Kazakhstan Electricity Grid Operating Company JSC

Interim consolidated financial statements

As at and for the six months ended 30 June 2019
with independent auditor's report

CONTENTS

«Эрнст энд Янг» ЖШС
Әл-Фараби д-лы, 77/7
«Есентай Тауэр» ғимараты
Алматы қ., 050060
Қазақстан Республикасы
Тел.: +7 727 258 5960
Факс: +7 727 258 5961
www.ey.com

ТОО «Эрнст энд Янг»
пр. Аль-Фараби, 77/7
здание «Есентай Тауэр»
г. Алматы, 050060
Республика Казахстан
Тел.: +7 727 258 5960
Факс: +7 727 258 5961

Ernst & Young LLP
Al-Farabi ave., 77/7
Esentai Tower
Almaty, 050060
Republic of Kazakhstan
Tel.: +7 727 258 5960
Fax: +7 727 258 5961

Building a better working world

Independent auditor's report

To the Shareholders, Audit Committee and management 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 2019, and the interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the three and 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 interim consolidated financial position of the Group as at 30 June 2019 and its interim consolidated financial performance and its interim consolidated cash flows for the three and 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 the matters below, our description of how our audit addressed these matters is provided in that context.

EY

Building a better working world

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.

Key audit matters	***How our audit addressed the key audit matters***
Revenue recognition from services to ensure readiness of electricity capacity to bear the power load	
Revenue recognition was one of the key audit matters due to the launch of the capacity market since 1 January 2019 created to ensure the balance reliability of the energy system of the Republic of Kazakhstan. The matter received special attention due to the large volumes of operations associated with it - in particular, service delivery to more than 230 customers based on uniform weighted average tariff. Estimation of the revenue received by the Group depends on management's assessment of the capacity sold. The Group's disclosure in respect of the new service is included in *Note 3* to the interim consolidated financial statements.	We conducted the following procedures: - examined the available information on the launch of the electricity capacity market, including additional explanations received from the management of the Group, and the relevant regulatory framework; - evaluated the accounting policy applied for revenue recognition; - conducted reconciliation of the electricity capacity volume used for revenue calculation during the reporting period with the acts of the actual maximum volume of electricity capacity agreed with customers; - analyzed tariff calculation for the services to ensure readiness of electricity capacity to bear the power load; - analyzed Group's disclosure in respect of the revenue from this service.
Analysis of the Group's role in purchase - sale agreements for electricity produced by the renewable energy sector (hereafter - RES) facilities	

Building a better working world

This matter was one of the key audit matters due to material amount of revenue from sales and cost of sales of electricity generated by RES facilities, as well as from the fact that accounting of purchase - sale of electricity requires complex principal-agent analysis and application of significant judgement by management of whether the Group receives control over electricity when it is sold to prospective customers. The disclosure of the Group's judgement in respect of the recognition of revenue from sales of electricity generated by RES facilities is included in *Notes 4* to the interim consolidated financial statements.	We conducted the following procedures: - investigated existing information about RES market in the Republic of Kazakhstan including additional explanations received from the management of the Group, and the relevant regulatory framework; - evaluated the accounting policy applied for revenue recognition from sales of electricity generated by RES facilities; - analyzed the Group's management position whether the Group's receives control over electricity generated by RES facilities; - analyzed the Group's disclosure regarding the judgement on revenue recognition from sales of electricity generated by RES facilities.

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.

Building a better working world

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 Adil Syzdykov.

Ernst & Young LLP

Adil Syzdykov Auditor	Gulmira Turmagambetova General Director Ernst & Young LLP
Auditor Qualification Certificate No. МФ - 0000172 dated 23 December 2013	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
050060, Republic of Kazakhstan, Almaty Al-Farabi Ave., 77/7, Esentai Tower	

7 August 2019

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

In thousands of Tenge	Notes	30 June 2019	31 December 2018
Assets			
Non-current assets			
Property, plant and equipment	6	**657,933,626**	667,936,367
Intangible assets		**1,532,254**	1,472,307
Advances paid for non-current assets	6	**1,025,950**	1,018,989
Deferred tax asset	26	**4,706**	3,760
Investments in associate	7	**1,626,095**	1,107,867
Long-term receivables from related parties	27	**884,974**	929,162
Other financial assets, non-current portion	11	**1,916,645**	25,609,268
Other non-current assets		**739**	4,017
		664,924,989	698,081,737
Current assets			
Inventories	8	**3,253,433**	2,291,378
Trade accounts receivable	9	**21,564,161**	9,251,847
VAT recoverable and other prepaid taxes		**565,304**	791,934
Prepaid income tax		**45,614**	1,541,679
Other current assets	10	**4,803,975**	528,622
Other financial assets, current portion	11	**47,046,693**	20,127,229
Restricted cash	12	**4,196,601**	4,175,576
Cash and cash equivalents	13	**24,501,483**	19,060,700
		105,977,264	57,768,965
Total assets		**770,902,253**	755,850,702

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of Tenge	Notes	30 June 2019	31 December 2018
Equity and liabilities			
Equity			
Share capital	14	**126,799,554**	126,799,554
Treasury shares	14	**(930)**	(930)
Asset revaluation reserve	14	**310,576,170**	310,840,187
Other reserves	14	**(37,081)**	(37,081)
Retained earnings		**43,752,707**	35,092,074
		481,090,420	472,693,804
Non-current liabilities			
Borrowings, non-current portion	15	**59,540,236**	62,881,150
Bonds payable, non-current portion	16	**83,665,598**	83,660,104
Deferred tax liability	26	**89,438,261**	90,170,202
Government grant, non-current portion		**74,757**	89,972
Finance lease obligations, non-current portion	27	**212,826**	157,175
		232,931,678	236,958,603
Current liabilities			
Borrowings, current portion	15	**8,786,266**	11,420,710
Bonds payable, current portion	16	**3,856,344**	4,097,122
Trade and other accounts payable, current portion	17	**35,913,338**	22,645,297
Construction obligation	18	**683,430**	683,430
Contract liabilities		**1,647,190**	1,734,670
Government grant, current portion		**30,430**	30,430
Finance lease obligations, current portion	27	**106,612**	36,323
Taxes payable other than income tax	19	**1,412,093**	2,144,441
Income tax payable		**1,535,881**	1,123
Dividends payable		**2,592**	2,750
Other current liabilities	20	**2,905,979**	3,401,999
		56,880,155	46,198,295
Total liabilities		**289,811,833**	283,156,898
Total equity and liabilities		**770,902,253**	755,850,702
Book value per ordinary share (in Tenge)	14	**1,844**	1,812

Chairman of the Management Board

Kazhiyev B.T.

Acting Chief Accountant

Kabysh T.A.

The accounting policies and explanatory notes on pages 7 to 49 are an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months period ended 30 June 2019

In thousands of tenge	Notes	For the three months period ended 30 June 2019	For the three months period ended 30 June 2018 (restated)*	For the six months period ended 30 June 2019	For the six months period ended 30 June 2018 (restated)*
Revenue from contracts with customers	21	**61,402,362**	42,863,762	**124,508,611**	87,021,188
Cost of sales	22	**(46,818,880)**	(24,371,461)	**(92,232,203)**	(48,767,729)
Gross profit		**14,583,482**	18,492,301	**32,276,408**	38,253,459
General and administrative expenses	23	**(1,870,567)**	(1,834,208)	**(3,526,798)**	(3,413,896)
Selling expenses		**(84,339)**	(55,964)	**(160,695)**	(117,410)
Reversal of impairment of property plant and equipment		**50,740**	3,623	**10,993**	159,988
Operating profit		**12,679,316**	16,605,752	**28,599,908**	34,882,141
Finance income	24	**1,080,145**	1,716,324	**1,961,063**	2,555,594
Finance costs	24	**(2,092,111)**	(1,538,438)	**(3,971,305)**	(2,102,053)
Foreign exchange (loss)/gain, net	25	**(379,759)**	(2,146,500)	**486,015**	(590,123)
Share in profit of an associate	7	**206,967**	290,708	**518,228**	358,496
Other income		**170,604**	51,054	**317,955**	122,229
Other expenses		**(36,141)**	(64,682)	**(67,493)**	(105,219)
Accrual of provision for expected credit losses	9, 10, 11, 12, 13	**(220,124)**	(1,775,314)	**(212,009)**	(2,127,909)
Profit before tax		**11,408,897**	13,138,904	**27,632,362**	32,993,156
Income tax expense	26	**(2,239,866)**	(2,783,491)	**(5,058,022)**	(6,821,255)
Profit for the reporting period		**9,169,031**	10,355,413	**22,574,340**	26,171,901
Total comprehensive income		**9,169,031**	10,355,413	**22,574,340**	26,171,901
Earnings per share					
Basic and diluted profit for the period attributable to ordinary equity holders (in Tenge)	14	**35.27**	39.31	**86.82**	100.66

* *Certain amounts given in this column are not consistent with the interim consolidated financial statements as at and for the six months ended 30 June 2018 as they reflect the adjustments disclosed in Note 2.*

Chairman of the Management Board ______________ *Kazhiyev B.T.*

KEGOC

Acting Chief Accountant ______________ *Kabysh T.A.*

The accounting policies and explanatory notes on pages 7 to 49 are an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months period ended 30 June 2019

In thousands of Tenge	Notes	For the six months period ended 30 June 2019	2018
Operating activities			
Profit before tax		**27,632,362**	32,993,156
Adjustments to reconcile profit before tax to net cash flows			
Depreciation and amortisation		**16,859,294**	11,578,834
Finance costs	24	**3,971,305**	2,102,053
Finance income	24	**(1,961,063)**	(2,555,594)
Foreign exchange (gain)/loss, net	25	**(486,015)**	590,123
Accrual of provision for expected credit losses		**212,009**	2,128,060
Accrual/(reversal) of allowance for obsolete inventories	23	**91,490**	(76,314)
Loss on disposal of property, plant and equipment and intangible assets		**6,830**	-
Reversal of impairment of property, plant and equipment	6	**(10,995)**	(159,988)
Share in profit of an associate	7	**(518,228)**	(358,496)
Income from government grants		**(15,215)**	(13,743)
Working capital adjustments			
Change in inventories		**(1,053,544)**	(1,041,092)
Change in trade accounts receivable		**(12,321,003)**	(1,948,461)
Change in VAT recoverable and other prepaid taxes		**226,630**	814,501
Change in other current assets		**(4,310,332)**	(284,904)
Change in trade and other accounts payable		**15,980,063**	1,326,740
Change in finance lease liabilities		**106,930**	-
Change in contract liabilities		**(87,480)**	(28,770)
Change in taxes payable other than income tax		**(711,477)**	1,554,063
Change in other current liabilities		**(513,141)**	(1,520,884)
Cash flows from operating activities		**43,098,420**	45,099,284
Interest paid		**(1,734,785)**	(1,160,212)
Coupon interest paid		**(4,512,500)**	(5,235,133)
Income tax paid		**(2,635,877)**	(3,966,443)
Interest received		**1,632,620**	2,179,571
Net cash flows received from operating activities		**35,847,878**	36,917,067

The accounting policies and explanatory notes on pages 7 to 49 are an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of Tenge	Notes	For the six months period ended 30 June 2019	2018
Investing activities			
Withdrawal of bank deposits		**22,317,869**	21,278,343
Replenishment of bank deposits		**(21,973,016)**	(21,137,658)
Acquisition of bonds of Samruk-Kazyna	11	**–**	(25,543,322)
Change in restricted cash		**(59,429)**	(174,454)
Proceeds from sale of property, plant and equipment and intangible assets		**98,249**	102,607
Purchase of property, plant, equipment		**(7,641,351)**	(17,429,209)
Purchase of intangible assets		**(197,167)**	(20,831)
Return of project funds used to purchase fixed assets	6	**1,540**	299,103
Repayment of loans to employees		**–**	4,524
Acquisition of debt securities (Republic of Kazakhstan National bank notes)	11	**(3,541,606)**	–
Repurchase of DSFK bonds by the issuer	11	**8,946**	5,367
Net cash flows used in investing activities		**(10,985,965)**	(42,615,530)
Financing activities			
Dividends paid		**(14,177,882)**	(10,433,661)
Repayment of borrowings		**(5,177,897)**	(4,315,045)
Net cash flows used in financing activities		**(19,355,779)**	(14,748,706)
Net change in cash and cash equivalents		**5,506,134**	(20,447,169)
Effect of exchange rate changes on cash and cash equivalents		**(61,032)**	(105,575)
Effect of accrual of provision on expected credit losses on cash and cash equivalents	13	**(4,319)**	(1,263,276)
Cash and cash equivalents, as at 1 January	13	**19,060,700**	47,577,783
Cash and cash equivalents, as at 30 June		**24,501,483**	25,761,763

Chairman of the Management Board — *Kazhiyev B.T.*

Acting Chief Accountant — *Kabysh T.A.*

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months period ended 30 June 2019

In thousands of Tenge	Share capital	Asset revaluation reserve	Treasury shares	Other reserves	Retained earnings	Total
As at 1 January 2018	126,799,554	220,858,720	(930)	(170,701)	26,680,917	374,167,560
Effect of adoption of IFRS 9	–	–	–	–	(886,271)	(886,271)
As at 1 January 2018 (restated)	126,799,554	220,858,720	(930)	(170,701)	25,794,646	373,281,289
Profit for the period	–	–	–	–	26,171,901	26,171,901
Total comprehensive income	–	–	–	–	26,171,901	26,171,901
Dividends *(Note 14)*	–	–	–	–	(10,433,745)	(10,433,745)
Amortization of provision for bonds	–	–	–	63,003	–	63,003
Transfer of asset revaluation reserve *(Note 14)*	–	(11,579)	–	–	11,579	–
As at 30 June 2018	126,799,554	220,847,141	(930)	(107,698)	41,544,381	389,082,448
As at 1 January 2019	126,799,554	310,840,187	(930)	(37,081)	35,092,074	472,693,804
Profit for the period	–	–	–	–	**22,574,340**	**22,574,340**
Total comprehensive income	–	–	–	–	**22,574,340**	**22,574,340**
Transfer of asset revaluation reserve *(Note 14)*	–	**(264,017)**	–	–	**264,017**	–
Dividends *(Note 14)*	–	–	–	–	**(14,177,724)**	**(14,177,724)**
As at 30 June 2019	**126,799,554**	**310,576,170**	**(930)**	**(37,081)**	**43,752,707**	**481,090,420**

Chairman of the Management Board ________________ *Kazhiyev B.T.*

Acting Chief Accountant ________________ *Kabysh T.A.*

б

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months period ended 30 June 2019

1. GENERAL INFORMATION

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

As at 30 June 2019 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 2019 and 31 December 2018 the Company has stakes in the following companies:

		Percentage of ownership	
Companies	**Activities**	**30 June 2019**	31 December 2018
Energoinform JSC	Maintenance of the KEGOC's IT system	**100%**	100%
Accounting and Finance Center for the support of renewable energy resources LLP (hereafter "RFC" 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".

For management purposes, the Group's activities are organized into business units based on their services, and has three reportable operating segments, as follows *(Note 5)*:

- *Electricity transmission services and related support.* Electricity transmission is 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 of the Republic of Kazakhstan for the Regulation of Natural Monopolies and Protection of Competition under the Ministry of National Economy of the Republic of Kazakhstan (the "Committee");
- *Services to ensure readiness of electricity capacity to bear the power load.* From 1 January 2019, the electricity capacity market was put into operation in the Republic of Kazakhstan, the main purpose of which is to ensure the balance of the reliability of the power system of the Republic of Kazakhstan. Balance reliability refers to the ability of a power system to meet consumer demand for electricity at any given time;
- *Sale of purchased electricity.* The sale of purchased electricity segment includes the renewable energy sector (hereinafter – "RES") created by the Government of the Republic of Kazakhstan in order to create conditions for the development of the RES. The renewable energy sector is regulated by the Law of the Republic of Kazakhstan dated 4 July 2009 No. 165-IV *On Supporting the Use of Renewable Energy Sources.*

The Company's registered office is located at 59 Tauelsyzdyk Ave., Nur-Sultan, Z00T2D0, the Republic of Kazakhstan.

These interim consolidated financial statements were signed by the Chairman of the Management Board and Acting Chief Accountant of the Company on 7 August 2019.

2. BASIS OF PREPARATION

The interim consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

Basis of consolidation

The interim consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2019. 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 interim 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.

2. BASIS OF PREPARATION (continued)

Reclassification of the previously issued financial statements

In course of preparation of these interim consolidated financial statements reclassifications of comparative information for the previous reporting period were carried out. The effect of adjustments is presented in the following table:

In thousands of Tenge	As previously issued	Reclassification and adjustments	Note	As restated
Interim consolidated statement of comprehensive income for the six months period ended 30 June 2018				
Cost of sales	(45,544,595)	(3,223,134)	[1]	(48,767,729)
General and administrative expenses	(6,637,030)	3,223,134	[1]	(3,413,896)
Gross profit	**41,476,593**	–		**38,253,459**
Interim consolidated statement of comprehensive income for the three months period ended 30 June 2018				
Cost of sales	(22,751,975)	(1,619,486)	[1]	(24,371,461)
General and administrative expenses	(3,453,694)	1,619,486	[1]	(1,834,208)
Gross profit	**20,111,787**	–		**18,492,301**

[1] In 2019, the Group reclassified property tax on the production assets from General and administrative expenses to the cost of sales. This reclassification did not affect the Group's net income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New standards, interpretations and amendments

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 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 16 *Leases* that requires restatement of previous financial statements. As required by IAS 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim consolidated financial statements of the Group.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the full retrospective method of adoption with the date of initial application of 1 January 2019. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

To determine the lease component in renewable energy purchase agreements, the Group must evaluate the asset in the form of a right of use, since the lease payments under these agreements are variable. Purchase agreements provide for fixed tariffs in Tenge for each kWh of electricity generated at a power plant. However, the Group's management cannot determine with a reliable estimate the volume of electricity due to high fluctuations in the volumes of production that will be produced at each particular power plant, since the nature of the RES business is highly dependent on external factors, such as weather conditions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its interim consolidated financial statements.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The interpretation did not have an impact on the interim consolidated financial statements of the Group.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the interim consolidated financial statements of the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

These amendments had no impact on the interim consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments (continued)

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (continued)

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures.*

These amendments had no impact on the interim consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. Information on the effect of the application of amendments to IAS 23 is disclosed in *Note 16.*

Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

Fair value measurement

The Group measures financial instruments, such as, available for sale ("AFS") financial assets at fair value at each reporting date, and non-financial assets (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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

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

The Group's finance management determines the policies and procedures for both recurring fair value measurement, such as 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 interim 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions (continued)

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

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

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

Exchange rate as at the end of the period (to KZT)	**30 June 2019**	31 December 2018
USD 1	**380.53**	384.2
EUR 1	**433.08**	439.37
RUR 1	**6.04**	5.52

Average exchange rate for the six months period (to KZT)	**30 June 2019**	30 June 2018
USD 1	**379.32**	326.53
EUR 1	**428.51**	395.39
RUR 1	**5.81**	5.50

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
NES assets	
Power transmission lines	50 years
Constructions	10-30 years
Machinery and equipment	12-30 years
Vehicles and other property, plant and equipment	
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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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 assets" class. Therefore, the Group renamed "NES assets" into "NES assets" for the purposes of financial statements. The useful lives and residual values of property, plant and equipment are reviewed annually and, where applicable, adjustments are made on a prospective basis.

If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amounts of the carrying amount of property, plant and equipment and on depreciation expenses recognized in the interim 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.

Impairment of non-financial assets

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

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

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

Impairment losses of continuing operations, including impairment on inventories, are recognised in the interim 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 profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation surplus.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associate

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

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

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

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized 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. 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 interim 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 amount, then recognized the loss as 'Share in 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, restricted cash, other financial assets, trade and other accounts receivable, quoted and unquoted financial instruments.

Financial assets at initial recognition are classified as financial assets measured at amortized cost; financial assets measured at fair value through profit or loss; financial assets measured at fair value through other comprehensive income.

A financial asset is measured at amortized cost if two criteria are met:

1) The purpose of the business model is to hold a financial asset to receive all contractual cash flows; and
2) Contractual cash flows are represented only by interest payments and principal debt. The fee is a payment for the time value of money and the credit risk associated with the principal debt to maturity in a certain period of time.

If at least one of the above criteria is not met, the financial asset is measured at fair value.

The Group's financial assets not carried at amortized cost are stated at fair value.

A financial asset is measured at fair value through other comprehensive income if two criteria are met:

1) The purpose of the business model is to hold a financial asset both for obtaining all contractual cash flows and for selling a financial asset; and
2) Contractual cash flows are represented only by interest payments and principal debt. The fee is a payment for the time value of money and the credit risk associated with the principal debt to maturity in a certain period of time.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Initial recognition and measurement (continued)

The Group accounts for financial assets at fair value through profit or loss, except when they are carried at amortized cost or at fair value through other comprehensive income.

Subsequent measurement

Subsequently, financial assets are measured at amortized or fair value through other comprehensive income, or through profit or loss, based on the business model of the Group for the Management of Financial Assets. The business model is determined by the management of the Group.

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.

Recognition of expected credit loss

The Group recognizes the estimated provision for expected credit losses on financial assets measured at amortized cost and fair value through other comprehensive income in an amount equal to expected credit losses for the entire period, if the credit loss has increased significantly since initial recognition. The Group does not reduce the carrying amount of a financial asset at fair value through other comprehensive income but recognizes estimated provision in other comprehensive income.

In determining whether there has been a significant increase in the credit risk of a financial asset since its initial recognition, the Group focuses on changes in the risk of a default occurring over the life of the loan instrument, and not on changes in the amount of expected credit losses.

If the terms and conditions of the cash flows of a financial asset stipulated by the agreement have been revised or modified and the recognition of the financial asset has not been terminated, the Group assesses whether the credit risk of the financial instrument has changed significantly by comparing the following:

1) Risk assessment of default as of the reporting date (based on modified contractual terms);
2) Risk assessment of default upon initial recognition (based on the initial unmodified contractual terms).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Recognition of expected credit loss (continued)

If there is no significant increase in credit risk, the Group recognizes an allowance for losses on a financial asset in the amount equal to 12-month expected credit losses, with the exception of:

1) Acquired or created credit-impaired financial assets;
2) Trade receivables or contractual assets arising from transactions that are within the scope of IFRS 15 *Revenue from Contracts with Customers*; and
3) Lease receivables.

For financial assets referred to in paragraphs (1) to (3), the Group estimates the provision for losses in the amount of expected credit losses for the entire term.

If in the previous reporting period the Group estimated the estimated provision for losses on a financial instrument in an amount equal to expected credit losses for the entire term, but as of the current reporting date determines that there is no significant increase in credit risk, then at the current reporting date the Group should evaluate the estimated a provision equal to 12-month expected credit losses.

The Group recognizes, as profit or loss from impairment, the amount necessary to adjust the estimated provision for losses to the amount of expected credit losses as at the reporting date.

For acquired or created credit-impaired financial assets, the Group recognizes favorable changes in expected credit losses for the whole term as a recovery of impairment losses, even if the expected credit losses for the whole period are less than the expected credit losses that were included in the estimated cash flows at initial recognition.

Measurement of expected credit loss

The Group estimates expected credit losses for a financial instrument in a manner that reflects:

1) An unbiased and probability-weighted amount determined by assessing the range of possible results;
2) The time value of money;
3) Reasonable and confirmed information about past events, current conditions and projected future economic conditions available at the reporting date.

The maximum period considered in assessing expected credit losses is the maximum period under the contract (including extension options) during which the Group is exposed to credit risk.

For financial instruments that include both a loan and an unused component of the loan obligation, the Group's contractual ability to request repayment of the loan and annul the unused component of the loan obligation does not limit the Group's exposure to credit loss risk by the contractual deadline for notifying. For such financial instruments, the Group estimates credit losses for the entire period of exposure to credit risk, and expected credit losses will not be reduced as a result of the Group's activities in managing credit risks, even if such a period exceeds the maximum period under the contract.

To achieve the goal of recognizing expected credit losses over the entire term arising from a significant increase in credit risk since initial recognition, it may be necessary to assess a significant increase in credit risk on a group basis, for example, by analysing information indicating a significant increase in credit risk for a group or subgroup of financial instruments. This ensures that the Group achieves the goal of recognizing expected credit losses for the entire period in the event of a significant increase in credit risk, even if confirmation of such a significant increase in credit risk at the level of an individual instrument is not yet available.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 interim consolidated statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the interim 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

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 interim 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.

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 Group recognizes revenue to reflect the provision of promised services to consumers in the amount of compensation that the Group expects to be entitled to receive in exchange for goods or services.

The Group, when recognizing revenue, takes the following steps:

1) Identification of the contract with the consumer;
2) Identification of the obligation to be executed under the contract;
3) Determination of transaction price;
4) Distribution of the transaction price between certain duties to be performed under the contract;
5) Recognition of proceeds at the time of (or as far as) the performance of the obligations to be performed under the contract.

Revenue from rendering of services is recognized 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.

Also, from 1 January 2019, with the launch of the capacity market in the Republic of Kazakhstan, the Group provides services to ensure the readiness of electricity capacity to bear the power load. Revenues from the provision of services to ensure the readiness of electricity capacity to bear the power load are recognized monthly based on the volume of services rendered. The volume of the service for ensuring the readiness of electric power to bear the power load for each specific buyer is the maximum, for the respective month, electric power consumption, indicated in the act on the actual maximum volume of electric power consumption for a month.

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.*

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Revenue recognition (continued)

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.

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.

The 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 212,500 per month (2017: KZT 212,130) 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 interim 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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.

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 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 interim 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 Group performed revaluation of NES assets as at 1 October 2018. The Group engaged Deloitte TSF LLP, an accredited independent appraiser, to assess the fair value of the NES assets.

The revalued NES assets represent one class of assets according to IFRS 13, based on the nature, characteristics and risk of the property. Input data for determining the fair value of NES assets refer to Level 3 in the fair value hierarchy (unobservable inputs).

After 2017, the Committee approved an increase in tariffs for electricity transmission services, technical dispatching and balancing the production and consumption of electricity. Higher tariffs resulted in the revaluation surplus on certain assets credited to other comprehensive income in the amount of KZT 113,259,316 thousand, and respective deferred tax liability in the amount of KZT 22,651,864 thousand and revaluation gain amounting to KZT 3,342,507 thousand was credited to profit and loss to the extent of revaluation deficit recognized in these assets in prior periods.

Fair value of NES assets was determined by using the cost approach. The 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. Within cost approach, the method of determining the replacement cost or the cost of reproduction was used to calculate the total cost of replacement of fixed assets less all types of accumulated depreciation, as well as the method of calculation by analogues, the method of specific indicators and the method of indexation of past costs.

The appraised current replacement cost has been further compared to the recoverable amount identified based on the discounted cash flow model. The cash flows are derived from the budget for the next five (5) years.

As a result of the assessment, the amount of KZT 527,147,904 thousand was recognised as a fair value of NES assets as of 1 October 2018.

In assessment of the fair value in 2018 the following main assumptions have been applied:

Discount rate (WACC)	11.82%
Long term growth rate	3.6%
Remaining useful life of the primary asset	40 years

An increase in the discount rate by 0.5% or a reduction in long term growth rate by 0.5% would result in a decrease in the fair value of Group's property, plant and equipment for approximately KZT 40,116,819 thousand or KZT 26,219,011 thousand, respectively.

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.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Taxes (continued)

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

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

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

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the interim 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 DSFK

On 28 December 2017, in accordance with the Decree of the Government of the Republic of Kazakhstan dated 7 November 2017, the Group acquired bonds of Special Financial Company DSFK LLP ("DSFK bonds") using the funds placed with RBK Bank JSC ("RBK Bank"). The nominal value of deposits placed with RBK Bank before the transaction was KZT 1,498,249 thousand. DSFK bonds carry coupon interest of 0.01% per annum (paid annually) and mature in 15 years. The bonds are secured by a financial guarantee of Kazakhmys Corporation LLP of KZT 411,883 thousand. The guarantee is exercisable upon request of the Group not earlier than the fifth anniversary after the inception of the bonds.

Management of the Group believes that at 30 June 2019 DSFK bonds are non-recoverable. Accordingly, management of the Group believes that fair value of DSFK bonds is limited to their recoverable amount that is equal to the fair value of the guarantee. The Group does not hold the bonds for all contractual cash flows, so as at 30 June 2019, the bonds were classified as financial instruments at fair value through profit or loss. As at 30 June 2019, the Group revalued the fair value of the bonds at a discount rate of 12.9%, which represents the market discount rate as at 30 June 2019.

Samruk-Kazyna Bonds

During May-June 2018, the Group purchased coupon bonds of Samruk-Kazyna JSC with par value of KZT 26,000,000 thousand at Kazakhstan stock exchange JSC. The bonds were classified at amortised cost and initially recognized at fair value using a discount calculated at a market rate of 8.4%.

Purchase and sale of electricity generated by renewable energy facilities

In order to create conditions for the development of the renewable energy sector (hereinafter – "RES"), the Government of the Republic of Kazakhstan adopted a mechanism of state support based on the introduction of a centralized purchase by a single buyer – "RFC" LLP of electricity produced by renewable energy facilities. The activities of the "RFC" LLP are regulated by the Law of the Republic of Kazakhstan *On Supporting the Use of Renewable Energy Sources.*

After analysing the contracts for the purchase and sale of electricity generated by renewable energy facilities, the Group's management made significant judgment that the Group momentarily obtains control over the electricity generated by renewable energy facilities and transfers it to customers. The management of the Group believes that buyers consider the Group as the party that bears the main responsibility for the implementation of the contract for the sale of electricity produced by renewable energy facilities, since the Group is obliged to supply the agreed amount of electricity, while all expenses for balancing production and consumption of electricity and technological losses are incurred by the Group. Moreover, contracts for the purchase of electricity generated by renewable energy facilities are concluded by the Group for a period of 15 years, that is, the Group has the long-term obligation to purchase electricity for the electricity generated by renewable energy facilities wherein contracts with customers are signed for a period of one year.

Therefore, the Group Management determined that the Group is a principal in the sale of electricity generated by renewable energy facilities, and the Group recognizes revenue in the gross amount to which the entity expects to be entitled.

5. OPERATING SEGMENTS INFORMATION

Geographic information

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

	For the six months period ended	
In thousands of Tenge	**30 June 2019**	30 June 2018
Revenue from Kazakhstan customers	**116,029,334**	83,183,527
Revenue from Russian customers	**8,017,479**	3,612,798
Revenue from Uzbekistan customers	**440,282**	204,505
Revenue from Kyrgys customers	**21,516**	20,358
Total revenue per interim consolidated statement of comprehensive income	**124,508,611**	87,021,188

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

For the six months period ended 30 June 2019 the revenue from one customer, Samruk-Energo Group, including its joint-ventures, amounted to KZT 15,363,798 thousand, arising from transmission, technical dispatching and balancing services (for the six months period ended 30 June 2018: KZT 18,369,972 thousand).

Operating segments

For management purposes, the Group's activities are organized into business units based on their services, and has three reportable operating segments, as follows:

- *Electricity transmission services and related support.* Electricity transmission is regulated by 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;
- *Services to ensure readiness of electricity capacity to bear the power load.* From 1 January 2019, the electricity capacity market was put into operation in the Republic of Kazakhstan, the main purpose of which is to ensure the balance of the reliability of the power system of the Republic of Kazakhstan. Balance reliability refers to the ability of a power system to meet consumer demand for electricity at any given time;
- *Sale of purchased electricity.* The sale of purchased electricity segment includes the renewable energy sector (hereinafter – "RES") created by the Government of the Republic of Kazakhstan in order to create conditions for the development of the RES. The renewable energy sector is regulated by the Law of the Republic of Kazakhstan dated 4 July 2009 No. 165-IV *On Supporting the Use of Renewable Energy Sources.*

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. OPERATING SEGMENTS INFORMATION (continued)

Operating segments (continued)

	For the six months period ended 30 June 2019					
In thousands of Tenge	Electricity transmission and related support services	Services to ensure readiness of electricity capacity to bear the power load	Sale of purchased electricity	Other	Elimination	Total
Revenue from sales to external customers	74,358,441	33,151,476	16,840,997	157,697	–	124,508,611
Revenue from sales to other segments	49,054	1,683,083	1,610	1,855,071	(3,588,818)	–
Total revenue	74,407,495	34,834,559	16,842,607	2,012,768	(3,588,818)	124,508,611
Gross profit	26,179,991	4,873,569	1,001,312	494,174	(272,638)	32,276,408
General and administrative expenses	(3,427,411)	(90,248)	(45,837)	(229,532)	266,230	(3,526,798)
Selling expenses	(174,214)	–	–	–	13,519	(160,695)
Finance income	2,077,337	107,137	70,566	36,405	(330,382)	1,961,063
Finance costs	(3,971,305)	–	–	–	–	(3,971,305)
Share in profit of an associate	518,228	–	–	–	–	518,228
Foreign exchange gain, net	485,975	–	–	40	–	486,015
Depreciation and amortization	(16,775,572)	(4,226)	(1,930)	(76,783)	–	(16,858,511)
Income tax expense	(3,832,475)	(989,821)	(203,366)	(32,360)	–	(5,058,022)
Profit for the reporting period	17,982,180	3,965,191	814,679	210,641	(398,351)	22,574,340
Total comprehensive income	17,982,180	3,965,191	814,679	210,641	(398,351)	22,574,340
Other segment information						
Total segment assets	743,798,182	17,998,782	8,181,265	3,938,104	(3,014,080)	770,902,253
Total segment liabilities	269,549,717	14,213,627	6,460,740	686,145	(1,098,396)	289,811,833
Provisions for expected credit losses for doubtful debts	49,171	(9,224)	2,647	(94,814)	–	(52,220)
Investments in joint ventures and associates	1,626,095	–	–	–	–	1,626,095

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. OPERATING SEGMENTS INFORMATION (continued)

Operating segments (continued)

	For the six months period ended 30 June 2018					
In thousands of Tenge	Electricity transmission and related support services	Services to ensure readiness of electricity capacity to bear the power load	Sale of purchased electricity	Other	Elimination	Total
Revenue from sales to external customers	76,961,810	–	9,930,431	128,947	–	87,021,188
Revenue from sales to other segments	33,362	–	641	1,615,146	(1,649,149)	–
Total revenue	76,995,172	–	9,931,072	1,744,093	(1,649,149)	87,021,188
Gross profit	41,071,588	–	125,814	454,992	(175,801)	41,476,593
General and administrative expenses	(6,550,513)	–	(85,667)	(256,506)	255,656	(6,637,030)
Selling expenses	(117,582)	–	–	–	172	(117,410)
Finance income	2,712,953	–	66,089	49,677	(273,125)	2,555,594
Finance costs	(2,102,053)	–	–	–	–	(2,102,053)
Share in profit of an associate	358,496	–	–	–	–	358,496
Foreign exchange (loss)/gain, net	(590,052)	–	(2)	(69)	–	(590,123)
Depreciation and amortization	(11,481,140)	–	(2,201)	(65,885)	–	(11,549,226)
Impairment of property, plant and equipment and intangible assets	159,988	–	–	–	–	159,988
Income tax expense	(6,759,403)	–	(22,184)	(39,668)	–	(6,821,255)
Profit for the reporting period	26,145,840	–	88,773	212,248	(274,960)	26,171,901
Total comprehensive income	26,145,840	–	88,773	212,248	(274,960)	26,171,901
Other segment information						
Total segment assets	633,960,917	–	5,497,363	3,746,824	(2,801,630)	640,403,474
Total segment liabilities	246,648,784	–	4,739,009	594,801	(661,568)	251,321,026
Provisions for expected credit losses for doubtful debts	(305,313)	–	572	6,521	–	(298,220)
Investments in joint ventures and associates	1,140,577	–	–	–	–	1,140,577

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

In thousands of Tenge	Land	Buildings	NES assets	Vehicles and other property, plant and equipment	Construction-in-progress	Total
Cost						
As at 1 January 2018	1,737,558	13,807,910	844,259,049	38,997,861	83,208,832	982,011,210
Additions	5,778	–	–	450,150	14,273,249	14,729,177
Transfers	–	(9,269)	784,364	85,937	(861,032)	–
Disposals	–	–	(167,714)	(273,990)	–	(441,704)
Transfer to intangible assets	–	–	–	–	(2,106)	(2,106)
Refunds on the project	–	–	(299,103)	–	–	(299,103)
As at 30 June 2018	1,743,336	13,798,641	844,576,596	39,259,958	96,618,943	995,997,474
As at 1 January 2019	1,771,135	17,424,530	1,116,427,405	33,624,896	62,403,893	1,231,651,859
Additions	**46,516**	**76,411**	**210,248**	**376,735**	**5,871,029**	**6,580,939**
Transfers	**88,693**	**75,006**	**531,433**	**2,178,245**	**(2,873,377)**	**–**
Disposals	**–**	**–**	**(210,679)**	**(183,396)**	**–**	**(394,075)**
As at 30 June 2019	**1,906,344**	**17,575,947**	**1,116,958,407**	**35,996,480**	**65,401,545**	**1,237,838,723**
Accumulated depreciation and impairment						
As at 1 January 2018	–	(2,076,307)	(421,939,104)	(22,165,404)	(536,217)	(446,717,032)
Charge for the period	–	(139,657)	(10,044,206)	(1,199,884)	–	(11,383,747)
Transfer	–	270	(974)	704	–	–
Disposals	–	–	113,806	272,362	–	386,168
Reversal of impairment	–	–	–	–	159,988	159,988
As at 30 June 2018	–	(2,215,694)	(431,870,478)	(23,092,222)	(376,229)	(457,554,623)
As at 1 January 2019	–	(4,003,282)	(538,815,274)	(20,646,878)	(250,058)	(563,715,492)
Charge for the period	–	**(226,220)**	**(15,188,547)**	**(1,173,078)**	**–**	**(16,587,845)**
Transfer	–	**(92)**	**(71,646)**	**71,738**	**–**	**–**
Disposals	–	**–**	**206,128**	**181,117**	**–**	**387,245**
Reversal of impairment	–	**–**	**–**	**–**	**10,995**	**10,995**
As at 30 June 2019	–	**(4,229,594)**	**(553,869,339)**	**(21,567,101)**	**(239,063)**	**(579,905,097)**
Net book value						
As at 1 January 2018	1,737,558	11,731,603	422,319,945	16,832,457	82,672,615	535,294,178
As at 30 June 2018	1,743,336	11,582,947	412,706,118	16,167,736	96,242,714	538,442,851
As at 1 January 2019	1,771,135	13,421,248	577,612,131	12,978,018	62,153,835	667,936,367
As at 30 June 2019	**1,906,344**	**13,346,353**	**563,089,068**	**14,429,379**	**65,162,482**	**657,933,626**

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

In thousands of Tenge	30 June 2019	31 December 2018
Cost	**358,105,004**	356,182,590
Accumulated depreciation	**(106,839,586)**	(101,947,870)
Net book value	**251,265,418**	254,234,720

As at 30 June 2019 and 31 December 2018 the cost of fully amortised property, plant and equipment, which is still in use amounted to KZT 23,855,281 thousand and KZT 18,796,968 thousand, respectively.

Capitalized costs on issued bonds

During the six months period ended 30 June 2019 the Group capitalized the cost of coupon interest on issued bonds (less investment income) amounted to KZT 1,815,126 thousand (for the six months period ended 30 June 2018: KZT 3,848,093 thousand) *(Note 16)*.

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" and project "Pavlodar Electricity Transmission Reinforcement".

Advances paid for non-current assets

As at 30 June 2019 advances paid for non-current assets mainly represent prepayments made to suppliers for construction works and services related to the project "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 realization of a project on construction and exploitation of interregional power line, which connects the North Kazakhstan region with Aktobe region. Batys Transit has bonds traded on the Kazakhstan Stock Exchange. The following table illustrates the summarised financial information about Batys Transit:

In thousands of Tenge	**30 June 2019**	31 December 2018
Statement of financial position		
Current assets	**8,964,028**	11,699,041
Non-current assets	**17,406,381**	17,196,869
Current liabilities	**(3,306,535)**	(20,948,823)
Non-current liabilities	**(14,933,398)**	(2,407,751)
Net assets	8,130,476	5,539,336

In thousands of Tenge	**30 June 2019**	31 December 2018
Group's share in net assets	**1,626,095**	1,107,867
Carrying amount of the investments	**1,626,095**	1,107,867

In thousands of Tenge	**30 June 2019**	31 December 2018
Statement of comprehensive income		
Revenue	**5,275,647**	3,987,689
Net profit	**2,591,140**	1,792,482
Group's share in profit of Batys Transit	**518,228**	358,496

As of 30 June 2019 and 31 December 2018, the associate had no contingent liabilities or capital commitments.

8. INVENTORIES

In thousands of Tenge	**30 June 2019**	31 December 2018
Raw and other materials	**1,874,909**	1,161,158
Spare parts	**1,521,108**	1,177,463
Fuel and lubricants	**124,147**	172,197
Other inventory	**70,805**	26,606
Less: allowance for obsolete inventories	**(337,536)**	(246,046)
	3,253,433	2,291,378

8. INVENTORIES (continued)

Movement in the allowance for obsolete inventories was as follows:

In thousands of Tenge	2019	2018
At 1 January	**246,046**	655,684
Charge for the period *(Note 23)*	**95,620**	2,381
Reversal *(Note 23)*	**(4,130)**	(78,695)
At 30 June	**337,536**	579,370

9. TRADE ACCOUNTS RECEIVABLE

In thousands of Tenge	30 June 2019	31 December 2018
Trade accounts receivable	**23,605,437**	11,276,617
Less: provision for expected credit losses	**(2,041,276)**	(2,024,770)
	21,564,161	9,251,847

Movement in the provision for expected credit losses was as follows:

In thousands of Tenge	2019	2018
At 1 January	**2,024,770**	1,409,589
Adoption of IFRS 9	**–**	113,156
Charge for the period	**394,063**	453,647
Reversal	**(377,557)**	(184,720)
At 30 June	**2,041,276**	1,791,672

As at 30 June 2019 trade accounts receivable included accounts receivable from the customer, Uzbekenergo JSC, in the amount of KZT 1,662,129 thousand (31 December 2018: KZT 1,645,773 thousand.

As at 30 June 2019 provision for debts from Uzbekenergo JSC amounted to KZT 1,585,941 thousand (31 December 2018: KZT 1,339,036 thousand).

The ageing analysis of trade receivables is as follows:

		Trade receivables				
			Days past due			
In thousands of Tenge	Total	Current	30-90 days	91-180 days	181-270 days	Above 271 days
30 June 2019	**23,605,437**	**20,115,368**	**924,923**	**640,448**	**111,206**	**1,813,492**
Less: provision for expected credit losses	**(2,041,276)**	**(80,158)**	**(17,042)**	**(120,808)**	**(47,095)**	**(1,776,173)**
	21,564,161	**20,035,210**	**907,881**	**519,640**	**64,111**	**37,319**
31 December 2018	11,276,617	9,091,389	124,090	23,167	7,116	2,030,855
Less: provision for expected credit losses	(2,024,770)	(26,650)	(7,347)	(3,403)	(1,735)	(1,985,635)
	9,251,847	9,064,739	116,743	19,764	5,381	45,220

Trade accounts receivable were denominated in the following currencies:

In thousands of Tenge	30 June 2019	31 December 2018
Tenge	**20,166,199**	8,207,636
Russian Rouble	**1,179,773**	737,474
US Dollars	**218,189**	306,737
	21,564,161	9,251,847

10. OTHER CURRENT ASSETS

In thousands of Tenge	**30 June 2019**	31 December 2018
Other receivable from SWF Samruk-Kazyna JSC	**2,800,561**	–
Advances paid for goods and services	**1,377,436**	81,571
Other receivables for property, plant and equipment and constructions	**399,974**	399,974
Deferred expenses	**275,818**	95,253
Loans receivable from employees	**1,563**	2,937
Other	**411,395**	375,946
Less: provision for expected credit losses	**(462,772)**	(427,059)
	4,803,975	528,622

In accordance with the Minute of the Management Board of SWF Samruk-Kazyna JSC dated 16 January 2019 No. 01/19, the Group was instructed to provide financing for the construction of the museum in Turkestan in the established manner. On 11 February 2019, in order to execute the above decision, the Group signed an agreement No. 01-08-c-115 with the Corporate Fund "Construction Company" (hereinafter – "the Corporate Fund") for the amount of 2,800,561 thousand Tenge. In February 2019, the Group transferred funds in full amount to the Corporate Fund in accordance with the terms of the agreement. In June 2019, the Group signed an agreement on reimbursement of these expenses and as of 30 June 2019 the Group recognized receivables from SWF Samruk-Kazyna JSC in the amount of 2,800,561 thousand Tenge.

For the purposes of these interim consolidated financial statements, the expenses on financing the construction of a museum in Turkestan and the income from reimbursement of expenses by SWF Samruk-Kazyna JSC were offset against each other in the statement of comprehensive income.

Movement in the provision for expected credit losses and impairment of other current assets are as follows:

In thousands of Tenge	**2019**	2018
At 1 January	**427,059**	394,078
Adoption of IFRS 9	**–**	62
Charge for the period	**54,700**	38,643
Reversal	**(18,987)**	(9,500)
At 30 June	**462,772**	423,283

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. OTHER FINANCIAL ASSETS

In thousands of Tenge	30 June 2019	31 December 2018
Financial assets at amortised cost		
Bonds of Samruk-Kazyna	**25,599,968**	25,342,228
Bank deposits	**18,273,703**	18,786,773
Placements with Eximbank Kazakhstan	**2,930,115**	2,930,115
Notes of the National Bank of the Republic of Kazakhstan	**1,976,858**	–
Eurobonds of the Ministry of Finance of the Republic of Kazakhstan	**1,651,220**	–
Placements with Kazinvestbank JSC	**1,261,126**	1,261,470
Placements with DeltaBank JSC	**1,230,000**	1,230,000
Bonds of Batys-Transit	**1,035,638**	998,558
Interest accrued on Samruk-Kazyna bonds	**463,667**	463,667
Interest accrued on Republic of Kazakhstan National Bank Notes	**27,346**	–
Interest accrued on Ministry of Finance Eurobonds	**13,040**	–
Interest accrued on Batys Transit bonds	**–**	56,862
Less: provision for impairment of placements with Eximbank Kazakhstan	**(2,930,115)**	(2,930,115)
Less: provision for impairment of placements with Kazinvestbank JSC	**(1,261,126)**	(1,261,470)
Less: provision for impairment of placements with Deltabank JSC	**(1,230,000)**	(1,230,000)
Less: provision for expected credit losses	**(335,618)**	(86,316)
Less: provision for expected credit losses of Batys Transit bonds	**(7,909)**	(92,315)
	48,697,913	45,469,457
Financial assets at fair value through profit or loss		
Bonds of Special Financial Company DSFK	**265,425**	267,040
	265,425	267,040
Total other financial assets	**48,963,338**	45,736,497
Other current financial assets	**47,046,693**	20,127,229
Other non-current financial assets	**1,916,645**	25,609,268
Total other financial assets	**48,963,338**	45,736,497

Movement in the provision for impairment of other financial assets are as follows:

In thousands of Tenge	2019	2018
At 1 January	**5,600,216**	2,512,483
Adoption of IFRS 9	**–**	643,320
Accrual for the period	**243,303**	933,607
Reversal	**(78,751)**	(316,197)
At 30 June	**5,764,768**	3,773,213

Bonds of Samruk-Kazyna JSC

During May-June 2018, the Group acquired coupon bonds of Samruk-Kazyna JSC with nominal value of KZT 26,000,000 thousand at cost lower than par value for KZT 25,159,831 thousand at Kazakhstan Stock Exchange JSC. The bonds mature on 13 March 2020. The Group also capitalized transaction costs associated with the payment of a brokerage fee in the amount of KZT 5,108 thousand and coupon income paid to the previous bondholder – Qazkom bank JSC from the beginning of the coupon period until the date of purchase of the bonds, which amounted to KZT 380,333 thousand. Thus, the total discount for the acquisition amounted to KZT 454,728 thousand, which was calculated as the difference between the amount paid and the nominal value and which will be capitalized in the value of the bonds within 2 years prior to the maturity date of the bonds. During the six months period ended 30 June 2019, amortization of the discount in amount of KZT 113,682 thousand was recognized as financial income in the interim consolidated statement of comprehensive income.

The Group recognised the bonds at fair value in the amount of KZT 24,931,352 thousand, including the discount of KZT 613,920 thousand, calculated as the difference between the total paid amount and its fair value, which was recognized as finance costs in the interim consolidated statement of comprehensive income. The Group classifies the bonds as carried at amortised cost. During the six months period ended 30 June 2019, amortization of the discount amounted to KZT 144,058 thousand.

11. OTHER FINANCIAL ASSETS (continued)

Bonds of Special Financial Company DSFK LLP

For the six months period ended 30 June 2019, Special Financial Company DSFK LLP redeemed bonds amounting to KZT 8,946 thousand.

As at 30 June 2019, the Group reassessed the fair value of bonds and increased their carrying amount to KZT 265,425 thousand, recognizing gain from revaluation of financial instruments in the amount of KZT 1,615 thousand as finance income in the interim consolidated statement of comprehensive income.

Bonds of Batys Transit

In 2007-2009 the Group acquired bonds of Batys Transit JSC, an associate listed on the Kazakhstan Stock Exchange. The bonds are secured with Guarantee of the Government of Republic of Kazakhstan in accordance with guarantee agreement dated 9 January 2006. The coupon interest rate on bonds is 10.5%. The bonds are classified as financial assets carried at amortised cost. During the six months ended 30 June 2019, the amortization of discount amounted to KZT 37,080 thousand. The bonds mature on 30 June 2019.

Deposits

As at 30 June 2019 and 31 December 2018 the deposits include accrued interest income in the amount of KZT 74,058 thousand and KZT 52,198 thousand, respectively.

Placements with Eximbank Kazakhstan JSC

As at 31 December 2017, the Group's deposits in Eximbank Kazakhstan (hereinafter referred to as "Eximbank") amounted to 8,000 thousand Dollars (equivalent to KZT 2,658,640 thousand). According to the agreement, the deposit term expired in November 2017. The deposit was not returned by Eximbank to the Group. As a result of negotiations with Eximbank representatives and the analysis conducted, the Group management concluded that the placements are fully recoverable and will be returned within one year. In this regard, as at 31 December 2017, the Group assessed the impact of the temporary factor and recognized a discount of KZT 150,489 thousand. During the year ended 31 December 2018, the Group fully amortized the discount in finance income in the interim consolidated statement of comprehensive income.

On 27 August 2018, based on the resolution of the Board of the National Bank of the Republic of Kazakhstan a decision was made to revoke the license of Eximbank for accepting deposits and opening bank accounts for individuals. In this regard, the Group reclassified cash and cash equivalents held in Eximbank within other financial assets and accrued a provision of 100%, which amounts to KZT 2,930,115 thousand.

Notes of the National Bank of the Republic of Kazakhstan

In April 2019, the Group acquired discount notes of the National Bank of the Republic of Kazakhstan in the amount of 70,000 thousand units with a nominal value of 7,000,000 thousand Tenge at a price lower than the nominal value for a total amount of 6,800,514 thousand Tenge from Kazakhstan Stock Exchange JSC. In June 2019, the Group partially sold notes in the total amount of KZT 4,917,905 thousand, recognizing a loss on sale in the amount of KZT 6,230 thousand. During the reporting period, an income of 100,279 thousand Tenge was recognized.

Eurobonds of the Ministry of Finance of the Republic of Kazakhstan

On 26 April 2019, the Group acquired Eurobonds of the Ministry of Finance of the Republic of Kazakhstan in the amount of 4,200,000 at a rate of 3.875% per annum and maturity until October 2024 at a price higher than the nominal amount of 4,368 thousand USD (equivalent of 1,656,736 thousand Tenge).

Other financial assets were represented in the following currencies:

In thousands of Tenge	**Interest rate**	**30 June 2019**	31 December 2018
Tenge	12.7%	**29,596,525**	28,020,599
US Dollars	1%-1.5%	**19,366,813**	17,715,898
		48,963,338	45,736,497

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. RESTRICTED CASH

In thousands of Tenge	**30 June 2019**	31 December 2018
Cash on reserve accounts	**2,910,088**	2,895,401
Cash on debt service accounts	**1,130,474**	1,122,487
Cash reserved for return on guarantee obligations	**193,438**	204,168
Less: provision for expected credit losses	**(37,399)**	(46,480)
	4,196,601	4,175,576

As at 30 June 2019 and 31 December 2018 restricted cash mainly represents cash held on a debt service account and reserve account.

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

In accordance with the terms of the guarantee agreements with the Government of the Republic of Kazakhstan, the guarantor of the Group's loans *(Note 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.

The movement in the provision for expected credit losses on restricted cash was as follows:

In thousands of Tenge	**2019**	2018
At 1 January	**46,480**	–
Adoption of IFRS 9	**–**	86,409
Accrual for the period	**15,752**	39,133
Reversal	**(24,833)**	(46,755)
At 30 June	**37,399**	78,787

As at 30 June 2019 and 31 December 2018, restricted cash taking into account the funds planned to be repaid were denominated in the following currencies:

In thousands of Tenge	**30 June 2019**	31 December 2018
US Dollars	**4,003,392**	3,971,500
Tenge	**193,209**	204,076
	4,196,601	4,175,576

13. CASH AND CASH EQUIVALENTS

In thousands of Tenge	**30 June 2019**	31 December 2018
Short-term deposits, in Tenge	**15,591,208**	12,671,231
Current accounts with banks, in Tenge	**8,416,040**	2,993,477
Current accounts with banks, in foreign currencies	**485,922**	19,634
Cash at special accounts	**16,990**	580
Cash on hand	**4,738**	3,914
Short-term deposits, in foreign currencies	**–**	3,380,960
Less: provision for expected credit losses	**(13,415)**	(9,096)
	24,501,483	19,060,700

As at 30 June 2019 and 31 December 2018 the Group placed short-term deposits with banks at 7%-8.5% per annum.

Movement of the provision for expected credit losses on cash and cash equivalents is as follows:

In thousands of Tenge	**2019**	2018
As at 1 January	**9,096**	–
Adoption of IFRS 9	**–**	43,225
Accrual for the period	**4,532**	1,389,857
Reversal	**(213)**	(169,806)
As at 30 June	**13,415**	1,263,276

13. CASH AND CASH EQUIVALENTS (continued)

As at 30 June 2019 and 31 December 2018, cash and cash equivalents were denominated in the following currencies:

In thousands of Tenge	**30 June 2019**	31 December 2018
Tenge	**24,015,560**	15,661,766
US Dollars	**483,270**	3,394,135
Euro	**1,590**	3,242
Russian Rouble	**750**	1,240
Others	**313**	317
	24,501,483	19,060,700

14. EQUITY

As at 30 June 2019 and 31 December 2018 share capital of the Group 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 ordinary 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 at 30 June 2019 and 31 December 2018 the charter 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 repurchased shares placed on the open market consisting of 1,390 shares for the total amount of KZT 930 thousand.

Dividends

In October 2017, shareholders approved the distribution of 70% of net income received in 1st half-year of 2017. The amount of dividends to be distributed amounted to KZT 12,583,933 thousand to all common shareholders of the Group, which is KZT 48.40 per one common share.

In May 2018, shareholders approved the distribution of 70% of net profit for 2017 less net income distributed for the 1st half-year of 2017. The amount to be paid comprises KZT 10,433,745 thousand to all common shareholders of the Group, which is KZT 40.13 per common share.

In November 2018, shareholders approved the distribution of 80% of net profit for the 1st half-year 2018. The amount of dividends to be distributed amounted to KZT 20,937,687 thousand to all common shareholders of the Group, which is KZT 80.53 per common share.

In May 2019, shareholders approved the distribution of 87.7% of net prfit for 2018 minus the amount of net profit distributed for the first half of 2018. The amount to be paid was KZT 14,177,724 thousand to all common shareholders of the Group, which is KZT 54.53 per ordinary share.

Earnings per share

Basic and diluted earnings per share are calculated by dividing net profit for the period by the weighted average number of common shares outstanding during the period. The Group had weighted average number of common shares in circulation in the amount of 259,998,610 shares during the six months period ended 30 June 2019 (for the six months period ended 30 June 2018: 259,998,610 shares). For the six months period ended 30 June 2019 and 2018 basic and diluted earnings per share were KZT 86.82 and KZT 100.66, respectively.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. EQUITY (continued)

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.

In thousands of Tenge	**30 June 2019**	31 December 2018
Total assets	**770,902,253**	755,850,702
Less: intangible assets	**(1,532,254)**	(1,472,307)
Less: total liabilities	**(289,811,833)**	(283,156,898)
Net assets	**479,558,166**	471,221,497
Number of ordinary shares	**260,000,000**	260,000,000
Book value per ordinary share, Tenge	**1,844**	1,812

Asset revaluation reserve

Asset revaluation reserve represents revaluation surplus recognized as a result of revaluation of Group's NES assets as at 1 October 2018 (previous revaluation was held as at 1 June 2014) *(Note 6)*. Transfer of asset revaluation surplus into retained earnings, upon disposal of PPE and transfer of NES assets into other classes of PPE, for the six months period ended 30 June 2019 amounted to KZT 264,017 thousand (for the six months period ended 30 June 2018: KZT 11,579 thousand).

15. BORROWINGS

In thousands of Tenge	**30 June 2019**	31 December 2018
International Bank of Reconstruction and Development (IBRD)	**49,447,802**	55,146,729
European Bank of Reconstruction and Development (EBRD)	**18,878,700**	19,155,131
	68,326,502	74,301,860
Less: current portion of loans repayable within 12 months	**(8,786,266)**	(11,420,710)
	59,540,236	62,881,150

As at 30 June 2019 and 31 December 2018 the accrued and unpaid interest amounts to KZT 893,085 thousand and KZT 903,984 thousand, respectively. As at 30 June 2019 and 31 December 2018 the unamortized portion of loan origination fees amounts to KZT 312,881 thousand and KZT 321,868 thousand, respectively.

Loans were denominated in the following currencies:

In thousands of Tenge	**30 June 2019**	31 December 2018
US Dollars	**49,447,802**	55,146,729
Euro	**18,878,700**	19,155,131
	68,326,502	74,301,860

"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 2019 and 31 December 2018 are USD 6,830 thousand (equivalent to KZT 2,599,020 thousand) and USD 13,460 thousand (equivalent to KZT 5,171,332 thousand), respectively.

15. BORROWINGS (continued)

"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 paid semi-annually. In 2011 the non-disbursed part of this IBRD credit line in the amount of USD 1,918 thousand was cancelled due to the fact that actual costs incurred within this project were less than expected. The outstanding balances as at 30 June 2019 and 31 December 2018 are USD 28,584 thousand (equivalent to KZT 10,877,128 thousand) and USD 32,662 thousand (equivalent to KZT 12,548,744 thousand), respectively.

"Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2"

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

(a) Two credit-line facilities of Euro 127,500 thousand and Euro 75,000 thousand from EBRD for 15 (fifteen) years, of which the first 4 (four) years are a grace period. An interest at the interbank six months EURIBOR rate plus a 3.85% margin is payable semi-annually. The outstanding balances as at 30 June 2019 and 31 December 2018 are Euro 43,130 thousand (equivalent to KZT 18,678,521 thousand) and Euro 43,130 thousand (equivalent to KZT 18,949,805 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. As at 30 June 2019 and 31 December 2018, the debt under the above credit line is fully repaid;

(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. As at 30 June 2019 and 31 December 2018, the debt under the above credit line is fully repaid.

In August 2017, the Group early repaid two semi-annual principal payments under the loan in the amount of 23,751 thousand Euro (equivalent to KZT 9,405,550 thousand), which were scheduled to be paid in February and August 2018.

In November 2017, the Group early repaid four semi-annual principal payments of the loan in the amount of 44,253 thousand Euro (equivalent to KZT 17,410,008 thousand), which were scheduled to be paid in February and August 2019 and 2020.

"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 2019 and 31 December 2018 are USD 34,663 thousand (equivalent to KZT 13,190,209 thousand) and USD 35,781 thousand (equivalent to KZT 13,747,016 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 1.15% is repayable semi-annually. In July 2014 undeveloped part of the credit line from the IBRD in the amount USD 6,644 thousand has been cancelled due to the fact that the amount of actual costs was less than expected costs. The outstanding balances as at 30 June 2019 and 31 December 2018 are USD 58,869 thousand (equivalent to KZT 22,401,420 thousand) and USD 60,653 thousand (equivalent to KZT 23,302,847 thousand), respectively.

16. BONDS PAYABLE

In thousands of Tenge	**30 June 2019**	31 December 2018
Nominal value of issued bonds	**83,800,000**	83,800,000
Accrued coupon interest	**3,856,344**	4,097,122
Less: discount on bonds issued	**(90,000)**	(93,747)
Less: transaction costs	**(44,402)**	(46,149)
	87,521,942	87,757,226
Less: current portion of bonds repayable within 12 months	**(3,856,344)**	(4,097,122)
	83,665,598	83,660,104

Under the State Program "Nurly Zhol" the Group placed two tranches of coupon bonds on "Kazakhstan Stock Exchange" JSC in order to finance the projects "Construction of 500 kW line Semey – Ak-togay – Taldykorgan – Alma":

(a) 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. The coupon rate for the first coupon period from 26 May 2017 to 26 May 2018 is 10.6% per annum. The coupon rate for the third coupon period from 26 May 2018 to 26 May 2019 is 9.5% per annum.

All bonds under this program were acquired by United Pension Saving Fund.

Bonds were issued with discount in the amount of KZT 111,945 thousand.

(b) In August 2017, the Group placed the second tranche of coupon bonds amounting to KZT 36,300,000 thousand with a fixed rate of 11.5%.

The received cash has been temporarily placed on short-term bank deposits.

All bonds under this program were acquired by United Pension Saving Fund and other entities.

For the six months ended 30 June 2019 the Group capitalized in the cost of property, plant and equipment amortized discount of KZT 3,747 thousand (for the six months period ended 30 June 2018: 3,727 thousand) and amortized transaction costs in the amount of KZT 1,747 thousand (for the six months period ended 30 June 2018: KZT 1,891 thousand).

During the six months period ended 30 June 2019 the Group capitalized the borrowing costs of coupon interest on the issued bonds less investment income in the amount of KZT 1,815,126 thousand (for the six months period ended 30 June 2018: KZT 3,848,093 thousand) *(Note 6)*.

17. TRADE AND OTHER ACCOUNTS PAYABLE

In thousands of Tenge	**30 June 2019**	31 December 2018
Accounts payable for inventories, works and services	**13,958,738**	1,599,150
Accounts payable for property, plant and equipment and construction works	**11,828,192**	14,902,860
Accounts payable for electricity purchased	**10,128,825**	6,145,704
Less: discount on accounts payable	**(2,417)**	(2,417)
	35,913,338	22,645,297

As at 30 June 2019 and 31 December 2018 trade and other accounts payable are denominated in the following currencies:

In thousands of Tenge	**30 June 2019**	31 December 2018
Tenge	**33,889,877**	21,281,317
Russian Rouble	**2,004,435**	1,314,273
Euro	**19,026**	10,492
US Dollars	**–**	39,215
	35,913,338	22,645,297

18. CONSTRUCTION OBLIGATION

On 28 November 2013 in accordance with the decision of the Board of Samruk-Kazyna, the Group was committed to build a kindergarten in Astana city and transfer it upon completion to the Akimat of Astana. In 2014, the Group has estimated construction costs and signed a contract with the construction company. Accordingly, the Group recognized construction obligation for the total amount of KZT 683,430 thousand and the corresponding distribution to shareholders. Completion of the construction of the kindergarten is expected in 2019.

19. TAXES PAYABLE OTHER THAN INCOME TAX

In thousands of Tenge	**30 June 2019**	31 December 2018
VAT payable	**921,894**	1,143,918
Personal income tax	**131,205**	258,047
Contributions payable to pension fund	**128,231**	327,461
Social tax	**116,179**	212,394
Social contribution payable	**45,933**	75,179
Property tax	**43,631**	113,427
Other	**25,020**	14,015
	1,412,093	2,144,441

20. OTHER CURRENT LIABILITIES

In thousands of Tenge	**30 June 2019**	31 December 2018
Due to employees	**2,595,920**	3,116,621
Other	**310,059**	285,378
	2,905,979	3,401,999

21. REVENUE FROM CONTRACTS WITH CUSTOMERS

	For the three months period ended		**For the six months period ended**	
In thousands of Tenge	**30 June 2019**	30 June 2018	**30 June 2019**	30 June 2018
Electricity transmission services	**23,717,329**	25,555,820	**50,737,260**	53,314,109
Sale of services to ensure readiness of electricity capacity to bear the power load	**16,360,277**	–	**33,151,476**	–
Sale of purchased electricity	**10,006,139**	6,238,110	**16,862,513**	9,950,789
Technical dispatch	**5,200,881**	5,800,377	**11,204,815**	12,414,252
Balancing of electricity production and consumption	**3,786,988**	3,908,988	**8,116,582**	8,391,698
Sale of electricity for compensation of the interstate balances of electricity flows	**1,836,372**	928,616	**3,212,328**	2,000,590
Power regulation services	**91,836**	55,560	**440,282**	204,505
Other	**402,540**	376,291	**783,355**	745,245
Total revenue from contracts with customers	**61,402,362**	42,863,762	**124,508,611**	87,021,188

	For the six months period ended	
In thousands of Tenge	**30 June 2019**	30 June 2018
Revenue recognition timeline		
The goods are transferred at a certain point in time	**20,074,841**	11,951,379
The services are provided over a period of time	**104,433,770**	75,069,809
Total revenue from contracts with customers	**124,508,611**	87,021,188

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. COST OF SALES

In thousands of Tenge	For the three months period ended 30 June 2019	For the three months period ended 30 June 2018	For the six months period ended 30 June 2019	For the six months period ended 30 June 2018
Cost of electricity availability readiness services	**14,811,670**	–	**29,960,990**	–
Depreciation and amortization	**8,203,559**	5,621,534	**16,455,272**	11,237,012
Cost of purchased electricity	**9,168,391**	5,932,978	**15,813,758**	9,792,119
Technical losses of electric energy	**2,645,162**	3,727,479	**7,541,960**	9,674,294
Payroll expenses and related taxes	**3,740,929**	3,305,730	**7,420,483**	6,641,183
Cost of purchased electricity for compensation of interstate balances of electricity flows	**3,625,086**	1,975,331	**6,888,994**	4,084,595
Taxes other than income tax	**2,262,422**	1,619,486	**4,462,717**	3,223,134
Repair and maintenance expenses	**1,318,460**	1,060,754	**1,861,944**	2,201,299
Security services	**298,814**	292,482	**567,160**	578,280
Inventories	**67,491**	293,263	**82,438**	403,161
Other	**676,896**	542,424	**1,176,487**	932,652
	46,818,880	24,371,461	**92,232,203**	48,767,729

23. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of Tenge	For the three months period ended 30 June 2019	For the three months period ended 30 June 2018	For the six months period ended 30 June 2019	For the six months period ended 30 June 2018
Payroll expenses and related taxes	**1,112,411**	896,236	**2,152,252**	1,870,548
Depreciation and amortization	**201,094**	154,061	**391,940**	312,214
Charge/(reversal) for obsolete inventories *(Note 8)*	**35,516**	2,381	**91,490**	(76,314)
Rent expenses	**5,356**	54,798	**77,041**	55,398
Taxes other than income tax	**48,326**	75,721	**75,477**	153,598
Expenses for the Board of Directors	**28,251**	25,766	**73,461**	98,913
Expenses for the rights to use the software	**73,405**	40,064	**73,405**	55,781
Business trip expenses	**42,396**	25,952	**69,064**	47,142
Utilities	**13,789**	23,072	**39,340**	56,860
Consulting services	**16,779**	318,204	**33,413**	395,428
Materials	**21,522**	17,024	**30,268**	35,187
Trainings	**15,517**	40,074	**26,647**	60,003
Insurance	**18,062**	2,044	**23,865**	38,435
Other	**238,143**	158,811	**369,135**	310,703
	1,870,567	1,834,208	**3,526,798**	3,413,896

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. FINANCE INCOME/(COSTS)

	For the three months period ended		For the six months period ended	
In thousands of Tenge	**30 June 2019**	30 June 2018	**30 June 2019**	30 June 2018
Finance income				
Interest income from deposits, current accounts and bonds	**958,071**	1,633,959	**1,797,408**	2,896,337
Amortization of discount on other financial assets	**275,358**	256,687	**402,430**	291,063
Amortization of discount on accounts receivable	**27,091**	34,020	**54,417**	68,640
Others	**(36,641)**	213	**489**	6,864
	1,223,879	1,924,879	**2,254,744**	3,262,904
Less: interest capitalized into cost of qualifying asset *(Note 6)*	**(143,734)**	(208,555)	**(293,681)**	(707,310)
	1,080,145	1,716,324	**1,961,063**	2,555,594
Finance costs				
Interest on borrowings	**2,743,550**	2,799,288	**5,560,103**	5,587,917
Commission on bank guarantees	**370,769**	365,487	**472,225**	396,109
Interest expense on finance leases	**9,633**	(10,386)	**19,010**	12,452
Other costs on bonds issued	**11,485**	1,037	**13,557**	1,659
Amortization of loan origination fees	**4,493**	4,494	**8,987**	9,018
Discounting of the other financial assets	**6,230**	631,546	**6,230**	650,301
	3,146,160	3,791,466	**6,080,112**	6,657,456
Less: interest capitalized into cost of qualifying assets *(Note 6)*	**(1,054,049)**	(2,253,028)	**(2,108,807)**	(4,555,403)
	2,092,111	1,538,438	**3,971,305**	2,102,053

25. FOREIGN EXCHANGE (LOSS)/GAIN, NET

On 20 August 2015 the National Bank of Republic of Kazakhstan and the Government of the Republic of Kazakhstan decided to shift to freely floating currency exchange rate as a part of implementation of inflation targeting program. As a result of change of exchange rate of Tenge for the six months period ended 30 June 2019, the Group incurred net foreign exchange gain in the amount of KZT 486,015 thousand (for the six months period ended 30 June 2018: net foreign exchange loss in the amount of KZT 590,123 thousand).

26. INCOME TAX EXPENSE

	For the three months period ended		For the six months period ended	
In thousands of Tenge	**30 June 2019**	30 June 2018	**30 June 2019**	30 June 2018
Current income tax				
Current income tax expense	**2,584,115**	3,069,402	**6,185,553**	7,184,707
Adjustments in respect of current income tax of previous year	**-**	18,394	**(394,644)**	18,392
Deferred tax				
Deferred income tax benefit	**(344,249)**	(304,305)	**(732,887)**	(381,844)
Total income tax expense reported in profit or loss	**2,239,866**	2,783,491	**5,058,022**	6,821,255

The income tax rate in the Republic of Kazakhstan is 20% in 2019 and 2018.

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:

	For the three months period ended		For the six months period ended	
In thousands of Tenge	**30 June 2019**	30 June 2018	**30 June 2019**	30 June 2018
Profit before tax	**11,408,897**	13,138,904	**27,632,362**	32,993,155
Tax at statutory income tax rate of 20%	**2,281,779**	2,627,781	**5,526,472**	6,598,631
Accrual of provision for impairment of funds held by "Eximbank" JSC	**–**	391,269	**–**	391,269
Adjustments in respect of current income tax of previous year	**–**	18,394	**(394,644)**	18,392
Accrual of allowance for doubtful accounts receivable from non-residents	**5,863**	21,158	**(32,347)**	8,633
Reversal of provision for expected credit losses	**–**	(95,850)	**–**	(26,571)
Income from amortization of discount on other financial assets	**–**	(51,337)	**–**	(58,879)
Interest income from securities	**(85,649)**	(96,521)	**(167,437)**	(100,878)
Other (non-taxable)/non-deductible expenses	**37,872**	(31,403)	**125,977**	(9,342)
Income tax expense reported in profit or loss	**2,239,866**	2,783,491	**5,058,022**	6,821,255

Tax effect on temporary differences leading to deferred income tax assets and liabilities at 30 June 2019 and 31 December 2018 is provided below:

	Interim consolidated statement of financial position				Interim consolidated statement of comprehensive income For the six months period ended	
In thousands of Tenge	**30 June 2019**	31 December 2018	30 June 2018	31 December 2017	**30 June 2019**	30 June 2018
Accounts receivable	**195,973**	145,837	129,254	98,112	**50,136**	31,142
Accrued liabilities	**499,120**	664,812	377,586	638,843	**(165,692)**	(261,257)
Property, plant and equipment	**(90,128,648)**	(90,977,091)	(66,789,317)	(67,401,276)	**848,443**	611,959
Deferred tax benefit	**–**	–	–	–	**732,887**	381,844
Net deferred tax liabilities	**(89,433,555)**	(90,166,442)	(66,282,477)	(66,664,321)	**–**	–

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

In thousands of Tenge	**30 June 2019**	31 December 2018
Deferred tax assets	**4,706**	3,760
Deferred tax liabilities	**(89,438,261)**	(90,170,202)
Net deferred tax liabilities	**(89,433,555)**	(90,166,442)

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.

27. TRANSACTIONS WITH RELATED PARTIES (continued)

The following table provides the balances of trade accounts payable to/receivable from related parties as at 30 June 2019 and 31 December 2018:

In thousands of Tenge		Trade accounts receivable from related parties	Trade accounts payable to related parties
Subsidiaries of Samruk-Kazyna Group	**30 June 2019**	**5,157,148**	**5,053,661**
	31 December 2018	2,164,091	2,429,524
Associates of Samruk-Kazyna	**30 June 2019**	**540,978**	**938,813**
	31 December 2018	282,452	446,573
Entities under joint control of Samruk-Kazyna	**30 June 2019**	**419,963**	**1,203,420**
	31 December 2018	284,393	50,160
Associates of the Group	**30 June 2019**	**50,151**	**-**
	31 December 2018	114,214	-

The Group had the following transactions with related parties for the six months period ended 30 June 2019 and 30 June 2018:

In thousands of Tenge		Sales to related parties	Purchases from related parties
Subsidiaries of Samruk-Kazyna Group	**2019**	**17,703,234**	**17,403,050**
	2018	19,778,988	11,358,369
Associates of Samruk-Kazyna	**2019**	**3,451,097**	**1,210,500**
	2018	4,048,154	629,078
Entities under joint control of Samruk-Kazyna	**2019**	**3,465,600**	**3,067,276**
	2018	2,663,195	19,445
Associates of the Group	**2019**	**280,108**	**2,189**
	2018	217,030	47,562

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 2019 the Group's borrowings of KZT 49,700,004 thousand were guaranteed by the Government of the Republic of Kazakhstan (31 December 2018: KZT 55,407,918 thousand).

In 2007-2009 the Group acquired bonds of Batys Transit JSC, an associate listed on the Kazakhstan Stock Exchange. The bonds are secured with Guarantee of the Government of Republic of Kazakhstan in accordance with guarantee agreement dated 9 January 2006. The coupon interest rate on bonds is 7.3%. The bonds are classified as financial assets carried at amortised cost. As at 30 June 2019, the carrying amount of Batys Transit bonds was KZT 1,027,729 thousand (as at 31 December 2018: KZT 906,243 thousand).

As at 30 June 2019 the Group had accounts receivable for the sale of property, plant and equipment of Balkhash TES JSC, a related party, in the amount of KZT 220,494 thousand (as at 31 December 2018: KZT 219,851 thousand). In accordance with sales agreement Balkhash TES JSC must repay the outstanding balance before the end of 2018. However, as at 30 June 2019 the debt was not paid off. In connection with the suspension of construction of Balkhash TES JSC, the management of the Group made a decision to accrue a provision for receivables of 100%.

27. TRANSACTIONS WITH RELATED PARTIES (continued)

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 at 30 June 2019 the discount on accounts receivable from Kazpost JSC amounted to KZT 489,939 thousand. As at 30 June 2019 the receivables net of discount comprised KZT 1,065,669 thousand, of which KZT 884,974 thousand was accounted for within long-term receivables from related parties. During the six months period ended 30 June 2019, the Group recognized income from amortization of a discount on long-term receivables from Kazpost JSC in the amount of KZT 54,417 thousand (during the six months period ended 30 June 2018: KZT 58,459 thousand).

In 2017, the Group entered into a long-term contract with a related party, Samruk-Kazyna Business Contract LLP, for leasing out the rights to use the software. Since, at the end of the contract, the rights to use the software will be transferred to the Group, the Group recognized finance lease liability. As at 30 June 2019, finance lease liability amounts to KZT 319,438 thousand (as at 31 December 2018: KZT 193,498 thousand).

Compensation to key management personnel and all related expenses (taxes, contributions, sick leaves, vacation pay, material assistance and others) included in salary expenses in the interim consolidated statement of comprehensive income amounted to KZT 274,363 thousand for the six months period ended 30 June 2019 (for the six months period ended 30 June 2018: KZT 310,540 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, bonds payable, 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 deposits that arrive directly from its operations, as wells as investments in debt securities.

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 *(Notes 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.

In thousands of Tenge	Increase/(decrease) in basis points*	Effect on profit before tax
For the six months period ended 30 June 2019		
LIBOR	**0.5/(0.15)**	**(245,339) / 73,602**
EURIBOR	**0.2/(0.01)**	**(37,357) / 1,868**
For the six months period ended 30 June 2018		
LIBOR	0.7/(0.08)	(372,413) / 42,562
EURIBOR	0.25/(0.01)	(42,834) / 1,713

* *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).

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

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.

In thousands of Tenge	Increase/(decrease) in exchange rate	Effect on profit before tax
At 30 June 2019		
US Dollar	**14%/(10%)**	**(3,552,659)/2,537,614**
Euro	**14%/(10%)**	**(2,645,459)/1,889,614**
Russian Rouble	**14%/(10%)**	**(115,348)/74,152**
At 31 December 2018		
US Dollar	14%/(10%)	(4,171,674)/2,979,767
Euro	14%/(10%)	(2,682,733)/1,916,238

* *In absolute terms increase/(decrease) in exchange rate of Tenge in relation to US Dollar comprised 53.27/(38.05) Tenge;*

** *In absolute terms increase/(decrease) in exchange rate of Tenge in relation to Euro comprised 60.63/(43.31) Tenge.*

Credit risk

Credit risk is the risk that 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.

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.

During 2016-2018 some banks were deprived of a license to conduct banking and other operations by the National Bank *(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 Kazakhstani 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:

In thousands of Tenge	Location	Rating 2019	Rating 2018	30 June 2019	31 December 2018
Halyk Bank Kazakhstan JSC	Kazakhstan	**BB/Stable**	BB/Negative	**17,634,487**	17,781,948
ATF Bank JSC	Kazakhstan	**B/Stable**	B/Negative	**11,552,482**	13,812,397
ForteBank JSC	Kazakhstan	**B+/Stable**	B/Positive	**12,788,740**	9,589,361
BankCenterCredit JSC	Kazakhstan	**B/Stable**	B/Stable	**4,968,021**	748,533
				46,943,730	41,932,239

28. 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.

In thousands of Tenge	On demand	Due more than 1 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
At 30 June 2019						
Borrowings	–	**1,682,972**	**8,463,098**	**40,705,894**	**29,146,386**	**79,998,350**
Bonds payable	–	**1,981,750**	**5,945,250**	**31,708,000**	**143,647,255**	**183,282,255**
Trade and other accounts payable	–	**35,913,338**	–	–	–	**35,913,338**
		39,578,060	**14,408,348**	**72,413,894**	**172,793,641**	**299,193,943**
At 31 December 2018						
Borrowings	–	1,762,822	11,247,280	43,588,081	31,227,973	87,826,156
Bonds payable	–	–	4,097,122	43,330,638	153,132,875	200,560,635
Trade and other accounts payable	–	22,645,297	–	–	–	22,645,297
	–	24,408,119	15,344,402	86,918,719	184,360,848	311,032,088

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 payable. Capital is considered to be equal to the total liabilities and entire equity.

	30 June 2019	31 December 2018
Debt/capital	**0.20**	0.21

In thousands of Tenge	30 June 2019	31 December 2018
Long-term borrowings and long-term bonds payable	**143,205,834**	146,541,254
Short-term borrowings and short-term bonds payable	**12,642,610**	15,517,832
Debt	**155,848,444**	162,059,086
Total liabilities	**289,811,833**	283,156,898
Equity	**481,090,420**	472,693,804
Total equity and liabilities	**770,902,253**	755,850,702

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

28. 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 Group's assets and liabilities:

Assets measured at fair value

In thousands of Tenge	**30 June 2019**	**Level 1**	**Level 2**	**Level 3**
Non-financial assets				
NES assets *(Note 6)*	**563,089,068**	**–**	**–**	**563,089,068**

In thousands of Tenge	31 December 2018	Level 1	Level 2	Level 3
Non-financial assets				
NES assets *(Note 6)*	577,612,131	–	–	577,612,131

Liabilities for which fair values are disclosed

In thousands of Tenge	**30 June 2019**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities				
Bonds payable *(Note 16)*	**87,521,942**	**–**	**87,521,942**	**–**
Borrowings *(Note 15)*	**68,326,502**	**–**	**68,326,502**	**–**
Finance lease obligations	**319,438**	**–**	**319,438**	**–**

In thousands of Tenge	31 December 2018	Level 1	Level 2	Level 3
Financial liabilities				
Bonds payable *(Note 16)*	87,757,226	–	87,757,226	–
Borrowings *(Note 15)*	74,301,860	–	74,301,860	–
Finance lease obligations	193,498	–	193,498	–

For the six months period ended 30 June 2019 and 31 December 2018, there were no transitions between Level 1, 2, and 3 of the fair value of financial instruments.

Fair values of financial instruments

As at 30 June 2019 and 31 December 2018 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 bonds payable are stated at amortized costs which approximate their fair values.

29. COMMITMENTS AND CONTINGENCIES

Changes in liabilities arising from financing activities

In thousand Tenge	1 January 2019	Cash flows	Foreign exchange movement	New leases	Other	30 June 2019
Borrowings	74,301,860	(6,471,059)	(799,582)	-	1,295,283	68,326,502
Bonds payable	87,757,226	(4,512,500)	-	-	4,277,216	87,521,942
Finance leases obligations	193,498	(57,222)	-	156,126	27,036	319,438
Total liabilities from financing activities	162,252,584	(11,040,781)	(799,582)	156,126	5,599,535	156,167,882

In thousand Tenge	1 January 2018	Cash flows	Foreign exchange movement	New leases	Other	30 June 2018
Borrowings	73,732,077	(5,279,435)	1,252,853	-	1,041,479	70,746,974
Bonds payable	88,056,742	(5,235,133)	-	-	4,761,154	87,582,763
Finance leases obligations	12,957	(19,774)	-	209,504	16,688	219,375
Total liabilities from financing activities	161,801,776	(10,534,342)	1,252,853	209,504	5,819,321	158,549,112

The Other column shows the amounts received as a result of the reclassification of part of the long-term loans, including liabilities under Finance leases, to the short-term over time category. The Group classifies the interest paid as cash flows from operating activities.

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 Group'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, including an opinion on the IFRS approach regarding revenue, expenses and other accounts of financial statements. 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 1.25. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for 5 calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 30 June 2019.

29. COMMITMENTS AND CONTINGENCIES (continued)

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 15)*. According to the Loan facility Agreements concluded between the Group and the Creditors, the Group has to comply with the following covenants:

- Current ratio of not less than 1:1;
- Total debt to total capital of not more than 50%;
- Earnings before interest, income tax, depreciation and amortization ("EBITDA") to interest expense of not less than 3:1;
- Net debt to EBITDA of not more than 4:1;
- Self-financing ratio of not less than 20%;
- Debt service ratio of not less than 1.2.

Management believes that the Group complied with all existing loan covenants with EBRD and IBRD as at 30 June 2019 and 31 December 2018. The Group excludes from EBITDA the foreign exchange loss, as management believes that foreign exchange loss meets definition of non-cash impairment and as such shall be excluded from the calculation of EBITDA as provided in the loan agreement. As of 30 June 2019 the Group excluded from EBITDA the foreign exchange gain of KZT 486,015 thousand (during the six months period ended 30 June 2018: the foreign exchange loss of KZT 590,123 thousand).

Insurance

As at 30 June 2019, the Group insured production assets with a replacement value of KZT 184,150,797 thousand. The insurance payment is limited to the replacement value of property, plant 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 origination of liabilities, no provision has been made in these interim consolidated financial statements for unexpected expenses associated with damage or loss of such assets.

Contractual commitments

To ensure the stable and reliable performance of the national electricity grid, the Group developed a capital investment plan. As at 30 June 2019, the Group's outstanding contractual commitments within the frameworks of this plan amount to KZT 10,996,398 thousand (31 December 2018: KZT 8,356,462 thousand).

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 for the transmission of electrical energy, technical dispatching of grid output and consumption of electrical energy and organization of balancing the production and consumption of electric energy

Temporary compensating tariffs for consumers for 2019, approved by the Committee for the following regulated services of the Group:

- Transmission of electric energy in the amount of KZT 2.496 per kWh;
- Technical dispatching of the grid output and consumption of electric energy in the amount of KZT 0.237 per kWh;
- Organization of balancing the production and consumption of electric energy in the amount of KZT 0.088 per kWh.