

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

Unaudited interim condensed consolidated financial statements

*As at and for the nine months ended 30 September 2016*

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## Report on review of interim condensed consolidated financial statements

To the Shareholders of JSC “Kazakhstan Electricity Grid Operating Company”

### Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of JSC “Kazakhstan Electricity Grid Operating Company” and its subsidiaries (“the Group”), which comprise the interim consolidated statement of financial position as at 30 September 2016, interim consolidated statement of comprehensive income for the three and nine months then ended, interim consolidated statement of changes in equity and interim consolidated statement of cash flows for the nine months then ended and explanatory notes. Management of the Group is responsible for the preparation of these interim condensed consolidated financial statements in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements of JSC "Kazakhstan Electricity Grid Operating Company" and its subsidiaries are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

*Ernst & Young LLP*



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Paul Cohn  
Audit partner

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Adil Syzdykov  
Auditor



Auditor Qualification Certificate  
No. MΦ – 0000172 dated 23 December 2013

8 November 2016



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Gulmira Turmagambetova  
Acting General Director  
Ernst & Young LLP

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

## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2016

<i>In thousands of tenge</i>	Notes	30 September 2016 (unaudited)	31 December 2015 (audited)
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	481,629,358	478,699,792
Intangible assets		839,660	1,036,367
Advances paid for non-current assets	4	7,074,536	1,939,241
Other financial assets	7	–	5,968,419
Deferred tax asset	22	244	2,839
Investments in associates		240,644	266,815
Long-term receivables from related parties	23	1,280,110	1,320,245
Other non-current assets		14,404	24,496
		<b>491,078,956</b>	<b>489,258,214</b>
<b>Current assets</b>			
Inventories	5	2,272,436	1,982,353
Trade accounts receivable	6	17,029,512	23,431,376
VAT recoverable and other prepaid taxes		50,841	295,619
Income tax prepaid		413,087	2,902,770
Other financial assets	7	98,409,042	65,572,190
Restricted cash	8	3,908,389	2,349,629
Other current assets		721,782	352,190
Cash and cash equivalents	9	41,200,873	9,030,762
		<b>164,005,962</b>	<b>105,916,889</b>
Non-current assets held for sale		96,641	161,511
<b>Total assets</b>		<b>655,181,559</b>	<b>595,336,614</b>

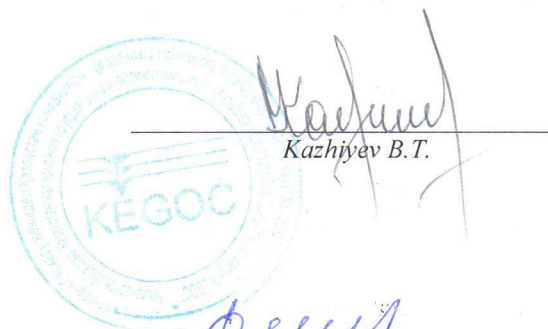
*The accounting policies and explanatory notes on pages 7 to 21 are an integral part  
of these interim condensed consolidated financial statements.*



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

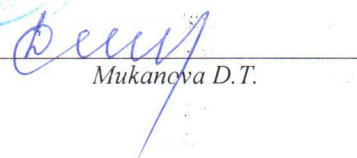
<i>In thousands of tenge</i>	Notes	30 September 2016 (unaudited)	31 December 2015 (audited)
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	10	126,799,554	126,799,554
Revaluation reserve	10	221,039,720	221,297,751
Other reserves		(170,701)	(170,701)
Retained earnings / (accumulated loss)		15,723,515	(6,949,990)
		<b>363,392,088</b>	<b>340,976,614</b>
<b>Non-current liabilities</b>			
Borrowings, non-current portion	11	131,855,654	149,139,660
Bonds payable, non-current portion	12	47,476,331	–
Deferred tax liability	22	67,154,053	64,677,142
Long-term trade and other accounts payable	13	853,585	–
		<b>247,339,623</b>	<b>213,816,802</b>
<b>Current liabilities</b>			
Borrowings, current portion	11	22,681,803	22,090,879
Bonds payable, current portion	12	3,043,167	–
Trade and other accounts payable	13	11,547,112	13,525,144
Construction obligation	14	683,430	683,430
Dividends payable	10	2,199,600	2,199,600
Advances received		1,312,504	751,166
Taxes payable other than income tax		1,211,771	559,515
Income tax payable		19,008	4,577
Other current liabilities	15	1,751,453	728,887
		<b>44,449,848</b>	<b>40,543,198</b>
<b>Total liabilities</b>		<b>291,789,471</b>	<b>254,360,000</b>
<b>Total equity and liabilities</b>		<b>655,181,559</b>	<b>595,336,614</b>

Chairman of the Management Board



Kazhiyev B.T.

Chief Accountant



Mukanova D.T.

*The accounting policies and explanatory notes on pages 7 to 21 are an integral part of these interim condensed consolidated financial statements.*

## INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2016

<i>In thousands of tenge</i>	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
Revenue	16	31,095,674	25,653,971	93,009,507	79,109,685
Cost of sales	17	(20,231,217)	(18,767,948)	(56,448,070)	(53,905,553)
<b>Gross profit</b>		<b>10,864,457</b>	<b>6,886,023</b>	<b>36,561,437</b>	<b>25,204,132</b>
General and administrative expenses	18	(3,730,208)	(3,493,417)	(8,968,098)	(14,786,809)
Selling expenses		(45,783)	(32,849)	(138,646)	(128,158)
(Impairment loss) / reversal of impairment		(80,060)	(21,030)	7,833	9,348
<b>Operating profit</b>		<b>7,008,406</b>	<b>3,338,727</b>	<b>27,462,526</b>	<b>10,298,513</b>
Finance income	19	1,632,126	818,561	4,765,301	2,359,682
Finance costs	19	(1,304,177)	(913,451)	(4,251,804)	(2,606,572)
Foreign exchange gain/(loss), net	20	275,486	(26,633,450)	(739,636)	(24,433,981)
Share of (loss)/income of associates		108,540	4,349	10,739	80,343
Other income	21	387,287	333,866	1,299,623	474,366
Other expenses		(58,886)	(47,086)	(149,269)	(164,790)
<b>Profit/(loss) before tax</b>		<b>8,048,782</b>	<b>(23,098,484)</b>	<b>28,397,480</b>	<b>(13,992,439)</b>
Income tax (benefit)/expense	22	(1,835,685)	4,405,868	(5,982,006)	1,408,161
<b>Profit/(loss) for the period</b>		<b>6,213,097</b>	<b>(18,692,616)</b>	<b>22,415,474</b>	<b>(12,584,278)</b>
<b>Earnings per share</b>					
Basic and diluted profit/(loss) for the period attributable to ordinary equity holders (in tenge)		23.90	(72.19)	86.21	(48.40)

Chairman of the Management Board



Kazhiyev B.T.

Chief Accountant



Mukanova D.T.

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## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months ended 30 September 2016

<i>In thousands of tenge</i>	Notes	For the nine months ended 30 September	
		2016 (unaudited)	2015 (unaudited)
<b>Operating activities</b>			
Profit/(loss) before tax		28,397,480	(13,992,439)
<b>Adjustments to reconcile profit/(loss) before tax to net cash flows</b>			
Depreciation and amortisation		16,327,535	16,848,824
Finance costs	19	4,251,804	2,606,572
Finance income	19	(4,765,301)	(2,359,682)
Foreign exchange loss, net		739,636	26,224,049
Provision for doubtful accounts receivable and impairment of advances paid	18	666,711	7,027,041
Accrual of provision for slow-moving and obsolete inventories	18	170,340	53,742
Income from transfer of granted assets	21	(872,820)	–
Loss from disposal of property, plant and equipment and intangible assets		32,062	85,317
Reversal of impairment		(7,833)	(9,348)
Share of income of associates		(10,739)	(80,343)
Loss from revaluation of assets for sale		–	481
Income from sales of investment property		–	(214,488)
<b>Working capital adjustments</b>			
Change in inventories		(460,423)	(339,350)
Change in trade accounts receivable		6,469,845	(1,277,388)
Change in VAT recoverable and other prepaid taxes		244,778	3,074,166
Change in other current assets		(514,478)	(125,347)
Change in trade and other accounts payable		(1,219,705)	(51,714)
Change in advances received		561,338	(152,131)
Change in taxes payable other than income tax		655,465	117,809
Change in other current liabilities		1,021,486	(204,197)
<b>Cash flows received from operating activities</b>		<b>51,687,181</b>	<b>37,231,574</b>
Interest paid		(4,262,563)	(2,622,163)
Income tax paid		(309,918)	(1,048,347)
Reimbursement of income tax from transfer of granted assets	21	158,267	–
Interest received		3,967,224	1,666,388
<b>Net cash flows received from operating activities</b>		<b>51,240,191</b>	<b>35,227,452</b>

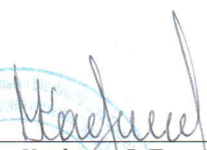
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**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**

<i>In thousands of tenge</i>	Notes	For the nine months ended 30 September	
		2016 (unaudited)	2015 (unaudited)
<b>Investing activities</b>			
Withdrawal of bank deposits		22,947,245	10,474,800
Placement of bank deposits		(50,433,451)	(14,679,365)
Change in restricted cash		(1,736,401)	(819,247)
Proceeds from sale of property, plant and equipment and intangible assets		65,824	1,632
Purchase of property, plant, equipment		(22,707,919)	(16,286,601)
Purchase of intangible assets		(20,076)	(133,813)
Payment for construction of kinder garden		(9,261)	(81,642)
Repayment of loans given to employees		7,351	21,229
Disiribution from an associate		36,910	–
Decrease in charter capital of an associate		64,870	–
<b>Net cash flows used in investing activities</b>		<b>(51,784,908)</b>	<b>(21,503,007)</b>
<b>Financing activities</b>			
Dividends paid		(197)	(8,613,800)
Repayment of borrowings		(16,260,783)	(9,109,104)
Bonds issuance	12	47,388,055	–
Repayment of coupon interest		1,658,725	–
Transaction costs for bonds issued	12	(23,669)	–
<b>Net cash flows received from / (used in) financing activities</b>		<b>32,762,131</b>	<b>(17,722,904)</b>
<b>Net change in cash and cash equivalents</b>		<b>32,217,414</b>	<b>(3,998,459)</b>
Net foreign exchange difference		(47,303)	492,069
Cash and cash equivalents as at 1 January	9	9,030,762	13,962,123
<b>Cash and cash equivalents as at 30 September</b>	9	<b>41,200,873</b>	<b>10,455,733</b>

Chairman of the Management Board

  
Kazhiyev B.T.

  
Mukanova D.T.

Chief Accountant



*The accounting policies and explanatory notes on pages 7 to 21 are an integral part of these interim condensed consolidated financial statements.*

## INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2016

<i>In thousands of tenge</i>	Share capital	Revaluation reserve	Other reserves	Retained earnings / (accumulated loss)	Total
<b>As at 1 January 2015 (audited)</b>	126,799,554	221,756,419	(170,701)	11,392,194	359,777,466
Loss for the period	–	–	–	(12,584,278)	(12,584,278)
<b>Total comprehensive loss</b>	–	–	–	(12,584,278)	(12,584,278)
Dividends (Note 10)	–	–	–	(8,613,800)	(8,613,800)
Transfer of asset revaluation reserve (Note 10)	–	(353,628)	–	353,628	–
Other changes in equity of an associate	–	–	–	36,521	36,521
<b>As at 30 September 2015 (unaudited)</b>	126,799,554	221,402,791	(170,701)	(9,415,735)	338,615,909
<b>As at 1 January 2016 (audited)</b>	126,799,554	221,297,751	(170,701)	(6,949,990)	340,976,614
Profit for the period	–	–	–	22,415,474	22,415,474
<b>Total comprehensive income</b>	–	–	–	22,415,474	22,415,474
Transfer of asset revaluation reserve (Note 10)	–	(258,031)	–	258,031	–
<b>As at 30 September 2016 (unaudited)</b>	126,799,554	221,039,720	(170,701)	15,723,515	363,392,088

Chairman of the Management Board



*Kazhiyev B.T.*

Chief Accountant

*Mukanova D.T.*

*b.*

The accounting policies and explanatory notes on pages 7 to 21 are an integral part  
of these interim condensed consolidated financial statements.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2016

### 1. GENERAL INFORMATION

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

As of 30 September 2016 the Company’s major shareholder was Sovereign Wealth Fund “Samruk-Kazyna” JSC (“Samruk-Kazyna”) (90 percent plus one share). Samruk-Kazyna is controlled by the Government of the Republic of Kazakhstan.

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

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

As of 30 September 2016 and 31 December 2015 the Company has stakes in the following companies:

Companies	Activities	Percentage of ownership	
		30 September 2016	31 December 2015
Energoinform JSC	Maintenance of the KEGOC’s IT system	100%	100%
Accounting and Finance Center for the support of renewable energy resources LLP	Centralised sales and purchase of electricity produced by energy producers using renewable energy sources and delivery into the electricity grid of the Republic of Kazakhstan	100%	100%

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

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

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

These interim condensed consolidated financial statements were authorised for issue by the Chairman of the Management Board and Chief Accountant on 8 November 2016.

### 2. BASIS OF PREPARATION

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2015.

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

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

### 2. BASIS OF PREPARATION (continued)

#### Exchange rates

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

Exchange rate as at the end of the period (to KZT)	30 September 2016	31 December 2015
USD 1	335.46	340.01
EUR 1	374.81	371.46
RUR 1	5.29	4.61
Average exchange rate for the nine months (to KZT)		
	2016	2015
USD 1	343.99	196.18
EUR 1	383.86	218.97
RUR 1	5.05	3.31

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### New and amended standards and interpretations

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

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

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

#### *IFRS 14 Regulatory Deferral Accounts*

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

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

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

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



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

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

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

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

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

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

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. These amendments do not have any impact on the Group’s interim condensed consolidated financial statements.

##### *Amendments to IAS 1 Disclosure Initiative*

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

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

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

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

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

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

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

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

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

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

*Annual improvements 2012-2014 cycle*

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

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- IFRS 7 *Financial Instruments: Disclosures*;
- IAS 19 *Employee Benefits*;
- IAS 34 *Interim Financial Reporting*.

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

During the nine months ended 30 September 2016, the Group acquired property, plant and equipment with a cost of KZT 19,151,070 thousand (for the nine months ended 30 September 2015: KZT 11,147,358 thousand). Additions were mainly represented by capital expenditures for the construction of the line 500 kW Ekibastuz-Shulbinskaya GES (Semey) – Ust-Kamenogorsk and line Shulbinskaya GES (Semey) – Aktogay – Taldykorgan – Alma.

Depreciation change for the nine months ended 30 September 2016 amounted to KZT 16,101,644 thousand (for the nine months ended 30 September 2015: KZT 16,626,869 thousand).

**Advances paid for non-current assets**

As at 30 September 2016 advances paid for non-current assets mainly represent prepayments made to suppliers for construction work related to the project “Construction of 500 kW line Ekibastuz – Shulbinskaya GES (Semey) – Ust Kamenogorsk”, “Construction of 500 kW line Shulbinskaya GES (Semey) – Aktogay – Taldykorgan – Alma” (as at 31 December 2015 the advanced paid for non-current assets mainly represent prepayments made to suppliers for construction works and services related to the projects “Construction of 500 kW line Ekibastuz – Shulbinskaya GES (Semey) – Ust-Kamenogorsk”, “Construction of 500 kW line Shulbinskaya GES (Semey) – Aktogay – Taldykorgan – Alma” and “Strengthening of the Pavlodar power unit”).

**Capitalized borrowing costs and issued bonds**

During the nine months ended 30 September 2016 the Group capitalized the cost of coupon interest on issued bonds net off investment income amounted to KZT 605,231 thousand (for the nine months ended 30 September 2015: nil) (*Note 12*).

**5. INVENTORIES**

<i>In thousands of tenge</i>	<b>30 September 2016</b>	31 December 2015
Spare parts	<b>1,402,054</b>	1,242,830
Raw and other materials	<b>1,058,616</b>	852,345
Fuel and lubricants	<b>208,346</b>	125,711
Other inventory	<b>31,020</b>	28,894
Less: allowance for slow-moving and obsolete inventories	<b>(427,600)</b>	(267,427)
	<b>2,272,436</b>	1,982,353

Movement in the allowance for slow-moving and obsolete inventories was as follows:

<i>In thousands of tenge</i>	<b>2016</b>	2015
<b>At 1 January</b>	<b>267,427</b>	247,478
Charged for the period ( <i>Note 18</i> )	<b>170,340</b>	53,742
Written-off	<b>(10,167)</b>	(60,721)
<b>At 30 September</b>	<b>427,600</b>	240,499

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

**6. TRADE ACCOUNTS RECEIVABLE**

<i>In thousands of tenge</i>	<b>30 September 2016</b>	31 December 2015
Trade accounts receivable	<b>19,077,354</b>	25,559,459
Less: allowance for doubtful accounts receivable	<b>(2,047,842)</b>	(1,452,512)
Less: discount of accounts receivable	–	(675,571)
	<b>17,029,512</b>	23,431,376

Movement in the allowance for doubtful receivables was as follows:

<i>In thousands of tenge</i>	<b>2016</b>	2015
<b>At 1 January</b>	<b>1,452,512</b>	3,445,256
Charge for the period	<b>690,827</b>	11,591,652
Utilised	<b>(830)</b>	(440)
Reversal	<b>(94,667)</b>	(221,253)
<b>At 30 September</b>	<b>2,047,842</b>	14,815,215

Trade receivables were denominated in the following currencies:

<i>In thousands of tenge</i>	<b>30 September 2016</b>	31 December 2015
US dollars	<b>10,618,423</b>	19,693,177
Tenge	<b>5,708,065</b>	3,247,617
Russian rouble	<b>703,024</b>	490,582
	<b>17,029,512</b>	23,431,376

In October 2015 Uzbekenergo JSC provided the Group with repayment schedule for the services. Due to the fact that according to the schedule receivables are overdue for more than 1 (one) year the Group performed discounting of future cash flows from Uzbekenergo JSC.

Due to the fact that schedule supposed repayment of debt in October 2016, as at 30 September 2016 discount on trade receivables was fully amortized (31 December 2015: KZT 675,571 thousand). For the nine months ended 30 September 2016 the Group recognized amortization of discount in the amount of KZT 685,493 thousand within finance income in the interim condensed consolidated statement of comprehensive income.

In September 2016 due to the non-compliance with the repayment schedule, the Group accrued an allowance for outstanding part of receivable from Uzbekenergo JSC in the amount of KZT 653,268 thousand.

**7. OTHER FINANCIAL ASSETS**

<i>In thousands of tenge</i>	<b>30 September 2016</b>	31 December 2015
<b>Long-term other financial assets</b>		
Bonds of Batys Transit JSC	–	868,269
Deposits	–	5,100,150
	–	5,968,419
<b>Short-term other financial assets</b>		
Bank deposits	<b>97,463,458</b>	65,509,892
Bonds of Batys Transit	<b>868,269</b>	–
Interest accrued on bonds of Batys Transit JSC	<b>77,315</b>	62,298
	<b>98,409,042</b>	65,572,190
<b>Total other financial assets</b>	<b>98,409,042</b>	71,540,609

In 2007-2009 the Group acquired bonds of Batys Transit JSC (“Batys Transit”), an entity listed on the Kazakhstan Stock Exchange. The interest rate on the bonds is 14.9%. The bonds are classified as available for sale investments. Fair value of the bond is the price to sell an asset or transfer a liability, and therefore an exit price, not an entry price. The bonds of Batys Transit are secured with Guarantee of the Government of Republic of Kazakhstan in accordance with guarantee agreement dated 9 January 2006.

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

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

In April 2016 the Group concluded an agreement with Batys Transit about early redemption of its bonds at nominal price of 100 tenge per unit. According to the agreement, redemption of bonds of Batys Transit JSC is planned at the end of 2016.

In January 2014 the Group placed long-term deposit with ATF Bank JSC amounting to USD 15,000 thousand (equivalent of KZT 5,031,900 thousand as at 30 September 2016) with fixed interest rate of 4.5% till 2017. In January 2016 the deposit was reclassified to the short-term financial assets. As at 30 September 2016 and 31 December 2015 there were no accrued interest receivable.

For the nine months ended 30 September 2016 and 2015 accrued interest income totaled to KZT 304,492 thousand and KZT 156,670 thousand, respectively.

Other financial assets were denominated in the following currencies:

<i>In thousands of tenge</i>	<b>Interest rate</b>	<b>30 September 2016</b>	<b>31 December 2015</b>
US dollars	4%-6%	<b>73,029,957</b>	68,367,375
Tenge	10%-16%	<b>25,379,085</b>	3,173,234
		<b>98,409,042</b>	71,540,609

**8. RESTRICTED CASH**

<i>In thousands of tenge</i>	<b>30 September 2016</b>	<b>31 December 2015</b>
Cash on reserve accounts	<b>3,759,900</b>	2,204,660
Other restricted cash	<b>148,489</b>	144,969
	<b>3,908,389</b>	2,349,629

As at 30 September 2016 and 31 December 2015 restricted cash represents cash held on a debt service account and reserve account.

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

In accordance with the terms of the guarantee agreements with the Government of the Republic of Kazakhstan, the guarantor of Group’s loans (*Note 11*), the Group is obliged to hold cash on a special reserve account opened in a Kazakhstan bank. The Group is obliged to reserve cash for at least 110% of the upcoming semi-annual payment of principal, interest and commission fees of the IBRD loans.

At 30 September 2016 and 31 December 2015 restricted cash was denominated in the following currencies:

<i>In thousands of tenge</i>	<b>30 September 2016</b>	<b>31 December 2015</b>
US dollar	<b>3,759,900</b>	2,204,660
Tenge	<b>148,489</b>	144,969
	<b>3,908,389</b>	2,349,629

**9. CASH AND CASH EQUIVALENTS**

<i>In thousands of tenge</i>	<b>30 September 2016</b>	<b>31 December 2015</b>
Short-term deposits	<b>37,289,184</b>	5,036,000
Current accounts with banks in tenge	<b>2,998,625</b>	2,551,406
Current accounts with banks in foreign currencies	<b>902,873</b>	1,434,716
Cash at special accounts	<b>6,474</b>	5,216
Cash on hand	<b>3,717</b>	3,424
	<b>41,200,873</b>	9,030,762



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

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

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

<i>In thousands of tenge</i>	<b>30 September 2016</b>	31 December 2015
Tenge	<b>40,298,000</b>	7,596,046
US dollar	<b>505,712</b>	393,010
Euro	<b>396,097</b>	1,040,794
Russian rouble	<b>545</b>	307
Others	<b>519</b>	605
	<b>41,200,873</b>	9,030,762

**10. EQUITY**

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

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

**Dividends**

On 16 October 2015 on the General Shareholders meeting the Group declared dividends for first half of the 2015 year, in the amount of KZT 2,444,000 thousand that is 40.01% of net income, or 9.4 tenge per common share. In December 2015 an agreement was concluded on the postponement of payment of dividends to Samruk-Kazyna, a major shareholder of the Group, in the amount of KZT 2,199,600 thousand till 30 December 2016 (*Note 25*). The payment of dividends to other shareholders was conducted in October 2015.

**Book value per share**

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

<i>In thousands of tenge</i>	<b>30 September 2016</b>	31 December 2015
<b>Total assets</b>	<b>655,181,559</b>	595,336,614
Less: intangible assets	<b>(839,660)</b>	(1,036,367)
Less: total liabilities	<b>(291,789,471)</b>	(254,360,000)
<b>Net assets</b>	<b>362,552,428</b>	339,940,247
Number of ordinary shares	<b>260,000,000</b>	260,000,000
<b>Book value per ordinary share, tenge</b>	<b>1,394</b>	1,307

**Revaluation reserve**

At 30 September 2016 and 31 December 2015 the revaluation reserve represents revaluation surplus recognized as a result of revaluation of Group’s UPS assets on 1 June 2014. Transfer of asset revaluation reserve into retained earnings, upon disposal of PPE, for the nine months ended 30 September 2016 amounted to KZT 258,031 thousand (for the nine months ended 30 September 2015: KZT 353,628 thousand).

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

**11. BORROWINGS**

<i>In thousands of tenge</i>	<b>30 September 2016</b>	31 December 2015
European Bank of Reconstruction and Development (EBRD)	<b>85,778,306</b>	97,076,928
International Bank of Reconstruction and Development (IBRD)	<b>68,759,151</b>	74,153,611
	<b>154,537,457</b>	171,230,539
Less: current portion of loans repayable within 12 months	<b>(22,681,803)</b>	(22,090,879)
	<b>131,855,654</b>	149,139,660

Loans were denominated in the following currencies:

<i>In thousands of tenge</i>	<b>30 September 2016</b>	31 December 2015
US dollars	<b>103,697,390</b>	110,952,763
Euro	<b>50,840,067</b>	60,277,776
	<b>154,537,457</b>	171,230,539

During the nine months ended 30 September 2016 the Group made repayment of principal amount of loans amounting to KZT 16,260,783 thousand, and repayment of interest amounting to KZT 3,789,925 thousand. Additionally, the balance of borrowings and accrued interest decreased by KZT 421,241 thousand as a result of changes in the exchange rate of tenge in relation to US dollar and euro during the nine months ended 30 September 2016.

**12. BONDS PAYABLE**

<i>In thousands of tenge</i>	<b>30 September 2016</b>	31 December 2015
The nominal value of issued bonds	<b>47,500,000</b>	–
Accrued coupon interest	<b>3,043,167</b>	–
Transaction costs	<b>(23,669)</b>	–
	<b>50,519,498</b>	–
Less: current portion of bonds repayable within 12 months	<b>(3,043,167)</b>	–
	<b>47,476,331</b>	–

Under the State Program “Nurly Zhol” during the period from June to August 2016 the Group issued coupon bonds with the nominal value of KZT 47,500,000 thousand under floating interest rate equal to the inflation rate in Republic of Kazakhstan plus 2.9% with the maturity in 2031 in order to finance the projects “Construction of 500 kW line Ekibastuz – Semey – Ust'-kamenogorsk” and “Construction of 500 kW line Semey – Ak-togay – Taldykorgan – Alma”. The coupon rate for the first coupon period totaled to 18.6% per annum.

All of the bonds under this program were purchased by Unified Pension Saving Fund. Cash received was placed on short-term deposits.

**13. LONG-TERM AND CURRENT TRADE AND OTHER ACCOUNTS PAYABLE**

<i>In thousands of tenge</i>	<b>30 September 2016</b>	31 December 2015
<b>Long-term accounts payable</b>		
Accounts payable for property, plant and equipment and construction works	<b>853,585</b>	–
	<b>853,585</b>	–
<b>Current accounts payable</b>		
Accounts payable for property, plant and equipment and construction works	<b>5,653,301</b>	8,091,105
Accounts payable for electricity purchased	<b>4,968,428</b>	4,507,777
Accounts payable for inventories, works and services	<b>925,383</b>	926,262
	<b>11,547,112</b>	13,525,144
	<b>12,400,697</b>	13,525,144

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

**13. LONG-TERM AND CURRENT TRADE AND OTHER ACCOUNTS PAYABLE (continued)**

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

<i>In thousands of tenge</i>	<b>30 September 2016</b>	31 December 2015
Tenge	<b>11,604,136</b>	12,613,812
Russian rouble	<b>784,643</b>	782,163
Euro	<b>11,238</b>	64,208
US dollar	<b>680</b>	64,961
	<b>12,400,697</b>	13,525,144

**14. 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 the city of Astana and pass it to the Akimat of Astana at the end of construction. In 2014, the Group has estimated the costs of building and signed a contract with the construction company. Accordingly, the Group recognized a liability for construction in total amount of KZT 683,430 thousand and the corresponding distribution to shareholders. Completion of the construction of the kindergarten is planned in 2016.

**15. OTHER CURRENT LIABILITIES**

<i>In thousands of tenge</i>	<b>30 September 2016</b>	31 December 2015
Due to employees	<b>1,568,019</b>	555,197
Other	<b>183,434</b>	173,690
	<b>1,751,453</b>	728,887

**16. REVENUE**

<i>In thousands of tenge</i>	<b>Three months ended 30 September</b>		<b>Nine months ended 30 September</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
Electricity transmission	<b>19,273,641</b>	16,705,251	<b>57,318,664</b>	53,361,713
Technical dispatch	<b>4,544,389</b>	3,444,031	<b>14,185,558</b>	11,037,290
Balancing of electricity production and consumption	<b>3,101,443</b>	2,957,229	<b>9,709,377</b>	9,516,423
Revenue from sales of purchased electricity	<b>2,923,531</b>	1,711,310	<b>7,941,418</b>	2,474,327
Revenue from electricity sales for compensation of the interstate balances of electricity flows	<b>1,152,817</b>	755,624	<b>2,844,795</b>	2,219,868
Revenue from power regulation services	–	–	<b>769,555</b>	–
Other	<b>394,963</b>	305,889	<b>1,125,986</b>	933,797
	<b>31,390,784</b>	25,879,334	<b>93,895,353</b>	79,543,418
Discounts to consumers	<b>(295,110)</b>	(225,363)	<b>(885,846)</b>	(433,733)
	<b>31,095,674</b>	25,653,971	<b>93,009,507</b>	79,109,685

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

**16. REVENUE (continued)**

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

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

For the nine months ended 30 September 2016 the revenue from one consumer, Samruk-Energo Group, amounted to KZT 14,155,194 thousand, arising from transmission, technical dispatching and balancing services.

For the nine months ended 30 September 2015 the revenue from one consumer, Samruk-Energo Group, amounted to KZT 12,560,750 thousand, arising from transmission, technical dispatching and balancing services.

**17. COST OF SALES**

<i>In thousands of tenge</i>	<b>Three months ended 30 September</b>		<b>Nine months ended 30 September</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
Depreciation and amortization	<b>5,312,411</b>	5,442,710	<b>15,885,340</b>	16,340,111
Technical losses of electric energy	<b>3,499,519</b>	4,162,626	<b>11,208,693</b>	13,985,786
Payroll expenses and related taxes	<b>3,005,285</b>	2,500,346	<b>8,480,187</b>	8,311,633
Cost of purchased electricity	<b>2,833,755</b>	1,765,075	<b>7,774,646</b>	2,413,344
Cost of purchased electricity for compensation of interstate balances of electricity flows	<b>2,577,241</b>	2,027,604	<b>6,603,164</b>	6,217,257
Repair and maintenance expenses	<b>1,748,677</b>	1,623,915	<b>3,433,912</b>	3,678,443
Inventories	<b>442,452</b>	472,536	<b>878,783</b>	880,295
Security services	<b>249,618</b>	260,790	<b>744,680</b>	732,017
Other	<b>562,259</b>	512,346	<b>1,438,665</b>	1,346,667
	<b>20,231,217</b>	18,767,948	<b>56,448,070</b>	53,905,553

**18. GENERAL AND ADMINISTRATIVE EXPENSES**

<i>In thousands of tenge</i>	<b>Three months ended 30 September</b>		<b>Nine months ended 30 September</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
Taxes other than income tax	<b>1,254,845</b>	1,434,261	<b>3,762,174</b>	3,951,288
Payroll expenses and related taxes	<b>812,830</b>	640,075	<b>2,464,748</b>	2,012,876
Provision for doubtful receivables and impairment of advances paid	<b>681,091</b>	849,135	<b>666,711</b>	7,027,041
Consulting services	<b>277,169</b>	30,616	<b>409,913</b>	115,124
Accrual/(reversal) of provision for obsolete inventory (Note 5)	<b>181,092</b>	(56,185)	<b>170,340</b>	53,742
Depreciation and amortization	<b>132,244</b>	145,023	<b>396,265</b>	454,243
Business trip expenses	<b>45,972</b>	35,754	<b>111,664</b>	92,738
Insurance	<b>36,325</b>	48,086	<b>124,196</b>	109,018
Rent expenses	<b>27,807</b>	28,810	<b>82,375</b>	76,986
Materials	<b>23,553</b>	12,733	<b>57,503</b>	46,324
Utilities	<b>16,793</b>	18,520	<b>66,374</b>	72,111
Trainings	<b>9,878</b>	14,101	<b>31,269</b>	56,790
Security services	<b>9,564</b>	9,614	<b>28,431</b>	27,760
Bank services	<b>5,971</b>	8,990	<b>16,859</b>	28,479
Communication services	<b>5,917</b>	6,629	<b>18,126</b>	18,247
Repair expenses	<b>2,297</b>	6,515	<b>7,159</b>	6,538
Other	<b>206,860</b>	260,740	<b>553,991</b>	637,504
	<b>3,730,208</b>	3,493,417	<b>8,968,098</b>	14,786,809



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

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

<i>In thousands of tenge</i>	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
<b>Finance income</b>				
Interest income from deposits, current accounts and quoted bonds	4,036,744	692,764	6,519,580	1,889,068
Amortization of discount on accounts receivable	144,397	124,297	792,732	466,158
Others	866	1,500	2,870	4,456
	<b>4,182,007</b>	818,561	<b>7,315,182</b>	2,359,682
Less: interest capitalized into the cost of qualifying asset ( <i>Note 4</i> )	(2,549,881)	–	(2,549,881)	–
	<b>1,632,126</b>	818,561	<b>4,765,301</b>	2,359,682
<b>Finance costs</b>				
Interest expense	4,391,158	865,613	6,877,092	2,286,530
Commission on bank guarantees	44,697	25,750	461,767	254,051
Amortization of loan origination fees	23,135	22,088	67,758	65,991
Expenses on bonds issuance	299	–	299	–
	<b>4,459,289</b>	913,451	<b>7,406,916</b>	2,606,572
Less: interest capitalized into the cost of qualifying asset ( <i>Note 4</i> )	(3,155,112)	–	(3,155,112)	–
	<b>1,304,177</b>	913,451	<b>4,251,804</b>	2,606,572

**20. FOREIGN EXCHANGE LOSS, NET**

On 20 August 2015 National Bank of Republic of Kazakhstan and Government of Republic of Kazakhstan decided to shift to freely floating currency exchange rate as a part of implementation of inflation targeting program. As a consequence of change of exchange rate of tenge during nine months ended 30 September 2016, the Group incurred net foreign exchange loss in the amount of KZT 739,636 thousand (for the nine months ended 30 September 2015: net foreign exchange loss in the amount of KZT 24,433,981 thousand).

**21. OTHER INCOME**

<i>In thousands of tenge</i>	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
Income from transfer of granted assets	99,785	(20,746)	872,820	–
Reimbursement of CIT from transfer of granted assets	158,267	–	158,267	–
Fines and penalties	99,315	22,571	143,753	90,992
Income from rental of buildings	18,788	71,490	55,385	104,301
Income from materials disposal	8,842	13,835	52,025	32,357
Other	2,290	246,716	17,373	246,716
	<b>387,287</b>	333,866	<b>1,299,623</b>	474,366

Other income for the nine months ended 30 September 2016 mainly comprise of the income from gratuitous receipt of certain items of property, plant and equipment, including substation and transmission lines, from Group’s consumers Caspian Pipeline Consortium – K JSC and Altaypollimetalloy LLP in the amount of KZT 847,143 thousand. In addition, the Group received KZT 158,267 thousand from Caspian Pipeline Consortium – K JSC as reimbursement of CIT from transfer of granted assets.

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

**22. INCOME TAX EXPENSE/(BENEFIT)**

<i>In thousands of tenge</i>	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
<b>Current income tax</b>				
Current income tax expense/(benefit)	2,315,796	(1,689,211)	3,494,420	33,963
Adjustments to current income tax of the previous year	445	–	8,080	(104,160)
<b>Deferred tax</b>				
Deferred income tax (benefit)/expense	(480,556)	(2,716,657)	2,479,506	(1,337,964)
<b>Total income tax expense/(benefit) reported in the interim consolidated statement of comprehensive income</b>	<b>1,835,685</b>	<b>(4,405,868)</b>	<b>5,982,006</b>	<b>(1,408,161)</b>

**23. TRANSACTIONS WITH RELATED PARTIES**

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

The following table provides the balances of accounts payable to/receivable from related parties as at 30 September 2016 and 31 December 2015:

<i>In thousands of tenge</i>		Trade accounts receivable from related parties	Trade accounts payable to related parties
Subsidiaries of Samruk-Kazyna Group	2016	1,959,372	1,221,350
	2015	1,873,643	1,734,326
Associated entities of Samruk-Kazyna	2016	507,874	1,460,564
	2015	322,623	205,367
Joint ventures of Samruk-Kazyna	2016	136,492	719,514
	2015	314,628	686,464
Associates of the Group	2016	26,781	7,788
	2015	47,602	11,883

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

<i>In thousands of tenge</i>		Sales to related parties	Purchases from related parties
Subsidiaries of Samruk-Kazyna Group	2016	16,327,155	10,144,115
	2015	16,037,127	6,795,550
Associated entities of Samruk-Kazyna	2016	5,722,531	24,612,610
	2015	4,221,271	1,543,238
Joint ventures of Samruk-Kazyna	2016	4,809,213	2,301,167
	2015	1,982,501	7,323,070
Associates of the Group	2016	255,699	66,795
	2015	263,380	61,013

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

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

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### 23. TRANSACTIONS WITH RELATED PARTIES (continued)

As at 30 September 2016 the Group’s borrowings of KZT 69,060,783 thousand were guaranteed by the Government of the Republic of Kazakhstan (31 December 2015: KZT 75,266,975 thousand).

In 2007-2009 the Group acquired bonds of an associate, Batys Transit JSC, an entity listed on the Kazakhstan Stock Exchange. The interest rate on the bonds is 14.9%. The bonds are classified as available for sale investments. Fair value is the price to sell an asset or transfer a liability, and therefore an exit price, not an entry price. The carrying value of Batys Transit bonds comprised KZT 868,269 thousand as of 30 September 2016 (31 December 2015: KZT 868,269 thousand).

For the nine months ended 30 September 2016 interest income accrued on bonds of Batys Transit, amounted to KZT 97,868 thousand (nine months ended 30 September 2015: KZT 54,371 thousand).

As of 30 September 2016 the Group had outstanding accounts receivable from Balkhash TES JSC, related party, for the sale of property, plant and equipment in the amount of KZT 219,851 thousand (31 December 2015: KZT 168,654 thousand) presented within other non-current assets. In accordance with sales agreement Balkhash TES JSC will repay the outstanding balance in December 2018. As at 30 September 2016 the discount on accounts receivable from Balkhash TES JSC comprised KZT 39,640 thousand (31 December 2015: KZT 51,197 thousand). For the nine months ended 30 September 2016 the amortization of discount on accounts receivable comprised KZT 11,556 thousand (for the nine months ended 30 September 2015: KZT 10,540 thousand).

On 30 September 2015 the Group sold buildings and constructions with equipment and land located in Astana city to its related party Kazpost JSC for KZT 2,161,476 thousand. In accordance with sales agreement Kazpost JSC will repay the outstanding balance by equal monthly payments until June 2027. Accordingly, the Group discounted the future cash flows using discount rate of 10.37%, which is the Group Management’s best estimate of market rate. As of 30 September 2016 the discount on accounts receivable from Kazpost JSC comprised KZT 815,953 thousand. As of 30 September 2016 the receivable net of discount comprised KZT 1,280,023 thousand, of which KZT 1,915,854 thousand was accounted for within long-term receivables from related parties. For the nine months ended 30 September 2016 the Group recognized income from amortization of discount on long-term receivables from Kazpost JSC in the amount of KZT 95,683 thousand.

Total compensation to key management personnel included in personnel costs in the interim consolidated statement of comprehensive income was KZT 168,132 thousand for the nine months ended 30 September 2016 (for the nine months ended 30 September 2015: KZT 341,921 thousand). Compensation to key management personnel mainly consists of contractual salary and remuneration based on operating results.

### 24. COMMITMENTS AND CONTINGENCIES

#### Operating environment

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

The National Bank of the Republic of Kazakhstan shifted to inflation targeting policy. Starting from 20 August 2015 it was decided to cease the support of tenge exchange rate against US dollar and other main currencies in order to decrease the volume of currency interventions and to reduce the influence on establishing the tenge exchange rate. Official exchange rate before devaluation amounted to 188.38 tenge per 1 US dollar. As at 30 September 2016 the exchange rate amounted to 335.46 tenge per 1 US dollar.

The combination of the above along with other factors resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth. Management believes it is taking appropriate measures to support the sustainability of the Company’s business in the current circumstances.

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

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### 24. COMMITMENTS AND CONTINGENCIES (continued)

#### Taxation

Kazakhstan’s tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan’s tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for 5 calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan’s tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 30 September 2016.

From 1 January 2015 National classifier of Republic of Kazakhstan Tax Code of RK 12 *Classifier of Fixed Assets* (the “COF”) became effective. This classifier was approved by Decree of the Head of Technical Regulation and Metrology Committee of the Ministry of Investment and Development of Republic of Kazakhstan dated 7 November 2014 No. 231-OD. New version of COF supposes reclassification of part of fixed assets from “UPS” assets group into “Machinery and Equipment” group. As a result of implementation of new version of COF, the Group received annual savings of resources. At the moment, there is an issue raised by tax authorities that COF is not registered in the judicial bodies. In the tax authorities’ view, absence of standard documents in the judicial bodies loses its validity. Due to the factors above, KEGOC JSC has a tax risk if tax inspections take place.

#### Compliance with loan covenants

From 1999 till 2011 the Group concluded loan facility agreements with European Bank for Reconstruction and Development (EBRD) and International Bank for Reconstruction and Development (IBRD) (the “Creditors”) for the amounts of 506 million US dollars and 228 million euro (*Note 11*). 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 September 2016 and 31 December 2015. The Group excludes from EBITDA the foreign exchange gain and loss, as management believes that foreign exchange gains and loss 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 September 2016 the Group excluded from EBITDA the foreign exchange loss of KZT 739,636 thousand incurred during the nine months ended 30 September 2016.

#### Insurance

As at 30 September 2016, the Group insured property and equipment with the recoverable value of KZT 157,471,141 thousand. The insurance payment is limited to the carrying value of property and equipment. The Group does not insure its other property. Since absence of any insurance does not imply a reduction of the cost of assets or occurrence of any liabilities, no provision has been made in these interim condensed consolidated financial statements for unexpected expenses associated with damage or loss of these assets.

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

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### 24. COMMITMENTS AND CONTINGENCIES (continued)

#### Contractual commitments

To ensure the stable and reliable performance of the national electricity grid, the Group developed a capital investment plan. As at 30 September 2016, the Group’s outstanding contractual commitments within the frameworks of this plan amount to KZT 68,064,170 thousand (31 December 2015: KZT 84,277,398 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 on purchase of electricity from renewable energy sources*

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

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

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

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

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

At the end of 2015 was sent to report on implementation of the tariff estimate to the Committee following the consideration of which the order of the Committee has been defined temporary compensating tariff for regulated services for the period from 1 July 2016 to 30 June 2017, set lower limit levels of tariffs for regulated services 2016 and 2017 by 0.01 KZT. From 1 July to 31 December 2016 the temporary compensating tariff for electricity transmission through electric grids set at 2,079 KZT/kWh (excluding VAT), the rate of technical dispatch to the grid and electricity consumption – 0.230 KZT/kWh (excluding VAT). From January 1 to June 30, 2017 a temporary compensating tariff for electricity transmission through electric grids will be 2.245 KZT/kWh (excluding VAT), the rate of technical dispatch to the grid and electricity consumption – 0.233 KZT/kWh (excluding VAT).

### 25. SUBSEQUENT EVENTS

On 28 October 2016 on the General meeting of Shareholders the Group approved to distribute 40% of net income received for the first half of 2016. The amount of distributable dividend equals to KZT 6,481,800 thousand for each ordinary shareholders of KEGOC JSC, which is calculated as 24.93 tenge per one common share.

On 16 October 2015 on the General meeting of Shareholders the Group decided to distribute 40.01% of net income of the Group for the first half of 2015. The amount of distributed dividends equals to KZT 2,444,000 thousand or 9.40 tenge per share. In December 2015 it was agreed to delay payment of dividend to the controlling shareholder – Samruk-Kazyna – in the amount of KZT 2.199.600 thousand till 30 December 2016. On 31 October 2016 the Group repaid its dividends payable in full (*Note 10*).

On 3 November 2016 the Group received cash from Uzbekenergo JSC in the amount of 1,014 thousand USD (equivalent to KZT 343,087 thousand) as a repayment of receivables for provided services (*Note 6*).