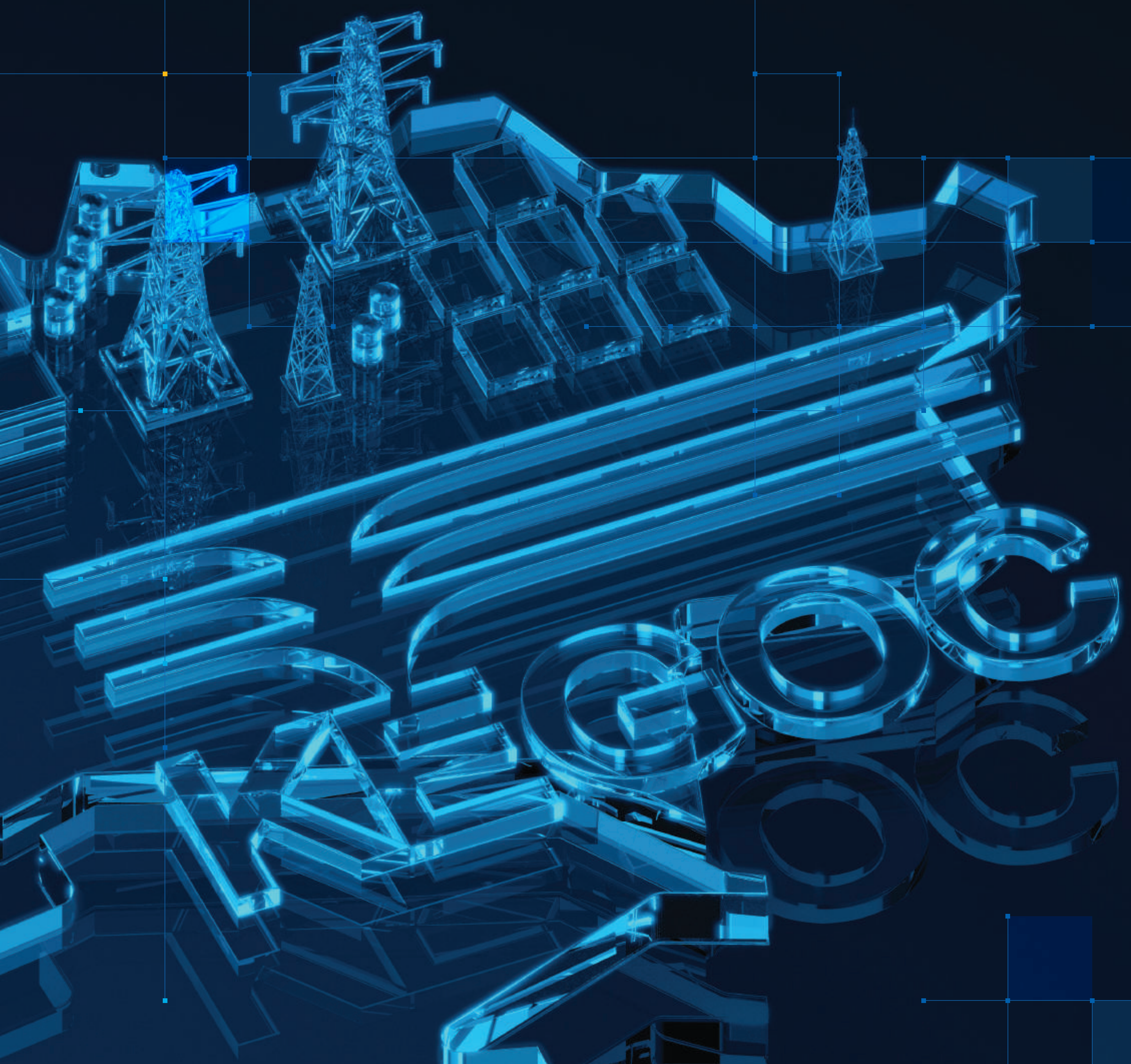


EAST ELECTRICITY TRANSMISSION PROJECT

2018 ANNUAL REPORT

KEGOC JSC

KEGOC

EAST ELECTRICITY TRANSMISSION PROJECT

- Construction of 500 kV North – South – East transmission line
- Stage one – Construction of 500 kV Ekibastuz – Shulbinsk HPP (Semey) – Ust-Kamenogorsk electricity transmission project
- Stage two – Construction of 500 kV Shulbinsk HPP (Semey) – Aktogai – Taldykorgan – Alma electricity transmission project

TABLE OF CONTENTS

ABOUT COMPANY

KAZAKHSTAN ELECTRICITY GRID OPERATING COMPANY (KEGOC) WAS ESTABLISHED IN ACCORDANCE WITH DECREE NO.1188 OF THE GOVERNMENT OF KAZAKHSTAN DATED 28 SEPTEMBER 1996 'ON SOME MEASURES TO RESTRUCTURE POWER SYSTEM MANAGEMENT IN KAZAKHSTAN'. THE DATE OF INITIAL REGISTRATION OF KEGOC IS 11 JULY 1997.

Until 2006, 100% of KEGOC shares had been owned by the government. In 2006, the government's stock (100%) was transferred to Samruk JSC (the Kazakhstan holding company for management of public assets) as a payment for the placed shares. In 2008, Samruk-Kazyna JSC (the sovereign wealth fund) was established through merger of Kazyna JSC (the sustainable development fund) and Samruk. Thus Samruk-Kazyna became a legal successor of Samruk.

1,390

SHARES REPURCHASED BY KEGOC

On 18 December 2014 as part of the Programme for public offering of Samruk-Kazyna's shares of affiliates and subsidiaries on the stock market, KEGOC placed 25,999,999 authorized ordinary shares on the Kazakhstan Stock Exchange through subscription.

As on 31 December 2018, the Company had 260,000,000 authorised and placed ordinary shares including 234,000,001 shares (90% plus one share) belonging to Samruk-Kazyna, the major shareholder, 25,998,609 shares belonging to minority shareholders, and 1,390 shares repurchased by KEGOC.

Address: 59, Tauyelsizdik Ave., Almaty District, Z00T2D0, Nur-Sultan, Kazakhstan.

Mission

Ensure reliable operation and effective development of Kazakhstan Unified Power System (UPS) in accordance with state-of-the-art technical, economic, environmental and occupational health-and-safety standards.

Vision

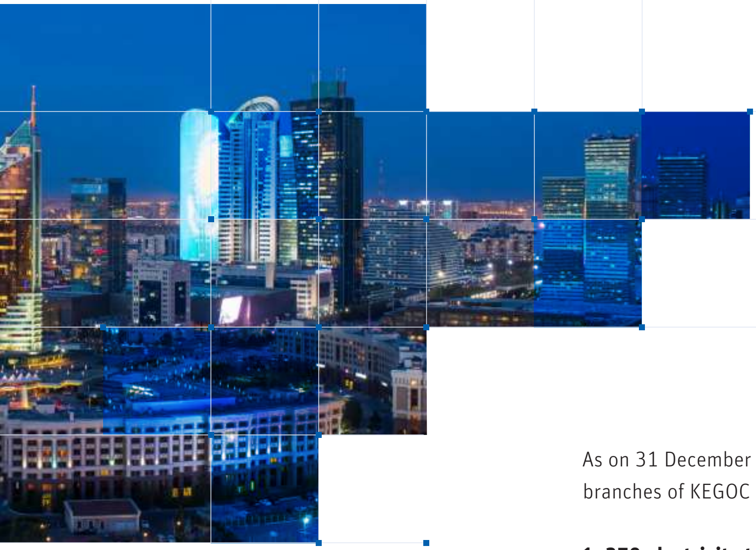
We are the company with advanced reliability and efficiency performance at the level of the world's best companies. Our aim is to continuously increase the value for all stakeholders through the development of the National Power Grid using advanced technologies, providing conditions for realization of transit and export potential and fostering corporate social responsibility.

In accordance with the laws of the Republic of Kazakhstan in electric power industry, KEGOC as the System Operator of the UPS of the Republic of Kazakhstan and as such it is engaged in the following core activities:

- electricity transmission in the national power grid;
- technical dispatching of electricity supply and consumption in the grid;
- management of electricity production and consumption balancing.

The above-mentioned services in Kazakhstan is the area of a natural monopoly, which is why KEGOC's operations shall be regulated by the Law of the Republic of Kazakhstan 'On natural monopolies'.

KEGOC operations cover the entire territory of the Republic of Kazakhstan. The structure of the Company includes 9 intersystem electric networks branches (MES branches) and the National Dispatch Centre of the System Operator branch (NDC SO).



KEGOC has subsidiaries: EnergoInform JSC and Financial Settlement Centre for Renewable Energy Sources Support LLP (FSC RES).

EnergoInform is engaged in maintenance of National Power Grid equipment and provide telecommunication support for the Company's activities.

FSC RES LLP was established in 2013 to encourage investments in renewable energy sector and increase the share of renewable energy in the Kazakhstan energy mix through government-guaranteed and centralized electricity purchase from all renewable energy facilities (who have chosen such support scheme) in accordance with the fixed rates. More detailed information about subsidiaries is given in Appendix 1.

KEGOC also has a stake in Batys Transit JSC (20% of shares), the company established in November 2005 in accordance with decree No. 1008 of the Government of the Republic of Kazakhstan dated 7 October 2005 for implementation of the project the project for the construction of inter-regional power transmission line linking the North Kazakhstan with Aktobe oblast.

As on 31 December 2018, the MES branches of KEGOC have:

1. 370 electricity transmission lines of 0.4 – 1150 kV with the total length of 25,096.597 km (circuits), including:

- 1421.225 km of 1150 kV OHTL;
- 8287.977 km of 500 kV OHTL;
- 1864.092 km of 330 kV OHTL;
- 14,693.992 km of 220 kV OHTL;
- 352.841 km of 110 kV OHTL;
- 44.13 km of 35 kV OHTL;
- 92.571 km of 10 kV OHTL;
- 12.851 km of 6 kV OHTL;
- 5.59 km of 0.4 kV OHTL.

2. 78 electric substations of 35 – 1150 kV with installed transformer capacity of 36,660.05 MVA:

- 3 substations of 1,150 kV with total capacity of 9,384.1 MVA;
- 18 substations of 500 kV with total capacity of 16,111.5 MVA;
- 54 substations of 220 kV with total capacity of 11,136.25 MVA;
- 1 substation of 110 kV with total capacity of 5 MVA;
- 2 substations of 35 kV with total capacity of 23.2 MVA.

Equipment installed on KEGOC's substations include:

- 272 of 1,150-10 kV power transformers and autotransformers (including 8 owned by third parties);
- 184 of 1,150-35 kV shunt reactors (including 9 owned by third parties);
- 1,572 of 1,150-35 kV air-blast, oil, SF6, and vacuum circuit breakers (including 99 owned by third parties);
- 5,202 disconnectors of 35-1,150 kV (303 of them are on the balance sheet of third parties);
- 1,583 units of 1,150-35 kV voltage transformers (including 64 owned by third parties);
- 3,704 units of 1,150-35 kV current transformers (including 244 owned by third parties);
- 111 storage batteries (including 2 owned by third parties);
- 45 compressor units;
- 116 devices and tools for the treatment of solid insulation and transformer oil;
- 64,699 of relay protection and automation and emergency automation devices;
- 31,861 metering devices.

GEOGRAPHY OF OPERATIONS

26,775.269

OHTLS LENGTH >>> km (circuits)

78

electric substations


Akmolinskiye MES
OHTL 4,230.431 km
10 SS
8,136.6 MVA
Nur-Sultan
Severnye MES
OHTL 3,624.497 km
Ekibastuz
8 SS
3,520.6 MVA
Vostochnye MES
Ust-Kamenogorsk
OHTL 1,919.29 km
6 SS
3,694.5 MVA
Tsentralnye MES
Karaganda
OHTL 3,482.19 km
10 SS
3,741.6 MVA
Almatinskiye MES
OHTL 4,225.143 km
11 SS
4,229.35 MVA
Almaty
Yuzhnye MES
OHTL 4,201.303 km
13 SS
3,392 MVA
Shymkent
36,660.05
SS TOTAL CAPACITY >>> MW

LETTER FROM THE CHAIRMAN OF KEGOC'S BOARD OF DIRECTORS

DEAR SHAREHOLDERS!

2018 was an important year for KEGOC. In August 2018, the Board of Directors unanimously voted to update the Development Strategy in accordance with the long-term letter of the shareholder's expectations for 2018-2028. The strategic goals and objectives of KEGOC were brought in line with the strategic goals of Samruk-Kazyna JSC to include the projects for technological development and business digitalization and update the investment project portfolio so that it would increase the efficiency of invested capital and develop new types of business.

In 2018 the Company achieved its goals in all strategic areas and completed the year on the positive operational and financial trend. The shareholders received their dividends twice in the total amount of about KZT 31.4 billion.

One of the foundations of a successful strategy implementation is motivation of employees to achieve the strategic goals. The members of the Board of Directors meet annually with the employees from the talent pool. The main topic of the meeting was corporate values developed as a part of the new project of the Transformation Programme titled 'Development of the corporate culture in KEGOC in 2018-2020'. This project shall support employee transformation initiatives, further improve the corporate culture of KEGOC, increase employee engagement, and develop human capital.

An important strategy development area is the observance of the principles of sustainable development. KEGOC is aware of its responsibility to shareholders, employees, society and future generations. Improvement of the occupational health management system, human capital and environmental remain the key elements of maintaining the effectiveness of the Company.

THE SUSTAINABLE DEVELOPMENT OF THE COMPANY IS IMPOSSIBLE WITHOUT CONTINUOUS IMPROVEMENT OF THE CORPORATE GOVERNANCE SYSTEM. AT THE END OF 2018, THE COMPANY'S CORPORATE GOVERNANCE RATING WAS 'BB'.

On behalf of the Board of Directors of KEGOC I would like to thank all partners and shareholders for supporting the Company, and the team for its outstanding performance and contribution to the efficient and reliable operation of the Company.

Almassadam Satkaliyev
Chairman of KEGOC's
Board of Directors

LETTER FROM THE CHAIRMAN OF KEGOC'S MANAGEMENT BOARD

THE PAST 2018 WAS SIGNIFICANT AND PRODUCTIVE NOT ONLY FOR KEGOC, BUT IN GENERAL FOR THE ENTIRE ELECTRIC POWER INDUSTRY OF THE REPUBLIC OF KAZAKHSTAN.

The main event of the reporting year was the successful implementation of 500 kV OHTL Shulbinsk HPP (Semey) – Aktogai –Taldykorgan – Alma construction project. It was launched on 11 December 2018 during a live national TV conference on the Day of Industrialization. The event was participated by the President of the Republic of Kazakhstan, Mr. Nursultan Nazarbayev, who commended the completed project.

With this project in 2018 we completed North-East-South 500 kV Electricity Transmission Construction Project, the largest infrastructure project in the power sector. For four years KEGOC constructed more than 1,773.1 km of lines and three new 500 kV substations: Semey, Aktogay, and Taldykorgan. Open switchgears were expanded at 1150 kV Ekibastuzskaya substation, 500 kV Ust-Kamenogorsk substation, and 220 kV Shulbinsk hydropower plant. The Company also expanded and reconstructed 500 kV Alma substation, which is one of the substations providing power supply to Almaty.

2018 was also rich for other events important for the Company. KEGOC showed good performance. The amount of electricity transmission services in the national power grid amounted to 44.71 billion kWh. It is 2 billion kWh or 4.6% higher than it was in 2017. The amount of technical dispatching of electricity supply and consumption in the grid grew by 4.3% to 97.65 billion kWh. The amount of electricity generation and consumption balancing services in 2018 also grew by 5.1% to 183.36 billion kWh.

The net income for the year amounted to KZT 40 billion, which is KZT 7.2 billion higher compared with 2017.

To follow the instructions of the Head of State of reducing electricity prices, as well as to support the population, small and medium-sized businesses, the Company decided to reduce the prices of its services. Taking into account the growth of consumption and production of electricity, and respective growth of the regulated services provided by the Company, starting 1 January 2019, it will reduce the marginal prices for the following regulated services: from 2.823 to 2.496 KZT/kWh for electricity transmission; from 0.306 to 0.237 KZT/kWh for technical dispatching of supply and consumption of electricity in the grid; and from 0.098 to 0.088 KZT/kWh for management of the electricity production and consumption balancing.

Since KEGOC is a public company, the results of its operational and financial activities directly affect its stock price on the Kazakhstan Stock Exchange. In 2018 the maximum market price of one share reached a historic high of KZT 1,631 vs. the placement price in 2014 of KZT 505. It is symbolic that in 2018, KEGOC was awarded the prize of the Kazakhstan Stock Exchange 'For Contribution to the Development of the Stock Market'.

In 2018 we reaffirmed our status of a socially oriented company with social stability as one of its priorities implemented through effective personnel, social and communication policies. According to an independent study, KEGOC's Social Stability Index of 85% is one of the highest in the portfolio companies of Samruk-Kazyna. The engagement index of administrative and managerial staff in 2018 was also in the positive zone at 69%.

The Company has also been successful in implementation of the Business Transformation Programme. The transformation portfolio has 8 projects aimed at improving the efficiency of the Company's operations. In 2019 we are planning to launch SAP ERP, a billing system for our customers, and a corporate information security management system.

Undoubtedly, all these high achievements became possible thanks to the solid effort of the entire staff of the Company, united around common goals and objectives. Each member of our team is proud of the fruits of their work, they put not just their knowledge but their heart into it constantly developing their professionalism. This is what moves the Company forward.

I would like to thank all our partners for their effective collaboration. I am confident that our further cooperation will be equally fruitful.

In 2019, relying on the vast experience of highly professional operational and administrative staff, the financial stability of the Company and the best practices, we also intend to achieve all of our goals.

Bakytzhan Kazhiyev
Chairman of KEGOC's
Management Board

KEY EVENTS IN 2018

15 FEBRUARY

Early termination of the term of powers of the following members of KEGOC's Board of Directors: Kuanysh Bektemirov on his own initiative.

17 APRIL

The Kazakhstan Stock Exchange (KASE) held a meeting on the Issuer Day dedicated to KEGOC to increase the investors' interest in the issuer and seek feedback about the issuer from the shareholders.

24 APRIL

KEGOC held hearings of the annual performance report for the consumers and other stakeholders about regulated services provided by the Company.

27 APRIL

KEGOC held an annual General Meeting of Shareholders to approve the annual financial statements for 2017 and the amount of funds for dividend payment .

Also, the meeting determined the number of members, terms of office of KEGOC's Board of Directors, elected its members and the chair, and the rates and terms of remuneration and compensation of expenses for the members of KEGOC's Board of Directors.

Ibragim Tagashev, was elected the Chairman of KEGOC's Board of Directors.

15 MAY

KEGOC published its financial statements for 2017 and for the first quarter of 2018.

16 MAY

KEGOC started payment of dividends on KEGOC's ordinary shares for 2017.

29 MAY

S&P Global Ratings upgraded the long-term credit rating of KEGOC from BB to BB+ with 'Stable' outlook.

03 AUGUST

Fitch confirmed 'BBB-' rating of KEGOC with 'Stable' outlook.

10 AUGUST

Moody's confirmed 'Baa3' rating of KEGOC and raised its BCA to 'ba2'.

15 AUGUST

KEGOC published its interim financial statements for H1 2018.

24 AUGUST

The extraordinary General Meeting of Shareholders of KEGOC elected Yermek Kudabayev an independent director of the Board of Directors of the Company

27 AUGUST

Early termination of the term of powers of the following members of KEGOC's Board of Directors: Ibrahim Tagashev on his own initiative.

10 SEPTEMBER

Bakytzhan Kazhiyev, the chair of the Management Board of KEGOC held a briefing at the Central Communications Service on the topic of 'Electric power industry: new technologies — new opportunities'.

17 20 SEPTEMBER

KEGOC's team won the second place in the XV International CIS Competition of Power Industry Professionals held in Minsk, Belarus.

02 NOVEMBER

KEGOC, at the head office, hosted the 53rd meeting of the CIS Electric Power Council (CIS EES) attended by delegations of electric power authorities and utilities from Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia and Uzbekistan, and by representatives of the Executive Committee of the CIS, the Eurasian Economic Commission, "Energy"coordination dispatch control centre.

02 NOVEMBER

The meeting of an extraordinary General Meeting of Shareholders of KEGOC elected Almassadam Satkaliyev the chair of the Board of Directors of KEGOC and a representative of Samruk-Kazyna at the Board of Directors of KEGOC.

29 30 NOVEMBER

The Spartakiad among KEGOC employees took place in the town of Rudny, where the first team place was taken by the athletes from Sarbaiskiye MES branch.

30 NOVEMBER

KEGOC was the first of the portfolio companies of Samruk-Kazyna to sign a contract for supply of high-voltage equipment with domestic manufacturers within the framework of the Agreement on cooperation between Samruk-Kazyna and Atameken, the National Chamber of Entrepreneurs.

30 NOVEMBER

The extraordinary General Meeting of KEGOC's Shareholders by mixed voting approved the interim financial statements, reviewed the net profit distribution, decided to pay dividends on ordinary shares and the amount of dividends per one KEGOC's ordinary share for H1 2018.

04 DECEMBER

Dominique Fache, Yermek Kudabayev and Janusz Bialek, independent directors, members of the Board of Directors of KEGOC, met with 30 talents of the company. The main topic of the meeting was the approved corporate values of the Company.

11 DECEMBER

500 kV Shulbinsk HPP (Semey) — Aktogay — Taldykorgan — Alma overhead transmission lines were commissioned during a national live TV-conference with the participation of the Head of State, Mr. Nursultan Nazarbayev.

12 DECEMBER

KEGOC started payment of dividends on KEGOC's ordinary shares for H1 2018.

MARKET OVERVIEW

STATE REGULATION STRUCTURE OF POWER INDUSTRY IN KAZAKHSTAN

The main policymaker in the electric power industry is the Government of Kazakhstan. The Ministry of Energy of Kazakhstan is the public authority to manage the industry. The Committee of Atomic and Energy Supervision and Control under the Kazakhstan Ministry of Energy is the public authority to supervise and monitor the industry.

138

POWER PLANTS GENERATE ELECTRICITY IN KAZAKHSTAN

The Committee on Regulation of Natural Monopolies and Protection of Competition and Consumer's Rights under the Ministry of National Economy of the Republic of Kazakhstan is the public authority that monitors and regulates the state monopoly activities (including KEGOC as a natural monopoly) and manages the protection of competition and restriction of monopolistic operations.

The Unified Power System (UPS) of Kazakhstan is a combination of power plants, transmission lines and substations.

The electric power industry in Kazakhstan includes the following sectors:

- electricity generation;
- electricity transmission;
- electricity supply;
- electricity consumption;
- other activities in electric power industry.

Electricity generation

Electricity in Kazakhstan is generated by 138 power plants of various forms of ownership. As on 1 January 2019, the total installed capacity of the power plants in Kazakhstan was 21,901.9 MW; and the available capacity was 18,894.9 MW.

Electricity transmission

Electric networks in Kazakhstan include 0.4-1,150 kV substations, switchgears and electricity transmission lines connecting them to transmit and/or distribute electricity. The backbone grid in Kazakhstan UPS is the National Power Grid (NPG) that provides electric connections between the regions of the country and with the power systems of the neighbouring countries (the Russian Federation, the Kyrgyz Republic and the Republic of Uzbekistan) and deliver electricity from the power plants to the wholesale consumers. KEGOC owns 220 kV and above substations, switchgears, interregional and/or interstate transmission lines being a part of the NPG including lines used for connection of power plants.

Regional electric networks provide electric connections inside the regions and deliver electricity to the retail consumers and belong to and are being operated by the regional electric network companies (REC).

Power transmission organisations transfer electricity using their own or third party's power networks (rent, lease, trust management and other types of use) based on the contracts with the wholesale and retail market consumers or energy supplying organisations.

Electricity supply

The Kazakhstan electricity market power supply sector includes power supply organisations, which purchase electricity directly from power generators or at the centralized auctions and further sell it to the end retail consumers. Some of power supply organisations have a role of the ‘guaranteed power supplier’.

Other activities in electric power industry

Research and design institutes, such as **Energiya KazNIPIITES, KazSelEnergoProyekt, Chokin Kazakh Research Institute of Power Engineering and Almaty University of Power Engineering & Telecommunications, Nazarbayev University and Energy System Researches LLP** are engaged in research and development in power industry, market researches and forecasting, addressing the issues of adopting new energy-efficient and environmentally friendly technologies.

KEGOC is a member of Kazakhstan Electricity Association, KazEnergy Association, Atameken National Chamber of Entrepreneurs, Association of Competition Development and Commodity Markets, Kazakhstan Association of Taxpayers and ECR Pool participant.

KAZAKHSTAN ELECTRICITY MARKET

The electric power market has two levels: the wholesale and retail electric power markets.

The functional design of the wholesale electricity market in Kazakhstan includes:

- **Decentralized electricity market** (bilateral contracts of electricity purchase and sale);
- **Centralized electricity market,** which is based on short-term (spot-trade), mid-term (week, month) and long-term (quarter, year) electricity trading; The operator of the centralized electricity market is KOREM JSC (Kazakhstan operator of the electricity and power market);
- **Real-time balancing market** is being created for physical and subsequent financial settlement of hourly imbalances arising within the operating day between actual and contractual generation and consumption of electricity in the Unified Power System of Kazakhstan with the reference generation and consumption schedule approved by the System Operator. The physical settlement on the balancing market of imbalances will be the responsibility of the System Operator, and the financial settlement of imbalances will be the responsibility of the Financial Settlement Centre. The role of the Financial Settlement Centre in the balancing electricity market is played by Energoinform. Currently the balancing electricity market in Kazakhstan operates in simulation mode (up to 1 January 2021 in accordance with Order of the Minister of Energy No. 504 dated 13 December 2018).
- **System and ancillary service market,** where the System Operator renders the system services and acquires the ancillary services from the Kazakhstan electricity market participants in order to comply with the state standards of reliable operation of Kazakhstan UPS and electric power quality. The Ministry of Energy of Kazakhstan (Order No. 61 dated 17 October 2014) assigned KEGOC the role of the System Operator of UPS of Kazakhstan;
- **The electric capacity market** is being created in order to attract investments in maintaining the existing and constructing the new generating capacities in an amount sufficient to meet the electric capacity demand. In accordance with the Low on Electric Power Industry in Kazakhstan, the capacity market shall be launched on 1 January 2019.

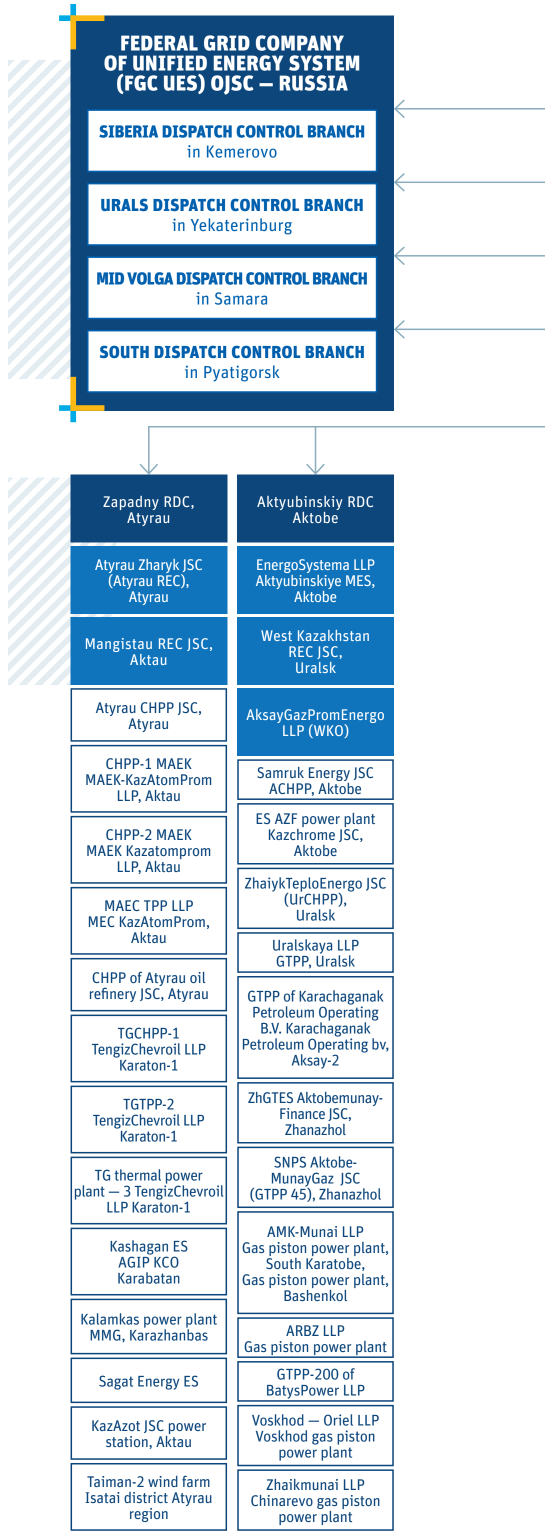
The participants of the wholesale electricity market are:

- the power generating organisations that supply electricity to the wholesale market in the amount of not less than 1 MW of the daily average (baseline) capacity;
- the power transmission organisations;
- the power supply organisations that do not have their own electrical networks and buy electricity on the wholesale electricity market with a view to resale it in the amount of not less than 1 MW of the daily average (baseline) capacity;
- the consumers who buy electricity on the wholesale market in the amount of not less than 1 MW of the daily average (baseline) capacity;
- the System Operator, which is Kazakhstan Electricity Grid Operating Company (KEGOC);
- the operator of the centralized electricity market, which is KOREM;
- the Financial Settlement Centre for Renewable Energy Sources Support.

The centralized dispatch control of Kazakhstan UPS is a function of the **National Dispatch Centre of the System Operator (NDC SO), the branch of KEGOC.** The centralized operational and dispatch control in Kazakhstan UPS is organised as direct operational subordination of nine regional dispatch centres (RDCs) to NDC SO; these RDCs are the structural subdivisions of KEGOC branches: Interconnection Electric Networks (MES branches).

RDC — regional dispatch centre
REC — regional electricity company
HPP — hydropower plant
CHPP — co-generation power plant
GRES — major thermal power plant
GTPP — gas-turbine power plant
JSC — joint-stock company
LLP — limited liability company

Level of regional dispatch centres
Level of regional network companies
Power stations of the national level
Power plants level



The structure of operational dispatch control of the Kazakhstan UPS as on 01 Jan. 2019

KEGOC
NATIONAL DISPATCH CENTRE
OF THE SYSTEM OPERATOR

'ENERGY' COORDINATION DISPATCH CENTRE
Tashkent

Kostanaiskiy RDC Kostanay	Akmolinskiy RDC, Nur-Sultan	Tsentralny RDC Karaganda	Severny RDC Ekibastuz	Vostochny RDC U-Kamenogorsk	Yuzhny RDC Shymkent	Almatinskiy RDC Almaty
Mezhregional-energotransit LLP, Kostanay	Akmola REC JSC, Nur-Sultan	Karagandy Zharyk LLP, Karaganda	PREC JSC, Pavlodar	EKREC JSC, U-Kamenogorsk	Ontustik Zharyk Transit LLP, Shymkent	AZhC JSC, Almaty
Forfait EPK (Kost. REC), Kostanay	Kokshetauenergo LLP (Kokch. REC), Kokshetau	Karaganda REC JSC, Karaganda	GorElectroSet LLP, Ekibastuz	KazZinc-Energo LLP, U-Kamenogorsk	ZhES LLP, Taraz	TATEC, Taldykorgan
Zharyk-Zhol REC LLP, Rudny	SevKaz REC JSC, Petropavlovsk	Zhezkazgan REC, Zhezkazgan	EEC JSC power station, Aksu	Bukhtarma Mining complex KazZinc LLP, Serebryansk	KREC JSC, Kyzylorda	KaratalTransit LLP, Taldykorgan
Kostanai Yuzh-ElektroService PUE, Arkalyk	Astana REC JSC, Nur-Sultan	GRES LLP Kazakhmys Energy LLP (KGRES-2), Topar	Ekibastuz GRES-1 LLP named after Nurzhanov, Ekibastuz	AES LLP U-Kamenogorsk HPP, U-Kamenogorsk	BaikonurEnergo PEA PUE, Baikonur	ZhTsPK LLP, Taraz
GKP Zhitikara Kommun-Energo, Zhitikara	CHPP 1, 2 Astana-Energy JSC, Nur-Sultan	Karaganda GRES-1, Bassel Group LLS, Temirtau	Ekibastuz GRES-2, Solnechny	AES Shulbinsk HPP Shulbinsk "Kazzinc" — TEK (Tekel. CHPP-2), Tekeli	Zhambyl GRES named after Baturov JSC, Taraz	T-Transit LLP, Tekeli
LisakovskGorKommun-Energo PCG PHO, Lissakovsk	LLP Stepnogorsk CHPP, Stepnogorsk	CHPP 1, 3, Kaaraganda Energocenter LLP, Karaganda	CHPP, Aluminium of Kazakhstan JSC (PCHPP-1), Pavlodar	Len. Cas. Company LLP Leningorsk cascade HPPs, U-Kamenogorsk	CHPP-1, 2 KazSpetsElektrod LLP, Shymkent	ALES JSC Almaty CHPP 1, 2, 3, Almaty
CHPP, SSGPO JSC (Rudny CHPP), Rudny	SevKazEnergo JSC (PCHPP-2), Petropavlovsk	CHPP-PVS, CHPP-2 of Arcelor Mittal Temirtau JSC, Temirtau	CHPP-2, Pavlodar-Energo JSC (PCHPP-2), Pavlodar	AES U-Kamenogorsk CHHP LLP, U-Kamenogorsk	3-Energo-Ortalyk (ShCHPP-3), Shymkent	ALES Kapshagay HPP, Kapchagay
CHPP PUE KTEC Kostanaiskiy CHPP, Kostanay	LLP First wind farm, Yereymentau	Zhezkazgan CHPP Kazakhmys Energy LLP, Zhezkazgan	CHPP-3, Pavlodar-Energo JSC (PCHPP-3), Pavlodar	AES Sogrinsk CHPP, U-Kamenogorsk	Shardara HPP JSC, Shardara	ALES Cascade HPP (Alm. cascade HPPs), Almaty
CHPP PUE ATEC, Arkalyk		Balkhash CHPP, Kazakhmys Energy LLP, Balkhash	Ekibastuz CHPP, PavlodarEnergo JSC, Ekibastuz	Ridder CHPP JSC, Ridder	Taraz-EnergoCentre JSC (ZhCHPP-4), Taraz	Moinak HPP JSC Moinak HPP
		Shakhtinsk CHPP LLP, Shakhtinsk		TeplokommunEnergo (Sem. CHPP), Semipalatinsk	Kentau Service GPK (CHPP-5), Taraz	KazZinc TEC LLP (Tekel. CHPP-2 and Karatal HPP), Tekeli
		Kumkol GTPP PKKR JSC			KyzylordaTeplo-ElektroCentre PUE (KOCHPP-6, KOTPP), Kyzylorda	Issyk HPP-2, 3 EnergoAlem LLP
		AkshabulakGTPP Crystal Management LLP			LLP Burnoye Solar-1,2, Taraz	Cascade Karatal HPP LLP (Karatal HPP-2, 3, 4), Karatal
		Intumak mini hydroelectric station KazModKhoz			LLP SKZ-U, Zhana-Kurgan	HPP Taldykorgan energy centre
		AgroFirm Kurma biogas power plant				
		KPM Delta LLP Gulshat solar power plant				

FSC RES does the centralised purchase and sale of the electricity produced by renewable energy facilities and delivered to the electric networks of Kazakhstan UPS.

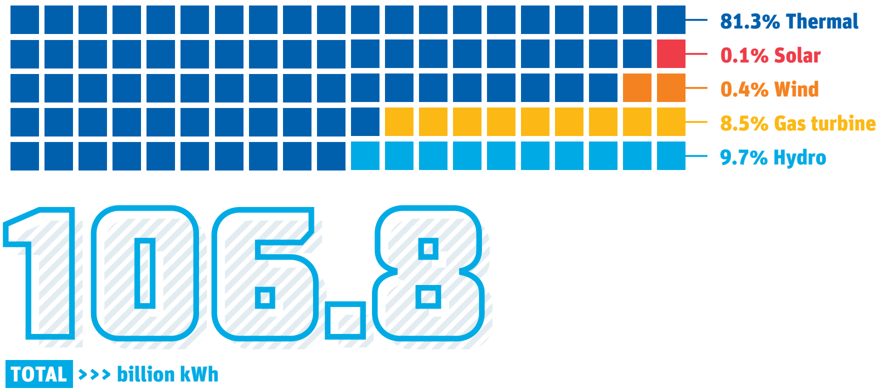
ELECTRICITY BALANCE

The electricity consumption in Kazakhstan in 2018 compared to 2017 increased by 5,371.7 million kWh or 5.5% to 103,228.3 million kWh. Consumption increased by 2,975.0 million kWh (4.6%) in Zone North, by 1,007.8 million kWh (8.1%) in Zone West and by 1,388.9 million kWh (6.8%), and in Zone South of Kazakhstan. The most significant growth in electricity consumption was observed in Pavlodar Oblast by 779.0 million kWh (4.2%), Atyrau oblast by 647.9 million kWh (11.7%), Karaganda oblast by 620.5 million kWh (3.7%), Zhambyl Oblast by 518.56 million kWh (13.6%), East Kazakhstan Oblast by 517.0 million kWh (6%), and Aktobe Oblast by 400.7 million kWh (6.8%).

The electricity production in the Republic of Kazakhstan in 2018 was 106,797.1 million kWh, which is higher than in 2017 by 4,413.5 million kWh or by 4.3%.

In 2018, electricity production in Kazakhstan exceeded consumption by 3,568.8 million kWh.

Generation structure in Kazakhstan UPS in 2018



The net power flow in the reporting period on the border with Russia amounted to 3,566.0 million kWh (4,528.2 million kWh in 2017). At the same time, electricity exports to Russia amounted to 4,876.2 million kWh, which is 911.9 million kWh lower than in 2017 (5,788.1 million kWh). Electricity imports from Russia was 1,310.2 million kWh, which is 50.3 million kWh (4.0%) higher than in 2017 (1,259.9 million kWh). Both export and import are presented here net of the balancing electricity provided by Russia.

The net power flow to Central Asia (the Kyrgyz Republic, the Republic of Uzbekistan) amounted to 2.8 million kWh. The export of electricity to Kyrgyzstan was 18.3 million kWh, the import was 15.5 million kWh.

The increase in electricity consumption in 2018 had an impact on KEGOC's performance: the amount of transmission, technical dispatching and balancing services provided by the Company for its clients: power generators, power transmission utilities, power suppliers and consumers.

OPERATING ACTIVITY OF KEGOC

Electricity Transmission

The actual amount of the transmission services in the National Power Grid in 2018 amounted to 44,709.0 million kWh, which is higher than in 2017 by 1,971.7 million kWh or 4.6%. The increase is mainly due to the growth in the amount of services delivered to the wholesale electricity market participants in Kazakhstan by 2,683.8 kWh or 7.4%.

In 2018, KEGOC under the contract with FGC UES transmitted electricity across KEGOC's networks from the Russia through Kazakhstan back to the Russia. The scope of such transmission services amounted to 2,216.7 million kWh which is 235.5 million kWh higher than in 2017.

Major customers	million kWh
Nurzhanov Ekibastuz GRES-1 LLP	3,758
AlmatyEnergoSbyt LLP	2,869
TemirZholEnergo LLP	2,538
Kazchrome Transnational Company JSC	2,361
Federal Grid Company of Unified Energy System (FGC UES) PJSC	2,217
KazPhosphate LLP	2,096
EnergoPotok LLP	2,014
KazZinc LLP	1,924
ShygysEnergoTrade LLP	1,492
AB Energo LLP	1,425

Technical Dispatch Control

The actual amount of the technical dispatching of supply and consumption in the grid in 2018 was 97,645.8 million kWh, which is higher than in 2017 by 4,035.8 million kWh or 4.3%. This growth is caused by higher amount of electricity generation by both generators of regional and national importance.

Major customers	million kWh
Nurzhanov Ekibastuz GRES-1 LLP	18,174
Eurasian Energy Corporation JSC	14,286
Ekibastuz GRES-2 Power Station JSC	5,162
Almaty Power Stations JSC	4,918
MAEK Kazatomprom LLP	4,049
Karaganda Energocenter LLP	3,987
TOPA GRES LLP	3,293
KazZinc LLP	3,242
PavlodarEnergo JSC	3,218
SevKazEnergo LLP	2,821

Management of Electricity Production and Consumption Balancing

The actual amount of electricity production and consumption balancing management in the grid in 2018 was 183,357.8 million kWh, which is higher than in 2017 by 8,823.1 million kWh or 5.1%. This growth is caused by higher amount of electricity generation and consumption on the wholesale market in Kazakhstan.

Major customers	million kWh
Eurasian Energy Corporation JSC	23,804
Nurzhanov Ekibastuz GRES-1 LLP	18,174
Astana REC JSC	6,175
KazZinc LLP	5,958
AlmatyEnergoSbyt LLP	5,905
ArcelorMittal Temirtau JSC	5,822
Ekibastuz GRES-2 Power Station JSC	5,117
Almaty Power Stations JSC	4,987
PavlodarEnergo JSC	4,632
TOPA GRES LLP	4,087

ELECTRICITY PURCHASE/SALE TRANSACTIONS

In 2018, KEGOC purchased electricity:

- to compensate for technological consumption (loss) and for auxiliary electricity consumption in the NES of Kazakhstan in the amount of 2 904,204 million kWh. in the amount of KZT 20,362.5 million, including from Russia 28.5 million kWh in the amount of KZT 329.2 million, from Kyrgyzstan 3.3 million kWh in the amount of KZT 23.7 million. The amount of electricity purchased to compensate for technical losses as compared with 2017 increased by 106.926 million kWh (from 2,797.279 million kWh in 2017 to 2,904.204 million kWh in 2018) or KZT 2,134.486 million (from KZT 18,227.987 million in 2017 to KZT 20,362.473 million in 2018). The auxiliary electricity consumption in MES branches amounted to 31.512 million kWh, which is 4.985 million kWh higher than in 2017 (26.527 million kWh in 2017 vs. 31,512 million kWh in 2018).

- in order to compensate for the hourly deviations of the actual interstate balance of electric power flows vs. the planned ones at the border of the UPS of Kazakhstan and the UES of Russia in the amount of 1,049.6 million kWh or KZT 11,838.0 million (including: PJSC Inter RAO (Russia) and from domestic energy sources – Ekibastuz SDPP-1 LLP, MAEK Kazatomprom LLP, Batys Power LLP);

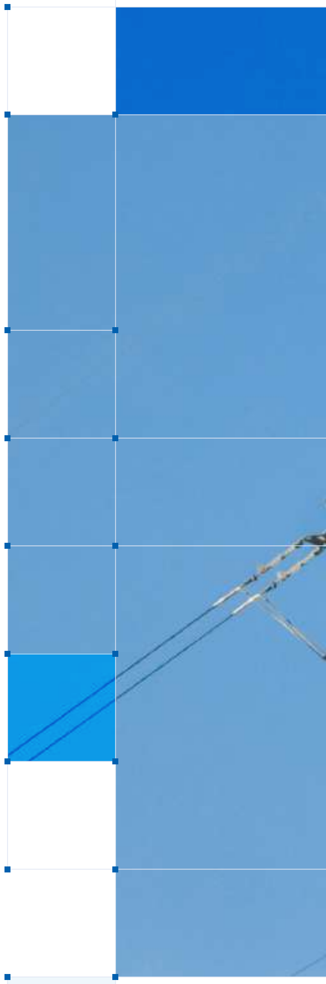
- to balance the unscheduled power flows between the power systems of Kazakhstan and Kyrgyzstan in the amount of 3.3 million kWh worth KZT 23.7 million (purchased from the National Power System of Kyrgyzstan OJSC);

- to balance the unscheduled power flows from the power system of Kazakhstan to the power system of Kyrgyzstan in the amount of 6.1 million kWh worth KZT 43.4 million (purchased from Ekibastuzskaya GRES-1);

In 2018, KEGOC sold electricity:

- to balance hourly unscheduled power flows between the energy systems of Kazakhstan and Russia with the total amount of 1,049.6 million kWh worth KZT 4,213.8 million (to Inter RAO (Russia);

- to balance the unscheduled power flows between the power systems of Kazakhstan and Kyrgyzstan in the amount of 6.1 million kWh worth KZT 43.4 million (to the National Power System of Kyrgyzstan OJSC).



KEGOC'S DEVELOPMENT STRATEGY

KEGOC's operations are strategically important for the development of the entire economy of Kazakhstan and impact a huge number of people, and as such they dictate the main approaches to the Company's long-term development strategy. Above all, it shall carefully consider the interests of society and ensure the priority development of Kazakhstan NPG, decent working conditions and well-being of people, provide for the environment protection. The Company pays special attention not only to the economic but also social component of its business. All this is reflected in the development strategy of KEGOC.

In 2018, KEGOC updated its long-term development strategy in accordance with the instructions of the Chairman of the Management Board of Samruk-Kazyna and the letter of shareholder's long-term expectations for 2018-2028. The Company update the long-term development strategy to: (i) bring it in line with the approved state programs and documents, as well as the development strategy of Samruk-Kazyna for 2018-2028, especially in terms of improving the Company's performance and introducing a portfolio approach to asset management and investment projects; (ii) reflect current trends having a significant impact on the power industry development (the development of renewable energy sources, business digitalization, process automation and information security, etc.), including transformation of people's minds.

The development strategy of KEGOC for 2018-2028 was approved by the Board of Directors of KEGOC on 24 August 2018. The updated Strategy defines the mission and vision of KEGOC, as well as the main strategic goals and objectives needed to implement the Strategy and achieve the Company's key performance indicators (KPIs):

1 GOAL

ENSURE RELIABLE OPERATION OF THE UNIFIED POWER SYSTEM OF KAZAKHSTAN

i.e. quality delivery of functions of the System Operator of the UPS of Kazakhstan; quality operational maintenance, repair and modernization of existing assets; increasing the transmission capacity of the NPGs of the Republic of Kazakhstan through the construction of new power transmission lines and substations; technological development and digitalization of business.

2 GOAL ENSURE EFFICIENT OPERATION OF KEGOC

by increasing the efficiency of invested capital and developing new types of business; implementation of KEGOC's Transformation Programme and the development of international cooperation.

3 GOAL IMPROVE CORPORATE GOVERNANCE AND SUSTAINABLE DEVELOPMENT

by improving the OHS management system; improving corporate governance; human capital development and environmental protection.

The Strategy roadmap includes projects, activities and strategic KPIs. At the same time, the list of investment projects was formed using the portfolio approach, i.e. investment projects are based solely on the principles of operational and commercial viability, the achievement of long-term interests of the Company and the return of invested capital.

In order to manage the performance of KEGOC, the KPI Tree was developed and approved. The KPI tree divides KPIs into strategic and operational ones by cascading the strategic KPI-1 level down the organizational structure and KEGOC activities, and thus sharing the responsibility for achieving the goals between the specific managers of KEGOC according to their position in the organizational structure. Accordingly, the role of each employee of KEGOC in achieving the goals and responsibility for the implementation of activities / projects of the Roadmap is enhanced.

To monitor the implementation of the Roadmap a detailed Strategy action plan was developed.

All planned activities of the Strategy Implementation Plan for 2018 have been implemented. The most significant events include:

- timely completion of 500 kV OHTL Shulbinsk HPP (Semey) -Aktogay-Taldykorgan-Alma construction project, as a part of the government's Nurly-Zhol programme;
- completion of the Business Transformation Programme projects, including a large and complex SAP ERP project that concerned the Company's basic business processes;
- start of trial operation of the billing system;
- approval of the IT development strategy and Information Security Development Program of KEGOC for 2018-2022;
- approval of KEGOC's Functional Funding Strategy for 2018-2028;
- confirmation of KEGOC's 'BB' corporate governance rating;
- update of HR policy of KEGOC.

Based on the stable growth of the country's economy, KEGOC expects future growth in consumption and production of electricity, which shall increase the amount of electricity transmission and regulated services provided by the Company. Therefore, despite the decrease in cap prices for consumers effective on 1 January 2019, KEGOC expects a steady growth in revenue and other financial indicators in future (ROACE, EBITDA, NAV, ROIC).

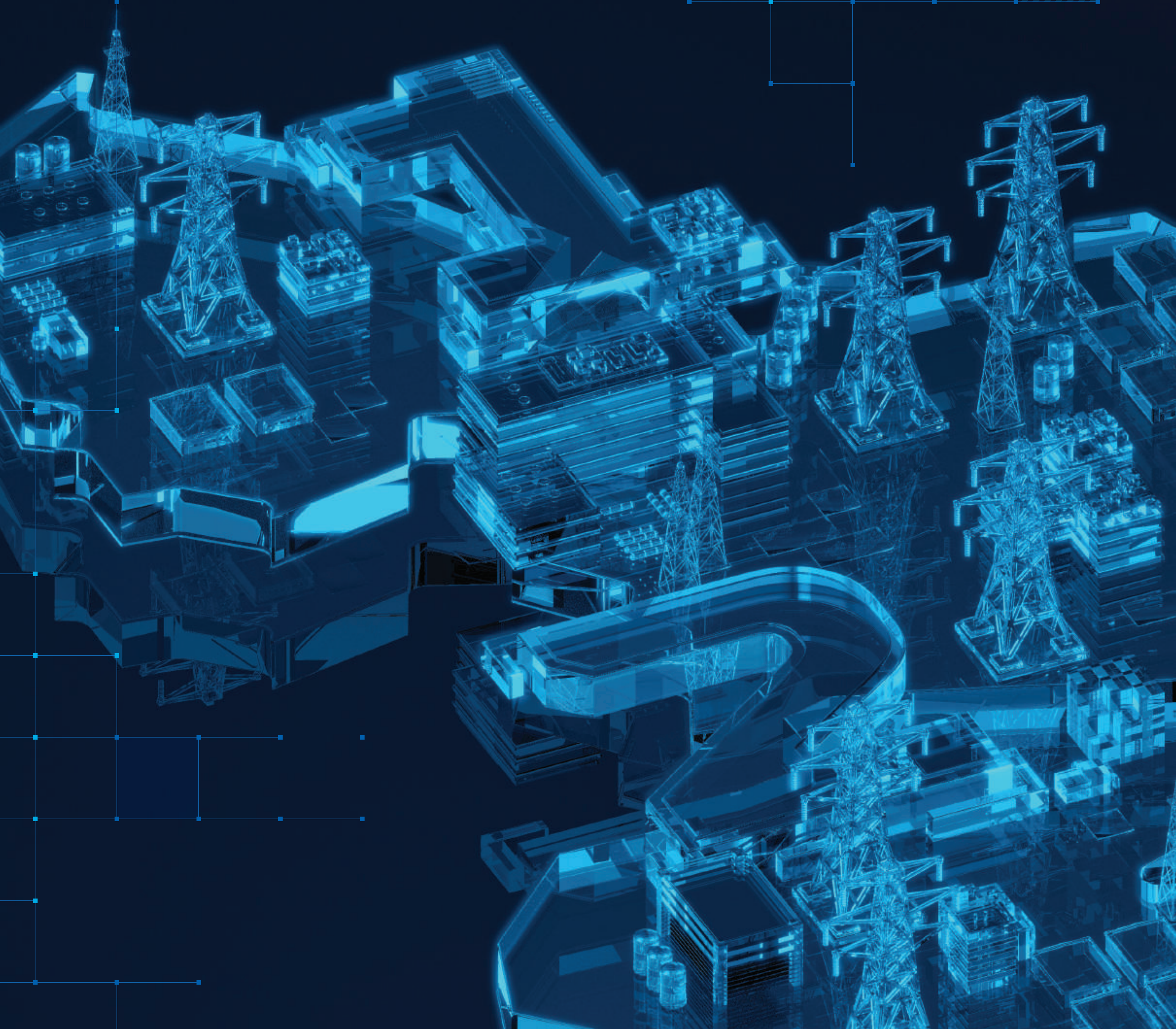
KEGOC will continue the implementation of asset modernization and development projects to maintain reliability of the UPS of Kazakhstan and improve such performance indicators as WWP (Work Without Problems), SML (System Minutes Lost) and the degree of satisfaction of consumers of system services.

Sustainable development of KEGOC in future will be supported by further improving corporate governance and the OSH management system, increasing the Company's environment responsibility in accordance with the developed plans and programmes.

EAST ELECTRICITY TRANSMISSION PROJECT

CONSTRUCTION OF 500 KV

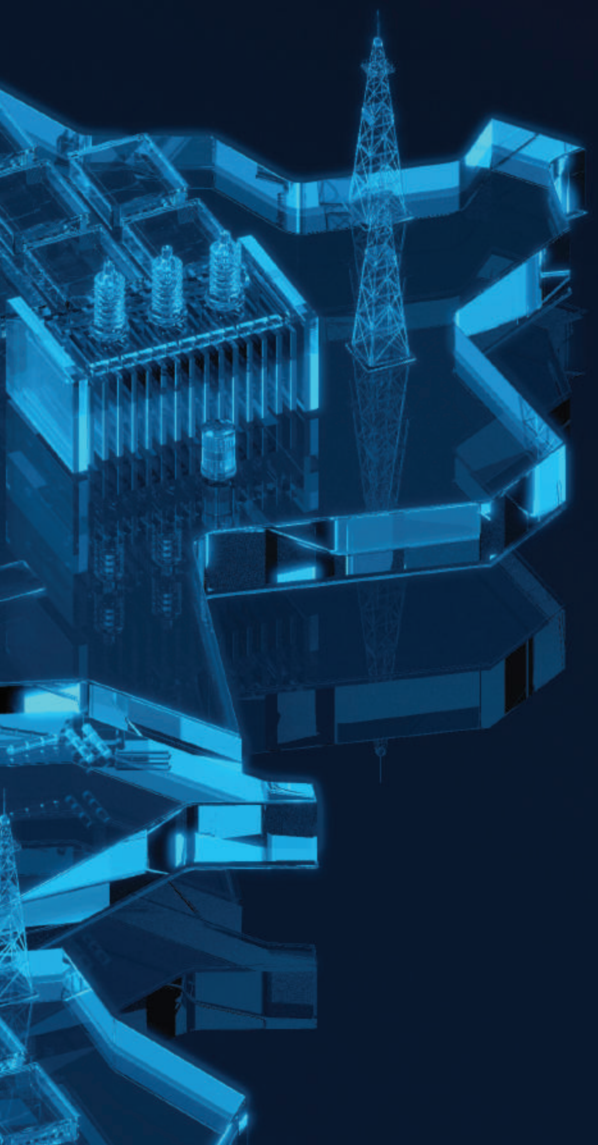
NORTH – SOUTH – EAST TRANSMISSION LINE



In 2018 KEGOC completed the largest infrastructure project in the industry, the construction of which started in 2014. For four years KEGOC constructed more than 1,700 km of lines and three new 500 kV substations: Semey, Aktogay, and Taldykorgan. Open switchgears were expanded at 1,150 kV Ekibastuzskaya substation, 500 kV Ust-Kamenogorsk substation, and 220 kV Shulbinskaya HPP OSG. 500 kV Alma substation was expanded and rehabilitated.

On 11 December 2018, the First President of Kazakhstan, Nursultan Nazarbayev, commissioned high-voltage 500 kV Shulbinskaya HPP (Semey) – Aktogai – Taldykorgan – Alma overhead transmission lines (second stage) by giving a go to KEGOC's CEO, Bakytzhan Kazhiyev during the live national teleconference, which was held as part of the Industrialization Day.

Stage one, construction of 500 kV Ekibastuz – Shulbinsk HPP (Semey) – Ust-Kamenogorsk electricity transmission lines, was also put into operation during the teleconference on 6 December 2016.



THE YELBASSY STRESSED THE HIGH IMPORTANCE OF THE PROJECT PROVIDING TALDYKORGAN AND ALMATY WITH ELECTRICITY THROUGH EAST KAZAKHSTAN.

The construction project extensively used equipment and materials produced by domestic manufacturers.

Implementation of this project increased the transmission capacity from the northern power plants to the southern regions of Kazakhstan from 1,450 MW to 2,100 MW.

The commissioning of this East electricity transmission project will give impetus to the development of renewable energy sources, in particular, small hydropower plants.

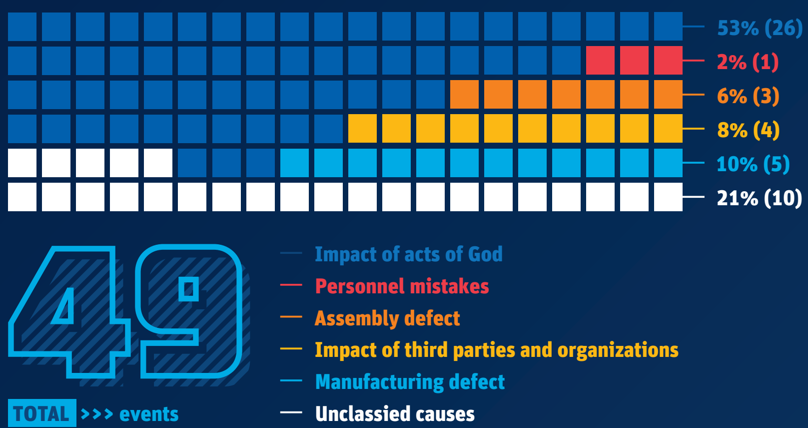
The project construction created more than 1,800 jobs during construction period, and 84 permanent jobs for its operation.

GOAL 1. RELIABLE OPERATION OF THE UNIFIED POWER SYSTEM OF KAZAKHSTAN

NETWORK RELIABILITY

In 2018, KEGOC had 272 emergency outages in the grid (which is 3% lower than in 2017), including 149 occurrences with successful autoreclosing, and 123 occurrences with unsuccessful autoreclosing. In 2018, the Company recorded and investigated 49 technological disturbances, all 49 are class II failures. There were no class I disturbances or failures. 52 technological disturbances were recorded in 2017, including one disturbance (class I) and 51 minor disturbances (class II). There were no serious failures. The total number of operation disturbances as compared to 2017 decreased by 6%.

Technical disturbances by qualification attributes



In 2018 the Company recorded 33 technical disturbances on power lines which is 67% of the total. Ten of the total number of technical disturbances damaged the transmission line elements.

In 2018 the Company recorded 16 technical disturbances on substations which is 33% of the total. Three of the total number of technical disturbances on substations damaged the primary equipment.

The total undersupply of electricity in 2018 amounted to 274.18 thousand kWh versus 246.7 thousand kWh in 2017. Undersupply of electricity occurred mainly due to technological disturbances related to the impact of acts of nature.

11

SML minutes

98.78%

WWP

The Company defined SML and WWP indicators to assess the network reliability level. In 2018 SML was 1.11 minutes, and WWP — 98.78% and, according to the results of the benchmarking completed as part of the Company's Strategy update, conform to the level of reliability indicators of peer system operators of electric power networks.

INVESTMENT ACTIVITY

In order to ensure the reliability of the National Power Grid, increase network capacity and improve energy efficiency, the Company has been systematically implementing the investment programme of funds injections and return for reconstruction, technical re-equipment of the fixed assets, and construction of the new ones.

In 2018 the Company disbursed KZT 42.62 billion (including KZT 7,82 billion of capitalized loan interest) vs. KZT 42.83 billion of the planned capital investments (including KZT 7.98 million of capitalized loan interest). The Company completed 99.5% of the planned amount of work.

In 2018, KEGOC completed the main works under the largest infrastructure project in the power sector — North-East-South 500 kV Electricity Transmission Construction Project, launched in 2014. For four years KEGOC constructed in total 1,773.1 km of lines and three new 500 kV substations: Semey, Aktogai and Taldykorgan. 500 kV Alma SS was extended and rehabilitated, open switchgears were expanded at 1,150 kV Ekibastuzskaya substation, 500 kV Ust-Kamenogorsk substation, and 220 kV Shulbinskaya hydropower plant.

Implementation of this project will make it possible to increase the transmission capacity from the northern power plants to the southern regions of Kazakhstan from 1,450 MW to 2,100 MW. The new transit will also resolve a number of urgent tasks and ensure the energy independence of consumers in the East Kazakhstan region, which so far were supplied by power through the territory of Russia. In addition, it will cover electricity demand of electrified railways and energy-intensive mining facilities. It is also important and timely that the commissioning of this project will give impetus to the development of renewable energy sources, in particular, small hydropower plants.

Since 110-1,150 kV overhead lines being on the Company's balance sheet with the operating time over 30 years account for 72% of the total length of the overhead lines (19,184 km out of 26,776 km), KEGOC plans to extend the range of modernization works to overcome the tendency of assets for deterioration.

For this purpose, KEGOC plans to implement the rehabilitation of 220-500 kV OHTL at the Company branches, which will cover partial replacement of existing OHTL structural components (towers, conductors, line hardware, etc.). This will significantly increase their lifetime and, as a result, ensure the reliable operation of the Unified Energy System of Kazakhstan.

In 2018, the Management Board of KEGOC approved the implementation of design solutions for the feasibility study on the Rehabilitation of 220-500 kV OHTLs at MES branches with the updated key indicators: cost of KZT 40.7 billion (excluding VAT) and implementation period until 2022 inclusive.

Pilot rehabilitation facilities include twenty-seven 220-500 kV overhead lines, which are on the balance sheet of KEGOC Aktyubinskiye MES branch (seven 220 kV OHTLs), Sarbaiskiye MES branch (nineteen 220-500 kV OHTLs) and Zapadnye MES branch (one 220 kV OHTL).

Pavlodar Electricity Transmission Reinforcement and 220 kV OHTL Tulkubas-Burnoye Construction investment projects with the total cost of KZT 9.4 billion (excluding VAT) are under implementation. In 2018, construction and installation works were performed under the projects, materials and equipment were supplied, foundations were erected, and conductors were installed. Completion of these projects and commissioning of all facilities are envisaged in 2019.

Also, projects on replacement of ground wire with OPGW (Optical Ground Wires) are under implementation at 220-500 kV OHTL Ust-Kamenogorsk – 14 SS, EGRES-1 – Ekibastuzskaya 220, EGRES-1 – Ekibastuzskaya 1150. In addition, construction and installation works are carried out under Severny RDC – Ekibastuzskaya 220 communication line.

8.71

BILLION TENGE

DISBURSED BY KEGOC ON CAPITAL INVESTMENTS TO MAINTAIN THE CURRENT OPERATIONAL LEVEL

The Company has started works on implementing the projects:

- Construction of Uralskaya SS – MGTS communication line;
- Construction of the communication line between Central RDC and the base of Tsentralnye MES branch (cable tie-in from the base of Tsentralnye MES to TETs-3-TsRDC cable);
- Replacement of ground wire at 500 kV OHTL Zhambyl – Shymkent-500;
- Replacement of ground wire at 220 kV OHTL Shymkent-500 – Shymkentskaya-220.

At the same time, in order to diversify the Company's business and gain additional profit from other activities, work is under way to implement the local project Development of Fibre Optic Communication Lines for Data Transmission.

With regard to capital investments in 2018 the Company fulfilled the disbursement plan (KZT 8.39 billion excluding VAT) by 103.8% (KZT 8.71 billion) to maintain the current level of operations. Disbursement of funds for local investment projects initiated under KEGOC business transformation programme amounted to KZT 2.995 billion (excluding VAT) out of the planned KZT 3.02 billion (99.4%).

In 2019, KEGOC will continue the active implementation of the project Rehabilitation of 220-500 kV OHTLs at MES branches (NPG Rehabilitation), plans to begin the design work on the large West Kazakhstan Electricity Transmission Reinforcement. Construction of Power Grid Facilities Project, and the pre-design work on promising investment projects worth about KZT 317 billion (excluding VAT).

TECHNOLOGICAL DEVELOPMENT – DIGITALIZATION OF BUSINESS

In the modern world, the Company's technological development is the driver of growth and business development that creates new opportunities and prospects for the Company's operations.

To fulfil expectations of the major shareholder and actively implement the State Program 'Digital Kazakhstan', the KEGOC Business Digitalization Concept was developed. The business digitalization concept in the Company is an addition to the Development Strategy of KEGOC and a fundamental document on the business digitalization specifying the main areas, principles and mechanisms of the digitalization process of all KEGOC activities. The Management Board of KEGOC approved KEGOC Business Digitalization Concept by the decision dated 28 March 2018.

In 2018, KEGOC continued implementing the following projects of technological development included in the State Programme 'Digital Kazakhstan' to increase the reliability, manageability and observability of the UPS of Kazakhstan:

- **Introduction of the monitoring and control systems based on synchrophasor technologies (WAMS (Wide Area Measurement Systems)/ WACS (Wide Area Control Systems).**

The Company in partnership with General Electric Company started implementing the first component 'The monitoring system based on synchrophasor technologies' (WAMS). The project has installed PMU (Phasor Measurement Unit) at 14 sites and specialized software in a number of dispatch centres. WAMS is planned to be commissioned in H1 2019.

- **Introduction of the Centralized Emergency Automation System (CEAS).**
- **Introduction of the Automatic Load-Frequency Control (ALFC).**

The feasibility study of the latter two projects was completed in partnership with Almaty University of Power Engineering and Telecommunications, and Institute of Automation of Energy Systems (Russia, Novosibirsk). Design estimates are planned to be developed in 2019.

The main impact of these projects shall be the higher transmission capacity of the grid without additional grid construction, smaller deviations of power at the border with Russia, and lower level of consumer outages during technological disruptions in the network.

In 2018 the work 'Feasibility study of corona losses mitigation in Kazakhstan NPG' with the involvement of NURIS (Nazarbayev University's scientific subdivision) was completed. The work studied possible ways to reduce corona losses in 500 kV KEGOC's networks by using technologies to treat the surface of high-voltage overhead transmission line conductors. Following the study results, KEGOC obtained an invention patent.

Also, in 2018 together with ORGRES Engineering Centre (Russia), KEGOC continued a scientific research on mitigation of electric power loss at 500 kV OHTL to determine the causes and develop counteractions that will reduce electric power losses in 500 kV transmission lines of KEGOC that were reported to have high level of losses.

KEGOC's Scientific and Technical Council (STC) operates on a permanent basis. The STC is a working body of KEGOC established to take decisions on the following issues: develop KEGOC, implement the Development Strategy, develop and arrange for introduction of new methods and technologies in projects for new construction, rehabilitation and technical upgrade of grid facilities, improve the NPG operation modes and develop domestic scientific and production potential. In 2018 the STC held eight meetings.

In addition, the Innovation and Technology Development Committee operates on a permanent basis under the STC at KEGOC. It is a working body that shall review and prepare conclusions on the information proposed for review by the STC, take decisions on rationalisation proposals of the Company's employees, etc. In 2008 the Committee held six meetings.

Applied technologies and equipment energy efficiency increase, energy-saving programme development and technological power consumption optimization are among the Company's main objectives.

6.3%

ELECTRICITY LOSSES

The technical losses in KEGOC's networks in 2018 amounted to 2.9 billion kWh or 6.3% of electricity supplied to the grid, not exceeding the standards established by the authorized body for natural monopolies.

In 2018, in accordance with the ITC Strategic Development Plan for 2018–2022, a number of activities were carried out on key areas of technological infrastructure development and digitalization of the electric power industry.

Under development of the target IT management model, the Company has currently implemented the centralized information management system of ITSM class (Information Technology Service Management) automating the main IT processes in KEGOC:

- incident and service requests management;
- IT problem management;
- management of IT service agreements;
- IT change management;
- management of IT change transfer and acceptance;
- IT asset management;
- configuration management (CMDB – Configuration Management Database).

To improve the efficiency of IT operation services under development of the target information security model, KEGOC has introduced a centralized integrated monitoring system for IT services and ITC infrastructure (SIEM – Security Information and Event Management) this year. The key task of SIEM solution is to obtain, save and analyse information on the state of the controlled elements of the Company's ITC infrastructure.

Also, with the view to enhancing the role of ITC in the main activities of KEGOC and introducing advanced technological IT solutions in the electric power industry, the work is being carried out to automate the Company's main and supporting processes, expand the data management program, qualitatively update and restructure corporate and technological networks, as well as centralize and virtualize ITC infrastructure and IT services.

In 2018, the Plan of Measures for Energy Saving and Raising Energy Efficiency of the Company for 2019-2020 was reapproved, as a result of which the planned reduction in the consumption of energy resources is expected to be 4,351 tons of fuel equivalent, and KZT 215.1 million in financial terms.

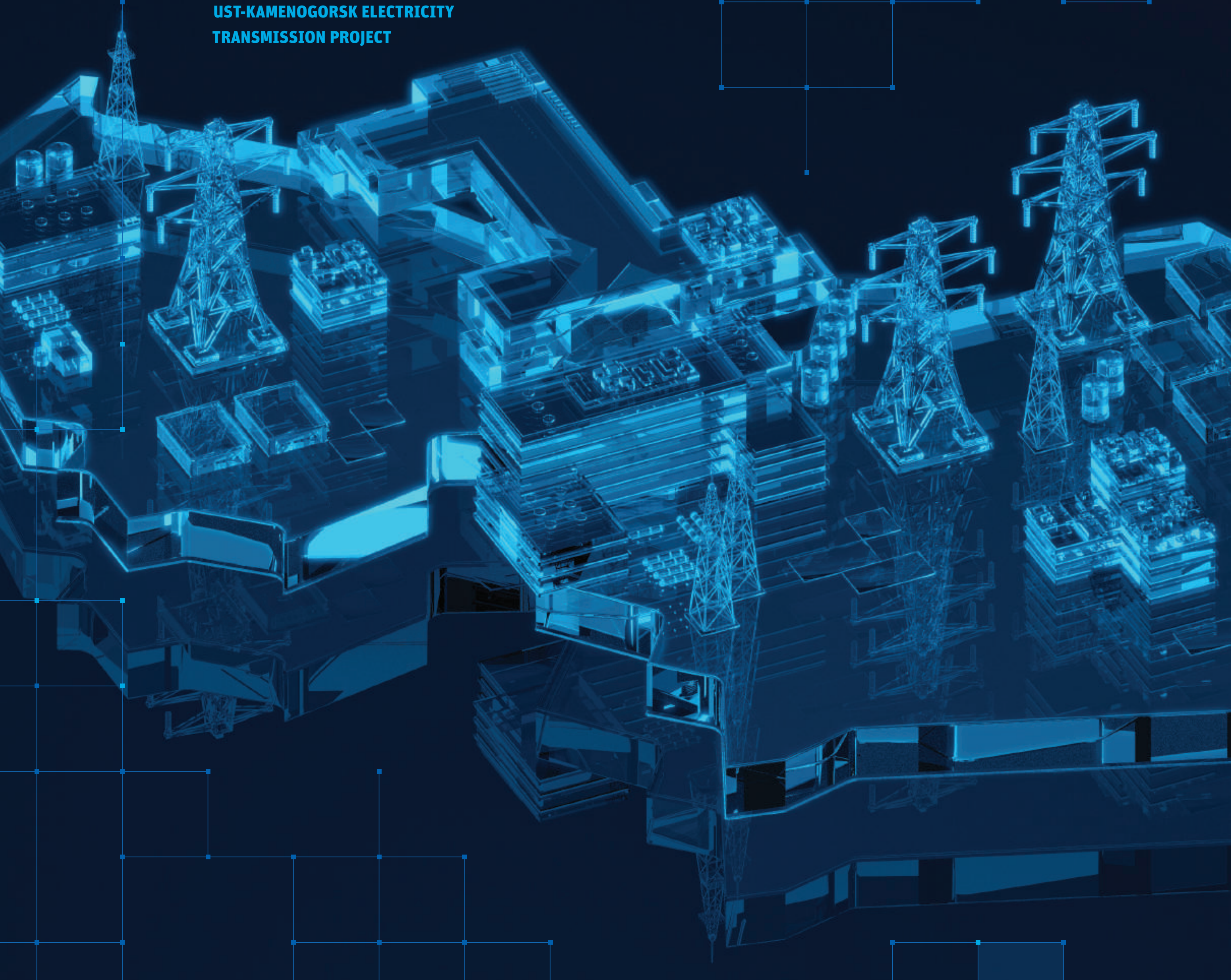
The Company pays much attention to the innovation and invention activity by encouraging personnel's technical creativity. In 2018 the Company's employees developed 38 rationalisation proposals aimed at improving operational efficiency, labour productivity and power supply reliability. Thus, the innovation proposal 'Ice removing instrument for 220 kV overhead lines' proposed by the employees of Severnye MES branch helps eliminating ice formations on the wires of high-voltage transmission lines in a purpose-designed way, as well as promotes safety of workers and improves speed and quality of the repair work. This innovation proposal is recommended for use in other branches of the Company.

EAST ELECTRICITY TRANSMISSION PROJECT

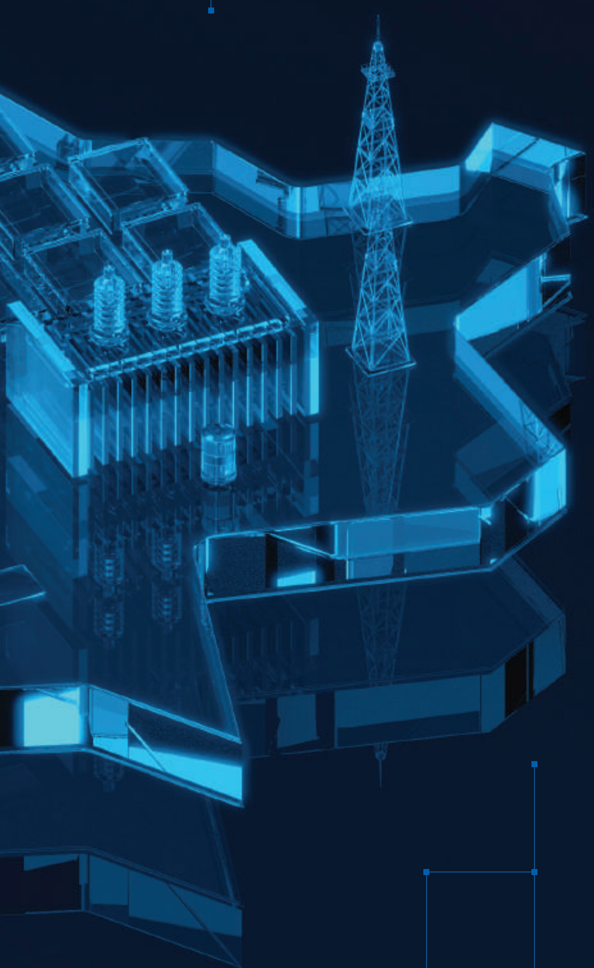
STAGE ONE

CONSTRUCTION OF 500 KV

EKIBASTUZ – SHULBINSK HPP (SEMEY) – UST-KAMENOGORSK ELECTRICITY TRANSMISSION PROJECT



The aim of the 500 kV Ekibastuz – Shulbinsk HPP (Semey) – Ust-Kamenogorsk Electricity Transmission Project is to increase transmission capacity of the grid in North – East direction, cover deficits in the East Kazakhstan region by making it independent of the electricity transported through the Russian network, and ensure delivery of all power generated at Shulbinsk HPP after Bulak HPP, the counter regulator of Shulbinsk HPP, is put into operation.



PROJECT DESCRIPTION:

- construct 500 kV overhead transmission line (OHTL) Ekibastuz – Semey (405.7 km);
- construct 500 kV OHTL Semey – Ust-Kamenogorsk (192.8 km);
- construct 220 kV OHTL Semey – Shulbinsk HPP (78.9 km);
- construct the cross-connection lines for connection of 220 kV OHTL No.51 SS – No.18 SS (13.5 km) with 220 kV outdoor switchgear (OSG) at 500 kV Semey substation (SS);
- construct the cross-connection lines for connection of 220 kV OHTL No.18 SS – Shulbinsk SS (13.5 km) with 220 kV OSG at 500 kV Semey SS;
- construct 500 kV Semey SS;
- extend 500 kV OSG of 1,150 kV Ekibastuzskaya SS;
- extend 500 kV OSG of 500 kV Ust-Kamenogorskaya SS;
- extend 220 kV OSG of Shulbinsk HPP.

PROJECT IMPLEMENTATION PERIOD

2011-2017

PROJECT COST

49.9

KZT BILLION INCLUSIVE OF VAT

GOAL 2. ENSURE KEGOC'S EFFICIENT OPERATIONS

TARIFF POLICY

To fulfil the mission of ensuring the NPG reliable operation, KEGOC has the main income source — cap tariffs for regulated services, which are approved by the authorized body for natural monopolies.

When implementing the large infrastructure investment projects, the company adheres to the tariff gradual increase policy. Under the Law on Natural Monopolies of the Republic of Kazakhstan the following KEGOC services refer to the natural monopoly services:

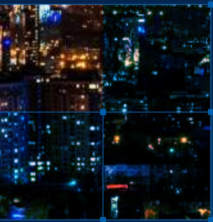
- electricity transmission via NPG;
- technical dispatching of electricity supply to the grid and electricity consumption;
- management of electricity generation and consumption balancing.

Once established, KEGOC has been consistently improving the tariff policy of regulated services and playing an active role in activities of relevant organisations relating to the tariff policy improvement.

In accordance with the legislation KEGOC shall submit applications to the Committee for Regulation of Natural Monopolies, Protection of Competition and Consumer Rights of the Ministry of National Economy of Kazakhstan (the authorized body regulating natural monopolies) seeking approval (revision) of tariffs for regulated services referring to the sphere of natural monopoly.

The Company's tariffs are set on a costs-plus basis, whereby the Company, in order to set a tariff for a certain period of time, considers the corresponding estimates of operating and financial costs and a fair rate of return on capital.

In 2013, KEGOC started rendering services at the cap tariffs. The principles of calculating the cap tariffs are similar to the calculation of annual tariffs except that the cap tariffs shall be approved for the period of up to five years. The cap tariffs make it possible for the Company to plan its capacity for long periods, and shareholders have the opportunity to get more information about the Company.



tenge per kWh	2016	2017	2018	2019	2020
electricity transmission	2.080	2.246	2.496	2.823	2.797
technical dispatching	0.231	0.234	0.249	0.306	0.306
generation and consumption balancing	0.084	0.086	0.091	0.098	0.098

In 2018, the following temporary compensatory tariffs were applied for the regulated services of KEGOC:

Service (KZT/kWh)	Period		Grounds	Decision
	01/01/2018–30/06/2018	01/07/2018–31/12/2018		
electricity transmission	2.4957	2.4928	Based on the consideration of the report on execution of tariff estimates for 2016 and 2017	of the authorized body regulating natural monopolies
technical dispatching	0.2489	0.2482		

In accordance with the established procedures, KEGOC applied to the authorized body regulating natural monopolies seeking for approval of the cap tariffs and tariff estimates for KEGOC's regulated services for a long-term period. Based on the consideration results, Order No. 388-OD dated 21 September 2015 approved the cap tariffs and tariff estimates for KEGOC's regulated services for a five-year period from 01 January 2016 to 31 December 2020.

In addition, the authorized body approved the decision of KEGOC to reduce, from 1 August 2018 to the end of 2018, the cap tariffs for technical dispatch of supply to the grid by 5% (from 0.2482 to 0.237 KZT/kWh), and for managing of electricity production and consumption balancing by 3% (from 0.091 to 0.088 KZT/kWh).

The decision to reduce KEGOC cap tariffs was made in accordance with the current legislation so that to achieve a balance of interests of consumers and the natural monopoly considering the actual growth in the volume of technical dispatching of electricity supply to the grid and managing of electricity production and consumption balancing for the previous period of 2018.

At the end of 2018, as part of the fulfilment of the instructions of the Head of State, the Ministry of Energy of the Republic of Kazakhstan decided to reduce the cost of electricity from 1 January 2019. Considering this decision, and the planned growth in the volume of services provided by KEGOC with the view to support the population, small and medium-sized businesses, the Company decided to reduce tariffs for its services to the level of 2018.

Service	Approved tariff caps for 2019 (tenge per kWh)	Tariff caps for 2019, including reduction (tenge per kWh)
Electricity transmission	2.823	2.496
Technical dispatching	0.306	0.237
Managing of production and consumption balancing	0.098	0.088

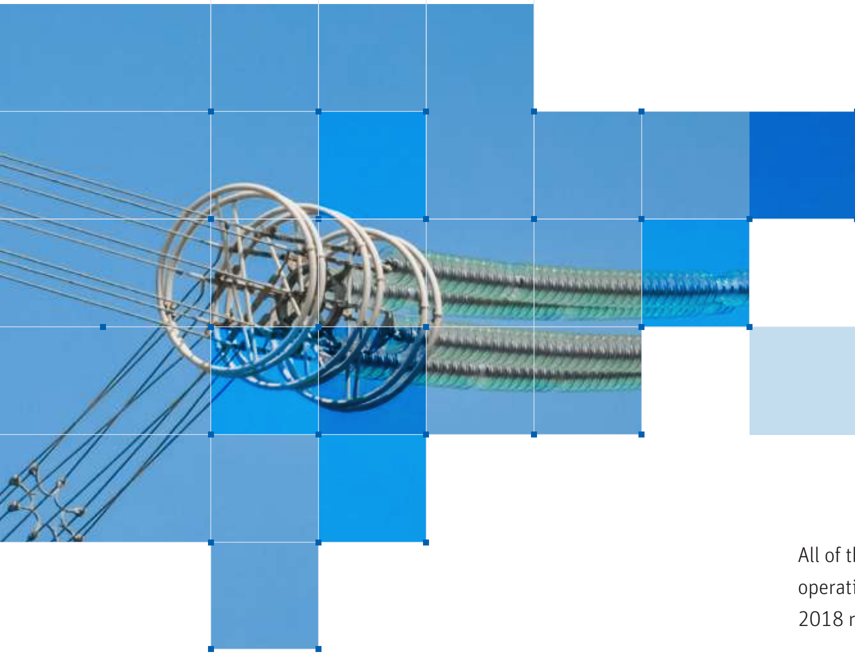
According to the approved procedures the Company arranges public hearings to report its activities with respect to regulated services to strengthen the protection of consumers' rights, ensure transparency of activities for consumers and other interested parties. The basic principles of public hearings are publicity, transparency of the Company's activities and observance of the balance of consumer interests.

FINANCIAL AND ECONOMIC PERFORMANCE

The financial and economic results of 2018 were affected by the growth in the volume of rendered regulated services, revaluation of fixed assets classified as Constructions, and the partial early repayment of the borrowed loan at the end of 2017.

Analysis of the implementation of planned income and expenditure indicators, KZT million

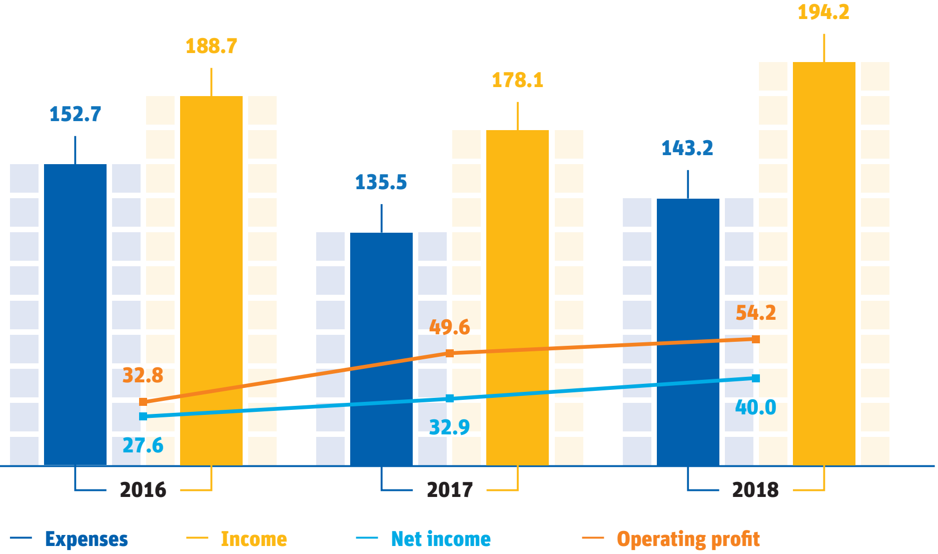
	2018 plan	2018 actual	Deviation	Main reasons for deviations
Consolidated income	**173,225.15**	**194,194.04**	**+12.1%**	
operating income	171,268.92	175,797.39	+2.6%	Due to the increase in revenues from regulated services, from the sale of electricity to compensate for hourly deviations of the actual cross-border balance flows. At the same time, the decrease in revenues due to decrease in revenues from the sale of purchased electricity (Uzbekenergo did not purchase electricity), from the sale of purchased electricity produced by renewable energy sources by FSC RES and from the sale of power control services.
non-operating income	1,956.23	18,396.65		The increase is due to the growth in the foreign exchange gain, income from recoverable impairment loss of the fixed assets classified as Construction, income from the interest on bank deposit operations, income from the interest on securities, income due to change in the fair value of short-term securities, and income from equity participation in other organizations (share of profits of associated enterprises).
Consolidated expenditures	**129,259.32**	**143,169.22**	**+10.8%**	
cost of sales	107,082.58	105,840.19	-1.2%	Due to the reduction of expenses on technical losses, on the purchase of electricity to compensate for non-contractual withdrawal by Uzbekenergo due to the lack of electricity supply, and on power regulation provided by third parties. In addition, there is decrease in labour costs due to the postponement of the introduction of a new procedure for evaluating activities, expenses on labour and environmental protection, on fuel and lubricants, etc. At the same time, expenses on depreciation deductions increased due to the operating system revaluation, purchase of electricity from the Russian power system to compensate for imbalances, transfer of electricity via the third-party networks, purchase of electricity generated by renewable energy sources.



All of the above factors influenced the operating profit and financial result based on 2018 results.

	2018 plan	2018 actual	Deviation	Main reasons for deviations
general and administrative expenses	16,848.22	15,499.09	-8%	Due to the reduction of expenses on consulting services based on capitalization, on labour costs, on the costs of technical support of information systems of the business transformation centre, on travel expenses, as well as other expenses of the period. At the same time, property tax expenses increased.
Consolidated income	**178,134.83**	**194,194.04**	**+9.0%**	
Operating income	152,379.82	175,797.39	15.4%	The fulfilment is mainly due to the increase in revenues on regulated services, as well as revenues from operations on the purchase and sale of electric energy by FSC RES.
Non-operating income	25,755.00	18,396.65	-28.6%	Due to the decrease in the foreign exchange gain, decrease of revenues from operations with deposits, from changes in the fair value of long-term trade receivables, from equity participation in other organizations (the share of profits of associated enterprises). At the same time, there is increase in the income from recovered impairment loss of fixed assets classified as Construction, income as interest on securities, changes in the fair value of short-term securities.
Consolidated expenditures	**135,493.13**	**143,169.22**	**+5.7%**	
cost of sales	89,399.37	105,840.19	+18.4%	The excess is due to the increase in expenses for the purchase of electricity produced by renewable energy sources, depreciation deductions due to the revaluation of fixed assets, technical loss of electricity, purchase of electricity from the Russian power system to compensate for imbalances, remuneration of production personnel, transmission of electricity via the third-party networks.
general and administrative expenses	13,142.39	15,499.09	+17.9%	The increase is mainly due to the accrual of provisions, property tax and labour costs. At the same time, the expenses for consulting services and medical insurance for employees deceased.

Dynamics of financial and economic indicators, billion tenge



Any information concerning the plans referred to in this Annual Report is forward-looking and reflects the current views of KEGOC with respect to future events and is exposed to certain risks, uncertainties and assumptions relating to the business, financial condition, operating results, growth strategy and liquidity of KEGOC.

INTERNATIONAL COOPERATION

About cooperation with economic entities of power systems in the neighbouring countries as part of the parallel work

In its activities, KEGOC interacts with power systems of other states, such as:

- Russia (Federal Grid Company of Unified Energy System, System Operator of Unified Energy System, Inter RAO);
- Kyrgyz Republic (Power Plants OJSC, Kyrgyzstan NPG OJSC);
- Uzbekistan (Uzbekenergo OJSC);
- Tajikistan (Barki Tojik OSHC).

Russian Federation

In 2018, KEGOC continued the relations with the Russian counterparts with respect to agreements for parallel operation signed in 2010 in pursuance with the intergovernmental Agreement on some measures to ensure the parallel operation of power systems of Kazakhstan and Russia dated 20 November 2009. The following agreements govern the basic technical and financial obligations of the parties in parallel operation of Kazakhstan UPS and Russian UPS:

- agreement for parallel operation of power systems of the Republic of Kazakhstan and the Russian Federation;
- agreement for electricity procurement to cover the hourly deviations of the actual interstate balance flows of electricity vs. the plan between KEGOC and Inter RAO;
- agreement for electricity transmission (transit) services via KEGOC networks.

In 2018, there were electricity purchase and sale transactions under the agreements between KEGOC and Inter RAO to compensate for hourly deviations of the actual cross-border balance flows vs. the plan on the border of Kazakhstan UPS and the Russian UPS.

In 2018, KEGOC under the contract with FGC UES transmitted electricity via KEGOC's networks from the Russia through Kazakhstan back to the Russia.

Central Asia

In 2018:

- unscheduled consumption of electricity by the power system of Uzbekistan from the UES of Kazakhstan was not carried out;
- KEGOC provided services to regulate (frequency) capacity of the power system of Uzbekistan in accordance with the contract;
- to regulate unscheduled power flows between the power systems of Kazakhstan and Kyrgyzstan, in accordance with instruction of 6 Intergovernmental Council, the purchase and sale of electricity was carried out between KEGOC and Kyrgyzstan NPG.

During the reported period, the work with respect to other aspects of the parallel operation with power systems of Central Asia continued.

In 2018, KEGOC participated in the meetings of the 33rd Coordination Commission of the Coordination Electric Power Council of Central Asia and the 29th Coordination Electric Power Council of Central Asia held on 24-25 October 2018 in Dushanbe (Tajikistan), meetings of the 32nd Coordination Commission of the Coordination Electric Power Council of Central Asia and the 28th Coordination Electric Power Council of Central Asia held on 20-21 June 2018 in Cholpan-Ata (Kyrgyz Republic).

CIS Electric Power Council

In 2018, two meetings of the CIS Electric Power Council were held: 52nd meeting (in absentia) and 53rd meeting.

The 53rd meeting of the CIS Electric Power Council took place on 2 November 2018 in Nur-Sultan in the central office of KEGOC. It was attended by delegations of state authorities and companies of the electric power industry from Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia and Uzbekistan, and representatives of the Executive Committee of the CIS, Eurasian Economic Commission and Energiya Coordinating Dispatch Centre.

The meeting participants discussed the most topical issues of interstate cooperation of the CIS electric power systems. In particular, heads of CIS delegations presented the information on the preparation of the power systems of the Commonwealth states for the autumn-winter period 2018-2019, and a number of documents of the Commission for Coordination of the Operational and Technological Cooperation of the energy systems of the CIS and Baltic states (CCOTC) were discussed.

As a result of the meeting, amendments and addenda to the Strategy (main areas) of interaction and cooperation of the CIS member states in the electric power sector were reviewed and approved, documents regulating personnel training, activities of CIS EPS working groups and the work plan of the CIS Electric Power Council for 2019 were considered and adopted. Also, it was decided to award the title of honour 'Honourable Power Engineer of the CIS' to a number of representatives of the CIS electric power systems.

KEGOC employees participated in the meetings of the following working groups of CIS EPS:

- the 27th and 28th meetings of the Coordination Council on the implementation of the Strategy for interaction and cooperation of the CIS member states in the electric power sector;

- the 32nd and 33rd meetings (in absentia) of the Commission for Coordination of the Operational and Technological Cooperation of the Energy Systems of the CIS and Baltic states (CCOTC);
- the 32nd meeting of the Working Group 'Formation of the common electricity market of the CIS member-states';
- the 30th meeting of the Working Group on updating and harmonizing the regulatory and technical framework for electric power industry regulation in the CIS;
- the 23rd meeting of the Working Group on metrological support of the CIS energy sector;
- the 11th and 12th meetings of the Working Group on the development of the interaction system in case of accidents and other emergency situations at the electric power facilities of the CIS member-states;
- the 10th and 11th meetings of the Working Group on the equipment operation reliability and occupational health;
- joint meetings of the Working Group of the CIS EPS on Environmental Protection and the Working Group on Energy Efficiency and Renewable Energy
- the 17th and 18th meetings of the Working Group on personnel management and training in the CIS electric power industry.

International Council on Large Electric Systems (CIGRE)

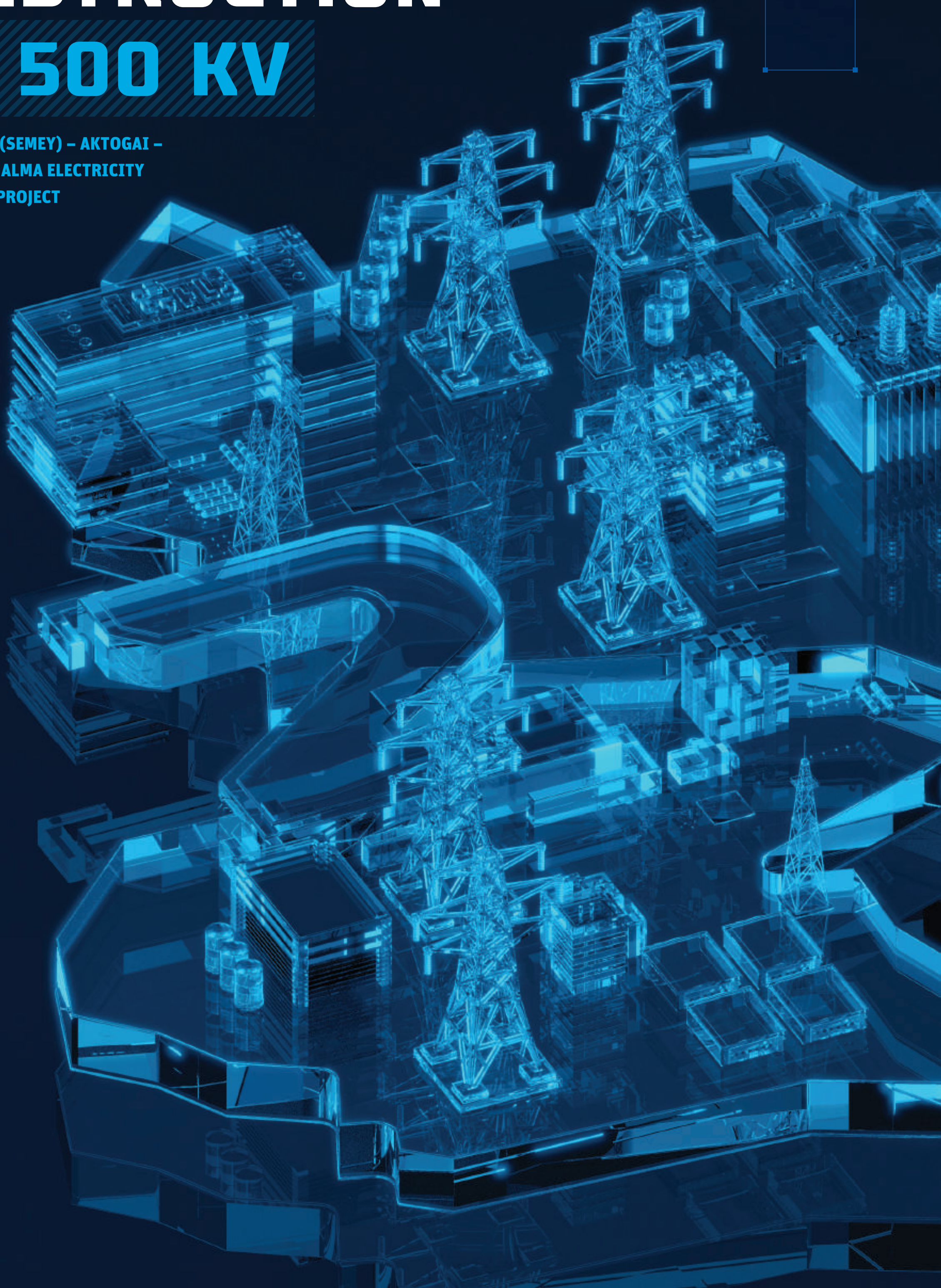
KEGOC participated in the 47th session of the International Council on Large Electric Systems (CIGRE) held from 26 to 31 August 2018 in Paris. The biennial CIGRE session is a unique event in the electric power industry including the international congress and the power equipment exhibition. The site, which brought together more than 3,500 delegates and representatives of world power companies, research organizations, manufacturers of equipment and materials for the electric power industry, design institutes and higher educational institutions, discussed issues related to new technologies developed to ensure the use of variable and hard-to-predict renewable energy sources in power systems. In particular, the following topics were discussed at the event: energy storage technologies in transmission and distribution systems, high-voltage DC OHLTs technologies and construction of AC and DC lines of ultra-high voltages, etc. Moreover, separate sessions were devoted to enhancing the role of consumers in power management, the use of new technologies and solutions in the formation and development of intelligent networks.

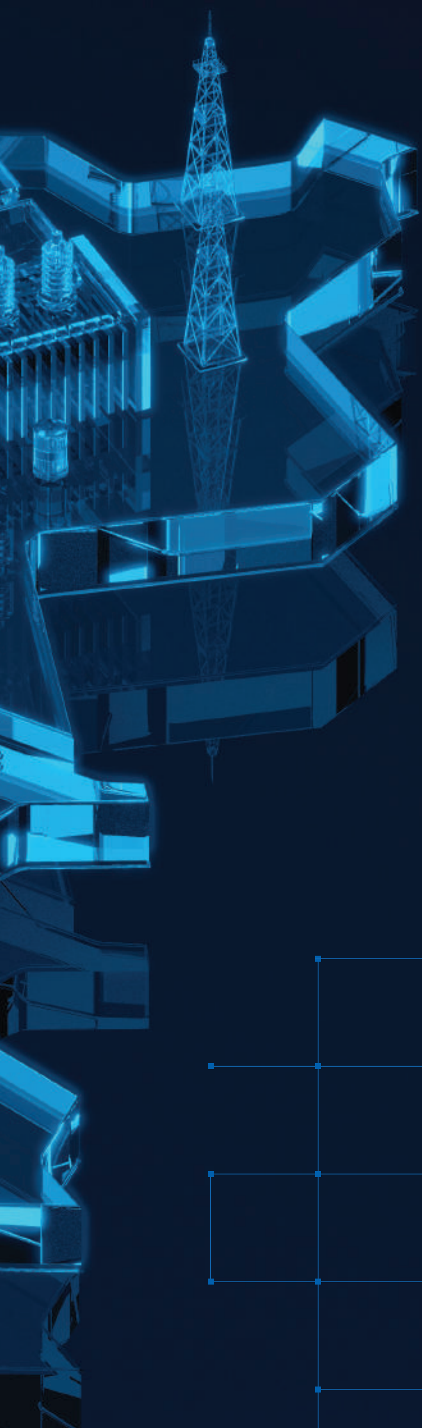
EAST ELECTRICITY TRANSMISSION PROJECT

STAGE TWO

CONSTRUCTION OF 500 KV

SHULBINSK HPP (SEMEY) – AKTOGAI – TALDYKORGAN – ALMA ELECTRICITY TRANSMISSION PROJECT





500 kV OHTL Shulbinsk HPP (Semey) – Aktogay – Taldykorgan – Alma Construction Project shall increase the transmission capacity of the national power grid in North-South direction, cover the consumption of electrified railways, energy intensive facilities of metal mining industry, create conditions for development of the cross-border territories and large scale development of renewable energy potential and strengthen the link with Zone East of the Kazakhstan Unified Power System.

PROJECT DESCRIPTION:

- construct 500 kV overhead transmission line (OHTL) Semey – Aktogai (393.54 km);
- construct 500 kV OHTL Aktogai – Taldykorgan (287.41 km);
- construct 500 kV OHTL Taldykorgan – Alma (203.78 km);
- construct 220 kV cross-connection lines for connection of 500 kV Taldykorgan SS (183.9 km);
- construct 500 kV Aktogai SS;
- construct 500 kV Taldykorgan SS;
- extend and rehabilitate 500 kV Alma SS;
- rehabilitate 500 kV Semey SS.

IMPLEMENTATION PERIOD

2012-2018

PROJECT COST

96.4

KZT BILLION INCLUSIVE OF VAT

GOAL 3. IMPROVE CORPORATE GOVERNANCE AND SUSTAINABILITY

HR POLICY

The human resources of KEGOC are the most important strategic factor for the Company's development success. KEGOC manages its human resources based on the principles of the Corporate Governance Code, Code of Conduct (Business Ethics Code), the integrated management system, HR Policy and internal documents relating to KEGOC's HR motivation.

4,797

PEOPLE

NUMBER OF EMPLOYEES AT THE COMPANY INCLUDING SUBSIDIARIES IN 2018

The HR Policy is aimed at the formation of human potential as the most important intellectual and professional resource that ensures the implementation of the Development Strategy of KEGOC through the effective corporate culture focused on achieving high results and meritocracy.

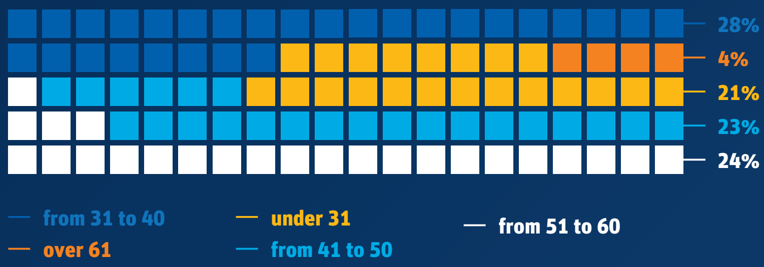
To implement the Development Strategy of KEGOC, the HR Policy's objectives are to:

- ensure the commitment to the principles of meritocracy, including recruitment, training and development, assessment of employee performance and remuneration management;
- develop target corporate culture;
- improve talent pool management and career planning system;
- regulate social and labour relations contributing to the Company's successful operation;
- comply with the succession policy and knowledge transfer;
- train specialists on the application of digital technologies.

In the reporting year, the staff listing of the Company, including subsidiaries, was 4,797 people, which is 1.4% more than in 2017.

Breakdown of employees by level of education

Breakdown of employees by age



In 2018 the Company continued implementing KEGOC Business Transformation Programme, which is introducing the comprehensive assessment of employee performance. The results of the performance assessment are used to revise the salaries of the Company's employees, and to enrol employees to the personnel reserve (talent pool).

The Company has started the 'Development of the Corporate Culture of KEGOC' project. The project revealed the values uniting all the Company's employees, defined the target corporate culture model. KEGOC Corporate Culture Development Roadmap for 2018-2020 was developed and approved. It reflects initiatives and measures to achieve the set goals.

All the elements of HR policy are arranged in a way to enable quick and effective adaptation of new employees and accelerate their settling in a new job. On a regular basis an employee is introduced to the organization's objectives, its activity characteristics, and the Company's basic rules and expectations from employees. During the adaptation process, employees are instructed on safety as well.

KEGOC attaches great importance to the process of training and development of personnel and is guided by the following principles:

1. the effectiveness of training and focus on performance — training shall be aimed at addressing specific tasks that increase the efficiency of KEGOC;
2. the expediency — the choice of training activities must meet the training needs defined in the IWP (individual work plan) of the Employee in accordance with the official duties of the employee, the results of the performance assessment, as well as the objectives and tasks set for the employee;
3. the integrity of the development system, continuity and systematic training;
4. transfer of knowledge and competencies;
5. effective development of internal coaching;
6. active training on the 70/20/10;
7. the use of advanced digital technologies in training, the development of distance/modular training.

The staff training was conducted using the full range of modern teaching methods – business workshops, seminars, trainings, internships, advanced training, vocational training and retraining programs, forums and conferences. In the reporting year, 2,650 employees were trained, which is 55.24% of the headcount. KEGOC's actual training costs in 2018 amounted to KZT 328,018 million or 92.2% of the plan, which is 27.5% higher than in 2017.

6%

INCREASE OF SALARIES/TARIFF RATES FOR THE COMPANY EMPLOYEES

KEGOC systematically develops the talent pool: the personnel reserve includes 294 people. In 2018, the number of vacancies, for which the pool was formed, was 56 and 32 vacancies were filled by employees from the personnel reserve. In November 2018, the members of KEGOC Board of Directors and Management Board held an annual meeting with prospective employees regarding KEGOC's values.

In December 2018 KEGOC held the Best Mentor of the Year competition, according to the results of which the winner was awarded a valuable gift and a diploma. Thus, KEGOC has been forming a mentoring institute.

In order to popularize and support the dynasties of the industry experts from the same family, and to publicly promote the succession of generations and social stability a solemn event was held on 29 June 2018 in the administrative building of KEGOC to award the winners of the Labour Dynasty contest, at which representatives of the Alpysbayevs, the Chernohayevs, the Lees, the Anessovs dynasties were awarded with valuable gifts and diplomas.

The remuneration system in the Company includes:

- the base part (wages, premiums and increments);
- the variable part (performance bonuses, one-time bonuses, remuneration of executive and administrative personnel);
- social support to employees;
- non-material remuneration.

In 2018, salaries/tariff rates of the Company's employees were increased by an average of 6%.

To create favourable conditions for effective work and raise loyalty, KEGOC provides a social support to the Company's employees: the recreation payment when granting the paid annual leave, on the anniversary date and the birth of child, due to the death of an employee or an employee's family members and the pensioner registered with KEGOC, to pay for the medical treatment of an employee and children – disabled, disabled from childhood irrespective of the group of physical inability and age.

Employees of retirement age are compensated upon their retirement, and the one-time material assistance is provided annually on the professional holiday 'Power Engineers' Day' to the pensioners registered with the Company.

In 2018, the Company assisted in resolving housing issues to 113 employees by partial reimbursement of housing costs totalling KZT 115.1 million at the expense of KEGOC. 43 employees became applicants for acquiring residential premises with subsequent purchase on the terms of Real Estate Fund Samruk-Kazyna (Real Estate Fund) in Shymkent, Almaty and Aktobe. To date, the house purchase contracts between employees of the Company and the Real Estate Fund are under execution.

In the reporting year the medical insurance in case of illness covered 2,502 employees of KEGOC, the amount of services costed KZT 86.4 million.

Based on the work results in 2018, 87 employees of KEGOC were rewarded with state and industry awards for special merits.

The Collective Labour Agreement concluded between KEGOC and its employees for 2016-2020, in addition to the main provisions of the labour laws of the Republic of Kazakhstan, refers to the issues related to the social support of the Company's employees, veterans of the Great Patriotic War, equated persons and long-service power engineers, and the organization of medical care and entertainment events for the employees. The Collective Labour Agreement covers all employees of the Company.

ENVIRONMENTAL PROTECTION

The goal of the Environmental Policy of KEGOC is to minimize the adverse environmental impact during electricity transmission and distribution.

The main areas of KEGOC Environmental Policy are:

- responsibility for environmental security of the Kazakhstan National Power Grid development;
- energy-saving and the rational use of natural and energy resources;
- compliance with the legal framework of the Republic of Kazakhstan relating to the environment, and with the requirements of ISO 14001;
- openness and accessibility of the information, including the results of environmental monitoring.

Environmental Management System

The Company implemented the environmental management system (EMS), which is certified for compliance with the requirements of international standard ISO 14001. EMS operates within the integrated management system of KEGOC. The main objective of its implementation and operation is to apply new management methods that would enhance the influence on the environmental aspects of the Company's production and economic activities. The environmental aspects management is a component of the corporate risk management system in KEGOC.

For efficient management, in 2018 the Company developed registers of environmental aspects and important environmental aspects of KEGOC for 2018. When identifying the aspects, all components of the environmental impact of the Company's activities are analysed (energy saving, water, soil, emissions, waste). Activities to manage environmental aspects are specified in the Company's Environmental Program for 2018. 'Potential PCB-containing waste', 'transformer oil' and 'waste transformer oil' were identified as critical environmental aspects in 2018. The 'potential PCB-containing wastes' aspect is critical due to the fact that polychlorinated biphenyl is dangerous substance according to the Environmental Code of the Republic of Kazakhstan (red hazard level). The 'spent transformer oil' and 'transformer oil' aspects are critical due to the existence of oil-filled equipment.

Water and Soil Impact

Water consumption in KEGOC is insignificant, because water is not used in the operational procedures. There are no discharges into water facilities and relief. At the facilities of seven branches of KEGOC: Aktyubinskiye MES, Akmolinskiye MES, Almatinskiye MES, Vostochnye MES, Sarbaiskiye MES, Tsentralnye MES and Yuzhnye MES water is supplied from artesian wells. The existing wells at the facilities of branches are operated in line with the obtained permits for special water use and under agreements with the local sanitary services. Potential sources contaminating water and soil include transformer oil used in oil-filled equipment, as well as waste waters resulting from domestic use of water. To prevent water contamination, the oil-filled equipment of the Company is equipped with oil receiving devices or oil soak pits that prevent oil from spilling on the soil.

27%

REDUCED EMISSIONS FROM STATIONARY SOURCES

Emissions

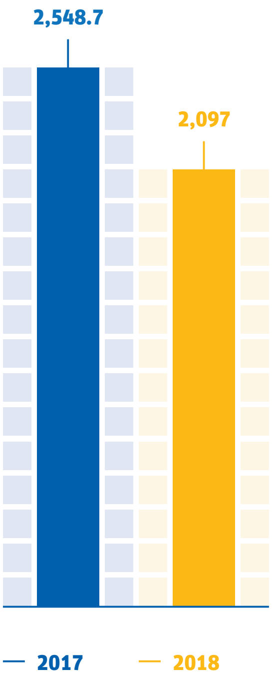
The Development Strategy of KEGOC determines the goal achievement indicator of environmental protection

'Reduction of actual emissions from stationary sources compared to the standard volumes'. To achieve this indicator, MES branches in 2018 conducted the operational monitoring, namely, they kept records of hours of operation for each item of equipment and consumption of materials. The total emissions of pollutants from stationary sources in 2018 amounted to 11.41 tons, in 2017 — 15.81 tons. The Company achieved a 27% reduction in emissions compared with the previous year due to the modernization of equipment and technological processes. The standard of 2018 was not exceeded.

Operational Wastes

The waste products at KEGOC facilities are generated in the course of operation, repair and rehabilitation of the substation equipment. The MES branches have defined the areas for temporary safe and separate waste storage, prepared schematic maps of waste disposal on the territory of the facilities with the explication and ensure timely removal for the subsequent disposal. The Company pays considerable attention to minimizing the environmental impact by reducing the amount of waste generated.

Amount of generated waste of KEGOC, tons



At the end of 2018, the amount of generated waste was 2,097 tons, which is more than 400 tons less than in the previous year.

Transformer oil and scrap metal were disposed by specialised organisations. One of the important environmental aspects in 2018 identified 'possibly PCD-containing wastes'. Based on the results of the laboratory analyses planned for 2018, PCBs were not detected in the oil-filled equipment.

OPERATIONAL SAFETY

The improvement of the occupational safety system is the most important task for achieving the goals of KEGOC Long-Term Development Strategy. The Board of Directors of KEGOC pays much attention to occupational health and safety, for which purpose established a special Committee of the Board of Directors intended to develop policies and procedures, improve the system and monitor the provision of industrial safety and occupational health. In 2018 this Committee approved addenda to the Action Plan for the improvement of the OSH management system for 2018-2019. Moreover, in order to effectively implement and strengthen control, the Committee included the Plan performance KPIs into the KPI motivational maps of the executive and administrative personnel of the Company.

The Company continues to work on ensuring safe working conditions, reducing injuries during technological operations, improving production and sanitary conditions for workers, and reducing exposure to harmful and unfavourable factors.

In 2018, the Company carried out assessment of harmful and hazardous production factors at all workplaces and developed the register of hazards and risks of KEGOC for 2018 specifying the significant hazards and risks of KEGOC.

Based on the identified hazards and risks, the Company established KEGOC's Occupational Safety and Health Management System Program for 2018 providing for risks management activities.

In 2018, there were two work-related accidents of the Company's employees. Relevant measures were taken with regard to the accidents.

In addition, all KEGOC branches conducted:

- workshops on safe organization and performance of works during a repair campaign,
- qualification tests of repair crew and check of availability of the individual protection devices, instruments, harness, and special cloths;
- Occupational Safety Days resulting in the development of corrective measures.

Also, in 2018, employees of the Executive Administration of KEGOC was trained to: 'Occupational health and safety at enterprises'.

The Company held a meeting in order to improve the grid operation reliability and the occupational health of KEGOC's personnel and to exchange experience in addressing the problematic issues, attended by heads of occupational health and safety departments of all KEGOC branches Intersystem Electric Networks.

In 2018, the Company's employees underwent health checks and pre-shift medical inspection, took the required training and advanced training in occupational safety and health, received the necessary personal protective equipment including electrical protection devices, milk and medicines. The employees exposed to harmful factors during their work received prescribed compensations based on the results of working places assessment with regard to exposure to harmful conditions.

In accordance with the laws of the Republic of Kazakhstan, all employees are provided with occupational injury insurance and civil liability insurance for the Company as owner of facilities, which are operationally hazardous to third parties.

To assess the level of safe working conditions, the LTIFR, Lost Time Injury Frequency Rate including fatal accidents as a result of accidents related to the work of the Company's employees, is applied.

CORPORATE GOVERNANCE

KEGOC adheres to the set goal of further enhancing the corporate governance and continues systematic work on improving the corporate governance to achieve the level of the world's leading companies. In this regard, the Company aims to ensure:

- efficient exercise of shareholders' rights;
- fair treatment to shareholders;
- efficient balanced dividend policy;
- efficient performance of the Board of Directors and Management Board of KEGOC;
- sustainability and efficient stakeholders engagement system;
- proper disclosure of information about the Company to stakeholders;
- improved risk management and internal control systems.

BB

KEGOC CORPORATE GOVERNANCE RATING IN 2018

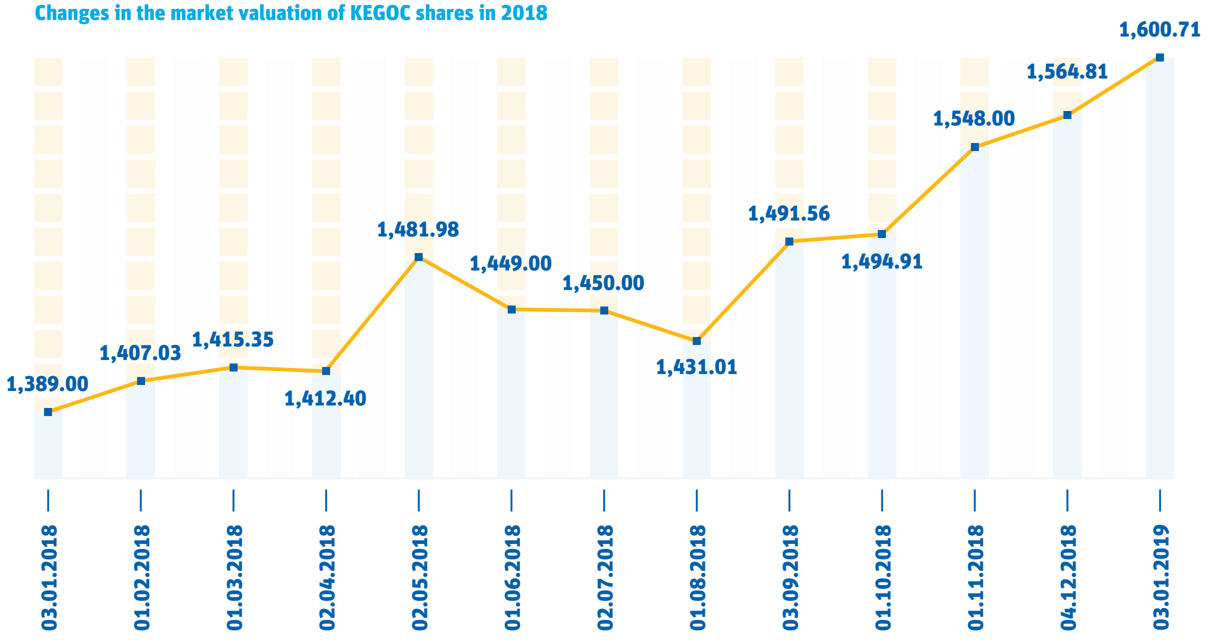
EQUITY

On 18 December 2014 as part of the Programme for public offering of shares of affiliates and subsidiaries of Samruk-Kazyna on the stock market, KEGOC placed 25,999,999 authorized ordinary shares on the Kazakhstan Stock Exchange through subscription.

As on 31 December 2018, the number of authorised and placed ordinary shares of the Company with the nominal value of KZT 500 amounted to 260,000,000, of which 234,000,001 shares (90% plus one share) belong to Samruk-Kazyna, the major shareholder, and 25,998,609 shares belong to minority shareholders, the remaining 1,390 shares were repurchased by KEGOC. 25,998,214 placed ordinary shares of the Company are in free circulation.

No material transactions with shares or changes to the composition of shareholders that own five or more per cent of the number of the placed shares of the Company occurred in 2018.

Changes in the market valuation of KEGOC shares in 2018



Data source — Kazakhstan Stock Exchange (www.kase.kz)

GENERAL MEETING OF SHAREHOLDERS

BOARD OF DIRECTORS

- Nomination and Remuneration Committee
- Strategic Planning and Corporate Governance Committee
- Audit Committee
- Occupational Health, Safety and Environmental Protection Committee

MANAGEMENT BOARD

GENERAL MEETING OF SHAREHOLDERS

The general meeting of shareholders is the superior body of the Company.

The general meeting of shareholders shall run its activities and exercise its rights in accordance with the Law of the Republic of Kazakhstan On Joint-Stock Companies, the Charter and the Regulations on the General Meeting of Shareholders of the Company.

In 2018 the Board of Directors initiated convening of the General Meeting of Shareholders four (4) times:

1 THE ANNUAL GENERAL MEETING OF SHAREHOLDERS WAS HELD ON 27 APRIL 2018

to take decisions were on the following issues:

- Determine number of members, terms of office of KEGOC's Board of Directors, elect its members and the chairman, and determine the rates and terms of remuneration and compensation of expenses for the members of KEGOC's Board of Directors in fulfilment of their duties;
- Approve the annual financial statements, procedure for distribution of the net income, payment of dividends on ordinary shares and approve the amount of dividends per ordinary share of KEGOC for 2017;
- Review claims from the shareholders in relation to activities of KEGOC and its officers and results of consideration of such claims;
- Determine number of members, terms of office of KEGOC's Counting Board and election of its members.

2 THE EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS WAS HELD ON 24 AUGUST 2018

to take the decisions on the following issue:

- Election of a member of KEGOC's Board of Directors, determination of the term of office, the salary and terms of remuneration and compensation of expenses for the member of KEGOC's Board of Directors.

3 THE EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS WAS HELD ON 2 NOVEMBER 2018

to take the decisions on the following issue:

- The composition of the Board of Directors of KEGOC.

4 THE EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS WAS HELD ON 30 NOVEMBER 2018

to take the decisions on the following issue:

- Approve the interim financial statements, distribution of the net income, decision to pay dividends on ordinary shares and the amount of the dividends per ordinary share of KEGOC for H1 2018.

DIVIDEND POLICY

The dividend policy of KEGOC observes the interests of shareholders in respect to the amount of dividend payments, contributes to the Company's investment attractiveness and its capitalization, respects and strictly observes the rights of shareholders stipulated by the Laws of the Republic of Kazakhstan. The dividends shall be paid on the following conditions: the availability of net profit of the Company for a reporting period, or retained profits; the absence of restrictions on payment of dividends envisaged by the laws of the Republic of Kazakhstan, and given the decision of the General Meeting of Shareholders.

The source of dividends is the net income for the appropriate financial year or half-year, or retained profits accrued on the basis of the consolidated financial statements of KEGOC prepared in accordance with the IFRS. A proposal on allocation of the net income for the fiscal year or half-year is prepared by the Company's Board of Directors. The amount allocated for payment of dividends shall be at least 40% of the net income. The decision to pay dividends on KEGOC's ordinary shares based on the results of the year is made by the annual General Meeting of Shareholders after the Company's annual financial statements have been approved. The decision to pay dividends on ordinary shares based on the results of the half-year shall be made by the extraordinary general meeting within three (3) months after the Company's annual financial statements have been audited for the corresponding period.

The General Meeting of Shareholders, after review of proposals of the Board of Directors shall, at its discretion, make a decision on payment of dividends on KEGOC's ordinary shares, approve the amount of dividends per KEGOC's ordinary share, and define a date of dividend payment.

Dividend History

Period for which the dividends are accrued	H1 2015	2016*	2017**	H1 2018
Amount of the dividend per ordinary share, KZT	9.4	53.06	88.53	80.53
Total amount of accrued dividends, KZT thousand	2,444,000	13,795,526	23,017,677	20,937,688
Share of net profit as per IFRS assigned for payment of dividends,%	40.01%	50%	70%	80%
Name of the issuer governing body that took decision to pay dividends	General Meeting of Shareholders	General Meeting of Shareholders	General Meeting of Shareholders	General Meeting of Shareholders
Date of the meeting of the issuer governing body where the decision was taken relating to payment of dividends, date and number of minutes	16 October 2015 — No.2	28 October 2016 — No.5; 12 May 2017 — No.6	26 October 2017 — No.7, 27 April 2018 — No.8	30 November 2018 — No.11
Date of preparing the list of persons having the right to dividends	30 October 2015	13 November 2016, 22 May 2017	6 November 2017, 14 May 2018	11 December 2018

* Dividends for 2016 were approved separately for H1 2016 (KZT 24.93 per share, Minutes of the General Meeting No. 5 dated 28 October 2016) and for H2 2016 (KZT 28.13 per share, Minutes of the General Meeting No. 6 dated 12 May 2017).
* Dividends for 2017 were approved separately for H1 2017 (KZT 48.4 per share, Minutes of the General Meeting No. 7 dated 26 October 2017) and for H2 2017 (KZT 40.13 per share, Minutes of the General Meeting No. 8 dated 27 April 2018).

BOARD OF DIRECTORS

The Rules for Selection and Election of the Members of the Board of Directors of KEGOC developed in accordance with the Law of the Republic of Kazakhstan on Joint-Stock Companies and the Charter of KEGOC defined the process of selection and election of the members of the Board of Directors and criteria for the election of independent directors.

A director can be recognized as independent at KEGOC if he/she is not:

- an affiliate and has not been an affiliate of the Company within three years preceding his/her election to the Board of Directors (except holding the position of an independent director of the Company);
- an affiliated person in relation to the affiliated persons of the Company;
- and has not been subordinated to officials of the Company or its affiliated companies within three years preceding his/her election to the Board of Directors;
- a participant to the audit of the Company as an auditor working for an auditing organisation and has not taken part in such audit within three years preceding his/her election to the Board of Directors;
- a representative of the shareholder at the meetings of the Company's bodies and has not been as such within three years preceding his/her election to the Board of Directors;
- a civil servant.

The independent directors elected to the Board of Directors of the Company meet the above criteria.

Changes to the Board of Directors in 2018

13 February	Kuanysh Bektemirov, Chairman of KEGOC's Board of Directors, early terminated his term of office on his own initiative
27 April	As powers of the members of the Board of Directors expired, the annual General Meeting of KEGOC Shareholders newly formed the Board of Directors: 1. Ibragim Tagashev, Chairman of the Board of Directors of KEGOC; 2. Dominique Fache, Independent Director; 3. Janusz Bialek, Independent Director; 4. Suinshlik Tiyessov, Representative of Samruk-Kazyna; 5. Zhanna Yegimbayeva, Representative of Samruk-Kazyna; 6. Bakytzhan Kazhiyev, Chairman of Management Board of KEGOC.
27 August	Ibragim Tagashev, Chairman of the Board of Directors of KEGOC early terminated his term of office on his own initiative
24 August	Yermek Kudabayev was elected as an independent director
2 November	Almassadam Satkaliyev was elected a Representative of Samruk-Kazyna and Chairman of the Board of Directors of KEGOC

Members of the Board of Directors as of 31 December 2018

ALMASSADAM SATKALIYEV

Chairman of the Board of Directors, KEGOC

Born in 1970, citizen of the Republic of Kazakhstan. Shares owned in KEGOC or its subsidiaries: none.

Education:

- Al-Farabi Kazakh State University, Alma-Ata, Mechanical Engineer, Application Mathematician (1987-1992);
- Russian Presidential Academy of National Economy and Public Administration, Moscow, Master of Economics; International Institute of Public Administration and Civil Service, Public Sector Finance Department, Economics, Financial Economics Programme (2011-2013);
- Nazarbayev University, Graduate School of Business (programme in collaboration with Duke University's Fuqua School of Business), Master of Business Administration (for executives) (2013-2015);
- Stanford University, Graduate School of Business, Stanford Executive Program (SEP) (2016);
- Member of Kazakhstan Academy of Natural Sciences (2015);
- Doctor of Economics (2015);
- Foreign Member of Russian Academy of Natural Sciences (2010);
- Candidate of Economic Sciences (2002).

Work experience for the last five years:

- since August 2018: Asset Management Director, Samruk-Kazyna;
- July 2018 – August 2018: KAZENERGY Kazakhstan Association of Oil & Gas and Power Organizations;
- January 2012 – May 2018: Chairman of the Management Board of Samruk-Energy.

Participation in the management bodies of other entities:

- Chairman of the Board of Directors of KOREM;
- Member of the Board of Directors of Kazakhstan Temir Zholy NC JSC;
- Member of the Board of Directors of KazMunayGas JSC.

Born in 1949, citizen of France. Shares owned in KEGOC or its subsidiaries: none.

Education:

- University of Sorbonne, France (1972), degree in Engineering;
- Lomonosov Moscow State University, Russia:
- The National Centre for Scientific Research (CNRS), Paris, France;
- University of Sorbonne in collaboration with Ecole Superieure Electricite.

Work experience for the last five years:

- Since 2016: Chairman of RTF Board of Directors;
- Since 2013: Member of the Board of Directors at Sophia Antipolis Science Park, France;
- 2008 – 2013: Chairman of the Board of Directors, President of EnelOGK-5.

Founder of a series of science and innovation events, conferences and festivals for Sophia Antipolis science park, founder of Club de Nice, which organises European Energy Forum.

DOMINIQUE FACHE

Independent Director, Chairman of the Occupational Health, Safety and Environmental Protection Committee, member of the Audit Committee and Strategic Planning and Corporate Governance Committee of the Board of Directors of KEGOC

Born in 1955, citizen of the Republic of Poland and the United Kingdom. Shares owned in KEGOC or its subsidiaries: none.

Education:

- MEng degree in Electrical Engineering (1977), PhD degree in Engineering (1980), Warsaw University of Technology, Poland.

Work experience for the last five years:

- Since 2014: Director of the Skoltech Centre for Energy Systems, Skolkovo Institute of Science and Technology.
- 2009-2013: Chair of Electrical Power and Control, Director for research work at the School of Engineering and Computing Sciences, Durham University, UK.

JANUSZ BIALEK

Independent Director, Chairman of the Nomination and Remuneration Committee and the Strategic Planning and Corporate Governance Committee, member of the Audit Committee under KEGOC's Board of Directors

SUINSHLIK TIYESSOV

member of KEGOC's Board of Directors, representative of Samruk-Kazyna, member of the Strategic Planning and Corporate Governance Committee and the Occupational Health, Safety, and Environmental Protection Committee of KEGOC's Board of Directors

Born in 1946, citizen of the Republic of Kazakhstan. Shares owned in KEGOC or its subsidiaries: none.

Education:

- Lenin Kazakh Polytechnic Institute, Almaty, majoring in Electrical Engineering (1968);
- Business and Management Centre of Gatton College of Business and Economics, University of Kentucky, USA (1996).

Work experience for the last five years:

- 2004-2016: Chairman of the Management Board at KOREM.

Candidate of Technical Sciences, author of the monograph Formation of the electricity market in Kazakhstan. Participated in the formation of the national grid, introduction of unique transmission lines and 1,150-500 kV substations, and the largest electricity generators: Aksuiyskaya GRES, Ekibastuz GRES. Participated in the development and introduction of: external power supply design of Tengiz oil and gas field; implementation of Kazakhstan Electricity Transmission Rehabilitation Project; the electricity and capacity market project in Kazakhstan, the First Electricity Law in 1995; all regulatory and legal documents relating to operation of the electricity market in Kazakhstan.

ZHANNA YEGIMBAYEVA

Member of KEGOC's Board of Directors, representative of Samruk-Kazyna, member of the Nomination and Remuneration Committee and the Occupational Health, Safety, and Environmental Protection Committee of KEGOC's Board of Directors

Born in 1953, citizen of the Republic of Kazakhstan. Shares owned in KEGOC or its subsidiaries: none.

Education:

- Kirov Kazakh State University, Lawyer (1988).

Work experience for the last five years:

- 2011-2016: Deputy Head of the Office of the Prime Minister of the Republic of Kazakhstan.

Participation in the management bodies of other entities:,

- Advisor to Chairman of Management Board at Baiterek National Holding JSC;
- Member of the Board of Directors of KazAgro National Management Holding JSC;
- Member of the Board of Directors of Kazakhstan Engineering NC JSC.
- Shares owned in KEGOC or its subsidiaries: none.

YERMEK KUDABAYEV

Independent Director, Chairman of the Audit Committee, the Nomination and Remuneration Committee under KEGOC's Board of Directors

Born in 1970, citizen of the Republic of Kazakhstan. Shares owned in KEGOC or its subsidiaries: none.

Education:

- Moscow Institute of Steel and Alloys (MISiS), Engineer – Economist (1987-1993);
- Kazakhstan Institute of Management, Economics and Forecasting (KIMEP), Master of Business Administration (MBA) (1994-1996);
- Certified accountant of the Republic of Kazakhstan (1988);
- Licensed auditor of the Republic of Kazakhstan (2000);
- Certified accountant (CAP) (2002);
- Certified accountant and financier by Association of Certified Chartered Accountants (ACCA), London, UK (2004).

Work experience for the last five years:

- 2016 – present: Managing Director for Economics and Finance of Intelligent Consulting Solutions LLP;
- 2013-2016: Managing Director for Economics and Finance at KazPetroDrilling JSC.

BAKYTZHAN KAZHIYEV

Chairman of KEGOC's Management Board, member of KEGOC's Board of Directors

Born in 1964, citizen of the Republic of Kazakhstan. Shares owned in KEGOC or its subsidiaries: none.

Education:

- Alma-Ata Power Engineering Institute majoring in Power Systems and Networks (1986);
- Karaganda State Technical University majoring in Economics (2007);
- Almaty Management University, Doctor of Business Administration (2018).

Work experience for the last five years:

- Since 31 May 2011, Chairman of the Management Board at KEGOC.

Competence of the members of the Board of Directors

Members of the Board of Directors	Almassadam Satkaliyev	Yermek Kudabayev	Janusz Bialek	Dominique Fache	Zhanna Yegimbayeva	Suinshlik Tiyessov	Bakytzhan Kazhiyev
Experience in the sector/total work experience, years	18/27	8 months/26	39/39	47/47	2.6/48	51/51	33/33
Core competencies							
Knowledge of the industry							
Work experience in the field of the industry							
Deep knowledge of the industry							
Technical skills/experience							
Specific skills and experience							
Financial capability							
Deep knowledge of finance							
Deep knowledge of marketing							
Deep knowledge of social and environmental issues							
Experience in management and jurisprudence							
Corporate Governance							
Transformation							
Experience in IPO							
Development and implementation of the strategy							
International experience							

Information on attendance at the meetings in praesentia of the Board of Directors and Committees of the Board of Directors

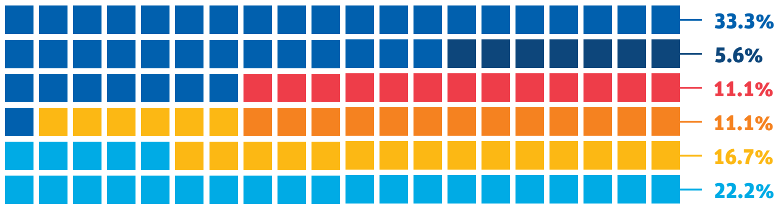
Members of the Board of Directors	26.01	02.03	30.03	26.04	27.04	01.06	29.06	23.07	24.08	28.09	02.11	30.11	%
Kuanysh Bektemirov Chairman of the Board of Directors	+	early terminated his office on 13 February 2018											100
Ibragim Tagashev Chairman of the Board of Directors	elected on 27 April 2018				+	+	+	early terminated his office on 27 August 2018					100
Almassadam Satkaliyev Chairman of the Board of Directors	elected on 2 November 2018										+	+	100
Anatoliy Spitsyn Independent Director	+	+	+	+	expired term of office at KEGOC's Board of Directors on 27 April 2018								100
Luca Sutera Independent Director	+	+	+	+	expired term of office at KEGOC's Board of Directors on 27 April 2018								100
Dominique Fache Independent Director	+	+	+	+	+	+	+	+	+	+	+	+	100
Janusz Bialek Independent Director	+	+	+	–	+	+	+	+	+	+	+	+	91,6
Suinshlik Tiyessov Representative of Samruk-Kazyna	+	+	+	+	+	+	+	+	+	+	+	+	100
Zhanna Yegimbayeva Representative of Samruk-Kazyna	+	+	+	+	+	+	+	+	+	+	+	+	100
Yermek Kudabayev Independent Director	elected on 24 August 2018								+	+	+	+	100
Bakytzhan Kazhiyev Chairman of Management Board	+	+	+	+	+	+	+	+	+	+	+	+	100

In 2018, the Board of Directors held eleven (11) meetings in presentia and one (1) meeting in absentia, where 144 issues were considered with relevant decisions made.

144

TOTAL >>> issues

Issues considered by the Board of Directors in 2018



— Corporate governance and sustainability
— Performance of subsidiaries
— Risk management, internal control and audit
— Other
— HR policy
— Strategic, financial, economic and investment

The major issues were as follows

Strategic, financial, economic and investment issues

- approved KEGOC's Development Strategy for 2018-2028
- approved KEGOC's Business Plan (Development Plan) for 2018-2022, and reviewed quarterly reports on the implementation of KEGOC's Business Plan (Development Plan) for 2018-2022
- made decisions on the conclusion of non-arm's length transactions
- approved 2018-2021 Road Map for KEGOC's Business Transformation Programme and reports on implementation thereof
- approved KEGOC's Information and Telecommunication Complex Development Strategy
- accepted for execution the mid-term Letter of Expectations of Samruk-Kazyna for 2019-2023

Corporate governance and sustainability issues

- introduced amendments and addenda to KEGOC's Charter
- reviewed results of independent diagnostics of corporate governance of KEGOC and quarterly reports on execution of KEGOC's Corporate Governance Improvement Plan
- approved the Action Plan for KEGOC corporate governance improvement for 2018-2020
- approved the new revision of the Rules on assessment of performance of the Board of Directors and its committees, the Chairman and members of the Board of Directors and the Corporate Secretary of KEGOC
- approved the Annual Report and the Sustainability Report for 2017
- approved KEGOC's Information Security Development Programme for 2018-2022

Risk management, internal control and audit issues

- approved risk appetite for 2019, Risk Register, Risk Map, Key Risk Management Action Plan, key risk tolerance levels and indicators for 2019, and reviewed quarterly risk reports
- approved the amended Rules on KEGOC internal audit
- approved Strategic Plan of the Internal Audit Service of KEGOC for 2018-2020
- approved the new revision of the Regulations on the Audit Committee of KEGOC's Board of Directors and the amended Regulations on KEGOC Internal Audit Service
- approved amendments and addenda to KEGOC's Methodology on determination of the risk-appetite and risk tolerance levels

HR policy issues	▪ approved KEGOC's Code of Conduct (Business Ethics Code) ▪ approved amendments and addenda to the Organizational Structure and the total staff number of the Executive Administration (head office) ▪ introduced amendments and addenda to KEGOC's Rules of social support to employees; ▪ approved KEGOC's HR Policy ▪ introduced amendments to the Rules for election and early termination of the powers of the Chairman and members of KEGOC's Management Board ▪ appointed KEGOC's Ombudsman; ▪ approved the new revision of the List of positions of KEGOC which shall be elected or approved by KEGOC's Board of Directors
Performance of subsidiaries	▪ appointed General Director of FSC RES ▪ determined the number, term of office of the Supervisory Board of FSC RES, elected its Chairman and members ▪ reviewed the issues regarding the annual and extraordinary General Meeting of Batys Transit JSC shareholders ▪ approved the financial statements of EnergoInform and FSC RES for 2017, the amount of dividends per EnergoInform's ordinary share

During the reporting period, the Company concluded 185 non-arm's length transactions to the total amount of KZT 44,425,241,302.91 including seven transactions on which the decision-making falls within the competence of the Board of Directors.

On 29 June 2018, the Board of Directors members participated in ceremonial event rewarding the winners of KEGOC labour dynasty contest.

Independent Directors Dominique Fache, Janusz Bialek and Yermek Kudabayev participated in the meeting with KEGOC's prospective employees on 30 November 2018.

Independent Director Janusz Bialek participated in the following conferences:

- on 11-16 June 2018 in Dublin (Ireland) on power system calculations;
- on 11-12 September 2018 in Moscow, Skoltech – MIT conference;
- on 20-21 September 2018 in Hamburg (Germany) Moscow (Russia) IEEE Sustainable Energy Supply and Energy Storage Systems (NEIS).

Member of the Board of Directors Zhanna Yegimbayeva participated in training by Ernst&Young audit firm.

Member of the Board of Directors Suinshlik Tiyessov participated in workshop on Results of Renewables Five-Year Operation in Kazakhstan, Further Development Prospects arranged by FSC RES jointly with UN Development Programme in Kazakhstan.

Independent Director Yermek Kudabayev participated in workshop on Features of International Tax Planning during the Age of Transparency arranged by PriceWaterhouse LLP in November 2018 in Almaty.

KEGOC established the following committees to review the most important issues and prepare recommendations to the Board of Directors:

- **Strategic Planning and Corporate Governance Committee;**
- **Nomination and Remuneration Committee;**
- **Occupational Health, Safety and Environmental Protection Committee;**
- **Audit Committee.**

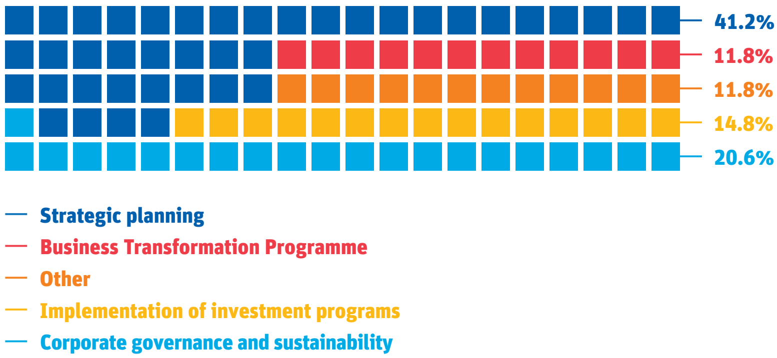
Strategic Planning and Corporate Governance Committee

The committee's operations are governed by the Regulations on the Strategic Planning and Corporate Governance Committee.

Composition of the Committee:

1. Janusz Bialek, Chairman of the Committee, Independent Director;
2. Dominique Fache, member of the Committee, Independent Director;
3. Suinshlik Tiyessov, member of the Committee;
4. Daulet Karimov, Expert without the right to vote.

Issues considered by the Strategic Planning and Corporate Governance Committee in 2018



Functions of the Committee:

Work out and submit to the Board of Directors the recommendations relating to:
- priority areas of activity and strategic planning;
- implementation of investment programs and major investment projects;
- improvement of corporate governance and sustainability;
- implementation of Business Transformation Programme.

In 2018, the Committee held **9 meetings** in praesentia and reviewed **34 issues.**

Information on attendance at the meetings of the Strategic Planning and Corporate Governance Committee of KEGOC's Board of Directors in 2018

Members of the Committee	26.01	02.03	30.03	26.04	01.06	30.06	24.08	02.11	29.11	%
Anatoliy Spitsyn Independent Director	+	+	+	+	on 27 April 2018 the term of office expired					100
Dominique Fache Independent Director	+	+	+	+	+	+	+	+	+	100
Janusz Bialek Independent Director	elected on 27 April 2018				+	+	+	+	+	100
Suinshlik Tiyessov Representative of Samruk-Kazyna	+	+	+	+	+	+	+	+	+	100
Yermek Kudabayev Independent Director	elected on 24 August 2018							+	+	100
Daulet Karimov Expert without the right to vote	+	+	+	+	+	+	+	+	+	100

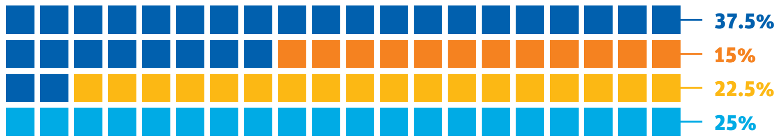
Nomination and Remuneration Committee

The committee's operations are governed by the Regulations on the Nomination and Remuneration Committee of KEGOC Board of Directors.

Composition of the Committee:

1. Janusz Bialek, Chairman of the Committee, Independent Director;
2. Yermek Kudabayev, member of the Committee, Independent Director;
3. Zhanna Yegimbayeva, member of the Committee;
4. Daulet Karimov, Expert without the right to vote.

Issues considered by the Nomination and Remuneration Committee in 2018



— Evaluation of performance and remuneration
— Other
— HR policy
— Succession and nomination

Functions of the Committee:

Work out and submit to the Board of Directors the recommendations relating to:

- the membership, terms of powers of the Management Board, election of the Chairman of the Management Board and its members and early termination of powers based on the evaluation of their performance results and skills;
- planning of succession of the Board of Directors and the Management Board;
- ensuring continuing and objective assessment of the performance of the Board of Directors and the Corporate Secretary;
- ensuring effective HR policy, labour payment and remuneration system, as well as social support of employees.

In 2018, the Committee held **10 meetings** in praesentia and reviewed **40 issues.**

Information on attendance at the meetings of the Nomination and Remuneration Committee of KEGOC's Board of Directors in 2018

Members of the Committee	26.01	02.03	30.03	26.04	01.06	29.06	24.08	28.09	02.11	29.11	%
Janusz Bialek Independent Director	+	+	+	+	+	+	+	+	+	+	100
Luca Sutera Independent Director	+	+	+	+	the term of office expired on 27 April 2018						100
Dominique Fache Independent Director	elected on 27 April 2018				+	+	+	excluded on 24 August 2018			100
Zhanna Yegimbayeva Representative of Samruk-Kazyna	+	+	+	+	+	+	+	+	+	+	100
Yermek Kudabayev Independent Director	elected on 24 August 2018							+	+	+	100
Daulet Karimov Expert without the right to vote	+	+	+	+	+	+	+	+	+	+	100

Occupational Health, Safety and Environmental Protection Committee

The committee's operations are governed by the Regulations on the Occupational Health, Safety and Environmental Protection Committee.

Composition of the Committee:

1. Dominique Fache, Chairman of the Committee, Independent Director;
2. Suinshlik Tiyessov, member of the Committee;
3. Zhanna Yegimbayeva, member of the Committee;
4. Daulet Karimov, Expert without the right to vote.

Issues considered by Occupational Health, Safety and Environmental Protection Committee in 2018

— Industrial and information security
— Other
— Occupational health management

Functions of the Committee:

Work out and submit to the Board of Directors the recommendations relating to:

- the policy and procedures for ensuring occupational health, safety and environmental protection;
- monitoring of strategic KPIs of KEGOC relating to the occupational health, safety and environmental protection, and achievement of goals in this area;
- sustainability in terms of occupational health, safety and environmental protection.

In 2018 the Committee held **8 meetings** in praesentia and reviewed **16 issues.**

Information on attendance at the meetings of the Occupational Health, Safety and Environmental Protection Committee of KEGOC's Board of Directors in 2018

Members of the Committee	02.03	26.04	01.06	29.06	24.08	28.09	02.11	30.11	%
Dominique Fache Independent Director	+	+	+	+	+	+	+	+	100
Suinshlik Tiyessov Representative of Samruk-Kazyna	+	+	+	+	+	+	+	+	100
Zhanna Yegimbayeva Representative of Samruk-Kazyna	+	+	+	+	+	+	+	+	100
Daulet Karimov Expert without the right to vote	+	+	+	+	+	+	+	+	100

Audit Committee

The Committee's operations are governed by the Regulations on the Audit Committee.

Composition of the Committee:

1. Yermek Kudabayev, Chairman of the Committee, Independent Director;
2. Dominique Fache, member of the Committee, Independent Director;
3. Janusz Bialek, member of the Committee, Independent Director;
4. Saltanat Satzhan, member of the Committee, (Expert without the right to vote).

Issues considered by the Audit Committee in 2018

Functions of the Committee:

Work out and submit to the Board of Directors the recommendations relating to:

- establishment of effective control system for financial and economic activities of the Company (including the completeness and accuracy of financial statements);
- control over reliability and effectiveness of the internal control and risk management systems and over execution of corporate governance documents;
- control over internal and external audit independence, and over the process ensuring enforcement of the laws of the Republic of Kazakhstan.

In 2018, the Audit Committee held **9 meetings** in praesentia and reviewed **58 issues.**

Information on attendance at the meetings of the Audit Committee of KEGOC's Board of Directors in 2018

Members of the Committee	26.01	02.03	30.03	26.04	01.06	29.06	24.08	28.09	02.11	%
Luca Sutera Independent Director	+	+	+	+	the term of office expired on 27 April 2018					100
Anatoliy Spitsyn Independent Director	+	+	+	+	the term of office expired on 27 April 2018					100
Dominique Fache Independent Director	+	+	+	+	+	+	+	+	+	100
Janusz Bialek Independent Director	+	+	+	+	+	+	+	+	+	100
Yermek Kudabayev Independent Director	elected on 24 August 2018							+	+	100
Saltanat Satzhan Expert without the right to vote	+	–	+	+	+	–	–	+	+	56

On the whole, the performance of the committees of the Board of Directors in 2018 contributed to the efficient development of the Company, the achievement of strategic goals and objectives determined by the Company for short-term, medium-term and long-term periods. The committees of the Board of Directors played an active role in the improvement of the corporate governance in KEGOC, the internal control and risk management mechanisms, issues of industrial and information security, occupational health, sustainable development, prospective investment projects relating to a wide range of business processes.

MANAGEMENT BOARD

The day-to-day activities of KEGOC is operated by the Management Board, an executive collegial body, which makes the decisions on the Company business related issues that are beyond the competence of other bodies.

The Management Board acts in accordance with the Law of the Republic of Kazakhstan On Joint Stock Companies, KEGOC's Charter, Corporate Governance Code and Regulations on the Management Board.

Membership of KEGOC Management Board

BAKYTZHAN KAZHIYEV

Chairman of KEGOC's Management Board

Born in 1964, citizen of the Republic of Kazakhstan. Shares owned in KEGOC or its subsidiaries: none.

Education:

- Alma-Ata Power Engineering Institute majoring in Power Systems and Networks (1986);
- Karaganda State Technical University majoring in Economics (2007);
- Almaty Management University, Doctor of Business Administration (2018).

Work experience for the last five years:

- Since 31 May 2011, Chairman of the Management Board at KEGOC.

Experience in the sector is **32 years.**

BAKYTKHAN ZHAZYKBAYEV

Managing Director for Operations

Born in 1968, citizen of the Republic of Kazakhstan. Shares owned in KEGOC or its subsidiaries: none.

Education:

- Ryskulov Kazakh State Academy of Management majoring in Marketing and Commerce (1994);
- Toraigyrov Pavlodar State University majoring in Electrical Power Systems and Grids (2005).

Work experience for the last five years:

- Since February 2017, Managing Director for Business Assets Management;
- December 2015 – February 2017, Deputy Chairman of Management Board of KEGOC for Operations;
- February 2012 – December 2012, First Deputy Chairman of Management Board of KEGOC.

Functions at KEGOC:

Plan activities on operation, repair, maintenance of operational assets; elaborate policies and procedures for assets management including the assets maintenance standards; develop and implement the medium-term development programme of MES branches; ensure reliable and efficient operation of MES branches, operation and rehabilitation of relay protection and substation automation, and metrological support of operations.

Experience in the sector is **18 years.**

ASKERBEK KUANYSHBAYEV

Managing Director for Strategy and Development

Born in 1955, citizen of the Republic of Kazakhstan. Shares owned in KEGOC or its subsidiaries: none.

Education:

- Alma-Ata Power Engineering Institute majoring in Power Supply of Industrial Enterprises and Cities (1977). PhD in Economics, Associate Professor – Economics.

Work experience for the last five years:

- Since February 2017, Managing Director for Technological Development;
- December 2015 – February 2017, Deputy Chairman of Management Board – NPG Development and Corporate Governance;
- April 2011 – December 2015, Managing Director for NPG Development, Managing Director for NPG Development and System Services, KEGOC.

Functions at KEGOC:

Manage the technical policy of KEGOC; develop NPG, elaborate plans and projects, feasibility researches, feasibility studies for NPG development projects; develop Kazakhstan UPS electricity and capacity balance forecasts for the 7-year period; cooperate with integration associations and organizations in the power industry; manage research and development; monitor, analyse and rate technological consumption (losses) of electricity in the NPG; coordinate renewable development activities; coordinate the approval by the System Operator of technological connection to the UPS of Kazakhstan, power delivery designs for power plants, external power supply designs for consumers, approve and issue technical specifications for connection to the grid.

Member of the Supervisory Board of FSC RES.

Experience in the sector is **41 years.**

TOLEGEN SAFUANI

Managing Director for Legal Support and Risks

Born in 1979, citizen of the Republic of Kazakhstan. Shares owned in KEGOC or its subsidiaries: none.

Education:

- Kazakh State Law Academy majoring in Legal Science (2000);
- Kazakh University of Technology and Business majoring in State and Local Administration, Master of Economics (2013);
- Almaty Management University, Master of Business Administration (2018).

Work experience for the last five years:

- Since June 2017, Managing Director for Legal Support and Risks of KEGOC;
- April 2012 – June 2017, Head of Legal Department, KEGOC.

Functions at KEGOC:

legal issues, introduce and improve the systems of risk management, internal control, corporate governance, business continuity and IMS; ensure economic, technical and information security; manage claims-related work; obtain and maintain a corporate governance rating.

Member of EnergoInform Board of Directors and Supervisory Board of FSC RES.

Experience in the sector is **14 years.**

AIBEK BOTABEKOV

Managing Director for Finance and Accounting

Born in 1976, citizen of the Republic of Kazakhstan. Shares owned in KEGOC or its subsidiaries: none.

Education:

- Buketov Karaganda State University majoring in International Relations and Economics (1997);
- Nazarbayev University (2016), Master of Business Administration.

Work experience for the last five years:

- Since February 2017, Managing Director for Finance and Accounting;
- June 2009 – February 2017, Managing Director for Economics, KEGOC.

Functions at KEGOC:

Manage financial and economic issues, pricing, manage and coordinate KEGOC's shares listing at KASE; interact with minority shareholders and other holders of KEGOC securities; prepare the consolidated audited annual financial statements of KEGOC, cooperate with financial institutions and audit companies, manage the management reporting system.

Chairman of the Supervisory Board of FSC RES and member of the Board of Directors of associate Batys Transit JSC.

Experience in the sector is **21 years.**

Management Board Performance Report

The main principles of the Management Board activity are to serve interests of shareholders to the maximum extent, ensure fairness, good faith, expertise, prudence, objectivity, soundness and regularity.

In 2018, 29 meetings considered and made relevant decisions on 243 issues as follows:

- approved and amended the internal documents elaborated to organize the Company's activities;
- some issues of implementation of the Business Transformation Programme;
- decisions on conclusion of transactions;
- Risk Committee performance;
- human resources management;
- others.

In order to preliminarily review, take collegial decisions and prepare recommendations on the supervised issues to KEGOC's Management Board, the Company operates the following advisory bodies:

1. Investment Committee;
2. Risk Committee;
3. Budget Committee;
4. Human Resources Development Committee;
5. Debtors and Creditors Committee;
6. Inventory Committee.

Issues considered by the Management Board in 2018

Assessment of performance of the Board of Directors and the Management Board

The performance of the Board of Directors and its members for 2018 was assessed by Samruk-Kazyna together with PricewaterhouseCoopers LLP under the independent corporate governance diagnostics of KEGOC in accordance with the Rules for performance assessment of the Board of Directors and its committees, the Chairman, the members of the Board of Directors of KEGOC.

In 2018, the members of the Board of Directors -Independent Directors were paid in accordance with the Rules of remuneration and reimbursement of expenses of the members of the Board of Directors of KEGOC as follows:

- annual fixed fee;
- additional remuneration for participation in the meetings in praesentia of the committees of the Board of Directors.

In addition, in 2016 the General Meeting of Shareholders decided to determine a fixed annual remuneration and compensation of expenses for members of the Board of Directors elected as representative of major shareholder (Samruk-Kazyna).

The remuneration system for the Chairman and the members of the Management Board includes a salary and a year-end bonus. A year-end bonus in KEGOC is paid within the limits of cash assets provided in the budget of KEGOC upon approval of the results of the financial and economic performance based on the audited financial statements.

The payment of remuneration is mainly conditioned by the consolidated total income for the reporting period. The performance of the Chairman and members of the Management Board is assessed using the motivational key performance indicators to be developed through KEGOC strategic goals cascading by specific indicators on business processes/areas of KEGOC operations in the form of KPI maps. The right to remuneration for the year-end results are owned by the members of the Management Board who actually worked during the reporting period not less than five (5) months, based on the KPI achievements for the reporting period. The maximum remuneration for the planned period is approved by the Board of Directors.

Thus, the total amount paid in 2018 to the members of the Board of Directors and the Management Board of KEGOC amounted to approximately KZT 346 million (KZT 372 million in 2017).

INTERNAL AUDIT SERVICE

Since 2006 the Company has had efficient Internal Audit Service (IAS or the Service) consisting of eight qualified auditors whose mission is to provide necessary support to the Board of Directors and the Management Board of KEGOC in performance of their duties to achieve the strategic objectives of the Company. The main objective of the Service is to provide the Board of Directors with independent and objective information to secure efficient management of the Company by applying a system approach to improving the risk management, internal control and corporate governance systems.

All audit engagements in 2018 were planned with respect to the mission and the main objective of the Service. The risk-based approach was used to plan the internal audit, i.e. the priority was given to the business processes that are most vulnerable to negative events.

The annual audit plan of the Service for 2018 envisages the fulfilment of 18 engagements. The audit engagements covered the comprehensive inspections of the Company's branches, audit of business processes relating to functioning of bank payment systems, reflecting bank operations in the accounting system, crediting, payment and accounting of wages as well as assessment of efficiency of annual inventory of accounts payable/receivable, procurement of the Company, risk management, information technology, projects, etc. All engagements have been performed.

Under implementation of the instruction of Samruk-Kazyna's Audit Committee, as well as the initiative of the Fund's Internal Audit Service relating to synergistic audits at the Fund's group of companies, the Service in 2018 took part in the audit engagement 'Audit of Automatic Control System for Technological Processes and IT at KazMunayGas Branch, Atyrau Oil Refinery'.

In addition, the Service participated in the Audit of Business Transformation Programme implementation at Samruk-Kazyna group of companies, conducted by the Fund's Internal Audit Service.

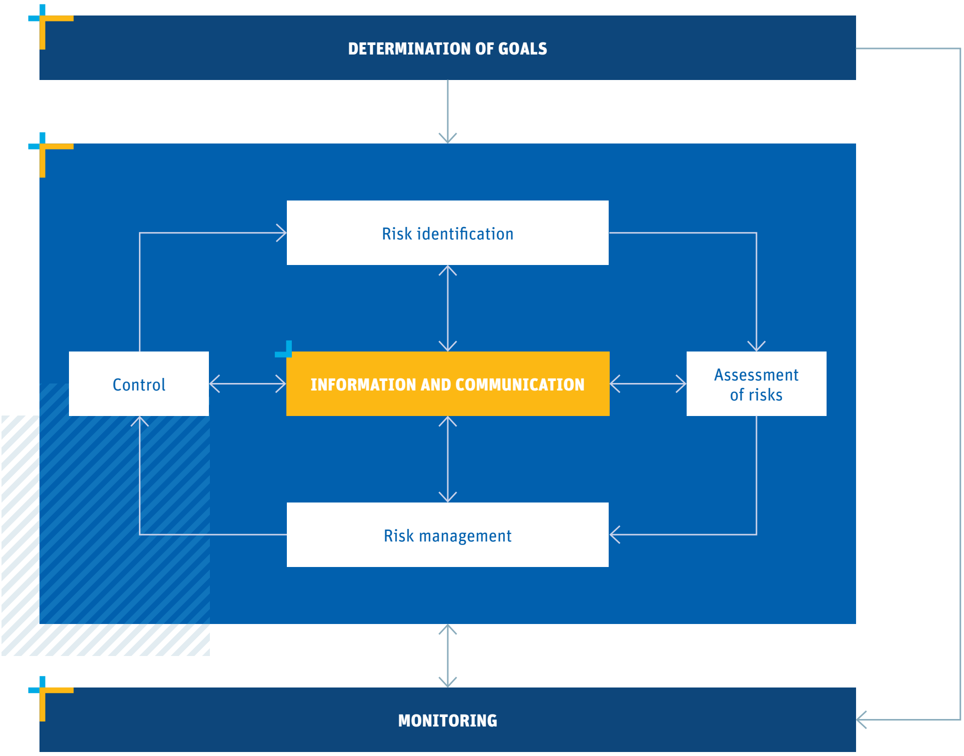
In 2018 the Service also conducted an investigation of four appeals submitted to the Audit Committee. Based on the investigation results, the Audit Committee gave relevant recommendations to KEGOC's Management Board.

RISK MANAGEMENT AND INTERNAL CONTROL

Since 2007 KEGOC has successfully implemented and been operating the risk management system formed on the basis of generally accepted conceptual models of risk management developed by the Committee of Sponsoring Organizations of the Treadway Commission – COSO ERM 'Risk Management. Integrated model (COSO)' and requirements of Samruk-Kazyna.

The corporate risk management system (CRMS) is a key component of the corporate governance system aimed at timely identification of risks, their evaluation and development of risk management measures that could adversely affect the achievement of strategic and operational objectives of KEGOC.

Risk management process



The objective of the current corporate risk management system (CRMS) is to ensure continuity and stability of operations through hedging the influence of internal and external adverse effects on KEGOC's activity.

The main principles of the risk management system are:

- engagement of KEGOC's executives in risk management;
- continuous improvement of the risk management system;
- continuous learning and knowledge sharing by the Company employees in risk management sphere;
- transparency and integrity in submitting reports and risk escalation.

The risk management involves the Board of Directors, the Management Board, the Internal Audit Services, structural units — the risk owners and the structural unit responsible for risk management.

Also, the Risks Committee, which is responsible for preparation of risk management recommendations to KEGOC's Management Board, performs its functions. In 2018, the Committee held 13 meetings.

KEGOC in its operations takes into account a wide range of business-related risks in categories: strategic risks, financial risks, operational risks, legal and compliance risks. Following the risks identification and assessment, 51 risks were included into the Company's Risk Register for 2019. Risk management measures were developed, and risk owners were identified for each risk. The dynamics of key risks and implementation of measures for their mitigation are monitored on a regular basis by quarterly reporting of risks to the Management Board and the Board of Directors of the Company.

The material risks which KEGOC incurred in 2018

Key Risk	Risk management
The risk of work-related accidents	During the Company activities the personnel is exposed to the accidental risk during operations as a result of safety or traffic regulations violation. The risk to be mitigated, KEGOC trains drivers on the basics of traffic rules, prepares and provides videos and slides to MES branches to raise awareness of the personnel for their own safety at the work place, provides video recording of operational switching and repairing works to detect violations with regard to the occupational health and safety with further elaboration of measures thereon, conducts inspections of the technical conditions, operation of power networks, work and fire safety to detect violations, ensures the conduction of facilities certification for working conditions in branches by qualified organizations, studies and analyses the foreign and local companies' practices on occupational and environmental safety.
Currency risk	Fluctuation of the exchange rates of USD and other currencies to tenge can have a negative effect on the Company's business, its financial standing and performance. The Company's revenues are in tenge and the major part of its loan proceeds and interest expenses are in USD and euro. That is why the growth of the market exchange rates of USD and(or) EUR to KZT can decrease the Company's revenue as compared to its expenses and affect its performance. In order to regulate the currency risk KEGOC holds its funds on deposits in foreign currency. Thus, the deposit accounts as of 31 December 2018 hold USD 46.29 million (KZT 17,715,898 thousand), which would secure the debt service for 2 years.
Asset failure risks	This risk can be caused by natural hazards, damage or depreciation of SS equipment and transmission lines, erroneous actions of personnel, acts of unauthorised persons and other factors not related to available defects on electric grid facilities. For the purpose to regulate the assets failure risk, KEGOC performs repair and maintenance works on power grid facilities in accordance with the requirements of regulatory documents, identifies and eliminates defects during the operation process, if required rehabilitates and upgrade assets, trains personnel on repair methods and technologies at advanced training courses, works with population and organizations on observance of Rules establishing buffer zones for electric grid facilities and special conditions for land use located in the borders of such zones.

The Company's Internal Audit Service on an annual basis conducts an assessment of the CRMS performance.

The Internal Control System (ICS) of KEGOC allows the Company to build the management system capable to promptly response to risks, control the main and supporting business processes and daily operations, as well as immediately inform the executives of the appropriate level of any material deficiencies and areas to improve.

In accordance with the Regulations on arrangement and performance of works on the Internal Control System of KEGOC, the competences of units included in ICS is differentiated depending on their role in the processes of development, approval, implementation and assessment of ICS performance. ICS participants are the Board of Directors, the Management Board, Audit Committee, Internal Audit Service, the business units – owners of business processes, control procedures performers, and a structural unit responsible for risk management.

In 2018, in order to improve ICS, the Board of Directors of KEGOC approved amendments to the Regulations on arrangement and performance of works on the Internal Control System of KEGOC.

Under the independent corporate governance diagnostics of KEGOC conducted in 2017-2018, Samruk-Kazyna together with PwC evaluated the efficiency of RMS and ICS. Based on the diagnostics results the component 'Risk Management and Internal Control' was rated at BB, i.e. as corresponding in all material respects to the majority of established criteria.

INFORMATION POLICY

In 2018, KEGOC continued to implement the information policy following the principles of equitable, complete, fair and prompt disclosure of information to shareholders, investors and other stakeholders.

KEGOC actively interacts with the investment community, so in 2018, in addition to timely disclosure of information on KEGOC activities affecting the interests of shareholders and investors, the Company held activities ('Issuer Day') at the Kazakhstan Stock Exchange (KASE) to discuss the results of operation and business activities for 2017 and H1 2018 with the participation of representatives of key investment companies of the Republic of Kazakhstan, experts of the securities market and the media.

To ensure an 'investment image', KEGOC pursues a constructive dialogue between KEGOC and market experts, the negotiation process and interaction with investors, provision of information and analytical data for investors, and development of trusting relations between shareholders and investors, and the management.

To execute the rights of shareholders and provide high efficiency and availability of essentially important information for users, KEGOC ensured the publication of materials in the mass media, on the corporate website and the Company's pages in the social media Facebook and Twitter about the Company's operating and financial activities, the meeting of the CIS Electric Power Council held at KEGOC's headquarters and launch of the largest infrastructure project in the power sector — North-East-South 500 kV Electricity Transmission Construction Project during the national teleconference with the head of the state.

Also, in order to deliver the information about investment activity and implementation of state programs, KEGOC arranged interviews and public speaking of the Company management through briefings, industry specialized exhibitions, forums and other rating increase promotions, in particular, the Central Communications Service held a briefing of KEGOC's Management Board Chairman Bakytzhan Kazhiyev titled 'Power Industry: New Technologies — New Opportunities'.

To ensure the comprehensive rating assessment of main target groups awareness of operations and overall transparency of KEGOC before shareholders and other concerned parties of KEGOC among stakeholders, as well as to evaluate the information transparency and reveal the information disclosure efficiency, in 2018 an independent party conducted a reputation audit. The report delivered among population, personnel of KEGOC and experts (representatives of central and local government bodies, employees of financial organizations, representatives of the industry and business) contains information on transparency, perception of KEGOC's operations and efficiency of processes regulating information disclosure and significantly influencing KEGOC's image. The reputation audit results show the overall favourable perception of KEGOC. The report contains recommendations on improvement/correction of KEGOC's business reputation. Thus, in the reporting year the Company's reputation score made 80.4%, showing the growth of all main reputation parameters.

When disclosing information, KEGOC remains guided by protection of the information constituting commercial, official and other secret protected by the laws, as well as information of limited distribution.

APPENDIX 1

KEGOC’S SUBSIDIARIES

ENERGOINFORM JSC

The mission is to ensure reliable operation and effective development of information and telecommunication system of the unified power system (UPS) of Kazakhstan using the world’s best practices and innovative technologies. The sole shareholder is KEGOC.

The core operations: maintenance of information telecommunication complex of KEGOC, including commercial metering system, SCADA, balancing electricity market, information management system, PLC, radio relay links, satellite communication, guaranteed power supply, branch exchange, fibre optic links, fire and security alarm systems and corporate services.

The charter capital of EnergoInform is KZT 2,179.700 million. The number of issued shares is 700,000; the nominal value of one share is KZT 10,000. The number of the placed shares is 217,970.

The revenues of the Company in 2018 amounted to KZT 4,260.3 million, including operating income — KZT 4,150.7 million. Compared to 2017 the revenues increased by 10.8% or 416 million.

Following the 2018 performance the net income amounted to KZT 412.975 million, which is higher than in 2017 (KZT 273.1 million) by KZT 139.8 million or 51.2%.

FINANCIAL SETTLEMENT CENTRE FOR RENEWABLE ENERGY SOURCES SUPPORT LLP

The Financial Settlement Centre for Renewable Energy Sources Support (FSC RES) was established in accordance with the decision of the Board of Directors of KEGOC dated 12 August 2013 and registered in the Saryarka Justice Administration under Nur-Sultan Justice Department on 27 August 2013.

Kazakhstan Energy Minister Order No. 256 dated 31 March 2015 ‘On determination of Financial Settlement Centre for Renewable Energy Sources Support’ determined FSC RES LLP.

The core activity is to ensure the centralised purchase and sale of the electricity produced by renewable energy facilities and delivered to the electric networks of Kazakhstan UPS.

KEGOC is the only founder and sole partner.

As of 31 December 2018, FSC RES concluded 114 contracts with RES participants. In 2018 FSC RES sold electricity generated by RES entities to conventional consumers to the amount of 779.3 million kWh.

The total income of FSC RES based on 2018 results amounted to KZT 21,232.1 million, which is by KZT 5,756.3 million or 37.2% higher than in 2017. Expenses amounted to KZT 21,161.7 million exceeding 2017 by 40.3%. Net income based on 2018 results amounted to KZT 56.2288 million (vs. plan — KZT 174,278.7 million), which is KZT 261.2 million or 82.3% lower than in 2017.

Subsidiaries have no significant influence on KEGOC’s performance.

APPENDIX 2

KEGOC'S CORPORATE EVENTS CALENDAR FOR 2019

№	Corporate events	Periods (date, month)
1	Extraordinary General Meeting of KEGOC's Shareholders	8 January 2019
2	Report to consumers on KEGOC's activities on rendering regulated services	by 1 May 2019
3	Annual General Meeting of Shareholders of KEGOC	by 31 May 2019
4	Provision of financial statements for 2018 to the Kazakhstan Stock Exchange	by 31 May 2019
5	Provision of financial statements for Q1 2019 to the Kazakhstan Stock Exchange	by 15 May 2019
6	Provision of annual report for 2018 to the Kazakhstan Stock Exchange	by 31 July 2019
7	Provision of financial statements for Q2 2019 to the Kazakhstan Stock Exchange	by 14 August 2019
8	Provision of financial statements for Q3 2019 to the Kazakhstan Stock Exchange	by 14 November 2019

***actual dates and the nature of the events may vary irrespective of the best efforts of KEGOC.**

APPENDIX 3

INFORMATION ON COMPLIANCE WITH KEGOC'S CORPORATE GOVERNANCE CODE PROVISIONS IN 2018

KEGOC observes the Corporate Governance Code principles and plans to further focus on the issues of corporate governance, sustainable development, risk management system, internal control, strategic and business planning, etc.

On 28 February 2019, the Board of Directors reviewed the Report on compliance/non-compliance with the principles and provisions of KEGOC's Corporate Governance Code for 2018. The complete report is available at: https://www.kegoc.kz/sites/default/files/content-manager/informaciya_o_soblyudenii_nesoblyudenii_kodeksa_korporativnogo_upravleniya.pdf

In accordance with the Corporate Governance Code, below are clarifications given on partial compliance with one of the provisions.

Code Provisions №	Principles of KEGOC's Corporate Governance Code	Complied/ Not complied/ Partially complied	Information on compliance/ non-compliance with the principles
	The Company shall have a sustainable development management system that includes, but is not limited to, the following elements: 1. commitment to the sustainable development principles at the level of the Board of Directors, the executive body and employees; 2. analysis of the internal and external situation by three components (economy, environment and social issues); 3. identification of the sustainable development risks in social, economic and environmental areas; 4. building a stakeholder map; 5. defining the sustainable development goals and KPI, development of an action plan and determination of responsible people; 6. integration of the sustainable development into the key processes, including risk management, planning, human resources management, investments, reporting, operational activities, etc., as well as the development strategy and decision-making processes (to be improved); 7. training of the officials and employees on sustainable development (to be improved); 8. regular monitoring and evaluation of the sustainable development activities, evaluation of the achievement of goals and KPI, taking corrective measures, introducing the culture of continuous improvements. The Company's Board of Directors and the executive body shall ensure the formation of a proper sustainable development system and its implementation. All employees and officials at all levels contribute to sustainable development. Holding companies are responsible for sustainable development principles implementation in the whole group.	Partially complied	6. In 2019, the Company plans to work more effectively to integrate the sustainable development areas with main management systems: corporate governance, risk management, internal control, strategic and business planning, etc. In addition, for the purpose of integrating the sustainable development into the Company's investment activity, among other objectives, according to the approved schedule, in 2019 it is planned to implement the Technical Policy of the Company considering also the requirements on energy-saving and improvement of energy efficiency during development of documents on investment activity. 7. In future the Company plans to improve the sustainable development qualification of the members of the Board of Directors and newly hired employees. For the purpose of ensuring its business sustainable development transparency for stakeholders, KEGOC annually develops and publishes the sustainability report. KEGOC's Sustainability Report 2018 will be published in July 2019.

APPENDIX 4

CONSOLIDATED FINANCIAL STATEMENTS

AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018 WITH INDEPENDENT AUDITOR'S REPORT

The audit services for external audit of KEGOC's financial statements for 2016-2018 were procured in accordance with Clause 139 of the Rules for Procurement of Goods, Works and Services by Samruk-Kazyna Sovereign Wealth Fund JSC and organizations of which Samruk-Kazyna holds directly or indirectly fifty or more per cent of shares (equity interest) either in ownership or under trust management, upon approval by the Audit Committee of KEGOC's Board of Directors. The contract was concluded with independent auditing organization Ernst and Young LLP, the member of the Chamber of Auditors of the Republic of Kazakhstan auditing KEGOC's financial statements since 2012.

For the purpose of preserving the independence and according to the External Audit Policy of the Company, if one audit organization carries out an audit during five successive years, the audit partner shall be changed. The last change of the audit partner was made in 2014. The total amount of audit service fee made KZT 138,656,000 for 3 years including VAT.

Building a better working world

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

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

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

Independent auditor's report

To the Shareholders, Audit Committee and management of Kazakhstan Electricity Grid Operating Company JSC

Opinion

We have audited the consolidated financial statements of Kazakhstan Electricity Grid Operating Company JSC and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Key audit matters

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

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

EY
Building a better working world

Key audit matters	*How our audit addressed the key audit matters*
Revaluation of NES assets	
The Group uses revaluation model as an accounting policy in respect of National Electric System assets (further - "NES assets"). The Group engaged independent appraiser to determine the fair value of NES assets as at 1 October 2018. Revaluation of NES assets is a key audit matter due to the significance of the carrying value of NES assets and judgement involved in the assessment of the fair value of these assets. The judgment relates to the valuation methodologies used and the assumptions included in each of those methodologies. The Group's disclosure in respect of the revaluation of NES assets is included in *Notes 4* and *6* to the consolidated financial statements.	We assessed the competence, objectivity and independence of the external appraiser used by the Group. We reviewed the valuation reports and assessed the valuation approach. We compared the list of NES assets in the fixed asset register to the list of assets being valued by the external appraiser. We compared input data used by the external appraiser, such as development plan approved by the management, projected tariffs and volumes of electricity with internal sources of data. We engaged our internal valuation specialists to assess underlying assumptions and valuation methods applied. We compared tariffs for services used in the calculation of recoverable amount to tariffs approved by the authoritative body. We compared the discount rate and long-term growth rate to general market indicators and other available evidence. We tested the mathematical integrity of the cash flows models and assessed the sensitivity analysis. We analyzed the accounting entries made in the financial statements in respect of the revaluation. We assessed the disclosure in consolidated financial statements in respect of revaluation.

Building a better working world

Recoverability of funds placed with "Eximbank Kazakhstan" JSC	
The measurement of funds held with "Eximbank Kazakhstan" JSC is one of the key audit matters due to the significance of amount, management judgement involved and financial difficulties that "Eximbank Kazakhstan" JSC faced. On 27 August 2018 on the basis of the Resolution of the Board of the National Bank of the Republic of Kazakhstan it was decided to revoke the Bank's license for accepting deposits and opening bank accounts of individuals. The Group's disclosure in respect of the measurement of financial assets is included in *Notes 4* and to the consolidated financial statements.	We analyzed available information related to financial situation of "Eximbank Kazakhstan" JSC, additional clarifications received from the Group's management and assessed the management assumptions used in measurement of assets placed with "Eximbank Kazakhstan". In addition, we analyzed management assumptions used in the determination of the amount of impairment allowance in respect of these financial assets related to alternative methods of the their recovery. We assessed the information disclosed in the consolidated financial statements in respect of the funds placed with "Eximbank Kazakhstan" JSC.

Other information included in the Group's 2018 Annual report

Other information consists of the information included in the Annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

The Group's 2018 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

EY
Building a better working world

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

EY
Building a better working world

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

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

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

Ernst & Young LLP

Adil Syzdykov Auditor	Gulmira Turmagambetova General Director Ernst & Young LLP
Auditor Qualification Certificate No. МФ - 0000172 dated 23 December 2013	State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2, No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

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

28 February 2019

A member firm of Ernst & Young Global Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

In thousands of Tenge	Notes	31 December 2018	31 December 2017
Assets			
Non-current assets			
Property, plant and equipment	6	**667,936,367**	535,294,178
Intangible assets		**1,472,307**	1,038,637
Advances paid for non-current assets	6	**1,018,989**	742,325
Deferred tax asset	26	**3,760**	2,252
Investments in associate	7	**1,107,867**	782,081
Long-term receivables from related parties	27	**929,162**	1,009,981
Other financial assets, non-current portion	11	**25,609,268**	1,091,823
Other non-current assets		**4,017**	17,129
		698,081,737	**539,978,406**
Current assets			
Inventories	8	**2,291,378**	1,875,434
Trade accounts receivable	9	**9,251,847**	7,764,693
VAT recoverable and other prepaid taxes		**791,934**	961,745
Prepaid income tax		**1,541,679**	1,584,041
Other current assets	10	**528,622**	652,589
Other financial assets, current portion	11	**20,127,229**	25,107,392
Restricted cash	12	**4,175,576**	3,445,617
Cash and cash equivalents	13	**19,060,700**	47,577,783
		57,768,965	**88,969,294**
Total assets		**755,850,702**	**628,947,700**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2018

In thousands of Tenge	Notes	31 December 2018	31 December 2017
Equity and liabilities			
Equity			
Share capital	14	126,799,554	126,799,554
Treasury shares	14	(930)	(930)
Asset revaluation reserve	14	310,840,187	220,858,720
Other reserves	14	(37,081)	(170,701)
Retained earnings		35,092,074	26,680,917
		472,693,804	374,167,560
Non-current liabilities			
Borrowings, non-current portion	15	62,881,150	64,229,182
Bonds payable, non-current portion	16	83,660,104	83,649,023
Deferred tax liability	26	90,170,202	66,666,573
Trade and other accounts payable, non-current portion	17	–	298,327
Government grant, non-current portion		89,972	100,786
Finance lease obligations, non-current portion	27	157,175	8,961
		236,958,603	214,952,852
Current liabilities			
Borrowings, current portion	15	11,420,710	9,502,895
Bonds payable, current portion	16	4,097,122	4,407,719
Trade and other accounts payable, current portion	17	22,645,297	18,763,337
Construction obligation	18	683,430	683,430
Contract liabilities		1,734,670	2,048,415
Government grant, current portion		30,430	27,487
Finance lease obligations, current portion	27	36,323	3,996
Taxes payable other than income tax	19	2,144,441	958,525
Income tax payable		1,123	5,385
Dividends payable		2,750	87
Other current liabilities	20	3,401,999	3,426,012
		46,198,295	39,827,288
Total liabilities		283,156,898	254,780,140
Total equity and liabilities		755,850,702	628,947,700
Book value per ordinary share (in Tenge)	14	1,812	1,435

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

In thousands of Tenge	Notes	2018	2017
Revenue from contracts with customers	21	175,797,386	152,379,817
Cost of sales	22	(105,840,194)	(89,399,369)
Gross profit		**69,957,192**	**62,980,448**
General and administrative expenses	23	(14,937,698)	(13,142,395)
Selling expenses		(284,688)	(246,651)
Gain from revaluation of property, plant and equipment	6	3,342,507	–
Reversal of / (loss from) impairment of property, plant and equipment	6	266,291	(196,982)
Operating profit		**58,343,604**	**49,394,420**
Finance income	24	4,951,337	3,593,207
Finance costs	24	(3,862,511)	(4,523,948)
Foreign exchange loss, net	25	(5,865,654)	(4,356,244)
Share in profit of an associate	7	325,786	477,127
Expenses from impairment of funds placed with Delta Bank JSC and Kazinvestbank JSC		–	(2,241,155)
Accrual of provision for expected credit losses		(2,931,750)	–
Other income		334,637	506,849
Other expenses		(270,638)	(208,562)
Profit before tax		**51,024,811**	**42,641,694**
Income tax expense	26	(10,981,936)	(9,760,378)
Profit for the year		**40,042,875**	**32,881,316**
Earnings per share			
Basic and diluted profit for the year attributable to common shareholders of the parent (in Tenge)	14	154.01	126.47
Profit for the year		**40,042,875**	**32,881,316**
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Gain from revaluation of property, plant and equipment		113,259,316	–
Income tax effect		(22,651,864)	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods, net of tax		**90,607,452**	**–**
Other comprehensive income for the year, net of tax		**90,607,452**	**–**
Total comprehensive income for the year, net of tax		**130,650,327**	**32,881,316**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

In thousands of Tenge	Notes	2018	2017
Operating activities			
Profit before tax		**51,024,811**	42,641,694
Adjustments to reconcile profit before tax to net cash flows			
Depreciation and amortisation		**26,755,934**	22,935,831
Finance costs	24	**3,862,511**	4,523,948
Finance income	24	**(4,951,337)**	(3,593,207)
Foreign exchange loss, net	25	**5,865,654**	4,356,244
(Reversal)/accrual of allowance for obsolete inventories	23	**(398,750)**	86,128
Gain from revaluation of property, plant and equipment	6	**(3,342,507)**	–
(Reversal of impairment) / impairment of property, plant and equipment	6	**(266,291)**	196,982
Accrual of provision for expected credit losses		**2,931,750**	–
Share in profit of an associate	7	**(325,786)**	(477,127)
Income from government grants		**(28,468)**	(9,162)
Loss from disposal of property, plant and equipment and intangible assets		**168,174**	21,978
Interest income from other financial assets		**–**	(30,248)
Expenses from impairment of funds, placed in Delta Bank JSC and Kazinvestbank JSC		**–**	2,241,155
Reversal of allowance for doubtful accounts receivable and impairment of other current assets	23	**–**	(1,044,203)
Working capital adjustments			
Change in inventories		**(17,194)**	(259,801)
Change in trade accounts receivable		**(1,915,564)**	9,013,514
Change in other trade accounts receivable and advances paid		**310,559**	–
Change in VAT recoverable and other prepaid taxes		**178,286**	(652,080)
Change in other current assets		**–**	(199,879)
Change in trade and other accounts payable		**989,715**	1,065,361
Change in contract liabilities		**(313,745)**	1,005,890
Change in taxes payable other than income tax		**1,197,834**	(2,381,704)
Change in other current liabilities		**(27,047)**	451,170
Cash flows from operating activities		**81,698,539**	**79,892,484**
Interest paid		**(2,987,933)**	(4,186,436)
Coupon interest paid		**(9,209,500)**	(8,835,000)
Income tax paid		**(9,502,696)**	(10,467,054)
Interest received		**4,315,484**	5,436,517
Net cash flows received from operating activities		**64,313,894**	**61,840,511**

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2018

In thousands of Tenge	Notes	2018	2017
Investing activities			
Withdrawal of bank deposits		**36,509,577**	97,295,695
Replenishment of bank deposits		**(27,404,147)**	(64,311,770)
Acquisition of bonds of Samruk-Kazyna	11	**(25,545,272)**	–
Acquisition of debt securities (National bank notes)		**(5,356,676)**	–
Redemption of debt securities (National bank notes)		**5,400,000**	–
Change in restricted cash		**(310,921)**	13,165,083
Reclassification of cash to other financial assets		**(2,860,231)**	(1,299,715)
Gain from sale of property, plant and equipment and intangible assets		**203,960**	215,161
Purchase of property, plant, equipment		**(32,977,830)**	(53,999,831)
Purchase of intangible assets		**(336,653)**	(410,278)
Return of project funds used to purchase fixed assets	6	**267,056**	–
Repurchase of DSFK bonds by the issuer	11	**12,971**	–
Repayment of loans to employees		**7,716**	10,406
Net cash flows used in investing activities		**(52,390,450)**	**(9,335,249)**
Financing activities			
Dividends paid		**(31,368,769)**	(19,897,651)
Repayment of borrowings		**(9,217,048)**	(53,433,954)
Issue of bonds		**–**	36,271,080
Net cash flows used in financing activities		**(40,585,817)**	**(37,060,525)**
Net change in cash and cash equivalents		**(28,662,373)**	**15,444,737**
Effect of exchange rate changes on cash and cash equivalents		**154,386**	77,668
Effect of accrual of provision on expected credit losses on cash and cash equivalents	13	**(9,096)**	–
Cash and cash equivalents, as at 1 January	13	**47,577,783**	32,055,378
Cash and cash equivalents, as at 31 December	**13**	**19,060,700**	**47,577,783**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

In thousands of Tenge	Share capital	Asset revaluation reserve	Treasury shares	Other reserves	Retained earnings	Total
As at 1 January 2017	**126,799,554**	**220,890,374**	**(930)**	**(170,701)**	**14,565,773**	**362,084,070**
Profit for the year	–	–	–	–	32,881,316	32,881,316
Total comprehensive income	**–**	**–**	**–**	**–**	**32,881,316**	**32,881,316**
Dividends (Note 14)	–	–	–	–	(19,897,694)	(19,897,694)
Transactions with shareholders	–	–	–	–	(900,132)	(900,132)
Transfer of asset revaluation reserve (Note 14)	–	(31,654)	–	–	31,654	–
As at 31 December 2017	**126,799,554**	**220,858,720**	**(930)**	**(170,701)**	**26,680,917**	**374,167,560**
Effect of adoption of 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 year	–	–	–	–	40,042,875	40,042,875
Gain from revaluation of property, plant and equipment, net of tax (Note 6)	–	90,607,452	–	–	–	90,607,452
Total comprehensive income	**–**	**90,607,452**	**–**	**–**	**40,042,875**	**130,650,327**
Transfer of asset revaluation reserve (Note 14)	–	(625,985)	–	–	625,985	–
Dividends (Note 14)	–	–	–	–	(31,371,432)	(31,371,432)
Amortization of provision for bonds (Note 14)	–	–	–	133,620	–	133,620
As at 31 December 2018	**126,799,554**	**310,840,187**	**(930)**	**(37,081)**	**35,092,074**	**472,693,804**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL INFORMATION

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

As at 31 December 2018 the Company's major shareholder was Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna") (90 percent plus one share). Samruk-Kazyna is controlled by the Government of the Republic of Kazakhstan.

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

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

1. GENERAL INFORMATION (continued)

As of 31 December 2018 and 31 December 2017 the Company has stakes in the following companies:

Companies	Activities	Percentage of ownership 31 December 2018	Percentage of ownership 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 hereafter referred as the "Group".

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

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

These consolidated financial statements were authorised for issue by the Chairman of the Management Board and Chief Accountant of the Company on 28 February 2019.

2. BASIS OF PREPARATION

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

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

2. BASIS OF PREPARATION (continued)

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The Group applies, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments that require restatement of comparative information. The nature and effects of the changes as a result of adoption of these new accounting standards are described below. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 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 the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. The Group elected to apply the standard to all contracts as at 1 January 2018.

The Group provides services for electricity transmission, technical dispatch and balancing of electricity production and consumption tariffs in Kazakhstan. The operations are realized through contracts with customers.

Due to regulation by the state, these contracts are typical, and as a result of entering into these agreements, KEGOC has only duties related to ensuring equal conditions for all consumers and provision of services. However, KEGOC does not have the authority to guarantee or negotiate special conditions. Despite the fact that the planned volumes of regulated services rendered by KEGOC are fixed by the annex to the concluded contracts, the actual figures may significantly differ from the contractual ones, therefore KEGOC 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

Therefore, KEGOC 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 does 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, except from 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 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018. IFRS 9 brings together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Group has applied IFRS 9 on a retrospective basis considering summary influence of initial adoption of the standard in the form of adjustment of retained earnings residual value on the opening balance on 1 January 2018 that includes the date of its first adoption.

The effect of adopting IFRS 9 on the 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 liabilities	
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 expected credit losses for all financial assets not held at fair value through profit and loss.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

NEW AND AMENDED STANDARDS AND INTERPRETATIONS (continued)

IFRS 9 Financial Instruments (continued)

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.

(a) Classification and measurement

According to IFRS 9, the Group initially measures financial assets at fair value, increased by the amount of transaction costs in the case financial assets are not measured at fair value through profit or loss.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss, at amortized cost, or at fair value through other comprehensive income. The classification depends on two criteria: the business model used by the Group to manage financial assets; and whether the contractual cash flows on financial instruments are "exclusively payments in respect of the principal amount of the debt and interest on the outstanding portion of the principal amount".

According to new requirements, the Group classifies and evaluates debt financial assets as follows:

Debt instruments are valued at amortized cost if financial assets are held under a business model whose purpose is to withhold financial assets to obtain contractual cash flows that are solely payments on the principal amount and interest on the outstanding part of the principal amount. The Group includes in this category trade and other receivables and bank deposits.

The Group lacks financial assets considered at fair value through OCI.

(b) Impairment

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 a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to recognize an provision for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Expected credit losses are calculated as the difference between the cash flows owed to the organization in accordance with the contract and all cash flows that the Group expects to receive. The shortfall is then discounted at a rate approximately equal to the initial effective interest rate for the asset.

(b) Impairment (continued)

In respect of contractual assets and trade and other receivables, the Group applied the simplified standard approach and calculated the expected credit losses over the entire term. The Group used a matrix of estimated reserves, based on its past experience in incurring credit losses adjusted for factors specific to borrowers and general economic conditions.

In the case of other debt financial assets (bank deposits), expected credit losses are calculated for twelve months. The twelve-month expected credit losses are part of the expected credit losses over the entire term, which are expected credit losses that arise as a result of defaults on the financial instrument, possible within 12 months after the reporting date. However, in the event of a significant increase in the credit risk of a financial instrument since its initial recognition, the estimated loss allowance is estimated at an amount equal to the expected credit losses over the entire term.

The Group believes that a default has occurred on a financial asset if payments under the contract are delayed by 90 days. However, in certain cases, the Group may also conclude that the financial asset was defaulted, if internal or external information indicates that it is unlikely that the Group will receive the full amount of the remaining payments provided for in the contract, without taking into account credit enhancement mechanisms withheld Group.

The 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.

The following new standards and amendments became effective for the first time in 2018, but did not have an impact on the financial statements of the Group:

- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration;
- Amendments to IAS 40 Transfers of Investment Property;
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions;
- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts;
- Amendments to 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;
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards — deletion of short term exemptions for first-time adopters.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and amended standards and interpretations that are issued, but not yet effective, up to the date of the issuance of the Group's financial statements are described below. The Group intends to apply these new and amended standards and interpretations, if applicable, when they become effective.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC-15 Operating Leases — Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees — leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain event (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain exemptions.

The Group plans to apply a modified retrospective approach to IFRS 16 to each previous reporting period. It has decided to apply the standard to contracts that were identified as contracts under IAS 17 and Interpretations IFRIC 4. Therefore, the Group will not employ the standard to the contracts that were not identified as containing the characteristics of lease in accordance to IAS 17 and Interpretations IFRIC 4.

The Group has decided to employ the exemptions considered in standard for leases with a lease term of no more than 12 months at the date of initial application, as well as leases for which the underlying asset is of low value. The Group has leases for certain types of office equipment (for example, personal computers, printing and photocopying equipment), the cost of which is considered to be low.

In 2018, standards were also issued that had not yet entered into force at the date of issue of the Group's financial statements. The Group intends to apply these standards, amendments and clarifications, if applicable, from the date of their entry into force.

- IFRS 17 Insurance Contracts;
- Clarification of IFRIC 23 Uncertainty about the Rules for Calculating Income Tax;
- Amendments to IFRS 9 Conditions for Early Repayment with Potential Negative Compensation;
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets in Transactions between an Investor and its Associate or Joint Venture;
- Amendments to IFRS 19 Changes to the Program, Reduction of the Program or Repayment of Obligations under the Program;
- Amendments to IFRS 28 Long-term Investments in Associates and Joint Ventures.

Annual improvements of IFRSs, the period 2015-2017 (released in December 2017)

Annual improvements to IFRS were issued in December 2017. The Group does not expect these amendments to have any impact on its consolidated financial statements. These improvements include the following amendments:
- IFRS 3 Business Combinations;
- IFRS 11 Joint Ventures;
- IAS 12 Income Taxes;
- IAS 23 Borrowing Costs.

CURRENT VERSUS NON-CURRENT CLASSIFICATION

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:
- Expected to be realized or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 (twelve) months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 (twelve) months after the reporting period.

All other assets are classified as non-current.

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

The Group classifies all other liabilities as non-current.

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

FAIR VALUE MEASUREMENT

The Group measures financial instruments, such as, available for sale (“AFS”) financial assets at fair value at each reporting date, and non-financial assets (NES assets) at fair value when fair value differs materially from their carrying value. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 28.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FAIR VALUE MEASUREMENT (continued)

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

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

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.
All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

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

At each reporting date, the finance management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the finance management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The finance management, in conjunction with the Group's external values, also compares each the changes in the fair value of each asset of revalued class of property, plant and equipment in accordance with Group accounting policy with relevant external sources to determine whether the change is reasonable.

The finance management and external values discusses the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

FOREIGN CURRENCY TRANSACTIONS

The Group's consolidated financial statements are presented in Tenge ("KZT"), which is also the parent Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date.

All differences arising on settlement or translation of monetary items are recognized in consolidated statement of comprehensive income with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss.

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

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

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

Exchange rate as at the end of the year (to KZT)	31 December 2018	31 December 2017
USD 1	**384.2**	332.33
EUR 1	**439.37**	398.23
RUR 1	**5.52**	5.77

Average exchange rate for the year (to KZT)	31 December 2018	31 December 2017
USD 1	**344.76**	326.08
EUR 1	**406.65**	368.65
RUR 1	**5.5**	5.59

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, except for NES assets, are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met.

When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

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

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

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

Buildings	60 years
NES assets	
Power transmission lines	50 years
Constructions	10-30 years
Machinery and equipment	12-30 years
Vehicles and other property, plant and equipment	
Other machinery and equipment	7-25 years
Vehicles	11 years
Computers and other data processing equipment	4-10 years
Furniture	7 years
Other property, plant and equipment	3-15 years

Land is not depreciated.

Due to changes in the National Classifier of Fixed Assets of the Republic of Kazakhstan effective from 1 January 2015 "NES Machinery and equipment" class has been separated from "NES assets" class. Therefore, the Group renamed "NES assets" into "NES assets" for the purposes of financial statements. The useful lives and residual values of property, plant and equipment are reviewed annually and, where applicable, adjustments are made on a prospective basis.

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

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

INTANGIBLE ASSETS

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets of the Group, excluding capitalised development costs, are not capitalised and expenditure is reflected in the profit and loss in the period in which expenditure is incurred.

Intangible assets of the Group consist primarily of licenses and software. Intangible assets are amortized on a straight-line basis over their estimated useful lives, generally from 3 to 20 years.

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

IMPAIRMENT OF NON-FINANCIAL ASSETS (continued)

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

INVESTMENTS IN ASSOCIATE

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

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

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

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

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate. When there has been a change recognized directly in the equity of the associate, the Group recognized its share of any changes, when applicable, in the consolidated statement of changes in equity.

Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying amount, then recognized the loss as 'Share in profit of an associate' in profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognized any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

FINANCIAL INSTRUMENTS – INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT

Financial assets

Initial recognition and measurement

The Group's financial assets include cash and cash equivalents, short-term and long-term deposits, restricted cash, other financial assets, trade and other accounts receivable, quoted and unquoted financial instruments.

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

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

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

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

A financial asset is measured at fair value through other comprehensive income if two criteria are met:
1. The purpose of the business model is to hold a financial asset both for obtaining all contractual cash flows and for selling a financial asset;
2. Contractual cash flows are represented only by interest payments and principal debt. The fee is a payment for the time value of money and the credit risk associated with the principal debt to maturity in a certain period of time.

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

Subsequent measurement

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS – INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT (continued)

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Measurement of expected credit loss

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

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

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

For financial instruments that include both a loan and an unused component of a loan commitment, the ability of the Group to claim repayment of the loan and cancel the unused component of a loan commitment does not limit the Group’s exposure to credit losses by the contractual deadline for filing a loan. For such financial instruments, the Group assesses credit losses over the entire period of exposure to credit risk, and expected credit losses will not decrease as a result of the Group’s credit risk management activities, even if such a period exceeds the maximum period under the contract.

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

Financial liabilities

Initial recognition and measurement

Financial liabilities at initial recognition are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings, and bonds issued.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of comprehensive income.

Trade and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

INVENTORY

Inventories are accounted for on a FIFO basis.

Inventories are valued at the lower of cost and net realizable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity till 3 (three) months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

RESTRICTED CASH

In accordance with loan agreements on projects financing signed with International Bank for Reconstruction and Development (the "IBRD") and European Bank for Reconstruction and Development (the "EBRD"), the Group opened bank escrow accounts, necessary for debt service. Cash, held on these bank accounts, can be used exclusively for the purposes of planned payments on interest and principal loan amounts. If cash is restricted in use for the period not exceeding 12 (twelve) months from the reporting date, such cash is treated as current asset and an appropriate disclosure is provided in the notes to the consolidated financial statements. If cash is restricted in use for the period exceeding 12 (twelve) months from the reporting date, such cash is reflected within non-current assets.

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income, net of any reimbursement.

REVENUE RECOGNITION

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

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

The Group, when recognizing revenue, takes the following steps:
1. Identification of the contract with the consumer;
2. Identification of the obligation to be executed under the contract;
3. Determination of transaction price;
4. Distribution of the transaction price between certain duties to be performed under the contract;
5. Recognition of proceeds at the time of (or as far as) the performance of the obligations to be performed under the contract.

Revenue from rendering of services is recognized by reference to the stage of completion. The Group receives its revenue from rendering of transmission services of electricity from power generators to wholesale and major customers, technical dispatching of the input of electricity into the energy system and consumption of electricity, organization of balancing of electricity producing and consumption and ensuring a contractual power supply with energy systems of neighbouring countries and other.

Tariffs for services of electricity transmission, technical dispatch, organization of balancing of production/consumption of electricity are approved by the Committee.

Revenues from providing a contractual power supply with energy systems of neighbouring countries are recognised in accordance with terms of contracts conducted on the basis of Agreement between the Government of Republic of Kazakhstan and Russian Federation On Measures Securing Parallel Operation of Unified Power Systems of the Republic of Kazakhstan and Russian Federation.

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in the consolidated statement of comprehensive income.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

LEASE

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

The Group as a lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance costs and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognised in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Operating lease payments are recognised as an operating expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

PENSION OBLIGATIONS

In accordance with the legislation of the Republic of Kazakhstan, the Group deducted 10% of employees' salaries, but no more than KZT 212,130 per month (2017: KZT 183,443) to accumulative pension funds. Pension fund payments are withheld from employees' salaries and included with payroll expenses in the consolidated statement of comprehensive income when they are incurred. The Group has no other retirement benefit obligations.

CURRENT INCOME TAX

Current income tax assets and liabilities for the current and previous periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

DEFERRED TAX

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

DIVIDENDS

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are approved before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosures, and the disclosure of contingent liabilities and assets. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

ESTIMATES AND ASSUMPTIONS

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

REVALUATION OF PROPERTY, PLANT AND EQUIPMENT

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

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

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

Fair value of NES assets was determined by using the cost approach. The cost approach has been used due to highly specialized nature of the assets and because there is no history of such assets ever being sold. Within cost approach, the method of determining the replacement cost or the cost of reproduction was used to calculate the total cost of replacement of fixed assets less all types of accumulated depreciation, as well as the method of calculation by analogues, the method of specific indicators and the method of indexation of past costs.

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

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

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

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

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

TAXES

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and benefit already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

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

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

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value reported in the consolidated financial statements.

Bonds DSFK

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

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

FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Bonds DSFK (continued)

Management of the Group believes that at 31 December 2018 DSFK bonds are non-recoverable. Accordingly, management of the Group believes that fair value of DSFK bonds is limited to their recoverable amount that is equal to the fair value of the guarantee. The Group does not hold the bonds for all contractual cash flows, so as at 31 December 2018, the bonds were classified as financial instruments at fair value through profit or loss. As at 31 December 2018, the Group revalued the fair value of the bonds at a discount rate of 11.2%, which represents the market discount rate as at 31 December 2018.

Samruk-Kazyna Bonds

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

5. OPERATING SEGMENTS INFORMATION

OPERATING SEGMENTS

For management purposes, the Group is organized into one business unit, operating a Kazakhstan electricity grid for rendering services of electricity transmission, technical dispatch of electricity supply to the network and consumption of electricity, balancing of electricity generation and consumption, sale of electricity produced from renewable energy sources in Kazakhstan. This operating segment represents the only reportable segment of the Group.

GEOGRAPHIC INFORMATION

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

In thousands of Tenge	2018	2017
Revenue from Kazakhstan customers	**165,451,444**	143,380,886
Revenue from Russian customers	**9,741,509**	8,533,164
Revenue from Uzbekistan customers	**561,066**	415,637
Revenue from Kyrgys customers	**43,367**	50,130
Total revenue per consolidated statement of comprehensive income	**175,797,386**	**152,379,817**

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

For the year ended 31 December 2018 the revenue from one customer, Samruk-Energo Group, including its joint-ventures, amounted to KZT 33,049,610 thousand, arising from transmission, technical dispatching and balancing services (for the year ended 31 December 2017: KZT 34,927,661 thousand).

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

In thousands of Tenge	Land	Buildings	NES assets	Vehicles and other property, plant and equipment	Construc-tion-in-progress	Total
Cost						
As at 1 January 2017	**1,539,573**	**13,768,082**	**819,098,860**	**37,636,022**	**53,698,670**	**925,741,207**
Additions	91,876	1,170	12,447	1,690,149	55,456,478	57,252,120
Transfers	106,109	43,137	25,626,002	112,966	(25,888,214)	–
Transfer to intangible assets	–	–	–	–	(5,922)	(5,922)
Disposals	–	(4,479)	(478,260)	(441,276)	(52,180)	(976,195)
As at 31 December 2017	**1,737,558**	**13,807,910**	**844,259,049**	**38,997,861**	**83,208,832**	**982,011,210**
Additions	16,727	–	5,022	1,724,727	40,872,762	42,619,238
Transfers	16,850	3,623,149	64,217,441	(6,272,225)	(61,585,215)	–
Revaluation surplus (OCI)	–	–	203,616,876	–	–	203,616,876
Revaluation (P&L)	–	–	5,084,250	–	–	5,084,250
Disposals	–	(6,529)	(488,177)	(606,139)	(33,074)	(1,133,919)
Transfer to intangible assets	–	–	–	(219,328)	(59,412)	(278,740)
Refunds on the project	–	–	(267,056)	–	–	(267,056)
As at 31 December 2018	**1,771,135**	**17,424,530**	**1,116,427,405**	**33,624,896**	**62,403,893**	**1,231,651,859**
Accumulated depreciation and impairment						
As at 1 January 2017	**–**	**(1,797,663)**	**(402,376,114)**	**(20,263,429)**	**(389,611)**	**(424,826,817)**
Charge for the period	–	(282,089)	(19,949,441)	(2,340,279)	–	(22,571,809)
Transfer	–	506	(6,372)	5,866	–	–
Disposals	–	2,939	392,823	432,438	50,376	878,576
Impairment	–	–	–	–	(196,982)	(196,982)
As at 31 December 2017	**–**	**(2,076,307)**	**(421,939,104)**	**(22,165,404)**	**(536,217)**	**(446,717,032)**
Charge for the period	–	(309,915)	(23,682,717)	(2,334,589)	–	(26,327,221)
Transfer	–	(1,623,546)	(1,444,752)	3,068,298	–	–
Revaluation surplus (OCI)	–	–	(90,357,560)	–	–	(90,357,560)
Revaluation (P&L)	–	–	(1,741,743)	–	–	(1,741,743)
Disposals	–	6,486	350,602	600,452	19,868	977,408
Transfer to intangible assets	–	–	–	184,365	–	184,365
Reversal of impairment	–	–	–	–	266,291	266,291
As at 31 December 2018	**–**	**(4,003,282)**	**(538,815,274)**	**(20,646,878)**	**(250,058)**	**(563,715,492)**
Net book value						
As at 1 January 2017	**1,539,573**	**11,970,419**	**416,722,746**	**17,372,593**	**53,309,059**	**500,914,390**
As at 31 December 2017	**1,737,558**	**11,731,603**	**422,319,945**	**16,832,457**	**82,672,615**	**535,294,178**
As at 31 December 2018	**1,771,135**	**13,421,248**	**577,612,131**	**12,978,018**	**62,153,835**	**667,936,367**

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

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

In thousands of Tenge	31 December 2018	31 December 2017
Cost	356,182,590	292,153,754
Accumulated depreciation	(101,947,870)	(93,709,808)
Net book value	**254,234,720**	**198,443,946**

As at 31 December 2018 and 2017 cost of fully amortised property, plant and equipment, which is still in use amounted to KZT 18,796,968 thousand and KZT 9,811,707 thousand, respectively.

CAPITALIZED COSTS ON ISSUED BONDS

During the year ended 31 December 2018 the Group capitalized the cost of coupon interest on issued bonds (less investment income) amounted to KZT 7,806,352 thousand (for the year ended 31 December 2017: KZT 5,080,040 thousand) (Note 16).

REFUNDS ON THE PROJECT

During 2018 funds returned from suppliers for construction works and services under the project “Construction of 500 kW line Ekibastuz – Shulbinskaya GES (Semey) – Ust-Kamenogorsk” line amounted KZT 267,056 thousand. The Group adjusted the value of NES assets, accordingly.

CONSTRUCTION IN PROGRESS

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

ADVANCES PAID FOR NON-CURRENT ASSETS

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

7. INVESTMENTS IN ASSOCIATE

The Group has 20% share in Batys Transit JSC. Principal place of operations and country of incorporation of Batys Transit JSC ("Batys Transit") is the Republic of Kazakhstan. The main activity of Batys Transit is realization of a project on construction and exploitation of interregional power line, which connects the North Kazakhstan region with Aktobe region. Batys Transit has bonds traded on the Kazakhstan Stock Exchange. The following table illustrates the summarised financial information about Batys Transit:

In thousands of Tenge	31 December 2018	31 December 2017
Statement of financial position		
Current assets	11,699,041	6,491,949
Non-current assets	17,196,869	19,202,560
Current liabilities	(20,948,823)	(1,790,165)
Non-current liabilities	(2,407,751)	(19,993,941)
Net assets	**5,539,336**	**3,910,403**

In thousands of Tenge	31 December 2018	31 December 2017
Group's share in net assets	1,107,867	782,081
Carrying amount of the investment	**1,107,867**	**782,081**

Statement of comprehensive income	31 December 2018	31 December 2017
Statement of comprehensive income		
Revenue	9,761,586	8,212,486
Net profit	1,628,930	2,385,635
Group's share in profit of Batys Transit	**325,786**	**477,127**

As of 31 December 2018 and 2017, the associate had no contingent liabilities or capital commitments.

8. INVENTORIES

In thousands of Tenge	31 December 2018	31 December 2017
Spare parts	1,177,463	1,299,634
Raw and other materials	1,161,158	1,060,824
Fuel and lubricants	172,197	147,297
Other inventory	26,606	23,363
Less: allowance for obsolete inventories	(246,046)	(655,684)
	2,291,378	**1,875,434**

8. INVENTORIES (continued)

Movement in the allowance for obsolete inventories was as follows:

In thousands of Tenge	31 December 2018	31 December 2017
At 1 January	**655,684**	**642,717**
Charge for the year (Note 23)	2,960	86,128
Reversal (Note 23)	(401,710)	–
Write-off	(10,888)	(73,161)
At 31 December	**246,046**	**655,684**

9. TRADE ACCOUNTS RECEIVABLE

In thousands of Tenge	31 December 2018	31 December 2017
Trade accounts receivable	11,276,617	9,174,896
Less: provision for expected credit losses	(2,024,770)	(1,409,589)
Less: discount of accounts receivable	–	(614)
	9,251,847	**7,764,693**

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

In thousands of Tenge	31 December 2018	31 December 2017
At 1 January	**1,409,589**	**2,653,416**
Adoption of IFRS 9 (Note 3)	113,156	–
Charge for the year	780,206	2,384,698
Reversal	(278,181)	(3,626,622)
Write-off	–	(1,903)
At 31 December	**2,024,770**	**1,409,589**

As at 31 December 2018 trade accounts receivable included accounts receivable from the customer, Uzbekenergo JSC, in the amount of KZT 1,645,773 thousand (31 December 2017: KZT 1,229,827 thousand.

As at 31 December 2018 provision for debts from Uzbekenergo JSC amounted to KZT 1,339,036 thousand (31 December 2017: KZT 1,157,339 thousand).

The ageing analysis of trade receivables is as follows:

In thousands of Tenge	Total	Neither past due nor impaired	Past due but not impaired			
			30-90 days	91-180 days	181-270 days	Above 271 days
31 December 2018	**11,276,617**	**9,091,389**	**124,090**	**23,167**	**7,116**	**2,030,855**
Less: provision for expected credit losses	(2,024,770)	(26,650)	(7,347)	(3,403)	(1,735)	(1,985,635)
	9,251,847	**9,064,739**	**116,743**	**19,764**	**5,381**	**45,220**
31 December 2017	**9,174,282**	**7,285,148**	**271,402**	**99,303**	**64,169**	**1,454,260**
Less: provision for expected credit losses	(1,409,589)	–	(8,861)	(17,329)	(14,880)	(1,368,519)
	7,764,693	**7,285,148**	**262,541**	**81,974**	**49,289**	**85,741**

Trade accounts receivable were denominated in the following currencies:

In thousands of Tenge	31 December 2018	31 December 2017
Tenge	**8,207,636**	7,099,960
Russian Rouble	**737,474**	591,967
US Dollars	**306,737**	72,766
	9,251,847	**7,764,693**

10. OTHER CURRENT ASSETS

In thousands of Tenge	31 December 2018	31 December 2017
Other receivables for property, plant and equipment and constructions	**399,974**	399,974
Deferred expenses	**95,253**	3,628
Advances paid for goods and services	**81,571**	329,372
Loans receivable from employees	**2,937**	13,652
Other	**375,946**	318,608
Less: provision for expected credit losses	**(427,059)**	(394,078)
Less: discount of other current assets	**–**	(18,567)
	528,622	**652,589**

10. OTHER CURRENT ASSETS (continued)

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

In thousands of Tenge	31 December 2018	31 December 2017
At 1 January	**394,078**	**198,448**
Adoption of IFRS 9 (Note 3)	**62**	–
Charge for the year	**85,451**	252,209
Reversal	**(26,198)**	(54,488)
Write-off	**(26,334)**	(2,091)
At 31 December	**427,059**	**394,078**

11. OTHER FINANCIAL ASSETS

In thousands of Tenge	31 December 2018	31 December 2017
Financial assets at amortised cost		
Bonds of Samruk-Kazyna	**25,342,228**	–
Bank deposits	**18,786,773**	22,466,094
Placements with Eximbank Kazakhstan	**2,930,115**	2,658,640
Placements with Kazinvestbank JSC	**1,261,470**	1,282,483
Placements with DeltaBank JSC	**1,230,000**	1,297,742
Bonds of Batys-Transit	**998,558**	868,269
Interest accrued on Samruk-Kazyna bonds	**463,667**	–
Interest accrued on Batys Transit bonds	**56,862**	65,405
Less: provision for impairment of placements with Eximbank Kazakhstan	**(2,930,115)**	–
Less: provision for impairment of placements with Kazinvestbank JSC	**(1,261,470)**	(1,282,483)
Less: provision for impairment of placements with Deltabank JSC	**(1,230,000)**	(1,230,000)
Less: provision for expected credit losses	**(86,316)**	–
Less: provision for expected credit losses of Batys Transit bonds	**(92,315)**	–
Less: discount on placements with Eximbank Kazakhstan	**–**	(150,489)
	45,469,457	**25,975,661**
Financial assets at fair value through profit or loss		
Bonds of Special Financial Company DSFK	**267,040**	223,554
	267,040	223,554
Total other financial assets	**45,736,497**	**26,199,215**
Other current financial assets	**20,127,229**	25,107,392
Other non-current financial assets	**25,609,268**	1,091,823
Total other financial assets	**45,736,497**	**26,199,215**

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

In thousands of Tenge	31 December 2018	31 December 2017
At 1 January	**2,512,483**	**645,891**
Adoption of IFRS 9 (Note 3)	643,320	–
Accrual for the year	3,152,002	1,934,334
Reversal	(707,589)	(67,742)
At 31 December	**5,600,216**	**2,512,483**

BONDS OF SAMRUK-KAZYNA JSC

During May-June 2018, the Group acquired coupon bonds of Samruk-Kazyna JSC with nominal value of KZT 26,000,000 thousand at cost lower than par value for KZT 25,159,831 thousand at Kazakhstan Stock Exchange JSC. The bonds mature on 13 March 2020. The Group also capitalized transaction costs associated with the payment of a brokerage fee in the amount of KZT 5,108 thousand and coupon income paid to the previous bondholder — Qazkom bank JSC from the beginning of the coupon period until the date of purchase of the bonds, which amounted to KZT 380,333 thousand. Thus, the total discount for the acquisition amounted to KZT 454,728 thousand, which was calculated as the difference between the amount paid and the nominal value and which will be capitalized in the value of the bonds within 2 years prior to the maturity date of the bonds. During the year ended 31 December 2018, amortization of the discount in amount of KZT 113,682 thousand was recognized as financial income in the consolidated statement of comprehensive income.

The Group recognised the bonds at fair value in the amount of KZT 24,931,352 thousand, including the discount of KZT 613,920 thousand, calculated as the difference between the total paid amount and its fair value, which was recognized as finance costs in the consolidated statement of comprehensive income. The Group classifies the bonds as carried at amortised cost. During the year ended 31 December 2018, amortization of the discount amounted to KZT 297,194 thousand.

BONDS OF SPECIAL FINANCIAL COMPANY DSFK LLP

For the year ended 31 December 2018, Special Financial Company DSFK LLP redeemed bonds amounting to KZT 12,971 thousand.

As at 31 December 2018, the Group remeasured the fair value of bonds and increased their carrying amount to KZT 267,040 thousand, recognizing gain from revaluation of financial instruments in the amount of KZT 43,486 thousand as finance income in the consolidated statement of comprehensive income.

BONDS OF BATYS TRANSIT

In 2007-2009 the Group acquired bonds of Batys Transit JSC, an associate listed on the Kazakhstan Stock Exchange. The bonds are secured with Guarantee of the Government of Republic of Kazakhstan in accordance with guarantee agreement dated 9 January 2006. The coupon interest rate on bonds is 7.3%. The bonds are classified as financial assets carried at amortised cost. During the year ended 31 December 2018, the amortization of discount amounted to KZT 130,289 thousand. The bonds mature on 30 March 2019.

11. OTHER FINANCIAL ASSETS (continued)

DEPOSITS

As at 31 December 2018 and 31 December 2017 the deposits include accrued interest income in the amount of KZT 52,198 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 year ended 31 December 2018, the Group fully amortized the discount in finance income in the consolidated statement of comprehensive income.

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

Other financial assets were represented in the following currencies:

In thousands of Tenge	Interest rate	31 December 2018	31 December 2017
Tenge	11%-12%	**28,020,599**	12,272,354
US Dollars	1%-2%	**17,715,898**	13,926,861
		45,736,497	**26,199,215**

12. RESTRICTED CASH

In thousands of Tenge	31 December 2018	31 December 2017
Cash on reserve accounts	**2,895,401**	2,409,232
Cash on debt service accounts	**1,122,487**	877,554
Cash reserved for return on guarantee obligations	**204,168**	158,831
Less: provision for expected credit losses	**(46,480)**	–
	4,175,576	**3,445,617**

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

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

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

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

In thousands of Tenge	2018	2017
At 1 January	**–**	**–**
Adoption of IFRS 9 (Note 3)	**86,409**	–
Accrual for the year	**58,528**	–
Reversal	**(98,457)**	–
At 31 December	**46,480**	**–**

As at 31 December 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	31 December 2018	31 December 2017
US Dollars	**3,971,500**	3,286,786
Tenge	**204,076**	158,831
	4,175,576	**3,445,617**

13. CASH AND CASH EQUIVALENTS

In thousands of Tenge	31 December 2018	31 December 2017
Short-term deposits, in Tenge	**12,671,231**	37,158,812
Short-term deposits, in foreign currencies	**3,380,960**	–
Current accounts with banks, in Tenge	**2,993,477**	3,854,403
Current accounts with banks, in foreign currencies	**19,634**	6,556,281
Cash on hand	**3,914**	8,110
Cash at special accounts	580	177
Less: provision for expected credit losses	(9,096)	–
	19,060,700	**47,577,783**

As at 31 December 2018 and 31 December 2017 the Group placed short-term deposits with banks at 7%-8.5% per annum.

13. CASH AND CASH EQUIVALENTS (continued)

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

In thousands of Tenge	2018	2017
As at 1 January	**–**	**–**
Adoption of IFRS 9 (Note 3)	43,225	–
Accrual for the year	157,021	–
Reversal	(191,150)	–
As at 31 December	**9,096**	**–**

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

In thousands of Tenge	31 December 2018	31 December 2017
Tenge	15,661,766	41,021,502
US Dollars	3,394,135	6,553,858
Euro	3,242	–
Russian Rouble	1,240	2,132
Others	317	291
	19,060,700	**47,577,783**

14. EQUITY

As at 31 December 2018 and 31 December 2017 share capital of the Group comprised of 260,000,000 shares for the total amount of KZT 126,799,554 thousand that were issued and fully paid.

The Group placed 25,999,999 ordinary shares at a price of KZT 505 at the Kazakhstan stock exchange under the People's IPO program. On 19 December 2014 the contribution to share capital of KZT 13,129,999 thousand was received. As at 31 December 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, shareholders approved distribution of 50% of net income 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 the Group, which is KZT 28.13 per common share.

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

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

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

EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing net profit for the period by the weighted average number of common shares outstanding during the period. The Group had weighted average number of coomon shares in circulation in the amount of 259,998,610 shares during the year ended 31 December 2018 (for the year ended 31 December 2017: 259,998,610 shares). For the year ended 31 December 2018 and 31 December 2017 basic and diluted earnings per share were KZT 154.01 and KZT 126.47, respectively.

BOOK VALUE PER SHARE

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

In thousands of Tenge	31 December 2018	31 December 2017
Total assets	**755,850,702**	**628,947,700**
Less: intangible assets	**(1,472,307)**	(1,038,637)
Less: total liabilities	**(283,156,898)**	(254,780,140)
Net assets	**471,221,497**	**373,128,923**
Number of ordinary shares	260,000,000	260,000,000
Book value per ordinary share, Tenge	**1,812**	**1,435**

ASSET REVALUATION RESERVE

Asset revaluation reserve represents revaluation surplus recognized as a result of revaluation of Group's NES assets as at 1 October 2018 (previous revaluation was held as at 1 June 2014) (Note 6). Transfer of asset revaluation surplus into retained earnings, upon disposal of PPE and transfer of NES assets into other classes of PPE, for the year ended 31 December 2018 amounted to KZT 625,985 thousand (for the year ended 31 December 2017: KZT 31,654 thousand).

OTHER RESERVES

Other reserves represent accumulated reserve from revaluation of investments carried at fair value through other comprehensive income. After initial measurement, financial instruments carried at fair value through other comprehensive income are measured at fair value with unrealised gains or losses recognised as other comprehensive income in the 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 fair value of investments during the year ended 31 December 2018, the Group decreased the reserve by the amount of KZT 133,620 thousand.

15. BORROWINGS

In thousands of Tenge	31 December 2018	31 December 2017
International Bank of Reconstruction and Development (IBRD)	55,146,729	56,378,222
European Bank of Reconstruction and Development (EBRD)	19,155,131	17,353,855
	74,301,860	73,732,077
Less: current portion of loans repayable within 12 months	(11,420,710)	(9,502,895)
	62,881,150	64,229,182

As at 31 December 2018 and 31 December 2017 the accrued and unpaid interest amounts to KZT 903,984 thousand and KZT 657,683 thousand, respectively. As at 31 December 2018 and 31 December 2017 the unamortized portion of loan origination fees amounts to KZT 321,868 thousand and KZT 339,820 thousand, respectively.

Loans were denominated in the following currencies:

In thousands of Tenge	31 December 2018	31 December 2017
US Dollars	55,146,729	56,378,222
Euro	19,155,131	17,353,855
	74,301,860	73,732,077

"KAZAKHSTAN NATIONAL ELECTRICITY TRANSMISSION REHABILITATION PROJECT"

In 1999 the Group received the following credit line facilities for the purpose of implementation of the "Kazakhstan National Electricity Transmission Rehabilitation Project", USD 140,000 thousand from IBRD for the 20 (twenty) years period, secured by a guarantee of the Government of the Republic of Kazakhstan. The loan is repayable by annual instalments commencing 2005. An interest at LIBOR base rate plus general spread is payable semi-annually. The outstanding balances as at 31 December 2018 and 31 December 2017 are USD 13,460 thousand (equivalent to KZT 5,171,332 thousand) and USD 26,170 thousand (equivalent to KZT 8,697,076 thousand), respectively.

"CONSTRUCTION OF THE SECOND NORTH-SOUTH 500 KW ELECTRICITY TRANSMISSION LINE"

In 2005 for the purpose of implementation of the Phase II of the "Construction of the second North-South 500 kW Electricity Transmission line", the Group received a credit line facility of USD 100,000 thousand provided by IBRD for a period of 17 (seventeen) years of which first 5 (five) years are a grace period. This credit line facility is secured by a guarantee of the Government of the Republic of Kazakhstan. An interest at LIBOR Dollar rate plus general spread is paid semi-annually. In 2011 the non-disbursed part of this IBRD credit line in the amount of USD 1,918 thousand was cancelled due to the fact that actual costs incurred within this project were less than expected. The outstanding balances as at 31 December 2018 and 31 December 2017 are USD 32,662 thousand (equivalent to KZT 12,548,744 thousand) and USD 40,818 thousand (equivalent to KZT 13,564,953 thousand), respectively.

"KAZAKHSTAN NATIONAL ELECTRICITY TRANSMISSION REHABILITATION PROJECT, PHASE 2"

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

a. Two credit-line facilities of Euro 127,500 thousand and Euro 75,000 thousand from EBRD for 15 (fifteen) years, of which the first 4 (four) years are a grace period. An interest at the interbank six months EURIBOR rate plus a 3.85% margin is payable semi-annually. The outstanding balances as at 31 December 2018 and 31 December 2017 are Euro 43,130 thousand (equivalent to KZT 18,949,805 thousand) and Euro 43,130 thousand (equivalent to KZT 17,175,458 thousand), respectively;
b. A credit line facility of Euro 47,500 thousand from EBRD for 12 (twelve) years, of which the first 4 (four) years are a grace period. As at 31 December 2018 and 2017, the debt under the above credit line is fully repaid;
c. A credit line facility of Euro 5,000 thousand from EBRD for 9 (nine) years, of which the first 4 (four) years are a grace period. As at 31 December 2018 and 31 December 2017, the debt under the above credit line is fully repaid.

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

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

"MOINAK ELECTRICITY TRANSMISSION PROJECT"

In 2009, for the realization of the "Moinak Electricity Transmission Project" a credit line facility from IBRD of USD 48,000 thousand was opened for 25 (twenty five) years, of which the first 5 (five) years are a grace period. The credit line facility is secured by the guarantee of the Government of the Republic of Kazakhstan. An interest rate is USD LIBOR rate plus fixed spread 0.85% is payable semi-annually. In May 2013 unused portion of the credit line from the IBRD in the amount of USD 3,274 thousand was cancelled due to the fact that the amount of actual expenses incurred in the course of the project was less than expected. The outstanding balances as at 31 December 2018 and 31 December 2017 are USD 35,781 thousand (equivalent to KZT 13,747,016 thousand) and USD 38,017 thousand (equivalent to KZT 12,634,253 thousand), respectively.

"CONSTRUCTION OF THE ALMA 500 KW SUBSTATION WITH CONNECTION TO NES OF KAZAKHSTAN WITH THE VOLTAGE OF 500, 200 KW"

In 2010 for the realization of the project "Construction of the Alma 500 kW substation with connection to NES of Kazakhstan with the voltage of 500, 200 kW" the Group received a credit line facility of USD 78,000 thousand from IBRD for 25 (twenty five) years, of which the first 5 (five) years are a grace period. The credit line facility is secured by a guarantee of the Government of the Republic of Kazakhstan. An interest at LIBOR Dollar rate plus fixed spread 1.15% is repayable semi-annually. In July 2014 undeveloped part of the credit line from the IBRD in the amount USD 6,644 thousand has been cancelled due to the fact that the amount of actual costs was less than expected costs. The outstanding balances as at 31 December 2018 and 31 December 2017 are USD 60,653 thousand (equivalent to KZT 23,302,847 thousand) and USD 64,221 thousand (equivalent to KZT 21,342,474 thousand), respectively.

16. BONDS PAYABLE

In thousands of Tenge	31 December 2018	31 December 2017
Nominal value of issued bonds	**83,800,000**	83,800,000
Accrued coupon interest	**4,097,122**	4,407,719
Less: discount on bonds issued	**(93,747)**	(101,305)
Less: transaction costs	**(46,149)**	(49,672)
	87,757,226	**88,056,742**
Less: current portion of bonds repayable within 12 months	**(4,097,122)**	(4,407,719)
	83,660,104	**83,649,023**

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

a. During the period from June to August 2016 the Group issued coupon bonds with nominal amount of KZT 47,500,000 thousand under floating interest rate equal to the inflation rate in Republic of Kazakhstan plus 2.9% with the maturity in 2031. The coupon rate for the first coupon period from 26 May 2017 to 26 May 2018 is 10.6% per annum. The coupon rate for the third coupon period from 26 May 2018 to 26 May 2019 is 9.5% per annum.

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

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

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

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

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

For the year ended 31 December 2018 the Group capitalized in the cost of property, plant and equipment amortized discount of KZT 11,080 thousand (for the year ended 31 December 2017: 7,578 thousand) and amortized transaction costs in the amount of KZT 3,536 thousand (for the year ended 31 December 2017: KZT 2,261 thousand).

During the year ended 31 December 2018 the Group capitalized the borrowing costs of coupon interest on the issued bonds less investment income in the amount of KZT 7,806,352 thousand (for the year ended 31 December 2017: KZT 5,080,040 thousand) (Note 6).

17. TRADE AND OTHER ACCOUNTS PAYABLE

In thousands of Tenge	31 December 2018	31 December 2017
Long-term accounts payable		
Accounts payable for property, plant and equipment and construction works	–	332,584
Less: discount on accounts payable	–	(34,257)
	–	**298,327**
Short-term trade and other accounts payable		
Accounts payable for property, plant and equipment and construction works	**14,902,860**	13,183,438
Accounts payable for electricity purchased	**6,145,704**	4,207,638
Accounts payable for inventories, works and services	**1,599,150**	1,372,261
Less: discount on accounts payable	**(2,417)**	–
	22,645,297	**18,763,337**
	22,645,297	**19,061,664**

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

In thousands of Tenge	31 December 2018	31 December 2017
Tenge	**21,281,317**	18,020,295
Russian Rouble	**1,314,273**	1,025,703
US Dollars	**39,215**	7,893
Euro	**10,492**	7,773
	22,645,297	**19,061,664**

18. CONSTRUCTION OBLIGATION

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

19. TAXES PAYABLE OTHER THAN INCOME TAX

In thousands of Tenge	31 December 2018	31 December 2017
VAT payable	1,143,918	118,608
Contributions payable to pension fund	327,461	281,451
Personal income tax	258,047	250,580
Social tax	212,394	230,499
Property tax	113,427	2,563
Social contribution payable	75,179	72,765
Other	14,015	2,059
	2,144,441	958,525

20. OTHER CURRENT LIABILITIES

In thousands of Tenge	31 December 2018	31 December 2017
Due to employees	3,116,621	3,210,561
Other	285,378	215,451
	3,401,999	3,426,012

21. REVENUE FROM CONTRACTS WITH CUSTOMERS

In thousands of Tenge	2018	2017
Electricity transmission services	108,098,580	94,272,728
Technical dispatch	23,825,594	21,853,659
Sale of purchased electricity	21,066,623	15,399,538
Balancing of electricity production and consumption	16,387,265	14,961,056
Sale of electricity for compensation of the interstate balances of electricity flows	4,213,782	4,084,672
Power regulation services	561,066	415,637
Other	1,644,476	1,392,527
Total revenue from contracts with customers	**175,797,386**	**152,379,817**
Revenue recognition timeline		
The goods are transferred at a certain point in time	25,280,405	19,484,210
The services are provided over a period of time	150,516,981	132,895,607
Total revenue from contracts with customers	**175,797,386**	**152,379,817**

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

22. COST OF SALES

In thousands of Tenge	2018	2017
Depreciation and amortization	**26,045,313**	22,288,566
Cost of purchased electricity	**20,936,916**	14,908,997
Technical losses of electric energy	**20,360,585**	18,225,994
Payroll expenses and related taxes	**15,884,891**	14,521,162
Cost of purchased electricity for compensation of interstate balances of electricity flows	**11,837,990**	9,654,277
Repair and maintenance expenses	**5,649,745**	5,263,450
Inventories	**1,624,868**	1,373,422
Security services	**1,175,967**	1,078,054
Other	**2,323,919**	2,085,447
	105,840,194	**89,399,369**

23. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of Tenge	2018	2017
Taxes other than income tax	**7,571,953**	6,851,098
Payroll expenses and related taxes	**4,876,226**	4,249,990
Depreciation and amortization	**649,892**	585,988
Expenses for the rights to use the software	**241,799**	110,527
Consulting services	**199,922**	427,315
Expenses for the Board of Directors	**150,695**	144,490
Business trip expenses	**146,804**	125,793
Trainings	**116,953**	91,114
Rent expenses	**116,859**	118,211
Utilities	**104,743**	95,540
Materials	**75,948**	75,701
Insurance	**75,153**	236,960
(Reversal)/charge for obsolete inventories (Note 8)	**(398,750)**	86,128
Reversal of allowance for doubtful receivables and impairment of other current assets	**–**	(1,044,203)
Other	**1,009,501**	987,743
	14,937,698	**13,142,395**

24. FINANCE INCOME/(COSTS)

In thousands of Tenge	2018	2017
Finance income		
Interest income from deposits, current accounts and bonds	**5,237,834**	6,205,274
Discounting of other financial assets	**665,983**	–
Amortization of discount on accounts receivable	**136,312**	140,477
Discount on trade payable	**–**	156,046
Others	**3,759**	2,173
Less: interest capitalized into cost of qualifying asset (Note 6)	**(1,092,551)**	(2,910,763)
	4,951,337	**3,593,207**
Finance costs		
Interest on borrowings	**11,206,140**	10,729,293
Discounting of the other financial assets	**660,278**	660,963
Commission on bank guarantees	**842,940**	794,285
Interest expense on finance leases	**24,597**	392
Amortization of loan origination fees	**24,069**	328,082
Other costs on bonds issued	**3,390**	1,736
Less: interest capitalized into cost of qualifying assets (Note 6)	**(8,898,903)**	(7,990,803)
	3,862,511	**4,523,948**

25. FOREIGN EXCHANGE LOSS, NET

On 20 August 2015 the National Bank of Republic of Kazakhstan and the Government of the Republic of Kazakhstan decided to shift to freely floating currency exchange rate as a part of implementation of inflation targeting program. As a result of change of exchange rate of Tenge for the year ended 31 December 2018, the Group incurred net foreign exchange loss in the amount of KZT 5,865,654 thousand (for the year ended 31 December 2017: net foreign exchange loss in the amount of KZT 4,356,244 thousand).

26. INCOME TAX EXPENSE

In thousands of Tenge	2018	2017
Current income tax		
Current income tax expense	9,747,232	9,907,788
Adjustments in respect of current income tax of previous year	384,447	(4,910)
Deferred tax		
Deferred income tax expense/(benefit)	850,257	(142,500)
Total income tax expense reported in profit or loss	**10,981,936**	**9,760,378**
Deferred tax related to items recognised in OCI during the year		
Deferred tax on revaluation of NES assets	22,651,864	–
Tax expense during the period recognized in OCI	**22,651,864**	**–**

The income tax rate in the Republic of Kazakhstan is 20% in 2018 and 2017.

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

In thousands of Tenge	2018	2017
Profit before tax	**51,024,811**	**42,641,694**
Tax at statutory income tax rate of 20%	**10,204,962**	**8,528,339**
Accrual of provision for expected credit losses	472,953	448,231
Adjustments in respect of current income tax of previous year	384,447	(4,910)
Accrual/(reversal) of allowance for doubtful accounts receivable from non-residents	42,678	(250,800)
Fines and penalties on property tax	22,624	18,987
(Reversal)/accrual of obsolete inventory allowance	(79,750)	17,226
Interest income from securities	(264,453)	–
Interest capitalized in the cost of qualifying assets	–	582,153
Support of producers of energy from renewable sources	–	271,629
Other non-deductible expenses	198,475	149,523
Income tax expense reported in profit or loss	**10,981,936**	**9,760,378**

26. INCOME TAX EXPENSE (continued)

Tax effect on temporary differences leading to deferred income tax assets and liabilities at 31 December 2018 and 2017 is provided below:

In thousands of Tenge	Consolidated statement of financial position		Reported in profit or loss	
	31 December 2018	31 December 2017	2018	2017
Accounts receivable	**145,837**	98,112	**47,725**	252,354
Accrued liabilities	**664,812**	638,843	**25,969**	(341,189)
Property, plant and equipment	**(90,977,091)**	(67,401,276)	**(923,951)**	477,335
Deferred tax (expense)/benefit	**–**	**–**	**(850,257)**	**388,500**
Net deferred tax liabilities	**(90,166,442)**	(66,664,321)	**–**	–

In thousands of Tenge	2018	2017
As at 1 January	**(66,664,321)**	**(66,806,821)**
Income tax (expense)/benefit recognised in profit and loss	**(850,257)**	142,500
Income tax expense recognised in OCI (Note 4)	**(22,651,864)**	–
As at 31 December	**(90,166,442)**	**(66,664,321)**

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

In thousands of Tenge	2018	2017
Deferred tax assets	**3,760**	2,252
Deferred tax liabilities	**(90,170,202)**	(66,666,573)
Net deferred tax liabilities	**(90,166,442)**	**(66,664,321)**

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

27. TRANSACTIONS WITH RELATED PARTIES

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

The following table provides the balances of trade accounts payable to/receivable from related parties as at 31 December 2018 and 31 December 2017:

In thousands of Tenge		Trade accounts receivable from related parties	Trade accounts payable to related parties
Subsidiaries of Samruk-Kazyna Group	**31 December 2018**	**2,164,091**	**2,429,524**
	31 December 2017	2,783,369	1,264,918
Associates of Samruk-Kazyna	**31 December 2018**	**282,452**	**446,573**
	31 December 2017	395,840	537,332
Entities under joint control of Samruk-Kazyna	**31 December 2018**	**284,393**	**50,160**
	31 December 2017	199,497	6,967
Associates of the Group	**31 December 2018**	**114,214**	**–**
	31 December 2017	29,140	17,194

The Group had the following transactions with related parties for the year ended 31 December 2018 and 31 December 2017:

In thousands of Tenge		Sales to related parties	Purchases from related parties
Subsidiaries of Samruk-Kazyna Group	**2018**	**36,239,819**	24,608,638
	2017	37,601,709	21,295,283
Associates of Samruk-Kazyna	**2018**	**8,629,245**	**1,229,587**
	2017	7,988,875	1,602,714
Entities under joint control of Samruk-Kazyna	**2018**	**5,393,545**	**39,702**
	2017	4,799,287	33,829
Associates of the Group	**2018**	**492,394**	**3,973**
	2017	375,228	85,049

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 31 December 2018 the Group's borrowings of KZT 55,407,918 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 31 December 2018, the carrying amount of Batys Transit bonds was KZT 906,243 thousand (as at 31 December 2017: KZT 868,269 thousand).

26. INCOME TAX EXPENSE (continued)

As at 31 December 2018 the Group had accounts receivable for the sale of property, plant and equipment of Balkhash TES JSC, a related party, in the amount of KZT 219,851 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. However, as at 31 December 2018 the debt was not paid off. In connection with the suspension of construction of Balkhash TES JSC, the management of the Group made a decision to accrue a provision for receivables of 100%.

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 31 December 2018 the discount on accounts receivable from Kazpost JSC amounted to KZT 544,356 thousand. As at 31 December 2018 the receivables net of discount comprised KZT 1,109,500 thousand, of which KZT 929,162 thousand was accounted for within long-term receivables from related parties. During the year ended 31 December 2018, the Group recognized income from amortization of a discount on long-term receivables from Kazpost JSC in the amount of KZT 115,894 thousand (during the year ended 31 December 2017: KZT 123,468 thousand).

In 2017, the Group entered into a long-term contract with a related party, Samruk-Kazyna Business Contract LLP, for leasing out the rights to use the software. Since, at the end of the contract, the rights to use the software will be transferred to the Group, the Group recognized finance lease liability. As at 31 December 2018, finance lease liability amounts to KZT 193,498 thousand (as at 31 December 2017: KZT 12,957 thousand).

Compensation to key management personnel and all other expenses related to it (taxes, sick leaves, payment for vacation, material aid, etc.) included in salary expenses in the consolidated statement of comprehensive income amounted to KZT 405,885 thousand for the year ended 31 December 2018 (for the year ended 31 December 2017: KZT 434,374 thousand). Compensation to key management personnel mainly consists of contractual salary and performance bonus based on operating results.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise borrowings, bonds payable, trade and other payables. The main purpose of these financial liabilities is to finance the Group's investment projects and operations. The Group has trade and other receivables, cash and cash equivalents, short-term deposits that arrive directly from its operations, as wells as investments in debt securities.

The Group is exposed to interest rate risk, foreign currency risk, credit risk and liquidity risk.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term and short-term borrowings with floating interest rates (Notes 15 and 16).

The Group limits its interest rate risk by monitoring changes in interest rates in the currencies in which the borrowings are denominated. The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in interest rates with all other variables held constant.

In thousands of Tenge	Increase/(decrease) in basis points*	Effect on profit before tax
For the year ended 31 December 2018		
LIBOR	**0.5/(0.15)**	**(273,850)/82,155**
EURIBOR	**0.2/(0.01)**	**(37,900)/1,895**
For the year ended 31 December 2017		
LIBOR	0.7/(0.08)	(393,671)/44,991
EURIBOR	0.25/(0.01)	(42,939)/1,718

* 1 basis point = 0.01%.

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

FOREIGN CURRENCY RISK

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

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

In thousands of Tenge	Increase/(decrease) in exchange rate	Effect on profit before tax
At 31 December 2018		
US Dollar	**14%/(10%)**	**(4,171,674)/2,979,767**
Euro	**14%/(10%)**	**(2,682,733)/1,916,238**
At 31 December 2017		
US Dollar	10%/(10%)*	(3,244,534)/3,244,534
Euro	13.5%/(9.5%)**	(2,343,820)/1,649,355

* In absolute terms increase/(decrease) in exchange rate of Tenge in relation to US Dollar comprised 53.79/(38.42) Tenge;
** In absolute terms increase/(decrease) in exchange rate of Tenge in relation to Euro comprised 61.51/(43.94) Tenge.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

CREDIT RISK

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

Book value of financial assets recognized in the consolidated financial statements of the Group less impairment allowance reflects the maximal extent of the Group's credit risk.

An impairment analysis is performed by Group management at each reporting date on an individual basis for all customers based on number of days the receivables are overdue. The calculation is based on actual incurred historical data. The maximum exposure to the credit risk is represented by the carrying value of each class of financial assets disclosed in Note 9. The Group does not hold collateral as security.

During 2016-2018 some banks were deprived of a license to conduct banking and other operations by the National Bank (Note 11).

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

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

In thousands of Tenge	Location	Rating		31 December 2018	31 December 2017
		2018	2017		
Halyk Bank JSC	Kazakhstan	**BB/Negative**	BB/Negative	**17,781,948**	15,455,437
ATF Bank JSC	Kazakhstan	**B/Negative**	B3/Positive	**13,812,397**	12,748,136
ForteBank JSC	Kazakhstan	**B/Positive**	B3/Positive	**9,589,361**	19,605,491
BankCenterCredit JSC	Kazakhstan	**B/Stable**	B/Stable	**748,533**	13,354,885
Qazqom JSC	Kazakhstan	**BB/Stable**	B+/Negative	**–**	2,409,507
Tsesna Bank JSC	Kazakhstan	**B-/Negative**	B+/Negative	**–**	8,361,222
Eximbank Kazakhstan JSC	Kazakhstan	**Not applicable**	CCC	**–**	2,570,204
Nurbank JSC	Kazakhstan	**B-/Negative**	B-/Negative	**–**	968,004
Kassa Nova Bank JSC	Kazakhstan	**B/Stable**	B/Negative	**–**	302,842
Eurasian Bank JSC	Kazakhstan	**B/Negative**	B/Negative	**–**	133,424
Treasury Committee of the Ministry of Finance of the Republic of Kazakhstan SE	Kazakhstan	**Not applicable**	Not applicable	**–**	80,383
Delta Bank JSC	Kazakhstan	**Not applicable**	D	**–**	67,742
				41,932,239	**76,057,277**

LIQUIDITY RISK

The management of the Group has built an appropriate liquidity risk management framework in accordance with the short, medium and long-term funding and liquidity management requirements. The Group manages its liquidity risk by maintaining adequate reserves, bank loans and credit lines, by monitoring projected and actual cash flows and comparing maturity dates of financial assets and liabilities.

The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. The Group has access to a sufficient variety of sources of funding and debt maturing within 12 (twelve) months can be rolled over with existing lenders.

In thousands of Tenge	On demand	Due more than 1 month but not later than 3 months	Due more than 3 months but not later than 1 year	Due more than 1 year but not later than 5 years	Due more than 5 years	Total
At 31 December 2018						
Borrowings	**–**	**1,762,822**	**11,247,280**	**43,588,081**	**31,227,973**	**87,826,156**
Bonds payable	**–**	**–**	**4,097,122**	**43,330,638**	**153,132,875**	**200,560,635**
Trade and other accounts payable	**–**	**22,645,297**	**–**	**–**	**–**	**22,645,297**
	–	**24,408,119**	**15,344,402**	**86,918,719**	**184,360,848**	**311,032,088**
At 31 December 2017						
Borrowings	–	1,454,277	9,322,742	42,087,100	31,588,145	84,452,264
Bonds payable	–	–	4,407,719	43,565,732	161,785,602	209,759,053
Trade and other accounts payable	–	18,763,337	–	298,327	–	19,061,664
	–	**20,217,614**	**13,730,461**	**85,951,159**	**193,373,747**	**313,272,981**

CAPITAL MANAGEMENT

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

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

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

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

CAPITAL MANAGEMENT (continued)

In thousands of Tenge	31 December 2018	31 December 2017
Debt/capital	**0.21**	**0.26**
Long-term borrowings and long-term bonds payable	**146,541,254**	147,878,205
Short-term borrowings and short-term bonds payable	**15,517,832**	13,910,614
Debt	**162,059,086**	**161,788,819**
Total liabilities	**283,156,898**	254,780,140
Equity	**472,693,804**	374,167,560
Total equity and liabilities	**755,850,702**	**628,947,700**

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

FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities:

Assets measured at fair value

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

In thousands of Tenge	31 December 2017	Level 1	Level 2	Level 3
Non-financial assets				
NES assets (Note 6)	422,319,945	–	–	422,319,945

Liabilities for which fair values are disclosed

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

In thousands of Tenge	31 December 2017	Level 1	Level 2	Level 3
Financial liabilities				
Bonds payable (Note 16)	88,056,742	–	88,056,742	–
Borrowings (Note 15)	73,732,077	–	73,732,077	–
Finance lease obligations	12,957	–	12,957	–

For the years ended 31 December 2018 and 31 December 2017, there were no transitions between Level 1, 2, and 3 of the fair value of financial instruments.

FAIR VALUES OF FINANCIAL INSTRUMENTS

As at 31 December 2018 and 31 December 2017 the management assessed that the fair value of financial instruments of the Group, such as trade accounts receivable and payable, other financial assets, cash and cash equivalents, cash restricted in use, approximates their carrying amounts largely due to the short-term maturities of these instruments. Borrowings and bonds payable are stated at amortized costs which approximate their fair values.

29. COMMITMENTS AND CONTINGENCIES

CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

In thousand Tenge	1 January 2018	Cash flows	Foreign exchange movement	New leases	Other	31 December 2018
Borrowings	**73,732,077**	**(9,217,048)**	**9,522,579**	**–**	**264,252**	**74,301,860**
Bonds payable	**88,056,742**	**(9,209,500)**	**–**	**–**	**8,909,984**	**87,757,226**
Finance leases obligations	**12,957**	**(59,323)**	**–**	**209,504**	**30,360**	**193,498**
Total liabilities from financing activities	**161,801,776**	**(18,485,871)**	**9,522,579**	**209,504**	**9,204,596**	**162,252,584**

In thousand Tenge	1 January 2017	Cash flows	Foreign exchange movement	New leases	Other	31 December 2017
Borrowings	122,478,939	(53,433,954)	4,931,247	–	(244,155)	73,732,077
Bonds payable	52,620,021	27,436,080	–	–	8,000,641	88,056,742
Finance leases obligations	–	(992)	–	13,160	789	12,957
Total liabilities from financing activities	**175,098,960**	**(25,998,866)**	**4,931,247**	**13,160**	**7,757,275**	**161,801,776**

29. COMMITMENTS AND CONTINGENCIES (continued)

CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES (continued)

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

OPERATING ENVIRONMENT

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

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

TAXATION

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual, including an opinion on the IFRS approach regarding revenue, expenses and other accounts of financial statements. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 1.25. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for 5 calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2018.

COMPLIANCE WITH LOAN COVENANTS

From 1999 till 2011 the Group concluded loan facility agreements with EBRD and IBRD (the "Creditors") of which are effective for the amounts of 506 million US Dollars and 228 million Euro (Note 15). According to the Loan facility Agreements concluded between the Group and the Creditors, the Group has to comply with the following covenants:

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

Management believes that the Group complied with all existing loan covenants with EBRD and IBRD as at 31 December 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 of 31 December 2018 the Group excluded from EBITDA the foreign exchange loss of KZT 5,865,654 thousand (during the year ended 31 December 2017: KZT 4,356,244 thousand).

INSURANCE

As at 31 December 2018, the Group insured production assets with a replacement value of KZT 184,150,797 thousand. The insurance payment is limited to the replacement value of property, plant and equipment. The Group does not insure its other property. Since absence of any insurance does not imply a reduction of the cost of assets or origination of liabilities, no provision has been made in these 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 31 December 2018, the Group's outstanding contractual commitments within the frameworks of this plan amount to KZT 8,356,462 thousand (31 December 2017: KZT 21,463,464 thousand).

29. COMMITMENTS AND CONTINGENCIES (continued)

CONTRACTUAL COMMITMENTS (continued)

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

Tariffs for the transmission of electrical energy, technical dispatching of grid output and consumption of electrical energy and balancing 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;
3. With the entry into force from 1 January 2018 to 31 December 2018 by balancing the production and consumption of electrical energy in the amount KZT 0.091 per kWh.

In letter dated 18 July 2018, the Committee agreed on the decision of the Group to reduce the limits of temporary compensating tariffs for regulated services of the Group from 1 August 2018 until 31 December 2018:

- Technical dispatching of supply to the grid and electricity consumption in the amount from KZT 0.2482 to KZT 0.237 per kWh;
- Organization of balancing the production and consumption of electric energy from KZT 0.091 to KZT 0.088 per kWh.

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.

30. SUBSEQUENT EVENTS

CONTRACTUAL COMMITMENTS

In accordance with the Minute of the Board of Management of “Samruk-Kazyna” JSC No. 01/19 dated 16 January 2019 the Group was instructed to finance the construction of the museum in Turkestan. On 11 February 2019 the Group signed agreement No. 01-08-s-115 with the Corporate Fund “Construction Company” for the total amount of KZT 2,800,561 thousand in order to fulfil the above mentioned Minute. In February 2019 the Group transferred the funds in full in accordance with the terms of the agreement.

APPENDIX 5

GLOSSARY

Samruk-Kazyna JSC	Sovereign Wealth Fund Samruk-Kazyna joint-stock company
KEGOC/Company	Kazakhstan Electricity Grid Operating Company (KEGOC) joint-stock company
EnergoInform	EnergoInform joint-stock company
FSC RES	Financial Settlement Centre for Renewable Energy Sources Support LLP
ALFC	Automatic Load-Frequency Control
Branches	KEGOC branches: MES and NDC SO
CEAS	Centralized Emergency Automation System
CIS	Commonwealth of Independent States
CRMS	Corporate risk management system
CRNMPCCR	Committee for Regulation of Natural Monopolies and Protection of Competition and Consumers' Rights of the Republic of Kazakhstan
ECR Pool	Kazakhstan Electric Capacity Reserve Pool
EMS	Environmental Management System
GRES	State regional power plant
HPP	Hydro power plant
IAS	Internal Audit Service
ICS	Internal control system
IFRS	International financial reporting standards
IMS	Integrated Management System
IPS	Integrated power system
ITC	Information and telecommunication complex

KPI	Key performance indicator(s)
kV	Kilovolt
kWh	Kilowatt-hour
LLP	Limited liability partnership
MES	Interconnection Electric Networks, KEGOC branches
MVA	Megavolt-ampere
MW	Megawatt
NDC SO	National Dispatch Centre of the System Operator, KEGOC branch
NPG	National Power Grid
OHTL	Overhead transmission line
OPGW	Combined ground wire cable with optical fibres
PCB	Polychlorinated biphenyl
RDC	Regional Dispatch Centre
REC	Regional electric network company
RES	Renewable energy sources
RMS	Risk Management System
Solar	Solar power plant
SS	Substation
STC	Scientific and Technical Council
TPP	Thermal power plant
UPS	Unified Power System
VAT	Value-added tax

CONTACTS

GENERAL

Kazakhstan Electricity Grid Operating Company (KEGOC) joint-stock company

59 Tauyelsizdik Ave., Nur-Sultan,
Republic of Kazakhstan
tel.: +7 (7172) 693-824, 690-203
fax: +7 (7172) 211-108
e-mail: kegoc@kegoc.kz

AUDITOR

Ernst & Young LLP

77/7 Al-Farabi Ave., Esentai Tower
Almaty, 050060, Republic of Kazakhstan
tel.: +7 (727) 258 5960
fax: +7 (727) 258 5961
e-mail: almaty@kz.ey.com

REGARDING THE ANNUAL REPORT

Corporate Development Department:

Zhanar Arpabekova
tel.: +7 (7172) 690434
e-mail: Arpabekova@kegoc.kz

REGISTRAR

United Securities Registrar JSC

30A/3, Satpayev St. (Tengiz Towers)
Almaty, 050040, Republic of Kazakhstan
tel.: +7 (727) 272 4760
fax: +7 (727) 272 4760, ext. 230
e-mail: info@tisr.kz

WWW.KEGOC.KZ