

**Accounting and Finance Center
for the support of renewable energy resources LLP**

Financial statements

*For the year ended 31 December 2017
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 2017 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 2017 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:

- o 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.
- o 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.
- o Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- o 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.
- o 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

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

20 February 2018

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 2017

| <i>In thousands of tenge</i> | Note | 31 December 2017 | 31 December 2016 |
|---|------|---------------------|---------------------|
| Assets | | | |
| Non-current assets | | | |
| Property and equipment | 5 | 17,161 | 21,135 |
| Intangible assets | | 782 | 1,126 |
| Deferred tax asset | 15 | 2,252 | 1,093 |
| | | 20,195 | 23,354 |
| Current assets | | | |
| Inventories | | 266 | 260 |
| Trade accounts receivable | 6 | 1,660,532 | 1,433,675 |
| Advances paid | | 35 | 11 |
| Other current assets | 7 | 30,201 | 37,771 |
| Short-term deposits | | 1,974 | 504,372 |
| Cash and cash equivalents | 8 | 1,674,537 | 544,691 |
| | | 3,367,545 | 2,520,780 |
| Total assets | | 3,387,740 | 2,544,134 |
| Equity and liabilities | | | |
| Capital | | | |
| Charter capital | 9 | 100,000 | 100,000 |
| Retained earnings | | 575,416 | 257,972 |
| | | 675,416 | 357,972 |
| Short-term liabilities | | | |
| Trade accounts payable | 10 | 2,676,856 | 2,112,629 |
| Other taxes payable other than income tax | 11 | 13,784 | 16,658 |
| Income tax payable | | 5,385 | 42,912 |
| Other current liabilities | | 16,299 | 13,963 |
| Total liabilities | | 2,712,324 | 2,186,162 |
| Total equity and liabilities | | 3,387,740 | 2,544,134 |

General Director



Zh.D. Nurmaganbetov

Chief accountant



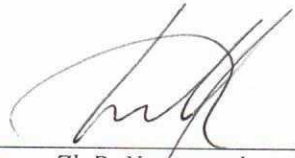
G.V. Sirayeva

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

| <i>In thousands of tenge</i> | Note | 2017 | 2016 |
|--|------|----------------|----------------|
| Income | 12 | 15,351,402 | 10,680,098 |
| Cost | 13 | (14,909,893) | (10,424,912) |
| Gross profit | | 441,509 | 255,186 |
| General and administrative expenses | 14 | (168,562) | (108,153) |
| Interest income | 8 | 117,229 | 92,430 |
| Other income | | 7,251 | 48,295 |
| Other expenses | | (16) | - |
| Profit before tax | | 397,411 | 287,758 |
| Income tax expenses | 15 | (79,967) | (57,687) |
| Profit for the year | | 317,444 | 230,071 |
| Total comprehensive income for the year | | 317,444 | 230,071 |

General Director



Zh.D. Nurmaganbetov



Chief accountant



G.V. Sirayeva

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

| <i>In thousands of tenge</i> | Note | 2017 | 2016 |
|---|------|------------------|------------------|
| Operating activities | | | |
| Profit before taxation | | 397,411 | 287,758 |
| Adjustments to reconcile profit before tax to net cash flows | | | |
| Depreciation and amortisation | 14 | 4,463 | 2,081 |
| Accrual of provision for unused vacations and bonuses | 14 | 19,708 | 15,866 |
| Reversal of allowance for doubtful receivables | 14 | (2,323) | (4,431) |
| Interest income | 8 | (117,229) | (92,430) |
| Working capital adjustments | | | |
| Change in inventories | | (6) | (98) |
| Change in trade accounts receivable | | (224,679) | (39,025) |
| Change in advances paid | | (25) | 510 |
| Change in other current assets | | 7,431 | (35,613) |
| Change in trade payables | | 564,227 | 211,782 |
| Change in taxes payable other than income tax | | (2,874) | 10,568 |
| Change in other current liabilities | | (17,372) | (11,668) |
| | | 628,732 | 345,300 |
| Income tax paid | | (118,653) | (17,606) |
| Interest received | | 121,929 | 86,058 |
| Net cash flows from operating activities | | 632,008 | 413,752 |
| Investing activities | | | |
| Withdrawal/(placement) of deposits, net | | 497,983 | (391,979) |
| Purchase of property and equipment | | - | (17,168) |
| Purchase of intangible assets | | (145) | (121) |
| Net cash flows from / (used in) investing activities | | 497,838 | (409,268) |
| Net change in cash and cash equivalents | | 1,129,846 | 4,484 |
| Cash and cash equivalents as at 1 January | | 544,691 | 540,207 |
| Cash and cash equivalents as at 31 December | 8 | 1,674,537 | 544,691 |

General Director



Zh.D. Nurmaganbetov
Zh.D. Nurmaganbetov

Chief accountant

G.V. Sirayeva
G.V. Sirayeva

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

| <i>In thousands of tenge</i> | Note | 2017 | 2016 |
|--|------|----------------|----------------|
| Income | 12 | 15,351,402 | 10,680,098 |
| Cost | 13 | (14,909,893) | (10,424,912) |
| Gross profit | | 441,509 | 255,186 |
| General and administrative expenses | 14 | (168,562) | (108,153) |
| Interest income | 8 | 117,229 | 92,430 |
| Other income | | 7,251 | 48,295 |
| Other expenses | | (16) | - |
| Profit before tax | | 397,411 | 287,758 |
| Income tax expenses | 15 | (79,967) | (57,687) |
| Profit for the year | | 317,444 | 230,071 |
| Total comprehensive income for the year | | 317,444 | 230,071 |

General Director



Zh.D. Nurmaganbetov

Chief accountant




G.V. Sirayeva

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 from dated 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 2017, Kazakhstan Electricity Grid Operating Company ("KEGOC") is the sole shareholder of the Company. KEGOC's major shareholder is Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna") (90 percent plus one share). The Government of the Republic of Kazakhstan as represented by Samruk-Kazyna owns 90% of the shares in KazMunayGas, accordingly, all subsidiaries of Samruk-Kazyna are considered as related parties of the Company (see *Note 16*).

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 core 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 2018.

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 amendments to standards, which are effective for annual periods beginning on or after 1 January 2017. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and impact of each amendment is described below:

IAS 7 Statement of Cash Flows – Disclosure Initiative – Amendments to IAS 7

Amendments require entities to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (for example, gains or losses from the change in the foreign exchange rates). These amendments are not applicable to the Company, as the Company has no liabilities arising from financial activities.

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

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 associated with unrealised losses. 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.

The Company applied the amendments retrospectively. However, their application had no impact on the financial position and performance results of the Company, as the Company does not have deductible temporary differences or assets related to the scope of application of these amendments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

These improvements comprise the following:

Amendment to IFRS 12 Disclosure of Interests in Other Entities – clarification of the scope of the disclosure requirements in IFRS 12.

The amendments clarify that the disclosure requirements in IFRS 12, except as described 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 disposed Company that is classified) as held for sale. These amendments are not applicable to the Company.

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

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments are effective from 1 January 2018. These amendments are not applicable to the Company.

IAS 28 Investments in Associates and Joint Ventures – clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. Such a decision is taken separately for each investment upon initial recognition.
- If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

These amendments are applied retrospectively and take effect from 1 January 2018. Early application is allowed. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not applicable to the Company.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which will replace IFRS 4.

The amendments provide two options for entities that issue insurance contracts: temporary exemption from applying IFRS 9 and overlay approach. Temporary exemption is applied for the first time for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9. These amendments are not applicable to the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

- (i) The beginning of the reporting period in which the entity first applies the interpretation; or
- (ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, as the current activities of the Company comply with the Interpretation requirements, the Company does not expect that it will have impact on its financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual periods beginning on or after 1 January 2019. Certain exemptions are allowed on transition. The Company will adopt the interpretation when it becomes effective.

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

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 9 Financial instruments (continued)

The Company plans to adopt the new standard on the required effective date and will not restate the comparative information. At the reporting date the Company has not performed a detailed impact assessment of all three aspects of IFRS 9. This estimate is based on the currently available information and can be changed due to receipt of additional reasonable and supportable information that will become available to the Company in 2018 when the Company will start applying IFRS 9. Overall, the Company expects no significant impact on its statement of financial position and statement of changes in equity except for the effect of applying the impairment requirements of IFRS 9. The Company expects an increase in the amount of the loss allowance, which will have a negative impact on the owner's equity, as described below. In addition, the Company will change the classification of certain financial instruments.

(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. The Company expects to continue measuring at fair value all financial assets currently held at fair value. Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Company analysed the contractual cash flow characteristics of those instruments and concluded that all those instruments meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification of these instruments is not required.

(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 will apply the simplified approach and record lifetime expected losses on all trade receivables. At the reporting date the Company has not performed impact assessment of IFRS 9.

(c) Hedge accounting

The Company has determined that, as at the reporting date, it does not have hedging relationships in accordance with IAS 39, as well as in accordance with IFRS 9. Accordingly, application of IFRS 9 requirements to hedging will not have significant impact on the financial statements of the Company.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 with amendments introduced in April 2016. The standard 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's activities are not related to performance of 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.

(a) Sale of goods

It is expected that application of IFRS 15 to contracts with customers where the purchase and sale of electricity is the only liability to be executed, will have no impact on revenue or profit or loss.

(b) Advance payments received from customers

The company does not receive advance payments from customers.

(c) Principal or agent

According to IFRS 15, the Company must assess, whether it controls the specified good or service before it is transferred to the customer. The Company has determined that it bears credit risks associated with the sale of electricity, therefore, it is a principal, not an agent for such contracts.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

(d) Presentation and disclosure requirements

IFRS 15 contains more detailed requirements to presentation and disclosure as in current IFRS. These amendments are not applicable to the Company. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the Company's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Company has assessed that the impact of some of these disclosure requirements will be significant.

In particular, the Company expects that the volume of notes to the financial statements in connection with the disclosure of significant judgements used in determining the transaction price under the contracts will not increase. In addition, it is expected that small amount of information will be disclosed as a result of judgements used in evaluation of contracts for which the Company is acting as a principal rather than an agent, which do not comprise a financing component. Also, in accordance with the requirements of IFRS 15, the Company must detail the information on revenue recognised under contracts with customers by categories that reflect how economic factors affect the nature, extent, timing and uncertainty of revenue and cash flows. In addition, it must disclose the information on the relationship between the disclosure of information on detailed revenue and revenue information, which is disclosed for each reporting segment. In 2017, the Company continued testing of respective systems, internal control procedures, policies and processes necessary to collect and disclose the required information.

As the Company has not yet performed a quantitative assessment of the impact of future adoption of IAS 16, it has not provided quantitative information on possible impact of this standard.

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. The Company will adopt these amendments when they become effective.

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

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; 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. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

IAS 16 Leases (continued)

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.

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 2018, the Company will continue assessing the potential effect of IFRS 16 on its financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 replaces IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. There are several scope exceptions. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach).
- A simplified approach (the premium allocation approach) is mainly for short-duration contracts.

IFRS 17 is effective for reporting periods starting on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Company.

Transfers of Investment Property – Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. The amendments are effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. The Company will adopt these amendments when they become effective. However, as the current activities of the Company comply with the Interpretation requirements, the Company does not expect that it will have impact on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 be sold or consumed in the 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.

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.

Fair value measurement

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

For assets and liabilities that are restated in the financial statements on a periodic basis, the Group 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.

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 2017 and 2016, 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> | 31 December 2017 | 31 December 2016 |
|---|-----------------------------|---------------------|
| 1 US dollar | 332.33 | 333.29 |
| 1 euro | 398.23 | 352.42 |
| 1 Russian rouble | 5.77 | 5.43 |
| <hr/> | | |
| <i>Average exchange rate for the year (to tenge)</i> | 2017 | 2016 |
| 1 US dollar | 326.08 | 341.73 |
| 1 euro | 368.52 | 378.25 |
| 1 Russian rouble | 5.59 | 5.12 |

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 asset 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 CGU's recoverable amount is the higher of an asset's or (CGU's) fair value less costs to sell and an asset's or (CGU's) 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, the relevant valuation model is applied. 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 5 (five) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification.

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.

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 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial liabilities (continued)

Subsequent measurement

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

Trade and other payables

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.

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 cost or net realisable 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Lease

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. 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.

Pension liabilities

In accordance with the legislation of the Republic of Kazakhstan the Company deducts 10% limited to KZT 183,443 (2016: KZT 171,443) from the salary of its employees as the employees' contribution to their 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 labour 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 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, 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 any 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:

- When 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 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 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.

Contingencies

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 discussed 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

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 judgement 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 about these factors could affect the fair value reported in the financial statements.

5. PROPERTY AND EQUIPMENT

As at 31 December 2017 and 2016, property and equipment included vehicles and other property and equipment in the amount of KZT 17,161 thousand and KZT 21,135 thousand, respectively.

6. TRADE ACCOUNTS RECEIVABLE

| <i>In thousands of tenge</i> | 31 December 2017 | 31 December 2016 |
|------------------------------------|---------------------|---------------------|
| Trade accounts receivable | 1,660,532 | 1,435,853 |
| Less: allowance for doubtful debts | - | (2,178) |
| | 1,660,532 | 1,433,675 |

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

| <i>In thousands of tenge</i> | 2017 | 2016 |
|-------------------------------|--------------|--------------|
| At 1 January | 2,178 | 6,754 |
| Charge for the year (Note 14) | 33,050 | 7,676 |
| Reversal (Note 14) | (35,228) | (11,962) |
| Write-off | - | (290) |
| At 31 December | - | 2,178 |

As at 31 December 2017 and 2016, 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 2017 | 1,660,532 | 1,618,431 | 42,101 | - | - | - |
| 31 December 2016 | 1,433,675 | 1,199,802 | 113,863 | 67,385 | 39,958 | 12,667 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. OTHER CURRENT ASSETS

| <i>In thousands of tenge</i> | 31 December 2017 | 31 December 2016 |
|--|---------------------|---------------------|
| Penalty for overdue payments | 24,144 | 30,229 |
| Other accounts receivable | 6,057 | 7,687 |
| Less: provision for other doubtful receivables | - | (145) |
| | 30,201 | 37,771 |

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

| <i>In thousands of tenge</i> | 2017 | 2016 |
|-------------------------------|------------|------------|
| At 1 January | 145 | - |
| Charge for the year (Note 14) | - | 145 |
| Reversal (Note 14) | (145) | - |
| At 31 December | - | 145 |

8. CASH AND CASH EQUIVALENTS

| <i>In thousands of tenge</i> | 31 December 2017 | 31 December 2016 |
|-------------------------------------|---------------------|---------------------|
| Bank deposits in tenge | 1,624,000 | - |
| Current accounts with banks – tenge | 50,537 | 544,691 |
| | 1,674,537 | 544,691 |

In 2017, interest was accrued on the Company's current accounts at 4.5% to 10% per annum. For the year ended 31 December 2017, the Company incurred income in the amount of KZT 41,717 thousand (2016: KZT 18,364 thousand). During 2017, temporarily free cash was placed on short-term deposit accounts with Forte Bank JSC for a period of up to one month with the interest rate from 8.2% to 10.2% per annum. For the year ended 31 December 2017, the Company accrued income from placement of temporarily free cash on short-term deposits in the amount of KZT 75,512 thousand (2016: KZT 74,066 thousand).

9. CHARTER CAPITAL

As at 31 December 2017, the charter capital of the Company amounted to KZT 100,000 thousand (2016: KZT 100,000 thousand).

10. TRADE ACCOUNTS PAYABLE

| <i>In thousands of tenge</i> | 31 December 2017 | 31 December 2016 |
|--|---------------------|---------------------|
| Accounts payable for electricity purchased | 2,669,297 | 2,106,439 |
| Accounts payable for works performed and services rendered | 7,559 | 6,190 |
| | 2,676,856 | 2,112,629 |

As at 31 December 2017 and 2016, the Company's trade accounts payable were denominated in tenge.

11. OTHER TAXES PAYABLE OTHER THAN INCOME TAX

| <i>In thousands of tenge</i> | 31 December 2017 | 31 December 2016 |
|------------------------------|---------------------|---------------------|
| Value added tax payable | 9,813 | 13,086 |
| Pension deductions | 1,343 | 1,101 |
| Individual income tax | 1,236 | 1,159 |
| Social tax | 1,122 | 1,151 |
| Social contributions | 208 | 161 |
| Medical insurance deductions | 62 | - |
| | 13,784 | 16,658 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. INCOME

| <i>In thousands of tenge</i> | 2017 | 2016 |
|---|-------------------|-------------------|
| Income from sale of purchased electricity on renewable energy sources | 15,351,402 | 10,680,098 |
| | 15,351,402 | 10,680,098 |

In 2017, income was derived from sale of purchased electricity to 44 energy producing entities (2016: 44).

For the year ended 31 December 2017 income from the large customer (Euroasian Energy Corporation JSC) amounted to KZT 2,651,547 thousand (2016: 1,896,060 thousand tenge).

13. COST

| <i>In thousands of tenge</i> | 2017 | 2016 |
|---|-------------------|-------------------|
| Cost of purchased electricity on renewable energy sources | 14,860,959 | 10,388,154 |
| Costs balancing of electricity production and consumption | 48,934 | 36,758 |
| | 14,909,893 | 10,424,912 |

14. GENERAL AND ADMINISTRATIVE EXPENSES

| <i>In thousands of tenge</i> | 2017 | 2016 |
|---|----------------|----------------|
| Payroll expenses and other deductions associated with payroll | 91,392 | 61,978 |
| Lease expenses | 20,583 | 14,306 |
| Accrual of provision for unused vacations and bonuses | 19,708 | 15,866 |
| Cost of office equipment servicing | 8,089 | 1,764 |
| Training expenses | 4,727 | 1,515 |
| Depreciation and amortisation | 4,463 | 2,081 |
| Advisory services | 3,000 | 3,011 |
| Business trip expenses | 2,884 | 3,319 |
| Telecommunication services | 1,860 | 1,397 |
| Procurement costs | 923 | 270 |
| Materials | 913 | 1,212 |
| Insurance expenses | 669 | 1,296 |
| Representation expenses | 496 | 1,230 |
| Repair expenses | 473 | 735 |
| Bank charges | 276 | 225 |
| Reversal of provisions for doubtful receivables (Note 6) | (2,323) | (4,431) |
| Other | 10,429 | 2,379 |
| | 168,562 | 108,153 |

15. INCOME TAX EXPENSES

| <i>In thousands of tenge</i> | 2017 | 2016 |
|---|---------------|---------------|
| Current income tax | | |
| Current income tax expenses | 86,548 | 55,941 |
| Adjustment of prior years income tax | (5,422) | - |
| Deferred tax | | |
| Deferred tax (benefit)/expenses | (1,159) | 1,746 |
| Total income tax expenses recorded in the income statement | 79,967 | 57,687 |

In 2017 and 2016, the income tax rate in the Republic of Kazakhstan was 20%.

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. INCOME TAX EXPENSES (continued)

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> | 2017 | 2016 |
|--|----------------|----------------|
| Income before income tax expense | 397,411 | 287,758 |
| Tax at statutory income tax rate of 20% | 79,482 | 57,552 |
| Other non-deductible expenses | 485 | 135 |
| Income tax expenses recorded in profit and loss | 79,967 | 57,687 |

Below is the tax effect on major temporary differences that result in origination of deferred tax assets and liabilities as at 31 December 2017 and 2016:

| <i>In thousands of tenge</i> | Statement of financial position | | Statement of comprehensive income | |
|--|---------------------------------|------------------|-----------------------------------|----------------|
| | 31 December 2017 | 31 December 2016 | 2017 | 2016 |
| Accrued liabilities | 3,259 | 2,209 | 1,059 | 125 |
| Trade accounts receivable | - | 465 | (465) | (886) |
| Property and equipment | (1,231) | (1,581) | 350 | (985) |
| Taxes | 224 | - | 224 | - |
| Net deferred tax assets | 2,252 | 1,093 | | |
| Deferred tax benefit/(expenses) | | | 1,159 | (1,746) |

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.

16. 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 2017 and 31 December 2016 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 | 2017 | 1,994 | 69,516 | 557 | 6,482 |
| | 2016 | 3,281 | 51,064 | 796 | 5,572 |
| Subsidiaries of KEGOC | 2017 | - | 8,428 | - | 785 |
| | 2016 | - | 1,911 | - | 472 |
| Subsidiaries of Samruk-Kazyna | 2017 | 4,043,905 | 4,522,470 | 520,163 | 913,037 |
| | 2016 | 2,302,355 | 3,548,948 | 298,909 | 982,170 |
| Samruk-Kazyna associates | 2017 | 725,946 | 3,324,294 | 49,911 | 358,237 |
| | 2016 | 544,404 | 2,733,115 | 90,664 | 3,513 |

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 2017 (2016: 2 persons). For the years ended 31 December 2017 and 2016, the remuneration of key management personnel included in administrative expenses in the accompanying statement of comprehensive income was KZT 24,219 thousand and KZT 19,458 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 acts.

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. 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). 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 (Notes 6 and 8). 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 | Due more than 1 year but not later than 5 years | Due more than 5 years | Total |
|------------------------------|-----------|------------------|-----------------------|--|--------------------------|-----------|
| At 31 December 2017 | | | | | | |
| Trade accounts payable | - | 2,676,856 | - | - | - | 2,676,856 |
| Other current liabilities | - | 16,299 | - | - | - | 16,299 |
| | - | 2,693,155 | - | - | - | 2,693,155 |
| At 31 December 2016 | | | | | | |
| Trade accounts payable | - | 2,112,629 | - | - | - | 2,112,629 |
| Other current liabilities | - | 13,963 | - | - | - | 13,963 |
| | - | 2,126,592 | - | - | - | 2,126,592 |

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 2017.

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. 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 2017.

As at 31 December 2017, 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 2017, the Company has 26 (twenty-six) contracts with existing electricity producers, which use renewable energy sources (solar energy, wind and water energy): 13 contracts with hydropower plant; 6 contracts with solar power plant and 7 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 and *Pricing Rules on Socially Significant Markets* approved by the Order of the Minister of National Economy of Republic of Kazakhstan dated 1 February 2017 No. 36. The tariff for electricity sale comprises costs of accounting and finance center for the purchase of electricity produced by energy producers using renewable energy sources, costs of the services for electricity production-consumption balance, costs of forming a reserve fund and the costs associated with the implementation of the Company's activities.

Management believes that in 2017 purchase and sales tariffs on electricity from renewable energy sources are applied and calculated properly in accordance with the applicable regulation and legislation.

Economic 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.

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, increased uncertainty regarding further economic growth, which could negatively affect the Company's financial position, results of operations and business prospects. Management of the Company believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.