

**“Kazakhstan Electricity Grid
Operating Company” JSC**

Unaudited interim
consolidated financial statements

*As at and for the three months
ended 31 March 2015*

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Report on review of interim consolidated financial statements

To the Shareholders of JSC “Kazakhstan Electricity Grid Operating Company”

Introduction

We have reviewed the accompanying interim consolidated financial statements of JSC “Kazakhstan Electricity Grid Operating Company” and its subsidiaries (“the Group”), comprising of the interim consolidated statement of financial position as at 31 March 2015 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* (“IAS 34”). Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim consolidated financial statements consist of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not present fairly, in all material respects, the financial position of the Group as at 31 March 2015, and its financial performance and its cash flows for the three-month period then ended in accordance with IAS 34.

Ernst & Young LLP

Paul Cohn
Audit partner



Adil Syzdykov
Auditor

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

8 May 2015



Evgeny Zhemaletdinov
General Director
Ernst & Young LLP

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2015

<i>In thousands of Tenge</i>	Notes	31 March 2015 (unaudited)	31 December 2014 (audited)
Assets			
Non-current assets			
Property, plant and equipment	6	472,645,659	477,443,676
Intangible assets		992,653	1,044,908
Advances paid for non-current assets	6	6,886,243	425,016
Investments in associates	7	315,891	282,165
Deferred tax asset	24	210	683
Other financial assets	10	3,784,341	3,706,710
Other non-current assets		193,644	194,782
		484,818,641	483,097,940
Current assets			
Inventories	8	2,550,771	2,030,045
Trade accounts receivable	9	14,228,556	14,671,787
VAT recoverable and other prepaid taxes		1,290,512	3,616,172
Income tax prepaid		263,742	1,365,474
Other financial assets	10	29,502,238	28,864,716
Restricted cash	11	2,645,491	2,042,349
Other current assets	12	405,878	277,435
Cash and cash equivalents	13	13,203,730	13,962,123
		64,090,918	66,830,101
Total assets		548,909,559	549,928,041
Equity and liabilities			
Equity			
Share capital	14	126,799,554	126,799,554
Asset revaluation surplus	14	221,751,635	221,756,419
Other reserves	14	(170,701)	(170,701)
Retained earnings		20,756,022	11,392,194
		369,136,510	359,777,466
Non-current liabilities			
Borrowings	15	89,187,084	94,714,528
Deferred tax liability	24	67,990,454	66,791,645
		157,177,538	161,506,173
Current liabilities			
Trade and other accounts payable	17	6,426,567	11,994,310
Borrowings	15	12,152,515	12,881,885
Construction obligation	16	683,430	683,430
Advances received		901,027	1,024,565
Taxes payable other than income tax		481,767	617,191
Other current liabilities	18	1,950,205	1,443,021
		22,595,511	28,644,402
Total liabilities		179,773,049	190,150,575
Total equity and liabilities		548,909,559	549,928,041
Book value per ordinary share (in Tenge)	14	1,416	1,380

Chairman of the Management Board



Kazhiyev
Kazhiyev B.T.

Chief Accountant

Ducey
Mukanova D.T.

The accounting policies and explanatory notes on pages 6 to 45 are an integral part of these interim consolidated financial statements.

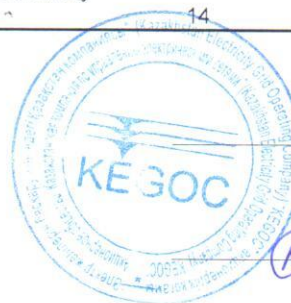
INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2015

<i>In thousands of Tenge</i>	Notes	For the three months ended	
		31 March 2015 (unaudited)	31 March 2014 (unaudited)
Revenue	19	29,472,316	24,939,199
Cost of sales	20	(18,113,628)	(18,314,717)
Gross profit		11,358,688	6,624,482
General and administrative expenses	21	(3,358,090)	(1,922,653)
Selling expenses		(51,120)	(35,824)
Reversal of impairment		68,481	-
Operating profit		8,017,959	4,666,005
Finance income	22	931,775	427,669
Finance costs	22	(894,935)	(758,066)
Foreign exchange gain / (loss), net	23	3,681,529	(13,040,126)
Share of loss of associates		(2,795)	(3,347)
Other income		76,120	51,289
Other expenses		(89,101)	(4,800)
Profit / (loss) before tax		11,720,552	(8,661,376)
Income tax (expense) / benefit	24	(2,398,029)	1,694,423
Profit / (loss) for the period		9,322,523	(6,966,953)
Other comprehensive income for the period, net of tax		-	-
Total comprehensive income / (loss) for the period, net of tax		9,322,523	(6,966,953)
Earnings per share			
Basic and diluted profit / (loss) for the period attributable to ordinary equity holders (in Tenge)	14	35.86	(32.48)

Chairman of the Management Board

Chief Accountant



Kazhıyev B.T.

Mukanova D.T.

The accounting policies and explanatory notes on pages 6 to 45 are an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended 31 March 2015

<i>In thousands of Tenge</i>	Notes	For the three months ended	
		31 March 2015 (unaudited)	31 March 2014 (unaudited)
Operating activities			
Profit / (loss) before tax		11,720,552	(8,661,376)
<i>Adjustments to reconcile profit before tax to net cash flows:</i>			
Depreciation and amortisation		5,603,444	3,605,167
Finance costs	22	894,935	758,066
Unrealised foreign exchange (gain) / loss, net		(3,334,935)	12,895,942
Provision for doubtful accounts receivable and impairment of advances	21	521,248	79,379
(Reversal) /accrual of provision for obsolete inventory	21	(21,803)	6,370
Loss from disposal of property, plant and equipment and intangible assets		62,968	17,710
Finance income	22	(931,775)	(427,669)
Reversal of impairment		(68,481)	-
Share of loss of associates		2,795	3,347
<i>Working capital adjustments:</i>			
Change in inventories		(502,816)	(490,687)
Change in trade accounts receivable		84,677	(5,082,008)
Change in VAT recoverable and other prepaid taxes		2,325,660	371,115
Change in other current assets		(87,942)	(210,585)
Change in trade and other accounts payable		(2,293,104)	3,443,096
Change in advances received		(123,538)	39,134
Change in taxes payable other than income tax		(134,402)	(89,301)
Change in other current liabilities		516,340	245,761
Cash flows from operating activities		14,233,823	6,503,461
Interest paid		(972,973)	(895,497)
Income tax paid		(11,131)	(79,171)
Interest received		592,204	95,228
Net cash flows from operating activities		13,841,923	5,624,021
Investing activities			
Placement of bank deposits		(229,640)	(6,327,444)
Change in restricted cash		(572,317)	(559,225)
Proceeds from sale of property, plant and equipment and intangible assets		1,632	-
Purchase of property, plant, equipment		(10,479,756)	(8,306,168)
Purchase of intangible assets		(1,508)	-
Payment for construction of kinder garden		-	(202,522)
Repayment of loans given to employees		6,079	4,610
Distribution from an associate		-	44,710
Net cash flows used in investing activities		(11,275,510)	(15,346,039)

The accounting policies and explanatory notes on pages 6 to 45 are an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

<i>In thousands of Tenge</i>	Notes	31 March 2015 (unaudited)	31 March 2014 (unaudited)
Financing activities			
Repayment of borrowings		(3,185,887)	(2,459,270)
Proceeds from borrowings		-	6,506,402
Net cash flows (used in) / from financing activities		(3,185,887)	4,047,132
Net change in cash and cash equivalents		(619,474)	(5,674,886)
Net foreign exchange difference		(138,919)	717,461
Cash and cash equivalents at 1 January		13,962,123	11,727,555
Cash and cash equivalents at 31 March		13,203,730	6,770,130

Chairman of the Management Board



[Signature]
Kazhiyev B.T.

Chief Accountant

[Signature]
Mukanova D.T.

The accounting policies and explanatory notes on pages 6 to 45 are an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2015

<i>In thousands of Tenge</i>	Share capital	Asset revaluation surplus	Other reserves	(Accumulated loss) / retained earnings	Total
As at 1 January 2014 (audited)	107,245,972	110,878,954	(170,701)	3,227,238	221,181,463
Loss for the period	-	-	-	(6,966,953)	(6,966,953)
Total comprehensive loss	-	-	-	(6,966,953)	(6,966,953)
Transfer of asset revaluation surplus (Note 14)	-	(1,854)	-	1,854	-
As at 31 March 2014 (unaudited)	107,245,972	110,877,100	(170,701)	(3,737,861)	214,214,510
As at 1 January 2015 (audited)	126,799,554	221,756,419	(170,701)	11,392,194	359,777,466
Profit for the period	-	-	-	9,322,523	9,322,523
Total comprehensive income	-	-	-	9,322,523	9,322,523
Transfer of asset revaluation surplus (Note 14)	-	(4,784)	-	4,784	-
Other changes in equity of an associate	-	-	-	36,521	36,521
As at 31 March 2015 (unaudited)	126,799,554	221,751,635	(170,701)	20,756,022	369,136,510

Chairman of the Management Board



Kazhiyev B.T.

Chief Accountant

Mukanova D.T.

The accounting policies and explanatory notes on pages 6 to 45 are an integral part of these interim consolidated financial statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2015

1. GENERAL INFORMATION

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

As of 31 March 2015 and as of 31 December 2014, 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 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 that 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 “UPS”), ensures its technical support and maintenance. The UPS 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 kV and more.

The Company has the following subsidiaries as of 31 March 2015 and 31 December 2014:

Companies	Activities	Percentage of ownership	
		31 March 2015	31 December 2014
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-І On Natural Monopolies and Regulated Markets 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 for Regulation of Natural Monopolies and Protection of Competition at the Ministry of National Economy of the Republic of Kazakhstan (the “Committee”).

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

These interim consolidated financial statements were authorised for issue by the Company’s Chairman of the Management Board and Chief Accountant on 8 May 2015.

2. BASIS OF PREPARATION

The interim consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”).

These interim 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 interim consolidated financial statements. The interim consolidated financial statements are presented in Kazakhstan Tenge (“Tenge” or “KZT”) and all values are rounded to the nearest thousands, except when otherwise indicated.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**2. BASIS OF PREPARATION (continued)****Basis of consolidation**

The interim consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 March 2015. 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 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, as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****New and amended standards and interpretations**

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2014, except for the adoption of following new standards and interpretations effective as of 1 January 2015:

The nature and impact of new standard/amendment is described below:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment did not affect the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and did not have a material impact on the Group. They include:

IFRS 2 Share-based Payments

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition;
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****New and amended standards and interpretations (continued)***Annual improvements 2010-2012 Cycle (continued)**IAS 24 Related Party Disclosures*

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and did not have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

Standards issued, but not yet effective

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Standards issued, but not yet effective (continued)***IFRS 14 Regulatory Deferral Accounts*

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

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

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Standards issued, but not yet effective (continued)***Annual improvements 2012-2014 Cycle*

These improvements are effective from 1 January 2016. The Group management is in process of assessment whether these improvements will have a material impact on the Group. They include:

IFRS 5 Changes in methods of disposal

IFRS 7 Servicing Contracts

IFRS 7 Applicability of the amendments to IFRS 7 to condensed interim financial statements

IAS 19 regional market issue

IAS 34 Disclosure of information "elsewhere in the interim financial report"

Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is 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 twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

Fair value measurement

The Group measures financial instruments, such as, available for sale ("AFS") financial assets at fair value at each balance sheet date, and non-financial assets (UPS constructions) 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 26*.

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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Fair value measurement (continued)**

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 UPS constructions and unquoted AFS financial assets, and for non-recurring measurement, if any.

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

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

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

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

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

Foreign currencies

The Group’s interim 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.

Differences arising on settlement or translation of monetary items are recognized in profit or loss 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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:

<i>Exchange rate as at the end of the period (to KZT)</i>	31 March 2015	31 December 2014
USD 1	185.65	182.35
EUR 1	199.09	221.59
RUR 1	3.22	3.13

<i>Average exchange rate for the three months (to KZT)</i>	2015	2014
USD 1	184.59	170.21
EUR 1	208.32	233.27
RUR 1	2.95	4.85

Property, plant and equipment

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

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

UPS constructions 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 surplus is recorded in OCI and credited to the asset revaluation surplus 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 statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation surplus. 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:

<i>Buildings</i>	60 years
<i>UPS constructions</i>	
Power transmission lines	50 years
Substation equipment	12-30 years
Constructions	10-30 years
<i>Vehicles and other property, plant and equipment</i>	
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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Property, plant and equipment (continued)**

Land is not depreciated.

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 values 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, 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.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- How the intangible asset will generate future economic benefits;
- The availability of resources to complete the asset;
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future economic benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Impairment of non-financial assets (continued)**

The Group bases its impairment calculation on value in use, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of 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 UPS constructions previously revalued with the revaluation taken to OCI. For such assets, the impairment is recognized in OCI up to the amount of any previous revaluation. For assets previously impaired, except for goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Investments in associate

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

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

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

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

The statement of comprehensive income reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognized its share of any changes, when applicable, in the 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 statement of comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial instruments – initial recognition and subsequent measurement***Financial assets**Initial recognition and measurement*

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

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in interest income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs for loans and operating expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the EIR, less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as interest income in the profit or loss. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs.

Available-for-sale financial investments

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for sale reserve to the profit or loss in finance costs. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial instruments – initial recognition and subsequent measurement (continued)***Financial assets (continued)**Subsequent measurement (continued)*

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

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

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

Derecognition

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

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

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

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

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial instruments – initial recognition and subsequent measurement (continued)***Financial assets (continued)**Financial assets carried at amortised cost*

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

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

Available-for-sale financial investments

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

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial instruments – initial recognition and subsequent measurement (continued)*****Financial liabilities******Initial recognition and measurement***

Financial liabilities within the scope of IAS 39 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.

Subsequent measurement

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

Loans and borrowings

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

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

Trade and other payables

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

Derecognition

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

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

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Restricted cash**

In accordance with loan agreements on projects financing signed with International Bank for Reconstruction and Development ("IBRD") and European Bank for Reconstruction and Development ("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 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 months from the reporting date, such cash is reflected within non-current assets.

Provisions

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

Revenue recognition

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

Rendering of services

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

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

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

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

Interest income

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

Equipment received from customers

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****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 an entity incurs in connection with the borrowing of funds.

Lease

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

Group as a lessee

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

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

Operating lease payments are recognised as an operating expense in the 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 160,230 per month (2014: KZT 149,745) 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 period 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 profit or loss. 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Deferred tax (continued)**

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and 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.

Contingencies

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

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

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's interim 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. 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Revaluation of property, plant and equipment

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

The Group performed revaluation of UPS constructions as at 1 June 2014. Revaluation resulted in the revaluation surplus on certain assets credited to OCI in the amount of KZT 138,887,289 thousand, and respective deferred tax liability in the amount of KZT 27,777,458 thousand and revaluation gain amounting to KZT 14,250,162 thousand was credited to profit and loss to the extent of revaluation deficit recognized on these assets in prior periods.

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

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

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

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

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

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

Management of the Group believes that fair value of UPS constructions approximates their carrying value at 31 March 2015.

Accounts Receivable

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. The Group’s estimate of uncollectible overdue amounts is as follows: 31-90 days – 5%, 91-180 days – 20%, 181-360 days – 50% and above 361 days – 100%. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the interim consolidated financial statements. In 2014 the Group increased expected repayment period for one of its customers, Uzbek Energo GAK, due to existing practice. Accordingly, accounts receivables from Uzbek Energo GAK were discounted for 1 year using discount rate of 9.5%, that is the management’s best estimate of the market discount rate. Further details are contained in *Note 9*.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Taxes (continued)

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

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

Fair value of financial instruments

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

5. OPERATING SEGMENTS INFORMATION

Operating segments

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

Geographic information

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

<i>In thousands of Tenge</i>	For the three months ended	
	31 March 2015	31 March 2014
Revenue from Kazakhstan customers	26,271,182	17,826,160
Revenue from Russian customers	3,201,134	1,324,654
Revenue from Uzbekistan customers	-	5,788,385
Total revenue per interim consolidated statement of comprehensive income	29,472,316	24,939,199

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

For the three months ended 31 March 2015 the revenue from one customer amounted to KZT 4,468,289 thousand arising from transmission, technical dispatching and balancing services.

For the three months ended 31 March 2014 the revenue from one customer amounted to KZT 5,788,385 thousand, arising from power regulation and sales of purchased electricity.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

<i>In thousands of Tenge</i>	Land	Buildings	UPS constructions	Vehicles and other property, plant and equipment	Construction-in-progress	Total
Cost						
At 1 January 2014	1,324,235	6,984,370	496,334,581	26,978,560	37,189,851	568,811,597
Additions	418	-	41,703	65,525	2,678,378	2,786,024
Transfers	72,079	-	1,066,680	3,770	(1,142,529)	-
Disposals	-	-	(28,029)	(75,580)	(29,582)	(133,191)
At 31 March 2014	1,396,732	6,984,370	497,414,935	26,972,275	38,696,118	571,464,430
At 1 January 2015	1,529,783	13,543,582	802,315,409	30,415,857	13,342,850	861,147,481
Additions	372	-	6,805	106,751	615,731	729,659
Transfers	1,020	187,019	326,341	38,513	(552,893)	-
Disposals	-	-	(117,192)	(47,941)	-	(165,133)
Transfer to intangible assets	-	-	-	-	(1,022)	(1,022)
At 31 March 2015	1,531,175	13,730,601	802,531,363	30,513,180	13,404,666	861,710,985
Accumulated depreciation and impairment						
At 1 January 2014	-	(1,405,936)	(242,805,084)	(15,529,323)	(252,090)	(259,992,433)
Charge for the period	-	(39,320)	(3,030,475)	(480,561)	-	(3,550,356)
Disposals	-	-	26,165	59,885	-	86,050
At 31 March 2014	-	(1,445,256)	(245,809,394)	(15,949,999)	(252,090)	(263,456,739)
At 1 January 2015	-	(1,612,816)	(364,419,798)	(17,315,820)	(355,371)	(383,703,805)
Charge for the period	-	(66,891)	(4,917,229)	(548,047)	-	(5,532,167)
Disposals	-	-	54,645	47,520	-	102,165
Transfers	-	25	-	(25)	-	-
Reversal of impairment	-	-	-	-	68,481	68,481
At 31 March 2015	-	(1,679,682)	(369,282,382)	(17,816,372)	(286,890)	(389,065,326)
Net book value						
At 1 January 2014	1,324,235	5,578,434	253,529,497	11,449,237	36,937,761	308,819,164
At 31 March 2014	1,396,732	5,539,114	251,605,541	11,022,276	38,444,028	308,007,691
At 1 January 2015	1,529,783	11,930,766	437,895,611	13,100,037	12,987,479	477,443,676
At 31 March 2015	1,531,175	12,050,919	433,248,981	12,696,808	13,117,776	472,645,659

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

If UPS constructions were measured using the cost model, the carrying amount would be as follows:

<i>In thousands of Tenge</i>	31 March 2015	31 December 2014
At costs	249,483,962	249,271,338
Accumulated depreciation	(67,740,742)	(65,946,769)
Net carrying amount	181,743,220	183,324,569

As at 31 March 2015 and 31 December 2014 fully amortised property, plant and equipment (at cost), which are still in use amounted to KZT 6,426,917 thousand and KZT 6,261,817 thousand, respectively.

Capitalized borrowing costs

During three month ended 31 March 2015 the Group did not capitalised any borrowing costs as a result of completion of its investment projects financed by bank loans (borrowing costs capitalised during three month ended 31 March 2014: KZT 132,133 thousand at the capitalization rate of 3.6%).

Construction in progress

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

Advances paid for non-current assets

As at 31 March 2015, advances paid for non-current assets mainly represent prepayments made to suppliers for construction work related to the project “Construction of 500 kW line Ekibastuz – Shulbinskaya GES (Semey) – Ust-Kamenogorsk”, “Construction of 500 kW line Shulbinskaya GES (Semey) – Aktogay – Taldykorgan – Alma” and “Pavlodar Electricity Transmission Reinforcement Project” (2014: as at 31 December 2014 the advanced paid for non-current assets mainly represent prepayments made to suppliers for construction work related to the project “Construction of 500 kW line Ekibastuz – Shulbinskaya GES (Semey) – Ust-Kamenogorsk”).

7. INVESTMENTS IN ASSOCIATES

Investments in associates comprised the following:

<i>In thousands of Tenge</i>	31 March 2015	31 December 2014
KazEnergoProvod LLP	164,317	167,112
Batys Transit JSC	151,574	115,053
	315,891	282,165

Group’s share in associates is as follows:

	31 March 2015	31 December 2014
KazEnergoProvod LLP	49.9%	49.9%
Batys Transit JSC	20.0%	20.0%

KazEnergoProvod LLP

In October 2012 the Group and East Industry Company Ltd LLP, a third party entity, established KazEnergoProvod LLP (KazEnergoProvod). KazEnergoProvod’s principal place of operations and country of incorporation is the Republic of Kazakhstan. The main activity of KazEnergoProvod is production and sale of cable and wire products.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INVESTMENTS IN ASSOCIATES (continued)

KazEnergoProvod LLP (continued)

The following table illustrates the summarised financial information of KazEnergoProvod:

<i>In thousands of Tenge</i>	31 March 2015	31 December 2014
Statement of financial position		
Current assets	178,914	326,031
Non-current assets	154,258	158,449
Current liabilities	(3,879)	(149,587)
Non-current liabilities	-	-
Net assets	329,293	334,893
Group's share in net assets	164,317	167,112
Carrying amount of the investment	164,317	167,112

<i>In thousands of Tenge</i>	For the three months ended	
	31 March 2015	31 March 2014
Statement of comprehensive income		
Revenue	44,641	-
Net loss	(5,600)	(6,708)
Group's share in loss of an associate	(2,795)	(3,347)

Batys Transit JSC

Batys Transit JSC's ("Batys Transit") principal place of operations and country of incorporation 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's bonds are listed on the Kazakhstan Stock Exchange.

The following table illustrates the summarised financial information of Batys Transit:

<i>In thousands of Tenge</i>	31 March 2015	31 December 2014
Statement of financial position		
Current assets	2,125,831	1,737,686
Non-current assets	21,647,325	21,839,053
Current liabilities	(3,800,419)	(4,203,537)
Non-current liabilities	(18,907,921)	(18,615,330)
Net assets	1,064,816	757,872
Unrecognised net assets	(306,944)	(182,606)
	757,872	575,266
Group's share in net assets	151,574	115,053
Carrying amount of the investment	151,574	115,053

<i>In thousands of Tenge</i>	For the three months ended	
	31 March 2015	31 March 2014
Statement of comprehensive income		
Revenue	1,595,877	1,080,432
Net profit / (loss)	306,944	(89,378)
Group's share of income / (loss) of an associate	61,389	(17,876)
Unrecognised share in (income) / loss of an associate	(61,389)	17,876
Group's share of income of an associate	-	-

The associates require the parent's consent to distribute its profits. The parent does not foresee giving such consent at the reporting date.

The associates had no contingent liabilities or capital commitments as at 31 March 2015 or 31 December 2014.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. INVENTORIES

<i>In thousands of Tenge</i>	31 March 2015	31 December 2014
Spare parts	1,569,597	1,303,556
Raw and other materials	914,992	807,416
Fuel and lubricants	237,070	117,508
Other inventory	54,787	49,043
Less: allowance for obsolete inventories	(225,675)	(247,478)
	2,550,771	2,030,045

Movement in the allowance for obsolete inventories was as follows:

<i>In thousands of Tenge</i>	2015	2014
At 1 January	247,478	163,972
Charge for the period	-	6,370
Reversal	(21,803)	-
Written-off	-	(23)
At 31 March	225,675	170,319

9. TRADE ACCOUNTS RECEIVABLE

<i>In thousands of Tenge</i>	31 March 2015	31 December 2014
Trade accounts receivable	18,520,860	18,605,575
Less: allowance for doubtful accounts receivable	(4,006,967)	(3,445,256)
Less: discount of accounts receivable	(285,337)	(488,532)
	14,228,556	14,671,787

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

<i>In thousands of Tenge</i>	2015	2014
At 1 January	3,445,256	893,394
Charge for the period	637,430	237,747
Written-off	(38)	-
Reversal	(75,681)	(165,028)
At 31 March	4,006,967	966,113

As of 31 March 2015 trade receivables included receivables from the client Uzbek Energo GAK in the amount of KZT 13,429,551 thousand (31 December 2014: KZT 13,789,041 thousand). In 2014 the Group estimated that the average actual repayment period of receivables from Uzbek Energo GAK takes one year. The Group discounted future cash flows from Uzbek Energo GAK, accordingly.

As of 31 March 2015 the discount on accounts receivable comprised KZT 285,337 thousand (31 December 2014: KZT 488,532 thousand). During the three months ended 31 March 2015 the Group recognized amortization of discount in the amount of KZT 203,195 thousand as a part of the finance income in the interim consolidated statement of comprehensive income.

The ageing analysis of trade receivables is as follows:

<i>In thousands of Tenge</i>	Total	Neither past due nor impaired	Past due but not impaired			Above 271 days
			30-90 days	91-180 days	181-270 days	
31 March 2015	14,228,556	420,300	3,069,274	777,190	625,925	9,335,867
31 December 2014	14,671,787	6,738,462	898,885	605,629	3,726,090	2,702,721

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. TRADE ACCOUNTS RECEIVABLE (continued)

Trade receivables were denominated in the following currencies:

<i>In thousands of Tenge</i>	31 March 2015	31 December 2014
United States dollar	13,537,488	10,050,854
Tenge	220,487	4,109,477
Russian ruble	470,581	511,456
	14,228,556	14,671,787

10. OTHER FINANCIAL ASSETS

<i>In thousands of Tenge</i>	31 March 2015	31 December 2014
Long-term other financial assets		
Bank deposits	2,916,072	2,838,441
Bonds of Batys Transit	868,269	868,269
	3,784,341	3,706,710
Short-term other financial assets		
Bank deposits	29,450,296	28,825,720
Interest accrued on bonds of Batys Transit	51,942	38,996
	29,502,238	28,864,716
Total other financial assets	33,286,579	32,571,426

In 2007-2009 the Group acquired bonds of Batys Transit, an entity listed on the Kazakhstan Stock Exchange. The interest rate on the bonds is 5%. The bonds are classified as available for sale investments. Fair value is the price to sell an asset or transfer a liability, and therefore an exit price, not an entry price. The Group also has investments into Batys Transit (Note 7). The Group does not offset the unrecognised share of loss in Batys Transit with the investment in bonds, since the bonds are secured with Guarantee of the Government of Republic of Kazakhstan in accordance with guarantee agreement dated 9 January 2006.

In January 2014 the Group placed long-term deposit with ATF Bank amounting to USD 15,000 thousand (equivalent of KZT 2,784,750 thousand as at 31 December 2014) with fixed interest rate of 4.5% per annum maturity in 2017. The balance as at 31 March 2015 also includes the accrued interest income in the amount of KZT 131,322 thousand (31 December 2014: KZT 103,191 thousand).

Short-term deposits as at 31 March 2015 and 31 December 2014 represent KZT and USD deposits placed with Kazakhstan banks with the fixed interest rate of 3%-15% per annum; and also include the accrued and uncollected interest in the amount of KZT 184,637 thousand and KZT 306,180 thousand, respectively.

Other financial assets were denominated in the following currencies:

<i>In thousands of Tenge</i>	31 March 2015	31 December 2014
United States dollar	32,208,993	31,651,160
Tenge	1,077,586	920,266
	33,286,579	32,571,426

11. RESTRICTED CASH

<i>In thousands of Tenge</i>	31 March 2015	31 December 2014
Cash on reserve accounts	1,547,203	1,490,425
Cash on debt service accounts	903,439	460,851
Cash restricted on current account	194,849	91,073
	2,645,491	2,042,349

As at 31 March 2015 and 31 December 2014 restricted cash mainly represented cash held on a debt service account and reserve account.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. RESTRICTED CASH (continued)

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

In accordance with the terms of the guarantee agreements with the Government of the Republic of Kazakhstan, the guarantor of 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 and EBRD loans.

At 31 March 2015 and 31 December 2014, restricted cash was denominated in the following currencies:

<i>In thousands of Tenge</i>	31 March 2015	31 December 2014
United States dollar	2,450,642	1,951,276
Tenge	194,849	91,073
	2,645,491	2,042,349

12. OTHER CURRENT ASSETS

<i>In thousands of Tenge</i>	31 March 2015	31 December 2014
Advances paid for goods and services	176,645	205,731
Deferred expenses	147,316	35,094
Loans to employees	26,505	28,300
Other receivables	112,898	106,297
Less: provision for impairment of other current assets	(57,486)	(97,987)
	405,878	277,435

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

<i>In thousands of Tenge</i>	2015	2014
At 1 January	97,987	29,574
Charge for the period	4,060	7,763
Reversal	(44,561)	(1,103)
At 31 March	57,486	36,234

13. CASH AND CASH EQUIVALENTS

<i>In thousands of Tenge</i>	31 March 2015	31 December 2014
Short-term deposits	6,000,000	7,550,000
Current accounts with banks, in Tenge	4,972,472	4,334,932
Current accounts with banks, in foreign currencies	2,225,074	2,067,974
Cash at special accounts	3,179	4,298
Cash on hand	3,005	4,919
	13,203,730	13,962,123

At 31 March 2015 and 31 December 2014, cash and cash equivalents were stated in the following currencies:

<i>In thousands of Tenge</i>	31 March 2015	31 December 2014
Tenge	10,978,656	11,894,149
United States dollar	1,147,171	409,569
Euro	1,038,338	1,653,838
Russian ruble	39,221	4,203
Others	344	364
	13,203,730	13,962,123

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. EQUITY

As at 31 March 2015 and 31 December 2014 share capital of the Company comprised of 260,000,000 shares that were issued and fully paid.

The Group placed 25,999,999 common 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 of 31 March 2015 and 31 December 2014 authorized capital is presented net of the cost of the consulting services related to the issue of shares under People’s IPO of KZT 692,568 thousand.

Dividends

No dividends were declared or paid during the three months ended 31 March 2015 and 31 March 2014.

Earnings per share

Basic and diluted earnings per share amounts are calculated by dividing the net profit for the period by the weighted average number of ordinary shares outstanding during the period. The Group had 260,000,000 weighted average number of ordinary shares for the three month ended 31 March 2015 (for the three month ended 31 March 2014: 214,491,940). For the three month ended 31 March 2015 and 31 March 2014, basic and diluted earnings and losses per share amounted to 35.86 Tenge and 32.48 Tenge, 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.

<i>In thousand Tenge</i>	31 March 2015	31 December 2014
Total assets	548,909,559	549,928,041
Less: intangible assets	(992,653)	(1,044,908)
Less: total liabilities	(179,773,049)	(190,150,575)
Net assets	368,143,857	358,732,558
Number of ordinary shares	260,000,000	260,000,000
Book value per share, Tenge	1,416	1,380

Asset revaluation surplus

At 31 March 2015 and December 2014 the revaluation surplus represents revaluation surplus recognized as a result of revaluation of Group’s UPS constructions on 1 June 2014 (previous revaluation was made on 1 November 2013). Transfer of asset revaluation surplus into retained earnings, upon disposal of PPE, for the three months ended 31 March 2015 amounted to KZT 4,784 thousand (for the three months ended 31 March 2014: KZT 1,854 thousand).

Other reserves

Other reserves represent accumulated reserve on available for sale investments. After initial measurement, available for sale investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the other reserves until the investment is derecognised. Fair value is the price to sell an asset or transfer a liability, and therefore an exit price, not an entry price.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. BORROWINGS

<i>In thousands of Tenge</i>	31 March 2015	31 December 2014
International Bank of Reconstruction and Development (IBRD)	44,426,252	43,861,868
European Bank of Reconstruction and Development (EBRD)	56,913,347	63,734,545
	101,339,599	107,596,413
Less: current portion of loans repayable within 12 months	(12,152,515)	(12,881,885)
	89,187,084	94,714,528

At 31 March 2015 and 31 December 2014 the accrued and unpaid interest amounts to KZT 648,015 thousand and KZT 902,515 thousand, respectively.

At 31 March 2015 and 31 December 2014 the unamortized portion of loan origination fees amounts to KZT 872,872 thousand and KZT 894,810 thousand, respectively.

Loans were denominated in the following currencies:

<i>In thousands of Tenge</i>	31 March 2015	31 December 2014
In United States dollars	66,981,546	66,134,005
In Euro	34,358,053	41,462,408
	101,339,599	107,596,413

“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”:

- (a) USD 140,000 thousand from IBRD for the 20 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 March 2015 and 31 December 2014 are USD 60,270 thousand (equivalent to KZT 11,189,125 thousand) and USD 60,270 thousand (equivalent to KZT 10,990,234 thousand), respectively;
- (b) USD 45,000 thousand from EBRD for the 15 years period, secured by a guarantee of the Government of the Republic of Kazakhstan. The loan is repayable by annual instalments commencing 2004. An interest at LIBOR base rate plus 1% margin is payable semi-annually. The outstanding balances as at 31 March 2015 and 31 December 2014 are USD 1,944 thousand (equivalent to KZT 360,904 thousand) and USD 3,905 thousand (equivalent to KZT 712,077 thousand), respectively.

“North-South Electricity Transmission Project”

In 2005 for the purpose of implementation of the Phase 2 of the “North-South Electricity Transmission Project”, the Group received a credit line facility of USD 100,000 thousand provided by IBRD for a period of 17 years of which first 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 March 2015 and 31 December 2014 are USD 65,285 thousand (equivalent to KZT 12,120,134 thousand) and USD 65,285 thousand (equivalent to KZT 11,904,694 thousand), respectively.

NOTES TO THE INTERIM 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 years, of which the first 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 March 2015 and 31 December 2014 are Euro 138,014 thousand (equivalent to KZT 27,477,282 thousand) and Euro 146,640 thousand (equivalent to KZT 32,494,018 thousand), respectively;
- (b) a credit line facility of Euro 47,500 thousand from EBRD for 12 years, of which the first four years are a grace period. An interest at the interbank six months EURIBOR rate plus a 3.55% margin is payable semi-annually. The outstanding balances as at 31 March 2015 and 31 December 2014 are Euro 32,498 thousand (equivalent to KZT 6,470,018 thousand) and Euro 35,748 thousand (equivalent to KZT 7,921,345 thousand), respectively;
- (c) a credit line facility of Euro 5,000 thousand from EBRD for 9 years, of which the first four years are a grace period. An interest at the interbank six months EURIBOR rate plus a 2.75% margin is repayable semi-annually. The outstanding balances as at 31 March 2015 and 31 December 2014 are Euro 2,415 thousand (equivalent to KZT 480,771 thousand) and Euro 3,019 thousand (equivalent to KZT 668,852 thousand), respectively.

In November 2013 the Group concluded supplementary agreement, according to which the second credit line was decreased from Euro 75,000 thousand to Euro 53,443 thousand. In December 2014 the unused part of loan from the European Reconstruction and Development Bank amounted to Euro 5,028 thousand was cancelled due to the fact that actual expenses were lower than expected.

"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 years, of which the first 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 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 March 2015 and 31 December 2014 are USD 43,608 thousand (equivalent to KZT 8,095,817 thousand) and USD 44,726 thousand (equivalent to KZT 8,155,806 thousand), respectively.

"Construction of the Alma 500 kW substation"

In 2010 for the realization of the project "Construction of the Alma 500 kW substation with connection to UPS 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 years, of which the first 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 is repayable semi-annually. In June 2014 unused portion of the credit line from the IBRD in the amount of USD 6,644 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 March 2015 and 31 December 2014 are USD 71,356 thousand (equivalent to KZT 13,247,308 thousand) and USD 71,356 thousand (equivalent to KZT 13,011,832 thousand), respectively.

"Ossakarovka Transmission Rehabilitation Project"

In 2011, for refinancing of EBRD and DBK loans received in 2004-2005 for realization of the Phases 1, 2 and 3 of the "North-South Electricity Transmission Project" the Group opened the following credit lines for realization of the "Ossakarovka Transmission Rehabilitation Project":

- (a) two credit-line facilities of USD 77,293 thousand and USD 44,942 thousand, from EBRD for a 15 years. An interest at the interbank six months LIBOR rate plus a 3.95% margin is payable semi-annually. The outstanding balances as at 31 March 2015 and 31 December 2014 are USD 95,026 thousand (equivalent to KZT 17,641,669 thousand) and USD 95,026 thousand (equivalent to KZT 17,328,082 thousand), respectively;

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. BORROWINGS (continued)

“Ossakarovka Transmission Rehabilitation Project” (continued)

- (b) a credit-line facility of USD 17,973 thousand, from EBRD for 12 years. An interest at the interbank six months LIBOR rate plus a 3.70% margin is payable semi-annually. The outstanding balances as at 31 March 2015 and 31 December 2014 are USD 12,956 thousand (equivalent to KZT 2,405,212 thousand) and USD 12,956 thousand (equivalent to KZT 2,362,458 thousand) respectively.

In 2011, for execution of “Reconstruction of the Ossakarovka 220 kW power line” the Group received from EBRD credit lines for the amounts of USD 12,900 thousand (A2, B1b) and USD 1,900 thousand (B2b). The credit lines were provided for 12 years, of which the first three years is a grace period. An interest at the interbank six months LIBOR rate plus 3.95% (A2, B1b) and 3.70% (B2b) margin is payable semi-annually. The outstanding balances as at 31 March 2015 and 31 December 2014 are USD 11,183 thousand (equivalent to KZT 2,076,216 thousand) and USD 11,183 thousand (equivalent of KZT 2,039,310), respectively.

In May 2014 the Group concluded supplementary agreement, according to which the undisbursed amount of the second tranche of EBRD credit line was decreased from USD 14,800 thousand to USD 11,691 thousand.

16. CONSTRUCTION OBLIGATION

In accordance with the decision of the Management Board of Samruk-Kazyna dated 28 November 2013, the Group shall construct a kinder garden in Astana city and transfer it to Astana Akimat upon completion of construction. In 2014 the Group estimated cost of construction and engaged a construction company. Accordingly, the Group recognised construction obligation for the whole amount of KZT 683,430 thousand and respective distribution to the Shareholder. The expected date of completion of the construction of the kinder garden is August 2015.

17. TRADE AND OTHER ACCOUNTS PAYABLE

<i>In thousands of Tenge</i>	31 March 2015	31 December 2014
Accounts payable for electricity purchased	2,778,914	4,427,471
Accounts payable for property, plant and equipment and construction works	2,689,312	5,980,443
Accounts payable for inventories, works and services	958,341	1,586,396
	6,426,567	11,994,310

Accounts payable as at 31 March 2015 and 31 December 2014 are denominated in the following currencies:

<i>In thousands of Tenge</i>	31 March 2015	31 December 2014
Tenge	5,173,868	9,893,669
Russian ruble	630,970	826,099
Euro	617,088	1,245,601
United States dollar	4,641	28,941
British pound	—	—
	6,426,567	11,994,310

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. OTHER CURRENT LIABILITIES

<i>In thousands of Tenge</i>	31 March 2015	31 December 2014
Due to employees	1,704,258	1,225,630
Commission payable on the non-withdrawn portion of EBRD loans*	–	9,665
Other	245,947	207,726
	1,950,205	1,443,021

* The Group is obliged to pay EBRD an annual commission charge on the non-withdrawn portion of the borrowings at the rate of 0.5% and 1%. For the three month ended 31 March 2015 the commission on the non-withdrawn portion of the borrowings amounted to nil, as credit lines were fully utilised (three month ended 31 March 2014: KZT 25,017 thousand) (Note 22).

19. REVENUE

<i>In thousands of Tenge</i>	For the three months ended	
	31 March 2015	31 March 2014
Electricity transmission	20,663,838	12,960,281
Technical dispatch	4,137,034	3,094,781
Balancing of electricity production and consumption	3,562,962	2,598,013
Revenue from electricity sales for compensation of the interstate balances of electricity flows	702,451	710,731
Revenue from sales of purchased electricity	172,414	4,744,677
Revenue from power regulation services	–	1,049,734
Other	297,712	366,793
	29,536,411	25,525,010
Discounts to customers	(64,095)	(585,811)
	29,472,316	24,939,199

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

20. COST OF SALES

<i>In thousands of Tenge</i>	For the three months ended	
	31 March 2015	31 March 2014
Technical losses of electric energy	6,219,843	6,265,515
Depreciation and amortization	5,427,528	3,525,265
Payroll expenses and related taxes	2,974,187	2,132,047
Cost of purchased electricity for compensation of interstate balances of electricity flows	1,819,320	1,532,943
Repair and maintenance expenses	838,818	833,109
Security services	235,547	225,430
Cost of purchased electricity	155,927	3,350,478
Inventories	106,000	144,483
Other	336,458	305,447
	18,113,628	18,314,717

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands of Tenge</i>	For the three months ended	
	31 March 2015	31 March 2014
Taxes other than income tax	1,729,039	957,238
Payroll expenses and related taxes	604,614	571,058
Provision for doubtful receivables and impairment of advances (<i>Notes 9 and 12</i>)	521,248	79,379
Depreciation and amortization	160,603	78,932
Utilities	35,217	15,800
Insurance	35,023	19,973
Consulting services	33,855	42,955
Business trip expenses	25,898	20,625
Materials	14,803	18,088
Trainings	12,326	2,015
Security services	8,792	7,744
Bank services	8,119	7,228
Rent expenses	6,549	18,270
Communication services	6,201	5,016
Corporate events	4,617	2,380
Repair expenses	13	-
(Reversal of provision) / provision for obsolete inventory (<i>Note 8</i>)	(21,803)	6,370
Other	172,976	69,582
	3,358,090	1,922,653

22. FINANCE INCOME / (COSTS)

<i>In thousands of Tenge</i>	For the three months ended	
	31 March 2015	31 March 2014
Finance income		
Interest income from deposits, current accounts and bonds	592,395	424,450
Amortization of discount on accounts receivable	334,440	-
Others	4,940	3,219
	931,775	427,669

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. FINANCE INCOME / (COSTS) (continued)

<i>In thousands of Tenge</i>	For the three months ended	
	31 March 2015	31 March 2014
Finance costs		
Interest on loans	719,662	748,785
Discount on account receivable	131,245	75,384
Commission on bank guarantees	22,092	18,611
Amortization of loan origination fees	21,936	21,714
Commission on the non-withdrawn portion of EBRD loan (<i>Note 18</i>)	-	25,017
Others	-	688
Less: interest capitalized into the cost of qualifying assets (<i>Note 6</i>)	-	(132,133)
	894,935	758,066

23. FOREIGN EXCHANGE GAIN, NET

On 11 February 2014 National Bank of the Republic of Kazakhstan made a decision to cease supporting exchange rate of Tenge against US dollar and other major currencies on the same level, reduce volume of currency interventions and reduce interventions in process of exchange rate formation. As a result of devaluation of Tenge the Group incurred foreign exchange loss of KZT 13,040,126 thousand, net during the three months ended 31 March 2014.

During the three months ended 31 March 2015 the Group incurred significant forex gain, net of KZT 3,681,529 thousand mainly as a result of 10% depreciation of euro.

24. INCOME TAX (EXPENSE) / BENEFIT

<i>In thousands of Tenge</i>	For the three months ended	
	31 March 2015	31 March 2014
Current income tax		
Current income tax expense	1,199,447	18,262
Adjustment in respect of current income tax of previous year	(700)	-
Deferred tax		
Deferred income tax expense /(benefit)	1,199,282	(1,712,685)
Total income tax expense / (benefit) reported in the interim statement of comprehensive income	2,398,029	(1,694,423)

The income tax rate in the Republic of Kazakhstan is 20% in 2015 and 2014.

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

<i>In thousands of Tenge</i>	For the three months ended	
	31 March 2015	31 March 2014
Profit / (loss) before income tax expense	11,720,552	(8,661,376)
Tax at statutory income tax rate of 20%	2,344,110	(1,732,275)
Adjustment in respect of current income tax of previous year	(700)	-
Other non-deductible expenses	54,619	37,852
Income tax expense / (benefit) reported in profit or loss	2,398,029	(1,694,423)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. INCOME TAX EXPENSE (continued)

Tax effect on temporary differences leading to deferred income tax assets and liabilities at 31 March 2015 and 31 December 2014 is provided below:

<i>In thousands of Tenge</i>	Interim consolidated statement of financial position				Interim consolidated statement of comprehensive income	
	31 March 2015	31 December 2014	31 March 2014	31 December 2013	For the three months ended	
					31 March 2015	31 March 2014
Tax losses carried forward	-	1,201,812	1,914,370	-	(1,201,812)	1,914,370
Accounts receivable	85,402	129,591	34,117	24,460	(44,189)	9,657
Accrued liabilities	308,490	305,230	255,495	309,246	3,260	(53,751)
Property, plant and equipment	(68,384,136)	(68,427,595)	(36,581,873)	(36,424,282)	43,459	(157,591)
Deferred tax (expense) / benefit					(1,199,282)	1,712,685
Net deferred tax liabilities	(67,990,244)	(66,790,962)	(34,377,891)	(36,090,576)		

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.

25. 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 March 2015 and 31 December 2014:

<i>In thousands of Tenge</i>		Trade accounts receivable from related parties	Trade accounts payable to related parties
Subsidiaries of Samruk-Kazyna Group	2015	1,216,425	621,011
	2014	585,642	1,844,045
Associates of Samruk-Kazyna	2015	271,157	428,682
	2014	304,904	324,385
Entities under joint control of Samruk-Kazyna	2015	220,526	1,523,995
	2014	108,787	2,011,868
Associates of the Group	2015	47,859	10,091
	2014	27,163	19,169

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. TRANSACTIONS WITH RELATED PARTIES (continued)

The Group had the following transactions with related parties for the three months ended 31 March 2015 and 31 March 2014:

<i>In thousands of Tenge</i>		Sales to related parties	Purchases from related parties
Subsidiaries of Samruk-Kazyna Group	2015	6,593,157	2,784,544
	2014	4,190,689	365,647
Associates of Samruk-Kazyna	2015	1,080,225	294,669
	2014	776,326	260,539
Entities under joint control of Samruk-Kazyna	2015	697,789	3,685,893
	2014	1,207,992	6,953,297
Associates of the Group	2015	100,810	31,007
	2014	64,421	30,841

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 March 2015 the Group’s borrowings of KZT 45,116,618 thousand were guaranteed by the Government of the Republic of Kazakhstan (31 December 2014: KZT 44,911,159 thousand).

In 2007-2009 the Group acquired bonds of an associate, Batys Transit JSC, an entity listed on the Kazakhstan Stock Exchange. The coupon rate on the bonds is 5%. The bonds are classified as available for sale investments. Fair value is the price to sell an asset or transfer a liability, and therefore an exit price, not an entry price. The carrying value of Batys Transit bonds comprised KZT 868,269 thousand as at 31 March 2015 (31 December 2014: KZT 868,269 thousand).

Interest income accrued on bonds of Batys Transit, the associate, amounted to KZT 12,945 thousand for the three months ended 31 March 2015 (for the three months ended 31 March 2014: KZT 18,383 thousand).

As of 31 March 2015 the Group had outstanding accounts receivable from Balkhash TES JSC for the sale of property, plant and equipment in the amount of KZT 157,801 thousand (31 December 2014: KZT 154,403 thousand) presented within other non-current assets. In accordance with sales agreement Balkhash TES JSC will repay the outstanding balance in December 2018. As at 31 March 2015 the discount on accounts receivable from Balkhash TES JSC comprised KZT 62,050 thousand (31 December 2014: KZT 65,448 thousand). For the three months ended 31 March 2015 the amortization of discount on accounts receivable comprised KZT 3,398 thousand.

Total compensation to key management personnel included in personnel costs in the accompanying consolidated statement of comprehensive income was KZT 43,104 thousand for the three months ended 31 March 2015 (for the three months ended 31 March 2014: KZT 27,398 thousand). Compensation to key management personnel mainly consists of contractual salary and performance bonus based on operating results.

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group’s exposure to the risk of changes in market interest rates relates primarily to the Group’s long-term and short-term borrowings with floating interest rates (*Note 15*). The Group limits its interest rate risk by monitoring changes in interest rates in the currencies in which the borrowings are denominated.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

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.

<i>In thousands of Tenge</i>	Increase/(decrease) in basis points*	Effect on profit before tax
For the three months ended 31 March 2015		
Libor	2/(2)	(13,427)/13,247
Euribor	7/(7)	(24,100)/24,100
For the three months ended 31 March 2014		
Libor	3/(3)	(21,184)/21,184
Euribor	12/(12)	(52,038)/52,038

* 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.

<i>In thousands of Tenge</i>	Increase / (decrease) in exchange rate	Effect on profit before tax
For the three months ended 31 March 2015		
US dollar	17,37% / (17,37%)	(3,064,405) / 3,064,405
Euro	18,36% / (18,36%)	(6,230,797) / 6,230,797
For the three months ended 31 March 2014		
US dollar	30% / 10%	(10,668,869) / (3,556,290)
Euro	30% / 10%	(12,992,172) / (4,330,724)

Credit risk

Credit risk is the risk that a 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 10, 11 and 13). The Group’s exposure and the creditworthiness of its counterparties are controlled constantly. It is the Group’s policy to enter into financial instruments with a diversity of creditworthy parties. The maximum exposure to the credit risk is represented by the carrying value of each financial asset (Notes 9, 10, 11 and 13).

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

Customer credit risk is managed subject to the Group’s established policy, procedures and control relating to customer credit risk management. The outstanding customer receivables are regularly monitored by the Group management. At 31 March 2015 the Group had one customer Uzbek Energo GAK that owed the Group KZT 9,342,545 thousand and accounted for 66% of all trade accounts receivable outstanding (31 December 2014: KZT 10,048,687 thousand and accounted for 68%).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

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.

The credit risk on cash and deposits is limited because the counterparties of the Group are banks with high credit-ratings assigned by international credit-rating agencies.

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 months can be rolled over with existing lenders.

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

<i>In thousands of Tenge</i>	On demand	Due more than 1 month but not later than 3 months	Due more than 3 month 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 March 2015						
Borrowings	–	3,440,722	10,807,442	54,168,367	47,291,144	115,707,675
Trade and other accounts payable	–	6,426,567	–	–	–	6,426,567
	–	9,867,289	10,807,442	54,168,367	47,291,144	122,134,242
At 31 December 2014						
Borrowings	–	4,076,231	10,895,062	56,652,174	51,083,760	122,707,227
Trade and other accounts payable	–	11,994,310	–	–	–	11,994,310
	–	16,070,541	10,895,062	56,652,174	51,083,760	134,701,537

Capital management

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

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

No changes were made in the objectives, policies or processes for managing capital during the three months ended 31 March 2015.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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

	31 March 2015	31 December 2014
Debt/capital	0.18	0.20

<i>In thousands of Tenge</i>	31 March 2015	31 December 2014
Long-term borrowings	89,187,084	94,714,528
Short-term borrowings	12,152,515	12,881,885
Debt	101,339,599	107,596,413
Total liabilities	179,773,049	190,150,575
Equity	369,136,510	359,777,466
Capital	548,909,559	549,928,041

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

Fair value hierarchy

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

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

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

Assets measured at fair value

<i>In thousands of Tenge</i>	31 March 2015	Level 1	Level 2	Level 3
Financial assets				
Available-for-sale financial assets (<i>Note 10</i>)	868,269	–	–	868,269
Non-financial assets				
UPS constructions (<i>Note 6</i>)	433,248,981	–	–	433,248,981

Liabilities for which fair values are disclosed

<i>In thousands of Tenge</i>	31 March 2015	Level 1	Level 2	Level 3
Financial liabilities				
Borrowings (<i>Note 15</i>)	101,339,599	–	101,339,599	–

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value hierarchy (continued)

Assets measured at fair value

<i>In thousands of Tenge</i>	31 December 2014	Level 1	Level 2	Level 3
Financial assets				
Available-for-sale financial assets (Note 10)	868,269	–	–	868,269
Non-financial assets				
UPS constructions (Note 6)	437,895,611	–	–	437,895,611

Liabilities for which fair values are disclosed

<i>In thousands of Tenge</i>	31 December 2014	Level 1	Level 2	Level 3
Financial liabilities				
Borrowings (Note 15)	107,596,413	–	107,596,413	–

As of 31 March 2015 and 31 December 2014 the fair value of these bonds were measured at present value of future cash flows. An increase or reduction in the discount rate by 0.5% would result in a decrease or increase in the fair value of Group’s available-for-sale financial assets for approximately KZT 83,224 thousand or KZT 58,739 thousand, respectively.

Fair values of financial instruments

As of 31 March 2015 and 31 December 2014 the management assessed that the fair value of financial instruments of the Group, such as trade accounts receivable and payable, other financial assets, cash and cash equivalents, cash restricted in use, approximates their carrying amounts largely due to the short-term maturities of these instruments. Borrowings are stated at amortized costs which approximate their fair values.

The methods and assumptions used to estimate the fair value of UPS constructions are disclosed in Note 4.

27. COMMITMENTS AND CONTINGENCIES

Operating environment

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

In 2014, the Kazakhstan economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Ruble. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Company’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Company’s business in the current circumstances.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**27. COMMITMENTS AND CONTINGENCIES (continued)****Taxation**

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for 5 calendar years proceeding 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 March 2015.

As at 31 March 2015, Management of the Group believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements.

Compliance with loan covenants

From 1999 till 2011 the Group concluded loan facility agreements with EBRD and IBRD (the “Creditors”) for the amounts of 558 million US Dollars and 233 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 March 2015 and 31 December 2014. The Group excludes from EBITDA the foreign exchange gain and loss, as management believes that foreign exchange gain and loss meets definition of non-cash transaction and as such shall be excluded from the calculation of EBITDA as provided in the loan agreement. As of 31 March 2015 the Group excluded from EBITDA the foreign exchange gain of KZT 3,681,529 thousand incurred during the three months ended 31 March 2015.

Insurance

As at 31 March 2015, the Group insured property and equipment with the current cost of KZT 153,385,690 thousand. The insurance payment is limited to the current cost of property and equipment. The Group does not insure its other property. Since absence of any insurance does not imply a reduction of the cost of assets or occurrence of any liabilities, no provision has been made in these interim consolidated financial statements for unexpected expenses associated with damage or loss of these 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 March 2015, the Group's outstanding contractual commitments within the frameworks of this plan amount to KZT 104,703,448 thousand (31 December 2014: KZT 103,344,164 thousand).

Tariffs on purchase of electricity from renewable energy sources

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. COMMITMENTS AND CONTINGENCIES (continued)

Contractual commitments (continued)

Tariffs on sale of electricity from renewable energy sources

Tariff on sale of electricity from renewable energy sources to contingent consumers is calculated according to the “Rules on calculating the tariffs on supporting the renewable energy sources” approved by the Government Decree No. 290 dated 1 April 2014. The sales tariff includes cost of purchased electricity, operating costs, cost of services on balancing production and profit margin and is calculated by Accounting and Finance Center for the support of renewable energy resources LLP the regularly.

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

28. SUBSEQUENT EVENTS

On 30 April 2015 the General meeting of shareholders made a decision to pay dividends for 2014 in the amount of 99.97% out of net income of the Group which is KZT 8,613,800 thousand or KZT 33.13 per share.