28 February 2019

6+1Client

Kazakhstan Electricity Grid Operating Company JSC

Consolidated financial statements

As at and for the year ended 31 December 2018
with independent auditor's report

CONTENTS

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Independent auditor's report

To the Shareholders, Audit Committee and management of Kazakhstan Electricity Grid Operating Company JSC

Opinion

We have audited the consolidated financial statements of Kazakhstan Electricity Grid Operating Company JSC and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

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

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

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Key audit matters	*How our audit addressed the key audit matters*
Revaluation of NES assets	
The Group uses revaluation model as an accounting policy in respect of National Electric System assets (further - "NES assets"). The Group engaged independent appraiser to determine the fair value of NES assets as at 1 October 2018. Revaluation of NES assets is a key audit matter due to the significance of the carrying value of NES assets and judgement involved in the assessment of the fair value of these assets. The judgment relates to the valuation methodologies used and the assumptions included in each of those methodologies. The Group's disclosure in respect of the revaluation of NES assets is included in *Notes 4* and 6 to the consolidated financial statements.	We assessed the competence, objectivity and independence of the external appraiser used by the Group. We reviewed the valuation reports and assessed the valuation approach. We compared the list of NES assets in the fixed asset register to the list of assets being valued by the external appraiser. We compared input data used by the external appraiser, such as development plan approved by the management, projected tariffs and volumes of electricity with internal sources of data. We engaged our internal valuation specialists to assess underlying assumptions and valuation methods applied. We compared tariffs for services used in the calculation of recoverable amount to tariffs approved by the authoritative body. We compared the discount rate and long-term growth rate to general market indicators and other available evidence. We tested the mathematical integrity of the cash flows models and assessed the sensitivity analysis. We analyzed the accounting entries made in the financial statements in respect of the revaluation. We assessed the disclosure in consolidated financial statements in respect of revaluation.

Recoverability of funds placed with "Eximbank Kazakhstan" JSC	
The measurement of funds held with "Eximbank Kazakhstan" JSC is one of the key audit matters due to the significance of amount, management judgement involved and financial difficulties that "Eximbank Kazakhstan" JSC faced. On 27 August 2018 on the basis of the Resolution of the Board of the National Bank of the Republic of Kazakhstan it was decided to revoke the Bank's license for accepting deposits and opening bank accounts of individuals. The Group's disclosure in respect of the measurement of financial assets is included in *Notes 4* and to the consolidated financial statements.	We analyzed available information related to financial situation of "Eximbank Kazakhstan" JSC, additional clarifications received from the Group's management and assessed the management assumptions used in measurement of assets placed with "Eximbank Kazakhstan". In addition, we analyzed management assumptions used in the determination of the amount of impairment allowance in respect of these financial assets related to alternative methods of the their recovery. We assessed the information disclosed in the consolidated financial statements in respect of the funds placed with "Eximbank Kazakhstan" JSC.

Other information included in the Group's 2018 Annual report

Other information consists of the information included in the Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

The Group's 2018 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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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.

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.

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

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

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

Ernst & Young LLP

Adil Syzdykov Auditor	Gulmira Turmagambetova General Director Ernst & Young LLP
Auditor Qualification Certificate No. МФ - 0000172 dated 23 December 2013	State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2, No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

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

28 February 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

In thousands of Tenge	**Notes**	**31 December 2018**	31 December 2017
Assets			
Non-current assets			
Property, plant and equipment	6	**667,936,367**	535,294,178
Intangible assets		**1,472,307**	1,038,637
Advances paid for non-current assets	6	**1,018,989**	742,325
Deferred tax asset	26	**3,760**	2,252
Investments in associate	7	**1,107,867**	782,081
Long-term receivables from related parties	27	**929,162**	1,009,981
Other financial assets, non-current portion	11	**25,609,268**	1,091,823
Other non-current assets		**4,017**	17,129
		698,081,737	539,978,406
Current assets			
Inventories	8	**2,291,378**	1,875,434
Trade accounts receivable	9	**9,251,847**	7,764,693
VAT recoverable and other prepaid taxes		**791,934**	961,745
Prepaid income tax		**1,541,679**	1,584,041
Other current assets	10	**528,622**	652,589
Other financial assets, current portion	11	**20,127,229**	25,107,392
Restricted cash	12	**4,175,576**	3,445,617
Cash and cash equivalents	13	**19,060,700**	47,577,783
		57,768,965	88,969,294
Total assets		**755,850,702**	628,947,700

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	Notes	31 December 2018	31 December 2017
Equity and liabilities			
Equity			
Share capital	14	**126,799,554**	126,799,554
Treasury shares	14	**(930)**	(930)
Asset revaluation reserve	14	**310,840,187**	220,858,720
Other reserves	14	**(37,081)**	(170,701)
Retained earnings		**35,092,074**	26,680,917
		472,693,804	374,167,560
Non-current liabilities			
Borrowings, non-current portion	15	**62,881,150**	64,229,182
Bonds payable, non-current portion	16	**83,660,104**	83,649,023
Deferred tax liability	26	**90,170,202**	66,666,573
Trade and other accounts payable, non-current portion	17	**–**	298,327
Government grant, non-current portion		**89,972**	100,786
Finance lease obligations, non-current portion	27	**157,175**	8,961
		236,958,603	214,952,852
Current liabilities			
Borrowings, current portion	15	**11,420,710**	9,502,895
Bonds payable, current portion	16	**4,097,122**	4,407,719
Trade and other accounts payable, current portion	17	**22,645,297**	18,763,337
Construction obligation	18	**683,430**	683,430
Contract liabilities		**1,734,670**	2,048,415
Government grant, current portion		**30,430**	27,487
Finance lease obligations, current portion	27	**36,323**	3,996
Taxes payable other than income tax	19	**2,144,441**	958,525
Income tax payable		**1,123**	5,385
Dividends payable		**2,750**	87
Other current liabilities	20	**3,401,999**	3,426,012
		46,198,295	39,827,288
Total liabilities		**283,156,898**	254,780,140
Total equity and liabilities		**755,850,702**	628,947,700
Book value per ordinary share (in Tenge)	14	**1,812**	1,435

Chairman of the Management Board

Kazhiyev B.T.

Chief Accountant

Mukanova D.T.

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 2018

In thousands of Tenge	Notes	2018	2017
Revenue from contracts with customers	21	**175,797,386**	152,379,817
Cost of sales	22	**(105,840,194)**	(89,399,369)
Gross profit		**69,957,192**	62,980,448
General and administrative expenses	23	**(14,937,698)**	(13,142,395)
Selling expenses		**(284,688)**	(246,651)
Gain from revaluation of property, plant and equipment	6	**3,342,507**	–
Reversal of / (loss from) impairment of property, plant and equipment	6	**266,291**	(196,982)
Operating profit		**58,343,604**	49,394,420
Finance income	24	**4,951,337**	3,593,207
Finance costs	24	**(3,862,511)**	(4,523,948)
Foreign exchange loss, net	25	**(5,865,654)**	(4,356,244)
Share in profit of an associate	7	**325,786**	477,127
Expenses from impairment of funds placed with Delta Bank JSC and Kazinvestbank JSC		**–**	(2,241,155)
Accrual of provision for expected credit losses		**(2,931,750)**	–
Other income		**334,637**	506,849
Other expenses		**(270,638)**	(208,562)
Profit before tax		**51,024,811**	42,641,694
Income tax expense	26	**(10,981,936)**	(9,760,378)
Profit for the year		**40,042,875**	32,881,316
Earnings per share			
Basic and diluted profit for the year attributable to common shareholders of the parent (in Tenge)	14	**154.01**	126.47
Profit for the year		**40,042,875**	32,881,316
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Gain from revaluation of property, plant and equipment		**113,259,316**	–
Income tax effect		**(22,651,864)**	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax		**90,607,452**	–
Other comprehensive income for the year, net of tax		**90,607,452**	–
Total comprehensive income for the year, net of tax		**130,650,327**	32,881,316

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

KEGOC

Chief Accountant ______ *Mukanova D.T.*

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 2018

In thousands of Tenge	Notes	2018	2017
Operating activities			
Profit before tax		**51,024,811**	42,641,694
Adjustments to reconcile profit before tax to net cash flows			
Depreciation and amortisation		**26,755,934**	22,935,831
Finance costs	24	**3,862,511**	4,523,948
Finance income	24	**(4,951,337)**	(3,593,207)
Foreign exchange loss, net	25	**5,865,654**	4,356,244
(Reversal)/accrual of allowance for obsolete inventories	23	**(398,750)**	86,128
Gain from revaluation of property, plant and equipment	6	**(3,342,507)**	–
(Reversal of impairment) / impairment of property, plant and equipment	6	**(266,291)**	196,982
Accrual of provsion for expected credit losses		**2,931,750**	–
Share in profit of an associate	7	**(325,786)**	(477,127)
Income from government grants		**(28,468)**	(9,162)
Loss from disposal of property, plant and equipment and intangible assets		**168,174**	21,978
Interest income from other financial assets		**–**	(30,248)
Expenses from impairment of funds, placed in Delta Bank JSC and Kazinvestbank JSC		**–**	2,241,155
Reversal of allowance for doubtful accounts receivable and impairment of advances paid and other current assets	23	**–**	(1,044,203)
Working capital adjustments			
Change in inventories		**(17,194)**	(259,801)
Change in trade accounts receivable		**(1,915,564)**	9,013,514
Change in other trade accounts receivable and advances paid		**310,559**	–
Change in VAT recoverable and other prepaid taxes		**178,286**	(652,080)
Change in other current assets		**–**	(199,879)
Change in trade and other accounts payable		**989,715**	1,065,361
Change in contract liabilities		**(313,745)**	1,005,890
Change in taxes payable other than income tax		**1,197,834**	(2,381,704)
Change in other current liabilities		**(27,047)**	451,170
Cash flows from operating activities		**81,698,539**	79,892,484
Interest paid		**(2,987,933)**	(4,186,436)
Coupon interest paid		**(9,209,500)**	(8,835,000)
Income tax paid		**(9,502,696)**	(10,467,054)
Interest received		**4,315,484**	5,436,517
Net cash flows received from operating activities		**64,313,894**	61,840,511

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	2018	2017
Investing activities			
Withdrawal of bank deposits		**36,509,577**	97,295,695
Replenishment of bank deposits		**(27,404,147)**	(64,311,770)
Acquisition of bonds of Samruk-Kazyna	11	**(25,545,272)**	–
Acquisition of debt securities (National bank notes)		**(5,356,676)**	–
Redemption of debt securities (National bank notes)		**5,400,000**	–
Change in restricted cash		**(310,921)**	13,165,083
Reclassification of cash to other financial assets		**(2,860,231)**	(1,299,715)
Gain from sale of property, plant and equipment and intangible assets		**203,960**	215,161
Purchase of property, plant, equipment		**(32,977,830)**	(53,999,831)
Purchase of intangible assets		**(336,653)**	(410,278)
Return of project funds used to purchase fixed assets	6	**267,056**	–
Repurchase of DSFK bonds by the issuer	11	**12,971**	–
Repayment of loans to employees		**7,716**	10,406
Net cash flows used in investing activities		**(52,390,450)**	(9,335,249)
Financing activities			
Dividends paid		**(31,368,769)**	(19,897,651)
Repayment of borrowings		**(9,217,048)**	(53,433,954)
Issue of bonds		**–**	36,271,080
Net cash flows used in financing activities		**(40,585,817)**	(37,060,525)
Net change in cash and cash equivalents		**(28,662,373)**	15,444,737
Effect of exchange rate changes on cash and cash equivalents		**154,386**	77,668
Effect of accrual of provision on expected credit losses on cash and cash equivalents	13	**(9,096)**	–
Cash and cash equivalents, as at 1 January		**47,577,783**	32,055,378
Cash and cash equivalents, as at 31 December	13	**19,060,700**	47,577,783

Chairman of the Management Board

KEGOC

Kazhiyev B.T.

Chief Accountant

Mukanova D.T.

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 2018

In thousands of Tenge	Share capital	Asset revaluation reserve	Treasury shares	Other reserves	Retained earnings	Total
As at 1 January 2017	126,799,554	220,890,374	(930)	(170,701)	14,565,773	362,084,070
Profit for the year	–	–	–	–	32,881,316	32,881,316
Total comprehensive income	–	–	–	–	32,881,316	32,881,316
Dividends *(Note 14)*	–	–	–	–	(19,897,694)	(19,897,694)
Transactions with shareholders	–	–	–	–	(900,132)	(900,132)
Transfer of asset revaluation reserve *(Note 14)*	–	(31,654)	–	–	31,654	–
As at 31 December 2017	126,799,554	220,858,720	(930)	(170,701)	26,680,917	374,167,560
Effect of adoption of IFRS 9 *(Note 3)*	–	–	–	–	(886,271)	(886,271)
As at 1 January 2018 (restated)	126,799,554	220,858,720	(930)	(170,701)	25,794,646	373,281,289
Profit for the year	–	–	–	–	**40,042,875**	**40,042,875**
Gain from revaluation of property, plant and equipment, net of tax *(Note 6)*	–	**90,607,452**	–	–	–	**90,607,452**
Total comprehensive income	–	**90,607,452**	–	–	**40,042,875**	**130,650,327**
Transfer of asset revaluation reserve *(Note 14)*	–	**(625,985)**	–	–	**625,985**	–
Dividends *(Note 14)*	–	–	–	–	**(31,371,432)**	**(31,371,432)**
Amortization of provision for bonds *(Note 14)*	–	–	–	**133,620**	–	**133,620**
As at 31 December 2018	**126,799,554**	**310,840,187**	**(930)**	**(37,081)**	**35,092,074**	**472,693,804**

Chairman of the Management Board

KEGOC

Kazhiyev B.T.

Chief Accountant

Mukanova D.T.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION

Kazakhstan Electricity Grid Operating Company JSC ("the Company" or "KEGOC") was established in accordance with the Government Resolution of the Republic of Kazakhstan No. 1188 dated 28 September 1996 by transferring of some assets of the former National Energy System "Kazakhstanenergo".

As at 31 December 2018 the Company's major shareholder was Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna") (90 percent plus one share). Samruk-Kazyna is controlled by the Government of the Republic of Kazakhstan.

On 19 December 2014 the Company placed 25,999,999 ordinary shares (10 percent minus one share) at 505 Tenge per share on the Kazakhstan Stock Exchange under the "People's IPO" programme.

KEGOC is the national Company, which provides electricity transmission, dispatch and electricity production-consumption balancing services in Kazakhstan. As the state-appointed system operator, the Company provides centralized dispatching control, ensures parallel work with energy systems of other countries, maintains the balance in energy system, provides system services and acquires auxiliary services from wholesale entities at energy market, as well as transmits electricity through unified power system (the "NES"), ensures its technical support and maintenance. The NES consists of substations, distribution devices, interregional and international power transmission lines which provide the output of electricity of electrical stations with the voltage of 220 kW and more.

As of 31 December 2018 and 31 December 2017 the Company has stakes in the following companies:

		Percentage of ownership	
Companies	**Activities**	**31 December 2018**	31 December 2017
Energoinform JSC	Maintenance of the KEGOC's IT system	**100%**	100%
Accounting and Finance Center for the support of renewable energy resources LLP	Centralised sales and purchase of electricity produced by energy producers using renewable energy sources and delivery into the electricity grid of the Republic of Kazakhstan	**100%**	100%

The Company and its subsidiaries are hereafter referred as the "Group".

The Group's operating activities are regulated by the Law of the Republic of Kazakhstan dated 9 July 1998 No. 272-I *On Natural Monopolies and Regulated Markets* (the "Law") as the Group is a natural monopolist in electricity transmission, technical dispatch and electricity production-consumption balancing services. According to the Law, the Group's electricity transmission, technical dispatch and electricity production-consumption tariffs are approved by the Committee of the Republic of Kazakhstan for the Regulation of Natural Monopolies and Protection of Competition under the Ministry of National Economy of the Republic of Kazakhstan (the "Committee").

The Company's registered office is located at 59 Tauelsyzdyk Ave., Astana, 010000, the Republic of Kazakhstan.

These consolidated financial statements were authorised for issue by the Chairman of the Management Board and Chief Accountant of the Company on 28 February 2019.

2. BASIS OF PREPARATION

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

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

2. BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* that require restatement of comparative information. The nature and effects of the changes as a result of adoption of these new accounting standards are described below. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized 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.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. The Group elected to apply the standard to all contracts as at 1 January 2018.

The Group provides services for electricity transmission, technical dispatch and balancing of electricity production and consumption tariffs in Kazakhstan. The operations are realized through contracts with customers.

Due to regulation by the state, these contracts are typical, and as a result of entering into these agreements, KEGOC has only duties related to ensuring equal conditions for all consumers and provision of services. However, KEGOC does not have the authority to guarantee or negotiate special conditions. Despite the fact that the planned volumes of regulated services rendered by KEGOC are fixed by the annex to the concluded contracts, the actual figures may significantly differ from the contractual ones, therefore KEGOC recognizes revenue on a monthly basis based on the actual indications of the metering devices reflected in the document "Actual Balance of production-consumption of electric energy in the wholesale electricity market of the Republic of Kazakhstan", compiled by the National Dispatch Center of the system operator. Actual volumes of provision of regulated services directly depend only on the state of demand for electricity, that is, on the economic condition of the Republic of Kazakhstan, the increase/decrease in electricity consumption of large electricity consumers, weather conditions, etc. These factors are external and do not depend on the activities of KEGOC.

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

The activities of Accounting and Finance Center for the support of renewable energy resources LLP are driven by the Decree of the Republic of Kazakhstan *On Supporting the Use of Renewable Energy Resources*, while the contracts for Accounting and Finance Center for the support of renewable energy resources LLP are typical and formalize only the obligations for monthly invoicing and quarterly reconciliation checks. Calculation of the tariff is based on costs of supporting the use of renewable energy sources – costs of purchase of electricity produced by energy producers using renewable energy sources, costs of the services for electricity production-consumption balance, costs of forming a reserve fund and costs associated with the implementation of the activities of Accounting and Finance Center for the support of renewable energy resources LLP. The tariff for supporting the renewable energy sources is subject to adjustment depending on changes in calculation data in the manner established by the Rules for pricing in socially important markets approved by the Minister of National Economy of the Republic of Kazakhstan No. 36 as of 1 February 2017 (registered in the state registration register of regulatory legal acts No. 109751). In this case, revenue under these contracts is recognized in the amount corresponding to the actually sold amount of electrical energy. Accounting and Finance Center for the support of renewable energy resources LLP does not generate a principal-agent relationship, since when concluding contracts for the purchase and sale of electricity all risks and benefits pass from the seller of electricity to Accounting and Finance Center for the support of renewable energy resources LLP and from Accounting and Finance Center for the support of renewable energy resources LLP to the end user. Transition to revenue recognition in accordance with IFRS 15 did not cause changes in accounting for Accounting and Finance Center for the support of renewable energy resources LLP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

Contracts of Energoinform JSC, except from contracts for the provision of contractual works, require the fixing of the monthly cost of services, which is defined as 1/12 of the annual cost of services. Revenues are recognized in the amount of this monthly service cost. Revenue under contracts for contracting works is recognized as the acts of the services rendered (works performed) are signed. The contracts for the provision of contractual works contain warranty conditions, according to which Energoinform JSC is obliged to carry out a gratuitous correction of errors, defects and other inconsistencies of the technical specification fixed by the contract. According to the current accounting procedures, these guarantees have the nature of a contingent liability and are not recognized in records. The procedure for recognizing the revenue of Energoinform JSC complies with the requirements of IFRS 15.

Therefore, the existing procedure for recognizing the Group's revenue meets the requirements of IFRS 15, the Group does not have any impact from the adoption of IFRS 15.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018. IFRS 9 brings together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Group has applied IFRS 9 on a retrospective basis considering summary influence of initial adoption of the standard in the form of adjustment of retained earnings residual value on the opening balance on 1 January 2018 that includes the date of its first adoption.

The effect of adopting IFRS 9 on the consolidated statement of financial position (increase/(decrease)) as at 1 January 2018 is as follows:

In thousands of Tenge	**Adjustments**
Assets	
Non-current assets	
Long-term receivables from related parties	**(99)**
Other financial assets, non-current portion	**(257,730)**
	(257,829)
Current assets	
Trade accounts receivable	**(113,156)**
Other current assets	**(62)**
Other financial assets, current portion	**(385,590)**
Restricted cash	**(86,409)**
Cash and cash equivalents	**(43,225)**
	(628,442)
Total assets	**(886,271)**
Equity and liabilities	
Equity	
Retained earnings	**(886,271)**
	(886,271)
Total equity and liabilities	**(886,271)**

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with an expected credit loss (ECL) approach.

IFRS 9 requires the Group to record expected credit losses for all financial assets not held at fair value through profit and loss.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The results obtained are then discounted at the asset's effective interest rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

For trade accounts receivable, long-term receivables from related parties and other current assets the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group calculated expected credit losses on the basis of average coefficients of due of trade and other accounts receivable on the Group's historical credit loss experience.

For other financial assets, restricted cash, cash and cash equivalents, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group considers a financial asset in default when contractual payment is 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full.

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the Group's financial assets. The increase in allowance resulted in adjustment to retained earnings.

(a) Classification and measurement

According to IFRS 9, the Group initially measures financial assets at fair value, increased by the amount of transaction costs in the case financial assets are not measured at fair value through profit or loss.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss, at amortized cost, or at fair value through other comprehensive income. The classification depends on two criteria: the business model used by the Group to manage financial assets; and whether the contractual cash flows on financial instruments are "exclusively payments in respect of the principal amount of the debt and interest on the outstanding portion of the principal amount".

According to new requirements, the Group classifies and evaluates debt financial assets as follows:

Debt instruments are valued at amortized cost if financial assets are held under a business model whose purpose is to withhold financial assets to obtain contractual cash flows that are solely payments on the principal amount and interest on the outstanding part of the principal amount. The Group includes in this category trade and other receivables and bank deposits.

The Group lacks financial assets considered at fair value through OCI.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to recognize an provision for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Expected credit losses are calculated as the difference between the cash flows owed to the organization in accordance with the contract and all cash flows that the Group expects to receive. The shortfall is then discounted at a rate approximately equal to the initial effective interest rate for the asset.

In respect of contractual assets and trade and other receivables, the Group applied the simplified standard approach and calculated the expected credit losses over the entire term. The Group used a matrix of estimated reserves, based on its past experience in incurring credit losses adjusted for factors specific to borrowers and general economic conditions.

In the case of other debt financial assets (bank deposits), expected credit losses are calculated for twelve months. The twelve-month expected credit losses are part of the expected credit losses over the entire term, which are expected credit losses that arise as a result of defaults on the financial instrument, possible within 12 months after the reporting date. However, in the event of a significant increase in the credit risk of a financial instrument since its initial recognition, the estimated loss allowance is estimated at an amount equal to the expected credit losses over the entire term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

(b) Impairment (continued)

The Group believes that a default has occurred on a financial asset if payments under the contract are delayed by 90 days. However, in certain cases, the Group may also conclude that the financial asset was defaulted, if internal or external information indicates that it is unlikely that the Group will receive the full amount of the remaining payments provided for in the contract, without taking into account credit enhancement mechanisms withheld Group.

The consolidated statement of changes in equity reflects the effect of IFRS 9 adoption on retained earnings as at 1 January 2018 of KZT 886,271 thousand.

The following new standards and amendments became effective for the first time in 2018, but did not have an impact on the financial statements of the Group:

- IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*;
- Amendments to IAS 40 *Transfers of Investment Property*;
- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*;
- Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*;
- Amendments to 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;
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* – deletion of short-term exemptions for first-time adopters.

Standards issued but not yet effective

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

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.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain event (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 requires lessees and lessors to make more extensive disclosures than under IAS 17.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 16 Leases (continued)

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

The Group plans to apply a modified retrospective approach to IFRS 16 to each previous reporting period. It has decided to apply the standard to contracts that were identified as contracts under IAS 17 and Interpretations IFRIC 4. Therefore, the Group will not employ the standard to the contracts that were not identified as containing the characteristics of lease in accordance to IAS 17 and Interpretations IFRIC 4.

The Group has decided to employ the exemptions considered in standard for leases with a lease term of no more than 12 months at the date of initial application, as well as leases for which the underlying asset is of low value. The Group has leases for certain types of office equipment (for example, personal computers, printing and photocopying equipment), the cost of which is considered to be low.

In 2018, standards were also issued that had not yet entered into force at the date of issue of the Group's financial statements. The Group intends to apply these standards, amendments and clarifications, if applicable, from the date of their entry into force.

- IFRS 17 *Insurance Contracts;*
- Clarification of IFRIC 23 *Uncertainty about the Rules for Calculating Income Tax*;
- Amendments to IFRS 9 *Conditions for Early Repayment with Potential Negative Compensation*;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets in Transactions between an Investor and its Associate or Joint Venture*;
- Amendments to IFRS 19 *Changes to the Program, Reduction of the Program or Repayment of Obligations under the Program*;
- Amendments to IFRS 28 *Long-term Investments in Associates and Joint Ventures.*

Annual improvements of IFRSs, the period 2015-2017 (released in December 2017)

Annual improvements to IFRS were issued in December 2017. The Group does not expect these amendments to have any impact on its consolidated financial statements. These improvements include the following amendments:

- IFRS 3 *Business Combinations*;
- IFRS 11 *Joint Ventures*;
- IAS 12 *Income Taxes*;
- IAS 23 *Borrowing Costs*.

Current versus non-current classification

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

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

All other assets are classified as non-current.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification (continued)

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

Fair value measurement

The Group measures financial instruments, such as, available for sale (“AFS”) financial assets at fair value at each reporting date, and non-financial assets (NES assets) at fair value when fair value differs materially from their carrying value. Also, fair values of financial instruments measured at amortized cost are disclosed in *Note 28*.

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

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

Foreign currency transactions

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

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

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

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

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

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

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

Exchange rate as at the end of the year (to KZT)	**31 December 2018**	31 December 2017
USD 1	**384.2**	332.33
EUR 1	**439.37**	398.23
RUR 1	**5.52**	5.77

Average exchange rate for the year (to KZT)	**2018**	2017
USD 1	**344.76**	326.08
EUR 1	**406.65**	368.65
RUR 1	**5.5**	5.59

Property, plant and equipment

Property, plant and equipment, except for NES assets, are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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

A revaluation reserve is recorded in OCI and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in consolidated statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings.

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

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

Land is not depreciated.

Due to changes in the National Classifier of Fixed Assets of the Republic of Kazakhstan effective from 1 January 2015 “NES Machinery and equipment” class has been separated from “NES assets” class. Therefore, the Group renamed “NES assets” into “NES assets” for the purposes of financial statements. The useful lives and residual values of property, plant and equipment are reviewed annually and, where applicable, adjustments are made on a prospective basis.

If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amounts of the carrying amount of property, plant and equipment and on depreciation expenses recognized in the consolidated statement of comprehensive income.

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

Intangible assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

At each reporting date, the Group assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

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

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

Investments in associate

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associate (continued)

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

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

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

Financial instruments − initial recognition and subsequent measurement

Financial assets

Initial recognition and measurement

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

Financial assets at initial recognition are classified as financial assets measured at amortized cost; financial assets measured at fair value through profit or loss; financial assets measured at fair value through other comprehensive income.

A financial asset is measured at amortized cost if two criteria are met:

1) The purpose of the business model is to hold a financial asset to receive all contractual cash flows; and
2) Contractual cash flows are represented only by interest payments and principal debt. The fee is a payment for the time value of money and the credit risk associated with the principal debt to maturity in a certain period of time.

If at least one of the above criteria is not met, the financial asset is measured at fair value.

The Group's financial assets not carried at amortized cost are stated at fair value.

A financial asset is measured at fair value through other comprehensive income if two criteria are met:

1) The purpose of the business model is to hold a financial asset both for obtaining all contractual cash flows and for selling a financial asset; and
2) Contractual cash flows are represented only by interest payments and principal debt. The fee is a payment for the time value of money and the credit risk associated with the principal debt to maturity in a certain period of time.

The Group accounts for financial assets at fair value through profit or loss, except when they are carried at amortized cost or at fair value through other comprehensive income.

Subsequent measurement

Subsequently, financial assets are measured at amortized or fair value through other comprehensive income, or through profit or loss, based on the business model of the Group for the Management of Financial Assets. The business model is determined by the management of the Group.

Derecognition

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments − initial recognition and subsequent measurement (continued)

Financial assets (continued)

Derecognition (continued)

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

<u>Measurement of expected credit loss</u>

The Group estimates expected credit losses on a financial instrument in a manner that reflects:

1) An unbiased and weighted probability-based amount determined by estimating the range of possible results;
2) The time value of money;
3) Reasonable and corroborated information about past events, current conditions and projected future economic conditions available at the reporting date.

The maximum period considered in assessing expected credit losses is the maximum period under the contract (including renewal options) during which the Group is exposed to credit risk.

For financial instruments that include both a loan and an unused component of a loan commitment, the ability of the Group to claim repayment of the loan and cancel the unused component of a loan commitment does not limit the Group's exposure to credit losses by the contractual deadline for filing a loan. For such financial instruments, the Group assesses credit losses over the entire period of exposure to credit risk, and expected credit losses will not decrease as a result of the Group's credit risk management activities, even if such a period exceeds the maximum period under the contract.

To achieve the goal of recognizing expected credit losses over the entire term, due to a significant increase in credit risk since initial recognition, it may be necessary to assess a significant increase in credit risk on a group basis, for example, by analyzing information indicating a significant increase in credit risk for a group or subgroup of financial instruments. This ensures that the Group achieves the goal of recognizing expected credit losses over the entire term in the event of a significant increase in credit risk, even if confirmation of such a significant increase in credit risk at the level of an individual instrument is not yet available.

Financial liabilities

Initial recognition and measurement

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments − initial recognition and subsequent measurement (continued)

Financial liabilities (continued)

Subsequent measurement

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

<u>Loans and borrowings</u>

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

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

<u>Trade and other payables</u>

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

Derecognition

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

Offsetting of financial instruments

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

Inventory

Inventories are accounted for on a FIFO basis.

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

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

Cash and cash equivalents

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

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

Restricted cash

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

Revenue recognition

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

The Group recognizes revenue to reflect the provision of promised services to consumers in the amount of compensation that the Group expects to be entitled to receive in exchange for goods or services.

The Group, when recognizing revenue, takes the following steps:

1) Identification of the contract with the consumer;
2) Identification of the obligation to be executed under the contract;
3) Determination of transaction price;
4) Distribution of the transaction price between certain duties to be performed under the contract;
5) Recognition of proceeds at the time of (or as far as) the performance of the obligations to be performed under the contract.

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

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

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

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in the consolidated statement of comprehensive income.

Borrowing costs

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Lease

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

The Group as a lessee

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

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Operating lease payments are recognised as an operating expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Pension obligations

In accordance with the legislation of the Republic of Kazakhstan, the Group deducted 10% of employees' salaries, but no more than KZT 212,130 per month (2017: KZT 183,443) to accumulative pension funds. Pension fund payments are withheld from employees' salaries and included with payroll expenses in the consolidated statement of comprehensive income when they are incurred. The Group has no other retirement benefit obligations.

Current income tax

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

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

Deferred tax

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

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are approved before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Contingent liabilities and contingent assets

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

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

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

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

Revaluation of property, plant and equipment

The Group performed revaluation of NES assets as at 1 October 2018. The Group engaged Deloitte TSF LLP, an accredited independent appraiser, to assess the fair value of the NES assets.

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

After 2017, the Committee approved an increase in tariffs for electricity transmission services, technical dispatching and balancing the production and consumption of electricity. Higher tariffs resulted in the revaluation surplus on certain assets credited to other comprehensive income in the amount of KZT 113,259,316 thousand, and respective deferred tax liability in the amount of KZT 22,651,864 thousand and revaluation gain amounting to KZT 3,342,507 thousand was credited to profit and loss to the extent of revaluation deficit recognized in these assets in prior periods.

Fair value of NES assets was determined by using the cost approach. The cost approach has been used due to highly specialized nature of the assets and because there is no history of such assets ever being sold. Within cost approach, the method of determining the replacement cost or the cost of reproduction was used to calculate the total cost of replacement of fixed assets less all types of accumulated depreciation, as well as the method of calculation by analogues, the method of specific indicators and the method of indexation of past costs.

The appraised current replacement cost has been further compared to the recoverable amount identified based on the discounted cash flow model. The cash flows are derived from the budget for the next five (5) years.

As a result of the assessment, the amount of KZT 527,147,904 thousand was recognised as a fair value of NES assets as of 1 October 2018.

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

Discount rate (WACC)	11.82%
Long term growth rate	3.6%
Remaining useful life of the primary asset	40 years

An increase in the discount rate by 0.5% or a reduction in long term growth rate by 0.5% would result in a decrease in the fair value of Group’s property, plant and equipment for approximately KZT 40,116,819 thousand or KZT 26,219,011 thousand, respectively.

Taxes

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

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

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

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

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

Fair value of financial instruments

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

Bonds DSFK

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

Management of the Group believes that at 31 December 2018 DSFK bonds are non-recoverable. Accordingly, management of the Group believes that fair value of DSFK bonds is limited to their recoverable amount that is equal to the fair value of the guarantee. The Group does not hold the bonds for all contractual cash flows, so as at 31 December 2018, the bonds were classified as financial instruments at fair value through profit or loss. As at 31 December 2018, the Group revalued the fair value of the bonds at a discount rate of 11.2%, which represents the market discount rate as at 31 December 2018.

Samruk-Kazyna Bonds

During May-June 2018, the Group purchased coupon bonds of Samruk-Kazyna JSC with par value of KZT 26,000,000 thousand at Kazakhstan stock exchange JSC. The bonds were classified at amortised cost and recognized at fair value using a discount calculated at a market rate of 8.4%.

5. OPERATING SEGMENTS INFORMATION

Operating segments

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

Geographic information

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

In thousands of Tenge	**2018**	2017
Revenue from Kazakhstan customers	**165,451,444**	143,380,886
Revenue from Russian customers	**9,741,509**	8,533,164
Revenue from Uzbekistan customers	**561,066**	415,637
Revenue from Kyrgys customers	**43,367**	50,130
Total revenue per consolidated statement of comprehensive income	**175,797,386**	152,379,817

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

For the year ended 31 December 2018 the revenue from one customer, Samruk-Energo Group, including its joint-ventures, amounted to KZT 33,049,610 thousand, arising from transmission, technical dispatching and balancing services (for the year ended 31 December 2017: KZT 34,927,661 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

In thousands of Tenge	Land	Buildings	NES assets	Vehicles and other property, plant and equipment	Construction-in-progress	Total
Cost						
As at 1 January 2017	1,539,573	13,768,082	819,098,860	37,636,022	53,698,670	925,741,207
Additions	91,876	1,170	12,447	1,690,149	55,456,478	57,252,120
Transfers	106,109	43,137	25,626,002	112,966	(25,888,214)	–
Transfer to intangible assets	–	–	–	–	(5,922)	(5,922)
Disposals	–	(4,479)	(478,260)	(441,276)	(52,180)	(976,195)
As at 31 December 2017	1,737,558	13,807,910	844,259,049	38,997,861	83,208,832	982,011,210
Additions	**16,727**	**–**	**5,022**	**1,724,727**	**40,872,762**	**42,619,238**
Transfers	**16,850**	**3,623,149**	**64,217,441**	**(6,272,225)**	**(61,585,215)**	**–**
Revaluation surplus (OCI)	**–**	**–**	**203,616,876**	**–**	**–**	**203,616,876**
Revaluation (P&L)	**–**	**–**	**5,084,250**	**–**	**–**	**5,084,250**
Disposals	**–**	**(6,529)**	**(488,177)**	**(606,139)**	**(33,074)**	**(1,133,919)**
Transfer to intangible assets	**–**	**–**	**–**	**(219,328)**	**(59,412)**	**(278,740)**
Refunds on the project	**–**	**–**	**(267,056)**	**–**	**–**	**(267,056)**
As at 31 December 2018	**1,771,135**	**17,424,530**	**1,116,427,405**	**33,624,896**	**62,403,893**	**1,231,651,859**
Accumulated depreciation and impairment						
As at 1 January 2017	–	(1,797,663)	(402,376,114)	(20,263,429)	(389,611)	(424,826,817)
Charge for the period	–	(282,089)	(19,949,441)	(2,340,279)	–	(22,571,809)
Transfer	–	506	(6,372)	5,866	–	–
Disposals	–	2,939	392,823	432,438	50,376	878,576
Impairment	–	–	–	–	(196,982)	(196,982)
As at 31 December 2017	–	(2,076,307)	(421,939,104)	(22,165,404)	(536,217)	(446,717,032)
Charge for the period	**–**	**(309,915)**	**(23,682,717)**	**(2,334,589)**	**–**	**(26,327,221)**
Transfer	**–**	**(1,623,546)**	**(1,444,752)**	**3,068,298**	**–**	**–**
Revaluation surplus (OCI)	**–**	**–**	**(90,357,560)**	**–**	**–**	**(90,357,560)**
Revaluation (P&L)	**–**	**–**	**(1,741,743)**	**–**	**–**	**(1,741,743)**
Disposals	**–**	**6,486**	**350,602**	**600,452**	**19,868**	**977,408**
Transfer to intangible assets	**–**	**–**	**–**	**184,365**	**–**	**184,365**
Reversal of impairment	**–**	**–**	**–**	**–**	**266,291**	**266,291**
As at 31 December 2018	**–**	**(4,003,282)**	**(538,815,274)**	**(20,646,878)**	**(250,058)**	**(563,715,492)**
Net book value						
As at 1 January 2017	1,539,573	11,970,419	416,722,746	17,372,593	53,309,059	500,914,390
As at 31 December 2017	1,737,558	11,731,603	422,319,945	16,832,457	82,672,615	535,294,178
As at 31 December 2018	**1,771,135**	**13,421,248**	**577,612,131**	**12,978,018**	**62,153,835**	**667,936,367**

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

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

In thousands of Tenge	**31 December 2018**	31 December 2017
Cost	**356,182,590**	292,153,754
Accumulated depreciation	**(101,947,870)**	(93,709,808)
Net book value	**254,234,720**	198,443,946

As at 31 December 2018 and 2017 cost of fully amortised property, plant and equipment, which is still in use amounted to KZT 18,796,968 thousand and KZT 9,811,707 thousand, respectively.

Capitalized costs on issued bonds

During the year ended 31 December 2018 the Group capitalized the cost of coupon interest on issued bonds (less investment income) amounted to KZT 7,806,352 thousand (for the year ended 31 December 2017: KZT 5,080,040 thousand) *(Note 16)*.

Refunds on the project

During 2018 funds returned from suppliers for construction works and services under the project “Construction of 500 kW line Ekibastuz − Shulbinskaya GES (Semey) − Ust-Kamenogorsk” line amounted KZT 267,056 thousand. The Group adjusted the value of NES assets, accordingly.

Construction in progress

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

Advances paid for non-current assets

As at 31 December 2018 and 31 December 2017 advances paid for non-current assets mainly represent prepayments made to suppliers for construction works and services related to the project “Construction of 500 kW line Shulbinskaya GES (Semey) − Aktogay − Taldykorgan − Alma”.

7. INVESTMENTS IN ASSOCIATE

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

In thousands of Tenge	**31 December 2018**	31 December 2017
Statement of financial position		
Current assets	**11,699,041**	6,491,949
Non-current assets	**17,196,869**	19,202,560
Current liabilities	**(20,948,823)**	(1,790,165)
Non-current liabilities	**(2,407,751)**	(19,993,941)
Net assets	**5,539,336**	3,910,403

In thousands of Tenge	**31 December 2018**	31 December 2017
Group’s share in net assets	**1,107,867**	782,081
Carrying amount of the investment	**1,107,867**	782,081

7. INVESTMENTS IN ASSOCIATE (continued)

In thousands of Tenge	**2018**	2017
Statement of comprehensive income		
Revenue	**9,761,586**	8,212,486
Net profit	**1,628,930**	2,385,635
Group's share in profit of Batys Transit	**325,786**	477,127

As of 31 December 2018 and 2017, the associate had no contingent liabilities or capital commitments.

8. INVENTORIES

In thousands of Tenge	**31 December 2018**	31 December 2017
Spare parts	**1,177,463**	1,299,634
Raw and other materials	**1,161,158**	1,060,824
Fuel and lubricants	**172,197**	147,297
Other inventory	**26,606**	23,363
Less: allowance for obsolete inventories	**(246,046)**	(655,684)
	2,291,378	1,875,434

Movement in the allowance for obsolete inventories was as follows:

In thousands of Tenge	**2018**	2017
At 1 January	**655,684**	642,717
Charge for the year *(Note 23)*	**2,960**	86,128
Reversal *(Note 23)*	**(401,710)**	–
Write-off	**(10,888)**	(73,161)
At 31 December	**246,046**	655,684

9. TRADE ACCOUNTS RECEIVABLE

In thousands of Tenge	**31 December 2018**	31 December 2017
Trade accounts receivable	**11,276,617**	9,174,896
Less: provision for expected credit losses	**(2,024,770)**	(1,409,589)
Less: discount of accounts receivable	**–**	(614)
	9,251,847	7,764,693

Movement in the provision for expected credit losses was as follows:

In thousands of Tenge	**2018**	2017
At 1 January	**1,409,589**	2,653,416
Adoption of IFRS 9 *(Note 3)*	**113,156**	–
Charge for the year	**780,206**	2,384,698
Reversal	**(278,181)**	(3,626,622)
Write-off	**–**	(1,903)
At 31 December	**2,024,770**	1,409,589

As at 31 December 2018 trade accounts receivable included accounts receivable from the customer, Uzbekenergo JSC, in the amount of KZT 1,645,773 thousand (31 December 2017: KZT 1,229,827 thousand.

As at 31 December 2018 provision for debts from Uzbekenergo JSC amounted to KZT 1,339,036 thousand (31 December 2017: KZT 1,157,339 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. TRADE ACCOUNTS RECEIVABLE (continued)

The ageing analysis of trade receivables is as follows:

			Past due but not impaired			
In thousands of Tenge	**Total**	**Neither past due nor impaired**	**30-90 days**	**91-180 days**	**181-270 days**	**Above 271 days**
31 December 2018	**11,276,617**	**9,091,389**	**124,090**	**23,167**	**7,116**	**2,030,855**
Less: provision for expected credit losses	**(2,024,770)**	**(26,650)**	**(7,347)**	**(3,403)**	**(1,735)**	**(1,985,635)**
	9,251,847	**9,064,739**	**116,743**	**19,764**	**5,381**	**45,220**
31 December 2017	9,174,282	7,285,148	271,402	99,303	64,169	1,454,260
Less: provision for expected credit losses	(1,409,589)	–	(8,861)	(17,329)	(14,880)	(1,368,519)
	7,764,693	7,285,148	262,541	81,974	49,289	85,741

Trade accounts receivable were denominated in the following currencies:

In thousands of Tenge	**31 December 2018**	31 December 2017
Tenge	**8,207,636**	7,099,960
Russian Rouble	**737,474**	591,967
US Dollars	**306,737**	72,766
	9,251,847	7,764,693

10. OTHER CURRENT ASSETS

In thousands of Tenge	**31 December 2018**	31 December 2017
Other receivables for property, plant and equipment and constructions	**399,974**	399,974
Deferred expenses	**95,253**	3,628
Advances paid for goods and services	**81,571**	329,372
Loans receivable from employees	**2,937**	13,652
Other	**375,946**	318,608
Less: provision for expected credit losses	**(427,059)**	(394,078)
Less: discount of other current assets	**–**	(18,567)
	528,622	652,589

Movement in the provision for expected credit losses and impairment of other current assets are as follows:

In thousands of Tenge	**2018**	2017
At 1 January	**394,078**	198,448
Adoption of IFRS 9 *(Note 3)*	**62**	–
Charge for the year	**85,451**	252,209
Reversal	**(26,198)**	(54,488)
Write-off	**(26,334)**	(2,091)
At 31 December	**427,059**	394,078

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. OTHER FINANCIAL ASSETS

In thousands of Tenge	**31 December 2018**	31 December 2017
Financial assets at amortised cost		
Bonds of Samruk-Kazyna	**25,342,228**	–
Bank deposits	**18,786,773**	22,466,094
Placements with Eximbank Kazakhstan	**2,930,115**	2,658,640
Placements with Kazinvestbank JSC	**1,261,470**	1,282,483
Placements with DeltaBank JSC	**1,230,000**	1,297,742
Bonds of Batys-Transit	**998,558**	868,269
Interest accrued on Samruk-Kazyna bonds	**463,667**	–
Interest accrued on Batys Transit bonds	**56,862**	65,405
Less: provision for impairment of placements with Eximbank Kazakhstan	**(2,930,115)**	–
Less: provision for impairment of placements with Kazinvestbank JSC	**(1,261,470)**	(1,282,483)
Less: provision for impairment of placements with Deltabank JSC	**(1,230,000)**	(1,230,000)
Less: provision for expected credit losses	**(86,316)**	–
Less: provision for expected credit losses of Batys Transit bonds	**(92,315)**	–
Less: discount on placements with Eximbank Kazakhstan	**–**	(150,489)
	45,469,457	25,975,661
Financial assets at fair value through profit or loss		
Bonds of Special Financial Company DSFK	**267,040**	223,554
	267,040	223,554
Total other financial assets	**45,736,497**	26,199,215
Other current financial assets	**20,127,229**	25,107,392
Other non-current financial assets	**25,609,268**	1,091,823
Total other financial assets	**45,736,497**	26,199,215

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

In thousands of Tenge	**2018**	2017
At 1 January	**2,512,483**	645,891
Adoption of IFRS 9 *(Note 3)*	**643,320**	–
Accrual for the year	**3,152,002**	1,934,334
Reversal	**(707,589)**	(67,742)
At 31 December	**5,600,216**	2,512,483

Bonds of Samruk-Kazyna JSC

During May-June 2018, the Group acquired coupon bonds of Samruk-Kazyna JSC with nominal value of KZT 26,000,000 thousand at cost lower than par value for KZT 25,159,831 thousand at Kazakhstan Stock Exchange JSC. The bonds mature on 13 March 2020. The Group also capitalized transaction costs associated with the payment of a brokerage fee in the amount of KZT 5,108 thousand and coupon income paid to the previous bondholder – Qazkom bank JSC from the beginning of the coupon period until the date of purchase of the bonds, which amounted to KZT 380,333 thousand. Thus, the total discount for the acquisition amounted to KZT 454,728 thousand, which was calculated as the difference between the amount paid and the nominal value and which will be capitalized in the value of the bonds within 2 years prior to the maturity date of the bonds. During the year ended 31 December 2018, amortization of the discount in amount of KZT 113,682 thousand was recognized as financial income in the consolidated statement of comprehensive income.

The Group recognised the bonds at fair value in the amount of KZT 24,931,352 thousand, including the discount of KZT 613,920 thousand, calculated as the difference between the total paid amount and its fair value, which was recognized as finance costs in the consolidated statement of comprehensive income. The Group classifies the bonds as carried at amortised cost. During the year ended 31 December 2018, amortization of the discount amounted to KZT 297,194 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. OTHER FINANCIAL ASSETS (continued)

Bonds of Special Financial Company DSFK LLP

For the year ended 31 December 2018, Special Financial Company DSFK LLP redeemed bonds amounting to KZT 12,971 thousand.

As at 31 December 2018, the Group remeasured the fair value of bonds and increased their carrying amount to KZT 267,040 thousand, recognizing gain from revaluation of financial instruments in the amount of KZT 43,486 thousand as finance income in the consolidated statement of comprehensive income.

Bonds of Batys Transit

In 2007-2009 the Group acquired bonds of Batys Transit JSC, an associate listed on the Kazakhstan Stock Exchange. The bonds are secured with Guarantee of the Government of Republic of Kazakhstan in accordance with guarantee agreement dated 9 January 2006. The coupon interest rate on bonds is 7.3%. The bonds are classified as financial assets carried at amortised cost. During the year ended 31 December 2018, the amortization of discount amounted to KZT 130,289 thousand. The bonds mature on 30 March 2019.

Deposits

As at 31 December 2018 and 31 December 2017 the deposits include accrued interest income in the amount of KZT 52,198 thousand and KZT 187,568 thousand, respectively.

Placements with Eximbank Kazakhstan JSC

As at 31 December 2017, the Group's deposits in Eximbank Kazakhstan (hereinafter referred to as "Eximbank") amounted to 8,000 thousand Dollars (equivalent to KZT 2,658,640 thousand). According to the agreement, the deposit term expired in November 2017. The deposit was not returned by Eximbank to the Group. As a result of negotiations with Eximbank representatives and the analysis conducted, the Group management concluded that the placements are fully recoverable and will be returned within one year. In this regard, as at 31 December 2017, the Group assessed the impact of the temporary factor and recognized a discount of KZT 150,489 thousand. During the year ended 31 December 2018, the Group fully amortized the discount in finance income in the consolidated statement of comprehensive income.

On 27 August 2018, based on the resolution of the Board of the National Bank of the Republic of Kazakhstan a decision was made to revoke the license of Eximbank for accepting deposits and opening bank accounts for individuals. In this regard, the Group reclassified cash and cash equivalents held in Eximbank within other financial assets and accrued a provision of 100%, which amounts to KZT 2,930,115 thousand.

Other financial assets were represented in the following currencies:

In thousands of Tenge	**Interest rate**	**31 December 2018**	31 December 2017
Tenge	11%-12%	**28,020,599**	12,272,354
US Dollars	1%-2%	**17,715,898**	13,926,861
		45,736,497	26,199,215

12. RESTRICTED CASH

In thousands of Tenge	**31 December 2018**	31 December 2017
Cash on reserve accounts	**2,895,401**	2,409,232
Cash on debt service accounts	**1,122,487**	877,554
Cash reserved for return on guarantee obligations	**204,168**	158,831
Less: provision for expected credit losses	**(46,480)**	–
	4,175,576	3,445,617

As at 31 December 2018 and 31 December 2017 restricted cash mainly represents cash held on a debt service account and reserve account.

According to the terms of the loan agreements with IBRD and EBRD, the Group's creditors, the Group accumulates cash on a special debt service bank account opened with Kazakhstan bank during the semi-annual period preceding the scheduled date of payment of principal, interest and commission fees related to the IBRD and EBRD loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. RESTRICTED CASH (continued)

In accordance with the terms of the guarantee agreements with the Government of the Republic of Kazakhstan, the guarantor of the Group's loans *(Note 15)*, the Group is obliged to hold cash on a special reserve account opened in a Kazakhstan bank. The Group is obliged to reserve cash for at least 110% of the upcoming semi-annual payment of principal, interest and commission fees of the IBRD loans.

The movement in the provision for expected credit losses on restricted cash was as follows:

In thousands of Tenge	**2018**	2017
At 1 January	**–**	–
Adoption of IFRS 9 *(Note 3)*	**86,409**	–
Accrual for the year	**58,528**	–
Reversal	**(98,457)**	–
At 31 December	**46,480**	–

As at 31 December 2018 and 31 December 2017, restricted cash taking into account the funds planned to be repaid were denominated in the following currencies:

In thousands of Tenge	**31 December 2018**	31 December 2017
US Dollars	**3,971,500**	3,286,786
Tenge	**204,076**	158,831
	4,175,576	3,445,617

13. CASH AND CASH EQUIVALENTS

In thousands of Tenge	**31 December 2018**	31 December 2017
Short-term deposits, in Tenge	**12,671,231**	37,158,812
Short-term deposits, in foreign currencies	**3,380,960**	–
Current accounts with banks, in Tenge	**2,993,477**	3,854,403
Current accounts with banks, in foreign currencies	**19,634**	6,556,281
Cash on hand	**3,914**	8,110
Cash at special accounts	**580**	177
Less: provision for expected credit losses	**(9,096)**	–
	19,060,700	47,577,783

As at 31 December 2018 and 31 December 2017 the Group placed short-term deposits with banks at 7%-8.5% per annum.

Movement of the provision for expected credit losses on cash and cash equivalents is as follows:

In thousands of Tenge	**2018**	2017
As at 1 January	**–**	–
Adoption of IFRS 9 *(Note 3)*	**43,225**	–
Accrual for the year	**157,021**	–
Reversal	**(191,150)**	–
As at 31 December	**9,096**	–

As at 31 December 2018 and 31 December 2017, cash and cash equivalents were denominated in the following currencies:

In thousands of Tenge	**31 December 2018**	31 December 2017
Tenge	**15,661,766**	41,021,502
US Dollars	**3,394,135**	6,553,858
Euro	**3,242**	–
Russian Rouble	**1,240**	2,132
Others	**317**	291
	19,060,700	47,577,783

14. EQUITY

As at 31 December 2018 and 31 December 2017 share capital of the Group comprised of 260,000,000 shares for the total amount of KZT 126,799,554 thousand that were issued and fully paid.

The Group placed 25,999,999 ordinary shares at a price of KZT 505 at the Kazakhstan stock exchange under the People's IPO program. On 19 December 2014 the contribution to share capital of KZT 13,129,999 thousand was received. As at 31 December 2018 and 31 December 2017 the charter capital is presented net of the cost of the consulting services related to the issue of shares under People's IPO of KZT 692,568 thousand.

Treasury shares

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

Dividends

On 12 May 2017, shareholders approved distribution of 50% of net income 2016 less net income distributed for the 1st half-year of 2016. The amount to be paid comprises KZT 7,313,761 thousand to all common shareholders of the Group, which is KZT 28.13 per common share.

In October 2017, shareholders approved the distribution of 70% of net income received in 1st half-year of 2017. The amount of dividends to be distributed amounted to KZT 12,583,933 thousand to all common shareholders of the Group, which is KZT 48.40 per one common share.

In May 2018, shareholders approved the distribution of 70% of net profit for 2017 less net income distributed for the 1st half-year of 2017. The amount to be paid comprises KZT 10,433,745 thousand to all common shareholders of the Group, which is KZT 40.13 per common share.

In November 2018, shareholders approved the distribution of 80% of net profit for the 1st half-year 2018. The amount of dividends to be distributed amounted to KZT 20,937,687 thousand to all common shareholders of the Group, which is KZT 80.53 per common share.

Earnings per share

Basic and diluted earnings per share are calculated by dividing net profit for the period by the weighted average number of common shares outstanding during the period. The Group had weighted average number of coomon shares in circulation in the amount of 259,998,610 shares during the year ended 31 December 2018 (for the year ended 31 December 2017: 259,998,610 shares). For the year ended 31 December 2018 and 31 December 2017 basic and diluted earnings per share were KZT 154.01 and KZT 126.47, respectively.

Book value per share

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

In thousands of Tenge	**31 December 2018**	31 December 2017
Total assets	**755,850,702**	628,947,700
Less: intangible assets	**(1,472,307)**	(1,038,637)
Less: total liabilities	**(283,156,898)**	(254,780,140)
Net assets	**471,221,497**	373,128,923
Number of ordinary shares	**260,000,000**	260,000,000
Book value per ordinary share, Tenge	**1,812**	1,435

Asset revaluation reserve

Asset revaluation reserve represents revaluation surplus recognized as a result of revaluation of Group's NES assets as at 1 October 2018 (previous revaluation was held as at 1 June 2014) *(Note 6)*. Transfer of asset revaluation surplus into retained earnings, upon disposal of PPE and transfer of NES assets into other classes of PPE, for the year ended 31 December 2018 amounted to KZT 625,985 thousand (for the year ended 31 December 2017: KZT 31,654 thousand).

14. EQUITY (continued)

Other reserves

Other reserves represent accumulated reserve from revaluation of investments carried at fair value through other comprehensive income. After initial measurement, financial instruments carried at fair value through other comprehensive income are measured at fair value with unrealised gains or losses recognised as other comprehensive income in the other reserves until the investment is derecognised. The fair value of bonds is the price to sell an asset or transfer a liability.

Due to the change in fair value of investments during the year ended 31 December 2018, the Group decreased the reserve by the amount of KZT 133,620 thousand.

15. BORROWINGS

In thousands of Tenge	**31 December 2018**	31 December 2017
International Bank of Reconstruction and Development (IBRD)	**55,146,729**	56,378,222
European Bank of Reconstruction and Development (EBRD)	**19,155,131**	17,353,855
	74,301,860	73,732,077
Less: current portion of loans repayable within 12 months	**(11,420,710)**	(9,502,895)
	62,881,150	64,229,182

As at 31 December 2018 and 31 December 2017 the accrued and unpaid interest amounts to KZT 903,984 thousand and KZT 657,683 thousand, respectively. As at 31 December 2018 and 31 December 2017 the unamortized portion of loan origination fees amounts to KZT 321,868 thousand and KZT 339,820 thousand, respectively.

Loans were denominated in the following currencies:

In thousands of Tenge	**31 December 2018**	31 December 2017
US Dollars	**55,146,729**	56,378,222
Euro	**19,155,131**	17,353,855
	74,301,860	73,732,077

"Kazakhstan National Electricity Transmission Rehabilitation Project"

In 1999 the Group received the following credit line facilities for the purpose of implementation of the "Kazakhstan National Electricity Transmission Rehabilitation Project", USD 140,000 thousand from IBRD for the 20 (twenty) years period, secured by a guarantee of the Government of the Republic of Kazakhstan. The loan is repayable by annual instalments commencing 2005. An interest at LIBOR base rate plus general spread is payable semi-annually. The outstanding balances as at 31 December 2018 and 31 December 2017 are USD 13,460 thousand (equivalent to KZT 5,171,332 thousand) and USD 26,170 thousand (equivalent to KZT 8,697,076 thousand), respectively.

"Construction of the second North-South 500 kW Electricity Transmission line"

In 2005 for the purpose of implementation of the Phase II of the "Construction of the second North-South 500 kW Electricity Transmission line", the Group received a credit line facility of USD 100,000 thousand provided by IBRD for a period of 17 (seventeen) years of which first 5 (five) years are a grace period. This credit line facility is secured by a guarantee of the Government of the Republic of Kazakhstan. An interest at LIBOR Dollar rate plus general spread is paid semi-annually. In 2011 the non-disbursed part of this IBRD credit line in the amount of USD 1,918 thousand was cancelled due to the fact that actual costs incurred within this project were less than expected. The outstanding balances as at 31 December 2018 and 31 December 2017 are USD 32,662 thousand (equivalent to KZT 12,548,744 thousand) and USD 40,818 thousand (equivalent to KZT 13,564,953 thousand), respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. BORROWINGS (continued)

"Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2"

In 2008, for the realization of the "Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2" the Group opened the following credit lines:

(a) Two credit-line facilities of Euro 127,500 thousand and Euro 75,000 thousand from EBRD for 15 (fifteen) years, of which the first 4 (four) years are a grace period. An interest at the interbank six months EURIBOR rate plus a 3.85% margin is payable semi-annually. The outstanding balances as at 31 December 2018 and 31 December 2017 are Euro 43,130 thousand (equivalent to KZT 18,949,805 thousand) and Euro 43,130 thousand (equivalent to KZT 17,175,458 thousand), respectively;

(b) A credit line facility of Euro 47,500 thousand from EBRD for 12 (twelve) years, of which the first 4 (four) years are a grace period. As at 31 December 2018 and 2017, the debt under the above credit line is fully repaid;

(c) A credit line facility of Euro 5,000 thousand from EBRD for 9 (nine) years, of which the first 4 (four) years are a grace period. As at 31 December 2018 and 31 December 2017, the debt under the above credit line is fully repaid.

In August 2017, the Group early repaid two semi-annual principal payments under the loan in the amount of 23,751 thousand Euro (equivalent to KZT 9,405,550 thousand), which were scheduled to be paid in February and August 2018.

In November 2017, the Group early repaid four semi-annual principal payments of the loan in the amount of 44,253 thousand Euro (equivalent to KZT 17,410,008 thousand), which were scheduled to be paid in February and August 2019 and 2020.

"Moinak Electricity Transmission Project"

In 2009, for the realization of the "Moinak Electricity Transmission Project" a credit line facility from IBRD of USD 48,000 thousand was opened for 25 (twenty five) years, of which the first 5 (five) years are a grace period. The credit line facility is secured by the guarantee of the Government of the Republic of Kazakhstan. An interest rate is USD LIBOR rate plus fixed spread 0.85% is payable semi-annually. In May 2013 unused portion of the credit line from the IBRD in the amount of USD 3,274 thousand was cancelled due to the fact that the amount of actual expenses incurred in the course of the project was less than expected. The outstanding balances as at 31 December 2018 and 31 December 2017 are USD 35,781 thousand (equivalent to KZT 13,747,016 thousand) and USD 38,017 thousand (equivalent to KZT 12,634,253 thousand), respectively.

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

In 2010 for the realization of the project "Construction of the Alma 500 kW substation with connection to NES of Kazakhstan with the voltage of 500, 200 kW" the Group received a credit line facility of USD 78,000 thousand from IBRD for 25 (twenty five) years, of which the first 5 (five) years are a grace period. The credit line facility is secured by a guarantee of the Government of the Republic of Kazakhstan. An interest at LIBOR Dollar rate plus fixed spread 1.15% is repayable semi-annually. In July 2014 undeveloped part of the credit line from the IBRD in the amount USD 6,644 thousand has been cancelled due to the fact that the amount of actual costs was less than expected costs. The outstanding balances as at 31 December 2018 and 31 December 2017 are USD 60,653 thousand (equivalent to KZT 23,302,847 thousand) and USD 64,221 thousand (equivalent to KZT 21,342,474 thousand), respectively.

16. BONDS PAYABLE

In thousands of Tenge	**31 December 2018**	31 December 2017
Nominal value of issued bonds	**83,800,000**	83,800,000
Accrued coupon interest	**4,097,122**	4,407,719
Less: discount on bonds issued	**(93,747)**	(101,305)
Less: transaction costs	**(46,149)**	(49,672)
	87,757,226	88,056,742
Less: current portion of bonds repayable within 12 months	**(4,097,122)**	(4,407,719)
	83,660,104	83,649,023

16. BONDS PAYABLE (continued)

Under the State Program "Nurly Zhol" the Group placed two tranches of coupon bonds on "Kazakhstan Stock Exchange" JSC in order to finance the projects "Construction of 500 kW line Semey – Ak-togay – Taldykorgan – Alma":

(a) During the period from June to August 2016 the Group issued coupon bonds with nominal amount of KZT 47,500,000 thousand under floating interest rate equal to the inflation rate in Republic of Kazakhstan plus 2.9% with the maturity in 2031. The coupon rate for the first coupon period from 26 May 2017 to 26 May 2018 is 10.6% per annum. The coupon rate for the third coupon period from 26 May 2018 to 26 May 2019 is 9.5% per annum.

All bonds under this program were acquired by United Pension Saving Fund.

Bonds were issued with discount in the amount of KZT 111,945 thousand.

(b) In August 2017, the Group placed the second tranche of coupon bonds amounting to KZT 36,300,000 thousand with a fixed rate of 11.5%.

The received cash has been temporarily placed on short-term bank deposits.

All bonds under this program were acquired by United Pension Saving Fund and other entities.

For the year ended 31 December 2018 the Group capitalized in the cost of property, plant and equipment amortized discount of KZT 11,080 thousand (for the year ended 31 December 2017: 7,578 thousand) and amortized transaction costs in the amount of KZT 3,536 thousand (for the year ended 31 December 2017: KZT 2,261 thousand).

During the year ended 31 December 2018 the Group capitalized the borrowing costs of coupon interest on the issued bonds less investment income in the amount of KZT 7,806,352 thousand (for the year ended 31 December 2017: KZT 5,080,040 thousand) *(Note 6)*.

17. TRADE AND OTHER ACCOUNTS PAYABLE

In thousands of Tenge	**31 December 2018**	31 December 2017
Long-term accounts payable		
Accounts payable for property, plant and equipment and construction works	**–**	332,584
Less: discount on accounts payable	**–**	(34,257)
	–	298,327
Short-term trade and other accounts payable		
Accounts payable for property, plant and equipment and construction works	**14,902,860**	13,183,438
Accounts payable for electricity purchased	**6,145,704**	4,207,638
Accounts payable for inventories, works and services	**1,599,150**	1,372,261
Less: discount on accounts payable	**(2,417)**	–
	22,645,297	18,763,337
	22,645,297	19,061,664

As at 31 December 2018 and 31 December 2017 trade and other accounts payable are denominated in the following currencies:

In thousands of Tenge	**31 December 2018**	31 December 2017
Tenge	**21,281,317**	18,020,295
Russian Rouble	**1,314,273**	1,025,703
US Dollars	**39,215**	7,893
Euro	**10,492**	7,773
	22,645,297	19,061,664

18. CONSTRUCTION OBLIGATION

On 28 November 2013 in accordance with the decision of the Board of Samruk-Kazyna, the Group was committed to build a kindergarten in Astana city and transfer it upon completion to the Akimat of Astana. In 2014, the Group has estimated construction costs and signed a contract with the construction company. Accordingly, the Group recognized construction obligation for the total amount of KZT 683,430 thousand and the corresponding distribution to shareholders. Completion of the construction of the kindergarten is expected in 2019.

19. TAXES PAYABLE OTHER THAN INCOME TAX

In thousands of Tenge	**31 December 2018**	31 December 2017
VAT payable	**1,143,918**	118,608
Contributions payable to pension fund	**327,461**	281,451
Personal income tax	**258,047**	250,580
Social tax	**212,394**	230,499
Property tax	**113,427**	2,563
Social contribution payable	**75,179**	72,765
Other	**14,015**	2,059
	2,144,441	958,525

20. OTHER CURRENT LIABILITIES

In thousands of Tenge	**31 December 2018**	31 December 2017
Due to employees	**3,116,621**	3,210,561
Other	**285,378**	215,451
	3,401,999	3,426,012

21. REVENUE FROM CONTRACTS WITH CUSTOMERS

In thousands of Tenge	**2018**	2017
Electricity transmission services	**108,098,580**	94,272,728
Technical dispatch	**23,825,594**	21,853,659
Sale of purchased electricity	**21,066,623**	15,399,538
Balancing of electricity production and consumption	**16,387,265**	14,961,056
Sale of electricity for compensation of the interstate balances of electricity flows	**4,213,782**	4,084,672
Power regulation services	**561,066**	415,637
Other	**1,644,476**	1,392,527
Total revenue from contracts with customers	**175,797,386**	152,379,817
Revenue recognition timeline		
The goods are transferred at a certain point in time	**25,280,405**	19,484,210
The services are provided over a period of time	**150,516,981**	132,895,607
Total revenue from contracts with customers	**175,797,386**	152,379,817

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

22. COST OF SALES

In thousands of Tenge	2018	2017
Depreciation and amortization	**26,045,313**	22,288,566
Cost of purchased electricity	**20,936,916**	14,908,997
Technical losses of electric energy	**20,360,585**	18,225,994
Payroll expenses and related taxes	**15,884,891**	14,521,162
Cost of purchased electricity for compensation of interstate balances of electricity flows	**11,837,990**	9,654,277
Repair and maintenance expenses	**5,649,745**	5,263,450
Inventories	**1,624,868**	1,373,422
Security services	**1,175,967**	1,078,054
Other	**2,323,919**	2,085,447
	105,840,194	89,399,369

23. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of Tenge	2018	2017
Taxes other than income tax	**7,571,953**	6,851,098
Payroll expenses and related taxes	**4,876,226**	4,249,990
Depreciation and amortization	**649,892**	585,988
Expenses for the rights to use the software	**241,799**	110,527
Consulting services	**199,922**	427,315
Expenses for the Board of Directors	**150,695**	144,490
Business trip expenses	**146,804**	125,793
Trainings	**116,953**	91,114
Rent expenses	**116,859**	118,211
Utilities	**104,743**	95,540
Materials	**75,948**	75,701
Insurance	**75,153**	236,960
(Reversal)/charge for obsolete inventories *(Note 8)*	**(398,750)**	86,128
Reversal of allowance for doubtful receivables and impairment of other current assets	**–**	(1,044,203)
Other	**1,009,501**	987,743
	14,937,698	13,142,395

24. FINANCE INCOME/(COSTS)

In thousands of Tenge	2018	2017
Finance income		
Interest income from deposits, current accounts and bonds	**5,237,834**	6,205,274
Discounting of other financial assets	**665,983**	–
Amortization of discount on accounts receivable	**136,312**	140,477
Discount on trade payable	**–**	156,046
Others	**3,759**	2,173
Less: interest capitalized into cost of qualifying asset *(Note 6)*	**(1,092,551)**	(2,910,763)
	4,951,337	3,593,207
Finance costs		
Interest on borrowings	**11,206,140**	10,729,293
Discounting of the other financial assets	**660,278**	660,963
Commission on bank guarantees	**842,940**	794,285
Interest expense on finance leases	**24,597**	392
Amortization of loan origination fees	**24,069**	328,082
Other costs on bonds issued	**3,390**	1,736
Less: interest capitalized into cost of qualifying assets *(Note 6)*	**(8,898,903)**	(7,990,803)
	3,862,511	4,523,948

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. FOREIGN EXCHANGE LOSS, NET

On 20 August 2015 the National Bank of Republic of Kazakhstan and the Government of the Republic of Kazakhstan decided to shift to freely floating currency exchange rate as a part of implementation of inflation targeting program. As a result of change of exchange rate of Tenge for the year ended 31 December 2018, the Group incurred net foreign exchange loss in the amount of KZT 5,865,654 thousand (for the year ended 31 December 2017: net foreign exchange loss in the amount of KZT 4,356,244 thousand).

26. INCOME TAX EXPENSE

In thousands of Tenge	**2018**	2017
Current income tax		
Current income tax expense	**9,747,232**	9,907,788
Adjustments in respect of current income tax of previous year	**384,447**	(4,910)
Deferred tax		
Deferred income tax expense/(benefit)	**850,257**	(142,500)
Total income tax expense reported in profit or loss	**10,981,936**	9,760,378
Deferred tax related to items recognised in OCI during the year		
Deferred tax on revaluation of NES assets	**22,651,864**	–
Tax expense during the period recognized in OCI	**22,651,864**	–

The income tax rate in the Republic of Kazakhstan is 20% in 2018 and 2017.

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

In thousands of Tenge	**2018**	**2017**
Profit before tax	**51,024,811**	42,641,694
Tax at statutory income tax rate of 20%	**10,204,962**	8,528,339
Accrual of provision for expected credit losses	**472,953**	448,231
Adjustments in respect of current income tax of previous year	**384,447**	(4,910)
Accrual/(reversal) of allowance for doubtful accounts receivable from non-residents	**42,678**	(250,800)
Fines and penalties on property tax	**22,624**	18,987
(Reversal)/accrual of obsolete inventory allowance	**(79,750)**	17,226
Interest income from securities	**(264,453)**	–
Interest capitalized in the cost of qualifying assets	**–**	582,153
Support of producers of energy from renewable sources	**–**	271,629
Other non-deductible expenses	**198,475**	149,523
Income tax expense reported in profit or loss	**10,981,936**	9,760,378

26. INCOME TAX EXPENSE (continued)

Tax effect on temporary differences leading to deferred income tax assets and liabilities at 31 December 2018 and 2017 is provided below:

	Consolidated statement of financial position		Reported in profit or loss	
In thousands of Tenge	**31 December 2018**	31 December 2017	**2018**	2017
Accounts receivable	**145,837**	98,112	**47,725**	252,354
Accrued liabilities	**664,812**	638,843	**25,969**	(341,189)
Property, plant and equipment	**(90,977,091)**	(67,401,276)	**(923,951)**	477,335
Deferred tax (expense)/benefit	**–**	–	**(850,257)**	388,500
Net deferred tax liabilities	**(90,166,442)**	(66,664,321)	**–**	–

In thousands of Tenge	**2018**	2017
As at 1 January	**(66,664,321)**	(66,806,821)
Income tax (expense)/benefit recognised in profit and loss	**(850,257)**	142,500
Income tax expense recognised in OCI *(Note 4)*	**(22,651,864)**	–
As at 31 December	**(90,166,442)**	(66,664,321)

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

In thousands of Tenge	**31 December 2018**	31 December 2017
Deferred tax assets	**3,760**	2,252
Deferred tax liabilities	**(90,170,202)**	(66,666,573)
Net deferred tax liabilities	**(90,166,442)**	(66,664,321)

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

27. TRANSACTIONS WITH RELATED PARTIES

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

The following table provides the balances of trade accounts payable to/receivable from related parties as at 31 December 2018 and 31 December 2017:

In thousands of Tenge		**Trade accounts receivable from related parties**	**Trade accounts payable to related parties**
Subsidiaries of Samruk-Kazyna Group	**31 December 2018**	**2,164,091**	**2,429,524**
	31 December 2017	2,783,369	1,264,918
Associates of Samruk-Kazyna	**31 December 2018**	**282,452**	**446,573**
	31 December 2017	395,840	537,332
Entities under joint control of Samruk-Kazyna	**31 December 2018**	**284,393**	**50,160**
	31 December 2017	199,497	6,967
Associates of the Group	**31 December 2018**	**114,214**	**–**
	31 December 2017	29,140	17,194

27. TRANSACTIONS WITH RELATED PARTIES (continued)

The Group had the following transactions with related parties for the year ended 31 December 2018 and 31 December 2017:

In thousands of Tenge		Sales to related parties	Purchases from related parties
Subsidiaries of Samruk-Kazyna Group	**2018**	**36,239,819**	**24,608,638**
	2017	37,601,709	21,295,283
Associates of Samruk-Kazyna	**2018**	**8,629,245**	**1,229,587**
	2017	7,988,875	1,602,714
Entities under joint control of Samruk-Kazyna	**2018**	**5,393,545**	**39,702**
	2017	4,799,287	33,829
Associates of the Group	**2018**	**492,394**	**3,973**
	2017	375,228	85,049

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

As at 31 December 2018 the Group’s borrowings of KZT 55,407,918 thousand were guaranteed by the Government of the Republic of Kazakhstan (31 December 2017: KZT 56,657,386 thousand).

In 2007-2009 the Group acquired bonds of Batys Transit JSC, an associate listed on the Kazakhstan Stock Exchange. The bonds are secured with Guarantee of the Government of Republic of Kazakhstan in accordance with guarantee agreement dated 9 January 2006. The coupon interest rate on bonds is 7.3%. The bonds are classified as financial assets carried at amortised cost. As at 31 December 2018, the carrying amount of Batys Transit bonds was KZT 906,243 thousand (as at 31 December 2017: KZT 868,269 thousand).

As at 31 December 2018 the Group had accounts receivable for the sale of property, plant and equipment of Balkhash TES JSC, a related party, in the amount of KZT 219,851 thousand (as at 31 December 2017: KZT 201,284 thousand). In accordance with sales agreement Balkhash TES JSC must repay the outstanding balance before the end of 2018. However, as at 31 December 2018 the debt was not paid off. In connection with the suspension of construction of Balkhash TES JSC, the management of the Group made a decision to accrue a provision for receivables of 100%.

On 30 September 2015 the Group has sold buildings and constructions with equipment and land located in Astana city to its related party Kazpost JSC for KZT 2,161,476 thousand. In accordance with sales agreement Kazpost JSC will repay the outstanding balance by equal monthly payments until June 2027. Accordingly, the Group discounted the future cash flows using discount rate of 10.37%, which is the Group Management’s best estimate of market rate. As at 31 December 2018 the discount on accounts receivable from Kazpost JSC amounted to KZT 544,356 thousand. As at 31 December 2018 the receivables net of discount comprised KZT 1,109,500 thousand, of which KZT 929,162 thousand was accounted for within long-term receivables from related parties. During the year ended 31 December 2018, the Group recognized income from amortization of a discount on long-term receivables from Kazpost JSC in the amount of KZT 115,894 thousand (during the year ended 31 December 2017: KZT 123,468 thousand).

In 2017, the Group entered into a long-term contract with a related party, Samruk-Kazyna Business Contract LLP, for leasing out the rights to use the software. Since, at the end of the contract, the rights to use the software will be transferred to the Group, the Group recognized finance lease liability. As at 31 December 2018, finance lease liability amounts to KZT 193,498 thousand (as at 31 December 2017: KZT 12,957 thousand).

Compensation to key management personnel and all other expenses related to it (taxes, sick leaves, payment for vacation, material aid, etc.) included in salary expenses in the consolidated statement of comprehensive income amounted to KZT 405,885 thousand for the year ended 31 December 2018 (for the year ended 31 December 2017: KZT 434,374 thousand). Compensation to key management personnel mainly consists of contractual salary and performance bonus based on operating results.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise borrowings, bonds payable, trade and other payables. The main purpose of these financial liabilities is to finance the Group's investment projects and operations. The Group has trade and other receivables, cash and cash equivalents, short-term deposits that arrive directly from its operations, as wells as investments in debt securities.

The Group is exposed to interest rate risk, foreign currency risk, credit risk and liquidity risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term and short-term borrowings with floating interest rates *(Notes 15 and 16)*.

The Group limits its interest rate risk by monitoring changes in interest rates in the currencies in which the borrowings are denominated. The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in interest rates with all other variables held constant.

In thousands of Tenge	**Increase/(decrease) in basis points***	**Effect on profit before tax**
For the year ended 31 December 2018		
LIBOR	**0.5/(0.15)**	**(273,850)/82,155**
EURIBOR	**0.2/(0.01)**	**(37,900)/1,895**
For the year ended 31 December 2017		
LIBOR	0.7/(0.08)	(393,671)/44,991
EURIBOR	0.25/(0.01)	(42,939)/1,718

* *1 basis point = 0.01%.*

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

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's financing activities. Also, the Group's exposure to the risk of changes in foreign exchange rates relates to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency).

The following tables demonstrate the sensitivity to a reasonably possible change in the US Dollar and Euro exchange rate, with all other variables held constant. The Group's exposure to foreign currency changes for all other currencies is not material.

In thousands of Tenge	**Increase/(decrease) in exchange rate**	**Effect on profit before tax**
At 31 December 2018	**14%/(10%)**	**(4,171,674)/2,979,767**
US Dollar	**14%/(10%)**	**(2,682,733)/1,916,238**
Euro		
At 31 December 2017		
US Dollar	10%/(10%)*	(3,244,534)/3,244,534
Euro	13.5%/(9.5%)**	(2,343,820)/1,649,355

* *In absolute terms increase/(decrease) in exchange rate of Tenge in relation to US Dollar comprised 53.79/(38.42) Tenge;*

** *In absolute terms increase/(decrease) in exchange rate of Tenge in relation to Euro comprised 61.51/(43.94) Tenge.*

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

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

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

An impairment analysis is performed by Group management at each reporting date on an individual basis for all customers based on number of days the receivables are overdue. The calculation is based on actual incurred historical data. The maximum exposure to the credit risk is represented by the carrying value of each class of financial assets disclosed in *Note 9*. The Group does not hold collateral as security.

During 2016-2018 some banks were deprived of a license to conduct banking and other operations by the National Bank *(Note 11)*.

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

The following table shows the balance of cash and cash equivalents and bank deposits placed in banks at the reporting date using the credit rating agency "Standard & Poor's" and "Fitch" less accrued provisions:

		Rating		**31 December**	31 December
In thousands of Tenge	**Location**	**2018**	2017	**2018**	2017
Halyk Bank JSC	Kazakhstan	**BB/Negative**	BB/Negative	**17,781,948**	15,455,437
ATF Bank JSC	Kazakhstan	**B/Negative**	B3/Positive	**13,812,397**	12,748,136
ForteBank JSC	Kazakhstan	**B/Positive**	B3/Positive	**9,589,361**	19,605,491
BankCenterCredit JSC	Kazakhstan	**B/Stable**	B/Stable	**748,533**	13,354,885
Qazqom JSC	Kazakhstan	**BB/Stable**	B+/Negative	**–**	2,409,507
Tsesna Bank JSC	Kazakhstan	**B-/Negative**	B+/Negative	**–**	8,361,222
Eximbank Kazakhstan JSC	Kazakhstan	**Not applicable**	CCC	**–**	2,570,204
Nurbank JSC	Kazakhstan	**B-/Negative**	B-/Negative	**–**	968,004
Kassa Nova Bank JSC	Kazakhstan	**B/Stable**	B/Negative	**–**	302,842
Eurasian Bank JSC	Kazakhstan	**B/Negative**	B/Negative	**–**	133,424
Treasury Committee of the Ministry of Finance of the Republic of Kazakhstan SE	Kazakhstan	**Not applicable**	Not applicable	**–**	80,383
Delta Bank JSC	Kazakhstan	**Not applicable**	D	**–**	67,742
				41,932,239	76,057,277

Liquidity risk

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

In thousands of Tenge	On demand	Due more than 1 month but not later than 3 months	Due more than 3 months but not later than 1 year	Due more than 1 year but not later than 5 years	Due more than 5 years	Total
At 31 December 2018						
Borrowings	**–**	**1,762,822**	**11,247,280**	**43,588,081**	**31,227,973**	**87,826,156**
Bonds payable	**–**	**–**	**4,097,122**	**43,330,638**	**153,132,875**	**200,560,635**
Trade and other accounts payable	**–**	**22,645,297**	**–**	**–**	**–**	**22,645,297**
	–	**24,408,119**	**15,344,402**	**86,918,719**	**184,360,848**	**311,032,088**
At 31 December 2017						
Borrowings	–	1,454,277	9,322,742	42,087,100	31,588,145	84,452,264
Bonds payable	–	–	4,407,719	43,565,732	161,785,602	209,759,053
Trade and other accounts payable	–	18,763,337	–	298,327	–	19,061,664
	–	20,217,614	13,730,461	85,951,159	193,373,747	313,272,981

Capital management

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

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

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

	31 December 2018	31 December 2017
Debt/capital	**0.21**	0.26

In thousands of Tenge	**31 December 2018**	31 December 2017
Long-term borrowings and long-term bonds payable	**146,541,254**	147,878,205
Short-term borrowings and short-term bonds payable	**15,517,832**	13,910,614
Debt	**162,059,086**	161,788,819
Total liabilities	**283,156,898**	254,780,140
Equity	**472,693,804**	374,167,560
Total equity and liabilities	**755,850,702**	628,947,700

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value hierarchy

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

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

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

Assets measured at fair value

In thousands of Tenge	**31 December 2018**	**Level 1**	**Level 2**	**Level 3**
Non-financial assets				
NES assets *(Note 6)*	**577,612,131**	**–**	**–**	**577,612,131**

In thousands of Tenge	31 December 2017	Level 1	Level 2	Level 3
Non-financial assets				
NES assets *(Note 6)*	422,319,945	–	–	422,319,945

Liabilities for which fair values are disclosed

In thousands of Tenge	**31 December 2018**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities				
Bonds payable *(Note 16)*	**87,757,226**	**–**	**87,757,226**	**–**
Borrowings *(Note 15)*	**74,301,860**	**–**	**74,301,860**	**–**
Finance lease obligations	**193,498**	**–**	**193,498**	**–**

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

For the years ended 31 December 2018 and 31 December 2017, there were no transitions between Level 1, 2, and 3 of the fair value of financial instruments.

Fair values of financial instruments

As at 31 December 2018 and 31 December 2017 the management assessed that the fair value of financial instruments of the Group, such as trade accounts receivable and payable, other financial assets, cash and cash equivalents, cash restricted in use, approximates their carrying amounts largely due to the short-term maturities of these instruments. Borrowings and bonds payable are stated at amortized costs which approximate their fair values.

29. COMMITMENTS AND CONTINGENCIES

Changes in liabilities arising from financing activities

In thousand Tenge	1 January 2018	**Cash flows**	**Foreign exchange movement**	**New leases**	**Other**	**31 December 2018**
Borrowings	73,732,077	**(9,217,048)**	**9,522,579**	**–**	**264,252**	**74,301,860**
Bonds payable	88,056,742	**(9,209,500)**	**–**	**–**	**8,909,984**	**87,757,226**
Finance leases obligations	12,957	**(59,323)**	**–**	**209,504**	**30,360**	**193,498**
Total liabilities from financing activities	161,801,776	**(18,485,871)**	**9,522,579**	**209,504**	**9,204,596**	**162,252,584**

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

The Other column shows the amounts received as a result of the reclassification of part of the long-term loans, including liabilities under Finance leases, to the short-term over time category. The Group classifies the interest paid as cash flows from operating activities.

Operating environment

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

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

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual, including an opinion on the IFRS approach regarding revenue, expenses and other accounts of financial statements. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 1.25. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for 5 calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2018.

29. COMMITMENTS AND CONTINGENCIES (continued)

Compliance with loan covenants

From 1999 till 2011 the Group concluded loan facility agreements with EBRD and IBRD (the "Creditors") of which are effective for the amounts of 506 million US Dollars and 228 million Euro *(Note 15)*. According to the Loan facility Agreements concluded between the Group and the Creditors, the Group has to comply with the following covenants:

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

Management believes that the Group complied with all existing loan covenants with EBRD and IBRD as at 31 December 2018 and 31 December 2017. The Group excludes from EBITDA the foreign exchange loss, as management believes that foreign exchange loss meets definition of non-cash impairment and as such shall be excluded from the calculation of EBITDA as provided in the loan agreement. As of 31 December 2018 the Group excluded from EBITDA the foreign exchange loss of KZT 5,865,654 thousand (during the year ended 31 December 2017: KZT 4,356,244 thousand).

Insurance

As at 31 December 2018, the Group insured production assets with a replacement value of KZT 184,150,797 thousand. The insurance payment is limited to the replacement value of property, plant and equipment. The Group does not insure its other property. Since absence of any insurance does not imply a reduction of the cost of assets or origination of liabilities, no provision has been made in these consolidated financial statements for unexpected expenses associated with damage or loss of such assets.

Contractual commitments

To ensure the stable and reliable performance of the national electricity grid, the Group developed a capital investment plan. As at 31 December 2018, the Group's outstanding contractual commitments within the frameworks of this plan amount to KZT 8,356,462 thousand (31 December 2017: KZT 21,463,464 thousand).

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

Tariffs for the transmission of electrical energy, technical dispatching of grid output and consumption of electrical energy and balancing of electrical energy

Following the results of 2016-2017, a report on the execution of the tariff estimate was sent to the Committee, as a result of consideration, the Committee approved temporary compensating tariffs for the regulated services of the Group:

1) With the entry into force from1 January 2018 to 30 June 2018 by:
   - Transmission of electric energy in the amount of KZT 2.4957 per kWh;
   - Technical dispatching of the grid output and consumption of electric energy in the amount of KZT 0.2489 per kWh.
2) With the entry into force from 1 July 2018 to 31 December 2018 by:
   - Transmission of electric energy in the amount of KZT 2.4928 per kWh;
   - Technical dispatching of the grid output and consumption of electric energy in the amount of KZT 0.2482 per kWh;
3) With the entry into force from 1 January 2018 to 31 December 2018 by balancing the production and consumption of electrical energy in the amount KZT 0.091 per kWh.

29. COMMITMENTS AND CONTINGENCIES (continued)

Contractual commitments (continued)

Tariffs for the transmission of electrical energy, technical dispatching of grid output and consumption of electrical energy and balancing of electrical energy (continued)

In letter dated 18 July 2018, the Committee agreed on the decision of the Group to reduce the limits of temporary compensating tariffs for regulated services of the Group from 1 August 2018 until 31 December 2018:

- Technical dispatching of supply to the grid and electricity consumption in the amount from KZT 0.2482 to KZT 0.237 per kWh;
- Organization of balancing the production and consumption of electric energy from KZT 0.091 to KZT 0.088 per kWh.

Tariff on sale of electricity from renewable energy sources

In accordance with subparagraph 2) of paragraph 1 of Article 124-5 of the Entrepreneurship Code of the Republic of Kazakhstan from 1 January 2017, centralized purchase and sale of electric energy produced by objects for the use of renewable energy sources is attributed to socially significant markets. In this regard, the pricing procedure in calculating the tariff for the support of RES is determined by the *Rules for Pricing in Publicly Significant Markets*, approved by Order No. 36 of the Minister of National Economy of the Republic of Kazakhstan as of 1 February 2017, and the Rules for determining the tariff for the support of renewable energy sources approved by the order of the Minister of Energy of the Republic of Kazakhstan No. 118 as of 20 February 2015.

The tariff for electricity sale comprises costs of accounting and finance center for the purchase of electricity produced by energy producers using renewable energy sources, costs of the services for electricity production-consumption balance, costs of forming a reserve fund and the costs associated with the implementation of its activities.

The management believes that the calculation and application of tariff for the support of renewable energy sources was carried out properly and in accordance with the applicable rules and legislation.

30. SUBSEQUENT EVENTS

Contractual commitments

In accordance with the Minute of the Board of Management of “Samruk-Kazyna” JSC No. 01/19 dated 16 January 2019 the Group was instructed to finance the construction of the museum in Turkestan. On 11 February 2019 the Group signed agreement No. 01-08-s-115 with the Corporate Fund “Construction Company” for the total amount of KZT 2,800,561 thousand in order to fulfil the above mentioned Minute. In February 2019 the Group transferred the funds in full in accordance with the terms of the agreement.