

Kazakhstan Electricity Grid Operating Company JSC

Unaudited interim condensed consolidated financial statements

As at and for the nine months ended 30 September 2017

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Report on review of interim condensed consolidated financial statements

To the Shareholders and Management of Kazakhstan Electricity Grid Operating Company JSC

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Kazakhstan Electricity Grid Operating Company JSC and its subsidiaries ("the Group"), which comprise the interim consolidated statement of financial position as at 30 September 2017, 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 Kazakhstan Electricity Grid Operating Company JSC and its subsidiaries are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

Ernst & Young LLP

Paul Cohn
Audit Partner

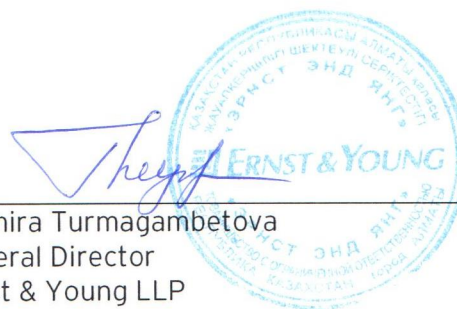


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3 November 2017



Gulmira Turmagambetova
General Director
Ernst & Young LLP

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2017

<i>In thousands of tenge</i>	Notes	30 September 2017 (unaudited)	31 December 2016 (audited)
Assets			
Non-current assets			
Property, plant and equipment	4	509,785,124	500,914,390
Intangible assets		553,248	855,032
Advances paid for non-current assets	4	8,318,232	664,471
Deferred tax asset		6,696	1,093
Investments in associate		638,028	304,954
Long-term receivables from related parties	21	1,225,518	1,267,287
Other non-current assets		27,715	11,009
		520,554,561	504,018,236
Current assets			
Inventories	5	2,178,585	1,686,312
Trade accounts receivable	6	9,757,828	15,746,830
VAT recoverable and other prepaid taxes		46,886	309,268
Income tax prepaid		11,479	734,349
Other current assets		722,665	477,988
Other financial assets	7	57,885,399	61,403,727
Restricted cash	8	4,105,303	15,626,798
Cash and cash equivalents	9	54,727,208	32,055,378
		129,435,353	128,040,650
Total assets		649,989,914	632,058,886

*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 2017 (unaudited)	31 December 2016 (audited)
Equity and liabilities			
Equity			
Share capital		126,799,554	126,799,554
Treasury shares		(930)	(930)
Revaluation reserve	10	220,881,191	220,890,374
Other reserves		(170,701)	(170,701)
Retained earnings		29,975,752	14,565,773
		377,484,866	362,084,070
Non-current liabilities			
Borrowings, non-current portion	11	87,023,833	95,143,995
Bonds payable, non-current portion	12	83,645,789	47,368,104
Deferred tax liability		66,648,008	66,807,914
Long-term trade and other accounts payable	13	304,583	2,417,810
		237,622,213	211,737,823
Current liabilities			
Borrowings, current portion	11	9,421,954	27,334,944
Bonds payable, current portion	12	2,105,344	5,251,917
Trade and other accounts payable	13	13,449,366	16,981,635
Construction obligation		683,430	683,430
Dividends payable		14	44
Advances received		1,868,834	1,042,525
Taxes payable other than income tax	14	1,702,484	3,340,265
Income tax payable		3,997,265	628,322
Other current liabilities	15	1,654,144	2,973,911
		34,882,835	58,236,993
Total liabilities		272,505,048	269,974,816
Total equity and liabilities		649,989,914	632,058,886
Book value per ordinary share (in tenge)	10	1,450	1,389

Acting Chairman of the Management Board



Zhazykbaev B.M.

Chief Accountant

Mukanova D.T.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2017

<i>In thousands of tenge</i>	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
Revenue	16	37,347,239	31,095,674	111,716,956	93,009,507
Cost of sales	17	(22,929,355)	(20,231,217)	(63,778,134)	(56,448,070)
Gross profit		14,417,884	10,864,457	47,938,822	36,561,437
General and administrative expenses	18	(4,078,620)	(3,730,208)	(10,356,778)	(8,968,098)
Selling expenses		(52,787)	(45,783)	(152,842)	(138,646)
(Impairment loss) / reversal of impairment		(22,246)	(80,060)	(42,932)	7,833
Operating profit		10,264,231	7,008,406	37,386,270	27,462,526
Finance income	19	995,332	1,632,126	2,677,772	4,765,301
Finance costs	19	(1,180,445)	(1,304,177)	(3,237,499)	(4,251,804)
Foreign exchange (loss)/gain, net		(4,085,353)	275,486	(5,543,193)	(739,636)
Share of income of associate		186,877	108,540	333,074	10,739
Provision on funds placed with Delta Bank JSC and Kazinvestbank JSC	7	–	–	(1,934,340)	–
Other income		311,296	387,287	416,506	1,299,623
Other expenses		(32,710)	(58,886)	(123,547)	(149,269)
Profit before tax		6,459,228	8,048,782	29,975,043	28,397,480
Income tax expense	20	(1,720,700)	(1,835,685)	(7,260,486)	(5,982,006)
Profit for the period		4,738,528	6,213,097	22,714,557	22,415,474
Total comprehensive income		4,738,528	6,213,097	22,714,557	22,415,474
Earnings per share					
Basic and diluted profit for the period attributable to ordinary equity holders (in tenge)	10	18.23	23.90	87.36	86.21

Acting Chairman of the Management Board


Zhazykbaev B.M.

Chief Accountant


Mukanova D.T.

Notes on pages 7 to 21 are an integral part
of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months ended 30 September 2017

<i>In thousands of tenge</i>	Notes	For the nine months ended 30 September	
		2017 (unaudited)	2016 (unaudited)
Operating activities			
Profit before tax		29,975,043	28,397,480
Adjustments to reconcile profit before tax to net cash flows			
Depreciation and amortisation		17,168,546	16,327,535
Finance costs	19	3,237,499	4,251,804
Finance income	19	(2,677,772)	(4,765,301)
Foreign exchange loss, net		5,543,193	739,636
Accrual of provision for doubtful accounts receivable and impairment of other current assets	18	789,884	666,711
Accrual of provision for obsolete inventories	18	3,867	170,340
Income from transfer of granted assets		–	(872,820)
Loss from disposal of property, plant and equipment and intangible assets		21,978	32,062
Accrual/(reversal) of property, plant and equipment impairment		42,932	(7,833)
Provision on funds placed with Delta Bank JSC and Kazinvestbank JSC	7	1,934,340	–
Interest income from other financial assets		(30,248)	–
Share of income of an associate		(333,074)	(10,739)
Working capital adjustments			
Change in inventories		(480,691)	(460,423)
Change in trade accounts receivable		5,143,941	6,469,845
Change in VAT recoverable and other prepaid taxes		262,382	244,778
Change in other current assets		(300,124)	(514,478)
Change in trade and other accounts payable		1,535,432	(1,219,705)
Change in advances received		826,309	561,338
Change in taxes payable other than income tax		(1,637,781)	655,465
Change in other current liabilities		(1,320,481)	1,021,486
Cash flows received from operating activities		59,705,175	51,687,181
Interest paid		(3,319,213)	(4,262,563)
Coupon interest paid		(8,835,000)	–
Income tax paid		(2,701,983)	(309,918)
Reimbursement of income tax from transfer of granted assets		–	158,267
Interest received		3,745,634	3,967,224
Net cash flows received from operating activities		48,594,613	51,240,191

*Notes on pages 7 to 21 are an integral part
of these interim condensed consolidated financial statements.*

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

<i>In thousands of tenge</i>	Notes	For the nine months ended 30 September	
		2017 (unaudited)	2016 (unaudited)
Investing activities			
Withdrawal of bank deposits		57,217,822	22,947,245
Placement of bank deposits		(53,496,132)	(50,433,451)
Change in restricted cash		12,296,830	(1,736,401)
Reclassification of funds placed with Delta Bank JSC and Kazinvestbank JSC		(1,299,720)	–
Proceeds from sale of property, plant and equipment and intangible assets		166,036	65,824
Purchase of property, plant, equipment		(37,381,031)	(22,707,919)
Purchase of intangible assets		(2,755)	(20,076)
Payment for construction of kinder garden		–	(9,261)
Repayment of loans given to employees		8,112	7,351
Dividend from an associate		–	36,910
Decrease in charter capital of an associate		–	64,870
Net cash flows used in investing activities		(22,490,838)	(51,784,908)
Financing activities			
Dividends paid	10	(7,313,791)	(197)
Repayment of borrowings	11	(32,598,251)	(16,260,783)
Bonds issuance	12	36,300,000	47,388,055
Reimbursement of coupon interest		–	1,658,725
Transaction costs for bonds issued		(29,187)	(23,669)
Net cash flows (used in) / received from financing activities		(3,641,229)	32,762,131
Net change in cash and cash equivalents		22,462,546	32,217,414
Net foreign exchange difference		209,284	(47,303)
Cash and cash equivalents as at 1 January		32,055,378	9,030,762
Cash and cash equivalents as at 30 September	9	54,727,208	41,200,873

Acting Chairman of the Management Board


Zhazykbaev B.M.

Chief Accountant


Mukanova D.T.

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 2017

<i>In thousands of tenge</i>	Share capital	Revaluation reserve	Treasury shares	Other reserves	Retained earnings	Total
As at 1 January 2016 (audited)	126,799,554	221,297,751	–	(170,701)	(6,949,990)	340,976,614
Profit for the period	–	–	–	–	22,415,474	22,415,474
Total comprehensive income	–	–	–	–	22,415,474	22,415,474
Transfer of asset revaluation reserve (Note 10)	–	(258,031)	–	–	258,031	–
As at 30 September 2016 (unaudited)	126,799,554	221,039,720	–	(170,701)	15,723,515	363,392,088
As at 1 January 2017 (audited)	126,799,554	220,890,374	(930)	(170,701)	14,565,773	362,084,070
Profit for the period	–	–	–	–	22,714,557	22,714,557
Total comprehensive income	–	–	–	–	22,714,557	22,714,557
Dividends (Note 10)	–	–	–	–	(7,313,761)	(7,313,761)
Transfer of asset revaluation reserve (Note 10)	–	(9,183)	–	–	9,183	–
As at 30 September 2017 (unaudited)	126,799,554	220,881,191	(930)	(170,701)	29,975,752	377,484,866

Acting Chairman of the Management Board


Zhazykbaev B.M.

Chief Accountant


Mukanova D.T.

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 2017

1. GENERAL INFORMATION

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

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

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

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

As of 30 September 2017 and 31 December 2016 the Company has stakes in the following companies:

Companies	Activities	Percentage of ownership	
		30 September 2017	31 December 2016
Energoinform JSC	Maintenance of the KEGOC’s IT system	100%	100%
Accounting and Finance Center for the support of renewable energy resources LLP	Centralised sales and purchase of electricity produced by energy producers using renewable energy sources and delivery into the electricity grid of the Republic of Kazakhstan	100%	100%

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

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

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

These interim condensed consolidated financial statements were signed by the Acting Chairman of the Management Board and Chief Accountant on 3 November 2017.

2. BASIS OF PREPARATION

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

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 2016.

These interim condensed consolidated financial statements are presented in Kazakhstan tenge (“tenge” or “KZT”) and all values are rounded to the nearest thousands, except when otherwise indicated.

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

2. BASIS OF PREPARATION (continued)

Exchange rates

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

Exchange rate as at the end of the period (to KZT)	30 September 2017	31 December 2016
USD 1	341.19	333.29
EUR 1	402.64	352.42
RUR 1	5.90	5.43

Average exchange rate for the nine months (to KZT)	2017	2016
USD 1	323.30	343.99
EUR 1	360.23	383.86
RUR 1	5.55	5.05

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 annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective from 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

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

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

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

During the nine months ended 30 September 2017, the Group acquired property, plant and equipment with a cost of KZT 25,829,971 thousand (for the nine months ended 30 September 2016: KZT 19,151,070 thousand). Additions were mainly represented by capital expenditures for the construction of the line 500 kW Shulbinskaya GES (Semey) – Aktogay – Taldykorgan – Alma.

Depreciation change for the nine months ended 30 September 2017 amounted to KZT 16,885,039 thousand (for the nine months ended 30 September 2016: KZT 16,101,644 thousand).

Advances paid for non-current assets

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

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

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

Capitalized borrowing costs and issued bonds

During the nine months ended 30 September 2017 the Group capitalized the cost of coupon interest on issued bonds net off investment income amounted to KZT 3,719,538 thousand (for the nine months ended 30 September 2016: KZT 605,231 thousand) (*Note 12*).

5. INVENTORIES

<i>In thousands of tenge</i>	30 September 2017	31 December 2016
Spare parts	1,336,559	1,258,723
Raw and other materials	1,261,012	930,547
Fuel and lubricants	200,026	114,705
Other inventory	27,572	25,054
Less: allowance for slow-moving and obsolete inventories	(646,584)	(642,717)
	2,178,585	1,686,312

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

<i>In thousands of tenge</i>	2017	2016
At 1 January	642,717	267,427
Charged for the period (<i>Note 18</i>)	3,867	170,340
Written-off	–	(10,167)
At 30 September	646,584	427,600

6. TRADE ACCOUNTS RECEIVABLE

<i>In thousands of tenge</i>	30 September 2017	31 December 2016
Trade accounts receivable	13,175,805	18,400,246
Less: allowance for doubtful accounts receivable	(3,417,977)	(2,653,416)
	9,757,828	15,746,830

Movement in the allowance for doubtful receivables was as follows:

<i>In thousands of tenge</i>	2017	2016
At 1 January	2,653,416	1,452,512
Charge for the period	2,516,551	690,827
Written-off	(1,623)	(830)
Reversal	(1,750,367)	(94,667)
At 30 September	3,417,977	2,047,842

As of 30 September 2017 trade receivables included receivables from the consumer Uzbekenergo JSC in the amount of KZT 5,069,083 thousand (31 December 2016: KZT 12,338,962 thousand).

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

According to effective accounting policy as at 30 September 2017 due to the payments from Uzbekenergo JSC, the Group decreased an allowance for outstanding part of receivable from Uzbekenergo JSC to KZT 3,114,137 thousand.

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

6. TRADE ACCOUNTS RECEIVABLE (continued)

The ageing analysis of trade receivables is as follows:

<i>In thousands of tenge</i>	Total	Neither past due nor impaired	Past due but not impaired			Above 271 days
			30-90 days	91-180 days	181-270 days	
30 September 2017	9,757,828	7,538,444	131,285	94,170	41,430	1,952,499
31 December 2016	15,746,830	6,338,579	24,509	8,448,471	812,181	123,090

Trade receivables were denominated in the following currencies:

<i>In thousands of tenge</i>	30 September 2017	31 December 2016
Tenge	7,035,766	5,243,358
US Dollar	1,954,946	9,915,969
Russian rouble	767,116	587,503
	9,757,828	15,746,830

7. OTHER FINANCIAL ASSETS

<i>In thousands of tenge</i>	30 September 2017	31 December 2016
Bank deposits	56,964,153	56,682,280
Funds placed with Delta Bank JSC	1,297,747	3,000,000
Funds placed with Kazinvestbank JSC	1,282,483	1,291,782
Bonds of Batys Transit	868,269	868,269
Interest accrued on bonds of Batys Transit JSC	52,977	207,287
Less: allowance for impairment of funds with KazInvestBank JSC and Delta Bank JSC	(2,580,230)	(645,891)
Total other financial assets	57,885,399	61,403,727

Deposits

As at 30 September 2017 and 31 December 2016 deposits include accrued interest income in the amount of KZT 351,434 thousand and KZT 182,185 thousand, respectively.

Funds placed with Delta Bank JSC

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

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

7. OTHER FINANCIAL ASSETS (continued)

Funds placed with Kazinvestbank JSC

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

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

Other financial assets were denominated in the following currencies:

<i>In thousands of tenge</i>	Interest rate	30 September 2017	31 December 2016
US Dollar	3-5%	33,715,067	35,830,396
Tenge	10-15%	24,170,332	25,573,331
		57,885,399	61,403,727

8. RESTRICTED CASH

<i>In thousands of tenge</i>	30 September 2017	31 December 2016
Cash on reserve accounts	2,417,341	2,263,220
Cash on debt service accounts	1,540,567	13,209,941
Restricted cash for return of guarantee obligations	147,395	153,637
	4,105,303	15,626,798

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

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

In accordance with the terms of the guarantee agreements with the Government of the Republic of Kazakhstan, the guarantor of Group’s loans (*Note 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 2017 and 31 December 2016 restricted cash was denominated in the following currencies:

<i>In thousands of tenge</i>	30 September 2017	31 December 2016
US Dollar	3,951,938	15,473,161
Tenge	147,395	153,637
Euro	5,970	–
	4,105,303	15,626,798

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

9. CASH AND CASH EQUIVALENTS

<i>In thousands of tenge</i>	30 September 2017	31 December 2016
Short-term deposits	48,697,031	20,450,000
Current accounts with banks in tenge	3,718,982	9,297,895
Current accounts with banks in foreign currencies	2,296,395	2,300,876
Cash at special accounts	9,411	1,788
Cash on hand	5,389	4,819
	54,727,208	32,055,378

As at 30 September 2017 and 31 December 2016 the Group placed short-term deposits at banks in the total amount of KZT 48,697,031 thousand and KZT 20,450,000 thousand, respectively, at 5-12.5% per annum. These deposits were denominated in tenge.

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

<i>In thousands of tenge</i>	30 September 2017	31 December 2016
Tenge	52,430,813	29,754,502
US Dollar	1,392,905	1,925,437
Russian rouble	476,689	2,487
Euro	426,504	372,457
Others	297	495
	54,727,208	32,055,378

10. EQUITY

Dividends

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

Earnings per share ("EPS")

Basic and diluted earnings per share are calculated by dividing net profit for the period by the weighted average number of ordinary shares outstanding during the period. The Group had weighted average ordinary shares outstanding in the amount of 259,998,610 shares during the nine months ended 30 September 2017 (for the nine months ended 30 September 2016: 260,000,000 shares). For the nine months ended 30 September 2017 and 30 September 2016 basic and diluted earnings per share comprised 87.36 tenge and 86.21 tenge, respectively.

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

10. 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.

<i>In thousands of tenge</i>	30 September 2017	31 December 2016
Total assets	649,989,914	632,058,886
Less: intangible assets	(553,248)	(855,032)
Less: total liabilities	(272,505,048)	(269,974,816)
Net assets	376,931,618	361,229,038
Number of ordinary shares	260,000,000	260,000,000
Book value per ordinary share, tenge	1,450	1,389

Revaluation reserve

As at 30 September 2017 and 31 December 2016 the revaluation reserve represents revaluation surplus recognized as a result of revaluation of the Group’s NES assets on 1 June 2014 (the previous revaluation was made as at 1 November 2013). Transfer of asset revaluation reserve into retained earnings, upon disposal of PPE, for the nine months ended 30 September 2017 amounted to KZT 9,183 thousand (for the nine months ended 30 September 2016: KZT 258,031 thousand).

11. BORROWINGS

<i>In thousands of tenge</i>	30 September 2017	31 December 2016
International Bank of Reconstruction and Development (IBRD)	61,254,565	65,140,253
European Bank of Reconstruction and Development (EBRD)	35,191,222	57,338,686
	96,445,787	122,478,939
Less: current portion of loans repayable within 12 months	(9,421,954)	(27,334,944)
	87,023,833	95,143,995

Loans were denominated in the following currencies:

<i>In thousands of tenge</i>	30 September 2017	31 December 2016
US Dollars	61,254,565	74,236,477
Euro	35,191,222	48,242,462
	96,445,787	122,478,939

During the nine months ended 30 September 2017 the Group made repayment of principal amount of loans amounting to KZT 32,598,251 thousand, and repayment of interest amounting to KZT 2,842,566 thousand. Additionally, the balance of borrowings and accrued interest increased by KZT 7,158,803 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 2017.

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

12. BONDS PAYABLE

<i>In thousands of tenge</i>	30 September 2017	31 December 2016
Nominal value of issued bonds	83,800,000	47,500,000
Accrued coupon interest	2,105,344	5,251,917
Less: discount on bonds issued	(103,210)	(108,883)
Less: transaction costs	(51,001)	(23,013)
	85,751,133	52,620,021
Less: current portion of bonds repayable within 12 months	(2,105,344)	(5,251,917)
	83,645,789	47,368,104

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 Ekibastuz – Semey – Ust’-kamenogorsk” and “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 May 26, 2016 to May 26, 2017 is 18.6% per annum. The coupon rate for the second coupon period from May 26, 2017 to May 26, 2018 is 10.6% per annum.

All of the bonds under this program were purchased by Unified Pension Saving Fund.

All bonds were placed with a discount of KZT 111,945 thousand.

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

Cash received was initially placed on short-term bank deposits.

For the nine months ended 30 September 2017, the Group capitalized amortized discount in the amount of KZT 5,673 thousand and transaction costs in the amount of KZT 1,199 thousand into the cost of property, plant and equipment.

During the nine months ended 30 September 2017 the Group capitalized the cost of coupon interest on issued bonds net off investment income amounted to KZT 3,719,538 thousand (for the nine months ended 30 September 2016: KZT 605,231 thousand).

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

<i>In thousands of tenge</i>	30 September 2017	31 December 2016
Long-term accounts payable		
Accounts payable for property, plant and equipment and construction works	332,584	2,804,261
Less: discount on accounts payable	(28,001)	(386,451)
	304,583	2,417,810
Current accounts payable		
Accounts payable for electricity purchased	6,543,319	3,310,440
Accounts payable for property, plant and equipment and construction works	5,708,153	12,731,011
Accounts payable for inventories, works and services	1,197,894	940,184
	13,449,366	16,981,635
	13,753,949	19,399,445

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

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

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

<i>In thousands of tenge</i>	30 September 2017	31 December 2016
Tenge	11,767,462	18,802,071
Russian rouble	1,973,280	559,834
Euro	13,207	10,044
US dollar	-	27,496
	13,753,949	19,399,445

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

In September 2017, the Group signed an agreement with the contractor for the project “Construction of 500 kW line Shulbinskaya GES (Semey) – Aktogay – Taldykorgan – Alma” on early repayment of part of the deductions. As a result the Group has amortized the discount on payable in the amount of KZT 408,695 thousand and reclassification of long-term payable in the amount of KZT 3,982,454 thousand to the short term.

14. TAXES PAYABLE OTHER THAN INCOME TAX

<i>In thousands of tenge</i>	30 September 2017	31 December 2016
VAT payable	1,408,106	115,476
Contributions payable to pension fund	96,114	195,551
Personal income tax	73,907	171,925
Social tax	61,127	156,929
Social contribution payable	43,078	40,580
Property tax	16,980	2,657,850
Other	3,172	1,954
	1,702,484	3,340,265

15. OTHER CURRENT LIABILITIES

<i>In thousands of tenge</i>	30 September 2017	31 December 2016
Due to employees	1,455,472	2,776,866
Other	198,672	197,045
	1,654,144	2,973,911

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

16. REVENUE

<i>In thousands of tenge</i>	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Electricity transmission	22,938,813	19,273,641	69,145,677	57,318,664
Technical dispatch	5,064,984	4,544,389	15,868,243	14,185,558
Revenue from sales of purchased electricity	4,339,030	2,923,531	11,513,575	7,941,418
Balancing of electricity production and consumption	3,507,043	3,101,443	10,912,995	9,709,377
Revenue from electricity sales for compensation of the interstate balances of electricity flows	1,220,229	1,152,817	3,141,814	2,844,795
Revenue from power regulation services	43,737	–	335,598	769,555
Other	340,837	394,963	1,020,044	1,125,986
	37,454,673	31,390,784	111,937,946	93,895,353
Discounts to consumers	(107,434)	(295,110)	(220,990)	(885,846)
	37,347,239	31,095,674	111,716,956	93,009,507

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

For the nine months ended 30 September 2017 the revenue from one consumer, Samruk-Energo Group, amounted to KZT 25,452,082 thousand, arising from transmission, technical dispatching and balancing services.

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.

17. COST OF SALES

<i>In thousands of tenge</i>	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Depreciation and amortization	5,573,457	5,312,411	16,672,070	15,885,340
Cost of purchased electricity	4,103,002	2,833,755	11,183,163	7,774,646
Technical losses of electric energy	3,842,514	3,499,519	13,115,305	11,208,693
Cost of purchased electricity for compensation of interstate balances of electricity flows	3,143,291	2,577,241	7,093,015	6,603,164
Payroll expenses and related taxes	2,973,470	3,005,285	8,890,493	8,480,187
Repair and maintenance expenses	1,929,200	1,748,677	3,648,903	3,433,912
Inventories	510,321	442,452	898,731	878,783
Security services	269,091	249,618	798,361	744,680
Other	585,009	562,259	1,478,093	1,438,665
	22,929,355	20,231,217	63,778,134	56,448,070

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

18. GENERAL AND ADMINISTRATIVE EXPENSES

<i>In thousands of tenge</i>	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Taxes other than income tax	1,717,148	1,254,845	5,213,562	3,762,174
Payroll expenses and related taxes	863,650	812,830	2,403,768	2,464,748
Accrual of allowance for doubtful receivables and impairment of advances and other current assets	761,854	681,091	789,884	666,711
Depreciation and amortization	144,625	132,244	450,530	396,265
Insurance	55,676	36,325	151,065	124,196
Business trip expenses	45,645	45,972	92,392	111,664
Consulting services	35,105	277,169	119,181	409,913
Rent expenses	28,845	27,807	86,274	82,375
Materials	26,513	23,553	61,256	57,503
Utilities	18,508	16,793	66,212	66,374
Trainings	15,279	9,878	53,843	31,269
Repair expenses	10,808	2,297	10,808	7,159
Security services	10,193	9,564	30,207	28,431
Communication services	6,644	5,917	19,533	18,126
Bank services	5,661	5,971	16,865	16,859
(Reversal) / accrual of provision for obsolete inventory (Note 5)	(17,157)	181,092	3,867	170,340
Other	349,623	206,860	787,531	553,991
	4,078,620	3,730,208	10,356,778	8,968,098

19. FINANCE INCOME/(COSTS)

<i>In thousands of tenge</i>	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Finance income				
Interest income from deposits, current accounts and quoted bonds	1,521,905	4,036,744	4,389,516	6,519,580
Discount on trade payable	28,001	–	149,791	–
Amortization of discount on accounts receivable	35,236	144,397	105,604	792,732
Others	497	866	1,751	2,870
	1,585,639	4,182,007	4,646,662	7,315,182
Less: interest capitalized into the cost of qualifying asset (Note 4)	(590,307)	(2,549,881)	(1,968,890)	(2,549,881)
	995,332	1,632,126	2,677,772	4,765,301
Finance costs				
Interest expense	2,344,722	4,391,158	7,826,006	6,877,092
Discount expenses	410,926	–	510,473	–
Commission on bank guarantees	38,696	44,697	425,208	461,767
Amortization of loan origination fees	15,623	23,135	163,361	67,758
Expenses on bonds issuance	295	299	879	299
	2,810,262	4,459,289	8,925,927	7,406,916
Less: interest capitalized into the cost of qualifying asset (Note 4)	(1,629,817)	(3,155,112)	(5,688,428)	(3,155,112)
	1,180,445	1,304,177	3,237,499	4,251,804

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

20. INCOME TAX EXPENSE

<i>In thousands of tenge</i>	Three months ended 30 September		Nine months ended 30 September	
	2017	2016	2017	2016
Current income tax				
Current income tax expense	2,003,908	2,315,796	7,438,321	3,494,420
Adjustments to current income tax of the previous year	1,462	445	(12,326)	8,080
Deferred tax				
Deferred income tax (benefit)/expense	(284,670)	(480,556)	(165,509)	2,479,506
Total income tax expense reported in the interim consolidated statement of comprehensive income	1,720,700	1,835,685	7,260,486	5,982,006

21. 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 2017 and 31 December 2016:

<i>In thousands of tenge</i>		Trade accounts receivable from related parties	Trade accounts payable to related parties
Subsidiaries of Samruk-Kazyna Group	30 September 2017	2,439,937	1,801,200
	31 December 2016	1,906,324	1,612,641
Associated entities of Samruk-Kazyna	30 September 2017	387,811	185,215
	31 December 2016	289,396	188,262
Joint ventures of Samruk-Kazyna	30 September 2017	460,381	857,117
	31 December 2016	200,141	334,881
Associates of the Group	30 September 2017	20,876	5,866
	31 December 2016	37,099	10,975

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

21. TRANSACTIONS WITH RELATED PARTIES (continued)

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

<i>In thousands of tenge</i>		Sales to related parties	Purchases from related parties
Subsidiaries of Samruk-Kazyna Group	2017	27,481,831	14,955,996
	2016	16,327,155	10,144,115
Associated entities of Samruk-Kazyna	2017	6,038,157	1,258,830
	2016	5,722,531	24,612,610
Joint ventures of Samruk-Kazyna	2017	3,406,244	2,760,550
	2016	4,809,213	2,301,167
Associates of the Group	2017	281,840	62,436
	2016	255,699	66,795

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 September 2017 the Group's borrowings of KZT 61,538,223 thousand were guaranteed by the Government of the Republic of Kazakhstan (31 December 2016: KZT 65,437,392 thousand).

In 2007-2009 the Group acquired bonds of an associate, Batys Transit JSC, an entity listed on the Kazakhstan Stock Exchange. The 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 2017 (31 December 2016: KZT 868,269 thousand).

As of 30 September 2017 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 196,854 thousand (31 December 2016: KZT 184,276 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 2017 the discount on accounts receivable from Balkhash TES JSC comprised KZT 22,997 thousand (31 December 2016: KZT 35,575 thousand). For the nine months ended 30 September 2017 the amortization of discount on accounts receivable comprised KZT 12,578 thousand (for the nine months ended 30 September 2016: KZT 11,556 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 2017 the discount on accounts receivable from Kazpost JSC comprised KZT 690,692 thousand. As of 30 September 2017 the receivable net of discount comprised KZT 1,208,787 thousand, of which KZT 1,028,664 thousand was accounted for within long-term receivables from related parties. For the nine months ended 30 September 2017 the Group recognized income from amortization of discount on long-term receivables from Kazpost JSC in the amount of KZT 93,026 thousand.

Total compensation to key management personnel included in personnel costs in the interim consolidated statement of comprehensive income was KZT 526,144 thousand for the nine months ended 30 September 2017 (for the nine months ended 30 September 2016: KZT 168,132 thousand). Compensation to key management personnel mainly consists of contractual salary and performance compensation based on operating results.

22. 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. COMMITMENTS AND CONTINGENCIES (continued)

Operating environment (continued)

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

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for 5 calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 30 September 2017.

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 2017 and 31 December 2016. The Group excludes from EBITDA the foreign exchange gain and loss, as management believes that foreign exchange gains and loss 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 2017 the Group excluded from EBITDA the foreign exchange loss of KZT 5,543,193 thousand incurred during the nine months ended 30 September 2017.

Insurance

As at 30 September 2017, the Group insured property and equipment with the recoverable value of KZT 170,542,342 thousand. The insurance payment is limited to the carrying value of property and equipment. The Group does not insure its other property. Since absence of any insurance does not imply a reduction of the cost of assets or occurrence of any liabilities, no provision has been made in these interim condensed consolidated financial statements for unexpected expenses associated with damage or loss of these assets.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. 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 2017, the Group's outstanding contractual commitments within the frameworks of this plan amount to KZT 27,863,796 thousand (31 December 2016: KZT 45,623,560 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.

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

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

23. SUBSEQUENT EVENTS

Dividends

In October 2017, the General Meeting of Shareholders approved the distribution of 70% of the net income received as a result of activities for the first half of 2017. The amount of dividends for distribution is equal to KZT 12,583,933 thousand for all holders of common shares of the Group, which is equal to 48.40 tenge per one common share.