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

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

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

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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 2016

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

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

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in 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 IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2016 were approved by the management of the Group on 10 May 2017.

On behalf of management of the Group:

Amirkhanov Y.A.	**Kassymkhanova K.E.**
President	**Chief Accountant**
10 May 2017	10 May 2017
Almaty, the Republic of Kazakhstan	Almaty, the Republic of Kazakhstan

CAEPCO

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Joint Stock Company Central-Asian Electric-Power Corporation and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016 and it's consolidated financial performance and consolidated cash flows for the year ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

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

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit
Estimate of allowances for doubtful debts	
An allowance for doubtful debts is made on trade accounts receivable based upon management's estimate, which is subject to significant judgement. Ageing of outstanding invoices, as well as historical and expected customer behavior, are considered when identifying doubtful debts. Changes in economic or financial conditions of the customers may require adjustments to the methodology applied for estimating allowance for doubtful debts. Significant estimate related to allowances for doubtful debts is disclosed in Note 4 to the consolidated financial statements. Allowances for doubtful debts are disclosed in Note 12 to the consolidated financial statements.	Our audit procedures included: - assessing appropriateness of the model applied and assumptions used for estimating allowances for doubtful accounts based on historical cash collections; - testing internal controls over generating ageing report of trade accounts receivable by ageing of invoices in the billing information system; - checking accuracy of application of the model and assumptions; - testing subsequent cash collections; - analyzing the days in receivable. Based on our procedures, we found that model applied and assumptions used in estimating allowances for doubtful accounts are appropriate.
Compliance with financial covenants	
The Group has to comply with set of financial covenants stipulated by its loan agreements. Compliance with financial covenants and appropriateness of long-term loans classification is the key audit matter considering the significance of outstanding loans as at 31 December 2016. Covenants requirements and compliance matters are disclosed in Note 18 to the consolidated financial statements.	Our audit procedures included: - analysing the terms of the loans agreements, focusing on debt covenant requirements including the covenants ratios and events of default; - recalculating the financial covenants in the loan agreements for mathematical accuracy; - review of waivers from lenders on loan agreements where the financial covenants has been breached and their impact on classification of the long-term portion of the loans; - assessing the adequacy of the disclosure of compliance with financial covenants per loan agreements provided in Note 18 of the consolidated financial statements. Based on our procedures, we found that covenants requirements and compliance disclosure, as well as long-term loans classification are appropriate.

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

The Board of Directors are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; 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 Kuatbekov
Engagement Partner
Qualified Auditor
Qualified certificate No.0000523
dated 15 February 2002
the Republic of Kazakhstan

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

10 May 2017
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 2016
(in thousands of Tenge)

	Notes	31 December 2016	31 December 2015
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	6	240,348,875	228,987,976
Goodwill	7	2,424,419	2,424,419
Intangible assets	8	1,816,542	1,557,159
Deferred tax asset	32	710,031	678,959
Other financial assets	10	14,000	210,000
Advances paid	9	1,883,613	3,865,706
Other non-current assets	13	1,833,968	384,360
Total non-current assets		249,031,448	238,108,579
CURRENT ASSETS:			
Inventories	11	4,956,047	6,412,643
Trade accounts receivable	12	16,879,028	13,669,521
Advances paid	9	1,682,394	1,442,893
Income tax prepaid		302,911	509,955
Other current assets	13	2,110,065	2,431,636
Other financial assets	10	10,236,661	14,276,758
Cash	14	2,022,862	2,279,387
Total current assets		38,189,968	41,022,793
TOTAL ASSETS		287,221,416	279,131,372
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 on property, plant and equipment		44,190,092	47,502,275
Retained earnings		49,253,645	34,727,976
Total equity		140,835,114	129,621,628
NON-CURRENT LIABILITIES:			
Bonds issued	17	14,719,190	22,331,233
Loans	18	44,821,166	52,676,536
Deferred revenue	19	3,975,557	1,268,695
Finance lease obligations	20	1,436,419	672,195
Deferred tax liabilities	32	35,226,177	31,649,648
Ash disposal area restoration liabilities		653,356	351,710
Employee benefit obligations		131,621	119,690
Other long-term payables		343,745	223,657
Total non-current liabilities		101,307,231	109,293,364

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016 (CONTINUED)

(in thousands of Tenge)

	Notes	31 December 2016	31 December 2015
CURRENT LIABILITIES:			
Current portion of bonds issued	17	9,663,264	754,846
Loans	18	15,216,814	14,260,908
Current portion finance lease obligations	20	311,334	115,620
Trade accounts payable	21	14,731,068	19,521,841
Advances received	22	1,928,519	2,161,570
Current portion of ash disposal area restoration liabilities		97,785	53,587
Current portion of employee benefit obligations		10,199	11,427
Other liabilities and accrued expenses	23	3,120,088	3,336,581
Total current liabilities		45,079,071	40,216,380
TOTAL EQUITY AND LIABILITIES		287,221,416	279,131,372

Signed on behalf of management of the Group:

Amirkhanov Y.A.
President

10 May 2017
Almaty, the Republic of Kazakhstan

Kassymkhanova K.E.
Chief Accountant

10 May 2017
Almaty, the Republic of Kazakhstan

The notes on pages 13-51 form an integral part of these consolidated financial statements. Independent Auditor's Report is on pages 2-6.

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 2016

(in thousands of Tenge)

	Notes	2016	2015
REVENUE	24	122,122,783	107,932,528
COST OF SALES	25	(93,197,839)	(84,144,330)
GROSS PROFIT		28,924,944	23,788,198
General and administrative expenses	26	(7,950,438)	(7,743,757)
Selling expenses	27	(1,981,898)	(1,927,558)
Finance costs	28	(6,440,604)	(3,772,955)
Finance income	29	1,113,268	917,251
Foreign exchange gain/(loss), net	30	404,090	(20,031,129)
Other income, net	31	741,484	429,403
PROFIT/(LOSS) BEFORE TAXATION		14,810,846	(8,340,547)
INCOME TAX (EXPENSE)/BENEFIT	32	(3,546,614)	726,860
PROFIT/(LOSS) FOR THE YEAR		11,264,232	(7,613,687)
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/(LOSS) FOR THE YEAR		11,213,486	(7,613,687)
Earnings/(loss) per share, in tenge	35	304.84	(206.05)

Signed on behalf of management of the Group:

Amirkhanov Y.A.
President

10 May 2017
Almaty, the Republic of Kazakhstan

Kassymkhanova K.E.
Chief Accountant

10 May 2017
Almaty, the Republic of Kazakhstan

Акционерное общество "Центрально-Азиатская Электроэнергетическая Корпорация" CAEPCO Республика Казахстан

The notes on pages 13-51 form an integral part of these consolidated financial statements. Independent Auditor's Report is on pages 2-6.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of Tenge)

	Share capital	Additional paid-in capital	Revaluation reserve on property, plant and equipment	Retained earnings	Total equity
At 1 January 2015	**46,043,272**	**1,348,105**	**51,005,740**	**41,473,796**	**139,870,913**
Loss for the year	-	-	-	(7,613,687)	(7,613,687)
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	(7,613,687)	(7,613,687)
Amortisation of revaluation reserve on property, plant and equipment	-	-	(3,503,465)	3,503,465	-
Dividends declared	-	-	-	(2,635,598)	(2,635,598)
At 31 December 2015	**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**

Signed on behalf of management of the Group:

Amirkhanov Y.A. **President**	**Kassymkhanova K.E.** **Chief Accountant**
10 May 2017 Almaty, the Republic of Kazakhstan	10 May 2017 Almaty, the Republic of Kazakhstan

The notes on pages 13-51 form an integral part of these consolidated financial statements. Independent Auditor's Report is on pages 2-6.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of Tenge)

	Notes	2016	2015
OPERATING ACTIVITIES:			
Profit/(loss) before taxation		14,810,846	(8,340,547)
Adjustments for:			
Depreciation and amortisation	25, 26, 27, 31	10,414,920	9,421,150
Finance costs	28	6,440,604	3,772,955
Foreign exchange (gain)/loss, net	30	(404,090)	20,031,129
Loss on disposal of property, plant and equipment	31	156,364	109,412
Loss on impairment of property, plant and equipment	31	152,684	-
Accrual of allowance for doubtful debts	26	479,826	287,810
Gain on write-off of accounts payables	31	(209,195)	(54,984)
Accrual of provision for unused vacations	25, 26, 27	42,785	34,288
Accrual of provision for obsolete and slow-moving inventories	26	48,540	385
Employee benefit expenses		26,814	30,729
Finance income	29	(1,113,268)	(917,251)
Income from government grant		(2,963)	-
Other adjustments		(588)	(12,671)
Operating cash flow before changes in working capital		30,843,279	24,362,405
Change in inventories		1,408,056	180,757
Change in trade accounts receivable		(3,147,851)	(1,241,721)
Change in advances paid		(250,507)	(180,654)
Change in other current assets		(389,230)	50,034
Change in trade accounts payable		2,241,212	(187,148)
Change in deferred revenue		(37,199)	(35,028)
Change in advances received		(233,053)	(869,415)
Change in employee benefit obligations		(16,111)	(24,174)
Change in other liabilities and accrued expenses		1,169,408	422,167
Cash provided by operating activities		31,588,004	22,477,223
Return of income tax/(income tax paid)		158,609	(382,931)
Interest paid		(6,308,772)	(4,899,733)
Net cash provided by operating activities		25,437,841	17,194,559

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

(in thousands of Tenge)

	Notes	2016	2015
INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment		(26,922,275)	(20,309,437)
Acquisition of intangible assets		(309,536)	(886,224)
Acquisition of non-controlling interest		-	(1,878,449)
Proceeds from disposal of property, plant and equipment		431,214	270,587
Cash withdrawn from/(placed on) deposits and interest received		5,107,648	(100,008)
Cash returned from guarantee fees		(27,229)	-
Net cash used in investing activities		(21,720,178)	(22,903,531)
FINANCING ACTIVITIES:			
Proceeds from loans		23,584,188	24,205,767
Proceeds from issuance of bonds		800,234	6,665,356
Repayment of loan from related party		-	973,996
Finance lease		(150,543)	(150,542)
Repayment of loans		(28,821,059)	(23,715,221)
Dividends paid		(932,521)	(2,981,929)
Proceeds from government subsidies	18	1,569,792	-
Net cash (used in)/generated by financing activities		(3,949,909)	4,997,427
NET DECREASE IN CASH		(232,246)	(711,545)
CASH at the beginning of the year	14	2,279,387	2,805,932
Effect of exchange rate changes on the cash balance of cash held in foreign currencies		(24,279)	185,000
CASH at the end of the year	14	2,022,862	2,279,387

Signed on behalf of management of the Group:

Amirkhanov Y.A.
President

10 May 2017
Almaty, the Republic of Kazakhstan

Kassymkhanova K.E.
Chief Accountant

10 May 2017
Almaty, the Republic of Kazakhstan

The notes on pages 13-51 form an integral part of these consolidated financial statements. Independent Auditor's Report is on pages 2-6.

(in thousands of Tenge)

1. GENERAL INFORMATION

Joint Stock Company Central-Asian Electric-Power Corporation (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 2016, the shareholders of the Company were JSC Central-Asian Power Energy Company ("JSC CAPEC") (59.66%), European Bank for Reconstruction and Development ("EBRD") (22.6%), KAZ HOLDINGS COOPERATIEF U.A. (10.49%) and other shareholders (7.25%) (Note 15) (31 December 2015: JSC CAPEC (57.37%), EBRD (24.16%), KAZ HOLDINGS COOPERATIEF U.A. (11.22%), and other shareholders (7.25%)).

The ultimate controlling shareholders of the Company as at 31 December 2016 and 2015 together are Mr. Y. Amirkhanov, Mr. A. Klebanov, Mr. S. Kan and Ms. G. Artambayeva, residents of the Republic of Kazakhstan, who are the immediate owners of the JSC 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**
		2016	**2015**	
JSC PAVLODARENERGO	Pavlodar	100%	100%	Production, transmission, distribution and sale of power and heat
JSC SEVKAZENERGO	Petropavlovsk	100%	100%	Production, transmission, distribution and sale of power and heat
JSC Akmola Electricity Distribution Network Company	Astana	100%	100%	Transmission, distribution and sale of power
LLP Astanaenergosbyt	Astana	100%	100%	Sale of power and heat

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

The total number of employees of the Group as at 31 December 2016 and 2015 was 10,473 and 10,779 persons, respectively.

2. ADOPTION OF NEW AND REVISED STANDARDS

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

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

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

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

New and revised IFRS in issue but not yet effective

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

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

[1] Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[4] Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted.

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

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.

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. However, as at 31 December 2016 current liabilities of the Company exceeded its current assets by 6,889,103 thousand tenge, whilst net profit for the year was 11,264,232 thousand tenge. As at 31 December 2016, the Group breached financial covenants per loan agreements as disclosed in Note 18.

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

The Group received waiver letters from banks on noncompliance with financial covenants as at 31 December 2016 (Note 18).

Management also believes that JSC CAPEC, the Parent company, will continue to provide financial support to the Group in the near future, based on the written confirmation from the JSC CAPEC.

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.

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.

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.

(in thousands of Tenge)

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 2016	31 December 2015
US Dollar	333.29	339.47
Russian Ruble	5.43	4.65

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

	2016	2015
US Dollar	341.76	222.25
Russian Ruble	5.12	3.62

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.

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. Deprecation 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.

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.

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.

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.

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.

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

Revenue recognition

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

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

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 2016 and 2015 was approximately 6% of gross income of employees. The social tax and salary of the personnel are expensed in the period as accrued.

Pension contributions

The Group withholds 10% form the salary of its employees as contributions to the cumulative pension funds but not more than 171,442 tenge per month in 2016 (2015: not more than 160,230 tenge per month). According to the legislation of the Republic of Kazakhstan, pension contributions are obligations of the employee, and the Group carries no current or future obligations on 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.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the consolidated financial statements according to IFRS requires management of the Group to make estimates and judgments that affect the reported amounts of assets and liabilities, income and expenses and disclosure of contingent assets and liabilities. Due to uncertainty inherent in such estimates, the actual results reflected in future reporting periods may be based on the amounts different from these estimates.

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.

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.

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

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.

Allowances for doubtful debts and provisions for slow-moving inventories

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

Annually the Group considers the need to accrue provision for slow-moving inventories based on annual stock taking and estimation on future use of obsolete stock.

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.

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.

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.

(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 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, net	174,434	64,197	56,440	(11,957)	120,976	404,090
Other income, net	369,455	(3,971)	34,709	462,683	(121,392)	741,484
Income tax expense	(3,070,691)	(803,729)	233,346	115,479	(21,019)	(3,546,614)
Profit 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

(in thousands of Tenge)

	For the year ended 31 December 2015					
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	56,925,393	18,954,981	5,452,847	87,313,578	571,842	169,218,641
Intrasegment revenue	(9,092,883)	(290,585)	(29,696)	(51,545,296)	(327,653)	(61,286,113)
Revenue	47,832,510	18,664,396	5,423,151	35,768,282	244,189	107,932,528
Cost of sales	(28,419,100)	(15,040,695)	(6,007,051)	(34,464,707)	(212,777)	(84,144,330)
General and administrative expenses	(1,867,009)	(1,971,972)	(1,579,119)	(1,638,036)	(687,621)	(7,743,757)
Selling expenses	(9,724)	-	-	(1,917,834)	-	(1,927,558)
Finance cost	(2,475,998)	(271,112)	(64,489)	(405,100)	(556,256)	(3,772,955)
Finance income	223,228	177,559	12,030	1,179	503,255	917,251
Foreign exchange loss, net	(11,252,642)	(4,563,506)	(1,356,604)	(479,197)	(2,379,180)	(20,031,129)
Other income, net	45,333	196,517	(95,689)	292,454	(9,212)	429,403
Income tax benefit	(890,200)	498,963	376,224	534,885	206,988	726,860
Loss for the year	3,186,398	(2,309,850)	(3,291,547)	(2,308,074)	(2,890,614)	(7,613,687)
Other key segment information						
Capital expenditure on property, plant and equipment	23,784,256	7,623,702	902,857	82,138	48,298	32,441,251
Depreciation of property, plant and equipment	6,083,551	2,392,867	805,276	85,663	12,071	9,379,428

(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 2015	**27,353,682**	**155,594,900**	**1,953,868**	**269,590**	**21,434,656**	**206,606,696**
Additions	286,283	409,926	196,508	67,252	31,481,282	32,441,251
Internal transfers	7,445,827	28,362,279	22,136	(33,266)	(35,796,976)	-
Disposals	(191,857)	(202,176)	(9,016)	13,809	(137,246)	(526,486)
At 31 December 2015	**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**
Accumulated depreciation and impairment						
At 1 January 2015	**(212,462)**	**(97,291)**	**(8,563)**	**(4,024)**	**-**	**(322,340)**
Depreciation charge for the year	(1,990,670)	(6,883,504)	(425,653)	(79,601)	-	(9,379,428)
Disposals	151,566	12,497	1,510	2,710	-	168,283
At 31 December 2015	**(2,051,566)**	**(6,968,298)**	**(432,706)**	**(80,915)**	**-**	**(9,533,485)**
Depreciation charge for the year	(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)**
Net book value						
At 31 December 2016	**32,488,390**	**190,924,227**	**1,054,825**	**215,327**	**15,666,106**	**240,348,875**
At 31 December 2015	**32,842,369**	**177,196,631**	**1,730,790**	**236,470**	**16,981,716**	**228,987,976**

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**	**Construction in progress**	**Total**
At 31 December 2016	23,112,245	139,317,461	610,676	162,172	15,666,106	**178,866,708**
At 31 December 2015	23,320,055	122,974,617	1,114,901	138,709	16,981,716	**164,529,998**

(in thousands of Tenge)

During 2016 the Group capitalised to the cost of property, plant and equipment interest on bank loans and foreign exchange loss on revaluation of loans in foreign currency, reduced by the amount of interest income and exchange rate differences resulting from the temporary investment of loans to deposits of 807,240 thousand tenge (2015: 2,751,045 thousand tenge).

As at 31 December 2016 and 2015, net book value of pledged property, plant and equipment was equal to 128,213,370 thousand tenge and 119,858,844 thousand tenge, respectively (Note 18).

As at 31 December 2016 and 2015, fully depreciated property, plant and equipment at revalued cost amounted to 382,666 thousand tenge and 171,173 thousand tenge, respectively.

7. GOODWILL

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

	JSC PAVLODAR-ENERGO	LLP Astana-energosbyt	Total
Goodwill recognised at 31 December 2016	1,687,141	737,278	2,424,419
Goodwill recognised at 31 December 2015	1,687,141	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.

The recoverable amount of these cash-generating units is determined based on a value in use calculation which uses cash flow projections based on five-year financial budgets and a discount rate of 11.68% per annum approved by management of the Company.

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 (2015 - 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.

8. INTANGIBLE ASSETS

As at 31 December 2016 and 2015, intangible assets of 1,816,542 thousand tenge and 1,557,159 thousand tenge, respectively, mainly included Enterprise Asset Management software ("Ellipse") on the basis of accounting system 1C:Enterprise Production Management. Intangible assets represented capitalized cost of development and installation of the Ellipse and 1C.

(in thousands of Tenge)

9. ADVANCES PAID

	31 December 2016	31 December 2015
For property, plant and equipment	1,883,843	3,866,536
For services	915,745	831,089
For goods	662,095	615,250
Other	153,328	34,322
	3,615,011	5,347,197
Impairment provision	(49,004)	(38,598)
	3,566,007	5,308,599
Non-current	1,883,613	3,865,706
Current	1,682,394	1,442,893
	3,566,007	5,308,599

10. OTHER FINANCIAL ASSETS

	31 December 2016	31 December 2015
Deposits	10,249,826	14,468,366
Interest receivable	835	18,392
	10,250,661	14,486,758
Current	10,236,661	14,276,758
Non-current	14,000	210,000
	10,250,661	14,486,758

Included:

Cash restricted in use:		
Cash on the debt service reserve accounts	1,213,839	487,918
Minimal amount on deposits	912,912	1,337,000
	2,126,751	1,824,918

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

(in thousands of Tenge)

In 2016, the Group recognised interest income totaling to 959,758 thousand tenge (2015: 712,030 thousand tenge) (Note 29).

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

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

	31 December 2016	31 December 2015
Tenge	8,210,131	10,430,052
US Dollars	2,040,530	4,056,706
	10,250,661	14,486,758

11. INVENTORIES

	31 December 2016	31 December 2015
Spare parts and materials for maintenance	4,556,683	5,836,070
Coal and fuel oil	589,571	718,434
	5,146,254	6,554,504
Provision for obsolete and slow-moving inventories	(190,207)	(141,861)
	4,956,047	6,412,643

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

	2016	2015
At 1 January	(141,861)	(141,476)
Accrued (Note 26)	(48,540)	(385)
Written-off against previously created provision	194	-
At 31 December	(190,207)	(141,861)

12. TRADE ACCOUNTS RECEIVABLE

	31 December 2016	31 December 2015
Sale and transmission of power and heat	17,250,278	14,577,584
Other	939,265	271,320
	18,189,543	14,848,904
Allowance for doubtful debts	(1,310,515)	(1,179,383)
	16,879,028	13,669,521

(in thousands of Tenge)

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

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

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

	2016	**2015**
At 1 January	(1,179,383)	(1,593,272)
Accrued	(394,368)	(182,977)
Written-off against previously created allowance	263,236	596,866
At 31 December	(1,310,515)	(1,179,383)

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

	31 December 2016	**31 December 2015**
90-180 days	31,516	20,165
181-270 days	124,861	39,196
271-365 days	161,454	193,300
more than 365 days	992,684	926,722
	1,310,515	1,179,383

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 population (50%) and legal entities (50%).

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

	31 December 2016	**31 December 2015**
Tenge	16,879,028	13,669,411
Russian Ruble	-	110
	16,879,028	13,669,521

(in thousands of Tenge)

13. OTHER ASSETS

Other non-current assets	31 December 2016	31 December 2015
Equipment available for sale (Note 20)	961,035	-
Prepaid taxes	689,101	309,297
Receivables from employees	47,206	51,901
Other	136,626	23,162
Total other non-current assets	1,833,968	384,360
Other current assets		
Prepaid taxes	802,498	1,063,752
Receivables from litigations and accrued fines	648,162	717,804
Receivables from employees	436,734	331,722
Prepaid expenses	79,363	77,686
Other	555,440	690,326
	2,522,197	2,881,290
Allowance for doubtful debts	(412,132)	(449,654)
Total other current assets	2,110,065	2,431,636

As at 31 December 2016 and 2015, receivables from litigations and accrued fines were represented by fines charged to suppliers and customers for the late fulfillment of the terms of the contracts for delivery of materials, construction works and acquisition of heat and power.

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

	2016	2015
At 1 January	(449,654)	(507,594)
Accrued	(92,297)	(99,579)
Written off against previously created allowance	129,819	157,519
At 31 December	(412,132)	(449,654)

14. CASH

	31 December 2016	31 December 2015
Cash in banks	1,721,108	2,073,550
Petty cash	234,438	167,234
Cash in transit	67,316	38,603
	2,022,862	2,279,387

As at 31 December 2016 and 2015, cash were denominated in the following currencies:

	31 December 2016	31 December 2015
Tenge	1,777,829	2,126,066
US Dollars	244,890	151,461
Russian Rubles	143	1,860
	2,022,862	2,279,387

(in thousands of Tenge)

15. SHARE CAPITAL

	31 December 2016		31 December 2015	
	Interest	Number of shares	Interest	Number of shares
JSC CAPEC	59.66%	22,042,680	57.37%	21,198,744
EBRD	22.6%	8,352,201	24.16%	8,928,508
KAZ HOLDINGS COOPERATIEF U.A.	10.49%	3,877,825	11.22%	4,145,454
Others	7.25%	2,678,427	7.25%	2,678,427
	100%	36,951,133	100%	36,951,133

Authorised share capital of the Group was 50,000,000 common shares. As 31 December 2016 and 2015, the number of unallocated common shares was 13,048,867. As at 31 December 2016 and 2015, fully paid common shares amounted to 46,043,272 thousands tenge.

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

In 2016, the Group did not declare dividends (2015: 2,635,598 thousand tenge for 2014 financial results).

16. ADDITIONAL PAID-IN CAPITAL

As at 31 December 2016 and 2015, 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. During the finance lease the founder transferred part of the property, plant and equipment under the agreement into the share capital of the Group, and the additional paid-in capital was adjusted accordingly; and
- 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.

17. BONDS ISSUED

	Maturity date	Interest rate, per annum	31 December 2016	31 December 2015
KZ2C0Y10D695	10 January 2020	12.5%	8,000,000	8,000,000
KZ2C0Y10C606	10 July 2017	6%-13%	7,901,620	7,901,620
KZ2P01Y10E533	17 November 2023	6%	5,676,183	5,676,183
KZ2P02Y10E531	24 June 2025	6%	1,700,000	1,700,000
KZ2C0Y01F418	30 November 2017	13-13.5%	400,210	-
KZ2C0Y10D426	20 November 2017	13%	400,100	-
Accrued interest			1,030,094	754,846
Premium			328,068	400,555
Discount			(1,041,074)	(1,341,408)
Redemption of bonds			(12,747)	(5,717)
			24,382,454	23,086,079
Less: current portion of bonds issued			(9,663,264)	(754,846)
			14,719,190	22,331,233

As at 31 December 2016 and 2015, bonds issued were denominated in tenge.

(in thousands of Tenge)

The bonds issued are repayable as follows:

	31 December 2016	31 December 2015
In the second to the fifth years inclusive	8,324,298	16,070,043
After five years and later	6,394,892	6,261,190
	14,719,190	22,331,233

18. LOANS

	31 December 2016	31 December 2015
Principal amount of loans	61,681,401	67,451,443
Interest payable - long-term loans	624,733	558,594
Interest payable - short-term loans	74,889	76,686
Less:		
Fair value adjustment of loan	(2,020,515)	(858,794)
Unamortised part of lump-sum commission	(322,528)	(290,485)
	60,037,980	66,937,444
Less:		
Short-term loans	(7,471,447)	(12,487,741)
Current portion of long-term loans	(7,745,467)	(1,773,167)
	(15,216,814)	(14,260,908)
Long-term loans	44,821,166	52,676,536

The loans are repayable as follows:

	31 December 2016	31 December 2015
During the second year	5,940,163	6,282,724
In the second to the fifth years inclusive	25,534,938	24,534,803
After five years	13,346,065	21,859,009
	44,821,166	52,676,536

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

	31 December 2016	31 December 2015
US Dollars	41,940,274	46,376,296
Tenge	19,741,127	21,075,147
	61,681,401	67,451,443

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

(in thousands of Tenge)

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

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

Effective interest rate for long-term loans denominated in tenge and US Dollars amounted to 10.75%-11.5% per annum and 4.16%-4.79% per annum, respectively (2015: 9.25% - 10% per annum and 3.28% - 4.07% per annum, respectively).

Effective interest rate for short-term loans denominated in tenge and US Dollars amounted to 14.75%-18.5% per annum and 6.76% per annum, respectively (2015: 15% - 18% per annum and 6.5% 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 2016 the Group breached current ratio of not less than 1. The Group received waiver letters from banks in respect of this ratio for the financial year of 2016 and as of 31 December 2016.

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

19. DEFERRED REVENUE

	31 December 2016	31 December 2015
Fair value adjustment of loan	2,076,890	932,933
Government subsidies	1,643,592	78,580
Adjustment of guarantee fees	255,075	257,182
	3,975,557	1,268,695

In 2016, the Group concluded additional agreement to the effective loan agreement with EBRD for the financing of the investment project for modernisation of heat supply systems. Financing is carried out with the participation of the State with an opportunity of subsidising part of the project costs (Note 18).

Deferred revenue in the form of government grants is recognised at fair value and it is amortised to the statement of profit or loss as an income over the useful lives of the related assets. As at 31 December 2016, the related assets of 1,329,792 thousand tenge were put into exploitation (2015: nil). During 2016, the Group recognised income for amount of 2,963 thousand tenge in profit or loss on a systematic basis over the useful lives of the related assets.

(in thousands of Tenge)

20. FINANCE LEASE OBLIGATIONS

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Within 1 year	364,089	150,542	311,334	115,620
Later than one year but not later than 5 years	1,521,221	752,713	1,436,419	672,195
	1,885,310	903,255	1,747,753	787,815
Less: future finance charges	(137,557)	(115,440)	-	-
Present value of minimum lease payments	1,747,753	787,815	1,747,753	787,815

	31 December 2016	31 December 2015
Included:		
- current	311,334	115,620
- non-current	1,436,419	672,195
	1,747,753	787,815

In 2016, the finance lease agreement on installation of meter readings during 2016–2017 for 1,076,359 thousand tenge between the Group and JSC Fund for Development of Housing and Public Utilities come into force. Lessor of the contract is JSC Fund for Development of Housing and Public Utilities and the seller is LLP Aventis Group. Interest rate on lease is 4% per annum, lease payments is determined in accordance with repayment schedule with maturity date till 31 March 2021.

21. TRADE ACCOUNTS PAYABLE

	31 December 2016	31 December 2015
For purchased services	7,152,488	3,207,179
For purchased goods	5,192,613	6,824,752
For property, plant and equipment	2,344,739	9,436,472
Other	41,228	53,438
	14,731,068	19,521,841

As at 31 December 2016 and 2015, trade accounts payable were denominated in the following currencies:

	31 December 2016	31 December 2015
Tenge	13,876,667	17,491,566
Russian Rubles	708,272	2,030,275
Euro	146,129	-
	14,731,068	19,521,841

(in thousands of Tenge)

22. ADVANCES RECEIVED

As at 31 December 2016 and 2015, advances received of 1,928,519 thousand tenge and 2,161,570 thousand tenge, respectively, mainly included advances received for delivery of power and heat.

23. OTHER LIABILITIES AND ACCRUED EXPENSES

	31 December 2016	31 December 2015
Taxes payable	1,659,504	703,654
Payables to employees	684,433	681,354
Provisions for unused vacations	459,153	439,535
Pension contributions	181,782	160,263
Current portion of guarantee fees for additional capacity	25,375	29,393
Dividends payable	-	932,521
Other	109,841	389,861
	3,120,088	3,336,581

24. REVENUE

	2016	2015
Sale of power	70,565,491	63,559,301
Sale of heat	23,341,203	20,041,491
Transmission of power	21,544,273	18,664,396
Transmission of heat	6,659,791	5,423,151
Other	12,025	244,189
	122,122,783	107,932,528

25. COST OF SALES

	2016	2015
Heat and power purchased for resale	22,047,675	19,213,435
Transmission and distribution of heat and power	17,761,887	15,850,901
Coal and fuel oil	16,744,411	14,659,585
Services received	10,640,797	9,532,914
Payroll expenses and related taxes	10,361,976	9,462,318
Depreciation and amortisation	9,950,677	9,050,623
Inventories	3,862,090	3,679,355
Accrual of provision for unused vacation	27,478	14,675
Other	1,800,848	2,680,524
	93,197,839	84,144,330

(in thousands of Tenge)

26. GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Payroll expenses and related taxes	2,834,388	2,893,487
Services received	1,391,409	1,244,536
Taxes, other than income tax	1,342,060	1,346,182
Accrual of allowance for doubtful debts (Notes 12 and 13)	479,826	287,810
Depreciation and amortisation	264,482	245,024
Inventories	183,916	189,071
Provision for obsolete and slow-moving inventories (Note 11)	48,540	385
Accrual of provision on unused vacation	12,004	23,957
Other	1,393,813	1,513,305
	7,950,438	7,743,757

27. SELLING EXPENSES

	2016	2015
Payroll expenses and related taxes	1,408,397	1,382,897
Services received	352,712	315,654
Inventories	90,307	84,910
Depreciation and amortisation	43,741	47,664
Accrual/(reversal) of provision on unused vacation	3,303	(4,344)
Other	83,438	100,777
	1,981,898	1,927,558

28. FINANCE COSTS

	2016	2015
Interest expenses on bank loans	3,605,060	1,765,442
Interest expenses on bonds issued	2,663,704	1,791,615
Other	171,840	215,898
	6,440,604	3,772,955

29. FINANCE INCOME

	2016	2015
Interest income from cash placed on the deposits (Note 10)	959,758	712,030
Other	153,510	205,221
	1,113,268	917,251

30. FOREIGN EXCHANGE GAIN/(LOSS), NET

	2016	2015
Foreign exchange gain/(loss) from revaluation of loans	575,972	(22,197,361)
Foreign exchange gain from revaluation of deposits	5,437	2,150,257
Foreign exchange (loss)/gain from revaluation of cash	(24,279)	185,000
Other foreign exchange loss	(153,040)	(169,025)
	404,090	(20,031,129)

(in thousands of Tenge)

31. OTHER INCOME, NET

	2016	2015
Income from penalties for incompliance with the terms of the contract	313,424	250,661
Gain on write-off of accounts payable	209,195	54,984
Loss on impairment of property, plant and equipment	(152,684)	-
Depreciation charge of property, plant and equipment transferred to operating lease	(156,020)	(77,839)
Loss on disposal of property, plant and equipment	(156,364)	(109,412)
Other income	683,933	311,009
	741,484	429,403

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 2016 and 2015, income tax rate was 20%.

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

	2016	2015
Current income tax expense	1,157	-
Adjustment of current income tax expense related to prior years	-	(3,241)
Deferred income tax expense/(benefit)	3,545,457	(723,619)
Income tax expense/(benefit)	3,546,614	(726,860)

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

Deferred tax asset as a result of:	31 December 2016	31 December 2015
Tax losses carried-forward	4,326,919	6,140,309
Other temporary differences	765,742	553,045
Total deferred tax asset	5,092,661	6,693,354
Deferred tax liabilities as a result of:		
Carrying value of property, plant and equipment and intangible assets	(39,773,097)	(37,631,380)
Other temporary differences	164,290	(32,663)
Total deferred tax liabilities	(39,608,807)	(37,664,043)
Deferred tax liabilities, net, including:	(34,516,146)	(30,970,689)
Deferred tax liabilities	(35,226,177)	(31,649,648)
Deferred tax asset	710,031	678,959

(in thousands of Tenge)

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 2016	Sale of services 2015	Purchase of services 2016	Purchase of services 2015	Purchase of assets 2016	Purchase of assets 2015
JSC CAPEC	1,338	57	182,636	164,745	-	-
EBRD	-	-	26,904	4,859	-	-
Subsidiaries of JSC CAPEC	1,396,101	1,186,294	332,085	291,978	-	180,420
Associates of JSC CAPEC	10,452	9,491	82,724	58,794	-	-
	1,407,891	1,195,842	624,349	520,376	-	180,420

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

Name	Due from related party 31 December 2016	Due from related party 31 December 2015	Due to related party 31 December 2016	Due to related party 31 December 2015
JSC CAPEC	1,297	14	12,092	36,548
EBRD	-	-	-	636,840
Subsidiaries of JSC CAPEC	1,540,004	766,611	-	13,220
Associates of JSC CAPEC	91	3,157	3,965	301,717
	1,541,392	769,782	16,057	988,325

The Group has financial transactions with related parties, such as receipt of bank loans and the allocation of funds on deposit. As a result of financial transactions with related parties, the Group has the following balances:

Name	Loans, including interest payable, from related parties 31 December 2016	Loans, including interest payable, from related parties 31 December 2015	Deposits in bank, related party 31 December 2016	Deposits in bank, related party 31 December 2015	Cash in bank, related party 31 December 2016	Cash in bank, related party 31 December 2015
EBRD	39,561,879	43,593,215	-	-	-	-
Associates of JSC CAPEC	-	-	9,860,051	14,329,352	1,127,077	1,748,443
	39,561,879	43,593,215	9,860,051	14,329,352	1,127,077	1,748,443

For the year ended 31 December 2016 and 2015 the Group had the following financial operations with related parties:

Name	Interest expense, accrued on loans from related parties 2016	Interest expense, accrued on loans from related parties 2015	Interest income, accrued on deposits held in bank, related party 2016	Interest income, accrued on deposits held in bank, related party 2015
JSC CAPEC	-	-	-	82,296
EBRD	2,113,367	1,801,956	-	-
Associates of JSC CAPEC	-	-	948,296	845,038
	2,113,367	1,801,956	948,296	927,334

Key personnel of the Group

In 2016, compensation to the Board of Directors and other key management personnel of the Group in the form of salary and bonuses amounted to 643,095 thousand tenge (2015: 604,977 thousand tenge).

(in thousands of Tenge)

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 2016	31 December 2015
Financial assets		
Other financial assets (Note 10)	10,250,661	14,486,758
Trade accounts receivable (Note 12)	16,879,028	13,669,521
Other accounts receivable, excluding prepaid expenses and prepaid taxes (Note 13)	1,228,204	1,290,198
Cash (Note 14)	2,022,862	2,279,387
Financial liabilities		
Bonds issued (Note 17)	24,382,454	23,086,079
Loans (Note 18)	60,037,980	66,937,444
Long-term accounts payable	419,076	447,091
Finance lease obligations (Note 20)	1,747,753	787,815
Trade accounts payable (Note 21)	14,731,068	19,521,841
Other liabilities and accrued expenses, excluding provision for unused vacation, pension contributions and taxes payable (Note 23)	819,649	2,033,129

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.

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

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 the interest rate risk by retaining balanced ratio of loans and borrowings with fixed and floating interest rates.

(in thousands of Tenge)

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 key management of the Group an assumption is used on a change in the interest rate by 1%, which meets the expectations of the management regarding the reasonably possible fluctuation of interest rates.

If interest rates on liabilities were 1% higher/lower and all the other variables remained constant, then the profit of the Group for the year ended 31 December 2016, and its retained earnings as at 31 December 2016, would decrease/increase by 844,204 thousand tenge (2015: 900,235 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.

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 in foreign currency as at 31 December 2016 and 2015, was as follows:

	Assets		Liabilities	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
US Dollars	2,285,420	4,208,167	41,940,274	46,376,296
Russian Rubles	143	1,970	708,272	2,030,275

(in thousands of Tenge)

Foreign currency sensitivity analysis

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		**Effect of Russian Ruble**	
	31 December 2016	**31 December 2015**	**31 December 2016**	**31 December 2015**
Financial assets	457,084	841,633	29	394
Financial liabilities	(8,388,055)	(9,275,259)	(141,654)	(406,055)

This mainly relates to the risk on loans and deposits of the Group denominated in US Dollars as at 31 December 2016 and 2015.

Liquidity risk

The Group's shareholders are ultimately responsible for liquidity risk management since they created an appropriate system of liquidity risk management for management of the Group 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.

(in thousands of Tenge)

The table on liquidity risk and interest rate risk as at 31 December 2016, is presented as follows:

31 December 2016	Effective interest rate	Up to 1 year	1-5 years	Over 5 years	Undefined term	Total
Non-interest-bearing:						
Trade accounts receivable		16,879,028	-	-	1,310,515	18,189,543
Other accounts receivable, excluding prepaid expenses and prepaid taxes		1,228,204	-	-	412,132	1,640,336
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, excluding unused vacation, pension contributions and taxes payable		(819,649)	-	-	-	(819,649)
Interest-bearing:						
Other financial assets	3.6%	10,250,661	-	-	-	10,250,661
Bonds issued	6%-13.5%	(10,676,233)	(12,239,741)	(8,451,928)	-	(31,367,902)
Loans	4.16%-6.76% 10.75%-18.5%	(16,451,800)	(35,634,165)	(16,182,194)	-	(68,268,159)
Finance lease obligation	5%	340,342	1,487,930	-	-	1,828,272
Net position		(11,957,653)	(46,385,976)	(24,905,438)	1,722,647	(81,526,420)

31 December 2015	Effective interest rate	Up to 1 year	1-5 years	Over 5 years	Undefined term	Total
Non-interest-bearing:						
Trade accounts receivable		13,669,521	-	-	1,179,383	14,848,904
Other accounts receivable, excluding prepaid expenses and prepaid taxes		1,290,198	-	-	449,654	1,739,852
Cash		2,279,387	-	-	-	2,279,387
Long-term accounts payable		(29,313)	(146,565)	(271,213)	-	(447,091)
Trade accounts payable		(19,521,841)	-	-	-	(19,521,841)
Other liabilities and accrued expenses, excluding unused vacation, pension contributions		(2,033,129)	-	-	-	(2,033,129)
Interest-bearing:						
Other financial assets	2.8-9%	5,753,589	9,639,850	-	-	15,393,439
Bonds issued	6.8-12.5%	(2,164,693)	(21,607,218)	(8,356,627)	-	(32,128,538)
Bank loans	3.28%-6.5% 9.25%-18%	(15,509,717)	(37,354,714)	(30,043,477)	-	(82,907,908)
Finance lease obligation	5%	(150,542)	(752,713)	-	-	(903,255)
Net position		(16,416,540)	(50,221,360)	(38,671,317)	1,629,037	(103,680,180)

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.

(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 related to the Parent of the Group by weighted average number of common shares, participating in distribution of net profit, outstanding during the year. The amount of common shares and common shares with diluted effect were equal, since there are no instruments with the potential dilutive effect.

	2016	2015
Net profit/(loss) for the year	11,264,232	(7,613,687)
Weighted average number of common shares used for calculating basic earnings per share	36,951,133	36,951,133
Earnings/(loss) per share, in tenge	304.84	(206.05)

As at 31 December 2016 and 2015 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 2016:			
Common shares	36,951,133	139,018,572	3,762.23
31 December 2015:			
Common shares	36,951,133	128,064,469	3,465.78

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

36. COMMITMENTS AND CONTINGENCIES

Legal issues

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

Taxation

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

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

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

Environmental issues

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

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

Insurance

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

Operating environment

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

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

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

Capital commitments

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

Tariffs

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

Subscription 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, JSC CAPEC, transferred part of its shares to EBRD in accordance with the agreement between the shareholders of the Company. As at 31 December 2016, EBRD owns 22.6% of the Company's shares (31 December 2015: 24.16%) (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 2016 IIF owns 10.49% of the Company's shares (31 December 2015: 11.22%) (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 2016, the Group did not violate covenants under these agreements and met the requirements.

37. EVENTS AFTER THE REPORTING DATE

Tariffs

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

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

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

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

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

38. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by management of the Group on 10 May 2017.