The company shall timely disclose information provided by the laws of the Republic of Kazakhstan and internal documents. The Company shall approve internal documents that define principles and approaches to disclosure and protection of information, as well as the list of information disclosed to stakeholders. The Company shall determine the procedure for classifying information to access categories, conditions for storing and using information including a group of people who have the right of free access to information constituting commercial and official secrets, and take measures to protect its confidentiality.	**Complied**	KEGOC approved documents regulating principles and approaches to disclosure and protection of information, as well as the list of documents: • Information Policy; • Rules for KEGOC insider information management; • Order of the Chairman of the Management Board on the List of Information to be Disclosed; • List of issues based on the decision of the Board of Directors, to be disclosed to the shareholders and investors; • Rules for protection and preservation of confidential information at KEGOC. All information provided by internal documents and the laws of the Republic of Kazakhstan for disclosure is disclosed in a timely manner.
3	The Company shall timely publish on its website the audited annual financial statements prepared in accordance with International Financial Reporting Standards (hereinafter the IFRS), as well as financial statements prepared in accordance with the IFRS for the first quarter, for the first half and for the first nine months of the reporting period. In addition to the main forms of financial reporting, it is recommended to disclose additional information about the financial condition of the Company.	**Complied**	The Investors and Shareholders section on the Company's website contains audited annual financial statements, prepared in accordance with International Financial Reporting Standards (hereinafter the IFRS), as well as financial statements prepared in accordance with the IFRS for the first quarter, for the first half and for the first nine months of the reporting period. All such statements are published on time, in accordance with the established deadlines.
4	The company shall conduct an annual audit of the financial statements by engaging an independent and qualified auditor who, as a third party, provides an objective opinion to stakeholders on the reliability of the financial statements and its compliance with IFRS. Standards in terms of the annual audit apply if the audit of the annual financial statements is provided for by the laws of the Republic of Kazakhstan and/or internal documents of the organization.	**Complied**	In 2017, the audit of financial statements was carried out by Ernst & Young LLP, independent audit organization, member of the Chamber of Auditors of the Republic of Kazakhstan since 11 January 2006. The contract with the auditor is concluded for the period from 2016 to 2018, in accordance with the Rules for procurement of goods, works and services by Samruk-Kazyna Sovereign Wealth Fund and by organizations in which Samruk-Kazyna holds fifty per cent or more of voting shares (participation interest) either directly in ownership or indirectly under trust management, as approved by the Board of Directors of Samruk-Kazyna. The Company conducts a quarterly review of the financial statements, and auditors inspect the financial statements for half-year and year.
5	The company shall prepare an annual report in accordance with the provisions of this Code and the best practice for information disclosure. The annual report shall be approved by the Board of Directors.	**Complied**	Every year the Company prepares the Annual Report, which is one of the key sources of information for shareholders and other stakeholders. The Annual Report for 2016 was prepared, approved by the Board of Directors and published on the website before the annual General Meeting of Shareholders. The annual report is prepared in accordance with the provisions of KEGOC's Corporate Governance Code and the requirements of the Listing Rules of the Kazakhstan Stock Exchange and the global trends in reports development.
6	The Internet resource shall be well structured, easy to navigate and contain the information necessary for interested parties to understand the Company's activities.	**Complied**	Constant work is carried out to improve the company's website, including the structure and content of sections. KEGOC developed and approved the Website Content Plan, which is aimed at timely and qualitative disclosure of information to all stakeholders. It is monitored continuously in accordance with the Plan. The user feedback on the information quality and the website work is envisaged.

APPENDIX 4

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017
WITH INDEPENDENT AUDITOR'S REPORT

The audit services for external audit of KEGOC's financial statements for 2016-2018 were procured in accordance with Clause 139 of the Rules for Procurement of Goods, Works and Services by Samruk-Kazyna Sovereign Wealth Fund JSC and organizations of which Samruk-Kazyna holds directly or indirectly fifty or more per cent of shares (equity interest) either in ownership or under trust management, upon approval by the Audit Committee of KEGOC's Board of Directors. The contract was concluded with independent auditing organization Ernst and Young LLP, the member of the Chamber of Auditors of the Republic of Kazakhstan auditing KEGOC's financial statements since 2012.

For the purpose of preserving the independence and according to the External Audit Policy of the Company, if one audit organization carries out an audit during five successive years, the audit partner shall be changed. The last change of the audit partner was made in 2014. The total amount of audit service fee will be KZT 138,656,000 for 3 years including VAT. In 2017, no non-audit services were rendered by Ernst and Young LLP.

Building a better working world

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Independent auditor's report

To the Shareholders of Kazakhstan Electricity Grid Operating Company JSC

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young LLP

Paul Cohn
Audit Partner

Adil Syzdykov
Auditor

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

Gulmira Turmagambetova
General Director
Ernst & Young LLP

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

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

28 February 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

In thousands of Tenge	Notes	31 December 2017	31 December 2016
Assets			
Non-current assets			
Property, plant and equipment	6	**535,294,178**	500,914,390
Intangible assets		**1,038,637**	855,032
Advances paid for non-current assets	6	**742,325**	664,471
Deferred tax asset	28	**2,252**	1,093
Investments in associate	7	**782,081**	304,954
Long-term receivables from related parties	29	**1,009,981**	1,267,287
Other financial assets, non-current portion	11	**1,091,823**	–
Other non-current assets		**17,129**	11,009
		539,978,406	**504,018,236**
Current assets			
Inventories	8	**1,875,434**	1,686,312
Trade accounts receivable	9	**7,764,693**	15,746,830
VAT recoverable and other prepaid taxes		**961,745**	309,268
Prepaid income tax		**1,584,041**	734,349
Other current assets	10	**652,589**	477,988
Other financial assets, current portion	11	**25,107,392**	61,403,727
Restricted cash	12	**3,445,617**	15,626,798
Cash and cash equivalents	13	**47,577,783**	32,055,378
		88,969,294	128,040,650
Total assets		**628,947,700**	**632,058,886**
Equity and liabilities			
Equity			
Share capital	14	**126,799,554**	126,799,554
Treasury shares	14	**(930)**	(930)
Asset revaluation reserve	14	**220,858,720**	220,890,374
Other reserves	14	**(170,701)**	(170,701)
Retained earnings		**26,680,917**	14,565,773
		374,167,560	**362,084,070**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
As at 31 December 2017

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
As at 31 December 2017

In thousands of Tenge	Notes	31 December 2017	31 December 2016
Revenue	22	**152,379,817**	130,001,433
Cost of sales	23	**(89,399,369)**	(79,388,774)
Gross profit		**62,980,448**	**50,612,659**
General and administrative expenses	24	**(13,142,395)**	(17,640,430)
Selling expenses		**(246,651)**	(215,008)
Impairment of property, plant and equipment	6	**(196,982)**	(79,820)
Operating profit		**49,394,420**	**32,677,401**
Finance income	25	**3,593,207**	6,535,086
Finance costs	25	**(4,523,948)**	(6,057,909)
Foreign exchange (loss)/gain	26	**(4,356,244)**	2,346,713
Share of income of associates	7	**477,127**	75,049
Impairment of other financial assets	11	**(2,241,155)**	(645,891)
Loss from disposal of non-current assets held for sale		**–**	(85,802)
Other income	27	**506,849**	1,413,198
Other expenses		**(208,562)**	(282,998)
Profit before tax		**42,641,694**	**35,974,847**
Income tax expense	28	**(9,760,378)**	(8,384,696)
Profit for the year		**32,881,316**	**27,590,151**
Total comprehensive income for the year		**32,881,316**	**27,590,151**
Earnings per share			
Basic and diluted profit for the year attributable to ordinary equity holders of the parent company (in Tenge)	**14**	**126.47**	**106.12**

CONSOLIDATED STATEMENT OF CASH FLOWS
As at 31 December 2017

In thousands of Tenge	Notes	31 December 2017	31 December 2016
Operating activities			
Profit before tax		**42,641,694**	35,974,847
Adjustments to reconcile profit before tax to net cash flows			
Depreciation and amortisation		**22,935,831**	22,723,743
Finance costs	25	**4,523,948**	6,057,909
Finance income	25	**(3,593,207)**	(6,535,086)
Unrealized foreign exchange loss/(gain), net		**4,356,244**	(2,346,713)
Changes in allowance for doubtful accounts receivable and impairment of advances paid and other current assets	24	**(1,044,203)**	1,290,214
Allowance for obsolete inventories	24	**86,128**	385,867
Impairment of other financial assets	11	**2,241,155**	645,891
Loss on disposal of property, plant and equipment and intangible assets		**21,978**	127,621
Impairment of property, plant and equipment	6	**196,982**	79,820
Income from receipt of granted fixed assets	27	**–**	(872,939)
Share of income of associate		**(477,127)**	(75,049)
Income from amortization of government grants		**(9,162)**	–
Interest income from other financial assets		**(30,248)**	–
Loss from disposal of non-current assets held for sale		**–**	85,802
Working capital adjustments			
Change in inventories		**(259,801)**	(89,826)
Change in trade accounts receivable		**9,013,514**	7,079,287
Change in VAT recoverable and other prepaid taxes		**(652,080)**	(13,649)
Change in other current assets		**(199,879)**	(292,760)
Change in trade and other accounts payable		**1,065,361**	(1,343,918)
Change in advances received		**1,005,890**	291,359
Change in taxes payable other than income tax		**(2,381,704)**	2,780,750
Change in other current liabilities		**451,170**	2,247,095
Cash flows from operating activities		**79,892,484**	**68,200,265**
Interest paid		**(4,186,436)**	(5,922,591)
Coupon interest paid		**(8,835,000)**	–
Income tax paid		**(10,467,054)**	(2,355,541)
Interest received		**5,436,517**	**6,219,954**
Reimbursement of corporate income tax related to receipt of granted assets		**–**	**158,267**
Net cash flows received from operating activities		**61,840,511**	**66,300,354**

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
As at 31 December 2017

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
As at 31 December 2017

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017
WITH INDEPENDENT AUDITOR'S REPORT

1. GENERAL INFORMATION

Kazakhstan Electricity Grid Operating Company JSC ('the Company' or 'KEGOC') was established in accordance with the Government Resolution No. 1188 dated 28 September 1996 by transferring of some assets of the former National Energy System 'Kazakhstanenergo'.
As at 31 December 2017 the Company's major shareholder was Sovereign Wealth Fund 'Samruk-Kazyna' JSC ('Samruk-Kazyna') (90 percent plus one share). Samruk-Kazyna is controlled by the Government of the Republic of Kazakhstan.
On 19 December 2014 the Company placed 25,999,999 ordinary shares (10 percent minus one share) at 505 Tenge per share on the Kazakhstan Stock Exchange under the 'People's IPO' programme.
KEGOC is the national company which provides electricity transmission, dispatch and electricity production-consumption balancing services in Kazakhstan. As the state-appointed system operator, the Company provides centralized dispatching control, ensures parallel work with energy systems of other countries, maintains the balance in energy system, provides system services and acquires auxiliary services from wholesale entities at energy market, as well as transmits electricity through unified power system (the 'NES'), ensures its technical support and maintenance. The NES consists of substations, distribution devices, interregional and international power transmission lines which provide the output of electricity of electrical stations with the voltage of 220 kW and more.
As of 31 December 2017 and 2016 the Company has stakes in the following companies.
The Company and its subsidiaries are hereafter referred as the 'Group'.

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

The 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.

1. GENERAL INFORMATION (continued)

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

2. BASIS OF PREPARATION

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

Basis of consolidation

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

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.
Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.
A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

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

IAS 7 Disclosure Initiative – Amendments to IAS 7

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

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

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.
Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.
These amendments did not have any impact on the Group.

Annual improvements 2014-2016 cycle

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

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

Amendments to IAS 1 Disclosure Initiative

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

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.
These amendments did not have any impact on the Group's consolidated financial statements.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments

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

(a) Classification and measurement

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

(b) Impairment

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

(c) Hedging

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

IFRS 15 Revenue from Contracts with Customers

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

(a) Provision of services

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

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

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

(b) Requirements for the presentation and disclosure of information

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

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

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

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

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

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

IFRS 16 Leases

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 16 Leases (continued)

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

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

IFRS 17 Insurance Contracts

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

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

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

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

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

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

These improvements include the following:

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

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

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

The amendments clarify the following:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

- (a) the date of initial recognition of the associate or joint venture that is an investment organization; (b) the date on which the associate or joint venture becomes investment undertakings; and (c) the date on which the associate or joint venture that is an investment institution first becomes a parent organization.

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

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

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

Clarification of IFRIC 22 Foreign Currency Transactions and Prepayment

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

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

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

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

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

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

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

Current versus non-current classification

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

- Expected to be realized or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 (twelve) months after the reporting period; or

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification (continued)

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 (twelve) months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions

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

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

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

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

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

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

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

Exchange rate as at the end of the year (to KZT)	31 December 2017	31 December 2016
USD 1	**332,33**	333,29
EUR 1	**398,23**	352,42
RUR 1	**5,77**	5,43

Average exchange rate for the year (to KZT)	2017	2016
USD 1	**326,08**	341,73
EUR 1	**368,65**	378,25
RUR 1	**5,59**	5,12

Property, plant and equipment

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

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

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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

Land is not depreciated.

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

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

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

Intangible assets

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

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

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

Investments in associate

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

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

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

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

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

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

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

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

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

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

Financial instruments – initial recognition and subsequent measurement

Financial assets

Initial recognition and measurement

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Initial recognition and measurement (continued)

Subsequent measurement

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

Loans and receivables

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.

Held-to-maturity investments

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.

Available-for-sale financial investments

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

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

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

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

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

Derecognition

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Derecognition (continued)

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

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.

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Trade and other payables

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

Derecognition

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

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

Offsetting of financial instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory

Inventories are accounted for on a FIFO basis.

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

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

Cash and cash equivalents

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

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

Restricted cash

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

Provisions

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

Revenue recognition

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

Rendering of services

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

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

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

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Equipment received from customers

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

Borrowing costs

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

Lease

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

Group as a lessee

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

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

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

Pension obligations

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

Current income tax

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

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.

Revaluation of property, plant and equipment

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

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

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

Revaluation of property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

Accounts receivable

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

Taxes

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

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

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

Taxes (continued)

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

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

Fair value of financial instruments

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

Bonds issued

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

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

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

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

Bonds of Special financial company DSFK

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

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

5. OPERATING SEGMENTS INFORMATION

Operating segments

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

Geographic information

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

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

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

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

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

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

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

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

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

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

Capitalized borrowing costs and issued bonds

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

Construction in progress

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

Advances paid for non-current assets

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

7. INVESTMENTS IN ASSOCIATES

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

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

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

7. INVESTMENTS IN ASSOCIATES (continued)

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

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

8. INVENTORIES

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

Movement in the allowance for obsolete inventories was as follows:

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

9. TRADE ACCOUNTS RECEIVABLE

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

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

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

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

9. TRADE ACCOUNTS RECEIVABLE (continued)

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

The ageing analysis of trade receivables is as follows:

			Past due but not impaired			
In thousands of Tenge	Total	Neitherpast due nor impaired	30-90 days	91-180 days	181-270 days	Above 271 days
31 December 2017	**7,764,693**	**7,285,148**	**262,541**	**81,974**	**49,289**	**85,741**
31 December 2016	15,746,830	6,338,579	24,509	8,448,471	812,181	123,090

Trade receivables were denominated in the following currencies:

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

10. OTHER CURRENT ASSETS

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

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

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

11. OTHER FINANCIAL ASSETS

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

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

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

Bonds of Special financial company DSFK LLP

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

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

Bonds of Batys Transit

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

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

11. OTHER FINANCIAL ASSETS (continued)

Deposits

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

Funds placed with Delta Bank JSC

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

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

Funds placed with Kazinvestbank JSC

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

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

Funds placed with Eximbank Kazakhstan JSC

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

Other financial assets were denominated in the following currencies:

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

12. RESTRICTED CASH

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

12. RESTRICTED CASH (continued)

As at 31 December 2017 and 2016 restricted cash represents cash held on a debt service account and reserve account.
According to the terms of the loan agreements with IBRD and EBRD, the Group's creditors, the Group accumulates cash on a special debt service bank account opened with Kazakhstan bank during the semi-annual period preceding the scheduled date of payment of principal, interest and commission fees related to the IBRD and EBRD loans.
In accordance with the terms of the guarantee agreements with the Government of the Republic of Kazakhstan, the guarantor of the Group's loans *(Note 15)*, the Group is obliged to hold cash on a special reserve account opened in a Kazakhstan bank. The Group is obliged to reserve cash for at least 110% of the upcoming semi-annual payment of principal, interest and commission fees of the IBRD loans.
As at 31 December 2017 and 2016, restricted cash including funds to be payable, was denominated in the following currencies:

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

13. CASH AND CASH EQUIVALENTS

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

As at 31 December 2017 and 2016 the Group placed short-term deposits with banks at 5%-11.5% per annum.
As at 31 December 2017 and 2016, cash and cash equivalents were denominated in the following currencies:

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

14. EQUITY

As at 31 December 2017 and 2016 share capital of the Company comprised of 260,000,000 shares for the total amount of KZT 126,799,554 thousand that were issued and fully paid.
The Group placed 25,999,999 ordinary shares at a price of KZT 505 at the Kazakhstan stock exchange under the People's IPO program. On 19 December 2014 the contribution to share capital of KZT 13,129,999 thousand was received. As at 31 December 2017 and 2016 authorized capital is presented net of the cost of the consulting services related to the issue of shares under People's IPO of KZT 692,568 thousand.

Treasury shares

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

14. EQUITY (continued)

Dividends

On 28 October 2016 on the special General shareholders meeting it was approved to distribute 40% of net profit received as a result of 1st half-year of 2016. Amount of distributable dividends comprises KZT 6,481,765 thousand to all ordinary shareholders of the Company, which is 24.93 Tenge per ordinary share.
On 12 May 2017 shareholders approved distribution of 50% of 2016 net profit (less net profit received in the first half of 2016). Amount to be paid comprises KZT 7,313,761 thousand to all ordinary shareholders of the Company, which is 28.13 Tenge per ordinary share.
In October 2017, shareholders approved the distribution of 70% of net income received in first half of 2017. The amount of dividends to be distributed is 12,583,933 thousand Tenge for all holders of common shares of the Company, which is equal to 48.40 Tenge per one common share.

Earnings per share

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

Book value per share

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

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

Asset revaluation reserve

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

Other reserves

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

Operations with shareholders

In accordance with the decision of the shareholder of the Group Samkruk-Kazyna, in exchange for the deposit of RBK Bank JSC in December 2017, the Group acquired 1,498,249,243 bonds at a nominal value of KZT 1 per bond for a total of KZT 1,498,249 thousand with a coupon interest of 0.01% per annum with a maturity of 15 years *(Note 11)*. The bonds are additionally guaranteed by the shareholder of RBK Bank JSC – Kazakhmys Corporation LLP for the amount of KZT 411,883 thousand.
The Group recognized the fair value of bonds equal to the amount of the guarantee adjusted for the time factor, in amount of KZT 223,554 thousand. Part of the cost of bringing the value of bonds to fair value in the amount of KZT 374,562 thousand was recognized as a part of impairment in the statement of comprehensive income, the remaining amount of KZT 900,132 thousand is recognized as the transactions with shareholders.

15. BORROWINGS

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

As at 31 December 2017 and 2016 the accrued and unpaid interest was equal to KZT 657,683 thousand and KZT 1,115,744 thousand, respectively.
As at 31 December 2017 and 2016 the unamortized portion of loan origination fees was equal to KZT 339,820 thousand and KZT 553,726 thousand, respectively.
Loans were denominated in the following currencies:

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

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

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

'Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2'
In 2008, for the realization of the 'Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2' the Group opened the following credit lines:
(a) Two credit-line facilities of euro 127,500 thousand and euro 75,000 thousand from EBRD for 15 (fifteen) years, of which the first 4 (four) years are a grace period. An interest at the interbank six months EURIBOR rate plus a 3.85% margin is payable semi-annually. The outstanding balances as at 31 December 2017 and 31 December 2016 are euro 43,130 thousand (equivalent to KZT 17,175,458 thousand) and euro 112,137 thousand (equivalent to KZT 39,519,210 thousand), respectively;
(b) A credit line facility of euro 47,500 thousand from EBRD for 12 (twelve) years, of which the first 4 (four) years are a grace period. An interest at the interbank six months EURIBOR rate plus a 3.55% margin is payable semi-annually. The outstanding balances as at 31 December 2017 the debt under the above credit line is fully repaid and as at 31 December 2016 are euro 22,749 thousand (equivalent to KZT 8,017,051 thousand);
(c) A credit line facility of euro 5,000 thousand from EBRD for 9 (nine) years, of which the first 4 (four) years are a grace period. An interest at the interbank six months EURIBOR rate plus a 2.75% margin is repayable semi-annually. The outstanding balances as at 31 December 2017 the debt under the above credit line is fully repaid and as at 31 December 2016 are euro 603 thousand (equivalent to KZT 212,760 thousand).

15. BORROWINGS (continued)

'Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2' (continued)

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

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

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

'Moinak Electricity Transmission Project'

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

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

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

'Ossakarovka Transmission Rehabilitation Project'

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

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

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

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

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

16. BONDS PAYABLE

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

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

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

All bonds under this program were acquired by United Pension Saving Fund. Cash received was initially placed on short-term bank deposits. Bonds were issued with discount in the amount of KZT 111,945 thousand.

(b) In August 2017, the Group placed the second tranche of coupon bonds amounting to KZT 36,300,000 thousand with a fixed rate of 11.5%. The received cash has been temporarily placed on short-term bank deposits.

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

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

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

17. LONG-TERM AND SHORT-TERM TRADE AND OTHER ACCOUNTS PAYABLE (continued)

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

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

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

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

18. GOVERNMENT GRANT

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

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

19. CONSTRUCTION OBLIGATION

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

20. TAXES PAYABLE OTHER THAN INCOME TAX

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

21. OTHER CURRENT LIABILITIES

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

22. REVENUE

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

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

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

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

23. COST OF SALES

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

24. GENERAL AND ADMINISTRATIVE EXPENSES

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

25. FINANCE INCOME/(COSTS)

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

26. FOREIGN EXCHANGE (LOSS)/GAIN, NET

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

27. OTHER INCOME

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

27. OTHER INCOME (continued)

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

28. INCOME TAX EXPENSE

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

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

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

In thousands of Tenge	2017	2016
Profit before income tax expense	**42,641,694**	35,974,847
Tax at statutory income tax rate of 20%	**8,528,339**	7,194,969
Adjustments in respect of current income tax of previous year	**(4,910)**	12,232
Interest capitalized in the cost of qualifying assets	**582,153**	443,507
(Reversal)/accrual of allowance for doubtful accounts receivable from	**(250.800)**	261.561
non-residents	**(250,800)**	261,561
Support of producers of energy from renewable sources	**271,629**	188,384
Accrual of obsolete inventory allowance	**17,226**	77,173
Fines and penalties on property tax	**18,987**	49,445
Impairment of financial investments	**448,231**	129,178
Other non-deductible expenses	**149,523**	**28,247**
Income tax expense reported in the consolidated statement of comprehensive income	**9,760,378**	**8,384,696**

28. INCOME TAX EXPENSE (continued)

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

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

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

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

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

29. TRANSACTIONS WITH RELATED PARTIES

Related parties include key management personnel of the Group, enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by the Group's key management personnel and other entities controlled by the Government. The related party transactions were made on terms agreed between the parties that may not necessarily be at market rates, except for regulated services, which are provided based on tariffs available to related and third parties.
The following table provides the balances of trade accounts payable to/receivable from related parties as at 31 December 2017 and 2016:

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

29. TRANSACTIONS WITH RELATED PARTIES (continued)

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

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

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

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

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

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

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

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

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

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

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term and short-term borrowings with floating interest rates *(Note 15 and 16).*
The Group limits its interest rate risk by monitoring changes in interest rates in the currencies in which the borrowings are denominated. The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in interest rates with all other variables held constant.

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

** 1 basis point = 0.01%.*

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

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's financing activities. Also, the Group's exposure to the risk of changes in foreign exchange rates relates to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency).
The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar and euro exchange rate, with all other variables held constant. The Group's exposure to foreign currency changes for all other currencies is not material.

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

** In absolute terms increase/(decrease) in exchange rate of Tenge in relation to US dollar comprised 33.23/(33.23) Tenge;*
*** In absolute terms increase/(decrease) in exchange rate of Tenge in relation to euro comprised 53.76/(37.83) Tenge.*

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

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

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

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

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

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

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

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.

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

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

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

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

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

Capital management

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

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

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

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

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

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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

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

Fair value hierarchy

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

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

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

Assets measured at fair value

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

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

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed

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

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

Fair values of financial instruments

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

Changes in liabilities arising from financing activities

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

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

31. COMMITMENTS AND CONTINGENCIES

Operating environment

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

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

Taxation

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

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

Compliance with loan covenants

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

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

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

31. COMMITMENTS AND CONTINGENCIES (continued)

Insurance

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

Capital commitments

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

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

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

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

32. SUBSEQUENT EVENTS

Repayment of loans

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

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

GLOSSARY

APPENDIX 5

Branches	KEGOC branches: MES and NDC SO
Company	Kazakhstan Electricity Grid Operating Company (KEGOC) joint-stock company
CIS	Commonwealth of Independent States
CRNMPCCR	Committee for Regulation of Natural Monopolies and Protection of Competition and Consumers' Rights of the Republic of Kazakhstan
GRES	State regional power plant
ECR Pool	Kazakhstan Electric Capacity Reserve Pool
EMS	Environmental Management System
HPP	Hydro power plant
IAS	Internal Audit Service
ICS	Internal control system
IFRS	International financial reporting standards
IMS	Integrated Management System
IPS	Integrated power system
IT	Information and telecommunication complex
JSC	Joint-stock company
OHTL	Overhead transmission line
KEGOC JSC	Kazakhstan Electricity Grid Operating Company (KEGOC) joint-stock company
KPI	Key performance indicator(s)

kV	Kilovolt
kWh	Kilowatt-hour
LLP	Limited liability partnership
MES	Interconnection Electric Networks, KEGOC branches
MVA	Megavolt-ampere
MW	Megawatt
NDC SO	National Dispatch Centre of the System Operator, KEGOC branch
NPG	National Power Grid
OJSC	Open Joint Stock Company
OPGW	Optical ground wire cable
PCB	Polychlorinated biphenyl
RDC	Regional Dispatch Centre
REC	Regional electric network company
RES	Renewable energy sources
RMS	Risk Management System
Samruk-Kazyna JSC	Sovereign Wealth Fund Samruk-Kazyna joint-stock company
SS	Substation
TPP	Thermal power plant
UPS	Unified Power System
VAT	Value-added tax

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