

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

Interim consolidated financial statements

*As at and for the six months ended 30 June 2016  
with independent auditors' report*

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## Independent auditors' report

To the Shareholders of JSC "Kazakhstan Electricity Grid Operating Company"

We have audited the accompanying interim consolidated financial statements of JSC "Kazakhstan Electricity Grid Operating Company" and its subsidiaries ("the Group"), which comprise the interim consolidated statement of financial position as at 30 June 2016, and the interim consolidated statement of comprehensive income for the three and six months then ended, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the interim consolidated financial statements**

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

### **Auditors' responsibility**

Our responsibility is to express an opinion on these interim consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the interim consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the interim consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the interim consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the interim consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the interim consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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**Opinion**

In our opinion, the interim consolidated financial statements present fairly, in all material respects, the financial position of JSC "Kazakhstan Electricity Grid Operating Company" and its subsidiaries as at 30 June 2016, and their financial performance for the three and six months and cash flows for the six months then ended in accordance with International Financial Reporting Standards.

*Ernst & Young LLP*

*[Handwritten signature of Paul Cohn]*

Paul Cohn  
Audit Partner



Adil Syzdykov  
Auditor

Auditor qualification certificate  
No. MF-0000172 dated 23 December 2013

4 August 2016



Evgeny Zhemaletdinov  
General Director  
Ernst & Young LLP

State audit license for audit activities on the territory of the Republic of Kazakhstan: series MFЮ-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 30 June 2016

<i>In thousands of tenge</i>	Notes	30 June 2016	31 December 2015
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	476,464,185	478,699,792
Intangible assets		891,143	1,036,367
Advances paid for non-current assets	7	9,952,219	1,939,241
Other financial assets	11	—	5,968,419
Deferred tax assets	27	1,281	2,839
Investments in associates	8	132,104	266,815
Long-term receivables from related parties		1,292,614	1,320,245
Other non-current assets		17,707	24,496
		<b>488,751,253</b>	<b>489,258,214</b>
<b>Current assets</b>			
Inventories	9	2,763,515	1,982,353
Trade accounts receivable	10	16,571,517	23,431,376
VAT recoverable and other prepaid taxes		104,637	295,619
Income tax prepaid		2,379,607	2,902,770
Other financial assets	11	80,707,044	65,572,190
Restricted cash	12	2,452,824	2,349,629
Other current assets	13	615,038	352,190
Cash and cash equivalents	14	14,557,991	9,030,762
		<b>120,152,173</b>	<b>105,916,889</b>
Non-current assets held for sale	6	96,641	161,511
<b>Total assets</b>		<b>609,000,067</b>	<b>595,336,614</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	15	126,799,554	126,799,554
Asset revaluation reserve	15	221,135,069	221,297,751
Other reserves	15	(170,701)	(170,701)
Retained earnings / (accumulated loss)		9,415,069	(6,949,990)
		<b>357,178,991</b>	<b>340,976,614</b>
<b>Non-current liabilities</b>			
Borrowings, non-current portion	16	138,658,153	149,139,660
Bonds payable, non-current portion	17	3,923,350	—
Deferred tax liability	27	67,635,646	64,677,142
Long-term trade and other accounts payable	18	173,548	—
		<b>210,390,697</b>	<b>213,816,802</b>
<b>Current liabilities</b>			
Trade and other accounts payable	18	10,183,921	13,525,144
Borrowings, current portion	16	23,053,145	22,090,879
Bonds payable, current portion	17	69,144	—
Construction obligation	19	683,430	683,430
Dividends payable	15	2,199,600	2,199,600
Advances received		2,033,974	751,166
Taxes payable other than income tax		1,741,783	559,515
Income tax payable		7,194	4,577
Other current liabilities	20	1,458,188	728,887
		<b>41,430,379</b>	<b>40,543,198</b>
<b>Total liabilities</b>		<b>251,821,076</b>	<b>254,360,000</b>
<b>Total equity and liabilities</b>		<b>609,000,067</b>	<b>595,336,614</b>
<b>Book value per ordinary share (in Tenge)</b>	15	<b>1.370</b>	<b>1.307</b>

Acting Chairman of the Management Board

Chief Accountant



*[Signature]*  
Zhazykbayev B.M.

*[Signature]*  
Mukanova D.T.

The accounting policies and explanatory notes on pages 6 to 14 are an integral part of these interim consolidated financial statements.

**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the six months ended 30 June 2016


<i>In thousands of tenge</i>	Notes	For the three months ended		For the six months ended	
		30 June 2016	30 June 2015	30 June 2016	30 June 2015
Revenue	21	29,434,769	23,983,398	61,913,833	53,455,714
Cost of sales	22	(17,462,389)	(17,023,977)	(36,216,853)	(35,137,605)
<b>Gross profit</b>		<b>11,972,380</b>	<b>6,959,421</b>	<b>25,696,980</b>	<b>18,318,109</b>
General and administrative expenses	23	(2,604,340)	(7,935,302)	(5,237,890)	(11,293,392)
Selling expenses		(45,380)	(44,189)	(92,863)	(95,309)
(Impairment loss)/reversal of impairment		(5,945)	(38,103)	87,893	30,378
<b>Operating profit / (loss)</b>		<b>9,316,715</b>	<b>(1,058,173)</b>	<b>20,454,120</b>	<b>6,959,786</b>
Finance income	24	1,545,370	609,346	3,133,175	1,541,121
Finance costs	24	(1,608,721)	(798,186)	(2,947,627)	(1,693,121)
Foreign exchange gain / (loss), net	25	2,372,428	(1,482,060)	(1,015,122)	2,199,469
Share of (loss)/ gain of associates	8	(70,742)	78,789	(97,801)	75,994
Other income	26	777,718	64,380	912,336	140,500
Other expenses		(51,344)	(28,603)	(90,383)	(117,704)
<b>Profit / (loss) before tax</b>		<b>12,281,424</b>	<b>(2,614,507)</b>	<b>20,348,698</b>	<b>9,106,045</b>
Income tax expense	27	(2,529,619)	(599,678)	(4,146,321)	(2,997,707)
<b>Profit / (loss) for the reporting period</b>		<b>9,751,805</b>	<b>(3,214,185)</b>	<b>16,202,377</b>	<b>6,108,338</b>
<b>Earnings per share</b>					
Basic and diluted profit / (loss) for the period attributable to ordinary equity holders (in tenge)	15	37.51	(12.36)	62.32	23.49

Acting Chairman of the Management Board



Zhazykbayev B.M.

Chief Accountant



Mukanova D.T.

The accounting policies and explanatory notes on pages 6 to 44 are an integral part of these interim consolidated financial statements.

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**

**For the six months ended 30 June 2016**

<i>In thousands of tenge</i>	Notes	For the six months ended	
		30 June 2016	30 June 2015
<b>Operating activities</b>			
Profit before tax		20,348,698	9,106,045
<i>Adjustments to reconcile profit before tax to net cash flows:</i>			
Depreciation and amortisation		10,867,563	11,241,572
Finance costs	24	2,947,627	1,693,121
Finance income	24	(3,133,175)	(1,541,121)
Foreign exchange loss / (gain)		1,015,122	(1,802,374)
(Reversal)/accrual of provision for doubtful accounts receivable and impairment of other current assets	23	(14,380)	6,177,905
(Reversal)/accrual of provision for obsolete inventories	23	(10,752)	109,927
Income from transfer of granted assets	26	(773,035)	–
Loss from disposal of property, plant and equipment and intangible assets		15,361	50,373
Reversal of impairment		(87,893)	(30,378)
Share of loss/(gain) of an associate	8	97,801	(75,994)
Loss from impairment of assets held for sale	6	–	481
<i>Working capital adjustments:</i>			
Change in inventories		(770,410)	(779,384)
Change in trade accounts receivable		7,581,648	750,587
Change in VAT recoverable and other prepaid taxes		190,982	2,196,696
Change in other current assets		(218,004)	(181,554)
Change in trade and other accounts payable		380,109	(1,161,890)
Change in advances received		1,282,808	(141,459)
Change in taxes payable other than income tax		1,182,343	651,767
Change in other current liabilities		728,352	165,257
<b>Cash flows received from operating activities</b>		<b>41,630,765</b>	<b>26,429,577</b>
Interest paid		(2,777,879)	(1,729,033)
Income tax paid		(301,605)	(660,224)
Interest received		2,080,348	1,123,252
<b>Net cash flows received from operating activities</b>		<b>40,631,629</b>	<b>25,163,572</b>
<b>Investing activities</b>			
Withdrawal of bank deposits		15,022,930	4,926,550
Placement of bank deposits		(24,232,518)	(10,180,990)
Change in restricted cash		(195,069)	(143,663)
Proceeds from sale of property, plant and equipment and intangible assets		16,505	1,632
Purchase of property, plant, equipment		(19,280,172)	(11,865,079)
Purchase of intangible assets		(20)	(107,493)
Payment for construction of kindergarten		–	(215,948)
Repayment of loans given to employees		5,386	11,209
Decrease in equity of an associate	6	64,870	–
<b>Net cash flows used in investing activities</b>		<b>(28,598,088)</b>	<b>(17,573,782)</b>

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

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

For the six months ended 30 June 2016

<i>In thousands of tenge</i>	Notes	For the six months ended	
		30 June 2016	30 June 2015
<b>Financing activities</b>			
Dividends paid		(177)	(8,613,483)
Repayment of borrowings		(10,428,163)	(5,930,248)
Bonds issuance	17	3,999,999	–
Transaction costs for bonds issued	17	(12,721)	–
<b>Net cash flows used in financing activities</b>		<b>(6,441,062)</b>	<b>(14,543,731)</b>
<b>Net change in cash and cash equivalents</b>		<b>5,592,479</b>	<b>(6,953,941)</b>
Net foreign exchange difference		(65,250)	(118,431)
Cash and cash equivalents as at 1 January	14	9,030,762	13,962,123
<b>Cash and cash equivalents as at 30 June</b>	14	<b>14,557,991</b>	<b>6,889,751</b>

Acting Chairman of the Management Board



Zhazykbayev B.M.

Chief Accountant

Mukahova D.T.

*The accounting policies and explanatory notes on pages 6 to 44 are an integral part of these interim consolidated financial statements.*



**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30 June 2016

<i>In thousands of tenge</i>	Share capital	Asset revaluation reserve	Other reserves	Retained earnings	Total
<b>As at 1 January 2015</b>	126,799,554	221,756,419	(170,701)	11,392,194	359,777,466
Profit for the period	-	-	-	6,108,338	6,108,338
<b>Total comprehensive income</b>	-	-	-	6,108,338	6,108,338
Dividends (Note 15)	-	-	-	(8,613,800)	(8,613,800)
Transfer of asset revaluation reserve (Note 15)	-	(228,391)	-	228,391	-
Other changes in equity of an associate	-	-	-	36,521	36,521
<b>As at 30 June 2015</b>	126,799,554	221,528,028	(170,701)	9,151,644	357,308,525
<b>As at 1 January 2016</b>	126,799,554	221,297,751	(170,701)	(6,949,990)	340,976,614
Profit for the period	-	-	-	16,202,377	16,202,377
<b>Total comprehensive income</b>	-	-	-	16,202,377	16,202,377
Transfer of asset revaluation reserve (Note 15)	-	(162,682)	-	162,682	-
<b>As at 30 June 2016</b>	126,799,554	221,135,069	(170,701)	9,415,069	357,178,991

Acting Chairman of the Management Board



*Zhazykbayev B.M.*

Chief Accountant

*Mukanova D.T.*

The accounting policies and explanatory notes on pages 6 to 44 are an integral part of these interim consolidated financial statements.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

### 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 30 June 2016, 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 “UPS”), ensures its technical support and maintenance. The UPS consists of substations, distribution devices, interregional and (or) international power transmission lines which provide the output of electricity of electrical stations with the voltage of 220 kW and more.

As of 30 June 2016 and 31 December 2015, the Company has stakes in the following subsidiaries:

Company	Activities	Percentage of ownership	
		30 June 2016	31 December 2015
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 consolidated financial statements were authorised for issue by the Acting Chairman of the Management Board and Chief Accountant on 4 August 2016.

### 2. BASIS OF PREPARATION

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

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

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

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**2. BASIS OF PREPARATION (continued)****Basis of consolidation**

The interim consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

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

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

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****New and amended standards and interpretations**

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of new standards and interpretations effective from 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although the Group applied these new standards and amendments for the first time in 2016, they do not have a material impact on the annual consolidated financial statements and interim consolidated financial statements of the Group.

The nature and the impact of each new standard or amendment is described below:

*IFRS 14 Regulatory Deferral Accounts*

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

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

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

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the interim consolidated financial statements of the Group as there has been no interest acquired in a joint operation during the period.

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

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

*Amendments to IAS 27: Equity Method in Separate Financial Statements*

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

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****New and amended standards and interpretations (continued)***Amendments to IAS 1 Disclosure Initiative*

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the interim consolidated financial statements of the Group.

*Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception*

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group as the Group does not apply the consolidation exception.

*Annual Improvements 2012-2014 Cycle*

These improvements did not have an impact on the financial statements of the Group. They include:

*IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

*IFRS 7 Financial Instruments: Disclosures**(i) Servicing contracts*

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

*(ii) Applicability of the amendments to IFRS 7 to interim financial statements*

The amendment clarifies that the offsetting disclosure requirements do not apply to interim condensed financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****New and amended standards and interpretations (continued)***Annual Improvements 2012-2014 Cycle (continued)**IAS 19 Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

*IAS 34 Interim Financial Reporting*

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim consolidated financial statements and at the same time. This amendment must be applied retrospectively.

These amendments do not have any impact on the Group’s interim consolidated financial statements.

**Current versus non-current classification**

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

**Fair value measurement**

The Group measures financial instruments, such as, available for sale (“AFS”) financial assets at fair value at each reporting date, and non-financial assets (UPS assets) at fair value when fair value differs materially from their carrying value. Also, fair values of financial instruments measured at amortized cost are disclosed in *Note 29*.

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

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

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Fair value measurement (continued)**

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

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

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

Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

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

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

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

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

**Foreign currency transactions**

The Group’s interim consolidated financial statements are presented in tenge (“KZT”), which is also the parent company’s functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

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

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

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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Foreign currency transactions (continued)**

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

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

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

<i>Exchange rate as at the end of the period (to KZT)</i>	<b>30 June 2016</b>	31 December 2015
USD 1	<b>338.66</b>	340.01
EUR 1	<b>377.20</b>	371.46
RUR 1	<b>5.28</b>	4.61
	<b>For the six months ended</b>	
<i>Average exchange rate for the six months (to KZT)</i>	<b>30 June 2016</b>	30 June 2015
USD 1	<b>345.34</b>	185.22
EUR 1	<b>385.25</b>	206.93
RUR 1	<b>4.93</b>	3.24

**Non-current assets held for sale**

Non-current assets and disposal groups (which may include current and non-current assets) are recognised on the consolidated statement of financial position as “held for sale” in case of its net assets value will be compensated mainly by sale during the 12 (twelve) months after the reporting date.

Assets classification is subject to change upon all the following conditions: (a) the assets are available for immediate sale in its present condition, in accordance with the conditions customary for sales of such assets; (b) the Group’s management approved the active program for searching a buyer and initiated an active implementation; (c) assets are actively marketed for a sale at a reasonable price compared to their fair value; (d) the sale is expected within one year and (e) the necessary actions to complete the sale plan indicate that it is unlikely that significant changes will be made in the plan of sale or its cancellation.

Non-current assets or disposal groups classified in the consolidated statement of financial position in the current period as held for sale are recorded in the consolidated statement of financial position separately. Liabilities directly associated with disposal group transferred in the disposal, to be transferred to the category “held for sale” and are recognized in the consolidated statement of financial position separately. Comparative information of the consolidated statement of financial position are not corrected for adjustment with classification at the end of the current reporting period.

Disposal groups are assets (current or non-current) to be disposed by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is accounted in a disposal group in case a disposal group includes units generating cash flow, which has been allocated goodwill. Non-current assets held for sale and disposal groups are valued at the lower of book value and fair value less costs of sell. Non-current assets held for sale are not amortized.



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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property, plant and equipment**

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

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

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

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

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

Land is not depreciated.

Due to changes in the National Classifier of Fixed Assets of the Republic of Kazakhstan effective from 1 January 2015, “UPS Machinery and equipment” class has been separated from “UPS constructions” class. Therefore, the Group renamed “UPS constructions” into “UPS assets” for the purposes of financial statements.

The useful lives and residual values of property, plant and equipment are reviewed annually and, where applicable, adjustments are made on a prospective basis. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amounts of the carrying values of property, plant and equipment and on depreciation expenses recognized in the consolidated statement of comprehensive income.

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

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Intangible assets**

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

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

**Research and development costs**

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

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

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

**Impairment of non-financial assets**

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

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

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

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

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Investments in associate**

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

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

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

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

The consolidated statement of comprehensive income reflects the Group’s share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group’s OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognized its share of any changes, when applicable, in the consolidated statement of changes in equity.

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

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

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

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

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

**Financial instruments – initial recognition and subsequent measurement*****Financial assets******Initial recognition and measurement***

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

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

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

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial instruments – initial recognition and subsequent measurement (continued)***Financial assets (continued)**Subsequent measurement*

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR) less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

The EIR amortisation is included in interest income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income in finance costs for loans and operating expenses for receivables.

Held-to-maturity investments

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

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

Available-for-sale financial investments

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for sale reserve to the profit or loss in finance costs. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method.

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

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

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

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial instruments – initial recognition and subsequent measurement (continued)***Financial assets (continued)**Derecognition*

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

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

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

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

*Impairment of financial assets*

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred ‘loss event’) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*

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

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

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

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

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial instruments – initial recognition and subsequent measurement (continued)***Impairment of financial assets (continued)**Financial assets carried at amortised cost (continued)*

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

*Available-for-sale financial investments*

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

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

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

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

*Financial liabilities**Initial recognition and measurement*

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

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

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

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial instruments – initial recognition and subsequent measurement (continued)***Financial liabilities (continued)**Subsequent measurement*

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

Loans and borrowings

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

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

Trade and other payables

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

*Derecognition*

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

**Offsetting of financial instruments**

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

**Inventory**

Inventories are accounted for on a FIFO basis.

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

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

**Cash and cash equivalents**

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

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

**Restricted cash**

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

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Provisions**

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

**Revenue recognition**

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

*Rendering of services*

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

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

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

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

*Interest income*

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

*Equipment received from consumers*

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

**Borrowing costs**

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



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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Lease**

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

*Group as a lessee*

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

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

Operating lease payments are recognised as an operating expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

**Pension obligations**

In accordance with the legislation of the Republic of Kazakhstan, the Group deducted 10% of employees' salaries, but no more than KZT 171,675 per month (2015: KZT 160,230) to accumulative pension funds. Pension fund payments are withheld from employees' salaries and included with payroll expenses in the consolidated statement of comprehensive income when they are incurred. The Group has no other retirement benefit obligations.

**Current income tax**

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

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

**Deferred tax**

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

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

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

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Deferred tax (continued)**

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

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

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

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

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

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

**Dividends**

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

**Contingent liabilities and contingent assets**

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

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

**4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

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

**Estimates and assumptions**

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

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

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

**Revaluation of property, plant and equipment**

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

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

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

The appraised current replacement cost has been further compared to the recoverable amount identified based on discounted cash flows model. The cash flows are derived from the budget for the next 5 (five) years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset’s performance of the CGU being tested.

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

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

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

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

Management of the Group believes that fair value of UPS assets approximates their carrying value as at 30 June 2016.

**Recoverability of non-current National Energy System assets (UPS assets)**

The Group assesses assets or cash-generating units (CGU) for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as levels of tariffs for regulated services, discount rates, future capital requirements, operating performance (including volumes of electricity transmission) that are subject to risk and uncertainty. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered to be impaired and is written down to its recoverable amount. In assessing recoverable amount the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

In 2015 the Group determined main impairment indicators, including increasing levels of operational and capital expenditure as a result of significant devaluation of national currency. As a result of assessment of the recoverable amount of the Group’s assets carried out by Group management, no impairment of non-current assets was revealed as at 31 December 2015.

The Group calculates recoverable amount using a discounted cash flow model. The discount rate of 9.84% was derived from the Company’s post-tax weighted average cost of capital. The Development plan of the Group, which is approved for a five-year period and revised on an annual basis, is the primary source of information. It contains forecasts for volumes of electricity transmission, revenues, costs and capital expenditure.

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

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**4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)****Recoverability of non-current National Energy System assets (UPS assets) (continued)**

Various assumptions such as forecasts of tariff levels for regulated services and inflation rates take into account existing prices, foreign exchange rates, other macroeconomic factors and historical trends and variability. The projection of cash flows was limited till 2020. Expenditure cash flows up to 2020 were obtained from the Group’s development plan together with management’s current assessment of probable changes in operational and capital expenditure. Terminal value was estimated by applying forecasted long-term growth rate of 3.5%.

The key assumptions required for the recoverable amount estimation are tariffs for regulated services, volumes of electricity transmission, discount rate and long-term growth rate. The sensitivity of the headroom to changes in the key assumptions was estimated.

For the six months ended 30 June 2016, the Group performed analysis on existence of external and internal impairment indicators of non-current assets. Based on this analysis, management of the Group believes that there is no need to perform impairment test on non-current UPS assets for the purposes of interim consolidated financial statements.

**Accounts receivable**

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated consumer performance are considered. The Group’s estimate of uncollectible overdue amounts is as follows: 31-90 days – 5%, 91-180 days – 20%, 181-360 days – 50% and above 361 days – 100%. Changes in the economy or specific consumer conditions may require adjustments to the allowance for doubtful accounts recorded in the interim consolidated financial statements. In 2014 the Group increased expected repayment period for one of its customers, Uzbekenergo JSC, due to existing practice. Accordingly, accounts receivables from Uzbekenergo JSC were discounted for 1 year using discount rate of 9.5% that is the management’s best estimate of the market discount rate. In December 2015 the Group revised repayment period of the receivables from Uzbekenergo JSC in accordance with repayment schedule proposed by Uzbekenergo JSC due to the fact that Uzbekenergo JSC carried out the timely payment of the receivables in accordance with the debt repayment schedule. Additionally, the Group has discounted future cash flows at 10.01% that is the management’s best estimate of market rate in accordance with the schedule provided. Further details are contained in *Note 10*.

**Taxes**

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

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

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

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

**Fair value of financial instruments**

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

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)****4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)****Fair value of financial instruments (continued)***Bonds issued*

Under the government program “Nurly Zhol”, in June 2016 the Group issued coupon bonds at Kazakhstan Stock Exchange JSC to finance the project “Construction of 500 kW line Ekibastuz – Semey – Ust-Kamenogorsk” and “Construction of 500 kW line Semey – Aktogay – Taldykorgan – Alma” (Note 17).

The coupon interest rate of issued financial instruments is variable and consists of two parts: the inflation rate and fixed margin of 2.9% per annum. Inflation rate is an increase / decrease in the consumer price index published by the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan within the last 12 (twelve) months preceding the 2 (two) months before the start date of the new coupon period. The value of the upper inflation limit is set at 16%, lower - 5%. Current coupon rate is 18.6%.

According to the estimates of the management, coupon rate corresponds to the market rate. As the market rate in relation to the duration of debt financing, at the end of the treatment period repayment of the nominal amount of the bonds can serve as an interest rate on long-term coupon bonds by the Ministry of Finance of the Republic of Kazakhstan - MEUZHKAM. These bonds also consist of two parts: the consumer price index and a fixed margin of 0.1%. Unlike the bonds MEUZHKAM, the Group’s bonds are not secured, so the difference in the amount of fixed margin is due to the risk premium. Thus, the nominal value of issued bonds has been recognized as the fair value.

**5. OPERATING SEGMENT INFORMATION***Operating segments*

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

*Geographic information*

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

<i>In thousands of tenge</i>	<b>For the six months ended</b>	
	<b>30 June 2016</b>	<b>30 June 2015</b>
Revenue from Kazakhstan customers	<b>55,902,397</b>	48,403,045
Revenue from Russian customers	<b>5,241,881</b>	5,052,669
Revenue from Uzbekistan customers	<b>769,555</b>	–
<b>Total revenue per interim consolidated statement of comprehensive income</b>	<b>61,913,833</b>	<b>53,455,714</b>

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

For the six months ended 30 June 2016 the revenue from one consumer of the Group – Samruk-Energo amounted to KZT 9,448,416 thousand, arising from electricity transmission, technical dispatch and balancing of electricity production and consumption services (for the six months ended 30 June 2015: KZT 8,233,836 thousand).

**6. NON-CURRENT ASSETS HELD FOR SALE**

In 2015 the Group made a decision on implementation of the 49.9% stake in the share capital of the associate KazEnergoProvod LLP.

On 6 May 2015 management approved schedule plan of implementation of equity interest. According to the approved schedule plan implementation of equity interest will be realized during the 2016 to the other party KazEnergoProvod LLP by certain independent appraiser of market value or the other party within the framework of the electronic auction. Starting from 6 May 2015, these investments are classified as non-current assets held for sale. According to the accounting policy requirements of long-term assets held for sale are measured at the lower of carrying amount and fair value less costs to sell (Note 3). In order to fulfil this requirement, the independent appraiser assessed, as a result of which the fair value of the stake in KazEnergoProvod LLP was recognized in the amount of KZT 161,511 thousand. Due to the fact that the fair value less costs to sell is less than the book value, which constituted at that date amounted to KZT 161,992 thousand was recognized as a loss in the amount of KZT 481 thousand.

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

**6. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE (continued)**

In June 2016 on the General meeting of shareholders of Kazenergoprovod LLP it was decided to reduce the charter capital up to KZT 230,000 thousand. Appropriate changes were made to the charter documents and re-registration of the legal entity. As a result of this decision, it has been recognized as a reduction of net book value of assets classified as held for sale, till KZT 96,641 thousand.

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

<i>In thousands of tenge</i>	Land	Buildings	UPS assets	Vehicles and other property, plant and equipment	Construction-in-progress	Total
<b>Cost</b>						
<b>At 1 January 2015</b>	1,529,783	13,543,582	802,315,409	30,415,857	13,342,850	861,147,481
Additions	401	-	15,805	467,817	1,822,783	2,306,806
Transfers	2,190	253,982	(2,241,569)	3,027,625	(1,042,228)	-
Transfers to investment property	(46,320)	(910,536)	(159,699)	(433,780)	-	(1,550,335)
Disposals	-	-	(178,168)	(199,237)	(4,131)	(381,536)
Transfers to intangible assets	-	-	-	-	(1,022)	(1,022)
<b>At 30 June 2015</b>	<b>1,486,054</b>	<b>12,887,028</b>	<b>799,751,778</b>	<b>33,278,282</b>	<b>14,118,252</b>	<b>861,521,394</b>
<b>At 1 January 2016</b>	<b>1,528,905</b>	<b>13,225,323</b>	<b>800,129,759</b>	<b>34,280,762</b>	<b>33,926,233</b>	<b>883,090,982</b>
Additions	9,923	1,251	637,675	578,549	7,232,539	8,459,937
Transfers	745	24,185	658,257	190,589	(873,776)	-
Disposals	-	(262)	(263,218)	(206,969)	(16,310)	(486,759)
Transfers to intangible assets	-	-	-	-	(4,497)	(4,497)
<b>At 30 June 2016</b>	<b>1,539,573</b>	<b>13,250,497</b>	<b>801,162,473</b>	<b>34,842,931</b>	<b>40,264,189</b>	<b>891,059,663</b>
<b>Accumulated depreciation and impairment</b>						
<b>At 1 January 2015</b>	-	(1,612,816)	(364,419,798)	(17,315,820)	(355,371)	(383,703,805)
Charge for the period	-	(135,927)	(10,517,833)	(437,831)	-	(11,091,591)
Transfers to investment property	-	351,790	59,123	357,857	-	768,770
Transfers	-	25	293,895	(293,920)	-	-
Disposals	-	-	114,348	196,806	-	311,154
Reversal of impairment	-	-	-	-	30,378	30,378
<b>At 30 June 2015</b>	<b>-</b>	<b>(1,396,928)</b>	<b>(374,470,265)</b>	<b>(17,492,908)</b>	<b>(324,993)</b>	<b>(393,685,094)</b>
<b>At 1 January 2016</b>	<b>-</b>	<b>(1,525,657)</b>	<b>(384,052,747)</b>	<b>(18,481,782)</b>	<b>(331,004)</b>	<b>(404,391,190)</b>
Charge for the period	-	(136,412)	(9,511,931)	(1,069,282)	-	(10,717,625)
Transfers	-	538	13,977	(14,515)	-	-
Disposals	-	132	234,734	179,526	11,052	425,444
Reversal of impairment	-	-	-	-	87,893	87,893
<b>At 30 June 2016</b>	<b>-</b>	<b>(1,661,399)</b>	<b>(393,315,967)</b>	<b>(19,386,053)</b>	<b>(232,059)</b>	<b>(414,595,478)</b>
<b>Net book value</b>						
<b>At 1 January 2015</b>	1,529,783	11,930,766	437,895,611	13,100,037	12,987,479	477,443,676
<b>At 30 June 2015</b>	1,486,054	11,490,100	425,281,513	15,785,374	13,793,259	467,836,300
<b>At 1 January 2016</b>	1,528,905	11,699,666	416,077,012	15,798,980	33,595,229	478,699,792
<b>At 30 June 2016</b>	1,539,573	11,589,098	407,846,506	15,456,878	40,032,130	476,464,185

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

<i>In thousands of tenge</i>	30 June 2016	31 December 2015
Cost	248,193,750	247,164,032
Accumulated depreciation	(80,845,103)	(74,224,315)
<b>Net carrying amount</b>	<b>167,348,647</b>	<b>172,939,717</b>

As at 30 June 2016 and 31 December 2015 fully amortised property, plant and equipment (at cost), but which are still in use amounted to KZT 6,805,373 thousand and KZT 8,480,667 thousand, respectively.

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

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

*Capitalized borrowing costs and issued bonds*

During six months ended 30 June 2016 the Group capitalized the cost of coupon interest on issued bonds (less investment income) amounted to KZT 5,216 thousand (for the six months ended 30 June 2015: nil) (Note 17).

*Construction in progress*

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

*Advances paid for non-current assets*

As at 30 June 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 Ekibastuz – Shulbinskaya GES (Semey) – Ust-Kamenogorsk”, “Construction of 500 kW line Shulbinskaya GES (Semey) – Aktogay – Taldykorgan – Alma” (as at 31 December 2015: the advanced paid for non-current assets mainly represent prepayments made to suppliers for construction work related to the project “Construction of 500 kW line Ekibastuz – Shulbinskaya GES (Semey) – Ust-Kamenogorsk”, “Construction of 500 kW line Shulbinskaya GES (Semey) – Aktogay – Taldykorgan – Alma”).

**8. INVESTMENTS IN ASSOCIATES**

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

<i>In thousands of tenge</i>	<b>30 June 2016</b>	31 December 2015
<b>Statement of financial position</b>		
Current assets	<b>954,398</b>	1,444,651
Non-current assets	<b>19,930,536</b>	20,692,201
Current liabilities	<b>(1,420,079)</b>	(1,722,382)
Non-current liabilities	<b>(18,804,337)</b>	(19,080,393)
<b>Net assets</b>	<b>660,518</b>	1,334,077
Group's share in net assets	<b>132,104</b>	266,815
<b>Carrying amount of the investment</b>	<b>132,104</b>	266,815

<i>In thousands of tenge</i>	<b>For the six months ended</b>	
	<b>30 June 2016</b>	30 June 2015
<b>Statement of comprehensive income</b>		
Revenue	<b>2,135,732</b>	2,939,766
Net (loss)/profit	<b>(489,005)</b>	395,308
<b>Group's share of (loss)/income of an associate recognised in profit or loss</b>	<b>(97,801)</b>	75,994

In May 2016 at the General Meeting of shareholders of Batys Transit, it was decided on the allocation of the net income by the end of 2015 in the form of dividends in the amount of KZT 6,151.57 per share. As of 30 June 2016 the Group recognized as receivables on dividends from Batys Transit in the amount of KZT 36,910 thousand (Note 11).

As of 30 June 2016 and 31 December 2015, the associates had no contingent liabilities or capital commitments.

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

**9. INVENTORIES**

<i>In thousands of tenge</i>	<b>30 June 2016</b>	31 December 2015
Spare parts	<b>1,488,472</b>	1,242,830
Raw and other materials	<b>1,179,841</b>	852,345
Fuel and lubricants	<b>289,939</b>	125,711
Other inventory	<b>52,056</b>	28,894
Less: allowance for obsolete inventories	<b>(246,793)</b>	(267,427)
	<b>2,763,515</b>	1,982,353

Movement in the allowance for obsolete inventories was as follows:

<i>In thousands of tenge</i>	<b>2016</b>	2015
<b>At 1 January</b>	<b>267,427</b>	247,478
Charge for the period	-	109,927
Write-off	<b>(9,882)</b>	-
Reversal (Note 23)	<b>(10,752)</b>	-
<b>At 30 June</b>	<b>246,793</b>	357,405

**10. TRADE ACCOUNTS RECEIVABLE**

<i>In thousands of tenge</i>	<b>30 June 2016</b>	31 December 2015
Trade accounts receivable	<b>18,075,960</b>	25,559,459
Less: allowance for doubtful accounts receivable	<b>(1,398,573)</b>	(1,452,512)
Less: discount of accounts receivable	<b>(105,870)</b>	(675,571)
	<b>16,571,517</b>	23,431,376

Movement in the allowance for doubtful receivables was as follows:

<i>In thousands of tenge</i>	<b>2016</b>	2015
<b>At 1 January</b>	<b>1,452,512</b>	3,445,256
Charge for the period	<b>27,948</b>	6,353,427
Write-off	<b>(520)</b>	(330)
Reversal	<b>(81,367)</b>	(132,886)
<b>At 30 June</b>	<b>1,398,573</b>	9,665,467

As of 30 June 2016 trade receivables included receivables from the consumer Uzbekenergo JSC in the amount of KZT 11,379,108 thousand (31 December 2015: KZT 19,495,495 thousand). In 2014, the Group estimated that the average actual repayment period of receivables from Uzbekenergo JSC takes 1 (one) year. Accordingly, the Group discounted future cash flows from Uzbekenergo JSC.

In December 2015, the Group revised its expectations regarding the recoverability of the receivables from Uzbekenergo JSC and reversed the allowance for doubtful accounts in the amount of KZT 17,107,925 thousand due to the fact that the Uzbekenergo JSC carried out the timely payment of the receivables in accordance with the debt repayment schedule that was proposed by Uzbekenergo JSC. Additionally, the Group has discounted future cash flows in accordance with the schedule provided.

As of 30 June 2016, the discount on accounts receivable comprised KZT 105,870 thousand (31 December 2015: KZT 675,571 thousand). During the six months ended 30 June 2016, the Group recognized amortization of discount in the amount of KZT 577,716 thousand as a part of the finance income in the interim consolidated statement of comprehensive income.



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

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

The ageing analysis of trade receivables is as follows:

<i>In thousands of tenge</i>	Total	Neither past due nor impaired	Past due but not impaired			Above 271 days
			30-90 days	91-180 days	181-270 days	
<b>30 June 2016</b>	<b>16,571,517</b>	<b>5,988,161</b>	<b>13,693</b>	<b>32,426</b>	<b>20,961</b>	<b>10,516,276</b>
31 December 2015	23,431,376	4,765,585	200,833	141,647	5,288,501	13,034,810

Trade receivables were denominated in the following currencies:

<i>In thousands of tenge</i>	30 June 2016	31 December 2015
US dollars	11,273,344	19,693,177
Tenge	4,676,756	3,247,617
Russian rouble	621,417	490,582
	<b>16,571,517</b>	<b>23,431,376</b>

**11. OTHER FINANCIAL ASSETS**

<i>In thousands of tenge</i>	30 June 2016	31 December 2015
<b>Long-term other financial assets</b>		
Bonds of Batys Transit	–	868,269
Bank deposits	–	5,100,150
	–	5,968,419
<b>Short-term other financial assets</b>		
Bank deposits	79,763,128	65,509,892
Bonds of Batys Transit	868,269	–
Interest accrued on bonds of Batys Transit	38,737	62,298
Dividends receivable (Note 8)	36,910	–
	<b>80,707,044</b>	<b>65,572,190</b>
<b>Total other financial assets</b>	<b>80,707,044</b>	<b>71,540,609</b>

In 2007-2009 the Group acquired bonds of Batys Transit JSC, an associate (Note 8), an entity listed on the Kazakhstan Stock Exchange. The interest rate on the bonds is 14.9%. The bonds are classified as available for sale investments. Fair value is the price to sell an asset or transfer a liability, and therefore an exit price, not an entry price. The Group also has investments into Batys Transit JSC which have been written off to zero due to accumulated losses of Batys Transit (Note 8). 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 entered into a contract with Batys Transit on redemption of its bonds at a nominal value of 100 tenge per share. According to the agreements redemption of bonds of JSC "Batys Transit" is planned at the end of 2016.

In January 2014 the Group placed long-term deposit with ATF Bank JSC amounting to USD 15,000 thousand (equivalent of KZT 5,079,900 thousand) with fixed interest rate of 4.5% per annum till 2017. In January 2016 the deposit was reclassified to the short-term. The balance as at 30 June 2016 and 31 December 2015 there was no accrued interest receivable.

For the six months ended 30 June 2016 and 2015 short-term deposits include the accrued interest income in the amount of KZT 183,845 thousand and KZT 114,722 thousand, respectively.

Other financial assets were denominated in the following currencies:

<i>In thousands of tenge</i>	Interest rate	30 June 2016	31 December 2015
US dollars	4% – 6%	71,936,110	68,367,375
Tenge	10% - 16%	8,770,934	3,173,234
		<b>80,707,044</b>	<b>71,540,609</b>

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

**12. RESTRICTED CASH**

<i>In thousands of tenge</i>	<b>30 June 2016</b>	31 December 2015
Cash on reserve accounts	<b>2,299,685</b>	2,204,660
Cash on debt service accounts	<b>143</b>	-
Other cash restricted on current account	<b>152,996</b>	144,969
	<b>2,452,824</b>	2,349,629

As at 30 June 2016 and 31 December 2015 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 16*), 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 30 June 2016 and 31 December 2015, restricted cash was denominated in the following currencies:

<i>In thousands of tenge</i>	<b>30 June 2016</b>	31 December 2015
US dollar	<b>2,299,828</b>	2,204,660
Tenge	<b>152,996</b>	144,969
	<b>2,452,824</b>	2,349,629

**13. OTHER CURRENT ASSETS**

<i>In thousands of tenge</i>	<b>30 June 2016</b>	31 December 2015
Deferred expenses	<b>136,559</b>	65,009
Advances paid for goods and services	<b>128,094</b>	23,155
Loans to employees	<b>20,693</b>	22,623
Other receivables from fines and penalties	<b>221,907</b>	230,955
Other receivables for property, plant and equipment and constructions	<b>180,123</b>	98,249
Other	<b>78,599</b>	26,399
Less: provision for impairment of other current assets	<b>(150,937)</b>	(114,200)
	<b>615,038</b>	352,190

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

<i>In thousands of tenge</i>	<b>2016</b>	2015
<b>At 1 January</b>	<b>114,200</b>	97,987
Charge for the period	<b>42,562</b>	7,213
Reversal	<b>(3,523)</b>	(49,849)
Utilized	<b>(2,302)</b>	(233)
<b>At 30 June</b>	<b>150,937</b>	55,118

**14. CASH AND CASH EQUIVALENTS**

<i>In thousands of tenge</i>	<b>30 June 2016</b>	31 December 2015
Short-term deposits	<b>9,218,710</b>	5,036,000
Current accounts with banks, in Tenge	<b>3,093,705</b>	2,551,406
Current accounts with banks, in foreign currencies	<b>2,236,332</b>	1,434,716
Cash at special accounts	<b>6,573</b>	5,216
Cash on hand	<b>2,671</b>	3,424
	<b>14,557,991</b>	9,030,762

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

**14. CASH AND CASH EQUIVALENTS (continued)**

At 30 June 2016 and 31 December 2015, cash and cash equivalents were stated in the following currencies:

<i>In thousands of tenge</i>	<b>30 June 2016</b>	31 December 2015
Tenge	<b>12,321,659</b>	7,596,046
US dollar	<b>1,575,540</b>	393,010
Euro	<b>400,307</b>	1,040,794
Russian rouble	<b>259,948</b>	307
Others	<b>537</b>	605
	<b>14,557,991</b>	9,030,762

**15. EQUITY**

As 30 June 2016 and 31 December 2015 share capital of the Company comprised of 260,000,000 shares for the total amount of KZT 126,799,554 thousand that were issued and fully paid.

The Group placed 25,999,999 common shares at a price of KZT 505 at the Kazakhstan stock exchange under the People’s IPO program. On 19 December 2014 the contribution to share capital of KZT 13,129,999 thousand was received. As of 30 June 2016 and 31 December 2015 authorized capital is presented net of the cost of the consulting services related to the issue of shares under People’s IPO of KZT 692,568 thousand.

**Dividends**

On 16 October 2015 on the General Shareholders meeting the Group declared dividends for first half of the 2015 year, in the amount of KZT 2,444,000 thousand that is 40,01% of net income, or 9,4 tenge per common share. In December 2015 an agreement was concluded on the postponement of payment of dividends to a major shareholder –Samruk-Kazyna JSC in the amount of KZT 2,199,600 thousand till 30 December 2016. The payment of dividends to other shareholders was implemented in October 2015.

**Earnings per share (“EPS”)**

Basic and diluted EPS are calculated by dividing net income for the period by the weighted average number of ordinary shares outstanding during the period. The Group had weighted average ordinary shares outstanding in the amount of 260,000,000 shares during six months ended 30 June 2016 (for the six months ended 30 June 2015: 260,000,000 shares). For the six months ended 30 June 2016 and 2015 basic and diluted EPS comprised 62.32 tenge and 23.49 tenge, respectively.

**Book value per share**

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

<i>In thousand tenge</i>	<b>30 June 2016</b>	31 December 2015
Total assets	<b>609,000,067</b>	595,336,614
Less: intangible assets	<b>(891,143)</b>	(1,036,367)
Less: total liabilities	<b>(251,821,076)</b>	(254,360,000)
<b>Net assets</b>	<b>356,287,848</b>	339,940,247
Number of ordinary shares	<b>260,000,000</b>	260,000,000
<b>Book value per ordinary share, tenge</b>	<b>1.370</b>	1.307

**Asset revaluation reserve**

At 30 June 2016 and 31 December 2015 the revaluation reserve represents revaluation surplus recognized as a result of revaluation of Group’s UPS assets on 1 June 2014. Transfer of asset revaluation reserve into retained earnings, upon disposal of PPE, for the six months ended 30 June 2016 amounted to KZT 162,682 thousand (for the six months ended 30 June 2015: KZT 228,391 thousand).

**Other reserves**

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

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

**16. BORROWINGS**

<i>In thousands of tenge</i>	<b>30 June 2016</b>	31 December 2015
European Bank of Reconstruction and Development (“EBRD”)	<b>91,246,024</b>	97,076,928
International Bank of Reconstruction and Development (“IBRD”)	<b>70,465,274</b>	74,153,611
	<b>161,711,298</b>	171,230,539
Less: current portion of loans repayable within 12 months	<b>(23,053,145)</b>	(22,090,879)
	<b>138,658,153</b>	149,139,660

At 30 June 2016 and 31 December 2015 the accrued and unpaid interest amounts to KZT 1,383,898 thousand and KZT 1,421,081 thousand, respectively.

At 30 June 2016 and 31 December 2015 the unamortized portion of loan origination fees amounts to KZT 774,303 thousand and KZT 813,886 thousand, respectively.

Loans were denominated in the following currencies:

<i>In thousands of tenge</i>	<b>30 June 2016</b>	31 December 2015
In US dollars	<b>105,301,443</b>	110,952,763
In euro	<b>56,409,855</b>	60,277,776
	<b>161,711,298</b>	171,230,539

**“Kazakhstan National Electricity Transmission Rehabilitation Project”**

In 1999 the Group received the following credit line facilities for the purpose of implementation of the “Kazakhstan National Electricity Transmission Rehabilitation Project”, USD 140,000 thousand from IBRD for the 20 (twenty) years period, secured by a guarantee of the Government of the Republic of Kazakhstan. The loan is repayable by annual instalments commencing 2005. An interest at LIBOR base rate plus general spread is payable semi-annually. The outstanding balances as at 30 June 2016 and 31 December 2015 are USD 43,940 thousand (equivalent to KZT 14,880,720 thousand) and USD 49,540 thousand (equivalent to KZT 16,844,095 thousand), respectively.

**“North-South Electricity Transmission Project”**

In 2005, for the purpose of implementation of the Phase 2 of the “North-South Electricity Transmission Project”, the Group received from IBRD a credit line facility of USD 100,000 thousand provided by IBRD for a period of 17 (seventeen) years of which first 5 (five) years are a grace period. This credit line facility is secured by a guarantee of the Government of the Republic of Kazakhstan. An interest at LIBOR dollar rate plus general spread is payable semi-annually. In 2011 the non-disbursed part of this IBRD credit line in the amount of USD 1,918 thousand was cancelled due to the fact that actual costs incurred within this project were less than expected. The outstanding balances as at 30 June 2016 and 31 December 2015 are USD 53,051 thousand (equivalent to KZT 17,966,350 thousand) and USD 57,129 thousand (equivalent to KZT 19,424,481 thousand), respectively.

**“Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2”**

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

- (a) two credit-line facilities of euro 127,500 thousand and euro 75,000 thousand from EBRD for 15 (fifteen) years, of which the first 4 (four) years are a grace period. An interest at the interbank six months EURIBOR rate plus a 3.85% margin is payable semi-annually. The outstanding balances as at 30 June 2016 and 31 December 2015 are euro 120,763 thousand (equivalent to KZT 45,551,645 thousand) and euro 129,389 thousand (equivalent to KZT 48,062,645 thousand), respectively;
- (b) a credit line facility of euro 47,500 thousand from EBRD for 12 (twelve) years, of which the first 4 (four) years are a grace period. An interest at the interbank six months EURIBOR rate plus a 3.55% margin is payable semi-annually. The outstanding balances as at 30 June 2016 and 31 December 2015 are euro 25,998 thousand (equivalent to KZT 9,806,584 thousand) and euro 29,248 thousand (equivalent to KZT 10,864,522 thousand), respectively;

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)****16. BORROWINGS (continued)****“Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2”(continued)**

- (c) a credit line facility of euro 5,000 thousand from EBRD for 9 (nine) years, of which the first 4 (four) years are a grace period. An interest at the interbank six months EURIBOR rate plus a 2.75% margin is repayable semi-annually. The outstanding balances as at 30 June 2016 and 31 December 2015 are euro 1,207 thousand (equivalent to KZT 455,440 thousand) and euro 1,811 thousand (equivalent to KZT 672,763 thousand), respectively.

In November 2013 the Group concluded additional agreement, according to which the second credit line was decreased from euro 75,000 thousand to euro 53,443 thousand.

In December 2014 the unused part of loan from the European Reconstruction and Development Bank amounted to euro 5,028 thousand was cancelled due to the fact that actual expenses were lower than expected.

**“Moinak Electricity Transmission Project”**

In 2009, for the realization of the “Moinak Electricity Transmission Project” a credit line facility from IBRD of USD 48,000 thousand was opened for 25 (twenty five) years, of which the first 5 (five) years are a grace period. The credit line facility is secured by the guarantee of the Government of the Republic of Kazakhstan. An interest rate is USD LIBOR rate plus fixed spread is payable semi-annually. In May 2013 unused portion of the credit line from the IBRD in the amount of USD 3,274 thousand was cancelled due to the fact that the amount of actual expenses incurred in the course of the project was less than expected. The outstanding balances as at 30 June 2016 and 31 December 2015 are USD 41,372 thousand (equivalent to KZT 14,010,922 thousand) and USD 42,490 thousand (equivalent to KZT 14,446,957 thousand), respectively.

**“Construction of the Alma 500 kW substation”**

In 2010 for the realization of the project “Construction of the Alma 500 kW substation with connection to UPS of Kazakhstan with the voltage of 500, 200 kW” the Group received a credit line facility of USD 78,000 thousand from IBRD for 25 (twenty five) years, of which the first 5 (five) years are a grace period. The credit line facility is secured by a guarantee of the Government of the Republic of Kazakhstan. An interest at LIBOR dollar rate plus fixed spread at 1.15% is repayable semi-annually. In July 2014, undeveloped part of the credit line from IBRD in the amount of USD 6,644 thousand has been cancelled due to the fact that the amount of actual costs incurred was less than during the project than expected. The outstanding balances as at 30 June 2016 and 31 December 2015 are USD 69,572 thousand (equivalent to KZT 23,561,407 thousand) and USD 69,572 thousand (equivalent to KZT 23,665,329 thousand), respectively.

**“Ossakarovka Transmission Rehabilitation Project”**

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

- (a) two credit-line facilities of USD 77,293 thousand and USD 44,942 thousand, from EBRD for a 15 (fifteen) years. An interest at the interbank six months LIBOR rate plus a 3.95% margin is payable semi-annually. The outstanding balances as at 30 June 2016 and 31 December 2015 are USD 82,632 thousand (equivalent to KZT 27,984,064 thousand) and USD 86,763 thousand (equivalent to KZT 29,500,398 thousand), respectively;
- (b) a credit-line facility of USD 17,973 thousand, from EBRD for 12 (twelve) years. An interest at the interbank six months LIBOR rate plus a 3.70% margin is payable semi-annually. The outstanding balances as at 30 June 2016 and 31 December 2015 are USD 10,669 thousand (equivalent to KZT 3,613,278 thousand) and USD 11,431 thousand (equivalent to KZT 3,886,802 thousand), respectively.

In 2011, for execution of “Reconstruction of the Ossakarovka 220 kW power line” the Group received from EBRD credit lines for the amounts of USD 12,900 thousand (A2, B1b) and USD 1,900 thousand (B2b). The credit lines were provided for 12 (twelve) years, of which the first 3 (three) years is a grace period. An interest at the interbank six months LIBOR rate plus 3.95% (A2, B1b) and 3.70% (B2b) margin is payable semi-annually. The outstanding balances as at 30 June 2016 and 31 December 2015 are USD 9,660 thousand (equivalent to KZT 3,271,293 thousand) and USD 10,168 thousand (equivalent to KZT 3,457,055 thousand), respectively.

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

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

**17. BONDS PAYABLE**

<i>In thousands of tenge</i>	<b>30 June 2016</b>	31 December 2015
The nominal value of issued bonds	<b>3,936,071</b>	-
Accrued coupon interest	<b>69,144</b>	-
Transaction costs	<b>(12,721)</b>	-
	<b>3,992,494</b>	-

Under the State Program “Nurly Zhol” approved on 6 April 2016 the Group shall issue coupon bonds in the amount of KZT 47,500,000 thousand in order to finance the projects “Construction of 500 kW line Ekibastuz – Semey – Ust’-kamenogorsk” and “Construction of 500 kW line Semey – Ak-togay - Taldykorgan – Alma”. All of the bonds under this program will be purchased by Unified Pension Saving Fund.

On 30 June 2016 the Group issued coupon bonds in the amount of KZT 3,936,071 thousand under floating interest rate equal to the inflation rate in Republic of Kazakhstan plus 2.9% with the maturity in 2031. The coupon rate for the first coupon period totaled to 18.6% per annum. The cash received was temporary put on short-term bank deposit.

The Group plans to issue the rest of the bonds in July-August 2016 under the same terms (*Note 31*).

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

<i>In thousands of tenge</i>	<b>30 June 2016</b>	31 December 2015
<b>Long-term accounts payable</b>		
Accounts payable for property, plant and equipment and construction works	<b>173,548</b>	-
	<b>173,548</b>	-
<b>Short-term accounts payable</b>		
Accounts payable for electricity purchased	<b>5,280,267</b>	4,507,777
Accounts payable for property, plant and equipment and construction works	<b>4,286,095</b>	8,091,105
Accounts payable for inventories, works and services	<b>617,559</b>	926,262
	<b>10,183,921</b>	13,525,144
	<b>10,357,469</b>	13,525,144

As at 30 June 2016 and 31 December 2015 trade and other accounts payable are stated in the following currencies:

<i>In thousands of tenge</i>	<b>30 June 2016</b>	31 December 2015
Tenge	<b>9,133,756</b>	12,613,812
Russian rouble	<b>1,203,438</b>	782,163
US dollar	<b>16,933</b>	64,961
Euro	<b>3,342</b>	64,208
	<b>10,357,469</b>	13,525,144

**19. CONSTRUCTION OBLIGATIONS**

On November 28, 2013 in accordance with the decision of the Board of Samruk-Kazyna, the Group is committed to build a kindergarten in the city of Astana and pass it to the Akimat of Astana at the end of construction. In 2014, the Group has estimated the costs of building and signed a contract with the construction company. Accordingly, the Group recognized a liability for construction in total amount of KZT 683,430 thousand and the corresponding distribution to shareholders. Completion of the construction of the kindergarten is planned in 2016.

**20. OTHER CURRENT LIABILITIES**

<i>In thousands of tenge</i>	<b>30 June 2016</b>	31 December 2015
Due to employees	<b>1,262,282</b>	555,197
Other	<b>195,906</b>	173,690
	<b>1,458,188</b>	728,887

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

**21. REVENUE**

<i>In thousands of tenge</i>	<b>Three months ended</b>		<b>Six months ended 30 June</b>	
	<b>30 June 2016</b>	30 June 2015	<b>30 June 2016</b>	30 June 2015
Electricity transmission	<b>18,441,087</b>	15,992,624	<b>38,045,023</b>	36,656,462
Technical dispatch	<b>4,536,117</b>	3,456,225	<b>9,641,169</b>	7,593,259
Balancing of electricity production and consumption	<b>3,079,049</b>	2,996,232	<b>6,607,934</b>	6,559,194
Revenue from sales of purchased electricity	<b>2,570,953</b>	590,603	<b>5,017,887</b>	763,017
Revenue from electricity sales for compensation of the interstate balances of electricity flows	<b>887,719</b>	761,793	<b>1,691,978</b>	1,464,244
Revenue from power regulation services	-	-	<b>769,555</b>	-
Other	<b>382,664</b>	330,196	<b>731,023</b>	627,908
	<b>29,897,589</b>	24,127,673	<b>62,504,569</b>	53,664,084
Discounts to consumers	<b>(462,820)</b>	(144,275)	<b>(590,736)</b>	(208,370)
	<b>29,434,769</b>	23,983,398	<b>61,913,833</b>	53,455,714

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

During the six months ended 30 June 2016, the Group recognised revenue from power regulation services to Uzbekenergo JSC for 2015 in the amount of KZT 769,555 thousand as a result of agreement reached with Uzbekenergo JSC.

For the six months ended 30 June 2016 the revenue from one consumer, Samruk-Energo Group, amounted to KZT 9,448,416 thousand, arising from transmission, technical dispatching and balancing services.

For the six months ended 30 June 2015 the revenue from one consumer, Samruk-Energo Group, amounted to KZT 8,233,836 thousand, arising from transmission, technical dispatching and balancing services.

**22. COST OF SALES**

<i>In thousands of tenge</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 June 2016</b>	30 June 2015	<b>30 June 2016</b>	30 June 2015
Depreciation and amortization	<b>5,286,651</b>	5,469,873	<b>10,572,929</b>	10,897,401
Technical losses of electric energy	<b>2,812,919</b>	3,603,317	<b>7,709,174</b>	9,823,160
Payroll expenses and related taxes	<b>2,724,924</b>	2,837,100	<b>5,474,902</b>	5,811,287
Cost of purchased electricity	<b>2,497,531</b>	492,342	<b>4,940,891</b>	648,269
Cost of purchased electricity for compensation of interstate balances of electricity flows	<b>1,860,785</b>	2,370,333	<b>4,025,923</b>	4,189,653
Repair and maintenance expenses	<b>1,193,439</b>	1,215,710	<b>1,685,235</b>	2,054,528
Inventories	<b>320,795</b>	301,759	<b>436,331</b>	407,759
Security services	<b>247,548</b>	235,680	<b>495,062</b>	471,227
Other	<b>517,797</b>	497,863	<b>876,406</b>	834,321
	<b>17,462,389</b>	17,023,977	<b>36,216,853</b>	35,137,605

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

**23. GENERAL AND ADMINISTRATIVE EXPENSES**

<i>In thousands of tenge</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 June 2016</b>	30 June 2015	<b>30 June 2016</b>	30 June 2015
Taxes other than income tax	<b>1,262,948</b>	787,988	<b>2,507,329</b>	2,517,027
Payroll expenses and related taxes	<b>799,335</b>	768,187	<b>1,651,918</b>	1,372,801
Depreciation and amortization	<b>131,892</b>	148,617	<b>264,021</b>	309,220
Consulting services	<b>104,985</b>	50,653	<b>132,744</b>	84,508
Rent expenses	<b>54,048</b>	41,627	<b>54,568</b>	48,176
Business trip expenses	<b>40,305</b>	31,086	<b>65,692</b>	56,984
Insurance	<b>32,583</b>	25,909	<b>87,871</b>	60,932
(Reversal)/accrual of provision for obsolete inventory (Note 9)	<b>23,495</b>	131,730	<b>(10,752)</b>	109,927
Utilities	<b>17,370</b>	18,374	<b>49,581</b>	53,591
Trainings	<b>16,285</b>	30,363	<b>21,391</b>	42,689
Materials	<b>15,316</b>	18,788	<b>33,950</b>	33,591
Security services	<b>9,433</b>	9,354	<b>18,867</b>	18,146
Bank services	<b>6,189</b>	11,370	<b>10,888</b>	19,489
Communication services	<b>5,763</b>	5,417	<b>12,209</b>	11,618
Repair expenses	<b>4,862</b>	10	<b>4,862</b>	23
(Reversal)/accrual of provision for doubtful receivables and impairment of advances (Notes 10 and 13)	<b>(65,996)</b>	5,656,656	<b>(14,380)</b>	6,177,905
Other	<b>145,527</b>	199,173	<b>347,131</b>	376,765
	<b>2,604,340</b>	7,935,302	<b>5,237,890</b>	11,293,392

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

<i>In thousands of tenge</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 June 2016</b>	30 June 2015	<b>30 June 2016</b>	30 June 2015
<b>Finance income</b>				
Interest income from deposits, current accounts and quoted bonds	<b>1,282,488</b>	603,909	<b>2,482,836</b>	1,196,304
Amortization of discount on accounts receivable	<b>261,933</b>	7,421	<b>648,335</b>	341,861
Other	<b>949</b>	(1,984)	<b>2,004</b>	2,956
	<b>1,545,370</b>	609,346	<b>3,133,175</b>	1,541,121
<b>Finance costs</b>				
Interest expense	<b>1,212,463</b>	701,255	<b>2,485,934</b>	1,420,917
Commission on bank guarantees	<b>373,766</b>	206,209	<b>417,070</b>	228,301
Amortization of loan origination fees	<b>22,492</b>	21,967	<b>44,623</b>	43,903
Discount in short-term trade receivables	–	(131,245)	–	–
	<b>1,608,721</b>	798,186	<b>2,947,627</b>	1,693,121

**25. FOREIGN EXCHANGE GAIN / (LOSS), NET**

On 20 August 2015 National Bank of Republic of Kazakhstan and Government of Republic of Kazakhstan decided to shift to freely floating currency exchange rate as a part of implementation of inflation targeting program. As a consequence of change of exchange rate of Tenge for the six months ended 30 June 2016, the Group incurred net foreign exchange loss in the amount of KZT 1,015,122 thousand (for the six months ended 30 June 2015: net foreign exchange gain in the amount of KZT 2,199,469 thousand).



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

**26. OTHER INCOME**

<i>In thousands of tenge</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 June 2016</b>	30 June 2015	<b>30 June 2016</b>	30 June 2015
Income from transfer of granted assets	<b>717,224</b>	20,726	<b>773,035</b>	20,746
Income from materials disposal	<b>21,425</b>	4,759	<b>43,183</b>	18,522
Income from rental of buildings	<b>18,546</b>	16,862	<b>36,597</b>	32,811
Fines and penalties	<b>13,236</b>	42,157	<b>44,438</b>	68,421
Other	<b>7,287</b>	(20,124)	<b>15,083</b>	–
	<b>777,718</b>	64,380	<b>912,336</b>	140,500

Other income for the six months ended 30 June 2016 is mainly represented by the income from transfer of granted items of property, plant and equipment, including substation and transmission lines, from Group’s consumer Caspian Pipeline Consortium – K JSC and Altaypollimetally LLP in the amount of KZT 762,033 thousand.

**27. INCOME TAX EXPENSE**

<i>In thousands of tenge</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 June 2016</b>	30 June 2015	<b>30 June 2016</b>	30 June 2015
<b>Current income tax</b>				
Current income tax expense	<b>1,160,335</b>	523,727	<b>1,178,624</b>	1,723,174
Adjustments to current income tax of the previous year	<b>(1,052)</b>	(103,460)	<b>7,635</b>	(104,160)
<b>Deferred tax</b>				
Deferred income tax expense	<b>1,370,336</b>	179,411	<b>2,960,062</b>	1,378,693
<b>Total income tax expense reported in the interim consolidated statement of comprehensive income</b>	<b>2,529,619</b>	599,678	<b>4,146,321</b>	2,997,707

The corporate income tax rate in the Republic of Kazakhstan is 20% in 2016 and 2015.

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

<i>In thousands of tenge</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 June 2016</b>	30 June 2015	<b>30 June 2016</b>	30 June 2015
Profit/(loss) before income tax expense	<b>12,281,424</b>	(2,614,507)	<b>20,348,698</b>	9,106,045
Tax at statutory income tax rate of 20%	<b>2,456,285</b>	(522,901)	<b>4,069,740</b>	1,821,209
Adjustments to current income tax of the previous year	<b>(1,052)</b>	(103,460)	<b>7,635</b>	(104,160)
Expenses related to electricity transmission for green energy producers	<b>87,179</b>	–	<b>87,179</b>	–
Accrual of provision for non-residents	<b>6,919</b>	1,117,477	<b>6,919</b>	1,232,037
Other non-deductible expenses	<b>(19,712)</b>	108,562	<b>(25,152)</b>	48,621
<b>Income tax expense reported in the profit or loss</b>	<b>2,529,619</b>	599,678	<b>4,146,321</b>	2,997,707

Tax effect on temporary differences leading to deferred income tax assets and liabilities at 30 June 2016 and 31 December 2015 is provided below:

<i>In thousands of tenge</i>	<b>30 June 2016</b>	<b>Interim consolidated statement of financial position</b>			<b>Interim consolidated statement of comprehensive income For the six months ended</b>	
		31 December 2015	30 June 2015	1 January 2015	<b>30 June 2016</b>	30 June 2015
Tax losses carried forward	–	3,472,159	–	1,201,812	<b>(3,472,159)</b>	(1,201,812)
Accounts receivable	<b>122,936</b>	263,044	74,611	129,591	<b>(140,108)</b>	(54,980)
Accrued liabilities	<b>195,464</b>	127,625	222,204	305,230	<b>67,839</b>	(83,026)
Property, plant and equipment	<b>(67,952,765)</b>	(68,537,131)	(68,466,470)	(68,427,595)	<b>584,366</b>	(38,875)
<b>Deferred tax expense</b>					<b>(2,960,062)</b>	(1,378,693)
<b>Net deferred tax liabilities</b>	<b>(67,634,365)</b>	(64,674,303)	(68,169,655)	(66,790,962)	–	–

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

**27. INCOME TAX EXPENSE (continued)**

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

<i>In thousands of Tenge</i>	<b>30 June 2016</b>	31 December 2015
Deferred tax assets	1,281	2,839
Deferred tax liabilities	<b>(67,635,646)</b>	(64,677,142)
<b>Net deferred tax liabilities</b>	<b>(67,634,365)</b>	(64,674,303)

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

**28. 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 transactions from related parties as at 30 June 2016 and 31 December 2015:

<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	<b>2016</b>	<b>1,731,729</b>	<b>1,503,418</b>
	2015	1,873,643	1,734,326
Associates of Samruk-Kazyna	<b>2016</b>	<b>452,254</b>	<b>1,570,259</b>
	2015	322,623	205,367
Entities under joint control of Samruk-Kazyna	<b>2016</b>	<b>188,691</b>	<b>796,706</b>
	2015	314,628	686,464
Associates of the Group	<b>2016</b>	<b>16,774</b>	<b>6,613</b>
	2015	47,602	11,883

The Group had the following transactions with related parties for the six months period ended 30 June 2016 and 2015:

<i>In thousands of tenge</i>		<b>Sales to related parties</b>	<b>Purchases from related parties</b>
Subsidiaries of Samruk-Kazyna Group	<b>2016</b>	<b>10,889,608</b>	<b>6,756,496</b>
	2015	11,230,717	4,139,465
Associated entities of Samruk-Kazyna	<b>2016</b>	<b>3,758,074</b>	<b>1,581,015</b>
	2015	2,590,320	577,248
Entities under joint control of Samruk-Kazyna	<b>2016</b>	<b>3,300,731</b>	<b>1,404,840</b>
	2015	1,313,713	5,185,317
Associates of the Group	<b>2016</b>	<b>158,548</b>	<b>46,878</b>
	2015	210,800	47,053

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

As at 30 June 2016 the Group’s borrowings of KZT 70,771,400 thousand were guaranteed by the Government of the Republic of Kazakhstan (31 December 2015: KZT 75,266,975 thousand).

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

**28. TRANSACTIONS WITH RELATED PARTIES (continued)**

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 14.9%. 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. As of 30 June 2016 the carrying value of Batys Transit bonds comprised KZT 868,269 thousand (31 December 2015: KZT 868,269 thousand).

Interest income accrued on bonds of Batys Transit JSC, the associate, amounted to KZT 59,290 thousand for the six months ended 30 June 2016 (six months ended 30 June 2015: KZT 20,873 thousand).

As of 30 June 2016 the Group had outstanding accounts receivable from Balkhash TES JSC for the sale of property, plant and equipment in the amount of KZT 176,244 thousand (31 December 2015: KZT 168,654 thousand) presented within other non-current assets. In accordance with sales agreement Balkhash TES JSC will repay the outstanding balance in December 2018. As at 30 June 2016 the discount on accounts receivable from Balkhash TES JSC comprised KZT 43,606 thousand (31 December 2015: KZT 51,197 thousand). For the six months ended 30 June 2016 the amortization of discount on accounts receivable comprised KZT 7,590 thousand (for the six months ended 30 June 2015: KZT 6,910 thousand).

On 30 September 2015 the Group has sold buildings and constructions with equipment and land located in Astana city to its related party Kazpost JSC for KZT 2,161,476 thousand. In accordance with sales agreement Kazpost JSC will repay the outstanding balance by equal monthly payments until June 2027. Accordingly, the Group discounted the future cash flows using discount rate of 10.37%, which is the Group Management’s best estimate of market rate. As of 30 June 2016 the discount on accounts receivable from Kazpost JSC comprised KZT 848,608 thousand. As of 30 June 2016 the receivable net of discount comprised KZT 1,296,493 thousand, of which KZT 1,116,370 thousand was accounted for within long-term receivables from related parties. For the six months ended 30 June 2016 the Group recognized income from amortization of discount on long-term receivables from Kazpost JSC in the amount of KZT 63,029 thousand.

Total compensation to key management personnel included in personnel costs in the interim consolidated statement of comprehensive income was KZT 122,370 thousand for the six months ended 30 June 2016 (for the six months ended 30 June 2015: KZT 313,071 thousand). Compensation to key management personnel mainly consists of contractual salary and performance bonus based on operating results.

**29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

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

**Interest rate risk**

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

The Group limits its interest rate risk by monitoring changes in interest rates in the currencies in which the borrowings are denominated.

The following table demonstrates the sensitivity of the Group’s profit before tax to a reasonably possible change in interest rates with all other variables held constant.

<i>In thousands of tenge</i>	<b>Increase/(decrease) in basis points*</b>	<b>Effect on profit before tax</b>
<b>For the six months ended 30 June 2016</b>		
Libor	50/(12)	(526,440) / 126,346
Euribor	25/(25)	(139,534) / 139,534
<b>For the six months ended 30 June 2015</b>		
Libor	2 / (2)	(12,917) / 12,917
Euribor	7 / (7)	(25,115) / 25,115

\* 1 basis point = 0.01%.

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

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

**29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Foreign currency risk**

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

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

<i>In thousands of tenge</i>	<b>Increase in exchange rate</b>	<b>Effect on profit before tax</b>
<b>At 30 June 2016</b>		
US dollar	60%/(20%)*	(10,940,132) / 3,646,711
Euro	60%/(20%)**	(33,607,734) / 11,202,578
<b>At 31 December 2015</b>		
US dollar	60%/(20%)*	(12,215,701)/4,071,900
Euro	60%/(20%)**	(35,580,714)/11,860,238

\* In absolute terms, the increase / decrease in the exchange rate of KZT against the US dollar is 203.2 / (67.73) KZT;

\*\* In absolute terms, the increase / decrease in KZT exchange rate against the euro of 226.32 / (75.44) tenge.

**Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities, primarily trade receivables (Note 10) and from its financing activities, including deposits with banks (Notes 11, 12 and 14). The Group’s exposure and the creditworthiness of its counterparties are controlled constantly. It is the Group’s policy to enter into financial instruments with a diversity of creditworthy parties. The maximum exposure to the credit risk is represented by the carrying value of each financial asset (Notes 10, 11, 12, and 14).

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

Customer credit risk is managed subject to the Group’s established policy, procedures and control relating to consumer credit risk management. The outstanding customer receivables are regularly monitored by the Group management. At 30 June 2016 the Group had one customer Uzbekenergo JSC that owed the Group KZT 12,558,597 thousand and accounted for 69% of all trade accounts receivable outstanding (31 December 2015: KZT 18,986,981 thousand and accounted for 81%).

An impairment analysis is performed by Group management at each reporting date on an individual basis for all customers based on number of days the receivables are overdue. The calculation is based on actual incurred historical data. The maximum exposure to the credit risk is represented by the carrying value of each class of financial assets disclosed in Note 10. The Group does not hold collateral as security.

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

**Liquidity risk**

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

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

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

**29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Liquidity risk (continued)**

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

<i>In thousands of tenge</i>	On demand	Due later than 1 month but not later than 3 months	Due later than 3 month but not later than 1 year	Due later than 1 year but not later than 5 years	Due after 5 years	Total
<b>At 30 June 2016</b>						
Borrowings	–	6,929,135	19,501,986	90,103,687	67,745,237	184,280,045
Trade and other accounts payable	–	10,183,921	–	173,548	–	10,357,469
Bonds payable	–	–	732,109	–	3,923,350	4,655,459
	–	17,113,056	20,234,095	90,277,235	71,668,587	199,292,973
<b>At 31 December 2015</b>						
Borrowings	–	6,944,759	19,416,270	93,532,667	75,206,539	195,100,235
Trade and other accounts payable	–	13,525,144	–	–	–	13,525,144
	–	20,469,903	19,416,270	93,532,667	75,206,539	208,625,379

**Capital management**

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

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

No changes were made in the objectives, policies or processes for managing capital during the six months ended 30 June 2016.

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

	30 June 2016	31 December 2015
Debt/capital	0.27	0.29
<i>In thousands of tenge</i>		
Borrowings and bonds payable, non-current portion	142,581,503	149,139,660
Borrowings and bonds payable, current portion	23,122,289	22,090,879
<b>Debt</b>	<b>165,703,792</b>	<b>171,230,539</b>
Total liabilities	251,821,076	254,360,000
Equity	357,178,991	340,976,614
<b>Total equity and liabilities</b>	<b>609,000,067</b>	<b>595,336,614</b>

The structure of the Group capital includes the share capital as disclosed in *Note 15*, reserves and retained earnings.

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

**29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**Fair value hierarchy**

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

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

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

*Assets measured at fair value*

<i>In thousands of tenge</i>	<b>30 June 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial assets</b>				
Available-for-sale financial assets (Note 11)	<b>868,269</b>	–	<b>868,269</b>	–
<b>Non-financial assets</b>				
Non-current assets, held for sale (Note 6)	<b>96,641</b>	–	–	<b>96,641</b>
UPS assets (Note 7)	<b>407,846,506</b>	–	–	<b>407,846,506</b>

<i>In thousands of tenge</i>	<b>31 December 2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial assets</b>				
Available-for-sale financial assets (Note 11)	868,269	–	868,269	–
<b>Non-financial assets</b>				
Non-current fssets, held for sale (Note 6)	161,511	–	–	161,511
UPS assets (Note 7)	416,077,012	–	–	416,077,012

*Liabilities for which fair values are disclosed*

<i>In thousands of tenge</i>	<b>30 June 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial liabilities</b>				
Borrowings (Note 16)	<b>161,711,298</b>	–	<b>161,711,298</b>	–
Bonds payable (Note 17)	<b>3,992,494</b>	<b>3,992,494</b>	–	–

<i>In thousands of tenge</i>	<b>31 December 2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial liabilities</b>				
Borrowings (Note 16)	171,230,539	–	171,230,539	–

**Fair values of financial instruments**

As of 30 June 2016 and 31 December 2015 the management assessed that the fair value of financial instruments of the Group, such as trade accounts receivable and payable, other financial assets, cash and cash equivalents, cash restricted in use, approximates their carrying amounts largely due to the short-term maturities of these instruments. Borrowings and issued bonds by the Group are stated at amortized costs which approximate their fair values.

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

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**30. COMMITMENTS AND CONTINGENCIES****Operating environment**

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

In 2016, the Kazakhstan economy continued to be negatively impacted by a significant drop in crude oil prices and a significant devaluation of Kazakhstani Tenge. The combination of the above along with other factors resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth. Management believes it is taking appropriate measures to support the sustainability of the Partnership’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 30 June 2016.

As at 30 June 2016, management of the Group believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group’s tax positions will be sustained, except as provided for or otherwise disclosed in these interim consolidated financial statements.

**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 558 million US dollars and 233 million euro (*Note 16*), 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 30 June 2016 and 31 December 2015. The Group excludes from EBITDA the foreign exchange gain and loss, as management believes that foreign exchange gains and loss meet definition of non-cash impairment and as such shall be excluded from the calculation of EBITDA as provided in the loan agreement. As of 30 June 2016 the Group excluded from EBITDA the foreign exchange loss of KZT 1,115,122 thousand incurred during the six months ended 30 June 2016.

**Insurance**

As at 30 June 2016, the Group insured property and equipment with the recoverable value of KZT 157,471 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 consolidated financial statements for unexpected expenses associated with damage or loss of these assets.

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

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**30. COMMITMENTS AND CONTINGENCIES (continued)****Contractual commitments**

To ensure the stable and reliable performance of the national electricity grid, the Group developed a capital investment plan. As at 30 June 2016, the Group's outstanding contractual commitments within the frameworks of this plan amount to KZT 77,295,032 thousand (31 December 2015: KZT 84,277,398 thousand including co-financing commitments).

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.

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.

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

At the end of 2015 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 2016 to 30 June 2017, set lower limit levels of tariffs for regulated services 2016 and 2017 by 0.01 KZT. From 1 July to 31 December 2016 the temporary compensating tariff for electricity transmission through electric grids set at 2,079 KZT / kWh (excluding VAT), the rate of technical dispatch to the grid and electricity consumption - 0.230 KZT / kWh (excluding VAT) . From January 1 to June 30, 2017 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 - 0.233 KZT / kWh (excluding VAT).

**31. SUBSEQUENT EVENTS**

Under the program “Nurly Zhol” to finance the project “Construction of 500 kW line Ekibastuz - Semey - Ust-Kamenogorsk” and “Construction of 500 kW line Semey - Aktogay - Taldykorgan – Alma”, on 29 July 2016 the Group issued coupon bonds with nominal value of KZT 22,808,824 thousand at Kazakhstan Stock Exchange JSC. Coupon rate is 18.6% for the current coupon period, maturity is 15 years (*Note 3 and 17*).