

REPORT ARCHIVE COPY

**CENTRAL-ASIAN ELECTRIC-
POWER CORPORATION
AND ITS SUBSIDIARIES
JOINT STOCK COMPANY**

Consolidated financial statements
and independent auditor's report
for the year ended 31 December 2017

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017	1
INDEPENDENT AUDITOR'S REPORT	2-5
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017:	
Consolidated Statement of Financial Position	6
Consolidated Statement of Profit or Loss and Other Comprehensive Income	7
Consolidated Statement of Changes in Equity	8
Consolidated Statement of Cash flows	9
Notes to the Consolidated Financial Statements	10-52

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Central-Asian Electric-Power Corporation Joint Stock Company ("the Company") and its subsidiaries ("the Group") as at 31 December 2017, 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 IFRSs 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:

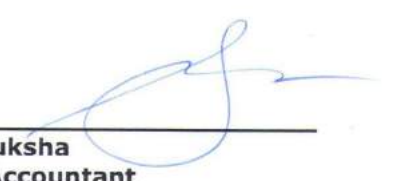
- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position 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 accounting standards;
- 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 2017 were approved by the management of the Group on 11 May 2018.

On behalf of Group management:


S.V. Kan
President

11 May 2018
Almaty, the Republic of Kazakhstan


N.V. Buksha
Chief Accountant

11 May 2018
Almaty, the Republic of Kazakhstan



INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Central-Asian Electric-Power Corporation Joint Stock Company and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, 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, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("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.

Allowances for doubtful debts

The Group delivers heat and power energy to a large number of individual consumers which results in a significant balance of accounts receivable at the reporting date.

The process of identification of doubtful debts for trade accounts receivable from individual consumers of heat and power energy involves management's analyses of ageing of outstanding receivables and historical and expected customers' behaviour. Changes in economic conditions or financial conditions of customers' ability to settle the amounts due may require adjustments to the methodology for estimating the allowance for doubtful debts.

Significant degree of management's judgment is required in assessing the recoverability of accounts receivable and estimating the appropriate amount of allowance.

Based on the above we determined the allowances for doubtful debts to be a key audit matter.

The amount of accrued allowances for doubtful debts is disclosed in Note 12 to the consolidated financial statements.

We performed the following procedures:

- testing operating effectiveness of internal controls over generating of trade accounts receivable ageing reports in the billing information system;
- assessing appropriateness of the model applied and assumptions used for estimating allowance for doubtful accounts based on historical cash collection rates;
- checking arithmetical accuracy and integrity of the model;
- testing subsequent cash collections;
- performing analytical procedures over accounts, including analysis of the days in receivable.

Based on our procedures, we found that allowances for doubtful debts are reasonably estimated.

Compliance with covenants

As discussed in Note 18, the loans received from European Bank for Reconstruction and Development and Asian Development Bank ("the creditors") with a carrying value of 40,448,318 thousand tenge and 10,399,088 thousand tenge, respectively, include certain financial covenants. The non-compliance may result in acceleration of the creditors' right to demand early repayment of the loans.

Furthermore, the loan agreements include the cross default provisions whereby the creditors have the right to accelerate repayment of the loan in case of a default of any company within the Group under any other loan agreement.

Management prepares forecasts of the expected financial position and makes preliminary calculations of financial ratios. Based on the calculations management expected the breach of one of the required ratios as at 31 December 2017. In December 2017, the creditors were informed about the expected breach and provided waivers in respect of the breach of this ratio as at 31 December 2017 and for 2017.

Considering the significance of the carrying value of loans and existence of cross default provisions we determined the compliance with covenants and appropriateness of long-term loans classification is the key audit matter.

Our procedures were mainly focused on evaluation of the design and implementation of the Group's internal controls over monitoring the compliance with covenants of all entities within the Group.

We performed the following procedures:

- analysing the covenants and the cross default provisions of the loan agreements;
- recalculating the financial ratios for mathematical accuracy;
- examining waiver from the creditor in cases the financial ratios were breached and determining the impact on the classification of the long-term portion of the loans;
- assessing the completeness and adequacy of disclosures in the consolidated financial statements.

We found that the Group appropriately classified the loans at the reporting date and adequately disclosed compliance with covenants in the notes to the consolidated financial statements.

Other Information

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

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 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; and
- 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.



Daulet Kuantbekov
Engagement Partner
Qualified Auditor
Qualified certificate No.0000523
dated 15 February 2002
the Republic of Kazakhstan

Deloitte, LLP

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



Nurlan Bekenov
General Director
Deloitte, LLP

11 May 2018
Almaty, the Republic of Kazakhstan

**JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER
CORPORATION AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**
(in thousands of Tenge)

	Notes	31 December 2017	31 December 2016
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	6	251,341,851	240,348,875
Goodwill	7	1,687,141	2,424,419
Intangible assets	8	1,997,187	1,816,542
Deferred tax assets	32	1,282,858	710,031
Other financial assets	10	5,515	14,000
Advances paid	9	3,317,136	1,883,613
Other non-current assets	13	1,816,766	1,833,968
Total non-current assets		261,448,454	249,031,448
CURRENT ASSETS:			
Inventories	11	4,880,435	4,956,047
Trade accounts receivable	12	18,767,608	16,879,028
Advances paid	9	1,518,316	1,682,394
Income tax prepaid		179,315	302,911
Other current assets	13	3,679,690	2,110,065
Other financial assets	10	17,181,418	10,236,661
Cash	14	2,368,075	2,022,862
Total current assets		48,574,857	38,189,968
TOTAL ASSETS		310,023,311	287,221,416
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	15	46,043,272	46,043,272
Additional paid-in capital	16	1,348,105	1,348,105
Revaluation reserve for property, plant and equipment		41,413,587	44,190,092
Retained earnings		60,979,619	49,253,645
Total equity		149,784,583	140,835,114
NON-CURRENT LIABILITIES:			
Bonds issued	17	20,181,710	14,719,190
Loans	18	46,448,347	44,821,166
Deferred revenue	19	7,729,309	3,975,557
Finance lease obligations	20	2,118,028	1,436,419
Deferred tax liabilities	32	38,759,445	35,226,177
Ash disposal area restoration liabilities		484,877	653,356
Employee benefit obligations		136,805	131,621
Other long-term payables		194,333	343,745
Total non-current liabilities		116,052,854	101,307,231
CURRENT LIABILITIES:			
Current portion of bonds issued	17	578,571	9,663,264
Loans	18	19,270,179	15,216,814
Current portion finance lease obligations	20	477,867	311,334
Trade accounts payable	21	17,781,829	14,731,068
Advances received	22	2,222,981	1,928,519
Current portion of ash disposal area restoration liabilities		87,694	97,785
Current portion of employee benefit obligations		11,574	10,199
Income tax payable		68,681	-
Other liabilities and accrued expenses	23	3,686,498	3,120,088
Total current liabilities		44,185,874	45,079,071
TOTAL EQUITY AND LIABILITIES		310,023,311	287,221,416

Signed on behalf of Group management:

S.K. Kan
President

N.V. Buksha
Chief Accountant

12 May 2018
Almaty, the Republic of Kazakhstan

12 May 2018
Almaty, the Republic of Kazakhstan

The notes on pages 10-52 form an integral part of these consolidated financial statements. Independent Auditor's Report is on pages 2-5.

**JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER
CORPORATION AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

(in thousands of Tenge)

	Notes	2017	2016
REVENUE	24	131,651,735	122,122,783
COST OF SALES	25	(100,295,105)	(93,197,839)
GROSS PROFIT		31,356,630	28,924,944
General and administrative expenses	26	(9,144,534)	(7,950,438)
Selling expenses	27	(2,033,859)	(1,981,898)
Finance costs	28	(6,467,984)	(6,440,604)
Finance income	29	1,111,927	1,113,268
Foreign exchange gain, net	30	181,079	404,090
Impairment loss on goodwill	7	(737,278)	-
Other (expense)/income, net	31	(14,314)	741,484
PROFIT BEFORE TAXATION		14,251,667	14,810,846
INCOME TAX EXPENSE	32	(3,612,563)	(3,546,614)
PROFIT FOR THE YEAR		10,639,104	11,264,232
OTHER COMPREHENSIVE INCOME FOR THE YEAR, net of income tax Items that will not be reclassified subsequently to profit or loss:			
Loss on revaluation of property		-	(50,746)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		10,639,104	11,213,486
Earnings per share, in tenge	35	287.92	304.84

Signed on behalf of Group management:

S.V. Kan
President

11 May 2018
Almaty, the Republic of Kazakhstan

N.V. Buksha
Chief Accountant

11 May 2018
Almaty, the Republic of Kazakhstan

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**JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER
CORPORATION AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**
(in thousands of Tenge)

	Share capital	Additional paid-in capital	Revaluation reserve for property, plant and equipment	Retained earnings	Total equity
At 1 January 2016	46,043,272	1,348,105	47,502,275	34,727,976	129,621,628
Profit for the year	-	-	-	11,264,232	11,264,232
Other comprehensive loss for the year	-	-	(50,746)	-	(50,746)
Total comprehensive income for the year	-	-	(50,746)	11,264,232	11,213,486
Amortisation of revaluation reserve on property, plant and equipment	-	-	(3,261,437)	3,261,437	-
At 31 December 2016	46,043,272	1,348,105	44,190,092	49,253,645	140,835,114
Profit and total comprehensive income for the year	-	-	-	10,639,104	10,639,104
Amortisation of revaluation reserve on property, plant and equipment	-	-	(2,776,505)	2,776,505	-
Dividends declared	-	-	-	(1,689,635)	(1,689,635)
At 31 December 2017	46,043,272	1,348,105	41,413,587	60,979,619	149,784,583

Signed on behalf of Group management:


S.V. Kan
President


N.V. Buksha
Chief Accountant

11 May 2018
Almaty, the Republic of Kazakhstan

11 May 2018
Almaty, the Republic of Kazakhstan

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JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017 (in thousands of Tenge)

	Notes	2017	2016
OPERATING ACTIVITIES:			
Profit before taxation		14,251,667	14,810,846
Adjustments for:			
Depreciation and amortisation	25, 26, 27, 31	11,326,606	10,414,920
Finance costs	28	6,467,984	6,440,604
Foreign exchange gain, net	30	(181,079)	(404,090)
Loss on disposal of property, plant and equipment	31	383,065	156,364
Loss on impairment of property, plant and equipment	31	-	152,684
Loss on impairment of goodwill	7	737,278	-
Accrual of allowance for doubtful debts	26	684,649	479,826
Gain on write-off of accounts payables	31	(52,881)	(209,195)
Accrual of provision for unused vacations	25, 26, 27	76,702	42,785
Accrual of provision for obsolete and slow-moving inventories	26	62,836	48,540
Finance income	29	(1,111,927)	(1,113,268)
Other adjustments		46,277	23,263
Operating cash flow before movement in working capital		32,691,177	30,843,279
Changes in inventories		(68,120)	1,408,056
Changes in trade accounts receivable		694,889	(3,147,851)
Changes in advances paid		90,015	(250,507)
Changes in other current assets		(139,377)	(389,230)
Changes in other non-current assets		42,955	-
Changes in trade accounts payable		225,118	2,241,212
Changes in deferred revenue		76,869	(37,199)
Changes in advances received		(247,731)	(233,053)
Changes in ash disposal area restoration liabilities		(192,708)	-
Changes in employee benefit obligations		(13,886)	(16,111)
Changes in other liabilities and accrued expenses		49,099	1,169,408
Cash provided by operating activities		33,208,300	31,588,004
Income tax (paid)/return of income tax paid		(489,868)	158,609
Interest paid		(7,170,574)	(6,308,772)
Net cash generated by operating activities		25,547,858	25,437,841
INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment		(23,261,781)	(26,922,275)
Acquisition of intangible assets		(347,990)	(309,536)
Proceeds from disposal of property, plant and equipment		10,742	431,214
Placement of deposits		(17,201,239)	-
Cash withdrawn from deposits and interest received		11,180,296	5,107,648
Cash returned from guarantee fees		(24,097)	(27,229)
Net cash used in investing activities		(29,644,069)	(21,720,178)
FINANCING ACTIVITIES:			
Proceeds from loans	18	28,376,936	23,584,188
Proceeds from issuance of bonds	17	5,651,772	800,234
Repayment of bonds	17	(9,038,366)	-
Finance lease repayment	20	(268,441)	(150,543)
Repayment of loans	18	(22,718,498)	(28,821,059)
Dividends paid		(1,292,914)	(932,521)
Proceeds from government subsidies	19	3,760,380	1,569,792
Net cash generated by/(used in) financing activities		4,470,869	(3,949,909)
NET INCREASE/(DECREASE) IN CASH		374,658	(232,246)
CASH at the beginning of the year	14	2,022,862	2,279,387
Effect of exchange rate changes on the cash balance of cash held in foreign currencies		(29,445)	(24,279)
CASH at the end of the year	14	2,368,075	2,022,862

Signed on behalf of Group management

S.V. Kan
President

11 May 2018
Almaty, the Republic of Kazakhstan

N.V. Buksha
Chief Accountant

11 May 2018
Almaty, the Republic of Kazakhstan

The notes on pages 10-52 form an integral part of these consolidated financial statements. Independent Auditor's Report is on pages 2-5.

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of Tenge)

1. GENERAL INFORMATION

Central-Asian Electric-Power Corporation Joint Stock Company (hereinafter "the Company" or "CAEPCo") was incorporated on 8 August 2008 (registration certificate number 93550-1910-AO, business identification number: 080840005767).

As at 31 December 2017 and 2016, the shareholders of the Company were Central-Asian Power Energy Company JSC ("CAPEC" or "the Parent company") (59.65%), European Bank for Reconstruction and Development ("EBRD") (22.6%), KAZ HOLDINGS COOPERATIEF U.A. (10.49%) and other shareholders (7.25%) (Note 15). The ultimate controlling shareholders of the Company as at 31 December 2017 and 2016 together are Mr. Y. Amirkhanov, Mr. A. Klebanov, Mr. S. Kan and Ms. G. Artambayeva, residents of the Republic of Kazakhstan, who are the immediate owners of CAPEC.

Legal address of the Company: 89, Karasay Batyr Street, Almaty, the Republic of Kazakhstan.

The Company is the parent of the following subsidiaries (hereinafter jointly as "the Group"):

Subsidiaries	Location	Ownership interest		Principal activity
		2017	2016	
PAVLODARENERGO JSC	Pavlodar	100%	100%	Production, transmission, distribution and sale of heat and power
SEVKAZENERGO JSC	Petropavlovsk	100%	100%	Production, transmission, distribution and sale of heat and power
Akmola Electricity Distribution Company JSC	Astana	100%	100%	Transmission, distribution and sale of power
Astanaenergoby LLP	Astana	100%	100%	Sale of heat and power

The principal activity of the Group is production, transmission, distribution, and sale of the heat and power in Pavlodar and Petropavlovsk cities, sale of heat and power in Astana city, transmission, distribution, and sale of the power in Akmola region.

The Group has all required licenses for the activities related to production, transmission and distribution of the heat and power.

The number of employees of the Group as at 31 December 2017 and 2016 was 10,583 and 10,473 persons, respectively.

2. ADOPTION OF NEW AND REVISED STANDARDS

Amendments to IFRSs affecting amounts reported in the consolidated financial statements

In the current year, the following new and revised Standards and Interpretations have been adopted:

- Amendments to IAS 7 *Disclosure Initiative*;
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*;
- Annual Improvements to IFRSs 2014-2016 Cycle – amendments to IFRS 12.

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in thousands of Tenge)

Amendments to IAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of borrowings (Notes 17 and 18) and finance lease obligations (Note 20). A reconciliation between the opening and closing balances of these items is provided in Notes 17, 18 and 20. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Notes 16, 17 and 20, the application of these amendments has had no impact on the Group's consolidated financial statements.

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments clarify that unrealized losses on debt instruments that are measured at fair value in financial statements and at historical cost in tax accounting can lead to the formation of deductible temporary differences. The amendments also clarify that the estimate of the possible future tax profit is not limited to the asset's carrying amount, and when comparing deductible temporary differences with future tax profits, future tax profits do not include tax deductions related to the restoration of such deductible temporary differences.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

New and revised IFRSs in issue but not yet effective

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

- IFRS 9 *Financial Instruments*¹;
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)*¹;
- IFRS 16 *Leases*²;
- IFRS 17 *Insurance Contracts*³;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*¹;
- IFRIC 23 *Uncertainty Over Income Tax Treatments*²;
- Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*¹;
- 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 40 – *Transfers of Investment Property*¹;
- Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*¹;
- Amendments to IFRS 9 – *Prepayment Features With Negative Compensation*²;
- Amendments to IAS 28 – *Long-Term Interests in Associates and Joint Ventures*²;
- Annual Improvements to IFRSs 2014-2016 Cycle¹;
- Annual Improvements to IFRSs 2015-2017 Cycle².

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

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

3 Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.

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

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in thousands of Tenge)

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

The key requirements of IFRS 9 are:

Classification and measurement of financial assets

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognised in profit or loss.

Classification and measurement of financial liabilities

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

Impairment

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The Group has selected a modified retrospective application for the transition to the requirements of IFRS 9 from 1 January 2018. Accordingly, the comparative data for 2017 will not be recalculated, and the total accumulated effect will be carried out through the incoming balance as at 1 January 2018.

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in thousands of Tenge)

Based on the preliminary analysis and current assessment of the Group's financial assets and financial liabilities as at 31 December 2017 and based on the facts and circumstances existing at that date, management expects that the application of the new standard from 1 January 2018, will affect its consolidated financial statements with a general cumulative effect on retained earnings as at 1 January 2018 of 1,974,450 thousand tenge, a detailed description of which is indicated below.

The Group does not expect significant changes in regards the classification and measurement of financial assets and liabilities.

The new impairment model requires recognition of the expected credit losses (as opposed to actual credit losses incurred in accordance with IAS 39) for financial assets measured at amortized cost, debt instruments measured at fair value through other comprehensive income, contract assets and financial guarantee contracts. With respect to its trade receivables, the Group management decided to apply a simplified approach of assessment of trade receivables, which is to recognize the expected credit losses for the entire period. In respect of cash and cash equivalents and other financial assets, the expected credit losses will be recognized for the entire term or for 12 months, depending on whether there will be a significant increase in credit risk for these instruments from the date of initial recognition. Based on the analysis, the Group expects to increase the provision for doubtful trade and other receivables of 1,358,420 thousand tenge, for cash, including restricted cash and other financial assets of 616,030 thousand tenge. Management does not expect significant changes in these estimate.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract with the customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contracts;
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued *Clarifications to IFRS 15* in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Based on an analysis of the Group's regular revenue streams for the year ended 31 December 2017, the terms of the contracts and facts and circumstances existing at the balance sheet date, management expects that the adoption of IFRS 15 will not have a significant impact on recognition and valuation of revenue in the consolidated financial statements. However, the disclosure required by the new standard will be extended to provide users with more detailed information about the nature, size, timing and uncertainty of revenues and cash flows arising from contracts with consumers.

**JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER
CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in thousands of Tenge)

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

Management expects that the adoption of IFRS 16 in the future may have a significant impact on the amounts of assets and liabilities, because the Group will recognize assets in the form of rights of use and lease obligations in respect of contracts in which the Group is a lessee, except for those that meet the criteria for short-term lease or lease of assets with low cost in accordance with IFRS 16.

Management is currently assessing the full impact of the IFRS 16 to the consolidated financial statements of the Group, therefore it is not possible to give a reasonable quantitative estimate of the impact of the transition to the new standard before the completion of the detailed management review. Management expects that it will be able to provide a more detailed analysis of the new standards in the consolidated financial statements for the year ended 31 December 2018.

Management of the Group expects that the application of other standards, amendments and interpretations effective from 1 January 2018 and later, will not have a significant impact on the consolidated financial statements in the periods of their application.

**3. 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.

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) *(in thousands of Tenge)*

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

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.

Management believes that the Group will realise 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 heat and power losses through the introduction of Automatic system for commercial accounting of power consumption ("ASCAPC"), installation of meter readings of heat and power energy for household consumers, reconstruction, rehabilitation and modernisation of transmission lines and district heating networks; and
- improving the environmental performance of production.

Management also believes that the Parent company will continue to provide financial support to the Group at least for one year from the reporting date, based on its written confirmation.

The Group and its subsidiaries, PAVLODARENERGO JSC and SEVKAZENERGO JSC, received waiver letter from EBRD in respect of financial covenant, current ratio not less than 1 as at 31 December 2017 and for 2017.

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 ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in thousands of Tenge)

Segment reporting

Based on the information contained in the reports, which are reviewed by chief operating decision maker for the purpose of allocation of resources and assessment of performance, as well as having analysed aggregation criteria, the Group identifies the following operating segments, which are production of heat and power, transmission and distribution of power, transmission and distribution of heat, sale of heat and power, and other.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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.

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 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' meeting.

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 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.

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.

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 recognised 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 ELECTRIC-POWER
CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (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 recognised 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 recognised directly in profit or loss. An impairment loss recognised 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.

Foreign currencies transactions

Transactions in currencies other than the functional currency of the Group are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currency are translated at the rates prevailing on reporting date. Non-monetary items recorded at historical cost denominated in foreign currency are not translated. Foreign exchange gains and losses on these operations are recorded in profit or loss, except for exchange differences on loans in foreign currency relating to items of construction in progress, which are included into the cost of these items.

The following table summarises foreign currency exchange rates for tenge at:

	31 December 2017	31 December 2016
US dollar	332.33	333.29
Russian ruble	5.77	5.43

Weighted-average exchange rates for the years ended 31 December, for tenge were as follows:

	2017	2016
US dollar	326.08	341.76
Russian ruble	5.59	5.12

Property, plant and equipment

Property, plant and equipment are initially recorded at acquisition cost. Cost of acquired property, plant and equipment represents cost of funds paid on acquisition of respective assets and other directly related costs incurred in delivery of assets to the facility and necessary preparation for their planned utilisation.

After the initial recognition property, plant and equipment is recorded at revalued amount which represents the fair value at the date of revaluation less accumulated depreciation and any subsequent impairment loss. 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 recalculated to its revalued amount.

**JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER
CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

(in thousands of Tenge)

If the carrying amount is increased as a result of revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading revaluation reserve on property, plant and equipment. However, such increase should be recognised in profit or loss to the extent that it reverses devaluation of the same asset previously recognised 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 recognised in other comprehensive income in the amount of existing credit balance, if any, reflected in revaluation reserve on property, plant and equipment in respect of that asset. The decrease, as recognised in other comprehensive income, reduces the amount accumulated in equity under the heading of revaluation surplus.

Capitalised 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 capitalisation are charged to profit or loss as incurred.

Depreciation on revalued property, plant and equipment is recorded in profit or loss. Depreciation of construction-in-progress commences when the assets are put into operation. Depreciation is calculated on a straight-line basis during the useful lives, which approximate the following:

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

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

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 is made on the same basis as for property, plant and equipment, 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.

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 recognised in profit or loss.

Intangible assets

Intangible assets are accounted at cost, less accumulated amortisation. Amortisation is charged on a straight-line basis over the assets' estimated useful lives, which is 6-15 years.

Impairment of non-current assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. An intangible asset with an undeterminable useful life is tested for impairment annually and when there is an indication that the asset can be impaired.

**JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER
CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

(in thousands of Tenge)

The recoverable amount is the higher of fair value less selling costs and value-in-use. In assessing value-in-use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately as an expense. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost or net realisable 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 realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

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

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 (see below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

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.

Benefits received and receivable as an incentive to conclude an operating lease are also allocated on a straight-line basis over the lease term.

**JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER
CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

(in thousands of Tenge)

Financial instruments

Financial assets and liabilities are recognised in the consolidated statement of financial position of the Group when the Group becomes a party to contractual provisions on the instrument. Regular purchases and sales of financial assets are fixed at the transaction date.

Financial assets are classified into the following 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 financial assets and is determined at the time of initial recognition.

Effective interest rate method

The effective interest rate method is a method to calculate the amortised cost of a financial asset and to allocate interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) over expected period of the financial asset, or, where appropriate, over a shorter period.

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

Trade and other accounts receivable

Trade and other receivables are recognised and recorded in the consolidated statement of financial position at invoiced amounts less allowance for doubtful debts. The allowance for doubtful debts is accrued when the debt is unlikely to be fully repaid. The allowance for doubtful debts is accrued when the debt is not repaid within contractual terms. The allowance for doubtful debts is regularly revised and, if adjustments are necessary, appropriate amounts are recorded in profit or loss in the period in which such need arises.

Other financial assets

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.

Cash

Cash includes petty cash and cash held on current bank accounts.

Impairment of financial assets

Impairment of any financial assets, except for FVTPL, is assessed on each reporting date. Financial assets are impaired when there is objective evidence that as a result of one or several events after the initial recognition of a financial asset future cash flows from the investment were affected.

For any other financial assets, the objective evidence of impairment can include the following:

- significant financial difficulties of issuers or counterparties; or
- default or delay on interest or principal; or
- probable bankruptcy or reorganisation of the borrower.

**JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER
CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in thousands of Tenge)

For some categories of financial assets, such as trade accounts receivable, assets which are deemed not to be impaired separately will be subsequently assessed for impairment jointly. The objective evidence of trade accounts receivable impairment may include the previous experience of the Group with regard to collection, increase in outstanding amounts delayed for more than 60 days, and observed changes in the national economy directly affecting the defaults on accounts receivable.

For the financial assets recorded at amortised cost, impairment is equal to the difference between the carrying amount of the asset and present value of estimated cash flow discounted at the initial effective interest rate.

Carrying amount of the financial asset is reduced by impairment loss directly for all financial assets, except for trade accounts receivable where carrying amount of non-recoverable accounts receivable is reduced by allowance for doubtful debts. When trade accounts receivable are not collectable, they are written off against previously created allowance for doubtful debts. Allowance for doubtful debts is reversed for subsequent recovery of previously written off amount. Changes in the carrying amount of the provision are recognised in profit or loss.

Except for equity instruments available-for-sale, if in the subsequent period the amount of the impairment loss is decreased and the decrease can be objectively related to the event occurring after recognition of impairment, then the previously recognised impairment loss is reversed in profit or loss, and the carrying value of the financial assets at the date of reverse shall not exceed the carrying value, which would be reflected if impairment loss had not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the nature of the contractual arrangements entered into and the definitions of financial liabilities and equity instruments. An equity instrument is any contract that evidences residual interest in the Group's assets after all of its liabilities are deducted. The accounting policy accepted for specific financial liabilities and equity instruments is discussed below.

Loans and debt securities

Loans and debt securities, after initial recognition, are recorded at the amortised cost using effective interest rate method.

Accounts payable and other liabilities

Accounts payable and other liabilities are initially recorded at the fair value and subsequently at amortised cost using the effective interest rate method.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported on a net-basis in the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and the Group intends either to settle them on a net-basis or to realise the asset and settle the liability simultaneously.

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED) *(in thousands of Tenge)*

Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group retains rights to receive cash flows from asset, but assumed an obligation to pay them fully without significant delay to a third party in accordance with transfer agreement, and transferred, all risks and rewards of the asset; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control over the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when it is discharged, cancelled or expires.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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 capitalised in the form of an adjustment of interest expenses does not exceed the amount of interest expenses, which the Group would have capitalised, 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 recognised through profit or loss in the period in which they are incurred.

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in thousands of Tenge)

Interest rate on EBRD loan agreements in tenge 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.

Revenue recognition

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

Revenue from sales of heat and power is included in profit or loss at the moment of delivery to consumers. The basis for accrual of revenue on transmission and distribution of heat and power and production of heat energy are tariffs approved by the Department of Committee for Regulation of Natural Monopolies and Competition Protection of the Ministry of National Economics of the Republic of Kazakhstan.

Revenue from sales of goods is included into profit or loss, when goods are delivered and significant risk and rewards of ownership of the goods were transferred to the buyer.

Taxation

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

Current income tax expense is based on taxable profit for the year. Taxable profit differs from profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Group's current income tax expense is calculated using tax rates that have been enacted or substantively enacted at the reporting date.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled. Deferred taxes are charged or credited to profit or loss, except when they relate to items charged or credited directly to other comprehensive income or equity.

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.

Social tax

The Group pays social tax according to the existing legislation of the Republic of Kazakhstan. The effective rate of social tax for the Group during 2017 and 2016 was approximately 6% of gross income of employees. The social tax and salary of the personnel are expensed in the period as accrued.

**JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER
CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in thousands of Tenge)

Pension contributions

The Group withholds 10% form the salary of its employees as contributions to the cumulative pension fund but not more than 183,442 tenge per month in 2017 (2016: not more than 171,442 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 pension contributions after their retirement.

Provisions

Provisions are recognised 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.

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 recognised as finance cost.

Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the consolidated financial statements, except when an outflow of resources representing economic benefits is probable to repay liabilities and the amount of such liabilities can be measured reliably.

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

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.

**JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER
CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in thousands of Tenge)

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions and estimations regarding future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial 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 2026;
 - cash flow projections were made in tenge with the translation into US dollars according to the forecast rate;
 - discount rate applied is 13%.

The Group assesses as 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 Group management made an assessment as at 31 December 2017 and concluded that there were no significant changes in the fair value of property, plant and equipment as at 31 December 2017 from the date of last revaluation on 31 December 2014.

Impairment of non-current assets

At each reporting date the Group reviews if there are indicators of possible impairment of non-current assets. If there are such indicators or if the annual testing for impairment is required, the Group performs the assessment of the recoverable amount. The recoverable amount of the asset represents the greater amount of the fair value of the asset or a generating unit less selling expenses and value in use and is determined for each asset except when an asset does not generate cash flows which to a great extent depend on cash inflows generated by other assets or groups of assets. If the carrying value of the asset exceeds the recoverable amount, then the asset is considered to be impaired and its value is decreased to the recoverable amount. In the evaluation of the value-in-use the estimated future cash flows are discounted to their current value using the effective pre-tax interest rate, which reflects the current market value of the time value of cash flows and risks inherent to the assets.

**JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER
CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in thousands of Tenge)

Useful lives of property, plant and equipment

As discussed in Note 3, the Group reviews the useful lives of property, plant and equipment as at the end of each financial year. The estimate 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 reporting date.

Allowances for doubtful debts

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

Ash disposal area restoration liability

For production purpose, 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 restoration liability 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 estimates liabilities on restoration of ash disposal areas at amortised cost using effective interest rate of 12%-14% that represents a market rate of financing for the Group.

Critical judgments in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see above), that the Group management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Property, plant and equipment held in trust management

The Group received property, plant and equipment for trust management from the state organisations – 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 recognised as incurred and reflected in profits or loss in the period to which they relate.

Recognition of revenue from sale of power

The Group recognises 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. If the data is not available for current month, the Group recognises revenue from power sold from the moment of the last metering based on an estimate. As per this method, the daily volume of power consumed is determined according to the data of the previous month, which is multiplied by the tariff.

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in thousands of Tenge)

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 five main segments: production of heat and power, transmission and distribution of power, transmission and distribution of heat, sale of heat and power and other, which include maintenance of home networks and sale of chemical products. Other services do not exceed the quantitative thresholds, therefore, do not require a separate disclosure.

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 2017						
Key operational activities	Production of heat and power	Transmission and distribution of power	Transmission and distribution of heat	Sale of heat and power	Other	Total
Revenue	57,028,387	22,205,623	7,805,199	98,881,415	77,549	185,998,173
Intrasegment revenue	(10,885,129)	(934,756)	(47,313)	(42,417,970)	(61,270)	(54,346,438)
Revenue	46,143,258	21,270,867	7,757,886	56,463,445	16,279	131,651,735
Cost of sales	(29,275,811)	(12,063,344)	(6,359,668)	(52,535,028)	(61,254)	(100,295,105)
General and administrative expenses	(2,391,302)	(2,708,918)	(1,860,696)	(1,702,796)	(480,822)	(9,144,534)
Selling expenses	(10,901)	-	-	(2,022,958)	-	(2,033,859)
Finance cost	(4,113,518)	(608,618)	(563,272)	(366,680)	(815,896)	(6,467,984)
Finance income	166,171	201,040	85,233	-	659,483	1,111,927
Foreign exchange gain/(loss), net	175,970	55,030	5,234	(76,340)	21,185	181,079
Impairment loss on goodwill	-	-	-	(737,278)	-	(737,278)
Other income/(expenses), net	(715,583)	264,573	352,412	330,978	(246,694)	(14,314)
Income tax expense	(2,465,653)	(1,044,093)	(56,239)	(35,772)	(10,806)	(3,612,563)
Profit/(loss) for the year	7,512,631	5,366,537	(639,110)	(682,429)	(918,525)	10,639,104
Other key segment information						
Capital expenditure on property, plant and equipment	5,913,655	8,200,823	8,242,204	116,440	211,827	22,684,949
Depreciation of property, plant and equipment	7,222,565	2,731,115	982,252	99,662	43,134	11,078,728

**JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER
CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in thousands of Tenge)

For the year ended 31 December 2016						
Key operational activities	Production of heat and power	Transmission and distribution of power	Transmission and distribution of heat	Sale of heat and power	Other	Total
Revenue	63,554,203	21,852,514	6,714,585	94,282,687	151,940	186,555,929
Intrasegment revenue	(10,528,739)	(308,241)	(54,794)	(53,401,456)	(139,916)	(64,433,146)
Revenue	53,025,464	21,544,273	6,659,791	40,881,231	12,024	122,122,783
Cost of sales	(33,616,627)	(15,369,853)	(6,042,134)	(38,091,971)	(77,254)	(93,197,839)
General and administrative expenses	(1,604,746)	(2,108,577)	(2,070,580)	(1,680,967)	(485,568)	(7,950,438)
Selling expenses	(3,432)	-	-	(1,978,466)	-	(1,981,898)
Finance cost	(4,149,469)	(670,252)	(308,245)	(495,901)	(816,737)	(6,440,604)
Finance income	94,752	197,964	77,331	1,467	741,754	1,113,268
Foreign exchange gain/(loss), net	174,434	64,197	56,440	(11,957)	120,976	404,090
Other income/(expenses), net	369,455	(3,971)	34,709	462,683	(121,392)	741,484
Income tax (expense)/benefit	(3,070,691)	(803,729)	233,346	115,479	(21,019)	(3,546,614)
Profit/(loss) for the year	11,219,140	2,850,052	(1,359,342)	(798,402)	(647,216)	11,264,232
Other key segment information						
Capital expenditure on property, plant and equipment	12,775,429	5,788,618	3,986,204	63,749	5,875	22,619,875
Depreciation of property, plant and equipment	6,899,139	2,494,002	846,448	88,231	40,623	10,368,443

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in thousands of Tenge)

6. PROPERTY, PLANT AND EQUIPMENT

Revalued cost	Land, buildings and constructions	Machinery and production equipment	Vehicles	Other	Construction in progress	Total
At 1 January 2016	34,893,935	184,164,929	2,163,496	317,385	16,981,716	238,521,461
Additions	497,402	1,011,944	125,789	34,442	20,950,298	22,619,875
Internal transfers	1,082,885	21,102,055	574	4,292	(22,189,806)	-
Disposals	(68,063)	(624,210)	(425,393)	(4,430)	(76,102)	(1,198,198)
Change in estimate 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)
At 31 December 2016	36,785,243	205,653,347	1,393,714	352,201	15,666,106	259,850,611
Additions	20,975	1,403,028	107,385	44,478	21,109,083	22,684,949
Internal transfers	1,128,986	17,450,944	344	24,759	(18,605,033)	-
Disposals	(277,230)	(548,165)	(4,059)	(5,925)	(106,518)	(941,897)
Other	3,754	48,357	-	603	142,189	194,903
At 31 December 2017	37,661,728	224,007,511	1,497,384	416,116	18,205,827	281,788,566
Accumulated depreciation and impairment						
At 1 January 2016	(2,051,566)	(6,968,298)	(432,706)	(80,915)	-	(9,533,485)
Depreciation charge	(2,266,442)	(7,861,439)	(183,252)	(57,310)	-	(10,368,443)
Disposals	21,155	99,218	10,292	1,347	-	132,012
Elimination of accumulated depreciation	-	1,399	266,777	4	-	268,180
At 31 December 2016	(4,296,853)	(14,729,120)	(338,889)	(136,874)	-	(19,501,736)
Depreciation charge	(2,214,003)	(8,591,173)	(211,834)	(46,603)	(15,115)	(11,078,728)
Disposals	25,115	98,773	3,809	2,965	3,087	133,749
Internal transfers	-	(5,565)	108	5,457	-	-
At 31 December 2017	(6,485,741)	(23,227,085)	(546,806)	(175,055)	(12,028)	(30,446,715)
Net book value At 31 December 2017	31,175,987	200,780,426	950,578	241,061	18,193,799	251,341,851
At 31 December 2016	32,488,390	190,924,227	1,054,825	215,327	15,666,106	240,348,875

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in thousands of Tenge)

Net book value of each class of property, plant and equipment, which would be recognised 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 construc- tions	Machinery and production equipment	Vehicles	Other	Construc- tion in progress	Total
At 31 December 2017	23,530,394	141,837,915	578,314	207,562	18,193,799	184,347,984
At 31 December 2016	23,112,245	139,317,461	610,676	162,172	15,666,106	178,868,660

For the year ended 31 December 2017, capitalized borrowing costs amounted to 647,309 thousand tenge (2016: 807,240 thousand tenge).

As at 31 December 2017 and 2016, net book value of pledged property, plant and equipment was equal to 127,773,224 thousand tenge and 128,213,370 thousand tenge, respectively (Note 18).

As at 31 December 2017 and 2016, fully depreciated property, plant and equipment at revalued cost amounted to 378,823 thousand tenge and 382,666 thousand tenge, respectively.

7. GOODWILL

	2017	2016
Cost		
Balance at beginning of year	2,424,419	2,424,419
Balance at end of year	2,424,419	2,424,419
Accumulated impairment losses		
Balance at beginning of year	2,424,419	2,424,419
Impairment losses recognised during the year	(737,278)	-
Balance at end of year	1,687,141	2,424,419

The carrying amount of goodwill was allocated to cash-generating units as follows:

	Pavlodar Regional Electric Distribution Company JSC	Pavlodar- energosbyt LLP	Astana- energosbyt LLP	Total
Goodwill recognised at 31 December 2017	1,405,202	281,939	-	1,687,141
Goodwill recognised at 31 December 2016	1,405,202	281,939	737,278	2,424,419

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

- Sale of heat and power;
- Transmission and distribution of power.

**JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER
CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

(in thousands of Tenge)

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 13.04% per annum approved by the Company management.

Cash flow projections for a period of planning (5 years) 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% per annum (2016: 9%). 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.

In 2017, the Group recognized an impairment loss of 737,278 thousand tenge related to goodwill from acquisition of Astanaenergoby LLP, based on analysis of losses of the subsidiary.

8. INTANGIBLE ASSETS

As at 31 December 2017 and 2016, intangible assets of 1,997,187 thousand tenge and 1,816,542 thousand tenge, respectively, mainly included Enterprise Asset Management software ("Ellipse") on the basis of accounting system 1C:Enterprise Production Management ("1C").

9. ADVANCES PAID

	31 December 2017	31 December 2016
For property, plant and equipment	3,472,367	1,883,843
For services	930,278	915,745
For goods	575,220	662,095
Other	71,560	153,328
	<u>5,049,425</u>	<u>3,615,011</u>
Impairment provision	(213,973)	(49,004)
	<u>4,835,452</u>	<u>3,566,007</u>
Non-current	3,317,136	1,883,613
Current	1,518,316	1,682,394
	<u>4,835,452</u>	<u>3,566,007</u>

10. OTHER FINANCIAL ASSETS

	31 December 2017	31 December 2016
Deposits	17,169,317	10,249,826
Interest receivable	17,616	835
	<u>17,186,933</u>	<u>10,250,661</u>
Current	17,181,418	10,236,661
Non-current	5,515	14,000
	<u>17,186,933</u>	<u>10,250,661</u>

**JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER
CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in thousands of Tenge)

Including:

	31 December 2017	31 December 2016
<i>Cash restricted in use:</i>		
Cash on the debt service reserve accounts	1,001,077	1,213,839
Minimal amount on deposits	935,300	912,912
	<u>1,936,377</u>	<u>2,126,751</u>

Cash restricted in use are presented on the debt service reserve accounts, as required under the loan agreements entered into between the Group and 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 EBRD.

In 2017, the Group recognised interest income totaling to 938,940 thousand tenge (2016: 959,758 thousand tenge) (Note 29).

In 2017, interest rates on deposits in tenge and US dollars were 5.2%-11.5% and 2.5%-3.3%, respectively (2016: 5.2%-11.5% and 1.6%-3.5%, respectively).

As at 31 December 2017, 97% of deposits in the amount of 16,710,991 thousand tenge (31 December 2016: 96% in the amount of 9,860,051 thousand tenge) are placed in Eximbank Kazakhstan JSC, the associate of CAPEC (Note 33). As at 31 December 2017, rating of Eximbank Kazakhstan JSC was B-/B according to Standart & Poor's Global Ratings, which subsequently was downgraded to CCC+/C (Notes 34 and 37).

As at 31 December 2017 and 2016, other financial assets were denominated in the following currencies:

	31 December 2017	31 December 2016
Tenge	15,256,341	8,210,131
US dollars	1,930,592	2,040,530
	<u>17,186,933</u>	<u>10,250,661</u>

11. INVENTORIES

	31 December 2017	31 December 2016
Spare parts and materials for maintenance	3,311,949	3,623,217
Coal and fuel oil	1,237,039	589,571
Other	584,490	933,466
	<u>5,133,478</u>	<u>5,146,254</u>
Provision for obsolete and slow-moving inventories	(253,043)	(190,207)
	<u>4,880,435</u>	<u>4,956,047</u>

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in thousands of Tenge)

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

	2017	2016
At 1 January	(190,207)	(141,861)
Accrued (Note 26)	(62,836)	(48,540)
Written-off against previously created provision	-	194
At 31 December	(253,043)	(190,207)

12. TRADE ACCOUNTS RECEIVABLE

	31 December 2017	31 December 2016
Sale and transmission of heat and power	19,121,484	17,250,278
Other	1,250,104	939,265
	20,371,588	18,189,543
Allowance for doubtful debts	(1,603,980)	(1,310,515)
	18,767,608	16,879,028

Major part of trade accounts receivable as at 31 December 2017 and 2016 includes receivable from consumers of heat and power energy. The Group's customer database is diverse and includes households and industrial consumers. As at 31 December 2017 and 2016, average period of trade receivables origination is 60 days.

Allowance for doubtful debts are estimated based on analysis of ageing of outstanding receivables and historical and expected customers' behaviour. The Group accrues provision for doubtful debts as a percentage of the aging period.

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

	2017	2016
At 1 January	(1,310,515)	(1,179,383)
Accrued	(385,978)	(394,368)
Written-off against previously created allowance	92,513	263,236
At 31 December	(1,603,980)	(1,310,515)

Amounts of trade accounts receivable that are past due and impaired is presented as follows:

	31 December 2017	31 December 2016
90-180 days	64,178	31,516
181-270 days	58,459	124,861
271-365 days	177,768	161,454
Over 365 days	1,303,575	992,684
	1,603,980	1,310,515

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 (50%) and industrial consumers (50%).

As at 31 December 2017 and 2016, trade accounts receivable were denominated in tenge.

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in thousands of Tenge)

13. OTHER ASSETS

	31 December 2017	31 December 2016
Other non-current assets		
Goods available for sale	1,051,612	961,035
Prepaid taxes	254,005	689,101
Receivables from employees	4,050	47,206
Other	507,099	136,626
Total other non-current assets	1,816,766	1,833,968
Other current assets		
Prepaid taxes	1,609,554	802,498
Accrued fines and penalties	1,087,905	648,162
Receivables from employees	326,238	436,734
Prepaid expenses	532,212	79,363
Other	632,617	555,440
	4,188,526	2,522,197
Allowance for doubtful debts	(508,836)	(412,132)
Total other current assets	3,679,690	2,110,065

As at 31 December 2017 and 2016, accrued fines and penalties are represented by fines and penalties charged to consumers for late payments for heat and power, as well as to suppliers for breach of the terms of contracts for delivery of materials and construction works.

For the years ended 31 December 2017 and 2016, movement in allowance for doubtful debts was as follows:

	2017	2016
At 1 January	(412,132)	(449,654)
Accrued	(128,508)	(92,297)
Written off against previously created allowance	31,804	129,819
At 31 December	(508,836)	(412,132)

14. CASH

	31 December 2017	31 December 2016
Cash in banks	2,163,301	1,721,108
Petty cash	154,255	234,438
Cash in transit	50,519	67,316
	2,368,075	2,022,862

As at 31 December 2017, 63% of cash in the amount of 1,499,230 thousand tenge is held in Eximbank Kazakhstan JSC, the associate of CAPEC (31 December 2016: 56% in the amount of 1,127,077 thousand tenge) (Note 33). As at 31 December 2017, rating of Eximbank Kazakhstan JSC was B-/B according to Standart & Poor's Global Ratings, which subsequently was downgraded to CCC+/C (Notes 34 and 37).

**JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER
CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in thousands of Tenge)

As at 31 December 2017 and 2016, cash were denominated in the following currencies:

	31 December 2017	31 December 2016
Tenge	2,352,445	1,777,829
US dollars	15,630	244,890
Russian rubles	-	143
	2,368,075	2,022,862

15. SHARE CAPITAL

	31 December 2017 and 2016	
	Number of shares	Share
CAPEC	22,042,680	59.65%
EBRD	8,352,201	22.6%
KAZ HOLDINGS COOPERATIEF U.A.	3,877,825	10.49%
Others	2,678,427	7.25%
	36,951,133	100%
Shares declared but not issued	13,048,867	-
	50,000,000	100%

As at 31 December 2017 the number of shares declared but not issued was 13,048,867.

As at 31 December 2017 and 2016, fully paid common shares amounted to 46,043,272 thousand tenge.

In May 2016, CAPEC purchased 2.29% of shares CAEPCO from EBRD and KAZ HOLDINGS COOPERATIEF in quantity of 843,936 (576,307 and 267,629, respectively).

In 2017, the Group declared dividends of 1,689,635 thousand tenge for 2016. No dividends were declared in 2016.

16. ADDITIONAL PAID-IN CAPITAL

As at 31 December 2017 and 2016, additional paid-in capital of 1,348,105 thousand tenge included:

- the difference between net book value of property, plant and equipment received by the Group under the finance lease agreement and minimum value of discounted lease payments under this lease;
- the revenue from factoring operations due to acquisition and subsequent sale of the right claim from related party at the value greater than the actual cost of this claim.

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in thousands of Tenge)

17. BONDS ISSUED

	Maturity date	Coupon rate, per annum	31 December 2017	31 December 2016
KZ2P01Y10E533	17 November 2023	6%	9,987,700	5,676,183
KZ2C0Y10D695	10 January 2020	12.5%	7,996,483	8,000,000
KZ2P02Y10E531	24 June 2025	6%	5,000,000	1,700,000
KZ2C0Y10C606	10 July 2017	6%-13%	-	7,901,620
KZ2C0Y01F418	30 November 2017	13-13.5%	-	400,210
KZ2C0Y10D426	20 November 2017	13%	-	400,100
Accrued interest			578,571	1,030,094
Premium			255,580	328,068
Discount			(3,057,886)	(1,041,074)
Redemption of bonds			(167)	(12,747)
			20,760,281	24,382,454
Less: current portion of bonds issued			(578,571)	(9,663,264)
			<u>20,181,710</u>	<u>14,719,190</u>

As at 31 December 2017 and 2016, bonds issued were denominated in tenge.

Bonds movement

	2017
At 1 January	24,382,454
Issue of bonds	5,151,672
Accrued coupon	2,283,935
Paid coupon	(2,514,401)
Repayment of bonds	(8,538,266)
Other	(5,113)
At 31 December	<u>20,760,281</u>

The bonds issued are repayable as follows:

	31 December 2017	31 December 2016
In the second to the fifth years inclusive	16,571,439	8,324,298
After five years	3,610,271	6,394,892
	<u>20,181,710</u>	<u>14,719,190</u>

For the years ended 31 December 2017 and 2016 effective interest rates amounted to 8%-13.1% per annum

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in thousands of tenge)

18. LOANS

	31 December 2017	31 December 2016
Principal amount of loans	67,186,027	61,681,401
Interest payable - long-term loans	653,289	624,733
Interest payable - short-term loans	107,416	74,889
Less:		
Fair value adjustment of loan	(1,948,783)	(2,020,515)
Unamortised part of lump-sum commission	(279,423)	(322,528)
	<u>65,718,526</u>	<u>60,037,980</u>
Less:		
Short-term loans	(11,615,357)	(7,471,447)
Current portion of long-term loans	(7,654,822)	(7,745,367)
	<u>(19,270,179)</u>	<u>(15,216,814)</u>
Long-term loans	<u>46,448,347</u>	<u>44,821,166</u>

Loans movement

	2017
At 1 January	60,037,980
Loans received	28,056,936
Interest accrued	3,875,272
Capitalisation of interest and amortisation of discount on loans	647,309
Foreign exchange gain, net	(153,815)
Interest paid	(4,356,174)
Loans repaid	(22,398,498)
Other	9,516
At 31 December	<u>65,718,526</u>

The loans are repayable as follows:

	31 December 2017	31 December 2016
During the second year	7,936,719	5,940,163
In the second to the fifth years inclusive	29,296,905	25,534,938
After five years	9,214,723	13,346,065
	<u>46,448,347</u>	<u>44,821,166</u>

As at 31 December 2017 and 2016, principal amount of long-term and short-term loans were denominated in the following currencies:

	31 December 2017	31 December 2016
US dollars	39,249,277	44,770,320
Tenge	27,936,750	16,911,081
	<u>67,186,027</u>	<u>61,681,401</u>

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

(in thousands of Tenge)

Long-term loans, generally, include loans from the EBRD and Asian Development Bank obtained for long-term investment program for renovation and modernisation 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.

Effective interest rate for long-term loans denominated in tenge and US dollars amounted to 6.8%-13% per annum and 4.51%-5.11% per annum, respectively (2016: 10.75%-11.5% per annum and 4.16%-4.79% per annum, respectively).

Effective interest rate for short-term loans denominated in tenge and US dollars amounted to 6.93%-15% per annum and 5.58-5.89% per annum, respectively (2016: 14.75%-18.5% per annum and 6.76% per annum, respectively).

In accordance with loan agreements with EBRD and Asian Development Bank, the Group shall comply with financial covenants. However, as at 31 December 2017 the Group breached current ratio of not less than 1 in accordance with loan agreements with EBRD (Note 36).

As at 31 December 2017 and 2016 long-term loans are secured by property, plant and equipment, carrying value of which is disclosed in Note 6.

19. DEFERRED REVENUE

	31 December 2017	31 December 2016
Government grants	5,337,921	1,643,592
Fair value adjustment of loans	2,042,621	2,076,890
Fair value adjustment of guarantee fees for connection to additional capacity	348,767	255,075
	7,729,309	3,975,557

In 2017, the Group received government subsidies of 3,760,380 thousand tenge under investment project for the modernization of heat supply systems (2016: 1,569,792 thousand tenge).

20. FINANCE LEASE OBLIGATIONS

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Within 1 year	532,004	364,089	477,867	311,334
From 2 nd to 5 th year inclusive	2,103,154	1,521,221	1,711,946	1,436,419
After 5 year	728,689	-	406,082	-
	3,363,847	1,885,310	2,595,895	1,747,753
Less: future finance charges	(767,952)	(137,557)	-	-
Present value of minimum lease payments	2,595,895	1,747,753	2,595,895	1,747,753

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in thousands of Tenge)

	31 December 2017	31 December 2016
- current	477,867	311,334
- non-current	2,118,028	1,436,419
	<u>2,595,895</u>	<u>1,747,753</u>

Finance lease obligations movement

	2017
At 1 January	1,747,753
New finance lease agreement	1,168,572
Finance lease obligations repaid	(268,441)
Interest paid	(149,999)
Other	98,010
At 31 December	<u>2,595,895</u>

In 2016, Pavlodarskiye teplovye seti LLP, subsidiary of PAVLODARENERGO JSC, entered into financial lease agreement with Fund for Development of Housing and Public Utilities JSC of 1,219,334 thousand tenge with maturity on 31 October 2020. The Group's obligations under the finance lease are secured by the retention of the lessor's ownership of the leased assets during the lease term. For the years ended 31 December 2017 and 2016 the interest rate was 4% per annum. Leased assets are represented by heat meters for further installation to consumers.

In 2016, Sevkazenergosbyt LLP, subsidiary of SEVKAZENERGO JSC, entered into financial lease agreement with Fund for Development of Housing and Public Utilities JSC of 386,828 thousand tenge with maturity on 1 August 2019. The Group's obligations under the finance lease are secured by the retention of the lessor's ownership of the leased assets during the lease term. For the years ended 31 December 2017 and 2016 the interest rate was 4% per annum. Leased assets are represented by heat meters for further installation to consumers.

In 2014, Akmola Electricity Distribution Company JSC, subsidiary of the Group entered into an Agreement with the Tselinograd District Akimat to transfer the Severnaya PC 110/10 Transformer Substation for 7 years, with monthly instalments of 12,545 thousand tenge. The subsidiary treated this agreement as a finance lease under IAS 17 Leases, because it transfers substantially all the risks and rewards incidental to ownership of the asset and the subsidiary has the option to purchase the asset at a price that is expected to be sufficiently lower than fair value as at the date the option becomes exercisable. To determine present value of minimum lease payments the subsidiary used interest rate on similar lease conditions, 5% p.a.

In 2017, Pavlodar Regional Electric Distribution Company JSC, subsidiary of PAVLODARENERGO JSC, entered with Finance Department of Pavlodar city into a trust management agreement for a substation and power transmission line for 7 years with annual instalments of 1,811,730 thousand tenge. The subsidiary treated this agreement as a finance lease under IAS 17 Leases, because it transfers substantially all the risks and rewards incidental to ownership of the asset and the subsidiary has the option to purchase the asset at a price that is expected to be sufficiently lower than fair value as at the date the option becomes exercisable. To determine present value of minimum lease payments the subsidiary used interest rate on similar lease conditions, 11.9% p.a.

As at 31 December 2017 and 2016, finance lease obligations were denominated in tenge.

**JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER
CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in thousands of Tenge)

21. TRADE ACCOUNTS PAYABLE

	31 December 2017	31 December 2016
For purchased services	12,834,510	7,152,488
For purchased goods	2,452,756	5,192,613
For property, plant and equipment	2,405,640	2,344,739
Other	88,923	41,228
	<u>17,781,829</u>	<u>14,731,068</u>

As at 31 December 2017 and 2016, trade accounts payable were denominated in the following currencies:

	31 December 2017	31 December 2016
Tenge	17,128,462	13,876,667
Russian rubles	444,547	708,272
Euro	208,820	146,129
	<u>17,781,829</u>	<u>14,731,068</u>

22. ADVANCES RECEIVED

As at 31 December 2017 and 2016, advances received of 2,222,981 thousand tenge and 1,928,519 thousand tenge, respectively, mainly included advances received for delivery of heat and power.

23. OTHER LIABILITIES AND ACCRUED EXPENSES

	31 December 2017	31 December 2016
Taxes payable	1,731,861	1,659,504
Payables to employees	702,708	684,433
Provisions for unused vacations	531,598	459,153
Pension contributions	185,505	181,782
Current portion of guarantee fees for additional capacity	29,738	25,375
Dividends payable	381,914	-
Other	123,174	109,841
	<u>3,686,498</u>	<u>3,120,088</u>

24. REVENUE

	2017	2016
Sale of power	77,133,750	70,565,491
Sale of heat	25,472,953	23,341,203
Transmission and distribution of power	21,270,867	21,544,273
Transmission and distribution of heat	7,757,886	6,659,791
Other	16,279	12,025
	<u>131,651,735</u>	<u>122,122,783</u>

**JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER
CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

(in thousands of Tenge)

25. COST OF SALES

	2017	2016
Heat and power purchased for resale	24,955,450	22,341,936
Coal and fuel oil	18,619,509	16,744,411
Transmission and distribution of heat and power	16,582,610	15,766,566
Services received	11,188,283	10,640,797
Payroll expenses and related taxes	11,060,186	10,361,976
Depreciation and amortisation	10,687,405	9,950,678
Inventories	4,515,277	3,862,090
Technical losses	694,867	1,701,060
Accrual of provision for unused vacation	62,835	27,478
Other	1,928,683	1,800,847
	100,295,105	93,197,839

26. GENERAL AND ADMINISTRATIVE EXPENSES

	2017	2016
Payroll expenses and related taxes	2,922,915	2,834,388
Services received	1,607,586	1,391,409
Taxes, other than income tax	1,536,900	1,342,060
Accrual of allowance for doubtful debts (Notes 12 and 13)	684,649	479,826
Depreciation and amortisation	337,340	264,482
Inventories	191,379	183,916
Provision for obsolete and slow-moving inventories (Note 11)	62,836	48,540
Accrual of provision on unused vacation	13,494	12,004
Other	1,787,435	1,393,813
	9,144,534	7,950,438

27. SELLING EXPENSES

	2017	2016
Payroll expenses and related taxes	1,437,246	1,408,397
Services received	233,613	352,712
Inventories	83,690	90,307
Depreciation and amortisation	58,990	43,741
Accrual of provision on unused vacation	373	3,303
Other	219,947	83,438
	2,033,859	1,981,898

28. FINANCE COSTS

	2017	2016
Interest expenses on bank loans	3,875,272	3,605,060
Interest expenses on bonds issued	2,356,422	2,663,704
Other	236,290	171,840
	6,467,984	6,440,604

29. FINANCE INCOME

	2017	2016
Interest income earned on deposits (Note 10)	938,940	959,758
Other	172,987	153,510
	1,111,927	1,113,268

**JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER
CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

(in thousands of Tenge)

30. FOREIGN EXCHANGE GAIN, NET

	2017	2016
Foreign exchange gain from revaluation of loans	150,931	575,972
Foreign exchange gain from revaluation of other financial assets	75,667	-
Foreign exchange loss from revaluation of cash	(13,781)	(24,279)
Foreign exchange gain from revaluation of deposits	-	5,437
Other foreign exchange loss	(31,738)	(153,040)
	181,079	404,090

31. OTHER (EXPENSES)/INCOME, NET

	2017	2016
Income from penalties for incompliance with the terms of the contract	463,757	313,424
Gain on write-off of accounts payable	52,881	209,195
Depreciation charge of property, plant and equipment transferred to operating lease	(242,871)	(156,020)
Loss on disposal of property, plant and equipment	(383,065)	(156,364)
Loss on impairment of property, plant and equipment	-	(152,684)
Other income	94,984	683,933
	(14,314)	741,484

32. INCOME TAX

Entities incorporated in the Republic of Kazakhstan pay income tax from the taxable profit according to the legislation of the Republic of Kazakhstan.

In 2017 and 2016, income tax rate was 20%.

Income tax expenses for the years ended 31 December were as follows:

	2017	2016
Current income tax expense	652,122	1,157
Deferred income tax expense	2,960,441	3,545,457
	3,612,563	3,546,614

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in thousands of Tenge)

As at 31 December 2017 and 2016, deferred tax assets and liabilities were as follows:

	31 December 2017	31 December 2016
Deferred tax asset as a result of:		
Tax losses carried-forward	2,354,828	4,326,919
Other temporary differences	1,400,061	765,742
Total deferred tax asset	3,754,889	5,092,661
Less: deferred tax assets offset against deferred tax liabilities	(2,472,031)	(4,382,630)
Deferred tax assets	1,282,858	710,031
Deferred tax liabilities as a result of:		
Carrying value of property, plant and equipment and intangible assets	(41,305,133)	(39,773,097)
Other temporary differences	73,657	164,290
Total deferred tax liabilities	(41,231,476)	(39,608,807)
Less: deferred tax assets offset against deferred tax liabilities	2,472,031	4,382,630
Deferred tax liabilities	(38,759,445)	(35,226,177)
Deferred tax liabilities, net, including:	(37,476,587)	(34,516,146)
Deferred tax liabilities	(38,759,445)	(35,226,177)
Deferred tax assets	1,282,858	710,031

The movement in deferred taxes for the years ended 31 December, was as follows:

	2017	2016
Balance at 1 January	(34,516,146)	(30,970,689)
Increase in deferred tax liabilities	(2,960,441)	(3,545,457)
Balance at 31 December	(37,476,587)	(34,516,146)
Recorded:	2017	2016
in profit or loss	(2,960,441)	(3,545,457)
	(2,960,441)	(3,545,457)

Below is a reconciliation of income tax expense for the years ended 31 December, to profit before tax in the consolidated statement of profit or loss and other comprehensive income:

	2017	2016
Profit before taxation	14,251,667	14,810,846
Tax at statutory rate of 20%	2,850,333	2,962,169
Effect of change in unrecognized deferred tax assets	(14,963)	55,396
Tax effect of permanent differences	777,193	529,049
Income tax expense	3,612,563	3,546,614

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in thousands of Tenge)

Unrecognised deferred tax assets:

	31 December 2017	31 December 2016
Losses carried forward	654,509	669,472
Deferred tax assets	654,509	669,472

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 2018-2027.

33. RELATED-PARTY TRANSACTIONS

The related parties of the Group include shareholders, its subsidiaries and associated companies or companies over which the Group or its shareholders exercise control and key management personnel.

Transactions with related parties are performed on terms that would not necessarily be available to the third parties.

Transactions between the Company and its subsidiaries and jointly controlled companies are excluded on consolidation and not presented in this note.

During the years the entities of the Group had the following transactions on principal and other activities with related parties not included in the Group:

Name	Sale of services		Purchase of services	
	2017	2016	2017	2016
CAPEC	1,312	1,338	123,617	182,636
EBRD	-	-	18,050	26,904
Subsidiaries of CAPEC	1,588,973	1,396,101	530,403	332,085
Associates of CAPEC	11,382	10,452	120,662	82,724
	1,601,667	1,407,891	792,732	624,349

Balances between the Group and related parties as at the reporting date are presented below:

Name	Due from related party		Due to related party	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
CAPEC	476	1,297	11,687	12,092
EBRD	-	-	381,914	-
Subsidiaries of CAPEC	1,881,878	1,540,004	134,651	-
Associates of CAPEC	27,708	91	3,204	3,965
	1,910,062	1,541,392	531,456	16,057

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in thousands of Tenge)

The Group has financial transactions with related parties, such as receipt of loans and placement of cash on deposits. As a result of financial transactions with related parties, the Group has the following balances:

Name	Loans, including interest payable		Deposits		Cash	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
EBRD	37,704,148	39,561,879	-	-	-	-
Associates of CAPEC	-	-	16,710,991	9,860,051	1,499,230	1,127,077
	37,704,148	39,561,879	16,710,991	9,860,051	1,499,230	1,127,077

For the year ended 31 December the Group had the following financial operations with related parties:

Name	Interest expense, accrued on loans		Interest income, earned on deposits	
	2017	2016	2017	2016
EBRD	2,499,616	2,113,367	-	-
Associates of CAPEC	-	-	814,793	948,296
	2,499,616	2,113,367	814,793	948,296

Key personnel of the Group

In 2017, compensation to the Board of Directors and other key management personnel of the Group in the form of salary and bonuses amounted to 746,731 thousand tenge (2016: 643,095 thousand tenge). As at 31 December 2017 and 2016, the Board of Directors and other key management personnel of the Group consisted of 16 people.

34. FINANCIAL INSTRUMENTS, RISK MANAGEMENT POLICY AND ITS OBJECTIVES

The Group's major financial instruments are other financial assets, 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 were as follows:

	31 December 2017	31 December 2016
Financial assets		
Other financial assets (Note 10)	17,186,933	10,250,661
Trade accounts receivable (Note 12)	18,767,608	16,879,028
Other accounts receivable	2,049,071	1,412,036
Cash (Note 14)	2,368,075	2,022,862
Financial liabilities		
Bonds issued (Note 17)	20,760,281	24,382,454
Loans (Note 18)	65,718,526	60,037,980
Long-term accounts payable	423,439	419,076
Finance lease obligations (Note 20)	2,595,895	1,747,753
Trade accounts payable (Note 21)	17,181,829	14,731,068
Other payables	1,207,796	819,649

Capital risk management

The Group manages the risks associated with capital to ensure that the Group will be able to continue as a going concern while increasing the tariffs and the optimisation of the debt and equity balance.

**JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER
CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

(in thousands of Tenge)

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

Summary of significant accounting policies

The information on significant accounting policies and accepted methods, including criteria of recognition, basis for measurement and basis on which revenue and expenses are recognised, with respect to each class of financial assets, financial liabilities and equity instruments is disclosed in Note 3 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 interest rate risk by retaining balanced ratio of loans and borrowings 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 an 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 Group management 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% higher/lower and all the other variables remained constant, then the profit of the Group for the year ended 31 December 2017, and its retained earnings as at 31 December 2017, would decrease/increase by 475,241 thousand tenge (2016: 537,849 thousand tenge).

Credit risk

Credit risk arising as a result of counterparties' failure to meet the terms of contracts with financial instruments of the Group is normally limited to the amounts, if any, by which the amount of liabilities of the counterparties exceed the Group's liabilities to these counterparties. The Group's policy provides for conducting of operations with financial instruments with a number of creditworthy counterparties. The maximum exposure to credit risk equals the carrying amount of each financial asset. The Group believes that its maximum exposure equals the amount of trade accounts receivable (Note 12) and other accounts receivable (Note 13) less allowances for doubtful debts recognised at the reporting date.

A credit risk concentration can arise if one borrower or a group of borrowers with similar operating conditions due several amounts, in relation to which there are grounds to expect that changes in economic conditions or other circumstances may have the same impact on their ability to meet their obligations.

The Group has a policy assuming on going control over performing transactions with customers having adequate credit history and do not exceed established credit limits.

The Group does not act as a guarantor on liabilities of third parties.

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**

(in thousands of Tenge)

In respect of credit risk associated with cash and other financial assets, the Group's risk is related to the possibility of default of credit institutions in which cash and deposits are placed, with the maximum risk equal to the carrying value of these assets. As at 31 December 2017, 97% of all deposits in the amount of 16,710,991 thousand tenge (2016: 96% in the amount of 9,860,051 thousand tenge) and 63% of cash in the amount of 1,499,230 thousand tenge (2016: 56% in the amount of 1,127,077 thousand tenge) were placed in Eximbank Kazakhstan JSC with a credit rating of B- according to the S&P Global Ratings (Notes 10 and 14). As a result there is a significant concentration of credit risk.

Market risk

Market risk involves a possible fluctuation in the value of a financial instrument as a result of a change in market prices. The Group holds a dominant position on the market risk, the risk of a possible fluctuations in the value of a financial instrument due to change in market prices is unlikely.

Currency risk

The Group has borrowings denominated in foreign currency, and imports major spare parts for investment program. As result, the Group has assets and liabilities denominated in foreign currencies. The Group minimises the currency risk by monitoring changes in exchange rates in which the liabilities are denominated.

Carrying value of monetary assets and liabilities of the Group denominated in foreign currencies as at 31 December 2017 and 2016, was as follows:

	Assets		Liabilities	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
US dollars	1,946,222	2,285,420	39,249,277	44,770,320
Russian rubles	-	143	444,547	708,272
Euro	-	-	208,820	146,129

Foreign currency sensitivity analysis

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

The following table reflects the Group's sensitivity to 20% increase or decrease in value of tenge against foreign currencies. 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 and other financial assets of the Group denominated in the currency different from the currency of the creditor or borrower. 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.

	Effect of US dollar	
	31 December 2017	31 December 2016
Financial assets	389,244	457,084
Financial liabilities	(7,849,855)	(8,954,064)

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in thousands of Tenge)

Liquidity risk

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

Liquidity risk tables

The following tables demonstrate the Group's contract dates for its non-derivative financial assets and liabilities. The table was compiled based on non-discounted movement of cash flows on financial liabilities using the earliest date that the Group could be made to make a payment. The table includes cash flows on both interest and principal.

The table on liquidity risk and interest rate risk as at 31 December 2017, is presented as follows:

	Effective interest rate	Up to 1 year	1-5 years	Over 5 years	Undefined term	Total
31 December 2017						
<i>Non-interest-bearing:</i>						
Trade accounts receivable		18,767,608	-	-	1,603,980	20,371,588
Other accounts receivable		2,049,071	-	-	508,836	2,557,907
Cash		2,368,075	-	-	-	2,368,075
Trade accounts payable		(17,781,829)	-	-	-	(17,781,829)
Other liabilities and accrued expenses		(1,207,796)	-	-	-	(1,207,796)
Liabilities for additional capacity connection		(29,738)	(122,385)	(271,316)	-	(423,439)
<i>Interest-bearing:</i>						
Other financial assets	1.6%-11.5%	18,551,413	402,891	-	-	18,954,304
Bonds issued	8%-13.1%	(1,371,277)	(22,644,352)	(5,433,333)	-	(29,448,962)
Loans	4%-18.3%	(21,034,895)	(43,679,996)	(13,745,859)	-	(78,460,750)
Finance lease obligation	5%	(509,216)	(2,074,431)	(728,689)	-	(3,312,336)
Net position		(198,584)	(68,118,273)	(20,179,197)	2,112,816	(86,383,238)
	Effective interest rate	Up to 1 year	1-5 years	Over 5 years	Undefined term	Total
31 December 2016						
<i>Non-interest-bearing:</i>						
Trade accounts receivable		16,879,028	-	-	1,310,515	18,189,543
Other accounts receivable		1,412,036	-	-	412,132	1,824,168
Cash		2,022,862	-	-	-	2,022,862
Long-term accounts payable		(25,375)	(122,385)	(271,316)	-	(419,076)
Trade accounts payable		(14,731,068)	-	-	-	(14,731,068)
Other liabilities and accrued expenses		(794,274)	-	-	-	(794,274)
<i>Interest-bearing:</i>						
Other financial assets	3.6%	11,744,905	1,295,413	-	-	13,040,318
Bonds issued	6%-13.5%	(10,676,233)	(12,239,741)	(8,451,928)	-	(31,367,902)
Bank loans	4.16%-6.76%	(16,451,800)	(35,634,165)	(16,182,194)	-	(68,268,159)
Finance lease obligation	10.75%-18.5%	(340,342)	(1,487,930)	-	-	(1,828,272)
Net position		(10,960,261)	(48,188,808)	(24,905,438)	1,722,647	(82,331,860)

Fair value of financial instruments

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

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in thousands of Tenge)

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 realise in a market exchange from the sale of its full holdings of a particular instrument.

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.

35. EARNINGS PER SHARE

Basic and diluted earnings per share were calculated by dividing net profit for the year 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 were equal, since there are no instruments with the potential dilutive effect.

	2017	2016
Profit for the year	10,639,104	11,264,232
Weighted average number of common shares used for calculating basic earnings per share	36,951,133	36,951,133
Earnings per share, in tenge	287.92	304.84

As at 31 December carrying value of one share by types is presented below.

Type of shares	Quantity of shares issued	Net assets, excluding intangible assets	Carrying value per share, in tenge
31 December 2017:			
Common shares	36,951,133	147,787,396	3,999.54
31 December 2016:			
Common shares	36,951,133	139,018,572	3,762.23

The management of the Group believes that it fully meets requirements of Kazakhstan Stock Exchange as at reporting date.

JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER CORPORATION AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

(in thousands of Tenge)

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 2017, the Group invested into production assets of 22,212,420 thousand tenge not including VAT. During 2018 the Group shall invest in production assets of 19,331,505 thousand tenge not including VAT.

Tariffs

The Group approves with the Committee of the Republic of Kazakhstan on Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy. Management of the Group believes that it sets tariffs according to the legislation of the Republic of Kazakhstan.

Subscription agreement

In 2009, the Company concluded a subscription agreement with EBRD, whereby EBRD acquired 24.88% shares of the Company. In 2011, the Parent company, CAPEC, transferred part of its shares to EBRD in accordance with the agreement between the shareholders. As at 31 December 2017 and 2016, EBRD owns 22.6% of the Company's shares (Note 15).

In 2011, the Company concluded a subscription agreement with IIF (represented by KAZ HOLDINGS COOPERATIEF U.A.), whereby IIF acquired 12.89% shares of the Company. As at 31 December 2017 and 2016, IIF owns 10.49% of the Company's shares (Note 15). 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 2017, the Group did not violate covenants under these agreements and met the requirements.

Loan covenants

The Group supervises and monitors compliance with financial covenants under loan agreements on a regular basis. As at 31 December 2017, the subsidiaries of the Group, PAVLODARENERGO JSC and SEVKAZENERGO JSC breached financial covenant under the loan agreements with European Bank for Reconstruction and Development ("EBRD" or "the bank"). The Group management and management of subsidiaries informed EBRD of the breach prior to year-end and have been in regular communication with the bank regarding an action plan on this point. In accordance with loan agreements the breach of ratio does not automatically trigger early repayment of any amount outstanding, early repayment of the loan may be initiated only after written notification from the bank. Group management and management of the subsidiaries believe reclassification of long-term loans to current liabilities is not required, as the bank was timely informed about Group's financial covenant breach and provided no intention before 31 December 2017 to accelerate the loans. In addition, EBRD did not issue written notice in accordance with the loan agreements. Subsequently, on 6 April 2018, EBRD issued formal waiver letter for the Group and subsidiaries in respect of the financial covenant, current ratio not less 1, for financial year of 2017 and as of 31 December 2017 (Note 37).

**JOINT STOCK COMPANY CENTRAL-ASIAN ELECTRIC-POWER
CORPORATION AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)**
(in thousands of Tenge)

37. EVENTS AFTER THE REPORTING DATE

Tariffs

Effective from 1 January 2018, 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 PAVLODARENERGO JSC:

- For heat (Heat Power Plant - 2) increase by 12%;
- For heat (Heat Power Plant - 3) increase by 5.7%;
- For heat (Ekibastuz Heat Power Plant) increase by 8.5%;
- For power transmission and distribution services increase by 6.1%;
- For heat transmission and distribution services increase by 14.9% and 20.2%, in Pavlodar and Ekibastuz, respectively;
- For sale of heat increase by 11.4% and 14.5%, in Pavlodar and Ekibastuz, respectively.

Effective from 1 January 2018, 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 SEVKAZENERGO JSC:

- For production of heat increase by 1.6%;
- For electricity transmission and distribution services increase by 2.6%;
- For heat transmission and distribution services increase by 9.1%;
- For sale of heat increase in average by 5.5%, including individuals - 5%, legal entities - 6%

Loan agreements terms

On 6 April 2018, the Group received waiver letter from EBRD in respect of financial covenant, current ratio not less than 1, for 2017 and as at 31 December 2017.

Other

On 12 February 2018, S&P Global Ratings lowered the long-term and short-term credit ratings of Eximbank Kazakhstan JSC from B-/B to CCC+/C. As at 30 April 2018 cash and deposits of the Group in Eximbank Kazakhstan JSC amounted to 5,645,824 thousand tenge and 3,918,845 thousand tenge, respectively.

38. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by management of the Group on 11 May 2018.