

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

Interim consolidated financial statements

*As at and for the six months ended 30 June 2017  
with independent auditor's report*

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## Independent auditor's report

To the Shareholders of Kazakhstan Electricity Grid Operating Company JSC

### **Opinion**

We have audited the interim consolidated financial statements of Kazakhstan Electricity Grid Operating Company JSC and its subsidiaries ("the Group"), which comprise the interim consolidated statement of financial position as at 30 June 2017, the interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the six months then ended, and notes to the interim consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying interim consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2017 and its consolidated financial performance and its consolidated cash flows for the six months then ended in accordance with International Financial Reporting Standards (IFRSs).

### **Basis for Opinion**

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

### **Key Audit Matters**

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

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



### **Valuation of National Electricity System assets**

We considered this matter to be one of most significance in the audit due to the high level of subjectivity in respect of assumptions underlying valuation of National Electricity System (“NES”) assets and significant judgements and estimates made by the management. NES assets are carried at fair value in accordance with the Group accounting policy. Combination of the recent fluctuations of the Tenge exchange rates and increased inflation, changes in cost of debt and uncertainty regarding future economic growth affects the Group’s business prospects and may result in significant differences between fair value and carrying value of NES assets.

Significant assumptions used by the management in determination of the fair value of NES assets included discount rates, tariffs forecasts, inflation and exchange rate forecasts. Significant estimates included forecasts of electricity transmission volume and future capital expenditures.

We involved business valuation specialists in the assessment of the assumptions underlying management forecasts. We compared tariffs for services used in the calculation of recoverable amount to tariffs approved by the authoritative body. We compared the discount rate and long-term growth rate to general market indicators and other available evidence. We tested the mathematical integrity of the cash flows models and assessed the sensitivity analysis.

Information on National Electricity System assets and the most recent revaluation is disclosed in *Note 4* to the interim consolidated financial statements.

### **Measurement of assets held in KazInvestBank JSC and Delta Bank JSC**

Taking into account the revocation of KazInvestBank’s license by the National Bank of the Republic of Kazakhstan, the suspension of Delta Bank JSC licenses and the significant amount of assets held by the Group in these banks, the measurement of cash and deposits held in banks was one of the matters of most significance in our audit.

We analyzed available information on plans for the banks’ financial rehabilitation, additional clarifications from the Group’s management on plans for the bank’s financial rehabilitation and evaluated the management assumptions used in measurement of assets held in KazInvestBank JSC and Delta Bank JSC.

The information on measurement of assets held in KazInvestBank JSC and Delta Bank JSC is disclosed in *Note 11* to the interim consolidated financial statements.

### **Recoverability of receivables from Uzbekenergo JSC**

The Group has a significant balance of accounts receivable from Uzbekenergo JSC as at the reporting date. The management assessment of recoverability of accounts receivable is complex, largely subjective and based on assumptions, in particular, on forecasted ability of Uzbekenergo JSC to pay for services provided. Therefore, it was one of the matters of most significance in our audit.



We obtained understanding of process of the allowance for doubtful accounts receivable calculation and considered respective accounting policy of the Group. We analyzed information used by the Group for the identification of allowance for doubtful accounts receivable, including information on accounts receivable settlements before and after reporting date, information on accounts receivable aging structure and applicable levels of accounts receivable allowance. We considered current status of negotiations and correspondence with Uzbekenergo JSC.

Information on receivables from Uzbekenergo JSC is disclosed in *Note 9* to the interim consolidated financial statements.

### ***Responsibilities of Management and the Audit Committee for the Interim Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the interim consolidated financial statements in accordance with IFRSs, 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.

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

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

### ***Auditor's Responsibilities for the Audit of the Interim Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the interim consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these interim consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the interim consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the interim consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- ▶ Evaluate the overall presentation, structure and content of the interim consolidated financial statements, including the disclosures, and whether the interim consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the interim consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion;

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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



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

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

*Ernst & Young LLP*

Paul Cohn  
Audit Partner

Adil Syzdykov  
Audit Director



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

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

7 August 2017

*Gulmira Turmagambetova*  
Gulmira Turmagambetova  
General Director  
Ernst & Young LLP

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



**INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 30 June 2017

<i>In thousands of tenge</i>	Notes	30 June 2017	31 December 2016
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	504,130,693	500,914,390
Intangible assets		639,823	855,032
Advances paid for non-current assets	6	10,376,318	664,471
Deferred tax assets	26	2,145	1,093
Investments in associate	7	451,151	304,954
Long-term receivables from related parties	27	1,239,407	1,267,287
Other non-current assets		4,141	11,009
		<b>516,843,678</b>	<b>504,018,236</b>
<b>Current assets</b>			
Inventories	8	2,538,678	1,686,312
Trade accounts receivable	9	10,186,099	15,746,830
VAT recoverable and other prepaid taxes		139,779	309,268
Income tax prepaid		62,675	734,349
Other current assets	10	614,372	477,988
Other financial assets	11	44,152,164	61,403,727
Restricted cash	12	6,663,485	15,626,798
Cash and cash equivalents	13	30,253,309	32,055,378
		<b>94,610,561</b>	<b>128,040,650</b>
<b>Total assets</b>		<b>611,454,239</b>	<b>632,058,886</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	14	126,799,554	126,799,554
Treasury shares	14	(930)	(930)
Asset revaluation reserve	14	220,881,310	220,890,374
Other reserves	14	(170,701)	(170,701)
Retained earnings		25,237,105	14,565,773
		<b>372,746,338</b>	<b>362,084,070</b>
<b>Non-current liabilities</b>			
Borrowings, non-current portion	15	86,352,215	95,143,995
Bonds payable, non-current portion	16	47,372,669	47,368,104
Deferred tax liability	26	66,928,127	66,807,914
Long-term trade and other accounts payable	17	3,573,758	2,417,810
		<b>204,226,769</b>	<b>211,737,823</b>
<b>Current liabilities</b>			
Borrowings, current portion	15	18,166,235	27,334,944
Bonds payable, current portion	16	475,528	5,251,917
Trade and other accounts payable	17	7,126,995	16,981,635
Construction obligation	18	683,430	683,430
Dividends payable	14	282	44
Advances received		1,573,532	1,042,525
Taxes payable other than income tax	19	1,556,571	3,340,265
Income tax payable		3,073,049	628,322
Other current liabilities	20	1,825,510	2,973,911
		<b>34,481,132</b>	<b>58,236,993</b>
<b>Total liabilities</b>		<b>238,707,901</b>	<b>269,974,816</b>
<b>Total equity and liabilities</b>		<b>611,454,239</b>	<b>632,058,886</b>
<b>Book value per ordinary share (in tenge)</b>	14	<b>1.431</b>	<b>1.389</b>

Acting Chairman of the Management Board

*Ospanov S.K.*

Acting of Chief Accountant

*Kabysh T.A.*

*The accounting policies and explanatory notes on pages 6 to 42 are an integral part of these interim consolidated financial statements.*

**INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the six months ended 30 June 2017

<i>In thousands of tenge</i>	Notes	For the three months ended		For the six months ended	
		30 June 2017	30 June 2016	30 June 2017	30 June 2016
Revenue	21	<b>36,363,657</b>	29,434,769	<b>74,369,717</b>	61,913,833
Cost of sales	22	<b>(20,708,583)</b>	(17,462,389)	<b>(40,848,779)</b>	(36,216,853)
<b>Gross profit</b>		<b>15,655,074</b>	11,972,380	<b>33,520,938</b>	25,696,980
General and administrative expenses	23	<b>(2,728,547)</b>	(2,604,340)	<b>(6,278,158)</b>	(5,237,890)
Selling expenses		<b>(47,834)</b>	(45,380)	<b>(100,055)</b>	(92,863)
(Accrual)/reversal of impairment loss of property plant and equipment		<b>(4,884)</b>	(5,945)	<b>(20,686)</b>	87,893
<b>Operating profit</b>		<b>12,873,809</b>	9,316,715	<b>27,122,039</b>	20,454,120
Finance income	24	<b>966,858</b>	1,545,370	<b>1,682,440</b>	3,133,175
Finance costs	24	<b>(1,129,402)</b>	(1,608,721)	<b>(2,057,054)</b>	(2,947,627)
Foreign exchange (loss)/gain, net	25	<b>(4,088,970)</b>	2,372,428	<b>(1,457,840)</b>	(1,015,122)
Share of gain/(loss) of associates	7	<b>159,399</b>	(70,742)	<b>146,197</b>	(97,801)
Provision on funds placed with Delta Bank JSC and Kazinvestbank JSC	11	<b>(1,265,467)</b>	–	<b>(1,934,340)</b>	–
Other income		<b>61,335</b>	777,718	<b>105,210</b>	912,336
Other expenses		<b>(58,569)</b>	(51,344)	<b>(90,837)</b>	(90,383)
<b>Profit before tax</b>		<b>7,518,993</b>	12,281,424	<b>23,515,815</b>	20,348,698
Income tax expense	26	<b>(1,815,875)</b>	(2,529,619)	<b>(5,539,786)</b>	(4,146,321)
<b>Profit for the reporting period</b>		<b>5,703,118</b>	9,751,805	<b>17,976,029</b>	16,202,377
<b>Total comprehensive income</b>		<b>5,703,118</b>	9,751,805	<b>17,976,029</b>	16,202,377
<b>Earnings per share</b>					
Basic and diluted profit for the period attributable to ordinary equity holders (in tenge)	14	<b>21.94</b>	37.51	<b>69.14</b>	62.32

Acting Chairman of the Management Board



Ospanov S.K.

Kabysh T.A.

Acting of Chief Accountant

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The accounting policies and explanatory notes on pages 6 to 42 are an integral part of these interim consolidated financial statements.

**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**

For the six months ended 30 June 2017

<i>In thousands of tenge</i>	Notes	For the six months ended	
		30 June 2017	30 June 2016
<b>Operating activities</b>			
Profit before tax		23,515,815	20,348,698
<b>Adjustments to reconcile profit before tax to net cash flows</b>			
Depreciation and amortisation		11,435,145	10,867,563
Finance costs	24	2,057,054	2,947,627
Finance income	24	(1,682,440)	(3,133,175)
Foreign exchange loss, net		1,457,840	1,015,122
(Reversal)/accrual of provision for doubtful accounts receivable and impairment of other current assets	23	28,030	(14,380)
Accrual/(reversal) of provision for obsolete inventories	23	21,024	(10,752)
Income from transfer of granted assets		–	(773,035)
Loss from disposal of property, plant and equipment and intangible assets		48,328	15,361
Accrual/(reversal) of property, plant and equipment impairment		20,686	(87,893)
Provision on funds placed with Delta Bank JSC and Kazinvestbank JSC	11	1,934,340	–
Interest income from other financial assets		(30,248)	–
Share of loss/(gain) of an associate	7	(146,197)	97,801
<b>Working capital adjustments</b>			
Change in inventories		(875,733)	(770,410)
Change in trade accounts receivable		5,063,104	7,581,648
Change in VAT recoverable and other prepaid taxes		169,489	190,982
Change in other current assets		(169,910)	(218,004)
Change in trade and other accounts payable		771,128	380,109
Change in advances received		531,007	1,282,808
Change in taxes payable other than income tax		(1,783,694)	1,182,343
Change in other current liabilities		(1,148,827)	728,352
<b>Cash flows received from operating activities</b>		<b>41,215,941</b>	<b>41,630,765</b>
Interest paid		(1,978,394)	(2,777,879)
Coupon interest paid		(8,835,000)	–
Income tax paid		(1,867,308)	(301,605)
Interest received		2,761,411	2,080,348
<b>Net cash flows received from operating activities</b>		<b>31,296,650</b>	<b>40,631,629</b>
<b>Investing activities</b>			
Withdrawal of bank deposits		52,490,895	15,022,930
Placement of bank deposits		(37,134,293)	(24,232,518)
Change in restricted cash		8,497,724	(195,069)
Reclassification of funds placed with Delta Bank JSC and Kazinvestbank JSC		(1,299,720)	–
Proceeds from sale of property, plant and equipment and intangible assets		116,912	16,505
Purchase of property, plant, equipment		(30,978,935)	(19,280,172)
Purchase of intangible assets		(1,099)	(20)
Repayment of loans given to employees		4,518	5,386
Decrease in equity of an associate		–	64,870
<b>Net cash flows used in investing activities</b>		<b>(8,303,998)</b>	<b>(28,598,088)</b>

*The accounting policies and explanatory notes on pages 6 to 42 are an integral part of these interim consolidated financial statements.*



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

For the six months ended 30 June 2017

<i>In thousands of tenge</i>	Notes	For the six months ended	
		30 June 2017	30 June 2016
<b>Financing activities</b>			
Dividends paid		(7,313,523)	(177)
Repayment of borrowings		(17,536,754)	(10,428,163)
Bonds issuance		–	3,999,999
Transaction costs for bonds issued		–	(12,721)
<b>Net cash flows used in financing activities</b>		<b>(24,850,277)</b>	<b>(6,441,062)</b>
<b>Net change in cash and cash equivalents</b>		<b>(1,857,625)</b>	<b>5,592,479</b>
Net foreign exchange difference		55,556	(65,250)
Cash and cash equivalents as at 1 January		32,055,378	9,030,762
<b>Cash and cash equivalents as at 30 June</b>	13	<b>30,253,309</b>	<b>14,557,991</b>

Acting Chairman of the Management Board



Ospanov S.K.

Kabysh T.A.

Acting of Chief Accountant

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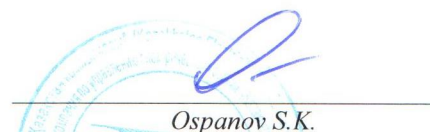
*The accounting policies and explanatory notes on pages 6 to 42 are an integral part of these interim consolidated financial statements.*

**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30 June 2017

<i>In thousands of tenge</i>	Share capital	Asset revaluation reserve	Treasury shares	Other reserves	Retained earnings	Total
<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 14)	–	(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
<b>As at 1 January 2017</b>	126,799,554	220,890,374	(930)	(170,701)	14,565,773	362,084,070
Profit for the period	–	–	–	–	17,976,029	17,976,029
<b>Total comprehensive income</b>	–	–	–	–	17,976,029	17,976,029
Dividends (Note 14)	–	–	–	–	(7,313,761)	(7,313,761)
Transfer of asset revaluation reserve (Note 14)	–	(9,064)	–	–	9,064	–
<b>As at 30 June 2017</b>	126,799,554	220,881,310	(930)	(170,701)	25,237,105	372,746,338

Acting Chairman of the Management Board



Ospanov S.K.

Acting of Chief Accountant



Kabysh T.A.

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The accounting policies and explanatory notes on pages 6 to 42 are an integral part of these interim consolidated financial statements.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

For the six months ended 30 June 2017

**1. GENERAL INFORMATION**

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

As of 30 June 2017, the Company’s major shareholder was Sovereign Wealth Fund “Samruk-Kazyna” JSC (“Samruk-Kazyna”) (90 percent plus one share). Samruk-Kazyna is controlled by the Government of the Republic of Kazakhstan.

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

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

As of 30 June 2017 and 31 December 2016 the Company has stakes in the following subsidiaries:

Company	Activities	Percentage of ownership	
		30 June 2017	31 December 2016
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 signed by the Acting Chairman of the Management Board and Acting Chief Accountant on 7 August 2017.

**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)****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 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

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

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

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

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

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning January 2017:

- IAS 12 *Income Taxes Recognition of Deferred Tax Assets for Unrealised Losses* (amendments);
- IAS 7 *Statement of Cash Flows Disclosure Initiative* (amendments).

The adoption of these standards and amendments did not have any impact on the financial position or performance of the Group.

**Current versus non-current classification**

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

- Expected to be realized or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 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 (NES assets) at fair value when fair value differs materially from their carrying value. Also, fair values of financial instruments measured at amortized cost are disclosed in *Note 28*.

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

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

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

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

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

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

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

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

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

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

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

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.

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).



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

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

**Foreign currency transactions (continued)**

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 2017</b>	<b>31 December 2016</b>
USD 1	<b>322.27</b>	333.29
EUR 1	<b>367.52</b>	352.42
RUR 1	<b>5.44</b>	5.43
	<b>For the six months ended</b>	
<i>Average exchange rate for the six months (to KZT)</i>	<b>30 June 2017</b>	<b>30 June 2016</b>
USD 1	<b>318.69</b>	345.34
EUR 1	<b>344.87</b>	385.25
RUR 1	<b>5.50</b>	4.93

**Property, plant and equipment**

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

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

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

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

Buildings	60 years
<b>NES 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, “NES Machinery and equipment” class has been separated from “NES constructions” class. Therefore, the Group renamed “NES constructions” into “NES assets” for the purposes of financial statements.

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

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Property, plant and equipment (continued)**

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

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

**Intangible assets**

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets 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.

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

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

**Investments in associate**

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

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

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

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

The interim 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 interim 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.



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

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.

*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 interim 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 interim consolidated statement of comprehensive income. The losses arising from impairment are recognised in the interim 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.

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

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.

*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.

In addition, such evidence includes observable data indicating the existence of a measurable reduction in the expected future cash flows of a financial instrument. In particular, such as change in the amount of overdue debt or economic conditions that are related with the refusals to fulfill the debt repayment obligations.

*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.

**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)*

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

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in 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 interim 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)****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 interim 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 interim 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 interim 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)****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 interim 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 interim 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.

**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.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Lease (continued)***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 interim 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 183,443 per month (2016: KZT 171,675) to accumulative pension funds. Pension fund payments are withheld from employees' salaries and included with payroll expenses in the interim 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.

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.



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

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 interim consolidated financial statements are authorised for issue.

**Contingent liabilities and contingent assets**

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

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

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

The preparation of the Group's interim consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosures, and the disclosure of contingent liabilities 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.

**Revaluation of property, plant and equipment**

The revalued NES 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 NES assets refer to Level 3 in the fair value hierarchy (unobservable inputs).

The Group performed revaluation of NES assets as at 1 June 2014. Fair value of NES 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.

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

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

**Revaluation of property, plant and equipment (continued)**

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 in 2014 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

As of 30 June 2017, management of the Group conducted an analysis of the relevance of the results of revaluation of assets. The value of NES assets was analyzed taking into account the movement of the price index in construction according to the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan. This analysis showed insignificant increase in the value of NES assets.

To confirm the results of the analysis and determine the absence of impairment NES assets, the Group calculated the recoverable amount of the assets using the discounted cash flow model.

In estimating the fair value in 2017, the following key assumptions were applied:

Discount rate (WACC)	12.55%
Long-term growth rate	5.55%

The calculation of the assumptions was based on the methodology applied by the appraiser in 2014. The Group’s development plan, approved for a five-year period and revised every year, was the main source of information for estimating cash flows, as it contains projections for the volume of electricity transmission, revenues, expenses and capital expenditures of the Group. Various assumptions, such as projections of the level of tariffs for regulated services and inflation rates, take into account existing prices, the projected exchange rates of foreign currencies, other macroeconomic factors and historical trends and fluctuations. The estimated cash flows were limited to 2028. Costs before 2028 were projected on the basis of the Group’s budget and development plan, as well as current estimates of the Group’s management about potential changes in operating and capital expenditures. The post-forecast cost is estimated by applying the estimated long-term growth rate of 5.55%.

Thus, the Group’s assets do not show any signs of impairment, while the size of the asset growth estimated by the index method comprises insignificant amount. The management of the Group believes that the fair value of the assets of the NES is approximately equal to their carrying value as of 30 June 2017.

**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.

**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.

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

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

**Taxes (continued)**

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

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised 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.

*Bonds issued*

In 2016 under the government program “Nurly Zhol”, 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 16).

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 10.6%.

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 2017</b>	<b>30 June 2016</b>
Revenue from Kazakhstan customers	<b>69,600,010</b>	55,902,397
Revenue from Russian customers	<b>4,454,538</b>	5,241,881
Revenue from Uzbekistan customers	<b>291,861</b>	769,555
Revenue from Kyrgyzstan customers	<b>23,308</b>	-
<b>Total revenue per interim consolidated statement of comprehensive income</b>	<b>74,369,717</b>	61,913,833

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



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

**5. OPERATING SEGMENT INFORMATION (continued)**

For the six months ended 30 June 2017 the revenue from one consumer of the Group – Samruk-Energo amounted to KZT 16,877,123 thousand, arising from electricity almassion, technical dispatch and balancing of electricity production and consumption services (for the six months ended 30 June 2016: KZT 9,448,416 thousand).

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

<i>In thousands of tenge</i>	Land	Buildings	NES assets	Vehicles and other property, plant and equipment	Construction-in-progress	Total
<b>Cost</b>						
<b>At 1 January 2016</b>	1,528,905	13,225,323	800,129,759	34,280,762	33,926,233	883,090,982
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>At 1 January 2017</b>	<b>1,539,573</b>	<b>13,768,082</b>	<b>819,098,860</b>	<b>37,636,022</b>	<b>53,698,670</b>	<b>925,741,207</b>
Additions	7,448	1,137	11,833	453,786	14,030,867	14,505,071
Transfers	5,856	30,653	352,592	(123,943)	(265,158)	-
Disposals	-	(4,429)	(61,249)	(185,350)	(11,898)	(262,926)
Transfers to intangible assets	-	-	-	-	(234)	(234)
<b>At 30 June 2017</b>	<b>1,552,877</b>	<b>13,795,443</b>	<b>819,402,036</b>	<b>37,780,515</b>	<b>67,452,247</b>	<b>939,983,118</b>
<b>Accumulated depreciation and impairment</b>						
<b>At 1 January 2016</b>	-	(1,525,657)	(384,052,747)	(18,481,782)	(331,004)	(404,391,190)
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>At 1 January 2017</b>	<b>-</b>	<b>(1,797,663)</b>	<b>(402,376,114)</b>	<b>(20,263,429)</b>	<b>(389,611)</b>	<b>(424,826,817)</b>
Charge for the period	-	(141,073)	(9,932,370)	(1,167,805)	-	(11,241,248)
Transfers	-	507	(493)	(14)	-	-
Disposals	-	2,932	38,837	183,654	10,903	236,326
Reversal of impairment	-	-	-	-	(20,686)	(20,686)
<b>At 30 June 2017</b>	<b>-</b>	<b>(1,935,297)</b>	<b>(412,270,140)</b>	<b>(21,247,594)</b>	<b>(399,394)</b>	<b>(435,852,425)</b>
<b>Net book value</b>						
<b>At 30 June 2016</b>	<b>1,539,573</b>	<b>11,589,098</b>	<b>407,846,506</b>	<b>15,456,878</b>	<b>40,032,130</b>	<b>476,464,185</b>
<b>At 31 December 2016</b>	<b>1,539,573</b>	<b>11,970,419</b>	<b>416,722,746</b>	<b>17,372,593</b>	<b>53,309,059</b>	<b>500,914,390</b>
<b>At 30 June 2017</b>	<b>1,552,877</b>	<b>11,860,146</b>	<b>407,131,896</b>	<b>16,532,921</b>	<b>67,052,853</b>	<b>504,130,693</b>

If NES 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 2017	31 December 2016
Cost	267,317,352	267,033,110
Accumulated depreciation	(89,531,946)	(82,385,796)
<b>Net carrying amount</b>	<b>177,785,406</b>	<b>184,647,314</b>

As at 30 June 2017 and 31 December 2016 fully amortised property, plant and equipment (at cost), that are still in use amounted to KZT 7,685,376 thousand and KZT 7,507,540 thousand, respectively.

**Capitalized borrowing costs**

During six months ended 30 June 2017 the Group capitalized the cost of coupon interest on bonds (less investment income) amounted to KZT 2,680,028 thousand (for the six months ended 30 June 2016: KZT 5,216 thousand) (Note 16).

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

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

**Construction in progress**

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

**Advances paid for non-current assets**

As at 30 June 2017 advances paid for non-current assets mainly represent prepayments made to suppliers for construction work related to the project “Construction of 500 kW line Shulbinskaya GES (Semey) – Aktogay – Taldykorgan – Alma” (as at 31 December 2016: 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” and “Construction of 500 kW line Shulbinskaya GES (Semey) – Aktogay – Taldykorgan – Alma”).

**7. INVESTMENTS IN ASSOCIATE**

The Group has 20% share in Batys Transit JSC. Principal place of operations and country of incorporation of Batys Transit JSC (“Batys Transit”) is the Republic of Kazakhstan. The main activity of Batys Transit is 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 2017</b>	31 December 2016
<b>Statement of financial position</b>		
Current assets	3,343,044	3,373,844
Non-current assets	18,798,260	19,433,266
Current liabilities	(692,681)	(2,384,323)
Non-current liabilities	(19,192,866)	(18,898,018)
<b>Net assets</b>	<b>2,255,757</b>	<b>1,524,769</b>

<i>In thousands of tenge</i>	<b>30 June 2017</b>	31 December 2016
Group's share in net assets	451,151	304,954
<b>Carrying amount of the investment</b>	<b>451,151</b>	<b>304,954</b>

<i>In thousands of tenge</i>	<b>30 June 2017</b>	30 June 2016
<b>Statement of comprehensive income</b>		
Revenue	3,531,902	2,135,732
Net profit/(loss)	730,985	(489,005)
<b>Group's share of income/(loss) of an associate recognised in profit or loss</b>	<b>146,197</b>	<b>(97,801)</b>

As of 30 June 2017 and 31 December 2016 the associate had no contingent liabilities or capital commitments.

**8. INVENTORIES**

<i>In thousands of tenge</i>	<b>30 June 2017</b>	31 December 2016
Spare parts	1,489,951	1,258,723
Raw and other materials	1,464,144	930,547
Fuel and lubricants	186,609	114,705
Other inventory	61,715	25,054
Less: allowance for obsolete inventories	(663,741)	(642,717)
	<b>2,538,678</b>	<b>1,686,312</b>

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

**8. INVENTORIES (continued)**

Movement in the allowance for obsolete inventories was as follows:

<i>In thousands of tenge</i>	2017	2016
<b>At 1 January</b>	<b>642,717</b>	<b>267,427</b>
Charge for the period (Note 23)	21,024	-
Write-off	-	(9,882)
Reversal (Note 23)	-	(10,752)
<b>At 30 June</b>	<b>663,741</b>	<b>246,793</b>

**9. TRADE ACCOUNTS RECEIVABLE**

<i>In thousands of tenge</i>	30 June 2017	31 December 2016
Trade accounts receivable	12,838,810	18,400,246
Less: allowance for doubtful accounts receivable	(2,652,711)	(2,653,416)
	<b>10,186,099</b>	<b>15,746,830</b>

Movement in the allowance for doubtful receivables was as follows:

<i>In thousands of tenge</i>	2017	2016
<b>At 1 January</b>	<b>2,653,416</b>	<b>1,452,512</b>
Charge for the period (Note 23)	1,121,024	27,948
Write-off	(1,623)	(520)
Reversal (Note 23)	(1,120,106)	(81,367)
<b>At 30 June</b>	<b>2,652,711</b>	<b>1,398,573</b>

As of 30 June 2017 trade receivables included receivables from the consumer Uzbekenergo JSC in the amount of KZT 6,290,641 thousand (31 December 2016: KZT 12,338,962 thousand).

As at 31 December 2016 due to the violation of the debt repayment schedule, the Group accrued an allowance for outstanding part of receivable from Uzbekenergo JSC for the amount of KZT 2,422,993 thousand.

As at 30 June 2017 due to the payments from Uzbekenergo JSC, the Group decreased an allowance for outstanding part of receivable from Uzbekenergo JSC to KZT 2,401,634 thousand.

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 2017</b>	<b>10,186,099</b>	<b>5,439,448</b>	<b>57,120</b>	<b>2,471,295</b>	<b>30,565</b>	<b>2,187,671</b>
31 December 2016	15,746,830	6,338,579	24,509	8,448,471	812,181	123,090

Trade receivables were denominated in the following currencies:

<i>In thousands of tenge</i>	30 June 2017	31 December 2016
Tenge	5,587,930	5,243,358
US dollars	3,889,007	9,915,969
Russian rouble	709,162	587,503
	<b>10,186,099</b>	<b>15,746,830</b>



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

**10. OTHER CURRENT ASSETS**

<i>In thousands of tenge</i>	30 June 2017	31 December 2016
Advances paid for goods and services	232,579	64,949
Other receivables for property, plant and equipment and CIP	180,123	180,123
Deferred expenses	97,732	107,269
Loans receivable from employees	19,050	19,535
Other	308,358	304,560
Less: provision for impairment of other current assets	(223,470)	(198,448)
	<b>614,372</b>	<b>477,988</b>

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

<i>In thousands of tenge</i>	30 June 2017	31 December 2016
<b>At 1 January</b>	<b>198,448</b>	<b>114,200</b>
Charge for the period (Note 23)	38,959	42,562
Reversal (Note 23)	(11,847)	(3,523)
Utilized	(2,090)	(2,302)
<b>At 30 June</b>	<b>223,470</b>	<b>150,937</b>

**11. OTHER FINANCIAL ASSETS**

<i>In thousands of tenge</i>	30 June 2017	31 December 2016
<b>Short-term other financial assets</b>		
Bank deposits	43,230,918	56,682,280
Funds placed with Delta Bank JSC	1,297,747	3,000,000
Funds placed with Kazinvestbank JSC	1,282,483	1,291,782
Bonds of Batys Transit	868,269	868,269
Interest accrued on bonds of Batys Transit	52,977	207,287
Less: allowance for impairment of funds with KazInvestBank JSC and Delta Bank JSC	(2,580,230)	(645,891)
<b>Total other financial assets</b>	<b>44,152,164</b>	<b>61,403,727</b>

**Bonds of Batys Transit**

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

In April 2016 the Group concluded an agreement with Batys Transit about early redemption of its bonds at nominal price of 100 tenge per unit, Batys Transit JSC plans to acquire bonds till 1 December 2017. According to the agreement in 2017 interest on bonds is not accrued.

**Deposits**

As at 30 June 2017 and 31 December 2016 deposits include accrued interest income in the amount of KZT 8,916 thousand and KZT 182,185 thousand, respectively.

**Funds placed with Delta Bank JSC**

As at 30 June 2017 the outstanding balance of short-term deposits placed by the Group with Delta Bank JSC is KZT 1,297,747 thousand. Due to deterioration of credit rating and financial position indicators of Delta Bank JSC, the Management of the Group decided to accrue allowance for impairment of 100% of the outstanding balances.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)****11. OTHER FINANCIAL ASSETS (continued)****Funds placed with Kazinvestbank JSC**

In December 2016 according to the order of Management Board of the National Bank of the Republic of Kazakhstan (“National Bank”), the licence of Kazinvestbank JSC to conduct bank operations was revoked. As a result, as at 31 December 2016 the Group has reclassified its cash balances with Kazinvestbank JSC to other financial and reassessed their recoverability. As a result of the assessment, as at 31 December 2016 the Group accrued a provision for impairment of 50% of the outstanding balances.

As a result of the assessment, as at 30 June 2017 the Group has accrued a provision for impairment of 100% of the outstanding balances in this interim consolidated financial statements representing measurement’s best estimate of future recoverability of these assets.

Other short-term financial assets were denominated in the following currencies:

<i>In thousands of tenge</i>	<b>Interest rate</b>	<b>30 June 2017</b>	<b>31 December 2016</b>
US dollars	4-6%	<b>28,142,583</b>	35,830,396
Tenge	10-14%	<b>16,009,581</b>	25,573,331
		<b>44,152,164</b>	61,403,727

**12. RESTRICTED CASH**

<i>In thousands of tenge</i>	<b>30 June 2017</b>	<b>31 December 2016</b>
Cash on debt service accounts	<b>4,236,615</b>	13,209,941
Cash on reserve accounts	<b>2,283,292</b>	2,263,220
Restricted cash for return of guarantee obligations	<b>143,578</b>	153,637
	<b>6,663,485</b>	15,626,798

As at 30 June 2017 and 31 December 2016 restricted cash represents cash held on a debt service account and reserve account.

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

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

As at 30 June 2017 and 31 December 2016, restricted cash was denominated in the following currencies:

<i>In thousands of tenge</i>	<b>30 June 2017</b>	<b>31 December 2016</b>
Euro	<b>3,396,485</b>	–
US dollar	<b>3,123,422</b>	15,473,161
Tenge	<b>143,578</b>	153,637
	<b>6,663,485</b>	15,626,798

**13. CASH AND CASH EQUIVALENTS**

<i>In thousands of tenge</i>	<b>30 June 2017</b>	<b>31 December 2016</b>
Current accounts with banks, in foreign currencies	<b>14,265,344</b>	2,300,876
Current accounts with banks, in tenge	<b>9,877,196</b>	9,297,895
Short-term deposits	<b>6,100,428</b>	20,450,000
Cash on hand	<b>8,687</b>	4,819
Cash at special accounts	<b>1,654</b>	1,788
	<b>30,253,309</b>	32,055,378

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

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

As at 30 June 2017 and 31 December 2016 the Group placed short-term deposits at banks in the total amount of KZT 6,100,428 thousand and KZT 20,450,000 thousand, respectively, at 5-11% per annum. These deposits were denominated in tenge.

At 30 June 2017 and 31 December 2016, cash and cash equivalents were stated in the following currencies:

<i>In thousands of tenge</i>	<b>30 June 2017</b>	31 December 2016
Tenge	<b>15,987,965</b>	29,754,502
Euro	<b>10,906,015</b>	372,457
US dollar	<b>3,004,833</b>	1,925,437
Russian rouble	<b>354,097</b>	2,487
Others	<b>399</b>	495
	<b>30,253,309</b>	32,055,378

**14. EQUITY**

As 30 June 2017 and 31 December 2016 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 2017 and 31 December 2016 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.

**Treasury shares**

In November 2016 the Group reacquired on the open market its issued shares in amount of 1,390 shares for the total amount of KZT 930 thousand.

**Dividends**

On 28 October 2016 on the special General shareholders meeting it was approved to distribute 40% of net profit received as a result of 1<sup>st</sup> half-year of 2016. Amount of distributable dividends comprises KZT 6,481,765 thousand to all ordinary shareholders of KEGOC JSC, which is 24.93 tenge per ordinary share.

On 12 May 2017 on the annual General shareholders meeting it was approved to distribute 50% of net profit received as a result of 2016 year (less net profit received as a result of 1st half-year of 2016). Amount to be paid comprises KZT 7,313,761 thousand to all ordinary shareholders of KEGOC JSC, which is 28.13 tenge per ordinary share.

**Earnings per share (“EPS”)**

Basic and diluted earnings per share are calculated by dividing net profit for the period by the weighted average number of ordinary shares outstanding during the period. The Group had weighted average ordinary shares outstanding in the amount of 259,998,610 shares during the six months ended 30 June 2017 (for the six months ended 30 June 2016: 260,000,000 shares). For the six months ended 30 June 2017 and 30 June 2016 basic and diluted earnings per share comprised 69.14 tenge and 62.32 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 2017</b>	31 December 2016
<b>Total assets</b>	<b>611,454,239</b>	632,058,886
Less: intangible assets	<b>(639,823)</b>	(855,032)
Less: total liabilities	<b>(238,707,901)</b>	(269,974,816)
<b>Net assets</b>	<b>372,106,515</b>	361,229,038
Number of ordinary shares	<b>260,000,000</b>	260,000,000
<b>Book value per ordinary share, tenge</b>	<b>1.431</b>	1.389



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

**14. EQUITY (continued)**

**Asset revaluation reserve**

As at 30 June 2017 and 31 December 2016 the revaluation reserve represents revaluation surplus recognized as a result of revaluation of Group’s NES assets on 1 June 2014 (the previous revaluation was made as at 1 November 2013). Transfer of asset revaluation reserve into retained earnings, upon disposal of PPE, for the six months ended 30 June 2017 amounted to KZT 9,064 thousand (for the six months ended 30 June 2016: KZT 162,682 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.

**15. BORROWINGS**

<i>In thousands of tenge</i>	<b>30 June 2017</b>	31 December 2016
International Bank of Reconstruction and Development (IBRD)	<b>58,856,755</b>	65,140,253
European Bank of Reconstruction and Development (EBRD)	<b>45,661,695</b>	57,338,686
	<b>104,518,450</b>	122,478,939
Less: current portion of loans repayable within 12 months	<b>(18,166,235)</b>	(27,334,944)
	<b>86,352,215</b>	95,143,995

As at 30 June 2017 and 31 December 2016 the accrued and unpaid interest amounts to KZT 1,013,713 thousand and KZT 1,115,744 thousand, respectively.

As at 30 June 2017 and 31 December 2016 the unamortized portion of loan origination fees amounts to KZT 452,124 thousand and KZT 553,726 thousand, respectively.

Loans were denominated in the following currencies:

<i>In thousands of tenge</i>	<b>30 June 2017</b>	31 December 2016
US dollars	<b>58,856,755</b>	74,236,477
Euro	<b>45,661,695</b>	48,242,462
	<b>104,518,450</b>	122,478,939

**“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 2017 and 31 December 2016 are USD 32,360 thousand (equivalent to KZT 10,396,430 thousand) and USD 38,180 thousand (equivalent to KZT 12,725,012 thousand), respectively.

**“Construction of the second North-South 500 kW Electricity Transmission line”**

In 2005, for the purpose of implementation of the Phase II of the “Construction of the second North-South 500 kW Electricity Transmission line”, the Group received a credit line facility of USD 100,000 thousand provided by IBRD for a period of 17 (seventeen) years of which first 5 (five) years are a grace period. This credit line facility is secured by a guarantee of the Government of the Republic of Kazakhstan. An interest at LIBOR dollar rate plus general spread is 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 2017 and 31 December 2016 are USD 44,896 thousand (equivalent to KZT 14,468,498 thousand) and USD 48,973 thousand (equivalent to KZT 16,322,355 thousand), respectively.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)****15. BORROWINGS (continued)****“Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2”**

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

- (a) Two credit-line facilities of Euro 127,500 thousand and euro 75,000 thousand from EBRD for 15 (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 2017 and 31 December 2016 are Euro 103,511 thousand (equivalent to KZT 38,042,283 thousand) and Euro 112,137 thousand (equivalent to KZT 39,519,210 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 2017 and 31 December 2016 are Euro 19,499 thousand (equivalent to KZT 7,166,190 thousand) and Euro 22,749 thousand (equivalent to KZT 8,017,051 thousand), respectively;
- (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. As at 30 June 2017 the outstanding balance was fully repaid. The outstanding balance as at 31 December 2016 is Euro 603 thousand (equivalent to KZT 212,760 thousand).

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 EBRD 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 0.85% is payable semi-annually. In May 2013 unused portion of the credit line from the IBRD in the amount of USD 3,274 thousand was cancelled due to the fact that the amount of actual expenses incurred in the course of the project was less than expected. The outstanding balances as at 30 June 2017 and 31 December 2016 are USD 39,135 thousand (equivalent to KZT 12,612,147 thousand) and USD 40,254 thousand (equivalent to KZT 13,416,087 thousand), respectively.

**“Construction of the Alma 500 kW substation with connection to NES of Kazakhstan with the voltage of 500, 200 kW”**

In 2010 for the realization of the project “Construction of the Alma 500 kW substation with connection to NES of Kazakhstan with the voltage of 500, 200 kW” the Group received a credit line facility of USD 78,000 thousand from IBRD for 25 (twenty five) years, of which the first 5 (five) years are a grace period. The credit line facility is secured by a guarantee of the Government of the Republic of Kazakhstan. An interest at LIBOR dollar rate plus fixed spread 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 costs. The outstanding balances as at 30 June 2017 and 31 December 2016 are USD 66,005 thousand (equivalent to KZT 21,271,313 thousand) and USD 67,789 thousand (equivalent to KZT 22,593,244 thousand), respectively.

**“Ossakarovka Transmission Rehabilitation Project”**

In 2011, for refinancing of EBRD and DBK loans received in 2004-2005 for realization of the Phases I, II and III 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. As at 30 June 2017 the outstanding balance was fully repaid. The outstanding balance as at 31 December 2016 is USD 21,997 thousand (equivalent to KZT 7,331,269 thousand);
- (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. As at 30 June 2017 the outstanding balance was fully repaid. The outstanding balances as at 31 December 2016 is USD 2,776 thousand (equivalent to KZT 925,255 thousand).

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

**15. BORROWINGS (continued)**

**“Ossakarovka Transmission Rehabilitation Project” (continued)**

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. As at 30 June 2017 the outstanding balance was fully repaid. The outstanding balance as at 31 December 2016 is USD 2,564 thousand (equivalent to KZT 854,678 thousand).

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. In December 2016 the Group made partial repayment in the amount of USD 70,222 thousand (equivalent to 23,567,126 thousand). In January 2017 the Group made full early repayment in the amount of USD 27,337 thousand (equivalent to 9,144,553 thousand).

**16. BONDS PAYABLE**

<i>In thousands of tenge</i>	<b>30 June 2017</b>	31 December 2016
Nominal value of issued bonds	<b>47,500,000</b>	47,500,000
Accrued coupon interest	<b>475,528</b>	5,251,917
Less: discount on bonds issued	<b>(105,115)</b>	(108,883)
Less: transaction costs	<b>(22,216)</b>	(23,013)
	<b>47,848,197</b>	52,620,021
Less: current portion of bonds repayable within 12 months	<b>(475,528)</b>	(5,251,917)
	<b>47,372,669</b>	47,368,104

Under the State Program “Nurly Zhol” during the period from June to August 2016 the Group issued coupon bonds with nominal amount of KZT 47,500,000 thousand under floating interest rate equal to the inflation rate in Republic of Kazakhstan plus 2.9% with the maturity in 2031 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”. The coupon rate for the second coupon period totaled to 10.6% per annum.

All bonds under this program were acquired by United Pension Saving Fund. Cash received was initially placed on short-term bank deposits.

Bonds were issued with discount in the amount of KZT 111,945 thousand, the six months ended 30 June 2017 the Group capitalized amortized discount in the amount of KZT 3,768 thousand and transaction costs in the amount of KZT 796 thousand into the cost of property, plant and equipment.

During the six months ended 30 June 2017 the Group capitalized the cost of coupon interest on issued bonds net off investment income amounted to KZT 2,680,028 thousand.

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

<i>In thousands of tenge</i>	<b>30 June 2017</b>	31 December 2016
<b>Long-term accounts payable</b>		
Accounts payable for property, plant and equipment and construction works	<b>3,982,454</b>	2,804,261
Less: discount on accounts payable	<b>(408,696)</b>	(386,451)
	<b>3,573,758</b>	2,417,810
<b>Short-term accounts payable</b>		
Accounts payable for electricity purchased	<b>4,887,785</b>	3,310,440
Accounts payable for property, plant and equipment and construction works	<b>1,366,636</b>	12,731,011
Accounts payable for inventories, works and services	<b>872,574</b>	940,184
	<b>7,126,995</b>	16,981,635
	<b>10,700,753</b>	19,399,445



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

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

As at 30 June 2017 and 31 December 2016 trade and other accounts payable are denominated in the following currencies:

<i>In thousands of tenge</i>	30 June 2017	31 December 2016
Tenge	9,916,542	18,802,071
Russian rouble	763,040	559,834
US dollar	16,114	27,496
Euro	5,057	10,044
	<b>10,700,753</b>	<b>19,399,445</b>

**18. CONSTRUCTION OBLIGATIONS**

On 28 November 2013 in accordance with the decision of the Board of Samruk-Kazyna, the Group is committed to build a kindergarten in Astana city and transfer it upon completion to the Akimat of Astana. 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 postponed in 2017.

**19. TAXES PAYABLE OTHER THAN INCOME TAX**

<i>In thousands of tenge</i>	30 June 2017	31 December 2016
VAT payable	1,253,036	115,476
Contributions payable to pension fund	102,372	195,551
Personal income tax	77,129	171,925
Social tax	64,596	156,929
Social contribution payable	34,970	40,580
Property tax (Note 29)	17,039	2,657,850
Other	7,429	1,954
	<b>1,556,571</b>	<b>3,340,265</b>

**20. OTHER CURRENT LIABILITIES**

<i>In thousands of tenge</i>	30 June 2017	31 December 2016
Due to employees	1,632,863	2,776,866
Other	192,647	197,045
	<b>1,825,510</b>	<b>2,973,911</b>

**21. REVENUE**

<i>In thousands of tenge</i>	Three months ended		Six months ended 30 June	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Electricity transmission	22,274,165	18,441,087	46,206,864	38,045,023
Technical dispatch	5,093,051	4,536,117	10,803,259	9,641,169
Balancing of electricity production and consumption	3,461,200	3,079,049	7,405,952	6,607,934
Revenue from sales of purchased electricity	4,113,662	2,570,953	7,174,545	5,017,887
Revenue from electricity sales for compensation of the interstate balances of electricity flows	1,053,262	887,719	1,921,585	1,691,978
Revenue from power regulation services	84,127	-	291,861	769,555
Other	384,858	382,664	679,207	731,023
	<b>36,464,325</b>	<b>29,897,589</b>	<b>74,483,273</b>	<b>62,504,569</b>
Discounts to consumers	(100,668)	(462,820)	(113,556)	(590,736)
	<b>36,363,657</b>	<b>29,434,769</b>	<b>74,369,717</b>	<b>61,913,833</b>

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

**21. REVENUE (continued)**

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

For the six months ended 30 June 2017, the revenue from one consumer, Samruk-Energo Group, amounted to KZT 16,877,123 thousand, arising from transmission, technical dispatching and balancing services.

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.

**22. COST OF SALES**

<i>In thousands of tenge</i>	Three months ended		Six months ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Depreciation and amortization	5,551,305	5,286,651	11,098,613	10,572,929
Cost of purchased electricity	4,104,696	2,497,531	7,080,161	4,940,891
Technical losses of electric energy	3,571,677	2,812,919	9,272,791	7,709,174
Payroll expenses and related taxes	2,930,584	2,724,924	5,917,023	5,474,902
Cost of purchased electricity for compensation of interstate balances of electricity flows	2,353,517	1,860,785	3,949,724	4,025,923
Repair and maintenance expenses	1,084,930	1,193,439	1,719,703	1,685,235
Inventories	300,029	320,795	388,410	436,331
Security services	265,973	247,548	529,270	495,062
Other	545,872	517,797	893,084	876,406
	<b>20,708,583</b>	<b>17,462,389</b>	<b>40,848,779</b>	<b>36,216,853</b>

**23. GENERAL AND ADMINISTRATIVE EXPENSES**

<i>In thousands of tenge</i>	Three months ended		Six months ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
Taxes other than income tax	1,718,611	1,262,948	3,496,414	2,507,329
Payroll expenses and related taxes	795,198	799,335	1,540,118	1,651,918
Depreciation and amortization	151,691	131,892	305,905	264,021
Rent expenses	56,929	54,048	57,429	54,568
Consulting services	55,344	104,985	84,076	132,744
Insurance	47,523	32,583	95,389	87,871
Business trip expenses	29,957	40,305	46,747	65,692
Trainings	28,026	16,285	38,564	21,391
Materials	19,128	15,316	34,743	33,950
Utilities	18,138	17,370	47,704	49,581
Allowance for obsolete inventories (Note 8)	17,089	23,495	21,024	(10,752)
Security services	10,059	9,433	20,014	18,867
Communication services	6,378	5,763	12,889	12,209
Bank services	5,607	6,189	11,204	10,888
Repair expenses	–	4,862	–	4,862
(Reversal)/accrual of allowance for doubtful receivables and impairment of advances and other current assets (Notes 9 and 10)	(470,132)	(65,996)	28,030	(14,380)
Other	239,001	145,527	437,908	347,131
	<b>2,728,547</b>	<b>2,604,340</b>	<b>6,278,158</b>	<b>5,237,890</b>

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

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

<i>In thousands of tenge</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>30 June 2017</b>	<b>30 June 2016</b>
<b>Finance income</b>				
Interest income from deposits, current accounts and bonds	1,366,839	1,282,488	2,867,611	2,482,836
Discount on trade payable	115,859	–	121,790	–
Amortization of discount on accounts receivable	35,203	261,933	70,368	648,335
Others	585	949	1,254	2,004
	<b>1,518,486</b>	<b>1,545,370</b>	<b>3,061,023</b>	<b>3,133,175</b>
Less: interest capitalized into cost of qualifying asset (Note 6)	(551,628)	–	(1,378,583)	–
	<b>966,858</b>	<b>1,545,370</b>	<b>1,682,440</b>	<b>3,133,175</b>
<b>Finance costs</b>				
Interest expense	2,559,032	1,212,463	5,481,284	2,485,934
Commission on bank guarantees	353,355	373,766	386,512	417,070
Amortization of loan origination fees	15,603	22,492	147,738	44,623
Amortization of discount in trade payables	50,980	–	99,547	–
Transaction costs on bonds issued	293	–	584	–
	<b>2,979,263</b>	<b>1,608,721</b>	<b>6,115,665</b>	<b>2,947,627</b>
Less: interest capitalized into cost of qualifying asset (Note 6)	(1,849,861)	–	(4,058,611)	–
	<b>1,129,402</b>	<b>1,608,721</b>	<b>2,057,054</b>	<b>2,947,627</b>

**25. FOREIGN EXCHANGE (LOSS)/GAIN, 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 2017, the Group incurred net foreign exchange loss in the amount of KZT 1,457,840 thousand (for the six months ended 30 June 2016: net foreign exchange gain in the amount of KZT 1,015,122 thousand).

**26. INCOME TAX EXPENSE**

<i>In thousands of tenge</i>	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 June 2017</b>	<b>30 June 2016</b>	<b>30 June 2017</b>	<b>30 June 2016</b>
<b>Current income tax</b>				
Current income tax expense	2,081,330	1,160,335	5,434,413	1,178,624
Adjustments to current income tax of the previous year	(13,789)	(1,052)	(13,788)	7,635
<b>Deferred tax</b>				
Deferred income tax expense	(251,666)	1,370,336	119,161	2,960,062
<b>Total income tax expense reported in the interim consolidated statement of comprehensive income</b>	<b>1,815,875</b>	<b>2,529,619</b>	<b>5,539,786</b>	<b>4,146,321</b>

The corporate income tax rate in the Republic of Kazakhstan is 20% in 2017 and 2016.



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

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

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

<i>In thousands of tenge</i>	Three months ended		Six months ended	
	30 June 2017	30 June 2016	30 June 2017	30 June 2016
<b>Profit before income tax expense</b>	<b>7,518,993</b>	12,281,424	<b>23,515,815</b>	20,348,698
<b>Tax at statutory income tax rate of 20%</b>	<b>1,503,799</b>	2,456,285	<b>4,703,163</b>	4,069,740
Adjustments to current income tax of the previous year	(13,788)	(1,052)	(13,788)	7,635
Accrual of provision for non-residents	(97,253)	6,919	(1,078)	6,919
Expenses related to electricity transmission for green energy producers	74,223	87,179	126,722	87,179
Interest capitalized in the cost of property, plant and equipment	110,326	–	275,717	–
Accrual of provision on funds placed with Delta Bank JSC and Kazinvestbank JSC	253,093	–	386,868	–
Other (non-taxable income)/non-deductible expenses	(14,525)	(19,712)	62,182	(25,152)
<b>Income tax expense reported in the profit or loss</b>	<b>1,815,875</b>	2,529,619	<b>5,539,786</b>	4,146,321

Tax effect on temporary differences leading to deferred income tax assets and liabilities at 30 June 2017 and 31 December 2016 is provided below:

<i>In thousands of tenge</i>	Interim consolidated statement of financial position				Interim consolidated statement of comprehensive income	
	30 June 2017	31 December 2016	30 June 2016	1 January 2016	For the six months ended	
	30 June 2017	31 December 2016	30 June 2016	1 January 2016	30 June 2017	30 June 2016
Tax losses carried forward	–	–	–	3,472,159	–	(3,472,159)
Accounts receivable	13,679	91,758	122,936	263,044	(78,079)	(140,108)
Accrued liabilities	254,928	980,032	195,464	127,625	(725,104)	67,839
Property, plant and equipment	(67,194,589)	(67,878,611)	(67,952,765)	(68,537,131)	684,022	584,366
<b>Deferred tax expense</b>	<b>–</b>	–	–	–	<b>(119,161)</b>	(2,960,062)
<b>Net deferred tax liabilities</b>	<b>(66,925,982)</b>	(66,806,821)	(67,634,365)	(64,674,303)	–	–

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

<i>In thousands of tenge</i>	30 June 2017	31 December 2016
Deferred tax assets	2,145	1,093
Deferred tax liabilities	(66,928,127)	(66,807,914)
<b>Net deferred tax liabilities</b>	<b>(66,925,982)</b>	(66,806,821)

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

**27. TRANSACTIONS WITH RELATED PARTIES**

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

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

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

The following table provides the balances of transactions from related parties as at 30 June 2017 and 31 December 2016:

<i>In thousands of tenge</i>		Trade accounts receivable from related parties	Trade accounts payable to related parties
Subsidiaries of Samruk-Kazyna	<b>30 June 2017</b>	<b>1,972,903</b>	<b>1,602,107</b>
	31 December 2016	1,906,324	1,612,641
Associates of Samruk-Kazyna	<b>30 June 2017</b>	<b>410,436</b>	<b>80,895</b>
	31 December 2016	289,396	188,262
Entities under joint control of Samruk-Kazyna	<b>30 June 2017</b>	<b>169,325</b>	<b>964,663</b>
	31 December 2016	200,141	334,881
Associates of the Group	<b>30 June 2017</b>	<b>59,280</b>	<b>5,726</b>
	31 December 2016	37,099	10,975

The Group had the following transactions with related parties for the six months period ended 30 June 2017 and 2016:

<i>In thousands of tenge</i>		Sales to related parties	Purchases from related parties
Subsidiaries of Samruk-Kazyna Group	<b>2017</b>	<b>18,261,936</b>	<b>10,717,407</b>
	2016	22,997,812	15,969,180
Associated entities of Samruk-Kazyna	<b>2017</b>	<b>3,985,898</b>	<b>898,404</b>
	2016	7,539,481	2,804,717
Entities under joint control of Samruk-Kazyna	<b>2017</b>	<b>2,340,636</b>	<b>1,627,340</b>
	2016	7,004,120	2,793,163
Associates of the Group	<b>2017</b>	<b>203,472</b>	<b>47,562</b>
	2016	300,653	90,194

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 2017 the Group’s borrowings of KZT 59,144,906 thousand were guaranteed by the Government of the Republic of Kazakhstan (31 December 2016: KZT 65,437,392 thousand).

In 2007-2009 the Group acquired bonds of an associate, Batys Transit JSC, an entity listed on the Kazakhstan Stock Exchange. The bonds are classified as available for sale investments. Fair value is the price to sell an asset or transfer a liability and approximates their carrying value. As of 30 June 2017 the carrying value of Batys Transit bonds comprised KZT 868,269 thousand (31 December 2016: KZT 868,269 thousand).

As of 30 June 2017 the Group had outstanding accounts receivable from Balkhash TES JSC for the sale of property, plant and equipment in the amount of KZT 192,522 thousand (31 December 2016: KZT 184,276 thousand) presented within long-term receivables from related parties. In accordance with sales agreement Balkhash TES JSC will repay the outstanding balance in December 2018. As at 30 June 2017 the discount on accounts receivable from Balkhash TES JSC comprised KZT 27,329 thousand (31 December 2016: KZT 35,575 thousand). For the six months ended 30 June 2017 the amortization of discount on accounts receivable comprised KZT 8,246 thousand (for the six months ended 30 June 2016: KZT 7,590 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 2017 the discount on accounts receivable from Kazpost JSC comprised KZT 721,597 thousand. As of 30 June 2017 the receivable net of discount comprised KZT 1,227,007 thousand, of which KZT 1,046,884 thousand was accounted for within long-term receivables from related parties. For the six months ended 30 June 2017 the Group recognized income from amortization of discount on long-term receivables from Kazpost JSC in the amount of KZT 62,121 thousand.

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

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

Total compensation to key management personnel included in personnel costs in the interim consolidated statement of comprehensive income was KZT 467,018 thousand for the six months ended 30 June 2017 (for the six months ended 30 June 2016: KZT 122,370 thousand). Compensation to key management personnel mainly consists of contractual salary and performance bonus based on operating results.

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

The Group’s principal financial liabilities comprise borrowings, 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 15 and 16*).

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

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

<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 2017</b>		
LIBOR	60/(8)	(352,490)/46,999
EURIBOR	12/(8)	(54,250)/36,167
<b>For the six months ended 30 June 2016</b>		
LIBOR	50/(12)	(526,440)/126,346
EURIBOR	25/(25)	(139,534)/139,534

\* 1 basis point = 0.01%.

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

**Foreign currency risk**

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

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

<i>In thousands of tenge</i>	<b>Increase in exchange rate</b>	<b>Effect on profit before tax</b>
<b>At 30 June 2017</b>		
US dollar	13%/(13%)*	(2,692,693)/2,692,693
Euro	15%/(15%)**	(5,214,111)/5,214,111
<b>At 31 December 2016</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 41.90/(41.90) KZT;

\*\* In absolute terms, the increase/decrease in KZT exchange rate against the euro of 55.13/(55.13) KZT.



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

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

**Credit risk**

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

Book value of financial assets recognized in the interim 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 2017 the Group had one customer Uzbekenergo JSC that owed the Group KZT 3,889,007 thousand and accounted for 38% of all trade accounts receivable outstanding (31 December 2016: KZT 9,915,969 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 9. The Group does not hold collateral as security.

In December 2016 National Bank of the Republic of Kazakhstan recalled the licence of Kazinvestbank JSC to conduct bank and other operations and operation in securities market and appointed a temporary administrator. At the moment forced liquidation of Kazinvestbank JSC is carried out (Note 11).

In May 2017 the licence of Delta Bank JSC on attracting new deposits and opening new bank accounts for individuals and legal entities, except for providing services to existing deposits and clients, was suspended (Note 11).

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

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

<i>In thousands of tenge</i>	Location	Rating		30 June 2017	31 December 2016
		2017	2016		
ATF Bank JSC	Kazakhstan	<b>B-/ Stable</b>	B-/ Stable	<b>33,206,298</b>	31,499,274
Eurasian Bank JSC	Kazakhstan	<b>B+/Negative</b>	B+/Negative	<b>13,202,126</b>	12,765,758
Tsesna Bank JSC	Kazakhstan	<b>B+/Negative</b>	B+/Stable	<b>11,500,921</b>	3,170,712
National Bank Kazakhstan JSC	Kazakhstan	<b>BB+/Negative</b>	BB+/Stable	<b>9,117,421</b>	16,851,515
EximBank Kazakhstan JSC	Kazakhstan	<b>B-/Negative</b>	B-/Stable	<b>3,749,921</b>	4,436,326
Bank Astana JSC	Kazakhstan	<b>B/Stable</b>	B/Stable	<b>2,629,662</b>	4,829,510
Bank RBK JSC	Kazakhstan	<b>B-/Positive</b>	B-/Positive	<b>2,360,903</b>	2,441,921
Kazkommerts Bank JSC	Kazakhstan	<b>CCC+/Negative</b>	B-/Negative	<b>2,321,490</b>	2,437,396
ForteBank JSC	Kazakhstan	<b>B/Stable</b>	B/Stable	<b>1,807,595</b>	5,006,158
SberBank Russia JSC	Kazakhstan	<b>BB+/Negative</b>	BBB-/Negative	<b>127,193</b>	–
Treasury Committee of the Ministry of Finance	Kazakhstan	<b>Not applicable</b>	Not applicable	<b>80,383</b>	80,383
BankCenterCredit JSC	Kazakhstan	<b>B/Stable</b>	B+/Stable	<b>35,108</b>	6,938,201
AsiaCredit Bank JSC	Kazakhstan	<b>B/Negative</b>	B/Stable	<b>70</b>	70
Nur Bank JSC	Kazakhstan	<b>B/Stable</b>	B/Stable	<b>3</b>	1,511,630
Delta Bank JSC	Kazakhstan	<b>D</b>	D	–	3,000,000
KazInvestBank JSC	Kazakhstan	<b>D</b>	D	–	645,891
Qazaq Banki JSC	Kazakhstan	<b>B-/Stable</b>	B-/Stable	–	4,373,053
Capital Bank Kazakhstan JSC	Kazakhstan	<b>B-/Stable</b>	B-/Stable	–	3,000,022
Alfa-Bank JSC	Kazakhstan	<b>BB-/Stable</b>	B+/Negative	–	3,000,000
Tengri Bank JSC	Kazakhstan	<b>BB+/Negative</b>	B+/Negative	–	2,017,708
				<b>80,139,094</b>	<b>108,005,528</b>

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

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

**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.

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

<i>In thousands of tenge</i>	On demand	Due more than month but not later than 3 months	Due more than 3 months but not later than 1 year	Due more than 1 year but not later than 5 years	Due more than 5 years	Total
<b>At 30 June 2017</b>						
Borrowings	–	6,026,851	13,901,231	60,757,713	36,127,284	116,813,079
Trade and other accounts payable	–	7,126,995	–	3,573,758	–	10,700,753
Bonds payable	–	–	5,510,528	25,175,000	82,142,141	112,827,669
	–	13,153,846	19,411,759	89,506,471	118,269,425	240,341,501
<b>At 31 December 2016</b>						
Borrowings	–	15,279,011	13,947,521	64,035,820	42,194,121	135,456,473
Trade and other accounts payable	–	16,981,635	–	2,417,810	–	19,399,445
Bonds payable	–	–	5,251,917	–	47,368,104	52,620,021
	–	32,260,646	19,199,438	66,453,630	89,562,225	207,475,939

**Capital management**

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

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

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

	30 June 2017	31 December 2016
Debt/capital	0.25	0.28
<i>In thousands of tenge</i>		
Long-term borrowings and long-term bonds payable	133,724,884	142,512,099
Short-term borrowings and short-term bonds payable	18,641,763	32,586,861
<b>Debt</b>	<b>152,366,647</b>	<b>175,098,960</b>
Total liabilities	238,707,901	269,974,816
Equity	372,746,338	362,084,070
<b>Total equity and liabilities</b>	<b>611,454,239</b>	<b>632,058,886</b>

The structure of the Group capital includes the share capital as disclosed in *Note 14*, 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>	30 June 2017	Level 1	Level 2	Level 3
<b>Financial assets</b>				
Available-for-sale financial assets (Note 11)	868,269	–	868,269	–
<b>Non-financial assets</b>				
NES assets (Note 6)	407,131,896	–	–	407,131,896

<i>In thousands of tenge</i>	31 December 2016	Level 1	Level 2	Level 3
<b>Financial assets</b>				
Available-for-sale financial assets (Note 11)	868,269	–	868,269	–
<b>Non-financial assets</b>				
NES assets (Note 6)	416,722,746	–	–	416,722,746

*Liabilities for which fair values are disclosed*

<i>In thousands of tenge</i>	30 June 2017	Level 1	Level 2	Level 3
<b>Financial liabilities</b>				
Bonds payable (Note 16)	47,848,197	47,848,197	–	–
Borrowings (Note 15)	104,518,450	–	104,518,450	–

<i>In thousands of tenge</i>	31 December 2016	Level 1	Level 2	Level 3
<b>Financial liabilities</b>				
Borrowings (Note 15)	122,478,939	–	122,478,939	–
Bonds payable (Note 16)	52,620,021	52,620,021	–	–

**Fair values of financial instruments**

As of 30 June 2017 and 31 December 2016 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)****30. COMMITMENTS AND CONTINGENCIES****Operating environment**

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

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

**Taxation**

Kazakhstan’s tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan’s tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for 5 calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan’s tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2016.

From 1 January 2015 National classifier of Republic of Kazakhstan Tax Code *Classifier of Fixed Assets* (the “COF”) became effective. This classifier was approved by Decree of the Head of Technical Regulation and Metrology Committee of the Ministry of Investment and Development of Republic of Kazakhstan dated 7 November 2014. New version of COF supposes reclassification of part of fixed assets from “NES” assets group into “Machinery and Equipment” group. The Group applied new version of COF for calculation of property tax in 2015 and 2016. As a result of implementation of new version of COF, the Group received annual savings of resources. In 2016 there is an issue raised by tax authorities that COF is not registered in the judicial bodies. In the tax authorities’ view, absence of standard documents in the judicial bodies loses its validity. Therefore, new version of COF was abolished according to the Decision of Technical Regulation and Metrology Committee of the Ministry of Investment and Development of Republic of Kazakhstan dated 23 July 2016. Due to the factors above, in 2016 the Group reclassified fixed assets and made additional property tax accrual in the amount of KZT 2,630,504 thousand for 2015 and 2016, including fines and penalties in amount of KZT 256,639 thousand (*Note 19*).

**Compliance with loan covenants**

From 1999 till 2011 the Group concluded loan facility agreements with EBRD and IBRD (the “Creditors”) of which are effective for the amounts of 506 million US dollars and 228 million Euro (*Note 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 2017 and 31 December 2016. 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 2017 the Group excluded from EBITDA the foreign exchange loss of KZT 1,457,840 thousand incurred during the six months ended 30 June 2017.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)****30. COMMITMENTS AND CONTINGENCIES (continued)****Insurance**

As at 30 June 2017, the Group insured property and equipment with the recoverable value of KZT 170,542,342 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.

**Capital commitments**

To ensure the stable and reliable performance of the national electricity grid, the Group developed a capital investment plan. As at 30 June 2017, the Group's outstanding contractual commitments within the frameworks of this plan amount to KZT 45,623,560 thousand (31 December 2016: KZT 60,617,921 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 in 2017 the calculation and application of tariffs for the sale and purchase of electricity from renewable energy sources is carried out properly and in accordance with the applicable rules and legislation.

According to the Amendments to the legislation of Republic of Kazakhstan dated 28 December 2016, competence of the authorised body comprises the function to develop and approve pricing rules of socially significant markets (the “Rules”).

Currently, the authorised body is developing the draft of respective Rules. Upon adoption of such rules, pricing procedure in calculation of the tariff to support renewable energy sources shall be performed in accordance with them.

*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 1 January to 30 June 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).

At the end of 2016 was sent to report on implementation of the tariff estimate to the Committee following the consideration of which the order of the Committee has been defined temporary compensating tariff for regulated services for the period from 1 July 2017 to 30 June 2018, set lower limit levels of tariffs for regulated services. From 1 July to 31 December 2017 the temporary compensating tariff for electricity transmission through electric grids set at 2.2457 KZT/kWh (excluding VAT), the rate of technical dispatch to the grid and electricity consumption – 0.2339 KZT/kWh (excluding VAT). From 1 January to 30 June 2018 a temporary compensating tariff for electricity transmission through electric grids will be 2.4957 KZT/kWh (excluding VAT), the rate of technical dispatch to the grid and electricity consumption – 0.2489 KZT/kWh (excluding VAT).

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

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**31. SUBSEQUENT EVENTS**

**Repayment of debts from Uzbekenergo JSC**

In July 2017 Uzbekenergo JSC made partial repayment of its debt in the amount of USD 1,196 thousand (equivalent to KZT 390,685 thousand) for sale of electricity transmission services in 2013-2014.

**Repayment of borrowings**

In July 2017 the Company made half-year repayment of the loan IBRD on the project “Construction of the Alma 500 kW substation with connection of 500,220 kW electric lines to Kazakhstan National Electricity Transmission”. There was also repayment of principal in amount of USD 1,784 thousand (equivalent to KZT 571,636 thousand) and interest in amount of USD 823 thousand (equivalent to KZT 263,724 thousand).