

**Kazakhstan Electricity Grid Operating Company JSC**

Unaudited interim condensed consolidated financial statements

*For the three months ended 31 March 2017*

## **CONTENTS**

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Report on review of interim condensed consolidated financial statements

### **Interim condensed consolidated financial statements**

Interim consolidated statement of financial position.....	1-2
Interim consolidated statement of comprehensive income .....	3
Interim consolidated statement of cash flows .....	4-5
Interim consolidated statement of changes in equity .....	6
Notes to the interim condensed consolidated financial statements .....	7-18



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## Report on review of interim condensed consolidated financial statements

To the Shareholders and Managements of Kazakhstan Electricity Grid Operating Company JSC

### **Introduction**

We have reviewed the accompanying interim condensed consolidated financial statements of Kazakhstan Electricity Grid Operating Company JSC and its subsidiaries ("the Group"), which comprise the interim consolidated statement of financial position as at 31 March 2017, interim consolidated statement of comprehensive income for the three months then ended, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the three months then ended and explanatory notes. Management of the Group is responsible for the preparation of these interim condensed consolidated financial statements in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed 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 financial statements consists 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 condensed consolidated financial statements of Kazakhstan Electricity Grid Operating Company JSC and its subsidiaries are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

*Ernst & Young LLP*

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Paul Cohn  
Audit Partner

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Adil Syzdykov  
Auditor

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

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

5 May 2017



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Gulmira Turmagambetova  
General Director  
Ernst & Young LLP

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



**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**As at 31 March 2017**

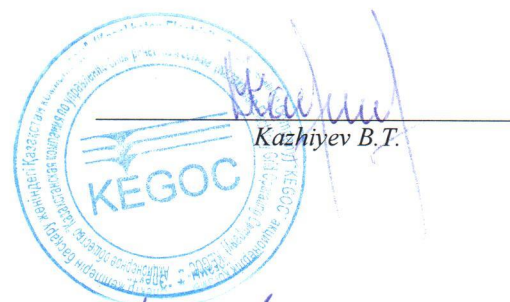
<i>In thousands of tenge</i>	<b>Notes</b>	<b>31 March 2017 (unaudited)</b>	31 December 2016 (audited)
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3	<b>497,414,421</b>	500,914,390
Intangible assets		<b>757,221</b>	855,032
Advances paid for non-current assets	3	<b>9,561,200</b>	664,471
Deferred tax asset		<b>796</b>	1,093
Investments in associates		<b>291,752</b>	304,954
Long-term receivables from related parties		<b>1,253,328</b>	1,267,287
Other non-current assets		<b>7,509</b>	11,009
		<b>509,286,227</b>	504,018,236
<b>Current assets</b>			
Inventories		<b>2,026,313</b>	1,686,312
Trade accounts receivable	4	<b>12,702,531</b>	15,746,830
VAT recoverable and other prepaid taxes		<b>145,015</b>	309,268
Income tax prepaid		<b>60,423</b>	734,349
Restricted cash	6	<b>3,741,321</b>	15,626,798
Other current assets		<b>545,294</b>	477,988
Other financial assets	5	<b>47,512,043</b>	61,403,727
Cash and cash equivalents	7	<b>39,911,705</b>	32,055,378
		<b>106,644,645</b>	128,040,650
<b>Total assets</b>		<b>615,930,872</b>	632,058,886

*The accounting policies and explanatory notes on pages 7 to 18 are an integral part of these interim condensed consolidated financial statements.*

**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)**

<i>In thousands of tenge</i>	Notes	31 March 2017 (unaudited)	31 December 2016 (audited)
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital		126,799,554	126,799,554
Treasury shares		(930)	(930)
Asset revaluation surplus		220,890,333	220,890,374
Other reserves		(170,701)	(170,701)
Retained earnings		26,838,725	14,565,773
		<b>374,356,981</b>	<b>362,084,070</b>
<b>Non-current liabilities</b>			
Borrowings, non-current portion	9	85,017,027	95,143,995
Bonds payable, non-current portion	10	47,370,386	47,368,104
Deferred tax liability		67,178,445	66,807,914
Long-term trade and other accounts payable	11	2,509,666	2,417,810
		<b>202,075,524</b>	<b>211,737,823</b>
<b>Current liabilities</b>			
Borrowings, current portion	9	16,537,030	27,334,944
Bonds payable, current portion	10	7,460,667	5,251,917
Trade and other accounts payable	11	5,497,081	16,981,635
Construction obligation		683,430	683,430
Advances received		1,625,239	1,042,525
Taxes payable other than income tax		3,034,658	3,340,265
Income tax payable		2,315,171	628,322
Other current liabilities		2,345,091	2,973,955
		<b>39,498,367</b>	<b>58,236,993</b>
<b>Total liabilities</b>		<b>241,573,891</b>	<b>269,974,816</b>
<b>Total equity and liabilities</b>		<b>615,930,872</b>	<b>632,058,886</b>
<b>Book value per ordinary share (in tenge)</b>	<b>8</b>	<b>1.437</b>	<b>1.389</b>

Chairman of the Management Board



Kazhiyev B.T.

Chief accountant



Mukanova D.T.

b.

*The accounting policies and explanatory notes on pages 7 to 18 are an integral part of these interim condensed consolidated financial statements.*

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2017

<i>In thousands of tenge</i>	Notes	For the three months ended	
		31 March 2016 (unaudited)	31 March 2015 (unaudited)
Revenue	12	38,006,060	32,479,064
Cost of sales	13	(20,140,196)	(18,754,464)
<b>Gross profit</b>		<b>17,865,864</b>	<b>13,724,600</b>
General and administrative expenses	14	(3,549,611)	(2,633,550)
Selling expenses		(52,221)	(47,483)
(Accrual)/reversal of impairment		(15,802)	93,838
<b>Operating profit</b>		<b>14,248,230</b>	<b>11,137,405</b>
Finance income	15	715,582	1,587,805
Finance costs	15	(927,652)	(1,338,906)
Foreign exchange gain/(loss), net		2,631,130	(3,387,550)
Share of loss of associates		(13,202)	(27,059)
Provision on funds placed with Delta Bank JSC and Kazinvestbank JSC	5	(668,873)	-
Other income		43,875	134,618
Other expenses		(32,268)	(39,039)
<b>Profit before tax</b>		<b>15,996,822</b>	<b>8,067,274</b>
Income tax expense	16	(3,723,911)	(1,616,702)
<b>Profit for the period</b>		<b>12,272,911</b>	<b>6,450,572</b>
Other comprehensive income, net of tax		-	-
<b>Total comprehensive income, net of tax</b>		<b>12,272,911</b>	<b>6,450,572</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share for the period attributable to ordinary equity holders (in tenge)	8	47.20	24.81

Chairman of the Management Board



Kazhiyev B.T.

Chief accountant

Mukanova D.T.

b.

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**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**

**For the three months ended 31 March 2017**

<i>In thousands of tenge</i>	Notes	For the three months ended	
		31 March 2017 (unaudited)	31 March 2016 (unaudited)
<b>Operating activities</b>			
Profit before tax		15,996,822	8,067,274
<b>Adjustments to reconcile profit before tax to net cash flows</b>			
Depreciation and amortisation		5,716,835	5,433,717
Finance income	15	(715,582)	(1,587,805)
Finance costs	15	927,652	1,338,906
Unrealised foreign exchange loss/(gain), net		(2,631,130)	3,607,676
Provision for doubtful accounts receivable, impairment of advances and other current assets	14	498,162	51,616
Accrual/(reversal) of provision for obsolete inventory	14	3,935	(34,247)
Accrual/(reversal) of impairment of construction in progress		15,802	(93,838)
Provision on funds placed with Delta Bank JSC and Kazinvestbank JSC		668,873	-
Loss from disposal of property, plant and equipment and intangible assets		2,586	1,282
Share of loss of associates		13,202	27,059
Interest income on other financial assets		(15,088)	-
Income from gratuitous transfer of PPE		-	(54,031)
<b>Working capital adjustments</b>			
Change in inventories		(343,704)	(490,297)
Change in trade accounts receivable		1,917,018	2,626,542
Change in VAT recoverable and other prepaid taxes		164,253	21,734
Change in other current assets		(89,162)	(280,064)
Change in trade and other accounts payable		551,806	1,325,244
Change in advances received		582,714	1,456,920
Change in taxes payable other than income tax		(305,619)	1,656,079
Change in other current liabilities		(628,889)	760,196
<b>Cash flows from operating activities</b>		<b>22,330,486</b>	<b>23,833,963</b>
Interest paid		(1,394,040)	(1,409,007)
Income tax paid		(764,556)	(296,909)
Interest received		1,439,432	969,099
<b>Net cash flows from operating activities</b>		<b>21,611,322</b>	<b>23,097,146</b>
<b>Investing activities</b>			
Withdrawal from bank deposits		41,083,320	10,480,930
Placement of bank deposits		(28,469,415)	(10,631,538)
Change in restricted cash		11,330,748	(55,076)
Reclassification of funds placed with Delta Bank JSC and Kazinvestbank JSC		(1,299,631)	-
Repayment of debt from related party for sale of property, plant and equipment and intangible assets		49,319	-
Purchase of property, plant, equipment		(21,651,522)	(14,837,967)
Purchase of intangible assets		(6)	-
Repayment of loans given to employees		1,702	2,262
<b>Net cash flows from / (used) in investing activities</b>		<b>1,044,515</b>	<b>(15,041,389)</b>

*The accounting policies and explanatory notes on pages 7 to 18 are an integral part of these interim condensed consolidated financial statements.*



**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**

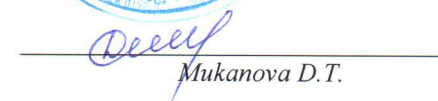
<i>In thousands of tenge</i>	Notes	For the three months ended	
		31 March 2017 (unaudited)	31 March 2016 (unaudited)
<b>Financing activities</b>			
Payment of dividends		(33)	(175)
Repayment of borrowings		(14,408,641)	(5,401,650)
<b>Net cash flows used in financing activities</b>		<b>(14,408,674)</b>	<b>(5,401,825)</b>
<b>Net change in cash and cash equivalents</b>		<b>8,247,163</b>	<b>2,653,932</b>
Net foreign exchange difference		(390,836)	36,239
Cash and cash equivalents at 1 January		32,055,378	9,030,762
<b>Cash and cash equivalents at 31 March</b>		<b>39,911,705</b>	<b>11,720,933</b>

Chairman of the Management Board



*Kazhiyev B.T.*

Chief accountant



*Mukanova D.T.*



*The accounting policies and explanatory notes on pages 7 to 18 are an integral part of these interim condensed consolidated financial statements.*

**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the three months ended 31 March 2017

<i>In thousands of tenge</i>	Share capital	Asset revaluation reserve	Treasury shares	Other reserves	(Accumulated loss) / retained earnings	Total
<b>As at 1 January 2016 (audited)</b>	126,799,554	221,297,751	-	(170,701)	(6,949,990)	340,976,614
Profit for the period	-	-	-	-	6,450,572	6,450,572
<b>Total comprehensive income</b>	-	-	-	-	6,450,572	6,450,572
Transfer of asset revaluation reserve	-	(3,835)	-	-	3,835	-
<b>As at 31 March 2016 (unaudited)</b>	126,799,554	221,293,916	-	(170,701)	(495,583)	347,427,186
<b>As at 1 January 2017 (audited)</b>	126,799,554	220,890,374	(930)	(170,701)	14,565,773	362,084,070
Profit for the period	-	-	-	-	12,272,911	12,272,911
<b>Total comprehensive income</b>	-	-	-	-	12,272,911	12,272,911
Transfer of asset revaluation reserve	-	(41)	-	-	41	-
<b>As at 31 March 2017 (unaudited)</b>	126,799,554	220,890,333	(930)	(170,701)	26,838,725	374,356,981

Chairman of the Management Board



Kazhiyev B.T.

Chief accountant



Mukanova D.T.



The accounting policies and explanatory notes on pages 7 to 18 are an integral part of these interim condensed consolidated financial statements.

## **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the three months ended 31 March 2017**

### **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 2017, the Company’s major shareholder was Sovereign Wealth Fund “Samruk-Kazyna” JSC (“Samruk-Kazyna”) (90 percent plus 1 share). The Government of the Republic of Kazakhstan controls Samruk-Kazyna.

KEGOC is the national company, which provides electricity transmission, dispatch and electricity production-consumption balancing services in Kazakhstan. As the state-appointed system operator, the Company provides centralized dispatching control, ensures parallel work with energy systems of other countries, maintains the balance in energy system, provides system services and acquires auxiliary services from wholesale entities at energy market, as well as transmits electricity through unified power system (the “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 kW and more.

The Company has stakes in the following companies as of 31 March 2017 and 31 December 2016:

<b>Companies</b>	<b>Activities</b>	<b>Percentage of ownership</b>	
		<b>31 March 2017</b>	<b>31 December 2016</b>
Energoinform JSC	Maintenance of the KEGOC’s IT system	<b>100%</b>	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	<b>100%</b>	100%

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

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

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

These interim condensed consolidated financial statements were authorised for issue by the Company’s Chairman of the Management Board and Chief Accountant on 5 May 2017.

### **2. BASIS OF PREPARATION**

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2016.

These interim condensed consolidated financial statements are presented in tenge and all values are rounded to the nearest thousand unless otherwise stated.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(continued)**

**2. BASIS FOR PREPARATION (continued)**

**Exchange rates**

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

Exchange rate as at the end of the period (to KZT)	31 March 2017	31 December 2016
USD 1	313.73	333.29
EUR 1	334.94	352.42
RUR 1	5.57	5.43
Average exchange rate for the three months ended 31 March (to KZT)	2017	2016
USD 1	322.31	355.16
EUR 1	343.27	391.73
RUR 1	5.49	4.77

**New and amended standards and interpretations**

The accounting policies adopted in the preparation of the interim condensed 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 2016, except for the adoption of new standards and interpretations effective from 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments applied for the first time in 2017, they did not have a material impact on the interim condensed consolidated financial statements of the Group:

- IAS 7 *Disclosure Initiative* – Amendments to IAS 7;
- IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* – Amendments to IAS 12.

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

During the three months ended 31 March 2017, the Group acquired property, plant and equipment with a cost of 2,137,335 thousand tenge (during the three months ended 31 March 2016: 1,637,665 thousand tenge), mainly represented by capital expenditures for the construction of the line 500 kW Shulbinskaya GES (Semey) – Aktogay – Taldykorgan – Alma.

Depreciation change for the three months ended 31 March 2017, amounted to 5,618,681 thousand tenge (for the three months ended 31 March 2016: 5,358,693 thousand tenge).

**Capitalization of borrowing costs and issued bonds**

During the three months ended 31 March 2017, the Group capitalized the coupon interest on issued bonds, which amounted to 1,381,795 thousand tenge net off investment income (for the three months ended 31 March 2016: nil) (*Note 10*).

**Advances paid for non-current assets**

As at 31 March 2017 and 31 December 2016 advances paid for non-current assets mainly represent prepayments made to suppliers for construction work related to the project “Construction of 500 kW line Shulbinskaya GES (Semey) – Aktogay – Taldykorgan – Alma”.

**4. TRADE ACCOUNTS RECEIVABLE**

<i>In thousands of tenge</i>	31 March 2017	31 December 2016
Trade accounts receivable	15,840,472	18,400,246
Less: allowance for doubtful accounts receivable	(3,137,941)	(2,653,416)
	12,702,531	15,746,830

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(continued)**

**4. TRADE ACCOUNTS RECEIVABLE (continued)**

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

<i>In thousands of tenge</i>	<b>2017</b>	2016
<b>At 1 January</b>	<b>2,653,416</b>	1,452,512
Charge for the period	<b>1,084,440</b>	40,524
Utilized	<b>(1,623)</b>	(549)
Reversal	<b>(598,292)</b>	(13,260)
<b>At 31 March</b>	<b>3,137,941</b>	1,479,227

Trade receivables were denominated in the following currencies:

<i>In thousands of tenge</i>	<b>31 March 2017</b>	31 December 2016
Tenge	<b>7,361,632</b>	5,243,358
United States dollar	<b>4,793,755</b>	9,915,969
Russian rouble	<b>547,144</b>	587,503
	<b>12,702,531</b>	15,746,830

**5. OTHER FINANCIAL ASSETS**

<i>In thousands of tenge</i>	<b>31 March 2017</b>	31 December 2016
<b>Other short-term financial assets</b>		
Bank deposits	<b>45,219,584</b>	56,682,280
Funds placed with Delta Bank JSC	<b>1,297,748</b>	3,000,000
Funds placed with Kazinvestbank JSC	<b>1,233,918</b>	1,291,782
Bonds of Batys Transit	<b>868,269</b>	868,269
Interest accrued on bonds of Batys Transit	<b>207,287</b>	207,287
Less: allowance for impairment of funds placed with Kazinvestbank JSC	<b>(925,439)</b>	(645,891)
Less: allowance for impairment of funds placed with Delta Bank JSC	<b>(389,324)</b>	–
<b>Total other financial assets</b>	<b>47,512,043</b>	61,403,727

**Bonds of Batys Transit**

In 2007-2009 the Group acquired bonds of Batys Transit JSC, an associate, an entity listed on the Kazakhstan Stock Exchange. 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 do 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 April 2016 the Group concluded an agreement with Batys Transit about early redemption of its bonds at nominal price of 100 tenge per unit. Batys Transit JSC plans to acquire bonds till 1 December 2017.

**Deposits**

Short-term deposits as at 31 March 2017 and 31 December 2016 represent deposit placed in Kazakhstan banks with the fixed interest rate of 3.7%-14% per annum; and also include accrued interest income in the amount of 15,617 thousand tenge and 182,185 thousand tenge, respectively.

**Funds placed with Delta Bank JSC**

On 3 April 2017, the rating agency S & P Global Ratings established long-term and short-term credit ratings of Delta Bank JSC at the level of D/D. The Group management assessed the recoverability of the Group's funds placed with "Delta Bank" JSC based on information published by National Bank. As a result of valuation, the management of the Group made a decision to accrue a provision for impairment of funds placed with Delta Bank JSC in the amount of 30%. As of 31 March 2017, short-term deposits placed by the Group with Delta Bank JSC, net of the reserve, are 908,424 thousand tenge.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(continued)**

**5. OTHER FINANCIAL ASSETS (continued)**

**Funds placed with Kazinvestbank JSC**

In December 2016 according to the order of Management Board of the National Bank of the Republic of Kazakhstan (“National Bank”), the licence of Kazinvestbank JSC to conduct bank operations was recalled and a temporary administrator was appointed. The management of the Group carried out a series of evaluations to assess the recoverability of the Group’s funds placed in KazInvestBank JSC in accordance with the Regulations of the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations dated August 5, 2009 #176. As a result of the valuation, as of 31 March 2017 the Group increased from 50% to 75% the provision for impairment of balances in this bank in the consolidated financial statements, which reflects the best estimate of the recoverability of these assets.

Other financial assets were denominated in the following currencies:

<i>In thousands of tenge</i>	<b>Interest rate</b>	<b>31 March 2017</b>	31 December 2016
US dollars	3.7%-5.5%	<b>25,660,878</b>	35,830,396
Tenge	11.2%-14%	<b>21,851,165</b>	25,573,331
		<b>47,512,043</b>	61,403,727

**6. RESTRICTED CASH**

<i>In thousands of tenge</i>	<b>31 March 2017</b>	31 December 2016
Cash on reserve accounts	<b>2,172,904</b>	2,263,220
Cash on debt service accounts	<b>1,413,974</b>	13,209,941
Restricted cash for return of guarantee obligations	<b>154,443</b>	153,637
	<b>3,741,321</b>	15,626,798

As at 31 March 2017 and 31 December 2016 restricted cash represents cash held on a debt service account and reserve account.

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

In accordance with the terms of the guarantee agreements with the Government of the Republic of Kazakhstan, the guarantor of the Group’s loans (*Note 9*), the Group is obliged to hold cash on a special reserve account opened in a Kazakhstan bank. The Group is obliged to reserve cash for at least 110% of the upcoming semi-annual payment of principal, interest and commission fees of the IBRD loans.

As at 31 March 2017 and 31 December 2016, restricted cash including funds to be payable, was denominated in the following currencies:

<i>In thousands of tenge</i>	<b>31 March 2017</b>	31 December 2016
United States dollar	<b>3,586,703</b>	15,473,161
Tenge	<b>154,443</b>	153,637
Russian rouble	<b>175</b>	-
	<b>3,741,321</b>	15,626,798

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(continued)**

**7. CASH AND CASH EQUIVALENTS**

<i>In thousands of tenge</i>	<b>31 March 2017</b>	31 December 2016
Short-term deposits	<b>16,205,574</b>	20,450,000
Current accounts with banks, in foreign currencies	<b>15,596,529</b>	2,300,876
Current accounts with banks, in tenge	<b>8,105,371</b>	9,297,895
Cash at special accounts	<b>2,640</b>	1,788
Cash on hand	<b>1,591</b>	4,819
	<b>39,911,705</b>	32,055,378

During the three months ended 31 March 2017 the interest is accrued on cash on current accounts at 0.5%-7% per annum and on short-term deposits at 5%-11% per annum.

As at 31 March 2017 and 31 December 2016, cash and cash equivalents were stated in the following currencies:

<i>In thousands of tenge</i>	<b>31 March 2017</b>	31 December 2016
Tenge	<b>22,589,661</b>	29,754,502
United States dollar	<b>16,965,385</b>	1,925,437
Euro	<b>354,384</b>	372,457
Russian rouble	<b>1,890</b>	2,487
Others	<b>385</b>	495
	<b>39,911,705</b>	32,055,378

**8. EQUITY**

**Earnings per share**

The amounts of basic and diluted earnings per share are calculated by dividing the net profit for the period by the weighted average number of ordinary shares outstanding during the period. The weighted average number of ordinary shares outstanding during the three months ended 31 March 2017 and the three months ended 31 March 2016 comprised 259,998,610 and 260,000,000 shares, respectively. For the three months ended 31 March 2017 and 31 March 2016, basic and diluted earnings per share amounted to 47.20 tenge and 24.81 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 thousands of tenge</i>	<b>31 March 2017</b>	31 December 2016
Total assets	<b>615,930,872</b>	632,058,886
Less: intangible assets	<b>(757,221)</b>	(855,032)
Less: total liabilities	<b>(241,573,891)</b>	(269,974,816)
<b>Net assets</b>	<b>373,599,760</b>	361,229,038
Number of ordinary shares	<b>260,000,000</b>	260,000,000
<b>Book value per share, tenge</b>	<b>1.437</b>	1.389

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(continued)**

**9. BORROWINGS**

<i>In thousands of tenge</i>	<b>31 March 2017</b>	31 December 2016
International Bank of Reconstruction and Development (IBRD)	<b>60,336,749</b>	65,140,253
European Bank of Reconstruction and Development (EBRD)	<b>41,217,308</b>	57,338,686
	<b>101,554,057</b>	122,478,939
Less: current portion of loans repayable within 12 months	<b>(16,537,030)</b>	(27,334,944)
	<b>85,017,027</b>	95,143,995

Loans were denominated in the following currencies:

<i>In thousands of tenge</i>	<b>31 March 2017</b>	31 December 2016
In United States dollars	<b>60,336,749</b>	74,236,477
In Euro	<b>41,217,308</b>	48,242,462
	<b>101,554,057</b>	122,478,939

During the three months ended 31 March 2017 the Group made repayment of principal amount of loans amounting to 14,408,641 thousand tenge, and repayment of interest amounting to 1,314,847 thousand tenge. Additionally, the balance of borrowings and accrued interest decreased by 6,000,894 thousand tenge as a result of changes in the exchange rate of tenge in relation to US Dollar and Euro during the three months ended 31 March 2017.

**10. BONDS PAYABLE**

<i>In thousands of tenge</i>	<b>31 March 2017</b>	31 December 2016
Nominal value of issued bonds	<b>47,500,000</b>	47,500,000
Accrued coupon interest	<b>7,460,667</b>	5,251,917
Less: discount on bonds issued	<b>(106,999)</b>	(108,883)
Less: transaction costs	<b>(22,615)</b>	(23,013)
	<b>54,831,053</b>	52,620,021
Less: current portion of bonds repayable within 12 months	<b>(7,460,667)</b>	(5,251,917)
	<b>47,370,386</b>	47,368,104

For the three months ended 31 March 2017, the Group capitalized into the cost of property, plant and equipment an amortized discount of 1,884 thousand tenge and amortized transaction costs of 398 thousand tenge.

During three months ended 31 March 2017 the Group capitalized the cost of coupon interest on issued bonds net off investment income amounted to 1,381,795 thousand tenge (for the year ended 31 December 2016: nil) (*Note 3*).

**11. LONG-TERM AND SHORT-TERM TRADE AND OTHER ACCOUNTS PAYABLE**

<i>In thousands of tenge</i>	<b>31 March 2017</b>	31 December 2016
<b>Long-term accounts payable</b>		
Accounts payable for property, plant and equipment and construction works	<b>2,853,480</b>	2,804,261
Less: discount on accounts payable	<b>(343,814)</b>	(386,451)
	<b>2,509,666</b>	2,417,810
<b>Short-term trade and other accounts payable</b>		
Accounts payable for electricity purchased	<b>4,144,510</b>	3,310,440
Accounts payable for property, plant and equipment and construction work	<b>676,616</b>	12,731,011
Accounts payable for inventories, works and services	<b>675,955</b>	940,184
	<b>5,497,081</b>	16,981,635
	<b>8,006,747</b>	19,399,445



**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(continued)**

**11. LONG-TERM AND SHORT-TERM TRADE AND OTHER ACCOUNTS PAYABLE (continued)**

Trade and other accounts payable as at 31 March 2017 and 31 December 2016 are stated in the following currencies:

<i>In thousands of tenge</i>	<b>31 March 2017</b>	31 December 2016
Tenge	<b>7,467,567</b>	18,802,071
Russian rouble	<b>535,174</b>	559,834
Euro	<b>4,006</b>	10,044
United States dollar	-	27,496
	<b>8,006,747</b>	19,399,445

**12. REVENUE**

<i>In thousands of tenge</i>	<b>For the three months ended</b>	
	<b>31 March 2017</b>	31 March 2016
Electricity transmission	<b>23,932,699</b>	19,603,936
Technical dispatch	<b>5,710,208</b>	5,105,052
Balancing of electricity production and consumption	<b>3,944,752</b>	3,528,885
Revenue from sales of purchased electricity	<b>3,060,883</b>	2,446,934
Revenue from electricity sales for compensation of the interstate balances of electricity flows	<b>868,323</b>	804,259
Revenue from power regulation services	<b>207,734</b>	769,555
Other	<b>294,349</b>	348,359
	<b>38,018,948</b>	32,606,980
Discounts to customers	<b>(12,888)</b>	(127,916)
	<b>38,006,060</b>	32,479,064

Discounts to consumers are approved by the order of the Committee of the Republic of Kazakhstan on regulation of natural monopolies.

For the three months ended 31 March 2017 the revenue from one customer, Samruk-Energo Group, amounted to 8,136,246 thousand tenge, arising from transmission, technical dispatching and balancing services.

For the three months ended 31 March 2016 the revenue from one customer, Samruk-Energo Group, amounted to 4,806,880 thousand tenge, arising from transmission, technical dispatching and balancing services.

**13. COST OF SALES**

<i>In thousands of tenge</i>	<b>For the three months ended</b>	
	<b>31 March 2017</b>	31 March 2016
Technical losses of electric energy	<b>5,701,114</b>	4,896,255
Depreciation and amortization	<b>5,547,308</b>	5,286,278
Payroll expenses and related taxes	<b>2,986,439</b>	2,749,978
Cost of purchased electricity	<b>2,975,465</b>	2,443,360
Cost of purchased electricity for compensation of interstate balances of electricity flows	<b>1,596,207</b>	2,165,138
Repair and maintenance expenses	<b>634,773</b>	491,796
Security services	<b>263,297</b>	247,514
Inventories	<b>88,381</b>	115,536
Other	<b>347,212</b>	358,609
	<b>20,140,196</b>	18,754,464

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(continued)**

**14. GENERAL AND ADMINISTRATIVE EXPENSES**

<i>In thousands of tenge</i>	<b>For the three months ended</b>	
	<b>31 March 2017</b>	31 March 2016
Taxes other than income tax	<b>1,777,803</b>	1,244,381
Payroll expenses and related taxes	<b>744,920</b>	852,583
Provision for doubtful accounts receivable, impairment of advances and other current assets	<b>498,162</b>	51,616
Depreciation and amortization	<b>154,214</b>	132,129
Insurance	<b>47,866</b>	55,288
Utilities	<b>29,566</b>	32,211
Consulting services	<b>28,732</b>	27,759
Business trip expenses	<b>16,790</b>	25,387
Materials	<b>15,615</b>	18,634
Trainings	<b>10,538</b>	5,106
Security services	<b>9,955</b>	9,434
Communication services	<b>6,511</b>	6,446
Bank services	<b>5,597</b>	4,699
Accrual/(reversal) of provision for obsolete inventory	<b>3,935</b>	(34,247)
Other	<b>199,407</b>	202,124
	<b>3,549,611</b>	2,633,550

**15. FINANCE INCOME/(COSTS)**

<i>In thousands of tenge</i>	<b>For the three months ended</b>	
	<b>31 March 2017</b>	31 March 2016
<b>Finance income</b>		
Interest income from deposits, current accounts and bonds	<b>1,500,772</b>	1,200,348
Amortization of discount on accounts receivable	<b>35,165</b>	386,402
Discount on trade payable	<b>5,931</b>	-
Others	<b>669</b>	1,055
	<b>1,542,537</b>	1,587,805
Less: interest capitalized into cost of qualifying asset ( <i>Note 3</i> )	<b>(826,955)</b>	-
	<b>715,582</b>	1,587,805
<b>Finance costs</b>		
Interest on borrowings	<b>2,922,252</b>	1,273,471
Amortization of loan origination fees	<b>132,135</b>	22,131
Amortization of discount on accounts payable	<b>48,567</b>	-
Commission on bank guarantees	<b>33,157</b>	43,304
Transaction costs on bonds issued	<b>291</b>	-
	<b>3,136,402</b>	1,338,906
Less: interest capitalized into cost of qualifying assets ( <i>Note 3</i> )	<b>(2,208,750)</b>	-
	<b>927,652</b>	1,338,906

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(continued)**

**16. INCOME TAX EXPENSE**

<i>In thousands of tenge</i>	<b>For the three months ended</b>	
	<b>31 March 2017</b>	31 March 2016
<b>Current income tax</b>		
Current income tax expense	<b>3,352,991</b>	18,289
Adjustments in respect of current income tax of previous years	<b>92</b>	8,687
<b>Deferred tax</b>		
Deferred income tax expense	<b>370,828</b>	1,589,726
<b>Total income tax expense reported in interim consolidated statement of comprehensive income</b>	<b>3,723,911</b>	1,616,702

**17. 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 2017 and 31 December 2016:

<i>In thousands of tenge</i>		<b>Trade accounts receivable from related parties</b>	<b>Trade accounts payable to related parties</b>
Subsidiaries of Samruk-Kazyna Group	<b>2017</b>	<b>2,646,658</b>	<b>2,111,744</b>
	2016	1,906,324	1,612,641
Associates of Samruk-Kazyna	<b>2017</b>	<b>265,263</b>	<b>154,068</b>
	2016	289,396	188,262
Entities under joint control of Samruk-Kazyna	<b>2017</b>	<b>170,644</b>	<b>537,790</b>
	2016	200,141	334,881
Associates of the Group	<b>2017</b>	<b>21,474</b>	<b>10,077</b>
	2016	37,099	10,975

The Group had the following transactions with related parties for the three months ended 31 March 2017 and 31 March 2016:

<i>In thousands of tenge</i>		<b>Sales to related parties</b>	<b>Purchases from related parties</b>
Subsidiaries of Samruk-Kazyna Group	<b>2017</b>	<b>8,864,618</b>	<b>7,156,027</b>
	2016	22,452,578	12,008,135
Associates of Samruk-Kazyna	<b>2017</b>	<b>1,915,932</b>	<b>313,660</b>
	2016	5,794,687	1,846,301
Entities under joint control of Samruk-Kazyna	<b>2017</b>	<b>1,158,580</b>	<b>571,796</b>
	2016	2,791,742	10,160,952
Associates of the Group	<b>2017</b>	<b>93,618</b>	<b>32,969</b>
	2016	293,011	87,094

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.

## **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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### **17. TRANSACTIONS WITH RELATED PARTIES (continued)**

As at 31 March 2017 the Group's borrowings of 60,629,393 thousand tenge were guaranteed by the Government of the Republic of Kazakhstan (31 December 2016: 65,437,392 thousand tenge).

In 2007-2009 the Group acquired bonds of an associate, Batys Transit JSC, an entity listed on the Kazakhstan Stock Exchange. The interest rate on the bonds is 8%. 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 amount of Batys Transit bonds comprised 868,269 thousand tenge as of 31 March 2017 (31 December 2016: 868,269 thousand tenge).

Interest income accrued on bonds of Batys Transit JSC, the associate, amounted to 20,713 thousand tenge for the three months ended 31 March 2016. In 2017 no income was accrued.

As of 31 March 2017 the Group had outstanding accounts receivable from Balkhash TES JSC for the sale of property, plant and equipment in the amount of 188,331 thousand tenge (31 December 2016: 184,276 thousand tenge) presented within long-term receivables from related parties. In accordance with sales agreement Balkhash TES JSC will repay the outstanding balance in December 2018. As at 31 March 2017 the discount on accounts receivable from Balkhash TES JSC comprised 31,520 thousand tenge (31 December 2016: 35,575 thousand tenge). For the three months ended 31 March 2017 the amortization of discount on accounts receivable comprised 4,055 thousand tenge.

On 30 September 2015 the Group has sold buildings and constructions with equipment and land located in Astana city to its related party Kazpost JSC for 2,161,476 thousand tenge. In accordance with sales agreement Kazpost JSC will repay the outstanding balance by equal monthly payments until June 2027. Accordingly, the Group discounted the future cash flows using discount rate of 10.37%, which is the Group Management's best estimate of market rate. As of 31 March 2017 the discount on accounts receivable from Kazpost JSC comprised 752,608 thousand tenge. As of 31 March 2017 the receivable net of discount comprised 1,245,120 thousand tenge, of which 1,064,997 thousand tenge was accounted for within long-term receivables from related parties. For the three months ended 31 March 2017 the Group recognized income from amortization of discount on long-term receivables from Kazpost JSC in the amount of 31,110 thousand tenge.

Total compensation to key management personnel included in personnel costs in the interim consolidated statement of comprehensive income was 109,287 thousand tenge for the three months ended 31 March 2017 (for the three months ended 31 March 2016: 32,944 thousand tenge), Compensation to key management personnel mainly consists of contractual salary and performance bonus based on operating results.

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

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

#### **Taxation**

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. 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 preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 March 2017.

## **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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### **18. COMMITMENTS AND CONTINGENCIES (continued)**

#### **Compliance with loan covenants**

From 1999 till 2011 the Group concluded loan facility agreements with EBRD and IBRD (the “Creditors”) for the amounts of 506 million US dollars and 228 million euro (*Note 9*), 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 2017 and 31 December 2016. The Group excludes from EBITDA the foreign exchange loss, as management believes that foreign exchange loss meets definition of non-cash impairment and as such shall be excluded from the calculation of EBITDA as provided in the loan agreement. As of 31 March 2017 the Group excluded from EBITDA the foreign exchange loss of 2,631,130 thousand tenge incurred during the three months ended 31 March 2017.

#### **Insurance**

As at 31 March 2017, the Group insured property and equipment with the recoverable value of 170,542,342 thousand tenge. The insurance payment is limited to the recoverable value 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 condensed 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 2017, the Group’s outstanding contractual commitments within the frameworks of this plan amount to 60,617,921 thousand tenge (31 December 2016: 45,623,560 thousand tenge).

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

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

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

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

Tariff on sale of electricity from renewable energy sources to contingent consumers is calculated according to the *Rules on Calculating the Tariffs on Supporting the Renewable Energy Sources* approved by the Ministry of Energy Order No. 118 dated 20 February 2015. The tariff for electricity sales includes the cost of purchase of electricity, operating costs, cost of balancing of electricity production and consumption and income, and is calculated by the Company on a regular basis.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(continued)**

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**18. COMMITMENTS AND CONTINGENCIES (continued)**

**Contractual commitments (continued)**

*Tariff on sale of electricity from renewable energy sources (continued)*

Management believes that in 2017 the calculation and application of tariffs for the sale and purchase of electricity from renewable energy sources is carried out properly and in accordance with the applicable rules and legislation.

According to the amendments to the legislation of the Republic of Kazakhstan dated 28 December 2016, the authoritative body develops and approves new pricing rules on socially important markets (the “Rules”).

Currently, the authoritative body is developing the draft of respective Rules.

*Tariff for electricity transmission and technical dispatch*

In accordance with the order of the Committee, temporary compensating tariff for regulated services was determined for the period from 1 July 2016 to 30 June 2017 was determined. From 1 January to 30 June 2017 a temporary compensating tariff for electricity transmission through electric grids will be 2.245 tenge/kWh (excluding VAT), for technical dispatch – 0.233 tenge/kWh (excluding VAT).