Real estate fund "Samruk-Kazyna" JSC

Consolidated financial statements

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

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Independent auditor's report

To the Shareholders and Management of "Real Estate Fund "Samruk-Kazyna" JSC

Opinion

We have audited the consolidated financial statements of "Real Estate Fund "Samruk-Kazyna" JSC and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the financial position of the Group 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 consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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

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

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

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

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

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

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

Ernst & Young LLP

Gulmira Turmagambetova
Auditor / General Director
Ernst & Young LLP

Auditor qualification certificate
No. 0000374 dated 21 February 1998

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

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28 February 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

In thousands of tenge	Note	2017	2016
Assets			
Non-current assets			
Property and equipment	5	**1,352,420**	1,379,107
Investment properties	6	**3,658,920**	3,879,247
Investment in associate	12	**47,154**	43,641
Advances given to construction companies	8	**11,036,407**	9,792,993
Intangible assets		**39,893**	28,511
Non-current financial assets	9	**40,200,920**	70,595,255
Amounts due from credit institutions	10	**41,450,537**	30,800,000
Other non-current assets	13	**16,833,635**	8,443,693
		114,619,886	124,962,447
Current assets			
Inventories		**3,861**	3,409
Inventory property	7	**48,135**	355,952
Advances given to construction companies	8	**8,103**	3,758,257
Trade accounts receivable	14	**41,221**	389,016
Loans receivable	15	**62,331,242**	11,313,062
Income tax prepaid		**253,377**	239,019
Current financial assets	16	**5,367,032**	4,492,019
Amounts due from credit institutions	10	**136,447**	16,209,274
Other current assets	11	**96,656**	112,536
Cash and cash equivalents	17	**26,372,513**	39,704,262
		94,658,587	76,576,806
Total assets		**209,278,473**	201,539,253

The accounting policies and explanatory notes on pages 7 to 48 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of tenge	Note	2017	2016
Equity and liabilities			
Equity			
Share capital	18	**19,990,162**	19,990,162
Additional paid-in capital	18, 19	**3,437,245**	3,437,245
Available-for-sale financial assets revaluation reserve	18	**(289,241)**	(455,110)
Retained earnings		**16,857,119**	13,633,382
Total equity		**39,995,285**	36,605,679
Non-current liabilities			
Non-current portion of Parent loans	19	**1,076,322**	19,844,472
Other non-current liabilities	20	**1,624,297**	1,574,648
Deferred income	23	**168,371**	19,563,866
Deferred tax liabilities	28	**572,132**	197,353
		3,441,122	41,180,339
Current liabilities			
Current portion of Parent loans	19	**163,974,691**	122,421,602
Accounts payable	21	**351,385**	275,924
Other current liabilities	22	**1,515,990**	1,055,709
		165,842,066	123,753,235
Total liabilities		**169,283,188**	164,933,574
Total equity and liabilities		**209,278,473**	201,539,253

Chairman of the Board Zhetpisbay A.Sh.

Chief accountant Sipuldina B.K.

The accounting policies and explanatory notes on pages 7 to 48 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

In thousands of tenge	Notes	2017	2016
Revenue	24	**13,684,077**	12,861,613
Cost of revenue	25	**(8,198,958)**	(12,777,428)
State subsidies	23	**4,653,544**	4,326,492
Gross profit		**10,138,663**	4,410,677
General and administrative expenses	26	**(1,658,452)**	(1,445,762)
Expenses on impairment of financial assets	11, 15	**(5,067,947)**	(2,248,013)
Bad debt provision reversal	11, 15	**11,102**	54
Operating income		**3,423,366**	716,956
Finance income	27	**3,154,830**	6,998,763
Finance costs	27	**(1,548,873)**	(1,869,510)
Share of income/(losses) of the associate	12	**3,513**	(2,793)
Other income		**290,433**	129,814
Other expenses		**(192)**	(83,007)
Profit before tax		**5,323,077**	5,890,223
Income tax expense	28	**(1,485,950)**	(1,800,956)
Profit for the year		**3,837,127**	4,089,267
Other comprehensive income to be reclassified to profit or loss in the subsequent periods			
Net income/(loss) on available-for-sale financial assets	16	**165,869**	(266,843)
Other comprehensive income/(loss) for the year, net of tax		**165,869**	(266,843)
Total comprehensive income for the year, net of tax		**4,002,996**	3,822,424

Chairman of the Board Zhetpisbay A.Sh.

Chief accountant Sipuldina B.K.

The accounting policies and explanatory notes on pages 7 to 48 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

In thousands of tenge	Share capital	Additional paid-in capital	Available-for-sale financial assets revaluation reserve *(Note 20)*	Retained earnings	Total
At 31 December 2015	19,990,162	3,437,245	(188,267)	9,764,194	33,003,334
Profit for the period	–	–	–	4,089,267	4,089,267
Other comprehensive loss	–	–	(266,843)	–	(266,843)
Total comprehensive income	–	–	(266,843)	4,089,267	3,822,424
Dividends *(Note 18)*	–	–	–	(220,079)	(220,079)
At 31 December 2016	19,990,162	3,437,245	(455,110)	13,633,382	36,605,679
Profit for the period	**–**	**–**	**–**	**3,837,127**	**3,837,127**
Other comprehensive income	**–**	**–**	**165,869**	**–**	**165,869**
Total comprehensive income	**–**	**–**	**165,869**	**3,837,127**	**4,002,996**
Dividends *(Note 18)*	**–**	**–**	**–**	**(613,390)**	**(613,390)**
At 31 December 2017	**19,990,162**	**3,437,245**	**(289,241)**	**16,857,119**	**39,995,285**

Chairman of the Board Zhetpisbay A.Sh.

Chief accountant Sipuldina B.K.

The accounting policies and explanatory notes on pages 7 to 48 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

In thousands of tenge	Notes	2017	2016
Cash flow from operating activities			
Sales of products and goods		**934,929**	4,710,519
Interest received		**4,648,081**	6,709,278
Overnights receipts		**1,079,793**	999,994
Receipts on rent		**6,642,679**	6,156,991
Other receipts		**203,227**	299,919
Payments to suppliers for goods and services		**(733,905)**	(774,434)
Advances paid		**(53,554)**	(25,295)
Salary payments		**(851,639)**	(733,090)
Payment of interest on loans received		**(2,198,266)**	(2,053,142)
Corporate income tax		**(413,720)**	(450,240)
Other payments to the budget		**(479,500)**	(794,203)
Transfers of cash and cash equivalents to other current assets	11, 15	**(5,067,902)**	(1,634,309)
Other payments		**(562,312)**	(215,325)
Net cash flows from operating activities		**3,147,911**	12,196,663
Cash flow from investing activities			
Prepayments for acquisition of real estate properties		**(10,498,809)**	(8,102,975)
Bank deposits placed		**(16,650,537)**	(33,887,953)
Return of bank deposits		**22,000,000**	26,422,007
Loans given to third parties		**(16,026,238)**	(37,783,626)
Purchase of property and equipment and intangible assets		**(64,086)**	(25,872)
Return of borrowings from third parties		**3,065,910**	375,248
Other payments		**(27,865)**	(4,355)
Net cash flows used in investing activities		**(18,201,625)**	(53,007,526)

The accounting policies and explanatory notes on pages 7 to 48 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of tenge	Notes	2017	2016
Cash flows from financing activities			
Proceeds from borrowings	19	**12,108,303**	92,677,830
Repayment of borrowings	19	**(9,772,947)**	(31,624,749)
Dividends paid	18	**(613,390)**	(220,079)
Net cash flows from financing activities		**1,721,966**	60,833,002
Net change in cash and cash equivalents		**(13,331,749)**	20,022,139
Cash and cash equivalents as at 1 January		**39,704,262**	19,682,123
Cash and cash equivalents as at 31 December	17	**26,372,513**	39,704,262

* *The Group changed its method of presenting consolidated statement of cash flows (Note 4).*

Chairman of the Board Zhetpisbay A.Sh.

Chief accountant Sipuldina B.K.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. CORPORATE INFORMATION

Real estate fund "Samruk-Kazyna" JSC (hereinafter, the "Company") was established in accordance with the Decree of the Government of the Republic of Kazakhstan No. 265 dated 6 March 2009.

The Company's office is located at: 10 Mangilik El Str., Astana, Republic of Kazakhstan.

The Company is controlled by the Government through Sovereign Wealth Fund "Samruk-Kazyna" JSC (hereinafter, the "Parent"), which owns 100% interest in the Company.

In 2010 the Company established a subsidiary – FN Management LLP and in 2013 the Company established SK Development LLP (together with the Company referred to as the "Group"). The core activities of subsidiaries are disclosed in *Note 2*.

In 2015 the Group sold 51% stake of FN Management LLP.

The Group's mission is to assist the development of construction industry and real estate market of the Republic of Kazakhstan through anchor development of megaprojects, investment in construction with the use of green technology and implementation of innovations into the construction industry.

The Company's core activities include the following:

- Create new assets in form of residential and commercial premises;
- Finance construction projects, acquisition of residential and non-residential (commercial) premises ready for use and under construction in progress;
- Property management support.

The mission and vision of the Company are designed by taking into account the development strategy and in accordance with the vision of the Parent Company. The Mission reflects the company's strategic priorities and its role in the social and economic development of Kazakhstan.

Strategic development of the Company for 2018-2027:

Creating opportunities of business development

- Light industrial / logistics (including production incubators and specialized properties) – small quality industrial premises designed for small and medium enterprises that are located within the city boundaries for better customer access.
- Asset management – management and operation of properties developed in other areas, or transferred to the operations management of the Company.

Population mobility support

- Apartment hotels and serviced apartments – a group of apartments that includes both hotel services and the features of a residential apartment for short or long-term residence under the management of a professional operator in economy class segment .
- Medical real estate – buildings and facilities of medical infrastructure – hospitals and rehabilitation centers – for treatment and rehabilitation of people at high-quality level.

Technical development

- Multifunctional zones – a complex of commercial roadside facilities on the motorways to provide required services to drivers, passengers of tourist buses, truck drivers and resting on the road.
- Participation in state programs – satisfy objectives under government resolutions and other official regulations.

These financial statements represent, on a consolidated basis, the financial results of the Group for the year ended 31 December 2017 and its financial position as at the indicated date.

The Group's financial results depend on the specificity of the construction industry, which is characterized by long production cycle; real estate construction is carried out from 1.5 to 3 years on average. In the period of construction and investment in construction usually it is observed to have decrease in income from sale of real estate, increase in capitalization costs of construction objects / advances given to construction companies. Thus after the date of property commissioning it is observed to have increase in income from core operations.

1. CORPORATE INFORMATION (continued)

In addition, the Group's financial results are influenced by recognition and subsequent measurement of financial instruments originated from management of cash, including interest income and expenses on financing given and received for execution of government programs, and interest income from placing temporary free cash on deposits in the second-tier Kazakhstani Banks *(Note 31)*.

In general, such fluctuations in revenue from core activities from year to year is common to many local and foreign companies operating in construction industry.

The consolidated financial statements of the Group for the year ended 31 December 2017 were authorised for issue by the management of the Group on 28 February 2018.

2. BASIS OF PREPARATION

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

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements. These consolidated financial statements are presented in Kazakhstan tenge ("tenge" or "KZT") and all monetary amounts are rounded to the nearest thousand, except when otherwise indicated.

Basis of consolidation

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

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

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other arrangements;
- Voting rights or potential voting rights belonging to the Group.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiary is consolidated from the date on which control is transferred to the Group and is no longer consolidated from the date that control ceases. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the assets (including goodwill), related liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2. BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Subsidiaries & associates

As at 31 December 2017, the Group had the following subsidiaries and associates included into these consolidated financial statements:

Name	Country of residence	Principal activities	Ownership 2017	Ownership 2016
FN Management LLP	Kazakhstan	Sale and rent of real estate	49%	49%
SK Development LLP	Kazakhstan	Development, financing and further management/sale of real estate properties	100%	100%

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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.

The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, current circumstances and assumptions about the future may vary due to market changes or circumstances beyond the control of the Group. Such changes are reflected in the assumptions while they occur.

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of: its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Classification of financial assets held for sale or available for sale

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When in rare circumstances the Group is unable to trade these assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset.

Advances given to construction companies

Advances given to construction companies are made by the Group to acquire real estate properties. Advances to construction companies do not represent a financial instrument and therefore are measured at the amount actually transferred to construction companies.

Interest bearing financing of construction companies

At recognition agreements on interest bearing financing of construction companies are measured at fair value calculated as present value of future cash flows discounted at the market rates effective at initiation of the borrowings. According to agreements of 2017, average discounting rate amounted to 15% (2016: 15%) which represented the market rate for the similar loans.

After initial recognition, agreements on interest bearing financing of construction companies are subsequently measured at amortised cost using the effective interest rate method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Classification of investment property and inventory property

The Group determines whether real estate property is an inventory property or investment property as follows:

- Investment property includes apartments, parking areas and commercial premises, which are neither used in activities of the Group nor for sale in operating activities but are held, in the first place, in order to derive rental income and income from appreciation of capital.

Inventory property includes property held for sale in operating activities. These are mainly apartments, parking areas and commercial premises, which the Group intends to sell after completion of construction.

Cost of investment property and inventory property

Investment property is recognised in the accounting at cost less accumulated depreciation and impairment losses. Fair value is determined based on recent transactions with property with similar characteristics and location. The fair value of real estate properties is disclosed in *Note 6.*

Inventory property is stated at the lower of cost and net realizable value. Net realizable value for real estate for sale is measured taking into account market conditions and prices existing as at the reporting date, and is determined by the Group assuming relevant recent market transactions.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Amendments in accounting policy and principles of disclosing information

The Group changed its method of presentation of consolidated cash flow statement from indirect method to direct method for the period from 1 January 2017 to 31 December 2017 since the Group believes that the direct method allows the information to be more appropriate for users of financial statements. The Group adopted a method of presenting a consolidated statement of cash flows on a retrospective basis.

Also, the Group decided to show its cash receipts on interest from loans given, deposits placed and securities held for within operating activities as it believes that this better present activity of the Group (*Note 1).*

Effect on comparative information of consolidated statement of cash flows for the year ended 31 December 2017

In thousands of tenge	As it was presented	Reclassifications	Currently presented
Net cash flows from operating activities	5,483,030	6,713,633	12,196,663
Net cash flows used in investing activities	(46,293,893)	(6,713,633)	(53,007,526)

New standards, interpretations and amendments thereof

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of those changes are disclosed below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in *Note 19.*

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments thereof (continued)

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 deductible temporary difference related to unrealized 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 Group applied amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

In addition the Group does not have any plans to sale its share in subsidiary and associate companies in foreseeable future.

Annual improvements 2014-2016 cycle

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

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. This amendments are not applicable to the Group.

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. The amendment is effective from 1 January 2018. This amendment is not applicable to the Group.

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.
- 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.

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. These amendments are not applicable to the Group.

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 replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. The temporary exemption is first applied 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 Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments thereof (continued)

Annual improvements 2014-2016 cycle (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 the transaction date 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, since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and 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 must 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 reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply interpretation from its effective date. The Group does not expect any effect on its consolidated financial statements.

Standards issued but not yet effective

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

IFRS 9 Financial Instruments

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group performed a general impact assessment of IFRS 9, in particular, classification and measurement of financial instruments, however currently Group is in the process of determining the impairment impact on its consolidated financial statements. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9.

Overall, the Group expects no significant impact on its consolidated statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Group expects an increase in the loss allowance resulting in a negative impact on equity as discussed below. In addition, the Group will implement changes in classification of certain financial instruments.

(a) Classification and measurement

The Group 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 equity shares currently held as available-for-sale (AFS) with gains and losses recorded in other comprehensive income will, instead, be measured at fair value through profit or loss, which will increase volatility in recorded profit or loss.

The revaluation reserve of AFS instruments of 289,241 thousand tenge is currently presented as other comprehensive income. Those instruments are expected to be measured at fair value through other income under IFRS 9, also. Therefore IFRS 9 will not have an impact on the consolidated financial statements of the Group.

The equity shares in non-listed companies are intended to be held for the foreseeable future. No impairment losses were recognised in profit or loss during prior periods for these investments. The Group will apply the option to present fair value changes in other comprehensive income, and, therefore, the application of IFRS 9 will not have an impact on consolidated financial statements of the Group.

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 Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables, loans given and other financial assets. The Group expects that these requirements will have significant influence on equity, however the Group will perform more detailed analysis taking into account reasonable and confirmed information for these purposes.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. During 2017, the Group performed a detailed analysis of IFRS 15 and opted modified retrospective application.

The Group's main operations are sales of real estate property and its management.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

(a) Sale of real estate property

For contracts with customers in which the sale of real estate property is generally expected to be the only performance obligation, adoption of IFRS 15 is not expected to have any impact on the Group's revenue and profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally upon singing of act of acceptance for property transfer.

In preparing to adopt IFRS 15, the Group is considering the following:

(i) Variable consideration

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. Contracts with customers do not provide a right of return, trade discounts or volume rebates. The update will not affect the revenue recognition after adoption of IFRS 15.

- *Rights of return*

Currently the Group's contracts do not consider the right of return within the specified period.

- *Volume rebates*

According to the contract terms the Group does not provide retrospective volume rebates to its customers on real estate property purchased by the customer. Under IFRS 15, retrospective volume rebates give rise to variable consideration.

(ii) Warranty obligations

The Group generally does not provide for warranties for general repairs and maintenance of real estate property and does not provide extended warranties in its contracts with customers. As such, most existing warranties will be assurance-type warranties under IFRS 15, which will continue to be accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, consistent with its current practice.

(b) Rendering of services

The Group does not provide services related to real estate property within contract terms with customers. The obligation of the Group is to transfer the real estate property to the customer.

(c) Equipment received from customers

The Group does not receive equipment and other tools, which are recognised at fair value as property, plant and equipment under IFRIC 18 *Transfers of Assets from Customers*. IFRS 15 requires that the fair value of such non-cash consideration, received or expected to be received by the customer, is included in the transaction price.

(d) Advances received from customers

The Group does not receive only short-term advances from its customers. They are presented as part of other current liabilities.

The Group determined that the length of time between when the customer pays for the goods and the Group transfers real estate property to the customer is relatively short. Therefore, the Group has concluded that there is not a significant financing component in these contracts.

(e) Principal versus agent considerations

IFRS 15 requires assessment of whether the Group controls a specified good or service before it is transferred to the customer.

The Group has determined that it controls the goods before they are transferred to customers, and hence, is an principal rather than agent in these contracts. In addition, the Group concluded that it transfers control over its real estate property at a point of time.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

(f) Presentation and disclosure requirements

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the Group has assessed that the impact of some of these disclosures requirements will be significant.

In particular, the Group expects that the notes to the consolidated financial statements will not be expanded because of the disclosure of significant judgements made: when determining the transaction price of those contracts that include variable consideration, how the transaction price has been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling prices of each performance obligation, variable reimbursement and guarantees.

In addition, as required by IFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. During 2017, the Group operated in one segment.

In 2017 the Group continued testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

(g) Other adjustments

On adoption of IFRS 15 based on the performance analysis, other items of the primary consolidated financial statements such as deferred taxes, assets held for sale and liabilities associated with them, profit or loss after tax for the year from discontinued operations, investments in associate and joint venture, as well as share of profit of an associate and a joint venture, will not be significantly affected.

The recognition and measurement requirements in IFRS 15 are also applicable for recognition and measurement of any gains or losses on disposal of non-financial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Group.

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 16 Leases

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

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

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

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace 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. A few scope exceptions will apply. 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) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning 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 Group.

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 it is possible without the use of hindsight.

Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Group will apply amendments when they become effective. However, since Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

The consolidated financial statements of the Group are presented in tenge, which is the functional currency of the Company and its subsidiary and the currency of presentation of these consolidated financial statements.

Tenge is the currency of the primary economic environment in which the Company and its subsidiary operate. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates prevailing at the date when the transaction meets recognition criteria.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are recognised in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets measured at the fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange ("KASE") are used as official currency exchange rates in the Republic of Kazakhstan.

The exchange rate of the US dollar established at KASE as at 31 December 2017 was KZT 332.23 to USD 1 (in 2016: KZT 333.29 to USD 1). As at 28 February 2018 the exchange rate amounted to KZT 320.25 to USD 1.

Investments in joint operations

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Joint operation is a type of joint arrangement whereby the parties that have joint control over the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

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

As the Group has an interest in a joint operation, it recognises:

- Assets, including its share of any assets held jointly;
- Liabilities, including its share of any liabilities incurred jointly;
- Revenue from the sale of its share of the output arising from the joint operation;
- Share of the revenue from the sale of the output by the joint operation;
- Expenses, including its share of any expenses incurred jointly.

Investments in associates

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

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries. The Group's investments in its associate are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment separately.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

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

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

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

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

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in statement of comprehensive income.

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset as 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 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 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 twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

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

Determination of fair value

The Group measures such financial instruments as derivatives at fair value at each date of the statement of financial position. Information on fair value of financial instruments measured at amortised cost and non-financial assets fair value of which shall be disclosed in the financial statements, is disclosed in *Note 31* and *Note 6*, respectively.

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 by the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Determination of fair value (continued)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, 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 consolidated 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 recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The respective unit of the Group (hereinafter, the "Working Group") determines the policies and procedures for the periodic measurement of the fair value of respective assets and liabilities. The Valuation Working Group comprises heads of the Assets Management Department and Budgeting and Treasury Department.

External appraisers are engaged to evaluate significant assets such as derivative instruments. The decision to engage external appraisers is taken on an annual basis by the Working Group after it is discussed and approved by the Group's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Working Group decides, after discussions with the external appraisers, which valuation techniques and inputs to use for each case.

At each reporting date the Working Group analyses changes in the cost of assets and liabilities that should be reanalysed reassessed in accordance with the Group's accounting policy. As a part of such analysis, the Working Group checks main inputs used at the latest evaluation by comparing information used at evaluation with agreements and other relevant documents.

The Working Group and external appraisers of the Group also compare changes in fair value of each asset and liability with relevant external sources in order to determine the change relevancy.

The Working Group and external appraisers of the Group provide the evaluation results to the audit committee of the Group on a regular basis that assumes discussion of main assumptions used in evaluation.

For the purpose of fair value disclosure, the Group classified assets and liabilities based on their nature, characteristics and risks related to them and applicable level of fair value hierarchy, as specified above.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, 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 Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is the principal in all of its revenue arrangements taking into account payment terms defined in an agreement and net of taxes or duties. The specific recognition criteria described below must also be met before revenue is recognised.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Sale of real estate properties

Revenue from the sale of real estate properties is usually recognised when the significant risks and rewards of ownership of the real estate properties have passed to the buyer. Revenue from assignment of rights for objects under construction is recognised when the significant risks and rewards related to ownership rights have passed to the buyer.

Income from lease

Income from investment property provided under operating leases is accounted for on a straight line basis over the lease term and is included in revenues due to its operating nature.

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in revenue from core activities related to financing of construction companies and finance income related to other interest income.

Expense recognition

Expenses are recognised as incurred and reported in the consolidated statement of comprehensive income in the period to which they relate on the accrual basis.

Borrowing costs

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

Income tax

Current income tax

Current income tax assets and liabilities 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.

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

Deferred income tax

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

Deferred income 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred income tax (continued)

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 interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred income 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 consolidated 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.

Employee benefit

Social tax

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. Social tax is expensed as incurred.

Defined contribution scheme

The Group withholds up to 10% from the salary of its employees as contribution to designated pension funds. Under the legislation, employees are responsible for their retirement benefits and the Group has no present or future obligation to further benefit its employees upon their retirement.

Financial assets

Initial recognition and measurement

Financial assets upon initial recognition are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

All financial assets, except for financial assets at fair value through profit or loss, are recognised 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 market place (regular way trades) are recognised on the trade date, i.e.. the date that the Group commits to purchase or sell the asset.

Financial assets of the Group comprise cash and short-term and long-term deposits, government bonds, trade and other accounts receivable, loans and other amounts receivable such as amounts paid to construction companies with interest accrual and financial assets at fair value through profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments according to IAS 39. The Group included the right to acquire equity instrument to the category "at fair value through profit or loss". Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the consolidated statement of comprehensive income. The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate.

When the Group is unable to trade these assets due to inactive markets and managements intent significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset.

This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

Cash and cash equivalents

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

Loans and receivables

Loans and receivables including long-term deposits are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income within finance costs in case of loans and within other operating expenses in case of accounts receivable.

Financial investments available-for-sale

Available-for-sale financial investments include debt securities. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised within other operating income, or until the investment is impaired, at which time the cumulative loss is reclassified from the available-for-sale reserve to comprehensive income and recognised as finance costs. Interest earned during the period of retention of financial investments available-for-sale are recorded as interest income using EIR.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and managements intent significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement (continued)

Financial investments available-for-sale (continued)

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

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised (i.e. excluded from the consolidated statement of financial position):

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

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

Impairment of financial assets

The Group 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 assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

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

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying value and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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

Financial investments available-for-sale

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

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables.

All 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 Group's financial liabilities include accounts payable, loans from the Parent.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Accounts payable

Liabilities for accounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Loan from the Parent

After initial recognition, a loan from the Parent is measured at amortised cost using the effective interest rate method. Relevant gains and losses are recognised in the consolidated statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Derecognition

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

When an existing financial liability to the Parent is replaced by another from the Parent 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 in the consolidated statement of changes in equity.

Offsetting of financial instruments

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

Advances paid to construction companies

Advances paid to construction companies represent advances paid for the construction of property which will be recognised in the consolidated statement of financial position as investment property or property for sale. Advances paid to construction companies are measured at cost (the consideration actually paid) as at the date of partnership agreements less impairment loss, if any. Advances paid to construction companies are settled upon transfer of title to the property from the construction company to the Group.

Investment properties

Investment property includes property held for receiving lease payments or income from accretion to capital, or both. Property owned on the lease terms is classified as investment property when it corresponds to the definition of investment property. Lease liabilities are recognised in accordance with IAS 17 at fair value of rental fees on leased property.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Following initial recognition, investment property is carried at initial cost less any accumulated amortisation and any accumulated impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful life, which is 50 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of comprehensive income in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Investment property is transferred to non-current assets held for sale when the carrying amount is expected to be refunded by way of sale but not continuous using. This condition is regarded as met only when the sale is highly probable and the property is available for immediate sale in its present condition on the terms general for sale of similar property.

Other non-current assets

Other non-current assets comprise properties for future leasing out under a finance lease agreement or for which the Group, as at the reporting date, has no certain plans related to recovery of its carrying amount. Other non-current assets are measured at cost, including transaction costs. Upon initial recognition, other non-current assets are carried at cost less accumulated impairment. Other non-current assets are not amortised. Transfers are made to (or from) other non-current assets only when there is a change in use.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The initial cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. 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 development of products, are not capitalized and the related expense is recognised in the consolidated statement of comprehensive income for the year in which it originated.

The useful lives of intangible assets are assessed to be finite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The period and accrual method of amortization for an intangible asset with finite useful life are reviewed at least at the end of each reporting period.

Change in the estimated useful life or alleged structure of consumption of future economic benefits embodied in the asset is recorded in the financial statements as a change in the period or accrual method of amortization depending on the situation and accounted for as a change in accounting estimates. Expenses on amortization of intangible assets with finite useful life are recognised in the consolidated statement of comprehensive income in the category of expenses, which corresponds to the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of comprehensive income when the asset is derecognised.

Intangible assets are mainly represented by the software and licenses. Intangible assets are amortised on a straight-line basis over their estimated useful lives of five to ten years.

Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the capitalization criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group 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 property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated statement of comprehensive income as incurred.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Building	46-50
Office equipment	3-10
Vehicles	4-7

An item of property and equipment initially recognised 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 consolidated statement of comprehensive income in the year when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Property and equipment consists primarily of administrative building, land, office equipment and vehicles.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group 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 does not 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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 of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash generating units to which individual assets are allocated. These budgets and forecast calculations are generally covering a period of 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 impairment of inventory) are recognised in the consolidated 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 as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group 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 the consolidated statement of comprehensive income.

Inventories

Inventories are valued at the lower of: cost and net realizable value. Costs comprise charges incurred in bringing inventory to its present location and condition. 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. All inventories are valued using the weighted average cost method.

Inventory property

Property acquired for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realisable value. Cost includes:

- Freehold and leasehold rights for land;
- Amounts paid to contractors for construction;
- Borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs.

Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and discounted for the time value of money if material, less costs to completion and the estimated costs of sale.

The cost of inventory recognised in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

Guarantee payments from lessees

Guarantee payments from lessees represent amounts paid by lessees as security of fulfilment of liabilities under finance lease agreements. At the end of lease term, the amount of guarantee payments are used by lessors to settle the last lease payment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. 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 the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessor

Finance leases, which transfer to the Group 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 the finance income and increase of the finance lease asset so as to achieve a constant rate of interest on the unrecoverable amount of the asset. Finance income is reflected directly in the consolidated statement of comprehensive income.

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as income in the consolidated statement of comprehensive income on a straight line basis over the lease term.

Group as a lessee

Leases which do not transfer substantially all the risks and benefits of ownership of the asset to the Group are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of comprehensive income on a straight line basis over the lease term.

Allowances

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset. When the Group receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

5. PROPERTY AND EQUIPMENT

Movement of property and equipment in 2017 and 2016 is presented as follows:

In thousands of tenge	Land	Buildings	Office equipment	Total
Initial cost				
At 31 December 2015	26,101	4,882,767	318,626	5,227,494
Additions	–	–	57,108	57,108
Disposals	–	–	(3,942)	(3,942)
Transfer to investment property *(Note 6)*	–	(3,541,637)	–	(3,541,637)
At 31 December 2016	26,101	1,341,130	371,792	1,739,023
Additions	–	–	**33,727**	**33,727**
Disposals	–	–	**(165)**	**(165)**
At 31 December 2017	**26,101**	**1,341,130**	**405,354**	**1,772,585**
Accumulated depreciation				
At 31 December 2015	–	(440,720)	(166,034)	(606,754)
Depreciation charge for the year	–	(29,099)	(46,210)	(75,309)
Depreciation on disposal	–	–	1,347	1,347
Transfer to assets held for sale *(Note 6)*	–	320,800	–	320,800
At 31 December 2016	–	(149,019)	(210,897)	(359,916)
Depreciation charge for the year	–	**(29,099)**	**(31,230)**	**(60,329)**
Depreciation on disposal	–	–	**80**	**80**
At 31 December 2017	–	**(178,118)**	**(242,047)**	**(420,165)**
Net book value				
At 31 December 2016	26,101	1,192,111	160,895	1,379,107
At 31 December 2017	**26,101**	**1,163,012**	**163,307**	**1,352,420**

In 2016 the Group transferred the main part of the building "Kazyna Tower" with the net book value of 3,220,837 thousand tenge to the investment property, this was due to the change in the nature of use of the property.

6. INVESTMENT PROPERTIES

Movement of investment property for 2017 and 2016 is presented as follows:

In thousands of tenge	Buildings	Commercial premises	Parking lots	Total
Initial cost				
At 31 December 2015	–	328,600	606,000	934,600
Transferred to inventory property *(Note 7)*	–	(81,696)	(8,000)	(89,696)
Transferred from property plant and equipment *(Note 5)*	3,541,637	–	–	3,541,637
At 31 December 2016	3,541,637	246,904	598,000	4,386,541
Transferred to inventory property *(Note 7)*	–	**(135,667)**	–	**(135,667)**
At 31 December 2017	**3,541,637**	**111,237**	**598,000**	**4,250,874**
Accumulated amortization and impairment				
At 31 December 2015	–	(30,175)	(71,713)	(101,888)
Depreciation charge	(76,992)	–	(11,015)	(88,007)
Depreciation on disposal	–	3,401	–	3,401
Transferred from property plant and equipment *(Note 5)*	(320,800)	–	–	(320,800)
At 31 December 2016	(397,792)	(26,774)	(82,728)	(507,294)
Depreciation charge	**(76,992)**	–	**(11,961)**	**(88,953)**
Depreciation on disposal	–	**4,293**	–	**4,293**
At 31 December 2017	**(474,784)**	**(22,481)**	**(94,689)**	**(591,954)**
Net book value				
At 31 December 2016	3,143,845	220,130	515,272	3,879,247
At 31 December 2017	**3,066,853**	**88,756**	**503,311**	**3,658,920**

In 2017 as a result of regular analysis of the fair value of investment properties, management of the Group concluded that the carrying amount of its commercial property and residential premises did not exceed its fair value.

As at 31 December 2017 the fair value of the Group's real estate properties amounted to 6,056,723 thousand tenge (2016: 7,479,628 thousand tenge).

7. INVENTORY PROPERTY

In thousands of tenge	Apartments	Commercial premises	Parking lots	Total
At 31 December 2015	3,806,587	–	–	3,806,587
Additions of property *(Note 8)*	493,020	–	–	493,020
Transferred from investment property *(Note 6)*	–	81,696	8,000	89,696
Sold property *(Note 25)*	(3,010,482)	(28,037)	–	(3,038,519)
Leased out	–	(81,696)	(8,000)	(89,696)
Internal transfers	(95,318)	95,318	–	–
Transferred to other non-current assets *(Note 13)*	(933,173)	28,037	–	(905,136)
At 31 December 2016	260,634	95,318	–	355,952
Additions of property *(Note 8)*	**23,055**	–	–	**23,055**
Transferred from investment property *(Note 6)*	–	**135,667**	–	**135,667**
Sold property *(Note 25)*	**(233,079)**	**(25,847)**	–	**(258,926)**
Leased out	–	**(134,227)**	–	**(134,227)**
Transferred from other non-current assets *(Note 13)*	**19,470**	**24,407**	–	**43,877**
Transferred to other non-current assets *(Note 13)*	**(21,945)**	**(95,318)**	–	**(117,263)**
At 31 December 2017	**48,135**	–	–	**48,135**

In 2017, the Group received two blocks in "Shygys" residential complex in Astana, as part of "Nurly Zher" program in the areas of rental housing (earlier – "Regional development program – 2020").

8. ADVANCES PAID TO CONSTRUCTION COMPANIES

The Group enters into agreements with construction companies (hereinafter, "Construction companies") for acquisition of apartments, commercial premises and parking lots. In accordance with provisions of the agreements the Group is obliged to make advance payments to the Construction companies and the Construction companies undertook to complete construction by the established dates. The Group becomes an owner of respective objects after completion of construction by the Construction companies and their appropriate registration with relevant authorities. Completion of construction under existing contracts is expected in 2018.

The agreements of the Group with Construction companies contain a guarantee provision according to which Construction companies provide collateral in the form of land lots and construction-in-progress to cover the risk of loss of the Group's advance payment.

Movement of advances paid to construction companies for 2017 and 2016 is presented as follows:

In thousands of tenge	**2017**	2016
Beginning of the year	**13,551,250**	9,746,719
Advances paid for the year	**10,498,809**	8,102,975
Purchased real estate objects	**(13,203,019)**	(3,878,281)
Transfer of rights	**–**	(471,176)
Guarantee payments	**197,470**	51,013
Ending of the year	**11,044,510**	13,551,250
Less: advances for objects under construction, which will be sold / transferred to ownership of the Group within 12 months after the reporting date	**(8,103)**	(3,758,257)
Advances for objects under construction, which will be leased out	**11,036,407**	9,792,993

The received construction objects were recognised in consolidated statement of financial position as follows:

In thousands of tenge	**2017**	2016
Other non-current assets *(Note 13)*	**13,228,648**	3,337,168
Inventory property *(Note 7)*	**23,055**	493,020
Construction in-progress services, not related to advances given	**(48,684)**	–
Paid VAT for other long-term assets	**–**	48,093
	13,203,019	3,878,281

9. NON-CURRENT FINANCIAL ASSETS

Non-current financial assets are as follows:

In thousands of tenge	**2017**	2016
Finance lease receivables	**40,042,701**	37,820,240
Financing of construction companies	**158,219**	52,996
Loans issued for construction companies under the program "Nurly zher"	**–**	32,369,914
Option at fair value *(Note 16)*	**–**	352,105
	40,200,920	70,595,255

9. NON-CURRENT FINANCIAL ASSETS (continued)

Finance lease receivables

Finance lease receivables represented by the minimum lease payments receivable in future periods under the existing finance lease agreements. Minimal lease payments receivable in future periods under finance lease contracts as well as present value of net minimal lease payments are presented in the table:

	2017		2016	
In thousands of tenge	**Minimum lease payments**	**Present value of payments**	Minimum lease payments	Present value of payments
Within one year	**6,407,212**	**2,222,718**	5,850,248	1,894,091
More than 1 year but less than 5 years	**25,554,330**	**9,830,508**	23,331,101	8,554,914
Over five years	**42,893,147**	**30,212,193**	42,767,017	29,265,326
Total minimum lease payments	**74,854,689**	**42,265,419**	71,948,366	39,714,331
Less financial income	**(32,589,270)**	**–**	(32,234,035)	–
Present value of minimum lease payments	**42,265,419**	**42,265,419**	39,714,331	39,714,331
Less: amounts due for settlement within 12 months *(Note 16)*		**(2,222,718)**		(1,894,091)
Amounts due for settlement after 12 months		**40,042,701**		37,820,240

In 2017 increase in finance lease receivables was caused by the sales of property under finance lease agreements in residential complexes "Asyl Arman" in Almaty, "Khan Tengri" in Astana and "Unis City" in Aktobe "Sovremenniy" and "Shygys" in Astana, Etalon in Almaty, "Zhanuya" in Karaganda, and "Ust-Kamenogorsk" under the "Nurly Zher" program in the areas of rental housing (earlier – "Regional development program – 2020").

Loans to construction companies under the program "Nurly Zher"

In 2016 the Group became a participant of Government program of infrastructure development "Nurly Zerl" in terms of support to constructing companies of private commercial premises. Under this program the Group provides loans to construction companies for the period up to 24 months at interest rate of 7.5% for the whole financing period.

Since the Group provides loans below market interest rates, the loans given to construction companies with accrued interest are initially recognised at fair value.

In addition, in 2017, the Group reclassified loans issued under the "Nurly Zher" program in the areas of commercial housing to short-term loans due to repayment of loans in 2018 in accordance with contractual obligations *(Note 15).*

Interest bearing financing of construction companies

In accordance with the terms of certain construction contracts, the Group makes prepayments in the course of construction of the object, but the construction company has a right to sell the object at any price. The construction company has such right in the course of the construction and within one year after the construction is completed. In accordance with contract terms an interest of 5%-7% per annum is accrued on the financing made to the construction company. The Group considers such financing as a financial instrument.

During 2017, due to the planned repayment the Group reclassified loans given to construction companies to short-term borrowings. As at 31 December 2017 the current portion of loans given to construction companies amounted to 97,180 thousand tenge (2016: 165,629 thousand tenge) including interest accrued *(Note 16).*

Option at fair value

In accordance with the instruction of the Government of the Republic of Kazakhstan regarding implementation of the Green Quarter project (the "Project"), in December 2013 the Group entered into the agreement with BI Corporation LLP. In accordance with this agreement, the Group finances the Project for the total amount of 44 billion tenge, of which own funds amount to 15 billion tenge (the remaining amount will be provided by the Parent).

To implement the Project, the Group will place deposits for the total amount of 44 billion tenge in the second tier banks for the period of 18 years at 3.5% per annum. The banks will then finance the Project company EXPO Village LLP. As at 31 December 2017 the Group placed 41,450,537 thousand tenge (2016: 30,800,000 thousand tenge) *(Note 10).*

9. NON-CURRENT FINANCIAL ASSETS (continued)

Option at fair value (continued)

In addition to the agreement on mutual realization of the project, SK Development LLP and BI Corporation LLP have signed the sale-purchase agreement for 49.9% share in EXPO Village LLP, a subsidiary of BI Corporation LLP for consideration of 100 tenge. The date of ownership transfer for this share is stated to be the earliest of the two: 1 April 2017 or the commissioning date of the Project. According to the agreement the Group has share in net income from sales of property constructed under the Project.

In May 2017, the Group signed an additional agreement, according to which the key date of the Project was changed from 1 April 2017 to 31 December 2017. However, in December 2017, the Group signed additional agreement No. 9 in addition to the mutual realization agreement of the "Green Quarter" about the transfer of the key date from 31 December 2017 to 1 April 2018.

These agreements resulted in Group's not immediately exercisable call option to purchase a share in EXPO Village LLP, which is a derivative financial instrument under IAS 39, and shall be recognised at its fair value in the consolidated financial statements of the Group.

As at 31 December 2017 the Group reassessed fair value of the option for 352,105 thousand tenge (2016: 352,105 thousand tenge) and transferred option to the current financial assets considering the fact the execution of the option is expected during 2018 *(Note 16)*. The Group applied Black Scholes' model to determine the fair value of the option.

10. AMOUNTS DUE FROM CREDIT INSTITUTIONS

In thousands of tenge	2017	2016
Deposits with other Kazakhstani banks	**41,450,537**	41,800,000
Interest accrued	**136,447**	209,274
Deposits with Delta Bank JSC	**–**	5,000,000
	41,586,984	47,009,274
Deposits placed for a period of less than 1 year	**(136,447)**	(16,209,274)
Long-term deposits	**41,450,537**	30,800,000

Long-term deposits comprise special deposits under the "Green Quarter" project with second tier banks with an interest rate of 3.5%.

In 2017 the Group reclassified short term deposits placed with Delta Bank JSC in the amount of 5,000,000 thousand tenge from amounts due from credit institutions to other current assets due to accrual of impairment provision for the reason of revocation of the bank license for conducting banking and other operations *(Note 11)*.

11. OTHER CURRENT ASSETS

In thousands of tenge	2017	2016
Cash and cash equivalents with DeltaBank JSC	**5,067,902**	–
Cash and cash equivalents with KazInvestBank JSC	**1,454,281**	1,634,309
Cash and cash equivalents with AlfaBank JSC	**234,771**	–
Other current assets	**30,874**	112,536
Provision for impairment	**(6,691,172)**	(1,634,309)
Short-term deposits	**96,656**	112,536

As of 31 December 2017 other current assets represent debt on claims, and also cash and cash equivalents on the current account of second tier bank Kazinvestbank JSC for 1,454,281 thousand tenge with an interest rate of 10% per annum and short-term deposit placed with Delta Bank JSC in amount of 5,067,902 thousand of tenge with an interest rate of 14% per annum for which the Group created provision for impairment due to revocation of the bank license for conducting banking and other operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. OTHER CURRENT ASSETS (continued)

On 19 May 2017 DB Alfa Bank JSC and the temporary administration of Kazinvestbank concluded an agreement on the simultaneous transfer of assets and liabilities of Kazinvestbank JSC. In June 2017 DB Alfa Bank and the Group, acting as a pledger for the pool of loans transferred from Kazinvestbank JSC, signed contracts for the pledge of cash in amount of 247,273 thousand of tenge.

As at 31 December 2017 the Group reversed provision for 11,084 thousand tenge.

Movement of provisions for impairment for other assets is presented as follows:

In thousands of tenge	2017	2016
Balance at the beginning of the year	**1,634,309**	–
Reversal	**(11,084)**	–
Accrual	**5,067,947**	1,634,309
Balance at the end of the year	**6,691,172**	1,634,309

12. INVESTMENTS IN ASSOCIATE

The Group has a 49% share in the company FN Management LLP. Principal place of operations and its country of incorporation of FN Management LLP (hereinafter, the "FN Management") is the Republic of Kazakhstan. The main activity of FN Management is real estate management.

The following table illustrates the summarized financial information of FN Management:

In thousands of tenge	2017	2016
Balance at 1 January	**43,641**	–
Additional contribution	–	–
Disposals	–	–
Acquisition of associated companies	–	46,434
Loss of control	–	–
Share of net profit	**3,513**	(2,793)
Impairment of investments	–	–
Other changes	–	–
Balance at 31 December	**47,154**	43,641

Below is a summarized financial information about associate, based on its financial statement.

In thousands of tenge	2017	2016
Non-current assets	**7,185**	6,493
Current assets	**130,881**	94,935
Current liabilities	**(41,833)**	(12,365)
Net assets	**96,233**	89,063
Ownership	**49%**	49%
The current value of the investment as of 31 December	**47,154**	43,641

In thousands of tenge	2017	2016
Revenues from sales and services rendered	**290,313**	270,725
Profit/(loss) for the year from continuing operations	**7,170**	(5,700)
The Group's share in profit/(loss)	**3,513**	(2,793)

13. OTHER NON-CURRENT ASSETS

In thousands of tenge	Real estate property	Land plots	Construction in progress	Others	Total
As of 31 December 2015	9,053,688	613,661	1,788,502	–	11,455,851
Additions of property	9,617	–	81,355	–	90,972
Transfer of finished construction objects from advances given *(Note 8)*	2,122,768	–	1,214,400	–	3,337,168
Transfer from construction in progress	1,945,455	–	(1,945,455)	–	–
Transferred from inventory property *(Note 7)*	905,136	–	–	–	905,136
Realization of construction in progress	–	–	(371,634)	–	(371,634)
Leased out	(6,458,554)	–	–	–	(6,458,554)
Cancelation of lease contract	41,070	–	–	–	41,070
Internal transfers	–	43	(14,411)	14,368	–
Transfer to loan issued *(Note 15)*	–	(613,704)	–	–	(613,704)
Other additions	–	–	–	57,388	57,388
As at 31 December 2016	7,619,180	–	752,757	71,756	8,443,693
Transfer of finished construction objects from advances given *(Note 8)*	**5,868,291**	–	**7,360,357**	–	**13,228,648**
Transferred from inventory property *(Note 7)*	**117,263**	–	–	–	**117,263**
Transferred to inventory property *(Note 7)*	**(43,877)**	–	–	–	**(43,877)**
Leased out	**(4,936,092)**	–	–	–	**(4,936,092)**
Cancelation of lease contract	**24,000**	–	–	–	**24,000**
As at 31 December 2017	**8,648,765**	–	**8,113,114**	**71,756**	**16,833,635**

Construction in progress is represented by assets which are still under construction works and are not ready yet for further exploitation. Those are mainly represented by property under construction which will be further rented under finance lease.

Construction in progress represented residential complex object under construction in Aktau and Astana, where the Group is a customer. The expected year of construction completion is 2018.

Other non-current assets comprise assets recognised by the Group for future leasing out under a finance lease agreement or for which the Group does not have certain plans related to their use in future.

In 2017 the Group transferred apartments and commercial premises in residential complexes "Shygys" and "Khan Tengri" in amount of 43,877 thousand tenge to inventory property for sale due to intention of the Group to realize current property within one year.

14. TRADE ACCOUNTS RECEIVABLE

In thousands of tenge	2017	2016
Trade accounts receivable	**49,951**	397,746
Less: allowance for impairment	**(8,730)**	(8,730)
	41,221	389,016

Trade accounts receivable of the Group represent receivables from operating lease and direct sale of commercial and residential premises. In 2017 the Group sold residential premises in residential complexes "Khan-Tengri", "Shygys", Akzhayik" and "Residential complex on 36 street" under the "Nurly Zher" – rental housing program (earlier – "Regional development program – 2020").

14. TRADE ACCOUNTS RECEIVABLE (continued)

At 31 December 2017 and 2016 accounts receivable were denominated in tenge.

		Neither past	Past due but not impaired				
	Total	due nor impaired	<30 days	30-60 days	61-90 days	91-120 days	>120 days
At 31 December 2017	**41,221**	**41,221**	**–**	**–**	**–**	**–**	**–**
At 31 December 2016	389,016	389,016	–	–	–	–	–

There was no movement in allowance for impairment in 2017.

15. LOANS GIVEN

In thousands of tenge	2017	2016
Loans given to construction companies under Nurly zher program	**53,096,833**	–
Loan to Ayt Housing Complex LLP	**9,234,409**	11,313,062
Loans to other companies	**1,082,281**	1,082,299
Impairment provision	**(1,082,281)**	(1,082,299)
	62,331,242	11,313,062

Loans given to construction companies under the program "Nurly zher"

In 2017 the Group reclassified loans given under the "Nurly Zher" program for commercial purposes from long-term loans given to short term loans due to expected repayment of loans in 2018 in accordance with revised contract terms *(Note 19)*.

For the year ended 31 December 2017 the Group provided loans to construction companies for the total amount of 53,257,410 thousand tenge with initial discount of loans given during 2017 of 711,475 thousand tenge (2016: 6,806,459 thousand tenge). *(Note 25)*. Amortization of discount for 2017 was 4,099,233 thousand tenge (2016: 978,857 thousand tenge) *(Note 24)* and interest receivables – 2,279,267 thousand tenge (2016: 413,890 thousand tenge).

Loan given to Ayt Housing Complex LLP

According to the investment agreement with Ayt Housing Complex LLP in construction of residential complex Akkent dated 6 April 2012 and the agreement for sale of apartments dated 12 August 2013, the Group provided financing with interest accrued for the right to sell facilities. According to provisions of the investment agreement, the Group made advance payments in the amount of 11,114,252 thousand tenge during the construction of real estate properties. As at 31 December 2017 the amortised cost of the loan is 9,234,409 thousand tenge (2016: 11,313,062 thousand tenge).

Ayt Housing Complex LLP had the right to sell the real estate property at a free price for further redemption of principal amount of apartments with accrued interest for the granted right to sell and liability to the Parent under the loan agreement dated 3 March 2010.

In December 2014, the Group and Ayt Housing Complex LLP signed an agreement on compensation according to which Ayt Housing Complex LLP shall be liable to pay its obligations in full in the form of cash in the amount of 11,114,252 thousand tenge and the interest in the amount of 1,426,232 thousand tenge at the rate 5% before the end of 2015. The payment under this agreement is guaranteed by Sekerbank, Turkish joint stock company. Accordingly, the Group reclassified the financing from advances paid to construction companies to loans given. At recognition, the financial instrument was measured at fair value equalling future cash flows on the loan discounted at the rate of 8.2% which represents average market rate on financing of construction in Kazakhstan.

15. LOANS GIVEN (continued)

Loan given to Ayt Housing Complex LLP (continued)

In October 2015, due to changes in conditions of Ayt Housing Complex LLP obligations repayment, the Group revised the discount rate on loans given for new construction and reconstruction to recognise the loan at fair value, which amounted to 11.3%. As a result, the difference between the nominal value of financing and its fair value in the amount of 2,534,007 thousand tenge was recognised in the consolidated statement of comprehensive income as interest expenses. Unamortised discount balance was equal to 1,141,495 thousand tenge as at 31 December 2017 (2016: 1,746,632 thousand tenge). The amortisation of discount recognised in 2017 was 605,139 thousand tenge as at 31 December 2017 (2016: 640,073 thousand tenge) *(Note 24)*.

As at 31 December 2017 loans receivable comprised receivables from Caspian Centre of Development LLP in the amount 613,704 thousand tenge, Omiruzak & Co LLP in the amount of 296,706 thousand tenge, Capitalstroyservice LLP in the amount of 144,889 thousand tenge and Alyansstroyinvest LLP in the amount of 26,982 thousand tenge (2016: 613,704 thousand tenge from Caspian Centre of Development LLP, 296,724 thousand tenge from Omiruzak & Co LLP, 144,889 thousand tenge from Capitalstroyservice LLP and 26,982 thousand tenge from Alyansstroyinvest LLP).

In November 2010 the Group and Caspian Center of Development LLP signed an agreement on providing temporary financial aid in the amount of 900,000 thousand tenge for implementation of the Caspian power Hub project. The Group transferred an amount of 557,873 thousand tenge as repayment of a debt Caspian Development Center LLP to the SWF Samruk-Kazyna JSC.

Obligations under the agreement were not fulfilled by Caspian Development Centre, and the parties signed an agreement on compensation, under which the Group received land for the amount of 613,704 thousand tenge from the Caspian Development Centre LLP.

However, in December 2012 Specialized Interdistrict Economic Court of Aktau declared the transfer of land to be illegal on the basis of the statement of the claim of the Prosecutor's Office of Aktau. The Group appealed the decision to the supervisory authority of the Supreme Court, but the claim of the Group were not satisfied. During 2016 the Group reclassed 613,704 thousand tenge to loans receivable and created a 100% allowance for impairment for the same amount *(Note 13)*.

Loans issued as at 31 December 2017 and 2016 were denominated in tenge.

Movements in allowance for impairment of loans issued were as follows:

In thousands of tenge	2017	2016
Beginning of the year	**1,082,299**	468,649
Recovery	**(18)**	(54)
Accrual	**–**	613,704
Ending of the year	**1,082,281**	1,082,299

16. CURRENT FINANCIAL ASSETS

In thousands of tenge	2017	2016
Available-for-sale financial assets	**2,443,193**	2,277,324
Finance lease receivables *(Note 9)*	**2,222,718**	1,894,091
Option at fair value *(Note 9)*	**352,105**	–
Interest bearing financing of construction companies *(Note 9)*	**97,180**	165,629
Other	**251,836**	154,975
	5,367,032	4,492,019

Financial assets available for sale represent government bonds with the annual interest rate of 6.7%. In 2017 unrealised gains on government bonds amounted to 165,869 thousand tenge (2016: losses 266,843 thousand tenge). Current financial assets as at 31 December 2017 and 2016 were denominated in tenge.

17. CASH AND CASH EQUIVALENTS

In thousands of tenge	**2017**	2016
Short-term deposits	**13,594,871**	3,095,000
Accounts with banks	**12,777,642**	36,609,262
	26,372,513	39,704,262

As at 31 December 2017 and 2016 cash and cash equivalents are represented by current bank accounts in tenge. Interest is accrued on the balance of cash in current bank accounts at various rates from 2.5% to 10%.

Short-term deposits are represented by deposits with maturity not more than 3 months placed with second-tier banks with an interest rate of 7.5%-8.7%.

18. EQUITY

Share capital

The share capital of the Group is fully paid and comprises of 16,247,541 ordinary shares: 15,000,000 shares with par value 1,000 tenge, 1,247,540 shares with par value 4,000 tenge and one share with par value 2,490 tenge.

Additional paid-in capital

As disclosed in *Note 19*, in 2009 and 2010 the Group received a loan from the Parent. The Group discounted the received amount using the rates of return on government bonds with similar terms as at the dates of tranches. Accordingly, the difference between the nominal value and their fair value totalling to 11,356,866 thousand tenge was recognised as additionally paid in capital. In the event of early repayment of borrowings at the request of the Parent in 2012, loans were recalculated at revised effective interest rates and the amount of unamortised discount in the amount of 7,919,621 thousand tenge (in 2011: 3,744,974 thousand tenge and in 2012: 4,174,647 thousand tenge) was recognised in the consolidated statement of changes in equity as a decrease in additional paid-in capital due to changes in loan terms. At 31 December 2017 and 2016, unamortised discount amounted to 3,437,245 thousand tenge.

Dividends

In 2017 the Group declared and paid dividends on its ordinary shares in the amount of 613,390 thousand tenge (2016: 220,079 thousand tenge).

Available-for-sale instruments revaluation reserve

Available-for-sale instruments revaluation reserve is represented by changes in the fair value of financial assets available for sale *(Note 16)*.

19. PARENT LOANS

In thousands of tenge	% rate	Repayment	2017	2016
Credit facility No. 1	0.02-2%	2024		
Balance, beginning			**21,077,717**	40,884,744
Interest accrued			**366,259**	711,424
Payments			**(4,465,226)**	(20,518,451)
Balance, ending			**16,978,750**	21,077,717
Credit facility No. 2	2.0%	2022		
Balance, beginning			**–**	4,000,000
Interest accrued			**–**	55,796
Payments			**–**	(4,055,796)
Balance, ending			**–**	–
Credit facility No. 3	2.0%	2022		
Balance, beginning			**72,327,806**	55,816,713
Loans obtained			**–**	20,802,330
Interest accrued			**1,409,099**	1,323,580
Payments			**(6,856,595)**	(5,614,817)
Balance, ending			**66,880,310**	72,327,806
Credit facility No. 4	2.0%	2018		
Balance, beginning			**29,000,000**	–
Loans obtained			**–**	29,000,000
Interest accrued			**580,000**	178,644
Payments			**(580,000)**	(178,644)
Balance, ending			**29,000,000**	29,000,000
Credit facility No. 5	0.15%	2019		
Balance, beginning			**19,860,551**	–
Loans obtained			**12,108,303**	42,875,500
Interest accrued			**73,933**	26,261
Discount			**(3,064,536)**	(23,706,680)
Amortization of discount			**5,650,967**	675,653
Change in fair value			**17,632,128**	–
Interest paid			**(69,392)**	(10,183)
Balance, ending			**52,191,952**	19,860,551
Financial aid ***(Note 10)***	0%	2017		
Balance, beginning			**–**	3,300,000
Receipt of loans			**–**	–
Repayment of borrowings			**–**	(3,300,000)
Balance, ending			**–**	–
			165,051,012	142,266,074
Current portion of loans			**163,974,691**	122,421,602
Non-current portion of loans			**1,076,322**	19,844,472

Credit facility No. 1

This credit facility was opened in 2009 to acquire residential and non-residential premises in completed projects or projects under construction with initial total amount of 225 billion tenge and three years' grace period to pay the principal. In August 2010, the initial amount of the credit facility was reduced to 155 billion tenge. In addition, the credit facility interest rate was reconsidered and set at the rate of 0.02% p.a. during the first two years from the drawdown date and 2% p.a. during subsequent years.

19. PARENT LOANS (continued)

Credit facility No. 1 (continued)

As at the date of recognition (2010) the Group discounted received amount using the rate of return on similar government bonds as at the dates of tranches. Correspondingly, the discount recognised as the difference between nominal value of all loans received and their fair value was recognised within additional paid in capital. In the event of early repayment of borrowings in 2012 loans were recalculated at reconsidered effective interest rates and the amount of unamortised discount in the amount of 4,174,647 thousand tenge was recognised in the consolidated statement of changes in equity as a decrease in additional paid-in capital due to changes in loan terms. At 31 December 2017 and 2016 unamortised discount amounted to 3,437,245 thousand tenge.

In December 2013 additional changes in the credit facility terms were introduced. The significant change related to the right of the Parent to demand, at any time, early repayment under this credit facility.

In 2017 the Group made early repayment of current portion of the loan in the amount of 4,325,452 thousand tenge and interest accrued in the amount of 139,774 thousand tenge. Due to completion of the anti-crisis program, the Group is not planning to assume any additional obligations under this credit facility.

As at 31 December 2017 interest rate was equal to 2% (2016: 2%). Interest is paid on a semi-annual basis.

Credit facility No. 2

This credit facility was opened in 2012 for the total amount of 17,100,000 thousand tenge to finance pilot projects in Astana and Shymkent as part of the Housing Construction Program of Kazakhstan for 2011-2014. According to the terms of agreement the Parent has the right to demand early repayment of the loan. Interest is paid on an annual basis. Under this credit facility the credit funds were received in the amount of 5,000,000 thousand tenge. Group does plan to implement pilot projects in future. The unused amounts of the facility was reallocated by the Parent to other projects.

In September 2016 the Group fully repaid the loan prior to its maturity.

Credit facility No. 3

This credit facility was opened in 2012 for the total amount of 99,053,000 thousand tenge, to finance housing construction projects, within the "Nurly Zher" – rental housing program (earlier – "Regional development program – 2020") approved by the Decree of the Government of Kazakhstan No. 821 dated 21 June 2012. According to the terms of agreement, the Parent has the right to demand early repayment of the loan. Interest is paid on a semi-annual basis. The unused amounts under this credit facility was 22,433,957 thousand tenge as at 31 December 2017.

Credit facility No. 4

In 2016, the Group entered into a credit agreement for a total amount of 29,000,000 thousand tenge for financing the project for construction of administrative and residential complex "Green Quarter" for a period of 18 months at interest rate of 2% per annum. Under the terms of the agreement the Parent has the right to demand early payment of the loan. During 2016 the Group received the entire amount of the credit facility. In 2017 the Group paid interest in the amount of 580,000 thousand tenge.

Credit facility No. 5

In 2016, the Group became a participant of the State program of infrastructure development "Nurly Zher" in terms of support to private commercial housing builders. Under this program, the Group receives loan from the Parent in the amount of 97 billion tenge until 2026 with an interest rate of 0.15% per annum. Since loan received is granted to the Group at an interest rate below the market rate, the loan is recognised at fair value.

During 2016, the Group received a loan under this program in the amount of 42,875,500 thousand tenge, the initial discount of 23,706,680 thousand tenge was recognised as deferred income, 4,326,492 thousand tenge of which were recognised as income from government subsidies *(Note 23)*.

19. PARENT LOANS (continued)

Credit facility No. 5 (continued)

In September 2017 the Group signed addendum to the agreement which provides the new credit terms of the agreement and states that the Group's obligation is to make early repayments of the loan on a quarterly basis not later than 30 calendar days following the reporting period if invested funds are returned by construction companies . This condition involves the revision of certain assumptions used to recognise a loan at fair value, in particular, changes in the calculation of the amount of cash flows discounted at the market interest rate. As the revised fair value was significantly different from the fair value at initial recognition, the Group derecognised the original loan and recognised the new loan.

Due to the new credit terms, which exclude reinvestment of funds, the Group derecognised the tranches of the loan recognised under the previous terms of the Loan agreement and recognised the new loan at fair value from the date of additional agreement based on assumptions above.

Fair value of tranches obtained comprised 50,913,339 thousand tenge and discount – 4,070,464 thousand tenge. At recognition of this loans under new terms the Group recognised discount as interest income received and amortise it through interest expenses during corresponding maturity period for each tranche received.

The amount of amortisation of discount for 2017 was 5,650,967 thousand tenge including unamortised discount of 3,047,263 thousand tenge recognised earlier (2016: 675.653 thousand tenge) *(Note 25)*.

All funds obtained are not secured by guaranties or collateral.

Financial aid

In December 2014, the Group concluded an agreement with the Parent on provision of temporary financial aid dated 31 December 2014 in the amount of 3,300,000 thousand tenge for SK Development LLP for the purpose of placing funds on current accounts with second tier banks. The funds will be used as collateral for the loan obtained by EXPO Village LLP for further financing and implementation of the Green Quarter project. On 31 December 2017 the financial aid from the Parent company was fully repaid by the Group.

20. OTHER NON-CURRENT LIABILITIES

In thousands of tenge	2017	2016
Guarantee payments	**1,624,297**	1,574,648
	1,624,297	1,574,648

Guarantee payments represent amounts contributed by lessees to secure obligations of the Group under finance lease agreements. The Group uses guarantee payments to settle the obligations of lessees under the finance lease agreements at the end of the rent period.

21. ACCOUNTS PAYABLE

As at 31 December 2017 and 2016 the accounts payable comprised payables to suppliers of goods, works and services for operating activities of the Group. Accounts payable are denominated in tenge and non-interest bearing.

22. OTHER CURRENT LIABILITIES

In thousands of tenge	2017	2016
Guarantee obligations	**275,457**	174,524
Payments for operator services of Ayt Housing Complex LLP	**176,597**	191,557
Deferred revenue	**174,360**	15,306
Taxes payable other than income tax	**142,201**	71,799
Advances received	**118,988**	39,839
Salary payable	**105,328**	153,409
Other current liabilities	**523,059**	409,275
	1,515,990	1,055,709

The guarantee obligations represent Group's repayment obligations to construction companies that had completed construction of facilities upon the expiry of one year period since the commissioning date.

23. DEFERRED REVENUE

Deferred revenue is represented by government grants, which were given for the period up to 10 years with interest rate of 0.15% per annum, for support to the private constructors of commercial residential property under the Government program of infrastructure development of "Nurly Zher" *(Note 19)*. The discount of loan received is initially recognised as deferred revenue.

In 2017, due to the revision of the terms under the Loan Agreement and the conclusion of an additional agreement under the Nurly Zher Program, the commercial direction, under which the Group early repaid the credit line, the Group revised the fair value of the financial instrument and ceased recognizing the loan received under the old terms through deferred income *(Note 19)*. Remaining part of deferred income under "Nurly zher" program, commercial direction, amounted to 159,054 thousand tenge was transferred to other current liabilities.

In 2017 the Group recognised income from the discount amortization as income from the government subsidy in the amount of 4,653,544 thousand of tenge (2016: 4,326,492 thousand tenge).

24. REVENUE

In thousands of tenge	**2017**	2016
Amortisation of discount *(Note 15)*	**4,704,372**	1,618,930
Revenue from finance lease	**4,253,329**	4,087,695
Interest income on interest bearing financing of construction companies	**2,297,270**	908,575
Interest income on deposit Green Quarter	**1,357,089**	260,108
Compensation for property management	**425,941**	304,307
Sale of residential and commercial premises	**318,310**	3,954,439
Revenue from operating lease	**273,372**	289,852
Revenue from sale of construction in progress	**–**	829,979
Other	**54,394**	607,728
	13,684,077	12,861,613

In 2017 sales of residential and commercial premises comprise revenue from sale of residential premises (apartments) in Almaty, Astana and Taraz under "Nurly Zher" – rental housing program in the amount of 283,050 thousand of tenge and revenue from sale of parking lots and commercial premises in the amount of 35,260 thousand tenge. In 2016 the Group sold residential premises (apartments) in Almaty, Astana and Taraz under "Regional development program – 2020" in the amount of 3,917,990 thousand of tenge and parking lots and commercial premises in the amount of 36,449 thousand tenge.

In 2016 the Group sold construction in progress in Kyzylorda to Bereke KZ LLP in the amount of 829,979 thousand tenge.

25. COST OF REVENUE

In thousands of tenge	**2017**	2016
Amortization of discount *(Note 19)*	**5,650,967**	675,653
Interest expense	**880,418**	426,567
Recognition of discount on a loan issued *(Note 15)*	**711,475**	6,806,459
Maintenance of real estate properties	**295,437**	324,991
Operating taxes	**267,673**	596,835
Cost of residential and commercial premises sold *(Note 7)*	**258,926**	3,038,519
Depreciation and amortisation	**84,660**	84,605
Cost of construction in progress sold	**–**	803,975
Other	**49,402**	19,824
	8,198,958	12,777,428

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of tenge	2017	2016
Salaries and related taxes	**890,809**	854,373
Professional services	**288,798**	115,746
Other taxes and obligatory payments to the budget	**74,584**	15,607
Depreciation and amortisation	**64,859**	87,820
VAT expenses	**53,621**	83,530
Maintenance of administrative building	**46,623**	46,452
Board of Directors maintenance expenses	**46,401**	50,998
Rent	**19,121**	19,125
Travel expenses	**16,758**	13,656
Repair and maintenance	**15,033**	51,350
Advertising and publishing	**14,298**	15,083
Communication	**12,619**	10,570
Materials	**9,362**	9,374
Bank charges	**5,748**	3,647
Other	**99,818**	68,431
	1,658,452	1,445,762

27. FINANCE INCOME / (FINANCE COSTS)

In thousands of tenge	2017	2016
Finance income		
Interest income on bank deposits and current bank accounts	**2,988,181**	6,832,366
Income on government bonds	**166,649**	166,397
	3,154,830	6,998,763
Finance costs		
Interest expenses on loans from the Parent	**(1,548,873)**	(1,869,138)
Loss on change in fair value of the option	**–**	(372)
	(1,548,873)	(1,869,510)

28. INCOME TAX EXPENSES

Income tax expenses for 2017 and 2016 are as follows:

In thousands of tenge	2017	2016
Current income tax expenses	**1,111,171**	1,807,800
Deferred income tax expenses/(benefit) relating from origination and reversal of temporary differences	**374,779**	(6,844)
	1,485,950	1,800,956

Reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at 31 December 2017 and 2016 is as follows:

In thousands of tenge	2017	2016
Profit before taxation	**5,323,077**	5,890,223
Statutory tax rate	20%	20%
Income tax at statutory income tax rate	**1,064,615**	1,178,045
Revenue from coupon on government securities	**(33,331)**	(33,280)
Recognition of discount on loans issued	**142,295**	1,361,292
Amortization of discount on loan received	**1,130,193**	135,130
Allowance for doubtful debts	**1,013,581**	324,845
Income from government subsidy	**(930,709)**	(865,298)
Amortisation of discount on financial instruments	**(940,874)**	(323,786)
Other non-deductible expenses	**40,180**	24,008
	1,485,950	1,800,956

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. INCOME TAX EXPENSES (continued)

As at 31 December 2017 components of deferred tax assets and liabilities are as follows:

	Consolidated statement of financial position		Consolidated statement of comprehensive income	
In thousands of tenge	**2017**	2016	**2017**	2016
Deferred tax assets				
Provisions on loans issued, current financial assets and accounts receivable	**218,202**	218,206	**(4)**	122,730
Taxes	**2,847**	1,645	**1,202**	501
Capitalized interest	**32,452**	3,011	**29,441**	3,011
Deferred revenue	**36,736**	39,797	**(3,061)**	(3,061)
Other	**25,247**	32,605	**(7,358)**	(14,125)
	315,484	295,264	**20,220**	109,056
Deferred tax assets offset against liabilities	**(315,484)**	(295,264)	**(20,220)**	(109,056)
Deferred tax assets	**–**	–	**–**	–
Deferred tax liabilities				
Property and equipment	**(431,763)**	(409,839)	**(21,924)**	(19,434)
Expected interest on loans given	**(455,853)**	(82,778)	**(373,075)**	(82,778)
	(887,616)	(492,617)	**(394,999)**	(102,212)
Offset of deferred tax assets	**315,484**	295,264	**20,220**	109,056
Deferred tax liabilities	**(572,132)**	(197,353)		
Net deferred tax benefit/ (expenses)			**(374,779)**	6,844

Reconciliation of net deferred tax liabilities:

In thousands of tenge	**2017**	2016
Balance at 1 January	**197,353**	204,197
Income tax expense/(benefit) recognised in profit or loss	**374,779**	(6,844)
Balance at 31 December	**572,132**	197,353

As at 31 December 2017 and 2016 the Group had no unrecognised deferred tax assets.

29. RELATED PARTY TRANSACTIONS

The category "Entities under the Parent's control" comprises organisations controlled by the Parent.

Related party transactions were made on terms agreed to between the parties. Purchases and sales transactions are made on market terms. Outstanding balances at the year-end are unsecured, short-term and settlement occurs in cash, except as discussed below.

As at 31 December 2017 and 2016 the Group did not record any impairment of accounts receivables relating to amounts owned by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Major transactions with related parties for 2017 and 2016 are as follows:

In thousands of tenge	**2017**	2016
Entities under the Parent's control		
Income from operating lease	**21,997**	21,148
Sales to related parties	**667,610**	530,891
Purchases from related parties	**181,547**	155,754
	871,154	707,793

29. RELATED PARTY TRANSACTIONS (continued)

As a result of the above transactions, the Group had the following amounts due from related parties (due to related parties) as at 31 December 2017 and 2016:

In thousands of tenge	**2017**	2016
Entities under the Parent's control		
Trade accounts receivable	**758**	658
Accounts payable	**(13,271)**	(13,498)

Loans from the Parent

Details of loans obtained from the Parent are disclosed in *Note 19*.

Compensation to the key management personnel

In 2017 key management personnel consisted of seven persons (2016: eight persons). Total compensation to the key management personnel included in payroll expenses amounted to 126,180 thousand tenge for the reporting period (2016: 139,840 thousand tenge). Compensation to the key management personnel mainly consists of contractual salary and year-end bonus.

The Group performed additional procedures to determine related parties with respect to the key management personnel. As a result of these procedures no related parties were identified.

30. FINANCIAL COMMITMENTS AND CONTINGENCIES

Contractual commitments

As at 31 December 2017 the Group had contractual obligations in the amount of 47,281,136 thousand tenge (2016: 73,739,216 thousand tenge) under agreements with construction companies.

The Green Quarter project

As disclosed in *Note 9*, in December 2013 the Group entered into the agreement for joint implementation of the project with BI Corporation LLP. In accordance with this agreement, the Group finances the Project for the total amount of 44 billion tenge, of which own funds of the Group amount to 15 billion tenge.

As at 31 December 2017 the Group financed this Project in the amount of 41,450,537 thousand tenge. The Group expects to finance the remaining portion during 2018.

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, including opinions with respect to IFRS treatment of revenues, expenses and other items in the financial statements. The current regime of penalties and interest related to unreported and discovered violations of Kazakhstan law are severe. Fines are generally 50% of any taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Republic of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for 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. The management believes that as at 31 December 2017 its interpretation of the relevant legislation is appropriate and that the Group's tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main financial liabilities of the Group comprise loans from the Parent, payables and other current liabilities. The main purpose of these financial liabilities is to finance operating activities of the Group. The Group also has various financial assets such as cash and cash equivalents, finance lease receivables, trade receivables, bank deposits and government bonds.

The main risks arising from these financial instruments are liquidity risk and credit risk.

Liquidity risk

Liquidity risk is the risk that the Group 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 on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise. As at 31 December 2017 the Group's current liabilities exceeded its current assets by 71,183,480 thousand tenge (2016: 47,176,429 thousand tenge). This excess has developed mainly due to the classification of the Parent loans in the amount of 163,974,691 thousand tenge as current due to the Parent's right to demand early repayment of these loans. Management covers liquidity requirements by expanding its operating activities, as well as through funding from the Parent.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2017 and 31 December 2016 based on contractual undiscounted payments.

	On demand	**Less than 3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
31 December 2017						
Loan from the Parent	112,867,060	–	51,111,985	1,071,968	–	165,051,013
Accounts payable	–	351,385	–	–	–	351,385
Other current liabilities	–	–	1,149,474	–	–	1,149,474
	112,867,060	**351,385**	**52,261,459**	**1,071,968**	**–**	**166,551,872**

	On demand	Less than 3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2016						
Loan from the Parent	122,405,523	16,077	–	–	19,844,473	142,266,073
Accounts payable	–	275,924	–	–	–	275,924
Other current liabilities	–	–	790,662	–	–	790,662
	122,405,523	292,001	790,662	–	19,844,473	143,332,659

Credit risk

Financial instruments that potentially expose the Group to credit risk consists of cash on deposits and current bank accounts, accounts receivable and issued loan. The maximum exposure to credit risk is represented by the balance sheet value of each financial asset.

The Group exposed to credit risk from its operating activities and some investing activities. In the course of investing activities, the Group mainly places deposits at Kazakhstan banks.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The following table shows the balance of cash, bank deposits placed in banks at the reporting date using the "Standard & Poor's" and "Fitch" agencies' credit ratings, net of provisions:

In thousands tenge	Location	Ratings 2017	Ratings 2016	31 December 2017	31 December 2016
"ATF Bank" JSC	Kazakhstan	**B/Negative**	B/Negative	**44,142,640**	33,001,803
"Halyk Bank" JSC	Kazakhstan	**BB/Negative**	BB/Negative	**10,456,411**	1,327,792
"Forte Bank" JSC	Kazakhstan	**B/Positive**	B/Stable	**6,308,511**	194,200
"Tsesna Bank" JSC	Kazakhstan	**B+/ Negative**	B+/Stable	**3,958,736**	603,241
"Kazkommetcbank" JSC	Kazakhstan	**B+/Negative**	B-/Negative	**3,093,102**	2,143,355
"Alfa Bank JSC	Kazakhstan	**BB-/Stable**	BB-/Stable	**64**	–
"Nurbank" JSC	Kazakhstan	**B-/Negative**	B/Negative	**33**	28,343,114
"Bank RBK" JSC	Kazakhstan	**CCC**	B-/Stable	**–**	16,091,739
"Delta Bank" JSC	Kazakhstan	**D**	D	**–**	5,000,005
"Centr Credit bank" JSC	Kazakhstan	**B/Stable**	B/Stable	**–**	8,109
"Sber bank" JSC	Kazakhstan	**BB+/Positive**	B-/Negative	**–**	128
"Eurasian Bank" JSC	Kazakhstan	**B/Negative**	B/Stable	**–**	39
"Bank Astani" JSC	Kazakhstan	**B-/Stable**	B/Stable	**–**	10
"Asia credit Bank" JSC	Kazakhstan	**B-/Stable**	B/Negative	**–**	1
Total				**67,959,497**	86,713,536

"KazInvestBank" JSC credit risk

In December 2016 the National Bank of Republic of Kazakhstan revoke license of "KazInvestBank" to conduct banking and other operations and activities on the securities market and has appointed an interim administration. As of 31 December 2017 the Group created 100% provision on cash deposit in amount of 1,634,309 thousand tenge and reflected this provision in the statement of other comprehensive income provision as impairment loss *(Note 11)*.

During 2017 the Group accrued additional impairment provision of interest income received from Kazinvestbank JSC in amount of 75,845 thousand tenge.

On 19 May 2017 the temporary administration of Kazinvest Bank and DB Alfa bank concluded an agreement on transfer of assets and liabilities of Kazinvest Bank. In June 2017 the Group, acting as a pledger for a pool of loans transferred from Kazinvestbank, signed contracts on pledges in amount of 247,273 thousand tenge. As at 31 December 2017 the amount of 11,084 thousand tenge was returned to the Group.

"Delta Bank" JSC credit risk

On 31 December 2017 the Group held deposits in the total amount of 5,067,902 thousand tenge in Delta Bank. On 30 December 2016 the Standard & Poor's long-term/short-term of Delta Bank's credit rating was downgraded from "B/B" to "CCC+/C" then to "D/D" on 16 February 2017 following its default on the principal bond payment amount of 9,800,000 thousand tenge.

On 3 November 2017 the National Bank of the Republic of Kazakhstan revoked Delta Bank JSC a license to conduct banking and other transactions and activities on security market and created temporary administration.

During 2017 the Group accrued the provision on deposit placed in Delta Bank JSC in the amount of 5,067,902 thousand of tenge which reflected as impairment loss in other comprehensive income *(Note 11)*.

Fair value of financial instruments

As at 31 December 2017 financial assets at fair value comprised public debt securities and the right to buy a participatory interest. These financial assets are categorised within Level 1 and Level 3 of fair value hierarchy based on the lowest level input that is significant to the fair value measurement.

Management has determined that the fair value of cash and short-term deposits, trade receivables and payables, bank overdrafts and other current liabilities approximately equal to their carrying amount, mainly due to the short-term nature of these instruments.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value of financial instruments (continued)

The Group determined the fair value of the right to buy a participatory interest in Expo Village LLP, which allows to assess the fair value of this financial instrument. Accordingly, this right to buy a participatory interest was recognised in the consolidated financial statements of the Group as satisfying to the assets recognition criteria according to IFRS.

The fair value of the financial assets and liabilities included in the financial statements represent an amount for which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics incidental to the financed project. Based on this evaluation, allowances are taken to account for the expected losses of these receivables. As at 31 December 2017 the carrying amounts of such receivables, net of allowances, are not materially different from their fair values.
- Fair value of quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- Fair value of available-for-sale financial assets is determined based on the price quotations in active markets.

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were introduced in objectives, policies or processes from the date of formation through 31 December 2017.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital. The Group includes loans from the Parent and accounts payable within net debt.

The gearing ratio at 31 December 2017 and 2016 is presented in the following table:

In thousands of tenge	**2017**	2016
Loans from the Parent	**165,051,013**	142,266,074
Accounts payable	**351,385**	275,924
Net debt	**165,402,398**	142,541,998
Equity	**39,995,285**	36,605,679
Debt-to-equity ratio	**4.14**	3.89