

**Kazakhstan Electricity Grid Operating Company JSC**

Unaudited interim condensed  
consolidated financial statements

*As at and for the three months  
ended 31 March 2018*

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Report on review of interim condensed consolidated financial statements

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## Report on review of interim condensed consolidated financial statements

To the Shareholders and Management 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 2018, 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  
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5 May 2018

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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 2018**

<i>In thousands of tenge</i>	<b>Notes</b>	<b>31 March 2018 (unaudited)</b>	31 December 2017 (audited)
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3	<b>535,917,659</b>	535,294,178
Intangible assets		<b>1,252,928</b>	1,038,637
Advances paid for non-current assets	3	<b>5,654,887</b>	742,325
Deferred tax asset		<b>428</b>	2,252
Investments in associate		<b>849,869</b>	782,081
Long-term receivables from related parties		<b>990,093</b>	1,009,981
Other financial assets, non-current portion	5	<b>223,554</b>	1,091,823
Other non-current assets		<b>13,175</b>	17,129
		<b>544,902,593</b>	539,978,406
<b>Current assets</b>			
Inventories		<b>1,953,018</b>	1,875,434
Trade accounts receivable	4	<b>8,625,115</b>	7,764,693
VAT recoverable and other prepaid taxes		<b>205,131</b>	961,745
Prepaid corporate income tax		<b>13,358</b>	1,584,041
Other current assets		<b>914,695</b>	652,589
Other financial assets, current portion	5	<b>24,940,110</b>	25,107,392
Restricted cash	6	<b>3,778,792</b>	3,445,617
Cash and cash equivalents	7	<b>55,278,023</b>	47,577,783
		<b>95,708,242</b>	88,969,294
<b>Total assets</b>		<b>640,610,835</b>	628,947,700

*Notes on pages 7 to 22 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 2018 (unaudited)	31 December 2017 (audited)
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital		126,799,554	126,799,554
Treasury shares		(930)	(930)
Asset revaluation reserve		220,855,287	220,858,720
Other reserves		(143,153)	(170,701)
Retained earnings		41,749,650	26,680,917
		<b>389,260,408</b>	<b>374,167,560</b>
<b>Non-current liabilities</b>			
Borrowings, non-current portion	9	61,056,370	64,229,182
Bonds payable, non-current portion	10	83,651,834	83,649,023
Deferred tax liability		66,587,208	66,666,573
Trade and other accounts payable, non-current portion	11	-	298,327
Government grant, non-current portion		93,915	100,786
Finance lease obligations, non-current portion		195,959	8,961
		<b>211,585,286</b>	<b>214,952,852</b>
<b>Current liabilities</b>			
Borrowings, current portion	9	8,871,984	9,502,895
Bonds payable, current portion	10	6,710,094	4,407,719
Trade and other accounts payable, current portion	11	15,442,026	18,763,337
Construction obligation		683,430	683,430
Advances received		1,756,835	2,048,415
Government grant, current portion		27,487	27,487
Finance lease obligations, current portion		51,458	3,996
Taxes payable other than corporate income tax		2,562,761	958,525
Corporate income tax payable		874,991	5,385
Dividends payable		87	87
Other current liabilities		2,783,988	3,426,099
		<b>39,765,141</b>	<b>39,827,288</b>
<b>Total liabilities</b>		<b>251,350,427</b>	<b>254,780,140</b>
<b>Total equity and liabilities</b>		<b>640,610,835</b>	<b>628,947,700</b>
<b>Book value per ordinary share (in tenge)</b>	8	<b>1,492</b>	<b>1,435</b>

Chairman of the Management Board



Kazhiyev B.T.

Acting Chief Accountant

Kabysh T.A.

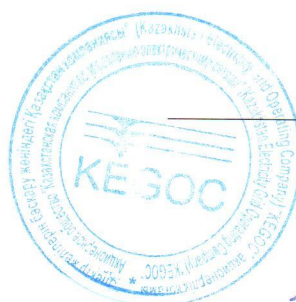
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## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2018

<i>In thousands of tenge</i>	Notes	For the three months ended	
		31 March 2018 (unaudited)	31 March 2017 (unaudited)
Revenue	12	44,157,426	38,006,060
Cost of sales	13	(22,792,620)	(20,140,196)
<b>Gross profit</b>		<b>21,364,806</b>	<b>17,865,864</b>
General and administrative expenses	14	(3,048,253)	(3,549,611)
Selling expenses		(61,446)	(52,221)
Reversal of impairment /(impairment loss)		156,365	(15,802)
<b>Operating profit</b>		<b>18,411,472</b>	<b>14,248,230</b>
Finance income	15	839,270	715,582
Finance costs	15	(563,615)	(927,652)
Foreign exchange gain, net		1,556,377	2,631,130
Share of income/(loss) of associate		67,788	(13,202)
Impairment of other financial assets	5,6,7	(352,746)	(668,873)
Other income		71,175	43,875
Other expenses		(40,386)	(32,268)
<b>Profit before tax</b>		<b>19,989,335</b>	<b>15,996,822</b>
Income corporate tax expense	16	(4,037,764)	(3,723,911)
<b>Profit for the period</b>		<b>15,951,571</b>	<b>12,272,911</b>
<b>Total comprehensive income for the period</b>		<b>15,951,571</b>	<b>12,272,911</b>
<b>Earnings per share</b>			
Basic and diluted profit for the period attributable to ordinary equity holders (in tenge)	8	61.35	47.20

Chairman of the Management Board



*Kazhiyev B.T.*

Acting Chief Accountant

*Kabysh T.A.*

Notes on pages 7 to 22 are an integral part  
of these interim condensed consolidated financial statements.

## **INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**

**For the three months ended 31 March 2018**

<i>In thousands of tenge</i>	<b>Notes</b>	<b>For the three months ended</b>	
		<b>31 March 2018 (unaudited)</b>	<b>31 March 2017 (unaudited)</b>
<b>Operating activities</b>			
Profit before tax		<b>19,989,335</b>	15,996,822
<b>Adjustments to reconcile profit before tax to net cash flows</b>			
Depreciation and amortisation		<b>5,788,960</b>	5,716,835
Finance costs	15	<b>(839,270)</b>	(715,582)
Finance income	15	<b>563,615</b>	927,652
Foreign exchange gain, net		<b>(1,556,377)</b>	(2,631,130)
(Reversal)/accrual of provision for doubtful accounts receivable, impairment of advances and other current assets	14	<b>(135,083)</b>	498,162
(Reversal)/accrual of provision for obsolete inventory	14	<b>(78,695)</b>	3,935
(Reversal)/accrual of provision for impairment of construction in progress		<b>(156,366)</b>	15,802
Accrual of impairment of other financial assets	5, 6, 7	<b>352,746</b>	668,873
Share in (income)/loss of an associate		<b>(67,788)</b>	13,202
Income from government grants		<b>(6,871)</b>	-
Interest income from other financial assets		-	(15,088)
Loss from disposal of property, plant and equipment and intangible assets		-	2,586
<b>Working capital adjustments</b>			
Change in inventories		<b>1,111</b>	(343,704)
Change in trade accounts receivable		<b>(918,630)</b>	1,917,018
Change in VAT recoverable and other prepaid taxes		<b>758,733</b>	164,253
Change in other current assets		<b>(58,213)</b>	(89,162)
Change in trade and other accounts payable		<b>712,962</b>	551,806
Change in advances received		<b>(291,580)</b>	582,714
Change in taxes payable other than corporate income tax		<b>1,604,236</b>	(305,619)
Change in other current liabilities		<b>(642,133)</b>	(628,889)
<b>Cash flows received from operating activities</b>		<b>25,020,692</b>	22,330,486
Interest paid		<b>(767,322)</b>	(1,394,040)
Corporate income tax paid		<b>(1,476,843)</b>	(764,556)
Interest received		<b>1,124,273</b>	1,439,432
<b>Net cash flows received from operating activities</b>		<b>23,900,800</b>	21,611,322

*Notes on pages 7 to 22 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 2018 (unaudited)	31 March 2017 (unaudited)
<b>Investing activities</b>			
Withdrawal of bank deposits		12,794,429	41,083,320
Placement of bank deposits		(13,224,747)	(28,469,415)
Change in restricted cash		(572,214)	11,330,748
Reclassification to other financial assets		-	(1,299,631)
Proceeds from sale of property, plant and equipment and intangible assets		49,124	49,319
Purchase of property, plant, equipment		(13,888,899)	(21,651,522)
Purchase of intangible assets		(1,058)	(6)
Repayment of loans given to employees		3,903	1,702
<b>Net cash flows (used in)/from investing activities</b>		<b>(14,839,462)</b>	<b>1,044,515</b>
<b>Financing activities</b>			
Dividends paid		-	(33)
Repayment of borrowings		(948,140)	(14,408,641)
<b>Net cash flows used in financing activities</b>		<b>(948,140)</b>	<b>(14,408,674)</b>
<b>Net change in cash and cash equivalents</b>		<b>8,113,198</b>	<b>8,247,163</b>
Effect of net foreign exchange difference		(228,910)	(390,836)
Effect of adoption of IFRS 9		(43,225)	-
Accrual of allowance for impairment under IFRS 9		(140,823)	-
Cash and cash equivalents as at 1 January		47,577,783	32,055,378
<b>Cash and cash equivalents as at 31 March</b>		<b>55,278,023</b>	<b>39,911,705</b>

Chairman of the Management Board



*Kazhiyev B.T.*

Acting Chief Accountant

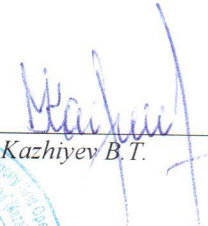
*Kabysh T.A.*

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY


For the three months ended 31 March 2018

<i>In thousands of tenge</i>	Share capital	Revaluation reserve	Treasury shares	Other reserves	Retained earnings	Total
<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
<b>As at 1 January 2018 (as previously stated)</b>	126,799,554	220,858,720	(930)	(170,701)	26,680,917	374,167,560
Effect of adoption of IFRS 9 (Note 2)	-	-	-	-	(886,271)	(886,271)
<b>As at 1 January 2018 (restated)*</b>	126,799,554	220,858,720	(930)	(170,701)	25,794,646	373,281,289
Profit for the period	-	-	-	-	15,951,571	15,951,571
<b>Total comprehensive income</b>	-	-	-	-	15,951,571	15,951,571
Amortization of other reserves	-	-	-	27,548	-	27,548
Transfer of asset revaluation reserve	-	(3,433)	-	-	3,433	-
<b>As at 31 March 2018 (unaudited)</b>	126,799,554	220,855,287	(930)	(143,153)	41,749,650	389,260,408

Chairman of the Management Board

  
Kazhiyev B.T.

Acting Chief Accountant

  
Kabysh T.A.

Notes on pages 7 to 22 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 2018**

**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 2018, the Company’s major shareholder was Sovereign Wealth Fund “Samruk-Kazyna” JSC (“Samruk-Kazyna”) (90 percent plus one share). Samruk-Kazyna is controlled by the Government of the Republic of Kazakhstan.

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

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

The Company has stakes in the following companies as of 31 March 2018 and 31 December 2017:

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

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

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

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

These interim condensed consolidated financial statements were signed by the Chairman of the Management Board and Acting Chief Accountant on 5 May 2018.

**2. BASIS OF PREPARATION**

The interim condensed consolidated financial statements for the three months ended 31 March 2018 have been prepared in accordance with IAS 34 *Interim Financial Reporting*, as amended by the International Financial Reporting Standard (“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 consolidated financial statements as at 31 December 2017.

The interim condensed 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(continued)**

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

**Exchange rates**

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

<b>Exchange rate as at the end of the period (to KZT)</b>	<b>31 March 2018</b>	<b>31 December 2017</b>
USD 1	<b>318.31</b>	332.33
EUR 1	<b>392.32</b>	398.23
RUR 1	<b>5.55</b>	5.77
<b>Average exchange rate for the three months (to KZT)</b>	<b>2018</b>	<b>2017</b>
USD 1	<b>323.15</b>	322.31
EUR 1	<b>397.36</b>	343.27
RUR 1	<b>5.68</b>	5.49

**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 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments that require restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group.

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

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

The Group adopted IFRS 15 using the full retrospective method of adoption. The Group provides services for the transmission, technical dispatching and balancing of electricity production and consumption in Kazakhstan. Activities are carried out through separate identifiable contracts with customers.

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

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### **2. BASIS OF PREPARATION (continued)**

#### **New and amended standards and interpretations (continued)**

##### *IFRS 15 Revenue from Contracts with Customers (continued)*

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

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

The activities of “Accounting and Finance Center for the support of renewable energy resources” LLP are driven by the Decree of the Republic of Kazakhstan "On Supporting the Use of renewable energy resources", while the contracts for “Accounting and Finance Center for the support of renewable energy resources” LLP are typical and fix only the obligations for monthly invoicing and quarterly reconciliation checks. “Accounting and Finance Center for the support of renewable energy resources” LLP does not generate a principal-agent relationship, since when concluding contracts for the purchase and sale of electricity all risks and benefits pass from the seller of electricity to “Accounting and Finance Center for the support of renewable energy resources” LLP and from “Accounting and Finance Center for the support of renewable energy resources” LLP to the end user. Transition to revenue recognition in accordance with IFRS 15 did not cause changes in accounting for “Accounting and Finance Center for the support of renewable energy resources” LLP.

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

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

##### *IFRS 9 Financial Instruments*

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

With the exception of hedge accounting, which the Group applied prospectively, the Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018.

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

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

**New and amended standards and interpretations (continued)**

*IFRS 9 Financial Instruments (continued)*

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

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

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

IFRS 9 requires the Group to record an allowance for ECLs for all financial assets not held at FVPL.

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

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

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

The Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

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

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

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

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### **2. BASIS OF PREPARATION (continued)**

#### **New and amended standards and interpretations (continued)**

##### *IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's interim condensed consolidated financial statements, as the current activities of the Group comply with the requirements of clarification.

##### *Amendments to IAS 40 Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's interim condensed consolidated financial statements, as the current activities of the Group comply with the requirements of clarification.

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

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's interim condensed consolidated financial statements.

##### *Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

##### *Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's interim condensed consolidated financial statements.

##### *Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters*

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group's consolidated financial statements.

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

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

During the three months ended 31 March 2018, the Group acquired property, plant and equipment with a cost of KZT 6,167,975 thousand (during the three months ended 31 March 2017: KZT 2,137,335 thousand) that were mainly represented by capital expenditures for the construction of the project “500 kW Shulbinskaya GES (Semey) – Aktogay – Taldykorgan – Alma”.

Depreciation change for the three months ended 31 March 2018 amounted to KZT 5,693,834 thousand (for the three months ended 31 March 2017: KZT 5,618,681 thousand).

**Capitalized finance borrowing costs on issued bonds**

During the three months ended 31 March 2018, the Group capitalized the coupon interest on issued bonds, which amounted to KZT 1,803,620 thousand net off investment income (for the three months ended 31 March 2017: 1,381,795) (Note 10).

**Advances paid for non-current assets**

As at 31 March 2018 and 31 December 2017 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>	<b>31 March 2018</b>	31 December 2017
Trade accounts receivable	<b>10,015,108</b>	9,174,896
Less: allowance for doubtful accounts receivable	<b>(1,389,993)</b>	(1,409,589)
Less: discount of accounts receivable	-	(614)
	<b>8,625,115</b>	7,764,693

Movement in the allowance for doubtful receivables was as follows:

<i>In thousands of tenge</i>	<b>2018</b>	2017
<b>At 1 January</b>	<b>1,409,589</b>	2,653,416
Effect of adoption of IFRS 9	<b>113,156</b>	-
Charge for the period	<b>42,248</b>	1,084,440
Written-off	-	(1,623)
Reversal	<b>(175,000)</b>	(598,292)
<b>At 31 March</b>	<b>1,389,993</b>	3,137,941

Trade receivables were denominated in the following currencies:

<i>In thousands of tenge</i>	<b>31 March 2018</b>	31 December 2017
Tenge	<b>7,749,099</b>	7,099,960
US Dollar	<b>164,302</b>	72,766
Russian rouble	<b>711,714</b>	591,967
	<b>8,625,115</b>	7,764,693



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

**5. OTHER FINANCIAL ASSETS**

<i>In thousands of Tenge</i>	<b>31 March 2018</b>	31 December 2017
<b>Other long-term financial assets</b>		
Bonds of Special financial company DSFK	<b>223,554</b>	223,554
Bonds of Batys Transit	–	868,269
	<b>223,554</b>	1,091,823
<b>Other short-term financial assets</b>		
Bank deposits	<b>22,337,637</b>	22,466,094
Funds placed with Eximbank Kazakhstan JSC	<b>2,546,481</b>	2,658,640
Funds placed with Kazinvestbank JSC	<b>1,282,483</b>	1,282,483
Funds placed with Delta Bank JSC	<b>1,230,000</b>	1,297,742
Bonds of Batys Transit	<b>895,818</b>	–
Interest accrued on bonds of Batys Transit	<b>87,190</b>	65,405
Less: allowance for impairment of funds placed with Kazinvestbank JSC	<b>(1,282,483)</b>	(1,282,483)
Less: allowance for impairment of funds placed with Delta Bank JSC	<b>(1,230,000)</b>	(1,230,000)
Less: allowance for impairment of bank deposits and bonds of Batys Transit	<b>(753,215)</b>	–
Less: discount on funds placed with Eximbank Kazakhstan JSC	<b>(109,764)</b>	(150,489)
Less: allowance for impairment of funds placed with Eximbank Kazakhstan JSC	<b>(64,037)</b>	–
	<b>24,940,110</b>	25,107,392
<b>Total other financial assets</b>	<b>25,163,664</b>	26,199,215

Movement in the allowance for other financial assets was as follows:

<i>In thousands of Tenge</i>	<b>2018</b>	2017
<b>At 1 January</b>	<b>2,512,483</b>	645,891
Effect of adoption of IFRS 9	<b>643,320</b>	–
Charge for the period	<b>222,381</b>	668,873
Recovered	<b>(48,449)</b>	–
<b>At 31 March</b>	<b>3,329,735</b>	1,314,7634

**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 secured with Guarantee of the Government of Republic of Kazakhstan in accordance with guarantee agreement dated 9 January 2006. The coupon rate on the bonds is 8.4%. The bonds are classified as financial asset-held-to-maturity.

**Deposits**

As at 31 March 2018 and 31 December 2017 deposits include accrued interest income in the amount of KZT 105,715 thousand and KZT 187,568 thousand, respectively.

**Funds placed with Eximbank Kazakhstan JSC (“Eximbank”)**

As of 31 December 2017, the Group's deposit with Eximbank was KZT 2,658,640 thousand. According to the agreement, the deposit term expired in November 2017. The deposit was not returned by Eximbank to the Group. As a result of the negotiations with representatives of Eximbank and the analysis conducted, the management of the Group concluded that the funds are fully recoverable and will be returned within one year. In this regard, as of 31 December 2017, the Group assessed the impact of the temporary factor and recognized a discount of KZT 150,489 thousand. During the three months ended 31 March 2018, the Group amortized the discount in the amount of KZT 34,376 thousand (for the three months ended 31 March 2017: nil).

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

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

Other financial assets were denominated in the following currencies:

<i>In thousands of tenge</i>	<b>Interest rate</b>	<b>31 March 2018</b>	31 December 2017
US Dollar	1.0%-5.5%	<b>16,295,372</b>	13,926,861
Tenge	10.0%-12%	<b>8,868,292</b>	12,272,354
		<b>25,163,664</b>	26,199,215

**6. RESTRICTED CASH**

<i>In thousands of tenge</i>	<b>31 March 2018</b>	31 December 2017
Cash on reserve accounts	<b>2,307,593</b>	2,409,232
Cash on debt service accounts	<b>1,428,806</b>	877,554
Restricted cash for return of guarantee obligations	<b>166,792</b>	158,831
Less: allowance for impairment	<b>(124,399)</b>	–
	<b>3,778,792</b>	3,445,617

Movement in the allowance for restricted cash was as follows:

<i>In thousands of tenge</i>	<b>2018</b>	2017
<b>At 1 January</b>	–	–
Effect of adoption of IFRS 9	<b>86,409</b>	–
Charge for the period	<b>39,133</b>	–
Recovered	<b>(1,143)</b>	–
<b>At 31 March</b>	<b>124,399</b>	–

As at 31 March 2018 and 31 December 2017 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 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.

At 31 March 2018 and 31 December 2017 restricted cash was denominated in the following currencies:

<i>In thousands of tenge</i>	<b>31 March 2018</b>	31 December 2017
US Dollar	<b>3,616,175</b>	3,286,786
Tenge	<b>162,617</b>	158,831
	<b>3,778,792</b>	3,445,617

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

**7. CASH AND CASH EQUIVALENTS**

<i>In thousands of tenge</i>	<b>31 March 2018</b>	31 December 2017
Short-term deposits, in Tenge	<b>33,191,036</b>	37,158,812
Current accounts with banks, in foreign currencies	<b>3,077,476</b>	6,556,281
Current accounts with banks, in Tenge	<b>19,185,325</b>	3,854,403
Cash on hand	<b>8,048</b>	8,110
Cash at special accounts	<b>187</b>	177
Less: allowance for impairment	<b>(184,049)</b>	–
	<b>55,278,023</b>	47,577,783

Movement in the allowance for cash and cash equivalents was as follows:

<i>In thousands of tenge</i>	<b>2018</b>	2017
<b>At 1 January</b>	–	–
Effect of adoption of IFRS 9	<b>43,225</b>	–
Charge for the period	<b>147,193</b>	–
Recovered	<b>(6,369)</b>	–
<b>At 31 March</b>	<b>184,049</b>	–

During the three months ended 31 March 2018, interest on the Group's current accounts was 0.5%-9% per annum and on deposit accounts 7% -9.9% per annum.

At 31 March 2018 and 31 December 2017, cash and cash equivalents were denominated in the following currencies:

<i>In thousands of tenge</i>	<b>31 March 2018</b>	31 December 2017
Tenge	<b>52,201,523</b>	41,021,502
US dollars	<b>3,065,564</b>	6,553,858
Russian rouble	<b>6,107</b>	2,132
Euro	<b>4,539</b>	–
Others	<b>290</b>	291
	<b>55,278,023</b>	47,577,783

**8. EQUITY**

**Earnings per share (“EPS”)**

Basic and diluted earnings per share are calculated by dividing 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 2018 and the three months ended 31 March 2017 comprised 259,998,610 shares. For the three months ended 31 March 2018 and 31 March 2017, basic and diluted earnings per share amounted to KZT 61.35 and KZT 47.20, 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 2018</b>	31 December 2017
<b>Total assets</b>	<b>640,610,835</b>	628,947,700
Less: intangible assets	<b>(1,252,928)</b>	(1,038,637)
Less: total liabilities	<b>(251,350,427)</b>	(254,780,140)
<b>Net assets</b>	<b>388,007,480</b>	373,128,923
Number of ordinary shares	<b>260,000,000</b>	260,000,000
<b>Book value per ordinary share, tenge</b>	<b>1,492</b>	1,435

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

**9. BORROWINGS**

<i>In thousands of tenge</i>	<b>31 March 2018</b>	31 December 2017
International Bank of Reconstruction and Development (IBRD)	<b>52,987,883</b>	56,378,222
European Bank of Reconstruction and Development (EBRD)	<b>16,940,471</b>	17,353,855
	<b>69,928,354</b>	73,732,077
Less: current portion of loans repayable within 12 months	<b>(8,871,984)</b>	(9,502,895)
	<b>61,056,370</b>	64,229,182

Loans were denominated in the following currencies:

<i>In thousands of tenge</i>	<b>31 March 2018</b>	31 December 2017
US Dollars	<b>52,987,883</b>	56,378,222
Euro	<b>16,940,471</b>	17,353,855
	<b>69,928,354</b>	73,732,077

During three months ended 31 March 2018 the Group made repayment of principal amount of loans amounting to KZT 948,140 thousand, and repayment of interest amounting to KZT 736,753 thousand. Additionally, the balance of borrowings and accrued interest increased by KZT 2,609,555 thousand 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 2018.

**10. BONDS PAYABLE**

<i>In thousands of tenge</i>	<b>31 March 2018</b>	31 December 2017
Nominal value of issued bonds	<b>83,800,000</b>	83,800,000
Accrued coupon interest	<b>6,710,094</b>	4,407,719
Less: discount on bonds issued	<b>(99,462)</b>	(101,305)
Less: transaction costs	<b>(48,704)</b>	(49,672)
	<b>90,361,928</b>	88,056,742
Less: current portion of bonds repayable within 12 months	<b>(6,710,094)</b>	(4,407,719)
	<b>83,651,834</b>	83,649,023

For the three months ended 31 March 2018, the Group capitalized amortization of discount in the amount of KZT 1,843 thousand and transaction costs in the amount of KZT 968 thousand into the cost of property, plant and equipment.

During the three months ended 31 March 2018 the Group capitalized the cost of coupon interest on issued bonds net off investment income amounted to KZT 1,803,620 thousand (for the three months ended 31 March 2017: KZT 1,381,795 thousand) (*Note 3*).

**11. TRADE AND OTHER ACCOUNTS PAYABLE**

<i>In thousands of tenge</i>	<b>31 March 2018</b>	31 December 2017
<b>Long-term accounts payable</b>		
Accounts payable for property, plant and equipment and construction works	–	332,584
Less: discount on accounts payable	–	(34,257)
	–	298,327
<b>Short-term trade and other accounts payable</b>		
Accounts payable for property, plant and equipment and construction works	<b>9,671,589</b>	13,183,438
Accounts payable for electricity purchased	<b>4,635,822</b>	4,207,638
Accounts payable for inventories, works and services	<b>1,150,117</b>	1,372,261
Less: discount on accounts payable	<b>(15,502)</b>	–
	<b>15,442,026</b>	18,763,337
	<b>15,442,026</b>	19,061,664

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

**11. TRADE AND OTHER ACCOUNTS PAYABLE (continued)**

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

<i>In thousands of tenge</i>	<b>31 March 2018</b>	31 December 2017
Tenge	<b>14,805,263</b>	18,020,295
Russian rouble	<b>625,966</b>	1,025,703
Euro	<b>7,560</b>	7,893
US dollar	<b>3,237</b>	7,773
	<b>15,442,026</b>	19,061,664

Long-term trade payables are represented by amounts withheld from the value of work performed under contractual agreements as a guarantee of performance of obligations.

**12. REVENUE**

<i>In thousands of tenge</i>	<b>For the three months ended</b>	
	<b>31 March 2018</b>	31 March 2017
Electricity transmission	<b>29,020,664</b>	23,932,699
Technical dispatch	<b>6,613,875</b>	5,710,208
Balancing of electricity production and consumption	<b>4,482,710</b>	3,944,752
Revenue from sales of purchased electricity	<b>3,712,679</b>	3,060,883
Revenue from electricity sales for compensation of the interstate balances of electricity flows	<b>1,071,974</b>	868,323
Revenue from power regulation services	<b>148,945</b>	207,734
Other	<b>368,954</b>	294,349
	<b>45,419,801</b>	38,018,948
Discounts to consumers	<b>(1,262,375)</b>	(12,888)
	<b>44,157,426</b>	38,006,060

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

For the three months ended 31 March 2018 the revenue from one consumer, Samruk-Energo Group, amounted to KZT 8,974,406 thousand, arising from transmission, technical dispatching and balancing services.

For the three months ended 31 March 2017 the revenue from one consumer, Samruk-Energo Group, amounted to KZT 8,136,246 thousand, 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 2018</b>	31 March 2017
Technical losses of electric energy	<b>5,946,815</b>	5,701,114
Depreciation and amortization	<b>5,615,478</b>	5,547,308
Cost of purchased electricity	<b>3,859,141</b>	2,975,465
Payroll expenses and related taxes	<b>3,335,453</b>	2,986,439
Cost of purchased electricity for compensation of interstate balances of electricity flows	<b>2,109,264</b>	1,596,207
Repair and maintenance expenses	<b>1,140,545</b>	634,773
Security services	<b>285,798</b>	263,297
Inventories	<b>109,898</b>	88,381
Other	<b>390,228</b>	347,212
	<b>22,792,620</b>	20,140,196

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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**14. GENERAL AND ADMINISTRATIVE EXPENSES**

<i>In thousands of tenge</i>	<b>For the three months ended</b>	
	<b>31 March 2018</b>	31 March 2017
Taxes other than corporate income tax	<b>1,681,525</b>	1,777,803
Payroll expenses and related taxes	<b>974,312</b>	744,920
Depreciation and amortization	<b>158,153</b>	154,214
Consulting services	<b>77,224</b>	28,732
Expenses for the Board of Directors	<b>73,147</b>	78,509
Insurance	<b>36,391</b>	47,867
Utilities	<b>33,788</b>	29,566
Business trip expenses	<b>21,190</b>	16,790
Trainings	<b>19,929</b>	10,538
Materials	<b>18,163</b>	15,615
Expenses for the rights to use the software	<b>15,717</b>	3,444
(Reversal)/accrual of provision for obsolete inventory	<b>(78,695)</b>	3,935
(Reversal)/accrual of provision for doubtful accounts receivable, impairment of advances and other current assets	<b>(135,083)</b>	498,162
Other	<b>152,492</b>	139,516
	<b>3,048,253</b>	3,549,611

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

<i>In thousands of tenge</i>	<b>For the three months ended</b>	
	<b>31 March 2018</b>	31 March 2017
<b>Finance income</b>		
Interest income from deposits, current accounts and bonds	<b>1,262,378</b>	1,500,772
Amortization of discount on accounts receivable	<b>34,620</b>	35,165
Amortization of discount of funds placed in Eximbank Kazakhstan	<b>34,376</b>	–
Discount on trade payable	–	5,931
Others	<b>6,651</b>	669
	<b>1,338,025</b>	1,542,537
Less: interest capitalized into the cost of qualifying asset ( <i>Note 3</i> )	<b>(498,755)</b>	(826,955)
	<b>839,270</b>	715,582
<b>Finance costs</b>		
Interest on borrowings	<b>2,788,629</b>	2,922,252
Commission on bank guarantees	<b>30,622</b>	33,157
Interest expense on finance leases	<b>22,838</b>	–
Amortization of discount on accounts payable	<b>18,755</b>	48,567
Amortization of loan origination fees	<b>4,524</b>	132,135
Transaction costs on bonds issued	<b>622</b>	291
	<b>2,865,990</b>	3,136,402
Less: interest capitalized into the cost of qualifying asset ( <i>Note 3</i> )	<b>(2,302,375)</b>	(2,208,750)
	<b>563,615</b>	927,652

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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**16. CORPORATE INCOME TAX EXPENSE**

<i>In thousands of tenge</i>	<b>For the three months ended</b>	
	<b>31 March 2018</b>	31 March 2017
<b>Current corporate income tax</b>		
Current income tax expense	<b>4,115,305</b>	3,352,991
Adjustments to current income tax of the previous year	–	92
<b>Deferred tax</b>		
Deferred income tax (benefit)/expense	<b>(77,541)</b>	370,828
<b>Total corporate income tax expense reported in the interim consolidated statement of comprehensive income</b>	<b>4,037,764</b>	3,723,911

**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 accounts payable to/receivable from related parties as at 31 March 2018 and 31 December 2017:

<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>2018</b>	<b>2,331,443</b>	<b>1,866,637</b>
	2017	2,780,586	1,264,918
Associated entities of Samruk-Kazyna	<b>2018</b>	<b>318,096</b>	<b>921,329</b>
	2017	186,496	537,332
Joint ventures of Samruk-Kazyna	<b>2018</b>	<b>268,783</b>	<b>25,124</b>
	2017	197,488	1,154
Associates of the Group	<b>2018</b>	<b>33,212</b>	–
	2017	29,123	17,194

The Group had the following transactions with related parties for the three months period ended 31 March 2018 and 31 March 2017:

<i>In thousands of tenge</i>		<b>Sales to related parties</b>	<b>Purchases from related parties</b>
Subsidiaries of Samruk-Kazyna Group	<b>2018</b>	<b>9,715,037</b>	<b>6,877,459</b>
	2017	8,864,618	7,156,027
Associated entities of Samruk-Kazyna	<b>2018</b>	<b>1,690,777</b>	<b>363,200</b>
	2017	1,915,932	313,660
Joint ventures of Samruk-Kazyna	<b>2018</b>	<b>1,413,383</b>	<b>37</b>
	2017	1,158,580	571,796
Associates of the Group	<b>2018</b>	<b>129,737</b>	<b>3,973</b>
	2017	93,618	32,969

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 2018 the Group's borrowings of KZT 53,262,554 thousand were guaranteed by the Government of the Republic of Kazakhstan (31 December 2017: KZT 56,657,386 thousand).

In 2007-2009 the Group acquired bonds of an associate, Batys Transit JSC, an entity listed on the Kazakhstan Stock Exchange. The bonds are classified as assets-held-to-maturity. The carrying value of Batys Transit bonds comprised KZT 895,818 thousand as of 31 March 2018 (as at 31 December 2017: KZT 868,269 thousand). The coupon interest rate on the bonds is 8.4%. The interest income accrued on the bonds of Batys Transit was KZT 87,191 thousand for the three months ended March 31, 2018 (for the three months ended March 31, 2017: nil).

As of 31 March 2018 the Group had outstanding accounts receivable from Balkhash TPP JSC, related party, for the sale of property, plant and equipment in the amount of KZT 205,714 thousand (31 December 2017: KZT 201,284 thousand) presented within other non-current assets. In accordance with sales agreement Balkhash TPP JSC will repay the outstanding balance in December 2018. In connection with the suspension of the construction of Balkhash TPP as of 31 December 2017, the Group's management decided to accrue a 100% of provision.

On 30 September 2015 the Group sold buildings and constructions with equipment and land located in Astana city to its related party Kazpost JSC for KZT 2,161,476 thousand. In accordance with sales agreement Kazpost JSC will repay the outstanding balance by equal monthly payments until June 2027. Accordingly, the Group discounted the future cash flows using discount rate of 10.37%, which is the Group Management's best estimate of market rate. As of 31 March 2018 the discount on accounts receivable from Kazpost JSC comprised KZT 630,939 thousand. As of 31 March 2018 the receivable net of discount comprised KZT 1,170,216 thousand, of which KZT 990.093 thousand was accounted for within long-term receivables from related parties. For the three months ended 31 March 2018 the Group recognized income from amortization of discount on long-term receivables from Kazpost JSC in the amount of KZT 29,312 thousand.

In 2017, the Group entered into a long-term contract with a related company, Samruk-Kazyna Business Contract LLP, to grant the rights to use the software for rent. Since the rights to use the software will be transferred to the Group at the end of the contract period, the Group has recognized the finance lease liability. As of 31 March 2018, the debt amount is KZT 247,417 thousand.

Total compensation to key management personnel included in personnel costs in the interim consolidated statement of comprehensive income was KZT 87,413 thousand for the three months ended 31 March 2018 (for the three months ended 31 March 2017: KZT 109,287 thousand). Compensation to key management personnel mainly consists of contractual salary and performance compensation based on operating results.

### **18. COMMITMENTS AND CONTINGENCIES**

#### **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 2018.

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

From 1999 till 2011 the Group concluded loan facility agreements with European Bank for Reconstruction and Development (EBRD) and International Bank for Reconstruction and Development (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:



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

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

#### **Contractual commitments (continued)**

- 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 2018 and 31 December 2017. The Group excludes from EBITDA the foreign exchange gain and loss, as management believes that foreign exchange gains and 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 2018 the Group excluded from EBITDA the foreign exchange loss of KZT 1,556,377 thousand incurred during the three months ended 31 March 2018.

#### **Insurance**

As at 31 March 2018, the Group insured property and equipment with the recoverable value of KZT 182,929,714 thousand. The insurance payment is limited to the carrying 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 2018, the Group’s outstanding contractual commitments within the frameworks of this plan amount to KZT 20,018,132 thousand (31 December 2017: KZT 21,463,464 thousand).

#### *Tariff for electricity transmission and technical dispatch services supply to the grid and electricity consumption*

At the end of 2016 was sent to report on implementation of the tariff estimate to the Committee following the consideration of which the order of the Committee has been defined temporary compensating tariff for regulated services for the period from 1 July 2017 to 30 June 2018, set lower limit levels of tariffs for regulated services. From 1 July to 31 December 2017 the temporary compensating tariff for electricity transmission through electric grids set at 2.2457 KZT/kWh (excluding VAT), the rate of technical dispatch to the grid and electricity consumption – 0.2339 KZT/kWh (excluding VAT). From 1 January to 30 June 2018 a temporary compensating tariff for electricity transmission through electric grids will be 2.245 KZT/kWh (excluding VAT), the rate of technical dispatch to the grid and electricity consumption – 0.2489 KZT/kWh (excluding VAT).

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

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

The tariff for electricity sales includes the cost of financial settlement center on purchase of electricity produced by renewable energy sources, cost of balancing of electricity production and consumption, cost on reserves and cost on its operational activities.

Management believes that 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.

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

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**19. SUBSEQUENT EVENTS**

**Repayment of loans**

In April 2018, the Group made a repayment of loan under the IBRD loan for the project "Construction of the second 500 kW transmission line of the North-South transit of Kazakhstan". The Group repaid its principal debt in the amount of USD 4,078 thousand (equivalent to KZT 1,303,527 thousand) and an interest in the amount of USD 411 thousand (equivalent to KZT 131,338 thousand).