Kazakhstan Electricity Grid Operating Company JSC

Unaudited interim condensed
consolidated financial statements

as at and for the nine months
ended 30 September 2018

CONTENTS

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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 2018, 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 (interim financial information). 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.

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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

Adil Syzdykov
Audit partner/Auditor

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

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

050060, Republic of Kazakhstan, Almaty
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8 November 2018

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

In thousands of tenge	Note	30 September 2018 (unaudited)	31 December 2017 (audited)
Assets			
Non-current assets			
Property, plant and equipment	4	**541,332,368**	535,294,178
Intangible assets		**1,220,366**	1,038,637
Advances paid for non-current assets	4	**4,069,137**	742,325
Deferred tax assets		**5,102**	2,252
Investments to associates		**1,291,469**	782,081
Long-term receivables from related parties	21	**949,835**	1,009,981
Other financial assets, non-current portion	7	**25,471,719**	1,091,823
Other non-current assets		**6,322**	17,129
		574,346,318	539,978,406
Current assets			
Inventories	5	**2,282,484**	1,875,434
Trade accounts receivable	6	**9,827,381**	7,764,693
VAT recoverable and other taxes prepaid		**271,353**	961,745
Prepaid income tax		**75,260**	1,584,041
Other current assets		**1,268,946**	652,589
Other financial assets, current portion	7	**26,432,920**	25,107,392
Restricted cash	8	**4,563,829**	3,445,617
Cash and cash equivalents	9	**29,394,230**	47,577,783
		74,116,403	88,969,294
Total assets		**648,462,721**	628,947,700

The explanatory notes on pages 7 through 25 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of tenge	Note	30 September 2018 (unaudited)	31 December 2017 (audited)
Equity and liabilities			
Equity			
Charter capital	10	**126,799,554**	126,799,554
Treasury shares	10	**(930)**	(930)
Asset revaluation surplus	10	**220,846,875**	220,858,720
Other reserves	10	**(73,372)**	(170,701)
Retained earnings		**47,179,714**	26,680,917
		394,751,841	374,167,560
Non-current liabilities			
Loans, non-current portion	11	**63,607,978**	64,229,182
Bonds, non-current portion	12	**83,657,311**	83,649,023
Deferred tax liability		**65,956,169**	66,666,573
Trade and other accounts payable, non-current portion	13	**–**	298,327
Government grant, non-current portion		**97,580**	100,786
Finance lease liability, non-current portion		**170,485**	8,961
		213,489,523	214,952,852
Current liabilities			
Loans, current portion	11	**10,329,250**	9,502,895
Bonds, current portion	12	**1,925,372**	4,407,719
Trade and other accounts payable, current portion	13	**20,213,615**	18,763,337
Construction obligations		**683,430**	683,430
Contract liabilities		**1,902,417**	2,048,415
Government grant, current portion		**30,430**	27,487
Finance lease liability, current portion		**37,486**	3,996
Taxes payable other than income tax	14	**2,184,674**	958,525
Income tax payable		**509,398**	5,385
Dividends payable		**122**	87
Other current liabilities	15	**2,405,163**	3,426,012
		40,221,357	39,827,288
Total liabilities		**253,710,880**	254,780,140
Total equity and liabilities		**648,462,721**	628,947,700
Book value per common share (tenge)	10	**1,514**	1,435

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

Chief accountant _______________ *Mukanova D.T.*

The explanatory notes on pages 7 through 25 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2018

		For the three months ended 30 September		For the nine months ended 30 September	
In thousands of tenge	**Note**	**2018 (unaudited)**	2017 (unaudited)	**2018 (unaudited)**	2017 (unaudited)
Revenue from contracts with customers	16	**41,910,450**	37,347,239	**128,931,638**	111,716,956
Cost of services	17	**(28,598,564)**	(22,929,355)	**(74,143,159)**	(63,778,134)
Gross revenue		**13,311,886**	14,417,884	**54,788,479**	47,938,822
General and administrative expenses	18	**(3,207,698)**	(4,078,620)	**(9,844,729)**	(10,356,778)
Selling expenses		**(62,640)**	(52,787)	**(180,050)**	(152,842)
(Loss from) / reversal of impairment of property, plant and equipment		**–**	(22,246)	**159,988**	(42,932)
Operating profit		**10,041,548**	10,264,231	**44,923,688**	37,386,270
Finance income	19	**1,279,415**	995,332	**3,835,009**	2,677,772
Finance costs	19	**(686,718)**	(1,180,445)	**(2,788,771)**	(3,237,499)
Foreign exchange loss, net		**(2,827,828)**	(4,085,353)	**(3,417,951)**	(5,543,193)
Share in profit of associate		**150,892**	186,877	**509,388**	333,074
Expenses from impairment of funds placed with Delta Bank JSC and Kazinvestbank JSC	7	**–**	–	**–**	(1,934,340)
Loss from change in provisions under IFRS 9		**(916,920)**	–	**(3,044,980)**	–
Other income		**94,276**	311,296	**216,505**	416,506
Other expenses		**(55,206)**	(32,710)	**(160,274)**	(123,547)
Profit before taxation		**7,079,459**	6,459,228	**40,072,614**	29,975,043
Income tax expenses	20	**(1,444,391)**	(1,720,700)	**(8,265,646)**	(7,260,486)
Profit for the period		**5,635,068**	4,738,528	**31,806,968**	22,714,557
Total comprehensive income for the reporting period		**5,635,068**	4,738,528	**31,806,968**	22,714,557
Earnings per share					
Basic and diluted profit for the year attributable to common shareholders of the parent (in tenge)	10	**21.67**	18.23	**122.33**	87.36

Chairman of the Management Board

Kazhiyev B.T.

Chief accountant

Mukanova D.T.

The explanatory notes on pages 7 through 25 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months ended 30 September 2018

In thousands of tenge	Note	For the nine months ended 30 September 2018 (unaudited)	30 September 2017 (unaudited)
Operating activities			
Profit before taxation		**40,072,614**	29,975,043
Adjustments to reconcile profit before tax to net cash flows			
Depreciation and amortisation		**17,407,503**	17,168,546
Finance costs	19	**2,788,771**	3,237,499
Finance income	19	**(3,835,009)**	(2,677,772)
Foreign exchange loss, net		**3,417,951**	5,543,193
Loss from change in provisions under IFRS 9		**3,044,980**	–
(Reversal)/accrual of provision for obsolete inventories	18	**(79,273)**	3,867
(Reversal of impairment) / impairment of property, plant and equipment		**(159,988)**	42,932
Share in profit of associate		**(509,388)**	(333,074)
Income from government grant		**(20,860)**	–
Loss from disposal of property, plant and equipment and intangible assets		**81,224**	21,978
Expenses from impairment of funds placed with Delta Bank JSC and Kazinvestbank JSC	7	**–**	1,934,340
Accrual of provision for doubtful trade and other receivables and other current assets	18	**–**	789,884
Income from interest on other financial assets		**–**	(30,248)
Working capital adjustments			
Change in inventories		**(327,777)**	(480,691)
Change in trade accounts receivable		**(2,473,408)**	5,143,941
Change in VAT recoverable and other prepaid taxes		**696,748**	262,382
Change in other current assets		**(424,582)**	(300,124)
Change in trade and other accounts payable		**1,892,721**	1,535,432
Change in contract liabilities		**(145,998)**	826,309
Change in taxes payable other than income tax		**1,226,264**	(1,637,781)
Change in other current liabilities		**(1,022,493)**	(1,320,481)
Cash flows from operating activities		**61,630,000**	59,705,175
Interest paid		**(2,268,501)**	(3,319,213)
Coupon interest paid		**(9,209,500)**	(8,835,000)
Income tax paid		**(6,477,405)**	(2,701,983)
Interest received		**3,667,216**	3,745,634
Net cash flows from operating activities		**47,341,810**	48,594,613

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of tenge	Note	For the nine months ended 30 September 2018 (unaudited)	30 September 2017 (unaudited)
Investing activities			
Withdrawal from deposit accounts		**28,206,517**	57,217,822
Replenishment of deposit accounts		**(27,099,514)**	(53,496,132)
Acquisition of bonds of Samruk-Kazyna		**(25,545,273)**	–
Change in cash restricted in use		**(914,073)**	12,296,830
Reclassification of cash to other financial assets		**(2,860,530)**	(1,299,720)
Revenue from sale of property, plant and equipment and intangible assets		**153,815**	166,036
Purchase of property, plant and equipment		**(21,850,142)**	(37,381,031)
Purchase of intangible assets		**(239,713)**	(2,755)
Return of project funds used to purchase fixed assets		**299,103**	–
Repurchase of DSFK bonds by the issuer		**9,840**	–
Repayment of loans to employees		**6,447**	8,112
Net cash flows used in investing activities		**(49,833,523)**	(22,490,838)
Financing activities			
Payment of dividends		**(10,433,710)**	(7,313,791)
Repayment of loans	11	**(5,347,372)**	(32,598,251)
Issue of bonds		**–**	36,300,000
Fee for issuance of bonds		**–**	(29,187)
Net cash flows used in financing activities		**(15,781,082)**	(3,641,229)
Net change in cash and cash equivalents		**(18,272,795)**	22,462,546
Effect of exchange rate changes on cash and cash equivalents		**102,073**	209,284
Effect of adoption of IFRS 9 in cash and cash equivalents	9	**(43,225)**	–
Accrual of allowance for impairment under IFRS 9 on cash and cash equivalents	9	**30,394**	–
Cash and cash equivalents as at 1 January		**47,577,783**	32,055,378
Cash and cash equivalents as at 30 September	9	**29,394,230**	54,727,208

Chairman of the Management Board

Kazhiyev B.T.

Chief accountant

Mukanova D.T.

The explanatory notes on pages 7 through 25 form an integral part of these interim condensed consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2018

In thousands of tenge	Charter capital	Asset revaluation surplus	Treasury shares	Other reserves	Retained earnings	Total
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 assets revaluation surplus *(Note 10)*	–	(9,183)	–	–	9,183	–
30 September 2017 (unaudited)	126,799,554	220,881,191	(930)	(170,701)	29,975,752	377,484,866
As at 1 January 2018 (audited)	126,799,554	220,858,720	(930)	(170,701)	26,680,917	374,167,560
Effect of adopting IFRS 9 *(Note 3)*	–	–	–	–	(886,271)	(886,271)
As at 1 January 2018 (restated)	126,799,554	220,858,720	(930)	(170,701)	25,794,646	373,281,289
Profit for the period	**–**	**–**	**–**	**–**	**31,806,968**	**31,806,968**
Total comprehensive income	**–**	**–**	**–**	**–**	**31,806,968**	**31,806,968**
Dividends *(Note 10)*	**–**	**–**	**–**	**–**	**(10,433,745)**	**(10,433,745)**
Amortization of provision for bonds *(Note 10)*	**–**	**–**	**–**	**97,329**	**–**	**97,329**
Transfer of assets revaluation surplus *(Note 10)*	**–**	**(11,845)**	**–**	**–**	**11,845**	**–**
30 September 2018 (unaudited)	**126,799,554**	**220,846,875**	**(930)**	**(73,372)**	**47,179,714**	**394,751,841**

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

Chief accountant — *Mukanova D.T.*

The explanatory notes on pages 7 through 25 form 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 2018

1. GENERAL

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 at 30 September 2018, the Company's major shareholder is 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 common 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 a 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 national electrical grid (the "NEG"), ensures its technical support and maintenance. The NEG consists of substations, distribution devices, interregional and/or international power transmission lines which provide the output of electricity of electrical stations with the voltage of 220 kV and more.

As at 30 September 2018 and 31 December 2017, the Company had interest ownership in the following subsidiaries:

		Ownership share	
Company	**Activity**	**30 September 2018**	31 December 2017
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 hereinafter collectively referred to 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* (hereinafter, "the Law") as the Group is a natural monopolist in electricity transmission, technical dispatch and electricity production-consumption balancing services. According to the Law, the Group's electricity transmission, technical dispatch and electricity production-consumption tariffs are approved by the Committee of the Republic of Kazakhstan for the Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy (the "Committee").

The Company's head office is registered at: Republic of Kazakhstan, 010000, Astana Tauyelsyzdyk Ave. 59.

The accompanying interim condensed consolidated financial statements were signed by the Chairman of the Management Board and the Chief Accountant on 8 November 2018.

2. BASIS OF PREPARATION

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2017.

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 Tenge)	**30 September 2018**	31 December 2017
1 US dollar	**363.07**	332.33
1 Euro	**420.91**	398.23
1 Russian rouble	**5.52**	5.77

Average exchange rate for the nine months (to Tenge)	**2018**	2017
1 US dollar	**336.50**	323.30
1 Euro	**401.59**	360.23
1 Russian rouble	**5.48**	5.55

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New standards, interpretations and amendments to the existing 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 2017, except for the adoption of new Standards and interpretations effective as at 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* that require restatement of comparative information. As required by IAS 34, the nature and effects of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies how to account for additional costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group applies IFRS 15 using a full retrospective method. The Group provides services for the transmission, technical dispatching and balancing of electricity production and consumption in Kazakhstan. The activities are carried out through separate identifiable contracts with customers.

Due to regulation by the state, these contracts are typical, and as a result of entering into these agreements, KEGOC JSC has only duties related to ensuring equal conditions for all consumers and provision of services. However, KEGOC JSC does not have the authority to guarantee or negotiate special conditions. Despite the fact that the planned volumes of regulated services rendered by KEGOC JSC are fixed by the annex to the concluded contracts, the actual figures may significantly differ from the contractual ones, therefore the Group recognizes revenue on a monthly basis based on the actual indications of the metering devices reflected in the document "Actual Balance of production-consumption of electric energy in the wholesale electricity market of the Republic of Kazakhstan", compiled by the National Dispatch Center of the system operator. Actual volumes of provision of regulated services directly depend only on the state of demand for electricity, that is, on the economic condition of the Republic of Kazakhstan, the increase/decrease in electricity consumption of large electricity consumers, weather conditions, etc. These factors are external and do not depend on the activities of KEGOC JSC.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments to the existing standards and interpretations (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

Therefore, KEGOC JSC recognizes revenue from regulated services on a monthly basis based on actual metering devices, which is in accordance with the requirements of IFRS 15, consequently, revenue recognition in accordance with IFRS 15 did not result in changes in records.

The activities of “Accounting and Finance Center for the support of renewable energy resources” LLP are driven by the Decree of the Republic of Kazakhstan *On Supporting the Use of Renewable Energy Resources*, while the contracts for “Accounting and Finance Center for the support of renewable energy resources” LLP are typical and formalize only the obligations for monthly invoicing and quarterly reconciliation checks. Calculation of the tariff is based on costs of supporting the use of renewable energy sources – costs of purchase of electricity produced by energy producers using renewable energy sources, costs of the services for electricity production-consumption balance, costs of forming a reserve fund and costs associated with the implementation of the activities of Accounting and Finance Center for the support of renewable energy resources LLP. The tariff for supporting the renewable energy sources is subject to adjustment depending on changes in calculation data in the manner established by the Rules for pricing in socially important markets approved by the Minister of National Economy of the Republic of Kazakhstan No. 36 as of 1 February 2017 (registered in the state registration register of regulatory legal acts No. 109751). In this case, revenue under these contracts is recognized in the amount corresponding to the actually sold amount of electrical energy. Accounting and Finance Center for the support of renewable energy resources LLP does not generate a principal-agent relationship, since when concluding contracts for the purchase and sale of electricity all risks and benefits pass from the seller of electricity to Accounting and Finance Center for the support of renewable energy resources LLP and from Accounting and Finance Center for the support of renewable energy resources LLP to the end user. Transition to revenue recognition in accordance with IFRS 15 did not cause changes in accounting for Accounting and Finance Center for the support of renewable energy resources LLP.

Contracts of Energoinform JSC, exept for contracts for the provision of contractual works, require the fixing of the monthly cost of services, which is defined as 1/12 of the annual cost of services. Revenues are recognized in the amount of this monthly service cost. Revenue under contracts for contracting works is recognized as the acts of the services rendered (works performed) are signed. The contracts for the provision of contractual works contain warranty conditions, according to which Energoinform JSC is obliged to carry out a gratuitous correction of errors, defects and other inconsistencies of the technical specification fixed by the contract. According to the current accounting procedures, these guarantees have the nature of a contingent liability and are not recognized in records. The procedure for recognizing the revenue of Energoinform JSC complies with the requirements of IFRS 15.

Therefore, the existing procedure for recognizing the Group’s revenue meets the requirements of IFRS 15, the Group does not have any impact from the adoption of IFRS 15.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* supercedes IAS 39 *Financial Instruments: Recognition and Measurement* and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 brings together all three aspects of accounting for financial instruments: classification and measurement, impairment and hedge accounting.

Except for hedge accounting, which the Group has applied prospectively, the Group applied IFRS 9 retrospectively, with an initial application date of 1 January 2018.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments to the existing standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

The effect of adopting IFRS 9 on the interim consolidated statement of financial position (increase/(decrease)) as at 1 January 2018 is as follows:

In thousands of tenge	**Adjustments**
Assets	
Non-current assets	
Long-term receivables from related parties	(99)
Other financial assets, non-current portion	(257,730)
	(257,829)
Current assets	
Trade accounts receivable	(113,156)
Other current assets	(62)
Other financial assets, current portion	(385,590)
Restricted cash	(86,409)
Cash and cash equivalents	(43,225)
	(628,442)
Total assets	**(886,271)**
Equity and liablities	
Equity	
Retained earnings	(886,271)
	(886,271)
Total equity and liabilities	**(886,271)**

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with an expected credit loss (ECL) approach.

IFRS 9 requires the Group to record ECLs for all financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The results obtained are then discounted at the asset's effective interest rate.

For trade accounts receivable, long-term receivables from related parties and other current assets the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group calculated expected credit losses on the basis of average coefficients of due of trade and other accounts receivable on the Group's historical credit loss experience.

For other financial assets, restricted cash, cash and cash equivalents, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group considers a financial asset in default when contractual payment is 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full.

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the Group's financial assets. The increase in allowance resulted in adjustment to retained earnings.

The interim consolidated statement of changes in equity reflects the effect of IFRS 9 adoption on retained earnings as at 1 January 2018 of KZT 886,271 thousand.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments to the existing standards and interpretations (continued)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's interim condensed consolidated financial statements, as the current activities of the Group comply with the requirements of the interpretation.

Transfers of Investment Property – Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. This Interpretation does not have any impact on the Group's interim condensed consolidated financial statements, as the current activities of the Group comply with the requirements of the interpretation.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 *Share-based Payments* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group's accounting policy with respect to share-based payments with cash settlements is consistent with the approach described in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's interim condensed consolidated financial statements.

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which will replace IFRS 4. The amendments provide two options for entities that issue insurance contracts: temporary exemption from applying IFRS 9 and overlay approach. These amendments are not applicable to the Group.

IAS 28 Investments in Associates and Joint Ventures – clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. Such a decision is taken separately for each investment upon initial recognition. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments have no impact on the Group's interim condensed consolidated financial statements.

IFRS 1 First-time Adoption of International Financial Reporting Standards – deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments are not applicable to the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

During the nine months ended 30 September 2018, the Group acquired assets with a total cost of KZT 23,272,887 thousand (for the nine months ended 30 September 2017: KZT 25,829,971 thousand). Acquisitions mainly comprise capital expenditures under the project “Construction of 500 kV line Shulbinskaya GES (Semey) − Aktogai – Taldykorgan – Alma”.

Depreciation accrued for the nine months ended 30 September 2018 amounted to KZT 17,092,452 thousand (for the nine months ended 30 September 2017: KZT 16,885,039 thousand).

Advances paid for non-current assets

As at 30 September 2018 and 31 December 2017 advances paid for non-current assets mainly represent advances paid to suppliers for construction works and services related to the project “Construction of 500 kV line Shulbinskaya GES (Semey) − Aktogay – Taldykorgan – Alma”.

Capitalization of borrowing costs on loans and issued bonds

During the nine months ended 30 September 2018, the Group capitalized the borrowing costs of coupon interest on the issued bonds, which amounted to KZT 5,846,120 thousand less investment income (for the nine months ended 30 September 2017: KZT 3,719,538 thousand) *(Note 12).*

5. INVENTORIES

In thousands of tenge	**30 September 2018**	31 December 2017
Spare parts	**1,327,279**	1,299,634
Raw and other materials	**1,226,127**	1,060,824
Fuel and lubricants	**274,498**	147,297
Other inventories	**30,991**	23,363
Less: allowance for obsolete inventories	**(576,411)**	(655,684)
	2,282,484	1,875,434

Movements in the allowance for obsolete inventories were as follows:

In thousands of tenge	**2018**	2017
As at 1 January	**655,684**	642,717
Charge for the period *(Note 18)*	**2,960**	3,867
Recovered *(Note 18)*	**(82,233)**	−
As at 30 September	**576,411**	646,584

6. TRADE ACCOUNTS RECEIVABLE

In thousands of tenge	**30 September 2018**	31 December 2017
Trade accounts receivable	**11,738,322**	9,174,896
Less: allowance for doubtful debts	**(1,910,941)**	(1,409,589)
Less: discount on accounts receivable	**−**	(614)
	9,827,381	7,764,693

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. TRADE ACCOUNTS RECEIVABLE (continued)

The movements in the allowance for doubtful debts were as follows:

In thousands of tenge	**2018**	2017
As at 1 January	**1,409,589**	2,653,416
Effect of adopting IFRS 9 *(Note 3)*	**113,156**	–
Charge for the period	**613,842**	2,516,551
Recovered	**(225,646)**	(1,750,367)
Written off	**–**	(1,623)
As at 30 September	**1,910,941**	3,417,977

As at 30 September 2018 trade accounts receivable included accounts receivable from the customer, Uzbekenergo JSC, in the amount of KZT 1,327,990 thousand (31 December 2017: KZT 1,229,827 thousand).

As at 30 September 2018, allowance fo debts from Uzbekenergo JSC amounted to KZT 1,264,426 thousand (31 December 2017: KZT 1,157,339 thousand).

Trade accounts receivable were denominated in various currencies as follows:

In thousands of tenge	**30 September 2018**	31 December 2017
Tenge	**9,078,638**	7,099,960
Russian rouble	**685,180**	591,967
US dollar	**63,563**	72,766
	9,827,381	7,764,693

7. OTHER FINANCIAL ASSETS

In thousands of tenge	**30 September 2018**	31 December 2017
Financial assets at amortised cost		
Bank deposits	**25,743,300**	22,466,094
Bonds of Samruk-Kazyna	**25,211,100**	–
Placements with Eximbank Kazakhstan	**2,930,115**	2,658,640
Placements with KazInvestBank JSC	**1,280,640**	1,282,483
Placements with DeltaBank JSC	**1,230,000**	1,297,742
Bonds of Batys-Transit	**962,267**	868,269
Interest accrued on Samruk-Kazyna bonds	**73,667**	–
Interest accrued on Batys Transit bonds	**38,073**	65,405
Less: provision for impairment of placements with Eximbank Kazakhstan	**(2,930,115)**	–
Less: provision for impairment of placements with Kazinvestbank JSC	**(1,280,640)**	(1,282,483)
Less: provision for impairment of placements with Deltabank JSC	**(1,230,000)**	(1,230,000)
Less: provision for impairment of bank deposits	**(221,296)**	–
Less: provision for impairment of Batys Transit bonds	**(163,091)**	
Less: discount on placements with Eximbank Kazakhstan	**–**	(150,489)
	51,644,020	25,975,661
Financial assets at fair value through profit or loss		
Bonds of Special Financial Company DSFK	**260,619**	223,554
	260,619	223,554
Total other financial assets	**51,904,639**	26,199,215
Other current financial assets	**26,432,920**	25,107,392
Other non-current financial assets	**25,471,719**	1,091,823
Total other financial assets	**51,904,639**	26,199,215

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. OTHER FINANCIAL ASSETS (continued)

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

In thousands of tenge	**2018**	2017
As at 1 January	**2,512,483**	645,891
Effect of adopting IFRS 9 *(Note 3)*	**643,320**	–
Charge for the period	**3,152,002**	1,934,340
Recovered	**(482,663)**	–
At 30 September	**5,825,142**	2,580,231

Bonds of Samruk-Kazyna JSC

During May-June 2018, the Group acquired coupon bonds of Samruk-Kazyna JSC with nominal value of KZT 26,000,000 thousand at Kazakhstan Stock Exchange JSC. Bonds were classified as carried at amortized cost and recognized at fair value. The estimated value of the discount on the purchased bonds amounted to KZT 1,068,648 thousand, of which KZT 613,921 thousand was recognized by the Group within financial costs. During the nine months ended 30 September 2018, the amortization of discount amounted to KZT 279,748 thousand. The bonds mature on 13 March 2020.

Bonds of Special Financial Company DSFK LLP

During the nine months ended 30 September 2018, Special Financial Company DSFK LLP redeemed bonds amounting to KZT 9,840 thousand.

Since the the bonds are held by the Group not for collecting all contractual cash flows as at 30 September 2018, the Group classifies them as carried at fair value through profit or loss. As at 30 September 2018, the Group remeasured the fair value of bonds and increased their carrying amount to KZT 260,619 thousand.

Bonds of Batys Transit

In 2007-2009 the Group acquired bonds of Batys Transit JSC, an associate listed on the Kazakhstan Stock Exchange. The bonds are secured with Guarantee of the Government of Republic of Kazakhstan in accordance with guarantee agreement dated 9 January 2006. The coupon interest rate on bonds is 7.3%. The bonds are classified as financial assets carried at amortised cost. During the nine months ended 30 September 2018, the amortization of discount amounted to KZT 97,329 thousand. The bonds mature on 30 March 2019.

Deposits

As at 30 September 2018 and 31 December 2017 the deposits include accrued interest income in the amount of KZT 113,044 thousand and KZT 187,568 thousand, respectively.

Placements with Eximbank Kazakhstan JSC

As at 31 December 2017, the Group's deposits in Eximbank Kazakhstan (hereinafter referred to as "Eximbank") amounted to 8,000 thousand dollars (equivalent to KZT 2,658,640 thousand). According to the agreement, the deposit term expired in November 2017. The deposit was not returned by Eximbank to the Group. As a result of negotiations with Eximbank representatives and the analysis conducted, the Group management concluded that the placements are fully recoverable and will be returned within one year. In this regard, as at 31 December 2017, the Group assessed the impact of the temporary factor and recognized a discount of KZT 150,489 thousand. During the nine months ended 30 September 2018, the Group fully amortized the discount.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. OTHER FINANCIAL ASSETS (continued)

Placements with Eximbank Kazakhstan JSC (continued)

Other financial assets were denominated in currencies as follows:

In thousands of tenge	**Interest rate**	**30 September 2018**	31 December 2017
Tenge	10%-12%	**32,200,262**	12,272,354
US dollar	1%-5.5%	**19,704,377**	13,926,861
		51,904,639	26,199,215

8. RESTRICTED CASH

In thousands of tenge	**30 September 2018**	31 December 2017
Cash on reserve accounts	**2,731,288**	2,409,232
Cash on debt service accounts	**1,679,900**	877,554
Cash reserved for return on guarantee obligations	**213,996**	158,831
Less: provision for impairment	**(61,355)**	–
	4,563,829	3,445,617

As at 30 September 2018 and 31 December 2017 restricted cash mainly represented cash held on a debt service account and reserve account.

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.

The movements in the provision for impairment of restricted cash are as follows:

In thousands of tenge	**2018**	2017
As at 1 January	**–**	–
Effect of adopting IFRS 9 *(Note 3)*	**86,409**	–
Charge for the period	**40,238**	–
Recovered	**(65,292)**	–
At 30 September	**61,355**	–

As at 30 September 2018 and 31 December 2017, restricted cash taking into account the funds planned to be repaid were denominated in the following currencies:

In thousands of tenge	**30 September 2018**	31 December 2017
US dollar	**4,351,095**	3,286,786
KZT	**212,734**	158,831
	4,563,829	3,445,617

9. CASH AND CASH EQUIVALENTS

In thousands of tenge	**30 September 2018**	31 December 2017
Short-term deposits in tenge	**25,487,521**	37,158,812
Current accounts with banks, tenge	**3,892,874**	3,854,403
Current accounts with banks, foreign currency	**22,050**	6,556,281
Cash on hand	**4,550**	8,110
Cash on special accounts	**66**	177
Less: provision for impairment	**(12,831)**	–
	29,394,230	47,577,783

As at 30 September 2018 and 31 December 2017, the Group placed short-term deposits with banks at 7%-10% per annum.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. CASH AND CASH EQUIVALENTS (continued)

The movements in the provision for impairment of cash and cash equivalents are as follows:

In thousands of tenge	**2018**	2017
As at 1 January	**–**	–
Effect of adopting IFRS 9 *(Note 3)*	**43,225**	–
Charge for the period	**150,903**	–
Recovered	**(181,297)**	–
As at 30 September	**12,831**	–

As at 30 September 2018 and 31 December 2017, cash and cash equivalents were denominated in the following currencies:

In thousands of tenge	**30 September 2018**	31 December 2017
Tenge	**29,372,190**	41,021,502
US dollar	**17,368**	6,553,858
Euro	**3,510**	–
Russian rouble	**855**	2,132
Other	**307**	291
	29,394,230	47,577,783

10. EQUITY

As at 30 September 2018 and 31 December 2017, the charter capital of the Group amounted to 260,000,000 issued and fully paid shares in the total amount of KZT 126,799,554 thousand.

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 at 30 September 2018 and 31 December 2017, the charter capital is presented net of the cost of the consulting services related to the issue of shares under People's IPO of KZT 692,568 thousand.

Treasury shares

In November 2016, the Group repurchased shares placed on the open market consisting of 1,390 shares for the total amount of KZT 930 thousand.

Dividends

On 12 May 2017, the shareholders approved the distribution of 50% of net income for 2016 less net income distributed for the 1st half-year of 2016. The amount to be paid comprises KZT 7,313,761 thousand to all common shareholders of KEGOC, which is 28.13 tenge per common share.

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

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

Earnings per share

The amounts of basic and diluted earnings per share are calculated by dividing the net profit for the period by the weighted average number of common shares outstanding during the period. The Group had a weighted average number of common shares in circulation in the amount of 259,998,610 pieces during the nine months ended 30 September 2018 (for the nine months ended 30 September 2017): 259,998,610 pieces). For the nine months ended 30 September 2018 and 2017, basic and diluted earnings per share were KZT 122.33 and KZT 87.36, 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.

In thousands of tenge	**30 September 2018**	31 December 2017
Total assets	**648,462,721**	628,947,700
Less: intangible assets	**(1,220,366)**	(1,038,637)
Less: total liabilities	**(253,710,880)**	(254,780,140)
Net assets	**393,531,475**	373,128,923
Number of ordinary shares	**260,000,000**	260,000,000
Book value per share, tenge	**1,514**	1,435

Asset revaluation surplus

As at 30 September 2018 and 31 December 2017, the asset revaluation surplus represents revaluation surplus recognized as a result of revaluation of Group's NEG assets on 1 June 2014 (the previous revaluation was performed as at 1 November 2013). Transfer from assets revaluation surplus into retained earnings, upon disposal of PPE, for the nine months ended 30 September 2018 amounted to KZT 11,845 thousand (for the nine months ended 30 September 2017: KZT 9,183 thousand).

Other reserves

Other reserves represent accumulated reserves from revaluation of investments carried at fair value through other comprehensive income. After initial measurement, financial investments carried at fair value through other comprehensive income are measured at fair value with unrealised gains or losses recognised as other comprehensive income in other reserves until the investment is derecognised. The fair value of bonds is the price to sell an asset or transfer a liability.

Due to the change in the fair value of investments during the nine months ended 30 September 2018, the Group decreased the reserve by the amount of KZT 97,329 thousand.

11. LOANS

In thousands of tenge	**30 September 2018**	31 December 2017
International Bank for Reconstruction and Development (IBRD)	**55,755,714**	56,378,222
European Bank for Reconstruction and Development (EBRD)	**18,181,514**	17,353,855
	73,937,228	73,732,077
Less: current portion of loans repayable within 12 months	**(10,329,250)**	(9,502,895)
	63,607,978	64,229,182

The loans were denominated in the following currencies:

In thousands of tenge	**30 September 2018**	31 December 2017
US dollar	**55,755,714**	56,378,222
Euro	**18,181,514**	17,353,855
	73,937,228	73,732,077

During the nine months ended 30 September 2018, the Group repaid principal debt on loans in the amount of KZT 5,347,372 thousand (for the nine months ended 30 September 2017: KZT 32,598,251 thousand), as well as interest accrued in the amount of KZT 1,828,877 thousand (for the nine months ended 30 September 2017: KZT 2,842,566 thousand). Also, as a result of change in the exchange rate of the tenge against the US dollar and euro, the balance of loans and accrued interest increased by KZT 5,712,090 thousand during the nine months ended 30 September 2018 (for the nine months ended 30 September 2017: KZT 7,158,803 thousand).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. BONDS

In thousands of tenge	**30 September 2018**	31 December 2017
Nominal cost of bonds issued	**83,800,000**	83,800,000
Coupon interest accrued	**1,925,372**	4,407,719
Less discount on bonds issued	**(95,652)**	(101,305)
Less transaction costs	**(47,037)**	(49,672)
	85,582,683	88,056,742
Less current portion of bonds repayable within 12 months	**(1,925,372)**	(4,407,719)
	83,657,311	83,649,023

During the nine months ended 30 September 2018 the Group capitalized in the cost of property, plant and equipment an amortised discount of KZT 5,653 thousand (during the nine months ended 30 September 2017: KZT 5,673 thousand) and amortized transaction costs in the amount of KZT 2,635 thousand (during the nine months ended 30 September 2017: KZT 1,199 thousand).

During the nine months ended 30 September 2018, the Group capitalized the borrowing costs of coupon interest on the issued bonds less investment income in the amount of KZT 5,846,120 thousand (during the nine months ended 30 September 2017: KZT 3,719,538 thousand) *(Note 4).*

13. TRADE AND OTHER ACCOUNTS PAYABLE

In thousands of tenge	**30 September 2018**	31 December 2017
Non-current accounts payable		
Accounts payable for property, plant and equipment and construction-in-progress	**–**	332,584
Less: discount on accounts payable	**–**	(34,257)
	–	298,327
Current trade and other accounts payable		
Accounts payable for property, plant and equipment and construction-in-progress	**11,585,646**	13,183,438
Accounts payable for electricity purchased	**7,766,828**	4,207,638
Accounts payable for inventories and works performed and services rendered	**863,558**	1,372,261
Less: discount on accounts payable	**(2,417)**	–
	20,213,615	18,763,337
	20,213,615	19,061,664

As at 30 September 2018 and 31 December 2017 trade and other accounts payable are denominated in the following currencies:

In thousands of tenge	**30 September 2018**	31 December 2017
Tenge	**18,391,493**	18,020,295
Russian rouble	**1,800,495**	1,025,703
US dollars	**18,154**	7,893
Euro	**3,473**	7,773
	20,213,615	19,061,664

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. TAXES PAYABLE OTHER THAN INCOME TAX

In thousands of tenge	**30 September 2018**	31 December 2017
Value added tax payable	**1,781,534**	118,608
Pension fund liabilities	**104,230**	281,451
Property tax	**100,864**	2,563
Individual income tax	**80,167**	250,580
Social tax	**65,465**	230,499
Social insurance liabilities	**41,360**	72,765
Other	**11,054**	2,059
	2,184,674	958,525

15. OTHER CURRENT LIABILITIES

In thousands of tenge	**30 September 2018**	31 December 2017
Due to employees	**2,127,883**	3,210,561
Other	**277,280**	215,451
	2,405,163	3,426,012

16. REVENUE FROM CONTRACTS WITH CUSTOMERS

	For the three months ended		**For the nine months ended**	
In thousands of tenge	**30 September 2018**	30 September 2017	**30 September 2018**	30 September 2017
Segments				
Types of goods or services				
Electricity transmission services	**24,833,975**	22,831,379	**78,148,084**	68,924,687
Technical dispatch	**5,400,948**	5,064,984	**17,815,200**	15,868,243
Sale of purchased electricity	**6,479,295**	4,339,030	**16,430,084**	11,513,575
Balancing of electricity production and consumption	**3,741,122**	3,507,043	**12,132,820**	10,912,995
Sale of electricity for compensation of the interstate balances of electricity flows	**1,012,040**	1,220,229	**3,012,630**	3,141,814
Power regulation services	**56,966**	43,737	**261,471**	335,598
Other	**386,104**	340,837	**1,131,349**	1,020,044
Total revenue from contracts with customers	**41,910,450**	37,347,239	**128,931,638**	111,716,956
Geographical regions				
Kazakhstan	**39,155,360**	35,160,923	**122,338,887**	104,760,933
Russian Federation	**2,695,879**	2,125,802	**6,308,677**	6,580,340
Uzbekistan	**56,966**	43,738	**261,471**	335,599
Kyrgyzstan	**2,245**	16,776	**22,603**	40,084
Total revenue from contracts with customers	**41,910,450**	37,347,239	**128,931,638**	111,716,956
Revenue recognition timeline				
The goods are transferred at a certain point in time	**7,490,335**	5,559,259	**19,442,714**	14,655,389
The services are provided over a period of time	**34,420,115**	31,787,980	**109,488,924**	97,061,567
Total revenue from contracts with customers	**41,910,450**	37,347,239	**128,931,638**	111,716,956

For the nine months ended 30 September 2018, revenue from one customer, Samruk-Energo Group, amounted to KZT 25,808,178 thousand (for the nine months ended 30 September 2017: KZT 25,452,082 thousand), and included revenue from electricity transmission services, technical dispatching and balancing services.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. COST OF SERVICES

In thousands of tenge	For the three months ended **30 September 2018**	 30 September 2017	For the nine months ended **30 September 2017**	 30 September 2017
Depreciation and amortisation	**5,646,624**	5,573,457	**16,883,636**	16,672,070
Cost of purchased electricity	**6,410,544**	4,103,002	**16,202,663**	11,183,163
Technical losses of electric energy	**4,805,882**	3,842,514	**14,480,176**	13,115,305
Payroll expenses and other deductions associated with payroll	**3,626,165**	2,973,470	**10,267,348**	8,890,493
Cost of purchased electricity for compensation of interstate balances of electricity flows	**4,668,343**	3,143,291	**8,752,938**	7,093,015
Repair and maintenance expenses	**1,949,668**	1,929,200	**4,150,967**	3,648,903
Inventories	**509,739**	510,321	**912,900**	898,731
Security expenses	**300,327**	269,091	**878,607**	798,361
Other	**681,272**	585,009	**1,613,924**	1,478,093
	28,598,564	22,929,355	**74,143,159**	63,778,134

18. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of tenge	For the three months ended **30 September 2018**	 30 September 2017	For the nine months ended **30 September 2018**	 30 September 2017
Taxes other than income tax	**1,685,623**	1,717,148	**5,062,355**	5,213,562
Payroll expenses and other deductions associated with payroll	**976,419**	863,650	**2,846,967**	2,403,768
Depreciation and amortisation	**166,616**	144,625	**478,830**	450,530
Rental costs of software use rights	**72,590**	93,914	**128,371**	105,088
Business trip expenses	**49,997**	45,645	**97,139**	92,392
Expenses for the Board of Directors	**30,617**	23,271	**129,530**	123,381
Lease expenses	**29,938**	28,845	**85,336**	86,274
Materials	**20,444**	26,513	**55,631**	61,256
Utility costs	**18,483**	18,508	**75,343**	66,212
Education and trainings	**11,089**	15,279	**71,092**	53,843
Insurance expenses	**8,953**	55,676	**47,388**	151,065
(Reversal)/accrual of provision for obsolete inventory *(Note 5)*	**(2,959)**	(17,157)	**(79,273)**	3,867
Consulting services	**(91,176)**	35,105	**304,252**	119,181
Accrual of provision for doubtful trade accounts receivable, and other current assets	**–**	761,854	**–**	789,884
Other	**231,064**	265,744	**541,768**	636,475
	3,207,698	4,078,620	**9,844,729**	10,356,778

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. FINANCE INCOME/(COSTS)

In thousands of tenge	For the three months ended 30 September 2018	For the three months ended 30 September 2017	For the nine months ended 30 September 2018	For the nine months ended 30 September 2017
Finance income				
Interest income on deposits, current accounts and quoted bonds	**1,231,392**	1,521,905	**4,127,729**	4,389,516
Amortization of discount	**221,614**	63,237	**581,317**	255,396
Other	**132**	497	**6,996**	1,751
	1,453,138	1,585,639	**4,716,042**	4,646,662
Less: interest capitalized into the cost of qualified property, plant and equipment *(Note 4)*	**(173,723)**	(590,307)	**(881,033)**	(1,968,890)
	1,279,415	995,332	**3,835,009**	2,677,772
Finance costs				
Interest on loans	**2,795,087**	2,344,722	**8,383,004**	7,826,006
Commission on bank guarantees	**37,955**	38,696	**434,064**	425,208
Amortization of loan origination fee	**10,557**	15,623	**19,575**	163,361
Discounting expenses	**6,645**	410,926	**656,946**	510,473
Interest expenses under finance lease	**6,251**	–	**18,703**	–
Other expenses for bonds issued	**1,973**	295	**3,632**	879
	2,858,468	2,810,262	**9,515,924**	8,925,927
Less: interest capitalized into the cost of qualified property, plant and equipment *(Note 4)*	**(2,171,750)**	(1,629,817)	**(6,727,153)**	(5,688,428)
	686,718	1,180,445	**2,788,771**	3,237,499

20. INCOME TAX EXPENSES

In thousands of tenge	For the three months ended 30 September 2018	For the three months ended 30 September 2017	For the nine months ended 30 September 2018	For the nine months ended 30 September 2017
Current income tax				
Current income tax expenses	**1,787,187**	2,003,908	**8,971,893**	7,438,321
Adjustments with respect to current income tax of prior year	**(11,383)**	1,462	**7,009**	(12,326)
Deferred tax				
Deferred tax benefit	**(331,412)**	(284,670)	**(713,256)**	(165,509)
Total income tax expenses reported in the interim consolidated statement of comprehensive income	**1,444,391**	1,720,700	**8,265,646**	7,260,486

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. TRANSACTIONS WITH RELATED PARTIES

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

The following table shows the total outstanding amount as at 30 September 2018 and 31 December 2017:

In thousands of tenge		Accounts receivable from related parties	Accounts payable to related parties
Subsidiaries of Samruk-Kazyna Group	**30 September 2018**	**2,977,837**	**2,307,399**
	31 December 2017	2,783,369	1,264,918
Samruk-Kazyna associates	**30 September 2018**	**298,722**	**359,092**
	31 December 2017	395,840	537,332
Samruk-Kazyna joint ventures	**30 September 2018**	**256,762**	**47,322**
	31 December 2017	199,497	6,967
Group associates	**30 September 2018**	**22,022**	**–**
	31 December 2017	29,140	17,194

For the nine months ended 30 September 2018 and 2017, the Group had the following related party transactions:

In thousands of tenge		Sales to related parties	Purchases from related parties
Subsidiaries of Samruk-Kazyna Group	**2018**	**27,881,276**	**16,220,321**
	2017	27,481,831	14,955,996
Samruk-Kazyna associates	**2018**	**6,349,104**	**848,093**
	2017	6,038,157	1,258,830
Samruk-Kazyna joint ventures	**2018**	**3,887,620**	**32,788**
	2017	3,406,244	2,760,550
Group associates	**2018**	**303,033**	**3,974**
	2017	281,840	62,436

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 2018 the Group's borrowings of KZT 56,021,397 thousand were guaranteed by the Government of the Republic of Kazakhstan (31 December 2017: KZT 56,657,386 thousand).

In 2007-2009 the Group acquired bonds of Batys Transit JSC, an associate listed on the Kazakhstan Stock Exchange. The bonds are secured with Guarantee of the Government of Republic of Kazakhstan in accordance with guarantee agreement dated 9 January 2006. The coupon interest rate on bonds is 7.3%. The bonds are classified as financial assets carried at amortised cost. As at 30 September 2018, the carrying amount of Batys Transit bonds was KZT 962,267 thousand (as at 31 December 2017: KZT 868,269 thousand).

As at 30 September 2018 the Group had accounts receivable for the sale of property, plant and equipment of Balkhash TES JSC to a related party in the amount of KZT 215,031 thousand (as at 31 December 2017: KZT 201,284 thousand). In accordance with sales agreement Balkhash TES JSC must repay the outstanding balance before the end of 2018. In connection with the suspension of construction of Balkhash TES JSC, the management of the Group made a decision to accrue a provision for receivables of 100%.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. TRANSACTIONS RELATED PARTIES (continued)

On 30 September 2015 the Group has sold buildings and constructions with equipment and land located in Astana city to its related party Kazpost JSC for KZT 2,161,476 thousand. In accordance with sales agreement Kazpost JSC will repay the outstanding balance by equal monthly payments until June 2027. Accordingly, the Group discounted the future cash flows using discount rate of 10.37%, which is the Group Management's best estimate of market rate. As at 30 September 2018 the discount on accounts receivable from Kazpost JSC amounted to KZT 572,818 thousand (during the nine months ended 30 September 2017: KZT 690,692 thousand). As at 30 September 2018 the receivables net of discount comprised KZT 1,129,958 thousand (during the nine months ended 30 September 2017: KZT 1,208,787 thousand), of which KZT 949,835 thousand was accounted for within long-term receivables from related parties (during the nine months ended 30 September 2017: KZT 1,208,664 thousand). During the nine months ended 30 September 2018, the Group recognized income from amortization of a discount on long-term receivables from Kazpost JSC in the amount of KZT 87,433 thousand (during the nine months ended 30 September 2017: KZT 93,026 thousand).

In 2017, the Group entered into a long-term contract with a related party, Samruk-Kazyna Business Contract LLP, for leasing out the rights to use the software. Since, at the end of the contract, the rights to use the software will be transferred to the Group, the Group recognized the arrears on financial leases. As at 30 September 2018, the arrears amounts to KZT 207,971 thousand (as at 31 December 2017: KZT 12,957 thousand).

Compensation to key management personnel included in salary expenses in the accompanying interim consolidated statement of comprehensive income amounted to KZT 371,481 thousand for the nine months ended 30 September 2018 (for the nine months ended 30 September 2017: KZT 526,144 thousand). Compensation to key management personnel mainly consists of contractual salary and performance bonus based on operating results.

22. CONTINGENT LIABILITIES

Operating environment

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

Interest rates in Tenge remain high. Combination of these factors resulted in a reduced access to capital, a higher cost of capital, increased uncertainty regarding further economic growth, which could negatively affect the Group's financial position, results of operations and business prospects. The 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 unreported and discovered violations of Kazakhstan law 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 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 five 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 as at 30 September 2018.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. CONTINGENT LIABILITIES (continued)

Compliance with loan covenants

From 1999 till 2011 the Group concluded loan facility agreements with EBRD and IBRD (the "Creditors") for the amounts of 354 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 finance costs, 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.

The management believes that the Group complied with all existing loan covenants with EBRD and IBRD as at 30 September 2018 and 31 December 2017. The Group excludes from EBITDA the foreign exchange loss, as management believes that foreign exchange loss meets definition of non-cash impairment and as such shall be excluded from the calculation of EBITDA as provided in the loan agreement. As at 30 September 2018 the Group excluded from EBITDA the foreign exchange losses of KZT 3,417,951 thousand for the nine months ended 30 September 2018.

Insurance

As at 30 September 2018, the Group insured production assets with a replacement value of KZT 182,929,714 thousand. The insurance payment is limited to the carrying value of property, plant and equipment. The Group does not insure its other property. Since absence of any insurance does not imply a reduction of the cost of assets or origination of liabilities, no provision has been made in these interim condensed consolidated financial statements for unexpected expenses associated with damage or loss of such assets.

Contractual commitments

To ensure the stable and reliable performance of the national electricity grid, the Group developed a capital investment plan. As at 30 September 2018, the Group's outstanding contractual commitments within the frameworks of this plan amounted to KZT 25,072,279 thousand (as at 31 December 2017: KZT 21,463,464 thousand).

Due to the fact that a significant part of the plan on capital investments and, open contracts in particular, consist of equipment and spare parts purchased outside of the Republic of Kazakhstan, there is a likelihood of fluctuations in the value of contractual obligations. The main cause of these variations is the effect of changes in exchange rates caused by the transition to the regime of free-floating exchange rate in the framework of the implementation of target-based inflation.

Tariffs for the transmission of electrical energy and technical dispatching of grid output and consumption of electrical energy

Following the results of 2016-2017, a report on the execution of the tariff estimate was sent to the Committee, as a result of consideration, the Committee approved temporary compensating tariffs for the regulated services of the Group:

1) With the entry into force from1 January 2018 to 30 June 2018 by:
    - Transmission of electric energy in the amount of KZT 2.4957 per kWh;
    - Technical dispatching of the grid output and consumption of electric energy in the amount of KZT 0.2489 per kWh.
2) With the entry into force from 1 July 2018 to 31 December 2018 by:
    - Transmission of electric energy in the amount of KZT 2.4928 per kWh;
    - Technical dispatching of the grid output and consumption of electric energy in the amount of KZT 0.2482 per kWh.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. CONTINGENT LIABILITIES (continued)

Contractual commitments (continued)

Tariff on sale of electricity from renewable energy sources

In accordance with subparagraph 2) of paragraph 1 of Article 124-5 of the Entrepreneurship Code of the Republic of Kazakhstan from 1 January 2017, centralized purchase and sale of electric energy produced by objects for the use of renewable energy sources is attributed to socially significant markets. In this regard, the pricing procedure in calculating the tariff for the support of RES is determined by the *Rules for Pricing in Publicly Significant Markets*, approved by Order No. 36 of the Minister of National Economy of the Republic of Kazakhstan as of 1 February 2017, and the Rules for determining the tariff for the support of renewable energy sources approved by the order of the Minister of Energy of the Republic of Kazakhstan No. 118 as of 20 February 2015.

The tariff for electricity sale comprises costs of accounting and finance center for the purchase of electricity produced by energy producers using renewable energy sources, costs of the services for electricity production-consumption balance, costs of forming a reserve fund and the costs associated with the implementation of its activities.

The management believes that the calculation and application of tariff for the support of renewable energy sources was carried out properly and in accordance with the applicable rules and legislation.

23. SUBSEQUENT EVENTS

Purchase of notes of the National Bank of Kazakhstan

In November 2018, the Group acquired short-term notes of the National Bank of Kazakhstan in the amount of KZT 5,356,676 thousand with a yield of 8.2% with a circulation period of 36 days.

Repayments of loans

In October 2018, the Group repaid principal amount of the IBRD loan under the project “Construction of a second 500 kV transmission line for the North-South Kazakhstan transit” in the amount of 4,077 thousand US dollars (equivalent to 1,485,155 thousand tenge) and interest in the amount of 549 thousand US dollars (equivalent to 199,974 thousand tenge).

Revaluation of fixed assets

Currently, the Group performs a technical observation of fixed assets, which entails the regrouping of fixed assets. According to the results of the technical observation, the revaluation of fixed assets is made as of 1 October 2018 with the involvement of a professional appraiser.