

**Accounting and Finance Center for the Support of  
Renewable Energy Resources LLP**

Financial statements

*Year ended 31 December 2016  
together with independent auditor's report*

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Independent auditor's report

**Financial statements**

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## Independent auditor's report

To the Participant and Management of Accounting and Finance Center for the Support of Renewable Energy Sources LLP

### **Opinion**

We have audited the accompanying financial statements of Accounting and Finance Center for the Support of Renewable Energy Sources LLP (the Company), which comprise the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company 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 these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of management and those charged with governance for the financial statements**

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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


*Ernst & Young LLP*

  
Adil Syzdykov  
Auditor / Audit director



Auditor qualification certificate  
No. МФ - 0000172 dated 23 December 2013

77/7, Al-Farabi Ave.  
050060, Almaty, Republic of Kazakhstan  
20 February 2017

  
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



**STATEMENT OF FINANCIAL POSITION**

As at 31 December 2016

<i>In thousands of Tenge</i>	Note	31 December 2016	31 December 2015
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	5	21,135	6,811
Intangible assets		1,126	690
Deferred tax asset	16	1,093	2,839
		<b>23,354</b>	<b>10,340</b>
<b>Current assets</b>			
Inventories		260	162
Trade receivables	6	1,433,675	1,390,074
Advances paid		11	521
Other current assets	7	37,771	2,303
Short-term deposits	8	504,372	106,021
Cash and cash equivalents	9	544,691	540,207
		<b>2,520,780</b>	<b>2,039,288</b>
<b>Total assets</b>		<b>2,544,134</b>	<b>2,049,628</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Charter capital	10	100,000	100,000
Retained earnings		257,972	27,901
		<b>357,972</b>	<b>127,901</b>
<b>Current liabilities</b>			
Trade accounts payable	11	2,112,629	1,901,295
Other taxes payable other than income tax	12	16,658	6,090
Income tax payable		42,912	4,577
Other current liabilities		13,963	9,765
<b>Total liabilities</b>		<b>2,186,162</b>	<b>1,921,727</b>
<b>Total equity and liabilities</b>		<b>2,544,134</b>	<b>2,049,628</b>

General director



*Zh.D. Nurmaganbetov*  
Zh.D. Nurmaganbetov

Chief accountant

*G.V. Sirayeva*  
G.V. Sirayeva







**STATEMENT OF CHANGES IN EQUITY**

Year ended 31 December 2016

<i>In thousands of Tenge</i>	<b>Charter capital</b>	<b>Retained earnings</b>	<b>Total</b>
<b>At 1 January 2015</b>	100,000	6,047	106,047
Profit for the year	-	21,854	21,854
<b>Total comprehensive income</b>	-	21,854	21,854
<b>At 31 December 2015</b>	100,000	27,901	127,901
Profit for the year	-	230,071	230,071
<b>Total comprehensive income</b>	-	230,071	230,071
<b>At 31 December 2016</b>	100,000	257,972	357,972

General director



Zh.D. Nurmaganbetov

Chief accountant



G.V. Sirayeva



## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

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### 1. GENERAL

Accounting and Finance Center for the Support of Renewable Energy Resources limited liability partnership (hereinafter, the "Company") was established on 27 August 2013 in accordance with the law of the Republic of Kazakhstan dated from 4 July 2013 No. 128-V *On Introducing Amendments to Some Legislative Acts of the Republic of Kazakhstan on the Issues of Support of Using the Renewable Sources of Energy* (hereinafter, "the Law on renewable energy sources") and in accordance with the decision of the Board of Directors of Kazakhstan Electricity Grid Operating Company JSC dated 12 August 2013.

As at 31 December 2016, the sole founder of the Company is Kazakhstan Electricity Grid Operating Company JSC ("KEGOC" or the "Participant"). The ultimate participant of the Company is Sovereign Wealth "Samruk-Kazyna" JSC ("Samruk-Kazyna"). Samruk-Kazyna is controlled by the Government of the Republic of Kazakhstan (hereinafter, the "Government").

In accordance with the Law of the Republic of Kazakhstan *On Support of Renewable Energy Sources* as of 4 July 2009 No. 165-IV, the principal activity of the Company is the centralized purchase and sale of electric energy produced by facilities using renewable energy sources and supplied to the electric grid of a single electric power system of the Republic of Kazakhstan.

The Company's head office is located at Republic of Kazakhstan, 010000, Astana Tauyelsyzyk Ave., 59.

The accompanying financial statements were authorised for issue by the General director and Chief Accountant of the Company on 20 February 2017.

### 2. BASIS OF PREPARATION

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

These financial statements have been prepared on the historical cost basis. The financial statements are presented in Kazakhstan Tenge ("Tenge" or "KZT") and all monetary amounts are rounded to the nearest thousand, except when otherwise indicated.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **New standards, interpretations and amendments to the existing standards and interpretations**

The Company applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2016, they did not have a material impact on the financial statements of the Company.

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

#### *IFRS 14 Regulatory Deferral Accounts*

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items in the statement of financial position and present movements in these account balances as separate line items in the statement of comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. This standard did not have any effect on the financial statements.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### New standards, interpretations and amendments to the existing standards and interpretations (continued)

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

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

The amendments are applied both to the acquisition of the initial interest in a joint operation, and to the acquisition of additional interests in the same joint operation, and these amendments are effective prospectively for annual periods beginning on 1 January 2016. These amendments have no effect on the financial statements of the Company as the Company does not have any joint operations.

##### *Amendment to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied on a prospective basis with respect to annual periods beginning on or after 1 January 2016. These amendments had no impact to the Company's financial statements because the Company does not use a revenue-based method to depreciate its non-current assets.

##### *Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants*

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

##### *Amendments to IAS 27 Equity Method in Separate Financial Statements*

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

##### *Annual IFRS improvements 2012-2014 cycle*

The document comprises the following amendments:

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

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that transition from one method to another will not be considered as a new disposal method, but as a continuation of the initial plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment is applied prospectively.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### New standards, interpretations and amendments to the existing standards and interpretations (continued)

##### *Annual IFRS improvements 2012-2014 cycle (continued)*

##### *IFRS 7 Financial Instruments: Disclosures*

##### *(i) Servicing contracts*

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the disclosure of information is not required for period starting prior the annual period when an entity applies the amendment for the first time.

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

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

##### *IAS 19 Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. In absence of mature market of high quality corporate bonds denominated in a certain currency it is necessary to apply government bond rates. This amendment is applied prospectively.

##### *IAS 34 Interim Financial Reporting*

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

The amendments have no impact on the Company's financial statements.

##### *Amendments to IAS 1 Disclosure Initiative*

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

- The materiality requirements in IAS 1;
- That specific line items in the statement of comprehensive income 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 of comprehensive income and OCI. The amendments are effective for annual reporting periods beginning on or after 1 January 2016. Earlier application is permitted. The amendments have no impact on the Company's financial statements.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### New standards, interpretations and amendments to the existing standards and interpretations (continued)

##### *Annual IFRS improvements 2012-2014 cycle (continued)*

##### *Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 28) 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 its associate or joint venture, which are investment entities, to its interests in subsidiaries.

These amendments are applied retrospectively and have no impact on financial statements of the Company.

#### Standards and interpretations issued but not yet effective

Standards and interpretations issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company intends to adopt those standards when they become effective.

##### *IFRS 9 Financial Instruments*

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

The Company plans to adopt the new standard on the required effective date. In 2015 the Company has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9.

The Company expects a higher loss allowance resulting in a negative impact on equity and will perform a detailed assessment in the future to determine the extent.

##### *(a) Classification and measurement*

The Company does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Quoted shares that are currently held as available-for-sale, profit and loss from the change in the fair value of which are currently reflected within OCI, will instead be measured at fair value through profit or loss, which will increase the volatility of the reflected profit or loss. The provision, which is the accumulated OCI attributable to available-for-sale financial assets, will be reclassified to retained earnings at the beginning of the period. It is expected that under IFRS 9 debt securities will be measured at fair value through OCI, as the Company plans not only to hold assets to receive contractual cash flows, but also to sell significant volumes of assets on a relatively regular basis.

The Company plans to hold unlisted shares in the foreseeable future. The Company intends to take advantage of the opportunity to present changes in the fair value of such investments within OCI and therefore believes that the adoption of IFRS 9 will not have a significant impact on its financial statements. If the Company could not use this opportunity, the shares would have been measured at fair value through profit or loss, which would increase the volatility of the reflected profit or loss.

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



## NOTES TO THE FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Standards and interpretations issued but not yet effective (continued)

##### *IFRS 9 Financial Instruments (continued)*

##### *(b) Impairment*

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

##### *(c) Hedge accounting*

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

##### *IFRS 15 Revenue from Contracts with Customers*

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

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Company plans to adopt the new standard on the required effective date using the full retrospective method. In 2017, the Company will assess the consequences of application of IFRS 15.

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

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

##### *Amendments to IAS 7 Disclosure Initiative*

Amendments to IAS 7 *Statement of Cash Flows* form a part of the IASB's initiative in the area of disclosure, and require an entity to disclose information that enables users of the separate financial statements to evaluate changes in liabilities arising from financial activities, including changes resulting and non-resulting from cash flows. On initial application of these amendments, entities are not required to provide comparative information for preceding periods. These amendments become effective for annual periods beginning on or after 1 January 2017. Early application is allowed. Application of these amendments requires the Company to disclose additional information.

##### *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.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Standards issued but not yet effective (continued)

##### *IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12 (continued)*

These amendments become effective for annual periods beginning on or after 1 January 2017. Early application is allowed. An entity must disclose application of the amendments for an earlier period. It is expected that these amendments will have no impact on the Company's financial statements.

##### *Amendments to IFRS 2 Classification and measurement of share-based payment transactions*

The IASB issued amendments to IFRS 2 *Share-based Payments* where three main aspects are reviewed: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; classification of a share-based payment transaction with net settlement features for withholding tax obligations; the 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. Early application is allowed. The Company is currently assessing the possible impact of these amendments on its financial statements.

##### *IAS 16 Leases*

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

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

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

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

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

In 2017, the Company plans to assess the potential effect of IFRS 16 on its financial statements.

#### **Current versus non-current classification**

The Company presents assets and liabilities based on their current and non-current classification in the statement of financial position. An asset is current when it is:

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



## NOTES TO THE FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Current versus non-current classification (continued)

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled within 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 Company classifies all other liabilities as non-current.

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

#### Determination of fair value

The Company measures financial instruments, such as, available for sale ("AFS") financial assets at fair value at each balance sheet date, and non-financial assets at fair value when fair value differs materially from their carrying value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised 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 restated in the financial statements on a periodic basis, the Company determines if it is necessary to transfer them between levels of the fair value hierarchy by re-analysing their classification (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Foreign currency transactions**

The financial statements of the Company are presented in Tenge. Tenge is also the functional currency of the Parent. Transactions in foreign currencies are initially recorded by the Company at functional currency spot rates prevailing at the date when the transaction meets recognition criteria. As at 31 December 2016 and 2015, the Company's transactions were carried out in Tenge.

The foreign exchange rates were presented as follows:

<i>Exchange rate as at the end of the period (to KZT)</i>	<b>31 December 2016</b>	31 December 2015
1 US Dollar	<b>333.29</b>	340.01
1 Euro	<b>352.42</b>	371.46
1 Russian Rouble	<b>5.43</b>	4.61
<hr/>		
<i>Average exchange rate for the year (to KZT)</i>	<b>2016</b>	2015
1 US Dollar	<b>341.73</b>	222.25
1 Euro	<b>378.25</b>	246.48
1 Russian Rouble	<b>5.12</b>	3.62

**Property and equipment**

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacement of equipment parts and borrowing costs in case of long-term construction projects if capitalization criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

All other repair and maintenance costs are recognised in the profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	60 years
Constructions	30 years
Machinery & equipment	7-11 years
Other	2-30 years

Land is not depreciated.

The useful lives and residual values of property 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*. This accounting estimate may have a material impact on the amounts of the carrying values of property and equipment and on depreciation expenses recognized in the statement of comprehensive income.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition 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 when the asset is derecognised.

**Intangible assets**

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at initial cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets generated internally, except for the capitalized costs for product development, are not capitalized and the related expense is recognized within profit or loss for the reporting period in which it originated.

Intangible assets of the Company mainly include computer software and licences. Intangible assets are amortized on a straight-line basis over their estimated useful lives, generally from 3 to 30 years.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Impairment of non-financial assets**

The Company assesses at each reporting date 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 Company estimates the asset's recoverable amount. An asset's or cash-generating unit's (CGU) recoverable amount is the higher of: fair value of the asset (CGU) less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset generate cash inflows that are largely independent of those from other assets or groups of assets. Where 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, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted prices for publicly traded shares or other available fair value indicators.

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

Impairment losses of continuing operations (including inventory impairment) are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset. For assets excluding 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 Company estimates the asset's or cash-generating unit'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 recognised in profit and loss unless the asset is recognized at a revalued amount. In this case the reversal is treated as a revaluation increase.

#### **Financial instruments – initial recognition and subsequent measurement**

##### *Financial assets*

##### *Initial recognition and measurement*

The Company's financial assets include cash and cash equivalents, trade and other receivables, quoted and unquoted financial instruments.

In accordance with IAS 39, financial assets are classified, at initial recognition, 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, except for financial assets at fair value through profit or loss, are recognized initially at fair value, plus directly attributable transaction costs.

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

##### *Subsequent measurement*

The subsequent measurement of financial assets depends on their classification, as described below:

##### *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 Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial instruments – initial recognition and subsequent measurement (continued)

##### *Financial assets (continued)*

##### *Derecognition (continued)*

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, the Company evaluates if it has retained the risks and rewards of the property, and to which extent, if any. When the Company has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company 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 Company 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 Company could be required to repay.

##### *Impairment of financial assets*

The Company assesses at each reporting date whether there is any 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, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after 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. Besides, such evidence include observable data indicating that there is a measurable decrease in the estimated future cash flows on a financial instrument such as changes in arrears or economic conditions that correlate with defaults.

##### *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 Company determines the classification of its financial liabilities at initial recognition.

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

The Company's financial liabilities include trade and other payables.

##### *Subsequent measurement*

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

##### *Trade and other accounts payable*

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised through the statement of comprehensive income.



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments – initial recognition and subsequent measurement (continued)**

***Offsetting of financial instruments***

Financial assets and financial liabilities are only offset and reported at the net amount in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Company intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Inventories**

Inventories are recorded using the FIFO method.

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

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

**Cash and cash equivalents**

Cash in the statement of financial position comprises cash with bank.

For the purpose of the statement cash flows, cash and cash equivalents consist of cash as defined above.

**Provisions**

Provisions are recognised when the Company 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. Where the Company 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 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 Company and the revenue can be reliably measured, irrespective of the period of payment. Revenue is measured at fair value of consideration received or receivable, taking into account payment terms defined in a contract and net of taxes or duties. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements.

**Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date of the agreement. It is necessary to determine within the limits of such analysis, 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.

***Company as a lessee***

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, 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 recorded directly in profit and loss.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company 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 expense in the income statement on a straight line basis over the lease term.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Retirement benefit costs

In accordance with the legislation of the Republic of Kazakhstan, the Company deducts 10% of employees' salaries, but no more than KZT 171,443 per month (2015: KZT 160,230) to accumulative pension funds. Payments to pension funds are deducted from salaries of employees and are included in general salary expenses together with other deductions related to labor compensation in the statement of comprehensive income when incurred. The Company does not have any other obligations on pension payments.

#### Current income tax

Current income tax assets and liabilities for the current period and prior 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, by the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the 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 tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or 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, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, 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 interest 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. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits 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 recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in the statement of 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.



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Contingent liabilities and contingent assets**

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

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

**4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities and assets, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

**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. Assumptions and estimates are based on the Company's initial data, which it had at the time of preparation of the financial statements. However, current circumstances and assumptions about the future may vary due to market changes or circumstances beyond the control of the Company. Such changes are reflected in the assumptions while they occur.

**Receivables**

The Company makes allowances for doubtful trade accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered.

**Deferred tax assets**

Deferred tax assets are recognised for all 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 judgment is required to determine the amount of deferred tax assets that can be recognised, 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 statement of financial position cannot be derived from active markets, they are 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 judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

**5. PROPERTY AND EQUIPMENT**

As at 31 December 2016 and 2015, property and equipment included vehicles and other property and equipment in the amount of KZT 21,135 thousand and KZT 6,811 thousand, respectively.

**6. TRADE ACCOUNTS RECEIVABLE**

<i>In thousands of Tenge</i>	<b>31 December 2016</b>	31 December 2015
Trade accounts receivable	<b>1,435,853</b>	1,396,828
Less: allowance for doubtful debt	<b>(2,178)</b>	(6,754)
	<b>1,433,675</b>	1,390,074



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**6. TRADE RECEIVABLES (continued)**

The movements in the allowance for doubtful debts were as follows:

<i>In thousands of Tenge</i>	2016	2015
<b>At 1 January</b>	6,754	-
Charge for the year (Note 15)	7,531	6,754
Reversal (Note 15)	(11,962)	-
<b>At 31 December</b>	<b>2,323</b>	<b>6,754</b>

As at 31 December 2016 and 2015, the Company's trade receivables included receivables for the sale of electric power and were denominated in Tenge.

The ageing analysis of trade receivables is as follows:

<i>In thousands of Tenge</i>	Total	Neither past due nor impaired	Past due but not impaired			
			<30 days	31-60 days	61-90 days	Over 90 days
31 December 2016	1,433,675	1,199,802	113,863	67,385	39,958	12,667
31 December 2015	1,390,074	1,005,971	212,313	129,672	37,403	4,715

**7. OTHER CURRENT ASSETS**

<i>In thousands of Tenge</i>	31 December 2016	31 December 2015
Penalty for other overdue payments	30,229	219
Other receivables	7,687	2,084
Less: provision for other doubtful receivables	(145)	-
	<b>37,771</b>	<b>2,303</b>

**8. SHORT-TERM DEPOSITS**

The Company's short-term deposits are placed with ATF Bank JSC at 15% per annum. For the year ended 31 December 2016, the Company accrued interest income in the amount of KZT 74,066 thousand and received interest in the amount of KZT 68,444 thousand (2015: The Company accrued and received interest in the amount of KZT 7,959 thousand).

**9. CASH AND CASH EQUIVALENTS**

<i>In thousands of Tenge</i>	31 December 2016	31 December 2015
Current accounts with banks in Tenge	544,691	540,207
	<b>544,691</b>	<b>540,207</b>

In 2016, interest was accrued on the Company's current accounts at 5% to 10% per annum. For the year ended 31 December 2016, the Company accrued interest income in the amount of KZT 18,364 thousand and received interest in the amount of KZT 17,614 thousand (2015: KZT 6,643 thousand).

**10. CHARTER CAPITAL**

As at 31 December 2016 the charter capital of the Company amounted to KZT 100,000 thousand (2015: KZT 100,000 thousand).

**11. TRADE ACCOUNTS PAYABLE**

<i>In thousands of Tenge</i>	31 December 2016	31 December 2015
Accounts payable for electricity purchased	2,106,439	1,896,123
Accounts payable for works performed and services rendered	6,190	5,172
	<b>2,112,629</b>	<b>1,901,295</b>

As at 31 December 2016 and 2015 The Company's trade accounts payable were denominated in Tenge.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**12. OTHER TAXES PAYABLE OTHER THAN INCOME TAX**

<i>In thousands of Tenge</i>	31 December 2016	31 December 2015
Value added tax payable	13,086	3,505
Individual income tax	1,159	875
Social tax	1,151	719
Pension deductions	1,101	833
Social deductions	161	158
	<b>16,658</b>	<b>6,090</b>

**13. INCOME**

<i>In thousands of Tenge</i>	2016	2015
Income from sale of purchased electricity on renewable energy sources	10,680,098	5,005,940
	<b>10,680,098</b>	<b>5,005,940</b>

In 2016, income was derived from sale of purchased electricity to 44 energy producing entities (2015: 44).

For the year ended 31 December 2016 income from the large customer (Euroasian Energy Corporation JSC) amounted to KZT 1,896,060 thousand (2015: KZT 921,807 thousand).

**14. COST OF SERVICES**

<i>In thousands of Tenge</i>	2016	2015
Cost of purchased electricity on renewable energy sources	10,388,154	4,890,252
Costs balancing of electricity production and consumption	36,758	16,895
	<b>10,424,912</b>	<b>4,907,147</b>

**15. GENERAL AND ADMINISTRATIVE EXPENSES**

<i>In thousands of Tenge</i>	2016	2015
Payroll expenses and other deductions associated with payroll	61,978	43,337
Accrual of provision for unused vacations and bonuses	15,866	14,484
Rent expenses	14,306	14,306
Business trip expenses	3,319	1,940
Advisory services	3,011	2,900
Depreciation and amortization	2,081	1,898
Cost of office equipment servicing	1,764	-
Training expenses	1,515	-
Communication services	1,397	1,321
Insurance expenses	1,296	1,060
Representation expenses	1,230	-
Materials	1,212	1,051
Repair expenses	735	199
Procurement costs	270	250
Bank charges	225	429
(Reversal)/accrual of provisions for doubtful receivables (Note 6)	(4,431)	6,754
Other	2,379	1,691
	<b>108,153</b>	<b>91,620</b>



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**16. INCOME TAX EXPENSES**

<i>In thousands of Tenge</i>	2016	2015
<b>Current income tax</b>		
Current income tax expenses	55,941	7,544
<b>Deferred tax</b>		
Deferred tax expenses/(benefit)	1,746	(2,156)
<b>Total income tax expenses recorded in the income statement</b>	<b>57,687</b>	<b>5,388</b>

In 2016 and 2015, the income tax rate in the Republic of Kazakhstan was 20%.

Below is the reconciliation of 20% income tax rate and actual amount of income tax recorded in the statement of comprehensive income:

<i>In thousands of Tenge</i>	2016	2015
<b>Income before income tax expense</b>	<b>287,758</b>	<b>27,242</b>
<b>Tax at statutory income tax rate of 20%</b>	<b>57,552</b>	<b>5,448</b>
Other non-deductible expenses/(non-taxable income)	135	(60)
<b>Income tax expenses recorded in profit and loss</b>	<b>57,687</b>	<b>5,388</b>

Below is the tax effect on major temporary differences that result in origination of deferred tax assets and liabilities as at 31 December 2016 and 2015:

<i>In thousands of Tenge</i>	Statement of financial position		Statement of comprehensive income	
	31 December 2016	31 December 2015	2016	2015
Accrued liabilities	2,209	2,084	125	997
Trade receivables	465	1,351	(886)	1,351
Property and equipment	(1,581)	(596)	(985)	(192)
<b>Net deferred tax assets</b>	<b>1,093</b>	<b>2,839</b>		
<b>Deferred tax (expenses)/benefit</b>			<b>(1,746)</b>	<b>2,156</b>

The Company performs offset of deferred tax assets and deferred tax liabilities, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to income tax collected by the same taxable entity and the same taxation authority.

**17. RELATED PARTY DISCLOSURES**

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

The following table provides the total balances of transactions with related parties as at 31 December 2016 and 31 December 2015 and for the years then ended:

<i>In thousands of Tenge</i>	Year	Sales to related parties	Purchases from related parties	Trade receivables from related parties	Trade payables to related parties
Parent – KEGOC	2016	3,281	51,064	796	5,572
	2015	2,869	31,201	903	4,962
Subsidiaries of KEGOC	2016	–	1,911	–	472
	2015	–	321	–	22
Subsidiaries of Samruk-Kazyna	2016	2,302,355	3,548,948	298,909	982,170
	2015	1,412,460	1,905,955	270,940	1,154,817
Associates of Samruk-Kazyna	2016	544,404	2,733,115	90,664	3,513
	2015	451,770	1,367,975	180,711	252,473



**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**17. RELATED PARTY TRANSACTIONS (continued)**

Sales to related parties comprise sale of electricity produced by the facilities using renewable energy sources.

The key management personnel consisted of 2 persons in 2016 (2015: 2 persons). For the years ended 31 December 2016 and 2015, the total remuneration of key management personnel included in administrative expenses in the accompanying statement of comprehensive income was KZT 19,458 thousand and KZT 11,682 thousand, respectively. Remuneration of key management personnel consists of contractual wages, bonuses based on the operating performance and financial aid in accordance with internal regulatory acvts.

**18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company's principal financial liabilities include trade and other payables. The main purpose of these financial liabilities is financing of the Company's operations. The Company has trade and other receivables, cash that arrive directly from its operations.

The Company is exposed to a credit risk and liquidity risk.

**Credit risk**

Credit risk is the risk that the Company will incur financial losses because the counterparties will not meet their obligations under a financial instrument or customer contract. The Company is exposed to credit risk from its operating activities, primarily trade receivables (Note 6), and from its financing activities, short-term deposits, cash and cash equivalents (Note 8, 9). The Company's exposure and the creditworthiness of its counterparties are controlled constantly. The maximum exposure to the credit risk is represented by the carrying value of each financial asset.

Carrying amount of financial assets recognized in the financial statements of the Company less provisions for impairment reflects the amount of the Company credit risk.

The Company has no approved policies, procedures and controls related to credit risk management, but nevertheless, the outstanding balance of accounts receivable from customers is regularly monitored by the Company's management.

An impairment analysis is performed by the Company's management at each reporting date individually on the basis of the amount of overdue days. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets (Note 6, 8 and 9). The Company does not hold collateral as security.

The credit risk on cash is limited because the counteragents of the Company are banks with high credit ratings assigned by international rating agencies.

**Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Liquidity requirements are monitored regularly, and management monitors the availability of funds in an amount sufficient to meet obligations as they arise.

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

<i>In thousands of Tenge</i>	On demand	1 to 3 months	3 months to 1 year	1 to 5 years	Due more than 5 years	Total
<b>At 31 December 2016</b>						
Trade payables	-	2,112,629	-	-	-	2,112,629
Other current liabilities	-	13,963	-	-	-	13,963
	-	2,126,592	-	-	-	2,126,592
<b>At 31 December 2015</b>						
Trade payables	-	1,901,295	-	-	-	1,901,295
Other current liabilities	-	9,765	-	-	-	9,765
	-	1,911,060	-	-	-	1,911,060



## NOTES TO THE FINANCIAL STATEMENTS (continued)

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### 18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### Capital management

The main purpose of the Company capital management is to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholder through the optimisation of the debt and equity balance.

The Company manages its capital with consideration of changes in economic environment.

No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2016.

### 19. CONTINGENT LIABILITIES

#### 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 unreported and discovered violations of Kazakhstan law 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 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 five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2016.

As at 31 December 2016, Management of the Company believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Company's tax positions will be sustained, except as provided for or otherwise disclosed in the financial statements.

#### Contractual commitments

As at 31 December 2016, the Company has 20 (twenty) contracts with existing electricity producers, which use renewable energy sources (solar energy, wind and water energy): 8 contracts with hydropower plant; 6 contracts with solar power plant and 6 contracts with wind power plant. The term of the contracts is 15 years from the date of commissioning of the power plant, during which the generated electricity will be supplied to the electric networks of the energy transmitting organization. The Company has an obligation to purchase all of the electricity produced by these power plants.

#### *Tariffs on purchase of electricity from renewable energy sources*

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

#### *Tariff on sale of electricity from renewable energy sources*

Tariff on sale of electricity from renewable energy sources to contingent consumers is calculated according to *The Rules on Calculating the Tariffs on Supporting the Renewable Energy Sources* approved by the Government Decree No. 290 dated 1 April 2014. The sales tariff includes cost of purchased electricity, operating costs, cost of services on balancing production and profit margin and is calculated by the Company regularly.

Management believes that in 2016 purchase and sales tariffs on electricity from renewable energy sources are applied and calculated properly in accordance with the applicable regulation and legislation.

In accordance with the changes introduced into the legislation of the Republic of Kazakhstan dated 28 December 2016, the authorized body is in charge of development and approval of pricing rules on socially significant markets (hereinafter referred to as the "Rules").

Currently, the authorized body is developing a draft of the relevant Rules. After these rules are adopted, the pricing procedure for calculating the tariff for the support of renewable energy sources will be carried out in accordance with these rules.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

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**19. CONTINGENT LIABILITIES (continued)**

**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 Kazakhstani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Decrease in oil prices negatively influences Kazakhstan economy. Interest rates in Tenge remain high. Combination of these factors resulted in a reduced access to capital, a higher cost of capital, and increase in uncertainty regarding economic growth, which could negatively affect the Company's future financial position, results of operations and business prospects. The management of the Company believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.