

**JOINT STOCK COMPANY
CENTRAL-ASIAN
POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**Consolidated Financial Statements and
Independent Auditor's Report**
for the year ended 31 December 2016

JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY AND ITS SUBSIDIARIES

CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016	1
INDEPENDENT AUDITOR'S REPORT	2-6
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016:	
Consolidated Statement of Financial Position	7-8
Consolidated Statement of Profit or Loss and Other Comprehensive Income	9
Consolidated Statement of Changes in Equity	10
Consolidated Statement of Cash Flows	11-12
Notes to the Consolidated Financial Statements	13-51

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES
FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Joint Stock Company Central-Asian Power-Energy Company ("the Company") and its subsidiaries ("the Group") as at 31 December 2016, the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation of the Republic of Kazakhstan and IFRS;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2016 were approved by management on 15 June 2017.

On behalf of Group management:


G.D. Artambayeva
President

15 June 2017
Almaty, the Republic of Kazakhstan




K.E. Kassymkhanova
Chief Accountant

15 June 2017
Almaty, the Republic of Kazakhstan

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Joint Stock Company Central-Asian Power-Energy Corporation:

Opinion

We have audited the consolidated financial statements of Joint Stock Company Central-Asian Power-Energy Corporation and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, 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 2016 and its consolidated financial performance and 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 ("the IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
--	---

Estimate of allowances for doubtful debts

An allowance for doubtful debts is made on trade accounts receivable based upon management's estimate, which is subject to significant judgement.

Ageing of outstanding invoices, as well as historical and expected customer behavior, are considered when identifying doubtful debts. Changes in economic or financial conditions of the customers may require adjustments to the methodology applied for estimating allowance for doubtful debts.

Significant estimate related to allowances for doubtful debts is disclosed in Note 3 to the consolidated financial statements.

Allowances for doubtful debts are disclosed in Note 11 to the consolidated financial statements.

Our audit procedures included:

- assessing appropriateness of the model applied and assumptions used for estimating allowances for doubtful accounts based on historical cash collections;
- testing internal controls over generating ageing report of trade accounts receivable by ageing of invoices in the billing information system;
- checking accuracy of application of the model and assumptions;
- testing subsequent cash collections;
- analysing the days in receivable.

Based on our procedures, we found that model applied and assumptions used in estimating allowances for doubtful accounts are appropriate.

Compliance with financial covenants

The Group has to comply with set of financial covenants stipulated by its loan agreements.

Compliance with financial covenants and appropriateness of long-term loans classification is the key audit matter considering the significance of outstanding loans as at 31 December 2016.

Covenants requirements and compliance matters are disclosed in Note 20 to the consolidated financial statements.

Our audit procedures included:

- analysing the terms of the loans agreements, focusing on debt covenant requirements including the covenants ratios and events of default;
- recalculating the financial covenants in the loan agreements for mathematical accuracy;
- review of waivers from lenders on loan agreements where the financial covenants have been breached and their impact on classification of the long-term portion of the loans;
- assessing the adequacy of the disclosure of compliance with financial covenants per loan agreements provided in Note 20 of the consolidated financial statements.

Based on our procedures, we found that covenants requirements and compliance disclosure, as well as long-term loans classification are appropriate.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Board of Directors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards ("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 Board of Directors are responsible for overseeing the Group's financial reporting process.

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.

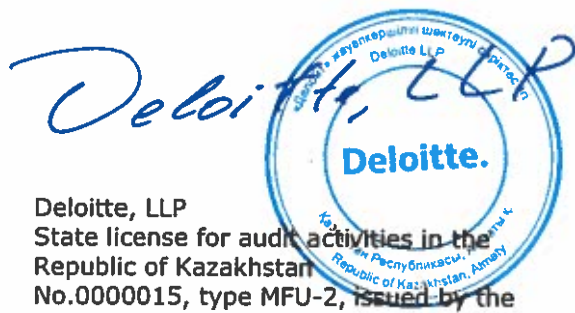
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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 Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors 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 Board of Directors, 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 included herein.



Deloitte, LLP
State license for audit activities in the
Republic of Kazakhstan
No.0000015, type MFU-2, issued by the
Ministry of Finance of the
Republic of Kazakhstan
dated 13 September 2006



Qualified certificate No.0000523
dated 15 February 2002
the Republic of Kazakhstan

A blue ink signature of Nurlan Bekenov.

Nurlan Bekenov
General Director
Deloitte, LLP

15 June 2017
Almaty, the Republic of Kazakhstan

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016
(in thousands of Tenge)**

	Notes	31 December 2016	31 December 2015
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	6	255,196,623	245,098,543
Goodwill	7	4,844,510	4,844,510
Intangible assets	8	1,817,758	1,557,731
Investments in associates	9	2,544,001	2,474,083
Deferred tax assets	33	710,031	678,959
Other financial assets	15	295,264	645,653
Advances paid	12	2,215,188	4,206,462
Other non-current assets	13	3,592,313	384,360
Total non-current assets		271,215,688	259,890,301
CURRENT ASSETS:			
Inventories	10	5,383,882	6,712,973
Trade accounts receivable	11	16,009,944	13,540,563
Advances paid	12	1,919,543	1,639,057
Income tax prepaid		313,169	520,212
Other current assets	14	11,037,790	13,314,732
Other financial assets	15	10,463,799	14,492,606
Cash	16	2,063,079	10,094,221
Total current assets		47,191,206	60,314,364
TOTAL ASSETS		318,406,894	320,204,665
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	17	17,022,347	17,022,347
Additional paid-in capital		1,452,359	3,358,488
Revaluation reserve on property, plant and equipment		26,360,070	28,025,007
Retained earnings		39,425,559	34,415,523
Equity attributable to the shareholders of the parent company		84,260,335	82,821,365
Non-controlling interests	18	55,857,072	55,249,503
Total equity		140,117,407	138,070,868

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

	Notes	31 December 2016	31 December 2015
NON-CURRENT LIABILITIES:			
Bonds issued	19	30,572,637	38,104,356
Loans	20	55,844,180	64,025,810
Deferred tax liabilities	33	35,477,809	32,024,595
Deferred revenue	21	3,987,932	1,281,070
Ash dump area restoration liabilities		653,356	351,710
Finance lease obligations	22	1,436,419	775,464
Employee benefit obligations		131,621	119,690
Other long-term payables		1,711,676	1,307,046
Total non-current liabilities		129,815,630	137,989,741
CURRENT LIABILITIES:			
Current portion of bonds issued	19	9,818,983	910,608
Short-term loans and current portion of long-term loans	20	16,290,731	15,783,235
Trade accounts payable	23	15,504,398	20,895,334
Advances received	24	2,775,076	2,615,646
Income tax payable		-	838
Current portion of ash disposal area restoration liabilities		97,785	53,587
Current portion of employee benefit obligations		10,199	11,427
Current portion of finance lease obligations	22	416,072	249,296
Other liabilities and accrued expenses	25	3,560,613	3,624,085
Total current liabilities		48,473,857	44,144,056
TOTAL EQUITY AND LIABILITIES		318,406,894	320,204,665

On behalf of Group management:


G.D. Artambayeva
President

15 June 2017
Almaty, the Republic of Kazakhstan




K.E. Kassymkhanova
Chief Accountant

15 June 2017
Almaty, the Republic of Kazakhstan

The notes on pages 13-51 form an integral part of these consolidated financial statements. The independent auditor's report is on pages 2-6.

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016**
(in thousands of Tenge)

	Notes	2016	2015
REVENUE	26	126,368,254	110,146,304
COST OF SALES	27	(95,603,255)	(86,016,656)
GROSS PROFIT		30,764,999	24,129,648
General and administrative expenses	28	(9,278,030)	(9,031,278)
Selling expenses	29	(2,781,296)	(2,753,715)
Other income, net	30	95,793	361,786
Foreign exchange gain/(loss), net		625,275	(21,694,688)
Finance income	31	1,944,536	2,220,519
Finance costs	32	(10,183,909)	(7,790,485)
PROFIT/(LOSS) BEFORE INCOME TAX		11,187,368	(14,558,213)
INCOME TAX (EXPENSE)/BENEFIT	33	(3,551,326)	690,867
PROFIT/(LOSS) FOR THE YEAR		7,636,042	(13,867,346)
Profit/(loss) for the year attributable to:			
Owners of the Company		3,887,478	(9,388,066)
Non-controlling interests		3,748,564	(4,479,280)
Other comprehensive (loss)/income, net of income tax			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Revaluation of property, plant and equipment		(50,746)	3,936
Other comprehensive (loss)/income, net of income tax		(50,746)	3,936
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		7,585,296	(13,863,410)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		3,857,208	(9,384,130)
Non-controlling interests		3,728,088	(4,479,280)
Earnings/(loss) per share, in tenge	34	116.82	(282.12)

On behalf of Group management:


G.D. Artambayeva
President

15 June 2017
Almaty, the Republic of Kazakhstan


K.E. Kassymkhanova
Chief Accountant

15 June 2017
Almaty, the Republic of Kazakhstan

The notes on pages 13-51 form an integral part of these consolidated financial statements. The independent auditor's report is on pages 2-6.

JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of Tenge)

Notes	Share capital	Additional paid-in capital	Revaluation reserve on property, plant and equipment	Retained earnings	Equity attributable to the shareholders of the parent company	Non-controlling interests	Total equity
At 1 January 2015	17,022,347	3,456,226	33,941,284	32,807,088	87,226,945	50,128,764	137,355,709
Loss for the year	-	-	-	(9,388,066)	(9,388,066)	(4,479,280)	(13,867,346)
Other comprehensive income for the year, net of income tax	-	-	3,936	-	3,936	-	3,936
Total comprehensive loss for the year	-	-	3,936	(9,388,066)	(9,384,130)	(4,479,280)	(13,863,410)
Amortisation of revaluation reserve	-	-	(2,476,298)	2,476,298	-	-	-
Sale of share in subsidiary	-	(97,738)	(3,443,915)	8,528,613	4,986,960	9,132,540	14,119,500
Dividends paid	-	-	-	-	-	(932,521)	(932,521)
Change of a share in a subsidiary	-	-	-	-	-	1,400,000	1,400,000
Adjustment of an interest-free loans to the fair value, less income tax	-	-	-	(8,410)	(8,410)	-	(8,410)
At 31 December 2015	17,022,347	3,358,488	28,025,007	34,415,523	82,821,365	55,249,503	138,070,868
Profit for the year	-	-	-	3,887,478	3,887,478	3,748,564	7,636,042
Other comprehensive loss for the year, net of income tax	-	-	(30,270)	-	(30,270)	(20,476)	(50,746)
Total comprehensive income for the year	-	-	(30,270)	3,887,478	3,857,208	3,728,088	7,585,296
Amortisation of revaluation reserve	-	-	(1,634,667)	1,634,667	-	-	-
Change of a share in a subsidiary	-	(1,906,129)	-	-	(1,906,129)	(3,120,519)	(5,026,648)
Adjustment of an interest-free loans to the fair value, less income tax	-	-	-	(512,109)	(512,109)	-	(512,109)
At 31 December 2016	17,022,347	1,452,359	26,360,070	39,425,559	84,260,335	55,857,072	140,117,407

On behalf of Group management:

G.D. Artambayeva
President

15 June 2017
Almaty, the Republic of Kazakhstan



K.E. Kassymkhanova
Chief Accountant

15 June 2017
Almaty, the Republic of Kazakhstan

The notes on pages 13-51 form an integral part of these consolidated financial statements. The independent auditor's report is on pages 2-6.

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of Tenge)**

	Notes	2016	2015
OPERATING ACTIVITIES:			
Profit/(loss) for the year		7,636,042	(13,867,346)
Adjustments for:			
Income tax expense/(benefit)	33	3,551,326	(690,867)
	27, 28		
Depreciation and amortization	29, 30	12,084,900	11,151,634
Employee benefit costs		26,814	30,729
Finance income	31	(1,944,536)	(2,220,519)
Accrual of provision for obsolete inventories	28	39,364	46,094
Accrual of allowance for doubtful debts and impairment provision for advances paid	28	535,545	330,684
Finance costs	32	10,183,909	7,790,485
Loss on disposal of property, plant and equipment		192,945	17,218
Loss on impairment of property, plant and equipment	30	152,684	-
Share of profit in associates	30	(104,027)	(148,183)
Foreign exchange (gain)/loss, net		(625,275)	21,694,688
Net gain on operations with financial assets recorded at the fair value through profit or loss		8,022	2,266
	27, 28,		
Provisions for unused vacations	29	46,350	20,262
Gain on write-off of accounts payable	30	(209,221)	(330,230)
Other		638,796	(14,771)
Cash flows from operating activities before changes in working capital		32,213,638	23,812,144
Change in inventories		1,046,954	303,813
Change in trade accounts receivable		(4,621,855)	(2,363,463)
Change in advances paid		(276,427)	(290,863)
Change in other current assets		7,398,873	1,713,353
Change in trade accounts payable		4,179,930	164,804
Change in advances received		(126,290)	(1,236,782)
Change in employee benefit obligations		(16,111)	(24,174)
Change in other liabilities and accrued expenses		1,163,224	742,814
Change in deferred revenue		(37,199)	(55,885)
Cash provided by operating activities		40,924,737	22,765,761
Return of income tax/(income tax paid)		158,608	(382,095)
Interest paid		(9,268,299)	(8,757,124)
Net cash provided by operating activities		31,815,046	13,626,542

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

	Notes	2016	2015
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(27,117,870)	(20,579,974)
Purchase of intangible assets		(310,924)	(845,610)
Purchase of non-controlling interest	18	(5,060,716)	(1,878,449)
Cash placed on deposits		(13,800,742)	(17,018,517)
Withdrawals from deposits		19,043,864	16,899,822
Financial aid provided		(6,869,804)	(3,200,000)
Proceeds from repayment of financial aid		950,000	640,000
Purchase of associate		-	(37,548)
Dividends received		34,109	35,084
Proceeds from disposal of property, plant and equipment		431,214	453,611
Contribution into share capital of subsidiary by non-controlling shareholders	18	-	1,400,000
Proceeds from sale of share in subsidiary	18	-	14,119,500
Cash returned from guarantee fees		(27,567)	-
Net cash used in investing activities		(32,728,436)	(10,012,081)
FINANCING ACTIVITIES:			
Proceeds from issue of bonds		807,061	6,665,356
Repayment of bonds		(10,876)	-
Proceeds from loans		23,584,188	24,217,185
Repayment of loans		(29,600,463)	(27,008,042)
Payment of dividends		(932,521)	(876,790)
Proceeds from government subsidies		1,569,792	-
Financial aid provided to shareholders		(2,228,668)	-
Repayment of finance lease obligation		(282,800)	(314,300)
Net cash provided by financing activities		(7,094,287)	2,683,409
NET CHANGE IN CASH		(8,007,677)	6,297,870
Effect of changes in foreign exchange rate on cash balance in foreign currency		(23,465)	933,623
CASH at the beginning of the year	16	10,094,221	2,862,728
CASH at the end of the year	16	2,063,079	10,094,221

On behalf of Group management:


G.D. Artambayeva
President


K.E. Kassymkhanova
Chief Accountant

15 June 2017, the Republic of Kazakhstan

15 June 2017, the Republic of Kazakhstan

The notes on pages 13-51 form an integral part of these consolidated financial statements. The independent auditor's report is on pages 2-6.

JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (in thousands of Tenge)

1. GENERAL INFORMATION

Joint Stock Company Central-Asian Power-Energy Company (CAPEC) (hereinafter - "the Company" or "Parent company") was formed on 1 September 1998. The Company's legal address is 89 Karasai Batyr street, Almaty, the Republic of Kazakhstan.

The main activities of the Company and its subsidiaries (hereinafter - "the Group") are power and heat energy production, transmission, distribution and sale, as well as chemical production.

The ultimate controlling shareholders of the Company as at 31 December 2016 and 2015 together are Mr. Y. Amirkhanov, Mr. A. Klebanov, Mr. S. Kan and Ms. G. Artambayeva, residents of the Republic of Kazakhstan.

The Company has a share in the following legal entities:

Subsidiaries	Location	Main activities	Share 31 December 2016	Share 31 December 2015
JSC Central-Asian Electric Power Corporation (hereinafter - "CAEPCO")	Almaty, the Republic of Kazakhstan	Power and heat energy production, transmission, distribution and sale	59.65%	57.37%
JSC Kaustik	Pavlodar, the Republic of Kazakhstan	Production of chemicals	60%	60%
Pavlodar-Vodokanal Severnyi LLP	Pavlodar, the Republic of Kazakhstan	Transfer of technical water	80%	80%
Kindergarten Alakai LLP	Petropavlovsk, the Republic of Kazakhstan	Preschool education	100%	100%
CAPEC Energoinvest LLP	Astana, the Republic of Kazakhstan	Design and construction of facilities using renewable energy	100%	100%

In 2016, the Company purchased 2.28% share in CAEPCo (Note 18).

In November 2015, the Company sold 7.25% share in CAEPCo (Note 18).

In November 2015, the Company established new subsidiary CAPEC-Energoinvest LLP, activity of which is the design and construction of renewable energy generation facilities and production of electricity using renewable energy sources.

In September 2015, the Company sold 100% of CAPEC Green Energy LLP to JSC Circle Maritime Invest, a related party.

The total number of employees of the Group as at 31 December 2016 and 2015 were 11,134 and 11,350, respectively.

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

2. ADOPTION OF NEW AND REVISED STANDARDS

Amendments to IFRS and the new Interpretations that are mandatory effective for the current period

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these consolidated financial statements:

- Amendments to IAS 1 *Disclosure Initiative*;
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*;
- Annual Improvements to IFRS 2012-2014 Cycle.

The adoption of the above mentioned Amendments to IFRS and Interpretations has not led to significant changes in the Group's accounting policies. The amendments did not materially affect the consolidated financial statements of the Group.

New and revised IFRS in issue but not yet effective

The Group has not applied the following new and revised IFRS that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments*²;
- IFRS 15 *Revenue from Contracts with Customers* (and the related Clarifications)²;
- IFRS 16 *Leases*³
- Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*²;
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*⁴;
- Amendments to IAS 7 – *Disclosure Initiative*¹;
- Amendments to IAS 12 – *Recognition of Deferred Tax Assets for Unrealised Losses*¹;
- Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*²;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*²;
- Amendments to IAS 40 – *Transfers of Investment Property*²;
- Annual Improvements to IFRS 2014-2016 Cycle.

¹ Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

⁴ Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

Management is in the process of assessing the full impact of the application of new and revised on the Group's consolidated financial statements and it is not practicable to provide a reasonable financial estimate of the effect until the management completes the detailed review.

JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED) *(in thousands of Tenge)*

3. KEY ASSUMPTIONS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the consolidated financial statements in conformity with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Due to the inherent uncertainty in making those estimates, actual results reported in future periods could differ from such estimates.

The following are the key assumptions regarding future and other key sources of uncertainties at the reporting date, which bear a significant risk of material adjustment in the carrying value of assets and liabilities in the next fiscal year.

Determination of the fair value of property, plant and equipment

The Group engages an independent appraiser to determine the fair value of property, plant and equipment. An independent evaluation of the assets is held on a regular basis. The last independent valuation of property, plant and equipment of the Group was held on 31 December 2014 based on the following grounds:

- the fair value of the Group's certain real estate, land for industrial use, on which Heat and Power Plants are located, as well as vehicles, office equipment and computer equipment are valued at market value, based on an analysis of comparable sales;
- other fixed assets were valued using the cost approach (depreciated replacement cost method);
- the validity of the measurement at fair value, as described above, was determined by the appraiser analysis of discounted future cash flows, which was prepared on the following basis:
 - the forecast period - up to 2025;
 - cash flow projections were made in tenge with the translation into US dollar according to the forecast rate;
 - discount rate applied is 13%.

The Group assesses at each reporting date whether the carrying amount of property, plant and equipment does not differ materially from that, which would be determined using fair value as at reporting date.

The management of the Group made assessment as at 31 December 2016 and concluded that there were no significant changes in the fair value of property, plant and equipment as at 31 December 2016 from the date of last revaluation on 31 December 2014.

Property, plant and equipment held in trust management

The Group received property, plant and equipment for trust management from the state organizations – Finance Department of Pavlodar region and Finance Department of Pavlodar city. The trust management agreement is considered a concession agreement, since the Government regulates the activity of the Group and controls property, plant and equipment in trust management. Property, plant and equipment received under trust management are not recorded in the consolidated statement of financial position of the Group and income from use of property, plant and equipment is determined at the fair value of the consideration received or receivable and represents the amounts receivable from the supply of heat energy, which are included in profit or loss at the moment of delivery to consumers. The expenses are recognized as incurred and reflected in profits or loss in the period to which they relate.

Useful lives of property and equipment

The Group reviews the useful lives of property, plant and equipment as at the end of each financial year. The evaluation of the useful life of an asset depends on such factors as economic use, repair and maintenance program, technological upgrades and other business conditions. Management's assessment of the useful lives of property, plant and equipment reflects the respective information available as at the date of these consolidated financial statements.

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Ash disposal area restoration liabilities

For production purposes the Group uses ash disposal areas. At the end of the useful life, these ash disposal areas should be restored. In order to determine the amount of the liability on restoration of these ash disposal areas management of the Group is required to conduct the evaluation of future cost of restoration of ash disposal areas. The management evaluates liabilities on restoration of ash disposal areas at amortized cost using effective interest rate of 12%-14% which represents a market rate of financing for the Group.

Provisions

The Group accrues allowance for doubtful debts. Significant judgments are used to estimate doubtful debts. Debt periods, historical and expected customer behavior are considered when identifying doubtful debts. Changes in economy or financial conditions may require adjustments to the allowance for doubtful debts in the consolidated financial statements.

Annually the Group considers the need of provision accrual for obsolete inventories based on annual stock taking and estimation on future use of obsolete stock.

Recognition of revenue from sale of power

The Group recognizes revenue at the moment of delivery of power as per meters of the power consumers. The data from the meters are provided by consumers on a monthly basis and checked by the Group for accuracy on a sample basis. The Group recognizes revenue from power sold from the moment of the last metering to the end of the reporting period based on an estimate. As per this method, the daily volume of electricity consumed is determined according to the data of the previous month which is multiplied by the tariff.

4. PRESENTATION AND MAIN PRINCIPLES OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of preparation

The consolidated financial statements of the Group have been prepared on the historical cost basis except for property, plant and equipment and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED) *(in thousands of Tenge)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs - are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs - are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs - are unobservable inputs for the asset or liability.

Going concern

The consolidated financial statements have been prepared based on the assumption that the Group will continue its operations in the foreseeable future. However, as at 31 December 2016 current liabilities of the Group exceeded its current assets by 1,282,651 thousand tenge, whilst net profit for the year was 7,636,042 thousand tenge. Also as at 31 December 2016, the Group breached loan financial covenants per loan agreements as disclosed in Note 20.

Management believes that the Group will realize its assets and discharge its liabilities in the normal course of business, because the Management developed measures to improve profitability, including:

- steady increase in tariffs;
- increase in output;
- reduction of electricity and heat losses through the introduction of ASCAPC ("Automatic system for commercial accounting of power consumption"), installation of meter readings of electric and heat energy for household consumers, reconstruction, rehabilitation and modernization of transmission lines and district heating networks; and
- improving the environmental performance of production.

The Group received waiver letters from banks on noncompliance with financial covenants as at 31 December 2016 (Note 20).

On the basis of stated above Management of the Group believes that the consolidated financial statements do not require any adjustment to the carrying amounts of assets and liabilities, income and expense recognition as well as classification of the consolidated statement of financial position, which could be required as a result of these events.

Functional and presentation currency

The functional and presentation currency of these consolidated financial statements is tenge.

JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED) *(in thousands of Tenge)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses 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 listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company 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 intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED) *(in thousands of Tenge)*

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 Financial Instruments: Recognition and Measurement, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Goodwill arising on an acquisition of a business is carried at cost at the date of acquisition of the business less accumulated impairment losses, if any.

JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED) *(in thousands of Tenge)*

Changes in a Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). In such circumstances the carrying amounts of the controlling and non-controlling interests adjusted to reflect the changes in their relative interests in a subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received recognized directly in equity.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

Recognition of revenue from power and heat

Revenue is determined at the fair value of the consideration received or receivable and represents amounts receivable for power and heat services provided in the normal course of business, net of discounts and Value Added Tax ("VAT").

Revenue from sales of power and heat is included into profit or loss at the moment of delivery to consumers. The basis for accrual of revenue from power and heat are tariffs approved by the Agency of the Republic of Kazakhstan on regulation of natural monopolies.

Recognition of revenue from sales of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend and interest income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

Related party transactions

In preparation of these consolidated financial statements, the following parties were considered as related parties:

A party is related if:

- (a) directly, or indirectly through one or more intermediaries, the party:
 - i) controls, is controlled by, or is under common control with, the Group (this includes holding companies, subsidiaries and fellow subsidiaries);
 - ii) has an interest in the Group that gives it significant influence over the Group; or
 - iii) has joint control over the Group;
- (b) the party is an associate of the Group;
- (c) the party is a joint venture in which the Group is a venturer;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party represents a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

In considering each possible related party, attention is directed to the substance of the relationship and not merely its legal form.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.

The following table shows the tenge exchange rate at specific dates:

	31 December 2016	31 December 2015
US dollar	333.29	339.47
Russian rubles	5.43	4.65

Average tenge exchange rates for the years ended 31 December are:

	2016	2015
US dollar	341.76	222.25
Russian rubles	5.12	3.62

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Borrowing costs also include exchange differences arising as a result of loans in foreign currency to the extent they are considered an adjustment of interest payments. The amount of the exchange difference capitalized in the form of an adjustment of interest expenses does not exceed the amount of interest expenses, which the Group would have capitalized, had the loan been taken in local currency. Any excess in exchange differences is charged to profit or loss.

Income received as a result of temporary investment of the received borrowings till their disbursement for acquisition of qualified assets is deducted from borrowing costs.

All other borrowing costs are recognized through profit or loss in the period in which they are incurred.

Interest rate on EBRD loan agreements in KZT includes all-in cost. All-in-cost represents the cost of financing the loan (fees, commissions, etc.), which are paid by the Group during the term of the loan, in accordance with loan agreements.

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

Employee benefits

Social tax

The Group pays social tax based on current Kazakhstan legislation. The Group's effective social tax rate during 2016 and 2015 was approximately 6% of employees' gross income. The social tax and payroll of personnel are expensed in the period as accrued.

Pension contributions

The Group also withholds 10% from the salary of its employees as contributions to the cumulative pension funds but not more than 171,442 tenge per month in 2016 (2015: not more than 160,230 tenge per month). According to the legislation of the Republic of Kazakhstan, pension contributions are obligations of the employee, and the Group carries no current or future obligations on employee benefits after their retirement, except for payments provided for by the collective agreement.

Pension liabilities

According to the collective agreement the Group pays certain benefits to its employees after the retirement ("Defined benefit pension plan"). According to this agreement the Group ensures the following main payments and benefits:

- one-time benefit upon retirement;
- one-time premium upon a jubilee.

Obligations and expenses on benefits according to the defined benefit pension plan are determined using the projected unit credit method. This method considers each worked year as increasing the right for a benefit by an additional unit and measures each unit separately for recognition of the final obligation. The expenses on benefits are recorded in profit or loss in order to distribute the final benefits during the service time of workers according to the benefit formula under the defined benefit pension plan. This obligation is measured at the current value of estimated future cash flows using the discount rate similar to the rate of return on state bonds, currency and terms on which are comparable with the currency and estimated terms of the obligation under the defined benefit pension plan.

The Group recognizes actuarial gains and losses arising from revaluation of employee benefit obligations in the period when they occurred within expenses on employee benefits.

Income tax expenses

Income tax expense represents the sum of the current and deferred tax expense.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to set off current income tax assets against current income tax liabilities and deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority, and the Group intends to settle its tax assets and liabilities on a net basis.

Current and deferred taxes

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment are initially recorded at acquisition cost. All the property, plant and equipment acquired before 1 January 2005 – date of transition to IFRS – are recorded at the revalued cost being the deem cost. The cost of acquired property, plant and equipment represents the cost of funds paid upon acquisition of respective assets and other directly related costs incurred in delivery of assets to the facility and necessary preparation for their planned utilization.

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of these assets, on the same basis as for other fixed assets, commences when the assets are put into operation. Construction in progress is reviewed regularly to determine whether its carrying value is fairly stated and whether appropriate provision for impairment is required.

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

After the initial recognition the property, plant and equipment is recorded at the revalued value which represents the fair value at the date of revaluation less accumulated depreciation and any subsequent impairment of the value. The revaluation of property, plant and equipment is conducted on a regular basis so that the possible difference between the carrying value and estimated fair value at the reporting date would be immaterial. The accumulated depreciation at the date of revaluation is eliminated against the total carrying value of the asset, after which the carrying value is restated to the revalued cost of the asset.

If the carrying amount of assets increased as a result of revaluation, the increase shall be recognized in other comprehensive income and accumulated in equity under the heading revaluation surplus. However, such an increase should be recognized in profit or loss to the extent that it reverses the decrease in value on revaluation of the same asset previously recognized in profit or loss.

If the carrying amount of an asset as a result of revaluation decreases, the amount of such a decrease is included in profit or loss. Nevertheless, this decrease should be recognized in other comprehensive income in the amount of existing credit balance, if any, reflected in revaluation surplus in respect of that asset. The decrease, as recognized in other comprehensive income, reduces the amount accumulated in equity under the heading of revaluation surplus.

Capitalized cost includes major expenditures for improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance expenditures that do not meet the foregoing criteria for capitalization are charged to profit or loss as incurred.

Depreciation of revalued property, plant and equipment is charged to profit or loss. Depreciation of assets under construction commences when the assets are ready for their intended use. Depreciation is charged so as to write off the cost of assets over the estimated useful lives of the assets, using the straight-line method, on the following basis:

Buildings and constructions	5-70 years
Machinery and production equipment	3-40 years
Vehicles	3-15 years
Other	3-25 years

The carrying amount of an asset, useful life and methods are reviewed and adjusted, if needed, at the end of each financial year.

The gain or loss arising on disposal of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated according to the straight-line method over the estimated useful lives of assets, which is 6-15 years.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost comprises direct cost of materials and, where applicable, direct labor and overheads incurred to bring inventories to their current location and condition. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the obligation can be estimated reliably. Provisions are revised at each reporting date and adjusted to reflect the best current estimate.

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

Where the impact of time value of money is significant, the amount of the provision is calculated as the current value of expenses which are expected to settle the obligations. Where the discounting is used, the increase in the provision reflecting the period of past time is recognized as finance cost.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in Note 36.

Held-to-maturity investments

Held-to-maturity investments mainly consist of deposits. Deposits with initial maturity of over three months and deposits with flexible terms of replenishment and partial withdrawals are recorded in the consolidated statement of financial position as other current financial assets. Deposits for debt service with initial maturity of more than a year are recorded in the consolidated statement of financial position as other non-current financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances, cash on broker's accounts and petty cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade and other receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

Bank loans, trade and other accounts payable

Bank loans, trade and other accounts payable after initial recognition, are recorded at the amortized cost using effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. SEGMENT REPORTING

Information reported to the President of the Group, the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on the types of services provided and, accordingly, the Group identifies three main segments: production, transmission, distribution and sale of heat and power and production of chemicals. Other services do not exceed the quantitative thresholds, therefore, do not require a separate disclosure.

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

The Group monitors the multiple profitability ratios such as: profit before tax, profit for the year and gross profit. Despite this, the profit for the year is the ratio used for the purpose of resource allocation and assessment of segment performance.

	For the year ended 31 December 2016			
	Production, transmission, distribution and sale of heat and power	Production of chemicals	Other	Total
Key operating results				
Total revenue	186,403,989	5,483,004	1,075,234	192,962,227
Intrasegment revenue	(65,654,077)	(54,859)	(885,037)	(66,593,973)
Revenue from sales to external customers	120,749,912	5,428,145	190,197	126,368,254
Cost of sales	(92,788,500)	(2,315,703)	(499,052)	(95,603,255)
General and administrative expenses	(7,300,219)	(1,143,940)	(833,871)	(9,278,030)
Selling expenses	(1,981,898)	(799,398)	-	(2,781,296)
Finance costs	(5,623,867)	(848,069)	(3,711,973)	(10,183,909)
Finance income	371,475	11	1,573,050	1,944,536
Foreign exchange gain, net	283,139	77,215	264,921	625,275
Other income, net	777,478	(851,840)	170,155	95,793
Income tax expense	(3,546,614)	-	(4,712)	(3,551,326)
Profit/(loss) for the year	10,940,906	(453,579)	(2,851,285)	7,636,042
Other key segment information				
Capital expenditure on property, plant and equipment	22,619,875	400,306	147,690	23,167,871
Depreciation of property, plant and equipment	10,324,789	1,394,967	402,201	12,121,957

	For the year ended 31 December 2015			
	Production, transmission, distribution and sale of heat and power	Production of chemicals	Other	Total
Key operating results				
Total revenue	168,646,799	3,326,444	1,409,630	173,382,873
Intrasegment revenue	(62,087,266)	(65,845)	(1,083,458)	(63,236,569)
Revenue from sales to external customers	106,559,533	3,260,599	326,172	110,146,304
Cost of sales	(83,639,575)	(1,793,087)	(583,994)	(86,016,656)
General and administrative expenses	(6,891,295)	(1,203,671)	(936,312)	(9,031,278)
Selling expenses	(1,927,558)	(826,157)	-	(2,753,715)
Finance costs	(3,216,699)	(1,231,369)	(3,342,417)	(7,790,485)
Finance income	331,700	1,339,849	548,970	2,220,519
Foreign exchange loss, net	(17,651,949)	(2,573,058)	(1,469,681)	(21,694,688)
Other income, net	354,126	(122,634)	130,294	361,786
Income tax benefit	519,872	-	170,995	690,867
Loss for the year	(5,561,845)	(3,149,528)	(5,155,973)	(13,867,346)
Other key segment information				
Capital expenditure on property, plant and equipment	32,441,251	97,668	86,402	32,625,321
Depreciation of property, plant and equipment	9,379,428	1,427,360	342,035	11,148,823

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

6. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and construction	Machinery and production equipment	Vehicles	Other	Construction in progress	Total
Cost or revalued cost						
As at 1 January 2015	34,883,849	163,623,322	4,014,378	1,825,203	21,664,546	226,011,298
Purchases	286,619	455,282	224,242	120,879	31,538,299	32,625,321
Internal transfers	7,450,102	28,375,836	22,136	(33,226)	(35,814,848)	-
Disposals	(303,930)	(203,580)	(13,244)	(12,000)	(137,246)	(670,000)
As at 31 December 2015	42,316,640	192,250,860	4,247,512	1,900,856	17,250,751	257,966,619
Purchases	497,402	1,097,637	176,188	72,101	21,324,543	23,167,871
Internal transfers	1,186,364	21,377,849	574	11,920	(22,576,707)	-
Disposals	(132,685)	(647,228)	(425,393)	(6,161)	(76,740)	(1,288,207)
Change in estimates of asset retirement obligation	379,084	-	-	-	-	379,084
Revaluation decrease	-	28	(203,975)	516	-	(203,431)
Elimination of accumulated depreciation	-	(1,399)	(266,777)	(4)	-	(268,180)
As at 31 December 2016	44,246,805	214,077,747	3,528,129	1,979,228	15,921,847	279,753,756
Accumulated depreciation						
As at 1 January 2015	(628,361)	(1,058,511)	(117,244)	(113,808)	(488)	(1,918,412)
Charge for the year	(2,505,696)	(7,714,886)	(687,813)	(240,428)	-	(11,148,823)
Disposals	179,375	12,923	3,589	3,272	-	199,159
As at 31 December 2015	(2,954,682)	(8,760,474)	(801,468)	(350,964)	(488)	(12,868,076)
Charge for the year	(2,703,961)	(8,695,036)	(457,902)	(265,058)	-	(12,121,957)
Disposals	47,694	104,573	10,292	2,161	-	164,720
Elimination of accumulated depreciation	-	1,399	266,777	4	-	268,180
As at 31 December 2016	(5,610,949)	(17,349,538)	(982,301)	(613,857)	(488)	(24,557,133)
Carrying value						
As at 31 December 2016	38,635,856	196,728,209	2,545,828	1,365,371	15,921,359	255,196,623
As at 31 December 2015	39,361,958	183,490,386	3,446,044	1,549,892	17,250,263	245,098,543

Net book value of each class of property, plant and equipment, which would be recognized in the consolidated financial statements, had property, plant and equipment been recorded at cost less accumulated depreciation and accumulated provision for impairment losses, would be presented as follows:

	Land, buildings and construction	Machines and production equipment	Vehicles	Others	Construction in progress	Total
As at 31 December 2016	27,502,114	143,800,739	1,839,386	1,324,018	15,921,359	190,387,616
As at 31 December 2015	28,031,360	127,944,288	2,420,277	1,423,056	17,250,263	177,069,244

For the years ended 31 December 2016 and 2015, the Group capitalized interest expenses related to bank loans for the total amount of 807,240 thousand tenge and 2,751,045 thousand tenge, respectively.

As at 31 December 2016 and 2015, the carrying value of pledged property, plant and equipment amounted to 138,963,482 thousand tenge and 131,973,882 thousand tenge, respectively (Note 20).

Fully depreciated property, plant and equipment as at 31 December 2016 and 2015 amounted to 854,864 thousand tenge and 188,211 thousand tenge, respectively.

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

7. GOODWILL

	JSC PAVLODAR- ENERGO	LLP Astana- energoby	JSC Kaustik	Total
Goodwill recognised at 31 December 2016	<u>1,687,141</u>	<u>737,278</u>	<u>2,420,091</u>	<u>4,844,510</u>
Goodwill recognised at 31 December 2015	<u>1,687,141</u>	<u>737,278</u>	<u>2,420,091</u>	<u>4,844,510</u>

The Group tests goodwill for impairment annually or more frequently if there are indications that goodwill might be impaired. Key assumptions on which management has determined the value in use include the discount rate and growth rate.

Non-controlling interests recognized at the acquisition date, measured at fair value of assets and liabilities.

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

- Sale of heat and power;
- Transmission and distribution of power.
- Production of chemical products.

The recoverable amount of these cash-generating units is determined based on a value in use calculation, which uses cash flow projections based on five-year financial budgets and a discount rate of 11.68% per annum for sale of heat and power and transmission and distribution of power and 13.6% per annum for production of chemical products.

Cash flow projections for a period of planning were 5 years for sale of heat and power and transmission and distribution of power CGU and 21 years for production of chemical products CGU. They are based on the expected rate of return and inflation of prices for services and materials during the period of planning. Cash flows beyond this period are extrapolated based on the constant growth rate of 9% and 2.1% per annum respectively. Management believes that any reasonably possible change in key assumptions in determining the recoverable amount not cause the carrying value of the cash-generating units of their recoverable amounts.

8. INTANGIBLE ASSETS

As at 31 December 2016 and 2015, intangible assets of 1,817,758 thousand tenge and 1,557,731 thousand tenge, respectively, mainly included Enterprise Asset Management software ("Ellipse") on the basis of accounting system 1C:Enterprise Production Management. Intangible assets represented capitalized cost of development and installation of the Ellipse and 1C.

9. INVESTMENTS IN ASSOCIATES

	31 December 2016		31 December 2015	
	Share, %	Amount	Share, %	Amount
Investments in JSC Eximbank Kazakhstan	24.99%	1,682,645	24.99%	1,631,062
Investments in JSC Investment House "Astana-Invest"	9.74%	795,469	9.74%	805,090
Investments in Astana ERC LLP	42.25%	<u>65,887</u>	42.25%	<u>37,931</u>
		<u>2,544,001</u>		<u>2,474,083</u>

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

For the year ended 31 December 2016 the change in investments in associates are as follows:

	JSC Eximbank Kazakhstan	JSC Investment House "Astana- Invest"	Astana ERC LLP	Total
At 1 January 2016	1,631,062	805,090	37,931	2,474,083
Dividends	-	(34,109)	-	(34,109)
Share of profit of associates (Note 30)	51,583	24,488	27,956	104,027
At 31 December 2016	1,682,645	795,469	65,887	2,544,001

For the year ended 31 December 2015 the change in investments in associates are as follows:

	JSC Eximbank Kazakhstan	JSC Investment House "Astana- Invest"	Astana ERC LLP	Total
At 1 January 2015	1,546,731	772,769	-	2,319,500
Purchase of associate	-	-	37,548	37,548
Dividends	-	(35,084)	-	(35,084)
Share of profit of associates (Note 30)	80,395	67,405	383	148,183
Share of other comprehensive income of associates	3,936	-	-	3,936
At 31 December 2015	1,631,062	805,090	37,931	2,474,083

Summary of financial information related to JSC Eximbank Kazakhstan and JSC Investment House "Astana-Invest" is presented below:

JSC Eximbank Kazakhstan	31 December 2016	31 December 2015
Data from the statement of financial position:		
Total assets	79,460,275	70,792,084
Total liabilities	(65,914,345)	(57,452,569)
Net assets	13,545,930	13,339,515
JSC Investment House "Astana-Invest"	31 December 2016	31 December 2015
Data from the statement of financial position:		
Total assets	6,796,701	7,011,228
Total liabilities	(358,078)	(181,935)
Net assets	6,438,623	6,829,293

Share of the Company in net assets of JSC Eximbank Kazakhstan and JSC Investment House "Astana-Invest":

JSC Eximbank Kazakhstan	2016	2015
Data from the statement of profit or loss and other comprehensive income:		
Revenue	1,677,437	247,137
Profit for the year	206,416	321,709
Other comprehensive income	-	15,752
Total comprehensive income for the year	206,416	337,461
Share of profit	51,583	80,395
Share of other comprehensive income	-	3,936

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

JSC Investment House "Astana-Invest"	2016	2015
Data from the statement of profit or loss and other comprehensive income:		
Revenue	3,466,992	1,308,482
Profit and total comprehensive income for the year	251,413	692,045
Share of profit and other comprehensive income	24,488	67,405

10. INVENTORIES

	31 December 2016	31 December 2015
Spare parts	4,561,679	5,840,730
Coal and fuel oil	589,571	718,434
Other	488,302	370,309
	<u>5,639,552</u>	<u>6,929,473</u>
Provision for obsolete inventories	<u>(255,670)</u>	<u>(216,500)</u>
	<u>5,383,882</u>	<u>6,712,973</u>

For the years ended 31 December, movement in provision for obsolete inventories was as follows:

	2016	2015
As at 1 January	(216,500)	(170,406)
Accrued (Note 28)	(39,364)	(46,094)
Written-off against previously created provision	194	-
As at 31 December	<u>(255,670)</u>	<u>(216,500)</u>

11. TRADE ACCOUNTS RECEIVABLE

	31 December 2016	31 December 2015
Sale and transfer of power and heat	15,934,473	13,915,130
Sale of chemical products	427,013	245,593
Other	1,055,468	657,708
	<u>17,416,954</u>	<u>14,818,431</u>
Allowance for doubtful debts	<u>(1,407,010)</u>	<u>(1,277,868)</u>
	<u>16,009,944</u>	<u>13,540,563</u>

Major part of trade accounts receivable as at 31 December 2016 and 2015 includes receivable from customers for sale of electric and heat energy. The Group's customer database is diverse and includes households and industrial consumers. As at 31 December 2016 and 2015, average period of trade receivables origination is 60 days.

Allowance for doubtful debts are recorded based on amounts from previous experience and analysis of the Group's current financial position. The Group accrues a provision for doubtful debts as a percentage of the aging period.

For the years ended 31 December, movement in allowance for doubtful debts was as follows:

	2016	2015
As at 1 January	(1,277,868)	(1,673,378)
Accrued	(453,911)	(204,127)
Written-off against previously created allowance	324,769	599,637
As at 31 December	<u>(1,407,010)</u>	<u>(1,277,868)</u>

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

Allowance of trade accounts receivable that are past due is presented as follows:

	31 December 2016	31 December 2015
90-180 days	48,744	21,082
181-270 days	144,152	39,952
271-365 days	188,345	200,086
more than 365 days	<u>1,025,769</u>	<u>1,016,748</u>
	<u>1,407,010</u>	<u>1,277,868</u>

The Group does not hold any collateral over trade accounts receivable.

The concentration of credit risks is limited due to the fact that the customer base is large and unrelated. Customer base comprises of households (48%) and industrial consumers (52%).

Trade accounts receivable as at 31 December 2016 and 2015, were denominated in the following currencies:

	31 December 2016	31 December 2015
Tenge	16,008,659	13,475,013
Russian rubles	<u>1,285</u>	<u>65,550</u>
	<u>16,009,944</u>	<u>13,540,563</u>

12. ADVANCES PAID

	31 December 2016	31 December 2015
For purchase of property, plant and equipment	2,215,418	4,207,292
For purchase services	953,069	896,480
For purchase goods	875,199	764,512
Other	<u>160,695</u>	<u>40,328</u>
	<u>4,204,381</u>	<u>5,908,612</u>
Provision for impairment	<u>(69,650)</u>	<u>(63,093)</u>
	<u>4,134,731</u>	<u>5,845,519</u>
Non-current	2,215,188	4,206,462
Current	<u>1,919,543</u>	<u>1,639,057</u>
	<u>4,134,731</u>	<u>5,845,519</u>

13. OTHER NON-CURRENT ASSETS

	31 December 2016	31 December 2015
Financial aid provided to shareholders	1,758,345	-
Equipment available for sale	961,035	-
Prepaid taxes	689,101	309,297
Receivables from employees	47,206	51,901
Other	<u>136,626</u>	<u>23,162</u>
	<u>3,592,313</u>	<u>384,360</u>

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

14. OTHER CURRENT ASSETS

	31 December 2016	31 December 2015
Interest-free financial aid	8,228,539	2,413,003
Prepaid taxes	1,151,252	1,613,147
Accounts receivable from court proceedings and accrued fines	483,759	579,958
Receivables from employees	447,769	347,270
Receivables for shares	335,153	8,011,167
Prepaid expenses	113,005	109,515
Other	690,445	690,326
	11,449,922	13,764,386
Allowance for doubtful debts	(412,132)	(449,654)
	11,037,790	13,314,732

For the years ended 31 December, movement in allowance for doubtful debts is as follows:

	2016	2015
As at 1 January	(449,654)	(507,594)
Accrued	(92,297)	(95,882)
Written off against previously created provision	129,819	153,822
As at 31 December	(412,132)	(449,654)

15. OTHER FINANCIAL ASSETS

	31 December 2016	31 December 2015
Deposits	10,689,330	15,077,000
Interest receivable	20,462	36,611
Other	49,271	24,648
	10,759,063	15,138,259
Current	10,463,799	14,492,606
Non-current	295,264	645,653
	10,759,063	15,138,259
Included:		
<i>Cash restricted in use:</i>		
Cash on the debt service reserve accounts	1,213,839	488,843
Minimal balance on deposits	930,577	1,388,921
Deposits provided as collateral for loans of related parties (Note 35)	420,000	420,000
Liquidation fund	1,264	-
	2,565,680	2,297,764

Cash restricted in use are presented on the debt service reserve accounts, as required under the loan agreement entered into between the Group and the EBRD and are intended for the payment of principal and interest of loans, accumulated over a six-month period preceding the date of payment. These funds may be used exclusively for purposes defined by the credit agreement with the EBRD.

In 2016, the Group recognized interest income totaling to 1,073,830 thousand tenge (2015: 750,569 thousand tenge) (Note 31).

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

In 2016, interest rates on deposits in tenge and US dollar were 5.2% - 11.5% and 1.6% - 3.5%, respectively.

As at 31 December 2016 and 2015 other financial assets are denominated in the following currencies:

	31 December 2016	31 December 2015
Tenge	8,652,597	10,870,197
US dollar	2,097,009	4,264,720
Pound sterling	9,457	3,342
	<u>10,759,063</u>	<u>15,138,259</u>

16. CASH

	31 December 2016	31 December 2015
Cash in banks	1,759,015	9,887,128
Petty cash	236,239	168,197
Cash in transit	67,316	38,603
Cash in card accounts	509	293
	<u>2,063,079</u>	<u>10,094,221</u>

The analysis of cash by currency was as follows:

	31 December 2016	31 December 2015
Tenge	1,817,594	9,747,522
US dollar	245,338	344,835
Euro	143	1,860
Other	4	4
	<u>2,063,079</u>	<u>10,094,221</u>

17. SHARE CAPITAL

	31 December 2016 and 2015		
	Number of shares	Interest	Amount, thousand tenge
E.A. Amirkhanov	10,315,513	30.99%	5,666,349
S.V. Kan	10,315,513	30.99%	5,666,349
A Ya. Klebanov	10,315,513	30.99%	5,666,349
G.D. Artambayeva	2,330,000	7.03%	23,300
	<u>33,276,539</u>	<u>100%</u>	<u>17,022,347</u>

Issued capital of the Group comprises of 100,000,000 common shares. The number of issued but not placed common shares as at 31 December 2016 and 2015 is 66,723,461.

For the years ended 31 December 2016 and 2015 dividends were not declared.

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

18. NON-CONTROLLING INTERESTS

	31 December 2016	31 December 2015
Balance at beginning of year	55,249,503	50,128,764
Non-controlling interests in profit/(loss)	3,748,564	(4,479,280)
Non-controlling interests in other comprehensive income	(20,476)	-
Dividends	-	(932,521)
Contribution into share capital of subsidiary	-	1,400,000
Change of share in a subsidiary	(3,120,519)	9,132,540
	<u>55,857,072</u>	<u>55,249,503</u>

In 2016, the Company purchased 2.28% share in CAEPCo from KAZ HOLDINGS COOPERATIEF U.A. and EBRD.

In November 2015 the Company sold 7.25% of its shares in CAEPCO to KIF ENERGY S.A'R.L., CKIF ENERGY S.A'R.L., and JSC Baiterek Venture Fund.

19. BONDS ISSUED

Number	Maturity date	Interest rate %	31 December 2016	31 December 2015
KZ2C0Y10D307	December 2018	12.5%	19,922,598	19,922,598
KZ2C0Y10C606	July 2017	6.8% - 13%	7,901,620	7,901,620
KZ2C0Y10D695	October 2020	12.5%	8,000,000	8,000,000
KZP01Y10E533	November 2023	6%	5,676,183	5,676,183
KZP02Y10E531	June 2025	6%	1,700,000	1,700,000
KZ2C0Y10F369	November 2017	13%	400,210	-
KZ2C0Y10D426	November 2017	13%	400,100	-
Accrued interest on bonds			1,185,813	910,608
Premium			328,626	401,404
Discount			(1,205,039)	(1,590,403)
Repurchase of bonds			(3,918,491)	(3,907,046)
			<u>40,391,620</u>	<u>39,014,964</u>
less: current portion of bonds issued			(9,818,983)	(910,608)
			<u>30,572,637</u>	<u>38,104,356</u>

The bonds are repayable as follows:

	31 December 2016	31 December 2015
Within two and five years inclusive	24,177,745	31,843,166
After five years	6,394,892	6,261,190
	<u>30,572,637</u>	<u>38,104,356</u>

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

20. LOANS

	31 December 2016	31 December 2015
Principal amount of bank loans	70,645,264	77,194,710
Interest payable - long-term loans	4,320,531	4,373,986
Interest payable - short-term loans	309,594	472,434
Commissions payable	319,594	325,520
Less:		
Fair value adjustment of loan	(3,072,099)	(2,185,128)
Unamortized part of lump-sum commission	(387,973)	(372,477)
Total	72,134,911	79,809,045
Less:		
Short-term loans	(7,471,447)	(12,487,741)
Current portion of long-term loans	(8,819,284)	(3,295,494)
Long-term loans	<u>55,844,180</u>	<u>64,025,810</u>

Long-term loans, generally, include loans from the EBRD and other international financial institutions obtained for long-term investment program for renovation and modernization of the Group's assets.

Loans with interest rate below market rate are accounted for as a government grant equal to the difference between the proceeds of the loan and its fair value, calculated at current market rates at the time of the receipt of the loan.

On 26 May 2016, the Group concluded additional agreement to the effective loan agreement with EBRD for the financing of the investment project for modernisation of heat supply systems. Total amount of the project is 9,300,000 thousand tenge. Financing is carried out with the participation of the State with an opportunity of subsidising part of the project costs of 4,650,000 thousand tenge, i.e. similar amount provided by EBRD. Implementation of the project is planned for 2016 to 2019. In 2016, 1,569,792 thousand tenge that have been received as a government grant from Ministry of National Economy of the Republic of Kazakhstan.

Effective interest rate for long-term loans denominated in tenge and US dollar amounted to 10.75% - 11.5% per annum and 4.16% - 4.79% per annum, respectively (2015: 7% - 12.6% and 3.28% - 4.07% per annum, respectively).

Effective interest rate for short-term loans denominated in tenge and US dollar amounted to 14% - 19% per annum and 6.76% per annum, respectively (2015: 14% - 18% and 6.5% per annum).

In accordance with loan agreements with EBRD and Asian Development Bank, the Group shall comply with financial covenants. However, as at 31 December 2016 the Group breached current ratio of not less than 1. The Group received waiver letters from banks in respect of this ratio for the financial year of 2016 and as of 31 December 2016.

As of 31 December 2016 and 2015 long-term loans are secured by property, plant and equipment (Note 6).

Loans mature as follows:

	31 December 2016	31 December 2015
During the second year	6,344,192	6,575,134
Within two and five years inclusive	29,275,990	28,256,156
After five years	20,223,998	29,194,520
	<u>55,844,180</u>	<u>64,025,810</u>

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

As at 31 December 2016 and 2015, long-term and short-term loans were denominated in the following currencies:

	31 December 2016	31 December 2015
US dollar	41,940,274	50,012,058
Tenge	28,704,990	27,182,652
	<u>70,645,264</u>	<u>77,194,710</u>

21. DEFERRED REVENUE

	31 December 2016	31 December 2015
Fair value adjustment of loan	2,076,015	932,933
Government subsidies	1,644,467	78,580
Adjustment of guarantee fees	255,075	257,182
Other	12,375	12,375
	<u>3,987,932</u>	<u>1,281,070</u>

22. FINANCE LEASE OBLIGATIONS

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Within 1 year	472,307	312,864	416,072	249,296
Within 2 and 5 years inclusive	1,521,221	960,192	1,436,419	775,464
	<u>1,993,528</u>	<u>1,273,056</u>	<u>1,852,491</u>	<u>1,024,760</u>
Less: future finance charges	(141,037)	(248,296)	-	-
Present value of minimum lease payments	<u>1,852,491</u>	<u>1,024,760</u>	<u>1,852,491</u>	<u>1,024,760</u>
			31 December 2016	31 December 2015
Included:				
- short-term portion			416,072	249,296
- long-term portion			1,436,419	775,464
			<u>1,852,491</u>	<u>1,024,760</u>

23. TRADE ACCOUNTS PAYABLE

	31 December 2016	31 December 2015
For works and services provided	7,511,327	3,295,403
For goods purchased	5,300,056	7,788,629
For property, plant and equipment, repair and construction services	2,650,068	9,757,864
Other	42,947	53,438
	<u>15,504,398</u>	<u>20,895,334</u>

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

An analysis of trade accounts payable per currency is as follows:

	31 December 2016	31 December 2015
Tenge	14,649,997	18,865,059
Russian ruble	708,272	2,030,275
Euro	146,129	-
	<u>15,504,398</u>	<u>20,895,334</u>

24. ADVANCES RECEIVED

As at 31 December 2016 and 2015 advances received of 2,775,076 thousand tenge and 2,615,646 thousand tenge mainly included advances received for power and heat.

25. OTHER LIABILITIES AND ACCRUED EXPENSES

	31 December 2016	31 December 2015
Taxes	1,688,893	738,869
Payables to employees	738,769	733,600
Provision for unused vacations	541,891	518,709
Pension contributions	197,515	174,924
Dividends accrued	-	932,521
Other	393,545	525,462
	<u>3,560,613</u>	<u>3,624,085</u>

26. REVENUE

	2016	2015
Sale of power	69,204,644	62,430,495
Sale of heat	23,341,203	20,041,491
Power transmission	21,544,273	18,664,396
Heat transmission	6,659,791	5,423,151
Sale of chemical products	5,392,094	3,238,431
Other	226,249	348,340
	<u>126,368,254</u>	<u>110,146,304</u>

27. COST OF SALES

	2016	2015
Power and heat purchased for sale	22,047,675	19,213,435
Transmission of power and heat	17,761,887	15,850,901
Coal and fuel oil	16,744,442	14,659,689
Depreciation and amortization	11,022,753	10,077,856
Payroll expenses and related taxes	10,853,059	9,980,346
Services received	10,438,538	9,236,300
Inventories	4,892,230	4,281,999
Provision for unused vacations	27,478	-
Other	1,815,193	2,716,130
	<u>95,603,255</u>	<u>86,016,656</u>

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

28. GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Payroll expenses and related taxes	3,287,158	3,296,776
Services received	1,380,162	1,228,695
Taxes, except for income tax	1,378,292	1,374,613
Accrual of allowance for doubtful debts and impairment provision for advances paid	535,545	330,684
Depreciation and amortization	786,602	750,458
Inventories	208,359	295,547
Accrual of provision for obsolete inventories (Note 10)	39,364	46,094
Provision for unused vacations	15,569	24,606
Other	1,646,979	1,683,805
	<u>9,278,030</u>	<u>9,031,278</u>

29. SELLING EXPENSES

	2016	2015
Payroll expenses and related taxes	1,504,333	1,452,972
Services received	947,139	782,044
Depreciation and amortization	119,525	245,481
Inventories	107,829	156,051
Accrual/(reversal of) provision for unused vacation	3,303	(4,344)
Other	99,167	121,511
	<u>2,781,296</u>	<u>2,753,715</u>

30. OTHER INCOME, NET

	2016	2015
Income from penalties	373,979	299,237
Gain from the write off of accounts payable	209,221	330,230
Share of profit in associates (Note 9)	104,027	148,183
Loss on impairment of property, plant and equipment	(152,684)	-
Loss from disposal of property, plant and equipment	(192,945)	(17,218)
Depreciation expenses on property, plant and equipment transferred to operating lease	(156,020)	(77,839)
Reserve for onerous contract	(840,192)	(478,568)
Other	750,407	157,761
	<u>95,793</u>	<u>361,786</u>

31. FINANCE INCOME

	2016	2015
Interest income from deposits (Note 15)	1,073,830	750,569
Fair value adjustment of long-term loan	-	1,332,659
Other	870,706	137,291
	<u>1,944,536</u>	<u>2,220,519</u>

32. FINANCE COSTS

	2016	2015
Interest expenses on bonds	4,751,073	3,881,393
Interest expenses on bank loans	4,325,829	2,923,869
Other	1,107,007	985,223
	<u>10,183,909</u>	<u>7,790,485</u>

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

33. INCOME TAX

	2016	2015
Deferred income tax expense/(benefit)	3,550,169	(687,626)
Current income tax expense	1,157	-
Current income tax expense related to previous years	-	(3,241)
Total	3,551,326	(690,867)

As at 31 December 2016 and 2015, deferred tax assets and liabilities were as follows:

	31 December 2016	31 December 2015
Deferred tax assets as a result of:		
Tax losses carried forward	4,326,919	6,140,309
Other temporary differences	968,627	558,322
Total deferred tax assets	5,295,546	6,698,631
Deferred tax liabilities as a result of:		
Carrying value of property, plant and equipment	(40,063,324)	(37,963,542)
Other temporary differences	-	(80,725)
Total deferred tax liabilities	(40,063,324)	(38,044,267)
Deferred tax liabilities, net including:	(34,767,778)	(31,345,636)
Deferred tax assets	710,031	678,959
Deferred tax liabilities	(35,477,809)	(32,024,595)

Movements of deferred taxes for the years ended 31 December are as follows:

	2016	2015
As at 1 January	(31,345,636)	(32,054,305)
Recognized in:		
profit or loss	(3,550,169)	687,626
equity	128,027	-
other comprehensive income	-	21,043
As at 31 December	(34,767,778)	(31,345,636)

The income tax expense for the years ended 31 December is reconciled to pre-tax profit in the consolidated statement of profit or loss and other comprehensive income as follows:

	2016	2015
Profit/(loss) before income tax:	11,187,368	(14,558,213)
Tax at the established tax rate	2,237,474	(2,911,643)
Change in unrecognised deferred tax assets	309,532	741,915
Effect of loss of the subsidiary exempt from taxation	399,866	888,114
Tax effect of permanent differences	604,454	589,841
Adjustment to corporate income tax for previous years	-	906
Income tax expense/(benefit)	3,551,326	(690,867)

According to the tax legislation of the Republic of Kazakhstan, tax losses can be offset against taxable income within 10 years from the time of their occurrence. The Group has estimated the expected amount of tax losses to be offset against future taxable income during the 2017-2026. As a result, the Group did not recognize deferred tax assets arising from the part of the accumulated tax losses, that will not be used in the future of 12,862,491 thousand tenge (31 December 2015: 12,552,959 thousand tenge).

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

On 29 November 2011, the Decree of the President of Kazakhstan was issued on establishing Pavlodar Special Economic Zone, in which the Group operates. In this regard, JSC Kaustik, the subsidiary of the Group, is exempt from land tax, land use charge, property tax, and corporate income tax until 1 December 2036.

34. EARNINGS/(LOSS) PER SHARE

Basic and diluted earnings per share is calculated by dividing net profit for the year due to Shareholders of the Group by weighted average number of common shares, participating in distribution of net profit, outstanding during the year. The amount of common shares and common shares with diluted effect are the same as no dilution was made.

	2016	2015
Net profit/(loss), attributable to Owners of the Company	3,887,478	(9,388,066)
Weighted average number of common shares for calculating basic earnings per share	33,276,539	33,276,539
Earnings/(loss) per share, tenge	116.82	(282.12)

Book value per common share in accordance with the requirements of Kazakhstani Stock Exchange is presented below:

	31 December 2016	31 December 2015
Net assets, excluding intangible assets	138,299,649	136,513,137
Number of common shares placed	33,276,539	33,276,539
Book value per share, in tenge	4,156.07	4,102.38

The management of the Group believes that completely fulfill requirements of Kazakhstani Stock Exchange as at the reporting date.

35. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries are eliminated on consolidation and are not presented in this note.

In 2016, the Group had substantial transactions with the following related parties:

Name	Sale of services		Purchase of services		Purchase of assets	
	2016	2015	2016	2015	2016	2015
Associates	21,947	29,305	79,750	60,002	1,060	-
	<u>21,947</u>	<u>29,305</u>	<u>79,750</u>	<u>60,002</u>	<u>1,060</u>	<u>-</u>
Name	Due from a related party		Due to a related party		Due to a related party	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Shareholders	1,758,345	-	-	-	-	-
EBRD	-	-	-	-	-	636,840
KAZ HOLDINGS	-	-	-	-	-	295,681
COOPERATIEF U.A.	-	-	-	-	-	9,317
Associates	227	66,888	4,056	-	-	-
	<u>1,758,572</u>	<u>66,888</u>	<u>4,056</u>	<u>-</u>	<u>-</u>	<u>-</u>

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

Name	Loans and accrued interest		Deposits		Cash	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
EBRD	39,559,444	43,593,215	-	-	-	-
Associates	445,774	217,876	2,226,589	14,767,326	1,144,075	9,385,648
	40,005,218	43,811,091	2,226,589	14,767,326	1,144,075	9,385,648

Name	Interest expense accrued on loans from related parties		Interest income earned on deposits in bank, a related party	
	2016	2015	2016	2015
EBRD	2,442,114	1,801,956	-	-
Associates	28,492	28,237	1,059,095	879,342
	2,470,606	1,830,193	1,059,095	879,342

As at 31 December 2016 and 2015, deposits provided as collateral for loans of related parties were 420,000 thousand tenge (Note 15).

Key management personnel

In 2016 compensation to the Board of Directors and other key management personnel of the Group in the form of salary and bonuses amounted to 775,020 thousand tenge (2015: 657,791 thousand tenge).

36. FINANCIAL INSTRUMENTS, FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments are other financial assets (bank deposits), cash, loans, bonds, finance lease obligations as well as accounts receivable and accounts payable. The main risks attributable to the Group's financial instruments are currency risk, liquidity risk and credit risk. The Group also monitors the market risk and interest rate risk arising on all of its financial instruments.

Categories of financial instruments

As at 31 December, financial instruments are as follows:

	31 December 2016	31 December 2015
Financial assets		
Trade accounts receivable (Note 11)	16,009,944	13,540,563
Other accounts receivable (Note 13)	9,289,774	11,012,112
Other financial assets (Note 15)	10,759,063	15,138,259
Cash (Note 16)	2,063,079	10,094,221
Financial liabilities		
Bonds issued (Note 19)	40,391,620	39,014,964
Loans (Note 20)	72,134,911	79,809,045
Finance lease obligations (Note 22)	1,852,491	1,024,760
Trade accounts payable (Note 23)	15,504,398	20,895,334
Other payables (Note 25)	393,545	1,457,983

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

Capital risk management

The Group manages its capital to ensure that it will be able to continue as going concerns while increasing tariffs, production of electricity and heat energy and optimizing the debt and equity balance.

The equity structure of the Company consists of share capital, additional paid-in capital, revaluation reserve on property, plant and equipment and retained earnings as presented in the consolidated statement of changes in equity.

Basic accounting policies

Basic accounting policies and accepted methods, including recognition criteria, the basis of measurement and recognition of income and expenses for each class of financial assets and financial liabilities and equity instruments, are disclosed in Note 4 to the consolidated financial statements.

Objectives of financial risk management

Risk management is an essential element of the Group's operations. The Group controls and manages financial risks related to operations of the Group by analyzing the risk exposure by degree and amount of risk. These risks include market risk, currency risk, liquidity risk and cash flow interest rate risk. The description of the Group's risk management policies is provided below.

Interest rate risk

The Group's operations are exposed to interest rate risk as it has borrowings with fixed and floating interest rates. The Group manages the interest rate risk by retaining balanced ratio of loans with fixed and floating interest rates.

Interest rate sensitivity analysis

The following interest rate sensitivity analysis was made regarding the exposure to interest rate risk on non-derivative instruments at the reporting date. For liabilities with floating rates the analysis was made assuming that the outstanding liability was not repaid during the entire year. When preparing the management reports on interest rate risk for the key management of the Group an assumption is used on a change in the interest rate by 1%, which meets the expectations of the management regarding the reasonably possible fluctuation of interest rates.

If interest rates on liabilities were 1% more/less and all the other variables remained constant, then the profit of the Group for the year ended 31 December 2016 would decrease/increase by 933,843 thousand tenge (2015: 626,375 thousand tenge), but these changes would be compensated by the Group by changing tariffs on services of the Group. It relates to the Group's exposure to interest rate risk on its loan with a floating interest rate.

Credit risk

Credit risk arising as a result of contracting parties failing to meet the conditions of agreements with the Group's financial instruments is usually limited to amounts, if any, that the contracting parties' liabilities exceed the Group's liabilities to these contracting parties. The Group's policy ensures entering into the transactions involving financial instruments with a group of solvent contracting parties. The Group's maximum credit risk exposure equals the carrying value of each financial asset. The Group believes that its maximum exposure equals the amount of trade accounts receivable (Note 11) and other current assets (Note 13) less allowance for doubtful debts recorded at the reporting date.

The Group has a policy to provide for continued monitoring to ensure that transactions concluded with customers having an adequate credit history and do not exceed the credit limits.

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

The Group is not the guarantor of the obligations of third parties.

Market risk

Market risk includes interest rate risk, currency risk and other price risks faced by the Group. Due to the fact that the Group holds a dominant position on the market risk, in relation of production, transportation and sale of heat and power, the risk of a possible fluctuations in the value of a financial instrument due to change in market prices is unlikely.

Foreign currency risk

The amounts of financial assets and financial liabilities of the Group denominated in US dollar and other foreign currencies are recognized in tenge. Devaluation of the tenge exchange rate against US dollar can result in increase of losses of the Group.

The Group limits the currency risk by monitoring changes in exchange rates of foreign currencies in which, financial assets and financial liabilities are denominated.

The Group is mainly exposed to the risk of fluctuation of US dollar exchange rate.

Foreign currency sensitivity analysis

The following table reflects the Group's sensitivity to 20% increase or decrease in value of tenge against US dollar. 20% – is sensitivity level used in preparation of internal reports on currency risk for key management and represents the management's estimate of justifiably possible changes in exchange rates. The sensitivity analysis includes only unregulated cash positions in foreign currency and adjusts their transfer at the end of the period taking into account 20% change in exchange rates. The sensitivity analysis includes borrowings, cash and other financial assets of the Group denominated in US dollar. The positive figure indicated below reflects the increase in profits and other equity items when the tenge rate against a respective currency strengthens by 20%. In case of weakening of the tenge rate against a respective currency by 20%, there will be an equal and opposite effect on profits and equity, and the amounts indicated below will be negative.

	US dollar effect	
	2016	2015
Financial assets	468,469	942,279
Financial liabilities	(8,388,055)	(10,002,412)

The carrying value of financial assets and liabilities as at 31 December was as follows:

	Financial assets		Financial liabilities	
	2016	2015	2016	2015
US dollar	2,342,347	4,711,396	41,940,274	50,012,058

Liquidity risk

The Group's shareholders are ultimately responsible for liquidity risk management since it created an appropriate system of liquidity risk management for management of the Group as per the requirements of management of liquidity and short, mid and long-term financing. The Group manages liquidity risks by maintaining sufficient provisions, bank loans and available credit lines by constant monitoring of predicted and actual cash flow and comparing maturity dates of its financial assets and liabilities.

Liquidity and interest rate risk tables

The following tables show the Group's maturity dates for its non-derivative financial assets and liabilities. The tables were compiled based on the non-discounted movement of cash flows on financial liabilities using the earliest date when Group's payment is due. The table includes cash flows both for interest and principal.

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

The liquidity risk and interest rate risk table as at 31 December was as follows:

	Weighted average effective interest rate	Up to one year	1-5 years	Over 5 years	Overdue	Total
2016						
<i>Interest free:</i>						
Trade accounts receivable		16,009,944	-	-	1,407,010	17,416,954
Other current assets		9,289,774	-	-	412,132	9,701,906
Cash		2,063,079	-	-	-	2,063,079
Trade accounts payable		(15,504,398)	-	-	-	(15,504,398)
Long-term accounts payable		(25,375)	(122,385)	(271,316)	-	(419,076)
Other payables		(393,545)	-	-	-	(393,545)
<i>Interest:</i>						
Other financial assets	2.8-7.7%	10,505,221	117,681	305,395	-	10,928,297
Bonds issued	6-13%	(12,678,340)	(30,125,228)	(8,451,928)	-	(51,255,496)
	4.16%- 6.76%					
	10.75%- 18.5%	(18,139,327)	(42,477,905)	(25,263,694)	-	(85,880,926)
Loans		(451,450)	(1,487,930)	-	-	(1,939,380)
Finance lease obligation	12.5%					
Net position		<u>(9,324,417)</u>	<u>(74,095,767)</u>	<u>(33,681,543)</u>	<u>1,819,142</u>	<u>(115,282,585)</u>
2015						
<i>Interest free:</i>						
Trade accounts receivable		13,540,563	-	-	1,277,868	14,818,431
Other current assets		11,012,112	-	-	449,654	11,461,766
Cash		10,094,221	-	-	-	10,094,221
Trade accounts payable		(20,895,334)	-	-	-	(20,895,334)
Long-term accounts payable		(29,313)	(146,565)	(271,213)	-	(447,091)
Other payables		(1,457,983)	-	-	-	(1,457,983)
<i>Interest:</i>						
Other financial assets	2.8-7.7%	15,235,319	762,333	-	-	15,997,652
Bonds	6-13%	(4,167,353)	(41,385,657)	(8,356,627)	-	(53,909,637)
	3.28%- 6.5%					
	9.25%- 18%	(17,699,871)	(44,081,844)	(40,836,170)	-	(102,617,885)
Loans		(312,864)	(960,192)	-	-	(1,273,056)
Finance lease obligation	12.5%					
Net positions		<u>5,319,497</u>	<u>(85,811,925)</u>	<u>(49,464,010)</u>	<u>1,727,522</u>	<u>(128,228,916)</u>

Fair value of financial instruments

Management of the Group considers that the carrying amount of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values.

Valuation techniques and assumptions applied for the purposes of measuring fair value

Fair value is defined as the amount at which an instrument could be exchanged between knowledgeable willing parties in an arm's-length transaction, other than in a forced or liquidation sale. As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The fair value of the instruments presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED) *(in thousands of Tenge)*

The following methods and assumptions were used by the Group to estimate the fair value of each class of financial instrument:

- The carrying amount of cash approximates their fair value due to the short-term maturity period of these financial instruments.
- For financial assets and financial liabilities with maturity within twelve months, the carrying amount approximates their fair value due to the short-term nature of these financial instruments.
- For financial assets and financial liabilities with maturities of more than twelve months, the fair value represents a present value of discounted estimated future cash flows with the use of market rates effective at the end of the reporting period.

Level 3 fair values of land, buildings and constructions as well as machinery and equipment have been generally derived engaging an independent appraiser to determine the fair value of property, plant and equipment. The fair value of property, plant and equipment was determined by applying, in the aggregate, the following generally accepted valuation techniques: comparative, income and cost. Management believes that the results of the assessment appropriately reflect the economic conditions of the Group's property, plant and equipment as at 31 December 2014. From the date of the last revaluation there were no significant changes in the fair value of property, plant and equipment.

37. COMMITMENTS AND CONTINGENCIES

Legal issues

The Group was and continues to be the subject of legal proceedings and adjudications which separately or in totality did not have a material impact on the Group.

Taxation

The Government of the Republic of Kazakhstan continues to reform the business and commercial infrastructure in its transition to a market economy. As a result, laws and regulations affecting businesses continue to change rapidly. These changes are characterised by poor drafting, different interpretations and arbitrary application by the authorities.

In particular taxes are subject to review and investigation by a number of authorities, which are entitled to impose severe fines, penalties and interest charges. Although the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the foregoing facts will possibly lead to tax risks for the Group.

During 2016 and 2015 the Group paid taxes on time on due dates.

Environmental issues

The Group's management believes that at the moment the Group follows current environmental, health and safety laws and regulatory acts of the Republic of Kazakhstan. However, these laws and regulatory acts may change in future. The Group is unable to foresee the timing and degree of changes in the environmental, health and safety laws. In case of such changes the Group might be required to upgrade its technological equipment in order to meet more rigid requirements.

At each reporting date, the Group's management estimates the future obligations and creates a provision for restoration of ash disposal areas as per the legislation of the Republic of Kazakhstan.

JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED) *(in thousands of Tenge)*

Insurance

As at 31 December 2016 and 2015, the Group insured energy generation assets of Heat and Power Plant 2 and 3 and oxygen workshop in Pavlodar and Heat and Power Plant 2 in Petropavlovsk. The Group did not insure other property, plant and equipment. Since the lack of insurance does not represent the decrease in the value of assets or occurrence of liabilities, no provision for unforeseen expenses related to damage or loss of such assets is required.

Operating environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to significant decrease in national export revenue. On 20 August 2015, the Government and the National Bank of Kazakhstan announced a transition to a new monetary policy based on free floating tenge exchange rate, and cancelled the currency corridor. In 2016 and in the first quarter of 2016 tenge depreciated significantly against major foreign currencies.

Management of the Group is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future. However, the impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

Capital commitments

The Group developed and approved the plan of capital investments for 2016-2020 with the Department of the Committee of the Republic of Kazakhstan on Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy. According to the plan, during 2016-2020, the Group is subject to invest in production assets 72,413,818 thousand tenge not including VAT. In 2016, the Group invested into production assets 10,619,665 thousand tenge not including VAT. During 2017 the Group shall invest in production assets 18,843,001 thousand tenge not including VAT.

Tariffs

The Group agrees with the Agency of the Republic of Kazakhstan on regulation of natural monopolies the tariffs on power and heat. Management of the Group believes that it sets tariffs according to the legislation of the Republic of Kazakhstan.

Subscription agreements

In 2009, CAEPCO concluded a subscription agreement with EBRD, whereby EBRD acquired 24.88% shares of CAEPCO. In 2011, the Company transferred part of its shares to EBRD in accordance with the agreement between the shareholders of the Company. As at 31 December 2016, EBRD owns 22.6% of the shares of CAEPCO (31 December 2015: 24.16%).

In 2011, CAEPCO concluded a subscription agreement with Islamic Infrastructure Fund ("IIF") (represented by KAZ HOLDINGS COOPERATIEF U.A.), whereby IIF acquired 12.89% shares of JSC CAEPCO. As at 31 December 2016 and 2015 IIF owns 10.49% of JSC CAEPCO shares (31 December 2015: 11.22%). Pursuant to the terms of the agreement the Group shall meet a number of covenants. Management of the Company believes that as at 31 December 2016, the Group did not violate any covenants of the agreement and met all the requirements.

**JOINT STOCK COMPANY CENTRAL-ASIAN POWER-ENERGY COMPANY
AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)**
(in thousands of Tenge)

38. EVENTS AFTER THE REPORTING PERIOD

Tariffs

Effective from 1 January 2017, the following changes in tariffs were approved in accordance with the order of the Department of the Committee of the Republic of Kazakhstan on Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy for JSC PAVLODARENERGO:

- For production of heat increase in average by 6%;
- For electricity transmission and distribution services increase by 6%;
- For heat transmission and distribution services increase in average by 23.2%;
- For sale of heat increase in average by 14.7%.

Effective from 1 January 2017, the following changes in tariffs were approved in accordance with the order of the Department of the Committee of the Republic of Kazakhstan on Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy for JSC SEVKAZENERGO:

- For production of heat increase by 5%;
- For electricity transmission and distribution services increase by 2.4%;
- For heat transmission and distribution services increase by 14.6%;
- For sale of heat increase in average by 9.6%.

Effective from 1 January 2017 in accordance with the order of the Department of the Committee of the Republic of Kazakhstan on Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy of Akmola region tariffs for sale of power were increased in average by 3.9%, for transmission and distribution of electricity by 8.1%.

Effective from 1 January 2017, the following tariffs were approved in accordance with the order of the Department of the Committee of the Republic of Kazakhstan on Regulation of Natural Monopolies and Protection of Competition #6-OD dated 12 January 2017 for water transmission through distribution network of Pavlodar-Vodokonal Severnyi LLP:

- For manufacturing enterprises increased by 32%;
- For gardening communities increased by 12.1%.

39. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Group's management for issue on 15 June 2017.