Translation from original in Russian

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

Consolidated financial statements
for the year ended 31 December 2008

Translation from original in Russian

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

TABLE OF CONTENTS

Translation from original in Russian

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 2008

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguish the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Joint Stock Company Central-Asian Electric Power Corporation (the "Company") and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Group as at 31 December 2008, the consolidated results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

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

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the 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;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2008 were authorized for issue on 10 July 2009 by management of the Group.

Signed on behalf of management of the Group:

Orymbekov E. A.
President

10 July 2009
Almaty, Republic of Kazakhstan

Serikova K. E.
Chief Accountant

10 July 2009
Almaty, Republic of Kazakhstan

Translation from original in Russian

INDEPENDENT AUDITORS' REPORT

To the Shareholders and management of Joint Stock Company Central Asian Electric Power Corporation:

We have audited the accompanying consolidated financial statements of Joint Stock Company Central-Asian Electric Power Corporation (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, the consolidated income statement, the consolidated cash flows statement and consolidated statement of changes in equity and for the year then ended, and a summary of significant accounting policies and other explanatory notes to the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud affecting consolidated financial statements or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Translation from original in Russian

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2008, and its consolidated results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw your attention to Note 42 to the consolidated financial statements, which discloses significant operations of the Group with related parties on conditions that would not necessarily be available to unrelated parties.

Tatyana Gutova
Engagement Partner
Qualified auditor
Qualification certificate #0000314,
dated 23 December 1996
Republic of Kazakhstan

Deloitte, LLP
Audit license for Republic of Kazakhstan #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 July 2009
Almaty, Republic of Kazakhstan

Translation from original in Russian

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

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008
(in thousands of Tenge)

	Notes	2008	2007
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	6	48,649,385	48,886,475
Goodwill	7	2,424,431	1,454,194
Intangible assets	8	76,398	85,991
Deferred tax assets	39	40,058	-
Other financial assets	9	875,287	1,573,287
Other non-current assets	10	3,145,269	1,459,431
Total non-current assets		55,210,828	53,459,378
CURRENT ASSETS:			
Inventories	11	1,124,955	937,670
Trade accounts receivable	12	4,417,679	2,227,218
Advances paid	13	1,845,224	576,976
Taxes receivable and prepaid taxes	14	170,059	76,146
Other accounts receivable	15	3,323,507	1,082,817
Current portion of other financial assets	9	1,003,847	-
Cash and cash equivalents	16	243,332	156,050
		12,128,603	5,056,877
Assets classified as held for sale	41	-	113,540
Total current assets		12,128,603	5,170,417
TOTAL ASSETS		67,339,431	58,629,795
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	17	18,463,123	-
Additional paid-in capital	18	1,234,747	18,527,785
Revaluation reserve on property, plant and equipment		8,660,519	7,593,098
Retained earnings		5,666,475	4,037,120
Equity attributable to equity holders of the Parent		34,024,864	30,158,003
Minority interest	19	6,442,469	5,944,905
Total equity		40,467,333	36,102,908
NON-CURRENT LIABILITIES:			
Bonds issued	20	3,496,290	1,970,434
Long-term loans	21	6,574,476	386,713
Deferred revenue	23	293,610	234,391
Long-term accounts payable	24	100,325	71,387
Deferred tax liabilities	39	5,107,604	10,541,672
Ash dump restoration liabilities	25	177,787	170,918
Obligations under finance lease	22	-	2,387,315
Employee benefit obligations	30	73,761	36,012
Total non-current liabilities		15,823,853	15,798,842

Translation from original in Russian

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

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2008
(in thousands of Tenge)

	Notes	2008	2007
CURRENT LIABILITIES:			
Current portion of bonds issued	20	96,248	91,971
Trade accounts payable	26	3,535,663	1,321,598
Current portion of long-term loans	21	3,443,866	1,414,422
Advances received	27	1,516,922	761,629
Current portion of obligations under finance lease	22	54,040	511,593
Taxes and non-budget payments payable	28	1,518,276	1,203,191
Current portion of employee benefit obligations	30	6,203	3,741
Current portion of ash dump restoration liabilities	25	16,380	17,290
Other liabilities and accrued expenses	29	860,647	1,290,702
		11,048,245	6,616,137
Liabilities classified as held for sale	41	-	111,908
Total current liabilities		11,048,245	6,728,045
TOTAL EQUITY AND LIABILITIES		67,339,431	58,629,795

Signed on behalf of management of the Group:

Orymbekov E.A.
President

10 July 2009
Almaty, Republic of Kazakhstan

Serikova K. E.
Chief Accountant

10 July 2009
Almaty, Republic of Kazakhstan

The notes on pages 11-62 form an integral part of these consolidated financial statements.

Translation from original in Russian

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

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousands of Tenge)

	Notes	2008	2007
CONTINUING OPERATIONS			
REVENUE	31	25,052,244	14,346,511
COST OF SALES	32	(20,353,715)	(12,209,363)
GROSS PROFIT		4,698,529	2,137,148
General and administrative expenses	33	(3,572,191)	(1,502,511)
Selling expenses	34	(732,048)	(420,754)
OPERATING PROFIT		394,290	213,883
Income from subsidiary acquisition	43	-	8,938,572
Finance costs	35	(1,216,653)	(496,168)
Interest income	36	509,977	178,407
(Loss)/income from purchase and disposal of investments	37	(25,009)	368,736
Foreign exchange (loss)/gain		(33,954)	1,949
Other income, net	38	512,737	282,861
PROFIT BEFORE TAXATION		141,388	9,488,240
INCOME TAX BENEFIT/(EXPENSE)	39	2,924,384	(518,872)
PROFIT FOR THE YEAR		3,065,772	8,969,368
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations	40	12,568	16,691
PROFIT FOR THE YEAR		3,078,340	8,986,059
Attributable to:			
Shareholders of the Parent		2,978,593	8,954,464
Minority interest		99,747	31,595
		3,078,340	8,986,059

Signed on behalf of management of the Group:

Orymbekov E.A.	**Serikova K. E.**
President	**Chief Accountant**
10 July 2009	10 July 2009
Almaty, Republic of Kazakhstan	Almaty, Republic of Kazakhstan

The notes on pages 11-62 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008
(in thousands of Tenge)

	Notes	Share capital	Additional paid-in capital	Revaluation reserve on property, plant and equipment	(Accumulated deficit)\retained earning	Equity attributable to equity holders of the Parent	Minority interest	Total equity
Balance as at 1 January 2007		-	8,118,000	-	(1,075,904)	7,042,096	3,240,669	10,282,765
Purchase of subsidiaries (JSC SevKazEnergo Petropavlovsk)		-	3,399,358	-	(2,830,494)	568,864	-	568,864
Contribution to share capital	6	-	4,357,680	-	(1,010,946)	3,346,734	-	3,346,734
Shares issued		-	2,659,996	-	-	2,659,996	(300,000)	2,359,996
Decrease of share in subsidiary		-	-	-	-	-	109,538	109,538
Revaluation of property, plant and equipment	6	-	-	10,847,283	-	10,847,283	4,090,148	14,937,431
Less income tax effect	39	-	-	(3,254,185)	-	(3,254,185)	(1,227,045)	(4,481,230)
Discount on interest-free loan provided to JSC CAPEC	15	-	(8,094)	-	-	(8,094)	-	(8,094)
Less income tax effect		-	845	-	-	845	-	845
Profit the year		-	-	-	8,954,464	8,954,464	31,595	8,986,059
Balance as at 31 December 2007		-	18,527,785	7,593,098	4,037,120	30,158,003	5,944,905	36,102,908

Translation from original in Russian

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008
(in thousands of Tenge)

	Notes	Share capital	Additional paid-in capital	Revaluation reserve on property, plant and equipment	Accumulated deficit	Equity attributable to equity holders of the Parent	Minority interest	Total equity
Balance as at 1 January 2008		-	18,527,785	7,593,098	4,037,120	30,158,003	5,944,905	36,102,908
Contribution to share capital		18,463,123	(17,060,276)	(2,170)	(1,483,959)	(83,282)	149,282	66,000
Contribution of assets under finance lease to share capital	6	-	543,341	-	(186,177)	357,164	-	357,164
Change in shares in subsidiaries		-	-	-	-	-	(162,271)	(162,271)
Disposal of revaluation due to disposal of property, plant and equipment		-	-	(618,144)	618,144	-	-	-
Disposal of property, plant and equipment leased to the founder		-	(86,932)	-	-	(86,932)	-	(86,932)
Offset of loans payable and finance lease obligations	21, 22	-	(888,079)	-	-	(888,079)	-	(888,079)
Fair value adjustment of interest-free loan provided to JSC CAPEC	15	-	(64,210)	-	(399,791)	(464,001)	(12,059)	(476,060)
Effect of income tax and change in income tax rate	39	-	263,118	1,687,735	102,545	2,053,398	422,865	2,476,263
Profit for the year		-	-	-	2,978,593	2,978,593	99,747	3,078,340
Balance as at 31 December 2008		18,463,123	1,234,747	8,660,519	5,666,475	34,024,864	6,442,469	40,467,333

Signed on behalf of management of the Group:

Orymbekov E.A.
President

10 July 2009
Almaty, Republic of Kazakhstan

Serikova K. E.
Chief Accountant

10 July 2009
Almaty, Republic of Kazakhstan

The notes on pages 11-62 form an integral part of these consolidated financial statements.

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

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousands of Tenge)

	Notes	2008	2007
OPERATING ACTIVITIES:			
Profit before taxation		153,956	9,504,931
Adjustments for:			
Amortization and depreciation	6, 8	2,550,354	1,004,425
Finance costs	35	1,216,653	496,168
Provision for doubtful debts	12, 13, 15	253,217	72,441
(Recovery)/accrual of provision for impairment of construction in progress	33	(143)	114
Loss from disposal of property, plant and equipment	38	38,928	24,293
Loss from disposal of intangible assets		1,213	-
Loss/(profit) from disposal of investments		1,632	(368,736)
Employee benefit costs	30	47,329	2,005
Interest income from deposit	36	(209,613)	(162,402)
Interest income from interest-free loan	36	(295,517)	(5,277)
Interest income from guarantee deposits	36	(4,847)	(10,728)
Income from repurchase of bonds issued	20	(14,778)	-
Income from subsidiary acquisition	43	-	(8,938,572)
Foreign exchange loss		14,730	238
Provision for unused vacations	29	18,109	12,118
(Recovery)/accrual of provision for obsolete inventories	11	(8,470)	3,763
Operating cash flow before movements in working capital		3,762,753	1,634,781
Increase in inventories		(722,981)	(124,976)
Increase in trade accounts receivable		(651,751)	(1,338,590)
(Increase)/decrease in advances paid		(1,026,272)	28,415
Decrease /(increase) in taxes receivable and prepaid taxes		6,765	(25,197)
Decrease in finance lease receivables		-	1,560
Decrease in other accounts receivable		104,277	289,809
Increase in trade accounts payable		66,002	486,719
(Decrease)/ increase in deferred income		(31,747)	245,119
Increase in advances received		166,059	186,318
Increase in taxes payable		291,404	297,906
Decrease in employee benefit obligations		(7,118)	-
(Decrease)/increase in other liabilities and accrued expenses		(503,722)	4,497
Cash provided by operations		1,453,669	1,686,361
Income tax paid		(25,411)	(539)
Interest paid		(832,125)	(311,617)
Net cash provided by operating activities		596,133	1,374,205
INVESTING ACTIVITIES:			
Cash withdrawn from deposit		198,000	26,713
Cash placed on deposit		(503,847)	-
Acquisition of property, plant and equipment		(1,902,305)	(956,932)
(Increase)/decrease in advances paid for property, plant and equipment		(1,654,169)	99,085
Acquisition of intangible assets		(1,882)	(30,818)
Proceeds from disposal of property, plant and equipment		35,502	12,519
Proceeds from interest accrued on placed deposits with maturity of more than one year		141,398	137,653
Acquisition of investments		(381,188)	(965,450)
Proceeds from disposal of investments		-	650,090
Acquisition of a subsidiary	43	(29,301)	35,731
Net cash used in investing activities		(4,097,792)	(991,409)

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

CONSOLIDATED CASH FLOWS STATEMENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2008
(in thousands of Tenge)

	Notes	2008	2007
FINANCING ACTIVITIES:			
Contribution to share capital		66,000	-
Proceeds from issuance of bonds		1,795,100	-
Repayment of bonds	20	(301,940)	-
Proceeds from long-term loans		13,876,202	2,799,900
Repayment of loans		(5,832,572)	(2,518,194)
Repayment of obligations under finance lease	22	(1,106,690)	-
Financial aid granted to related party	15	(6,579,140)	(636,600)
Repayment of financial aid by related party	15	1,551,780	-
Guarantee fees		120,201	-
Net cash from/(used in) financing activities		3,588,941	(354,894)
NET INCREASE IN CASH AND CASH EQUIVALENTS		87,282	27,902
CASH AND CASH EQUIVALENTS, at the beginning of the year	16	156,050	128,148
CASH AND CASH EQUIVALENTS, at the end of the year	16	243,332	156,050

Non-cash operations:

- In 2007 the Company purchased property, plant and equipment through repurchase of common shares on 2,359,996 thousand tenge from LLP Ekibastuzskoe Teplo and Dorington Investment Limited.
- In 2008 the Group paid withholding tax using the offset of other accounts receivable and interest accrued of 24,953 thousand tenge (2007: 24,292 thousand tenge).
- In 2008 the Group amortized the discount on bonds issued on 44,158 thousand tenge (2007: 2,478 thousand tenge).
- In 2008 the Group transferred to other long-term assets the inventories held for use as a component for production of property, plant and equipment on 142,673 thousand tenge (2007: 82,126 thousand tenge) (Note 10).
- In 2007 the Group purchased property, plant and equipment using the offset of accounts receivable on 83,557 thousand tenge.
- In 2008 the Group made an offset of other accounts receivable against repayment of finance lease obligations and interest-free loan on 2,613,573 thousand tenge (Notes 13, 17, 21) (2007: nil tenge).
- In 2008 the Group transferred inventories on 484,048 thousand tenge into property, plant and equipment (2007: 461,090 thousand tenge).

Signed on behalf of management of the Group:

Orymbekov E.A.
President

10 July 2009
Almaty, Republic of Kazakhstan

Serikova K. E.
Chief Accountant

10 July 2009
Almaty, Republic of Kazakhstan

The notes on pages 11-62 form an integral part of these consolidated financial statements.

(in thousands of Tenge)

1. NATURE OF THE BUSINESS

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

The sole shareholder of the Company is JSC Central-Asian Power Energy Company (JSC CAPEC, major shareholder, the "Parent")). The ultimate shareholders of the Company are Mr. E. Amirkhanov, Mr. A. Klebanov and Mr. S. Kan, residents of the Republic of Kazakhstan. Legal address of the Company is as follows: 89, Karasai Batyr street, Almaty, Republic of Kazakhstan.

The Company is the parent of the following enterprises:

Subsidiaries:	**Location**	**Ownership interest**		**Date of acquisition**	**Principal activity**
		2008	**2007**		
JSC Pavlodarenergo	Pavlodar	79.77%	-	August 2008	Production, transmission and sales of electric and heat energy
LLP SevKazEnergo Petropavlovsk	Petropavlovsk	99.00%	-	August 2008	Production, transmission and sales of electric and heat energy
LLP Astanaenergosbyt	Astana	100.00%	-	December 2008	Sales of electric and heat energy

The major shareholder of the Company JSC CAPEC transferred 79.77% of shares and 99.0% interest in JSC Pavlodarenergo and LLP SevKazEnergo Petropavlovsk, respectively to share capital of the Company. The Company consolidated the financial statements of these subsidiaries since the date of commencement of control over their activity in JSC CAPEC, since 1 April 2004 and 1 October 2007, respectively (Note 40).

The Company acquired 100% interest in LLP Astanaenergosbyt in December 2008 (Note 43), accordingly, the financial statements of this enterprise were consolidated since that date.

The principal activity of the Company and of its subsidiaries (the "Group") is production, transmission and distribution of the electric and heat energy. The financial statements of the subsidiaries were consolidated with the financial statements of the Company.

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

The subsidiaries are included into the local section of the State register of subjects of natural monopolies on production, transmission and distribution of electric energy.

On 25 December 2003 JSC Pavlodarenergo signed an investment agreement #0396-12-2003 providing for investment preferences with the Committee for investments of the Ministry of industry and trade of the Republic of Kazakhstan (the "Agreement"). As per the Agreement JSC Pavlodarenergo was supposed to invest 750,000 thousand tenge into construction of ash dumps in Pavlodar. As at 31 December 2006 JSC Pavlodarenergo actually invested into construction of ash dumps and graduation tower under the Agreement 833,012 thousand tenge and 414,610 thousand tenge, respectively. As per the addendum to the Agreement between JSC Pavlodarenergo and the Investment Committee of the Ministry of industry and trade of the Republic of Kazakhstan, these amounts were included into the preferences.

The preferences provide the right to offset from the taxable base of new property, plant and equipment installed in 2003 within the investment project starting from 1 January 2004 till 1 January 2009.

On 27 September 2006, JSC Pavlodar Heat Network, the subsidiary of JSC Pavlodarenergo, signed an agreement on trust management of the state property #76 with the following state institutions: the Department of finances of Pavlodar region and Department of finances of Pavlodar city. As per the agreement, JSC Pavlodar Heat Network has the right to manage heat networks and hot water supply equipment with book value of 2,107,817 thousand tenge.

On 29 December 2003, LLP SevKazEnergo Petropavlovsk signed the contracts #0409-12-2003, #0418-12-2003 and #0408-12-2003 with the Committee for investments for tax preferences, whereby the investor received the following investment tax preferences:

- for corporate income tax – the opportunity to deduct from the cumulative annual income the cost of commissioned fixed assets by equal portions was given during the period of 5 (five) years from 1 January of the year following the year of installation of fixed assets within the investment project; and
- for property tax – property tax exemption was provided on newly installed fixed assets within the investment project for the period of 3 (three) years from 1 January of the year following the year of installation of the fixed assets within the investment project.

The contracts expired on 31 December 2008.

As per the contracts, LLP SevKazEnergo Petropavlovsk was supposed to invest 1,795,500 thousand tenge for reconstruction, upgrade and re-equipment of the energy complex to ensure constant and secure power supply for the Northern Kazakhstan region and heating supply for Petropavlovsk. As at 31 December 2008, LLP SevKazEnergo Petropavlovsk fully completed its obligations.

The number of employees of the Group as at 31 December 2008 and 2007 was 7,918 and 8,016, respectively.

These consolidated financial statements prepared under IFRS were approved for issue by management of the Group on 10 July 2009.

2. CURRENT ECONOMIC SITUATION

Operating environment – The Group's principal business activities are within the Republic of Kazakhstan. Laws and regulations affecting the business environment in the Republic of Kazakhstan are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

The Group is included into the local section of the State register of subjects of natural monopolies on production, transmission and distribution of electric energy. Accordingly, the Group's requests increase in tariffs is to subject to approval by the Agency of the Republic of Kazakhstan for regulation of natural monopolies after review and assessment of various internal and external factors.

The consolidated financial statements reflect the estimate made by management of the Group of the impact of economic and political conditions of the Republic of Kazakhstan on activities and financial position of the Group. The actual impact of future economic conditions can differ from management's estimates.

Volatility of the world and Kazakh financial markets– In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have either been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in Kazakhstan, notwithstanding any potential economic stabilization measures that may be put into place by the Government of the Republic of Kazakhstan, as at the date of these consolidated financial statements are authorized for issue, economic uncertainties exist surrounding the continual availability, and cost, of credit both for the Group and its counterparties. The Kazakh economy has a natural resource focus, due to decrease of demand for raw materials on the world market there is a decrease in volume of power consumption and the economic uncertainty can remain in the near future. In this connection, there is a risk that the recoverable value of the Group's assets can be lower than their carrying value, which will have a corresponding impact on the Group's profitability. These conditions indicate the existence of an uncertainty, which may cast doubt about the Group's ability to continue as a going concern.

In conditions of volatility on the world and Kazakh stock markets the Group developed an anti-crisis program for 2009. The Group's policy in 2009 will be focused on mitigation of an adverse impact of the world economic recession on its production and financial activities.

3. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

Adoption of new and revised standards – In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods starting from 1 January 2008.

The following Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- IFRIC 12, *Concession Agreements* (effective for reporting periods beginning on or after 1 January 2008);
- IFRIC 14 *"IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction* (effective for reporting periods beginning on or after 1 January 2008).

The adoption of the new and revised Standards and Interpretations has not resulted in significant changes in the Group's accounting policies.

Standards and interpretations issued and not yet adopted – At the date of authorization of these consolidated financial statements, other than the Standards and Interpretations adopted by the Group, the following Standards and Interpretations were in issue but not yet effective:

- Amendments to IFRS 1, *First Time Adoption of IFRS: Evaluation of investments into subsidiaries, jointly controlled companies and associates on first-time adoption* (effective for reporting periods beginning on or after 1 January 2009);
- Amendments to IFRS 2, *Share-based payment: Amendment relating to vesting conditions and cancellations* (effective for reporting periods beginning on or after 1 January 2009);
- IFRS 3, *Business Combinations: Comprehensive revision on applying the acquisition method* (revised) (effective for reporting periods beginning on or after 1 July 2009);
- IFRS 8, *Operating Segments* (effective for reporting periods beginning on or after 1 January 2009);

- Amendments to IAS 1, *Presentation of Financial Statements: Presentation of comprehensive income, disclosure of puttable instruments and obligations arising on liquidation* (effective for reporting periods beginning on or after 1 January 2009);
- Amendments to IAS 27, *Consolidated and Separate Financial Statements,* arising from amendments to IFRS 3, *Business Combinations* (effective for reporting periods beginning on or after 1 July 2009);
- Amendments to IAS 27, *Consolidated and Separate Financial Statements: cost of investments upon first time adoption of IFRS* (effective for reporting periods beginning on or after 1 January 2009);
- Amendments to IAS 28, *Investments in Associates,* arising from amendments to IFRS 3, *Business Combinations* (effective for reporting periods beginning on or after 1 July 2009);
- Amendments to IAS 32, *Financial Instruments: disclosure and presentation of information: disclosure of puttable instruments and obligations arising on liquidation* (effective for reporting periods beginning on or after 1 January 2009);
- Amendments to IAS 39, *Financial Instruments: Recognition and Measurement: hedged items* (effective for reporting periods beginning on or after 1 July 2009);
- Amendments to IAS 39, *Financial Instruments: recognition and evaluation: reclassification of financial instruments* (effective for reporting periods beginning on or after 30 June 2009);
- IFRIC 13, *Customer Loyalty Programs* (effective for reporting periods beginning on or after 1 July 2008);
- IFRIC 15, *Real estate construction agreements* (effective for reporting periods beginning on or after 1 January 2009);
- IFRIC 16, *Hedging investments in foreign operations* (effective for reporting periods beginning on or after 1 October 2008);
- IFRIC 17, *Distributions of Non-cash Assets to Owners* (effective for reporting periods beginning on or after 1 July 2009); and
- IFRIC 18, *Transfer of assets from consumers* (effective for reporting periods beginning on or after 1 July 2009).

On 22 May 2008, the IFRS Committee, within an annual initiative directed for global improvement of existing International Financial Reporting Standards, issued amendments to 20 existing standards. These amendments related to certain wordings and issues on presentation of the financial statements, issues of recognition and measurement. The new wording of the above standards is effective for reporting periods beginning on or after 1 January 2009.

In April 2009, IFRS Committee, within an annual initiative directed for global improvement of existing International Financial Reporting Standards, issued amendments to 9 existing standards. These amendments related to certain wordings and issues on presentation of the financial statements, issues of recognition and measurement. The new wording of the above standards is effective for reporting periods beginning on or after 1 July 2009 and 1 January 2010.

Amendment to IAS 1, *Presentation of Financial Statements: Comprehensive income,* requires presentation of information in the financial statements on the basis of general characteristics and adopts the statement of comprehensive income. Due to the fact that amendment to IAS 1 affects only requirements on disclosures, it is expected that it will not affect the consolidated financial performance, consolidated position and cash flows of the Group. The Group currently develops actions to design procedures and collect information required for compliance with all requirements for IAS 1.

Management does not anticipate that adoption of these Standards and amendments to them and Interpretations in the future periods will have a material impact on the consolidated financial statements of the Group in the period of initial adoption.

The Group will adopt relevant new, revised and amended Standards and new Interpretations from their effective date. The Group's management anticipates that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the Group's consolidated financial position, consolidated income statement and consolidated cash flow statement.

Basis of presentation – These consolidated financial statements have been prepared in accordance with IFRS. These consolidated financial statements were presented in thousands of tenge, unless another currency is indicated.

These consolidated financial statements of the Group have been prepared on the historical cost basis, except for the following:

- valuation of property, plant and equipment according to IAS 16 "Property, plant and equipment" ("IAS 16");
- valuation of some financial instruments according to IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39").

Functional and presentation currency – The functional currency and currency of presentation of these consolidated financial statements is tenge ("tenge").

4. SIGNIFICANT ACCOUNTING POLICIES

Going concern – These consolidated financial statements were prepared according to IFRS on a going concern basis. The conditions disclosed in Note 2 indicate the existence of a material uncertainty, which may impact the Group's ability to continue as a going concern.

Management resolves the issues of profitability of the Group by undertaking the following measures:

- gradual increase in tariffs for provided services;
- in May 2007 the Group developed and approved the investment program for reconstruction and technical upgrade for 2007-2013;
- On 29 November 2007 the Group concluded a loan agreement with European Bank of Reconstruction and Development (EBRD) for the credit line of USD 30,000,000 with the maturity of 10 years. In 2008 the Group received the first tranche of USD 10,000,000 maturing in 2017 (Note 21).
- decrease in accounts receivable;
- introduction of measures for efficient use of resources for the purpose of reduction of production costs.

Management of the Group believes that the Group will be able to realize its assets and meet its liabilities in the normal course of business. Management also believes that JSC CAPEC, major shareholder of the Group, will continue to support the Group in the foreseeable future. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty, and such adjustments may be material.

Reporting period – The reporting period of the Group is a calendar year (from 1 January 2008 to 31 December 2008). The acquisition of the shares of subsidiaries from the Parent was accounted for using the pooling of interest method. According to this method, the subsidiaries JSC Pavlodarenergo and LLP SevKazEnergo Petropavlovsk were consolidated with the Company since the date of acquisition of shares by the Parent from an unrelated party, as if the Company acquired them initially from an unrelated party. Accordingly, the income and expenses, assets and liabilities of JSC Pavlodarenergo and LLP SevKazEnergo Petropavlovsk were included to the consolidated financial statements from 1 January 2007 and 1 October 2007, respectively.

The Company's share capital was formed by shares of the subsidiaries and cash from September to December 2008.

Basis of consolidation – The consolidated financial statements incorporate the financial statements of the Company and other enterprises which are directly or indirectly controlled by the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

The results of economic activity of subsidiaries acquired or disposed during the reporting period are included in the consolidated income statement from the date of actual acquisition or till the date of actual disposal, respectively.

Where necessary, the financial statements of the subsidiaries were adjusted in order to put accounting policies of the subsidiaries in line with the accounting policy used by the Group.

All significant intercompany transactions, balances and unrealized gains (losses) on transactions are eliminated on consolidation

Business combination – The acquisition of subsidiaries is accounted for using the purchase method. At that the acquisition cost is measured at the amount of fair values of received assets, accrued and contingent liabilities and equity instruments issued by the Group in exchange for control over acquired enterprise at the date of acquisition, plus any costs indirectly related to business combination. At the date of acquisition, the identified assets, liabilities and contingent liabilities which meet the criteria of recognition set by IFRS *3, Business combination,* should be recognized at their fair value, except for long-term assets (disposal group) classified as held for sale according to *IFRS 5, Long-term assets held for sale and discontinued operations,* and accounted for at the fair value less selling expenses.

Goodwill arising at acquisition is recognized as an asset and reflected initially at the cost representing the excess of the cost of business combination over the interest of the Group in the net fair value of identifiable assets, liabilities and contingencies. If the Group's interest in the net fair value of acquired assets, liabilities and contingencies exceeds the cost of business combination, this excess is recognized in the consolidated income statement.

At each reporting date the Group evaluates the carrying value of goodwill for its potential impairment. The impairment loss, if any, is recognized as expenses of the current period.

The minority interest in the acquired enterprise is initially evaluated in proportion to the share of net fair value of recognized assets, liabilities and contingencies.

Goodwill – Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is recognized as an asset and reviewed for impairment at least each year. The impairment loss is immediately recognized as expense and is subsequently not reversed.

On disposal of a subsidiary, associate or jointly controlled entity, 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 such currencies are translated at the rates prevailing on the consolidated balance sheet date. All translation differences are recognized in the consolidated income statement.

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

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

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

Any increase in the carrying value as a result of revaluation is credited to the revaluation reserve, which is recorded in equity, except for when the revaluation recovers the decrease in the carrying value of this asset, which was previously recognized in income or expenses. In this case the increase in the carrying value is included into income within the amount of previously recognized expense. The decrease in the carrying value is recognized in the income or expense, except when the decrease of the carrying value directly decreases the previous increase in the carrying value on this asset. In such cases the decrease in the carrying value decreases the amount of the provision related to this asset which is recorded in the revaluation provision.

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

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

Depreciation on revalued property, plant and equipment is recorded in the consolidated income statement. Depreciation of construction in progress commences when the assets are put into operation. Deprecation is calculated on a straight-line basis, except for construction in progress, during the useful lives, which are:

	2008	**2007**
Buildings and constructions	5-50 years	1-40 years
Machines and production equipment	1-35 years	1-30 years
Vehicles	1-15 years	2-19 years
Other	1-14 years	2-20 years

The gain or loss arising on disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in other income/(expenses) in the accompanying consolidated income statement.

Intangible assets – Intangible assets are accounted at cost, less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over an asset's estimated useful life, which is 7-10 years.

Impairment of non-current assets – At each consolidated balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets and investment property 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 recognized 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 recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately as income.

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

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

Group as a lessor – The receivables from lessees on finance lease are accounted for as accounts receivable in the amount of net investments of the Group into lease. The income from finance lease is allocated to reporting periods to reflect the constant norm of income from net investments of the Group received from lease.

The income from operating lease is recognized on a straight-line basis during the period of a respective lease.

Group as a lessee – The assets held under finance lease are recognized as assets of the Group at their fair value or, if lesser, at the current value of minimum lease payments determined at the beginning of the lease. The respective obligation to the lessor is included into the consolidated balance sheet as an obligation under finance lease. Lease payments are allocated between finance costs and decrease in the lease obligation to achieve a constant rate of interest on the remaining balance of liabilities. The financial costs are charged directly to expenses, unless they relate directly to qualifying assets. In this case they are capitalized according to the general policy of the Group on borrowing costs.

Lease payments on operating lease are charged to expense on a straight-line basis during the period of a respective lease.

Benefits received or to be received as an incentive from concluding an operating lease, are also allocated on a straight-line basis during the lease period.

Financial instruments – Financial assets and financial liabilities are recognized in the consolidated balance sheet of the Group when the Group becomes a party to contractual provisions on the instrument. Financial assets and liabilities are recognized on the basis of the accounting method on the transaction date.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method – The effective interest method is a method to calculate the amortized 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) through the expected life of the financial asset, or, where appropriate, over a shorter period.

Income is recognized at the effective interest rate for debt instruments, except for financial assets defined as FVTPL.

Trade and other accounts receivable – Trade and other receivables are recognized and recorded in the consolidated balance sheet at invoiced amounts less the provision for doubtful debt. The provision for doubtful debt is accrued when the debt is unlikely to be fully repaid. The provision for doubtful debt is accrued by the Group when the debt is not repaid within contractual terms. The provision for doubtful debt is regularly revised and, if adjustments are necessary, appropriate amounts are recorded in the consolidated income statement in the period in which such need arises. As soon as bad debt is revealed, it is written off against the earlier accrued provision.

Cash and cash equivalents – Cash and cash equivalents include petty cash and cash held in bank accounts. Cash equivalents include short-term investments that are readily convertible to known amounts of cash with original maturity date that less than three months and which are subject to insignificant risk of changes in value. The deposits with initial maturities more than three months are recorded in the consolidated balance sheet as short-term investments. The deposits with initial maturities more than one year are recorded in the consolidated balance sheet as other financial assets.

Impairment of financial assets – Impairment of any financial assets, except for FVTPL, is assessed on each consolidated balance sheet date. Financial assets are impaired when there is an objective evidence that as a result of one or several events after the initial recognition of a financial asset the future cash flow from the investment was 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 reorganization of the borrower.

For some categories of financial assets, such as trade accounts receivable, the assets which are deemed not to be impaired separately will be subsequently assessed for impairment jointly. The objective evidence of accounts receivable impairment may include the previous experience of the Group with regard to collection, increase in outstanding amounts with a delay for more than 30 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 value of the asset and the present value of the estimated cash flow discounted at the initial effective interest rate.

The carrying value of a financial asset is adjusted by the impairment loss directly for all financial assets, except for trade account receivable where the carrying value is adjusted by bad debt provision accounts. When trade accounts receivable are not expected to be paid, they are written off against the bad debt provision accounts. The subsequent recovery of the previously written off amounts is recorded in the bad debt provision accounts. Differences in bad debt provision accounts are recognized as income and expense in the consolidated income statement.

With the exception of AFS debt instruments, if an impairment loss in a subsequent period reduces and the reduction may be objectively linked to an event arising after the impairment recognition, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the investment book value at the reversal date does not exceed the amortisation value as if impairment had not been recognised.

Financial liabilities and equity – Financial liabilities and equity instruments issued by the Group are classified according to the substance 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.

Bank loans – Interest bearing bank loans and overdrafts, debt securities and issued notes are initially recorded at the fair value plus transaction costs and subsequently revalued at amortized value using effective interest method. Any difference between income (less operating costs) and calculation or repayment of loans is recognized during the periods of loans according to the accounting policy of the Group regarding borrowing costs (see below).

Debt securities – Debt securities represent bonds issued by the Group. Bonds are accounted for according to the same principles as used for bank loans.

Accounts payable and other liabilities – Accounts payable and other liabilities are initially recorded a the fair value and subsequently at amortized value using the effective interest method.

Offset of financial assets and liabilities – Financial assets and liabilities are offset and reported net on the consolidated balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Derecognition of Financial Assets and Liabilities

<u>*Financial assets*</u>

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement and has transferred substantially all the 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 recognized 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 derecognized when the obligation under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another one from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

Borrowing costs – Borrowing costs are recognized as an expense in the period in which they are incurred.

Revenue recognition – Revenue is determined at the fair value of the consideration received or receivable and represents amounts receivable for electric and heating energy services provided in the normal course of business, net of discounts and value added taxes ("VAT").

Revenue from sales of electric and heating energy is included into the consolidated income statement at the moment of delivery to consumers. The basis for accrual of revenue on transmission and distribution of electric and heating energy and production of heating energy in Petropavlovsk are tariffs approved by the Agency of the Republic of Kazakhstan on regulation of natural monopolies.

Revenue from sales of goods are included into the consolidated income statement, when goods are delivered and the title was transferred to the buyer.

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

The current tax expense is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated income statement 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. The Group's current tax expense is calculated using tax rates that have been enacted or mainly enacted at the consolidated balance sheet date.

Deferred tax is the tax recognized on differences between the carrying value 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 balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized 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 liability is settled or the asset is realized. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the balance sheet 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.

In 2008 and 2007 income tax rate and property tax rate for the Group were 30% and 1%, respectively. Due to received tax preferences LLP SevKazEnergo Petropavlovsk, subsidiary, did not pay the property tax on fixed assets put into operation within the investment contracts (Note 1).

Employee benefits

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 2008 was approximately 10% of the gross income of employees (2007: 14% of the gross income of employees). The social tax and salary of the personnel are expensed in the period as accrued.

The Group also withholds 10% form the salary of its employees as contributions to the cumulative pension fund but not more than 78,863 tenge per month from 1 January to 30 June 2008 and 90,188 tenge per month from 1 July to 31 December 2008 (2007: 73,140 tenge per month). According to the legislation of the Republic of Kazakhstan, pension contributions are obligations of the employee, and the Group carries no current or future obligations on employee benefits after their retirement, except for payments provided for by the collective agreement. LLP Astanaenergosbyt, subsidiary, does not have obligations provided for by the collective agreement.

Defined benefit pension plan

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

- one-time benefit upon retirement;
- one-time premium upon a jubilee;
- benefit to retirement pensioners, invalids of I, II and III groups, not working at present, in honor of the Power Engineer Day and Senior Day;
- one-time benefit in honor of the Victory Day for the participants of the World War II, for widows of vets deceased during the war, rear workers and the persons equaled to participants of the World War II;
- material aid per one schoolchild before the beginning of the school year to families with many children or low-profit families and workers with disabled children.

The Group recognizes actuarial income and losses arising from revaluation of employee benefit obligations in the period when they are revealed and recognizes expenses on benefits and obligations according to assessment defined by IAS 19.

Employee benefits

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

The defined benefit pension plan is unfunded.

Provisions – Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the obligation can be estimated reliably. Provisions are revised at each consolidated balance sheet 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 repay the obligations. Where the discounting is used, the increase in the provision reflecting the period of past time is recognized as expense on benefit.

Contingent liabilities – Contingent liabilities are not recognized 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 recognized 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 statement, the following parties were considered as related parties:

A party is related to an entity 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.

While considering each possible related party, one must pay special attention to the substance of the relationship and not merely its legal form.

5. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Group's consolidated financial statements according to IFRS requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, income and expenses and disclosure of commitments and contingencies. 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 future assumptions regarding future and other key sources of estimation uncertainty at the consolidated balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

Impairment of goodwill – The determination of the impairment of goodwill requires the estimate of the value in use of generating units, to which the goodwill extends. The determination of the value in use requires the Group to conduct the assessment of future cash flows expected from the generating unit and respective effective discount rate for the calculation of the current value. The carrying value of goodwill as at 31 December 2008 and 2007 amounted to 2,424,431 thousand tenge and 1,454,194 thousand tenge, respectively. As at 31 December 2008 and 2007, the impairment of goodwill was not identified (Note 7).

Restoration obligations – For production purposes JSC Pavlodarenergo and LLP SevKazEnergo Petropavlovsk use six ash dumps. At the end of the useful life, these ash dumps should be restored. In order to determine the amount of the liability on restoration of these ash dumps management of the companies is required to conduct the evaluation of future cost of restoration of ash dumps. As at 31 December 2008 the Group assessed the total amount of discounted liability on restoration of ash dumps on 194,167 thousand tenge (31 December 2007: 188,208 thousand tenge) (Note 25). This liability was discounted at the effective interest rate of 12-14%, which represents the market refinancing rate for the Group.

Determination of the fair value of property, plant and equipment – At each reporting date the Group assesses the significance of a change in the carrying value of the property, plant and equipment from the fair value of property, plant and equipment. In case of a significant change in the carrying value of property, plant and equipment from the fair value the Group evaluates the fair value of property, plant and equipment using independent appraisers. The Group revalued property, plant and equipment as at 31 December 2007. The Group believes that as at 31 December 2008 there were no indicators of change in the fair value of property, plant and equipment.

Impairment of property, plant and equipment – At each balance sheet date the Group reviews indicators of possible impairment of an asset. If there are such indicators or if the annual testing for impairment is required, the Group conducts 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, value in use and is determined for each asset except when an asset does not general 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 of 13%-17% (2007: 12%-14%), which reflects the current market value of the time value of cash flows and risks inherent to the assets. As at 31 December 2008 and 2007 the impairment of property, plant and equipment was not identified.

Provisions – The Group creates provisions for doubtful debts. Significant judgments are used in determining the doubtful debt, such as the timing of debt recognition and historic and expected behavior of buyers. The changes in the economy or financial conditions of the buyers can require adjustments in provisions for doubtful debts in these consolidated financial statements. As at 31 December 2008 and 2007 the Group created provisions for doubtful debts on 1,314,671 thousand tenge and 529,376 thousand tenge, respectively (Notes 12, 13 and 15).

The Group reviews annually the need to create provisions for obsolete inventories on the basis of data of annual stock counts and assessments of further use of obsolete inventories. As at 31 December 2008 and 2007 the Group created provisions for obsolete inventories on 55,653 thousand tenge and 64,123 thousand tenge, respectively (Note 11).

Guarantee deposits –JSC Pavlodarenergo and LLP SevKazEnergo Petropavlovsk, subsidiaries, revise guarantee deposits received from consumers for turning on additional capacity, at each reporting date and adjusts them to record them at the fair value. In order to determine the current value of guarantee deposits the companies evaluate the future expected cash outflows and a respective discounting rate to calculate the current value based on the best estimates of management. The guarantee deposits received from the consumers for turning on the additional capacity will be fully repaid by equal installments during 26 years and 16-25 years, respectively, starting from the 37th month after receipt of the guarantee deposit. In 2008 the payment for turning on the additional capacity in JSC Pavlodarenergo reduced from 54,900 tenge per 1 kW to 26,273 tenge per 1kW. In 2008 in order to calculate the current value of deferred income JSC Pavlodarenergo and LLP SevKazEnergo Petropavlovsk applied the effective interest rate of 14.4% and 12.5%, respectively (2007: 14.0% and 12%, respectively). In addition, the current value of guarantee deposits can be impacted by the future changes in the legislation and evaluation of the discounting rate. The Group recorded the adjustment to the fair value as deferred income with the period of amortization during 19-28 years (Notes 23 and 24).

Interest-free loan – In 2008 the Group assessed interest-free loans at the amortized value using the effective interest rate as at inception of the interest-free loan in range of 12.5% and 18% (2007: 12%-14%). Since the fair recoverable value did not equal the amortized value of the loan, the difference between the fair value of the provided consideration and amortized value of the loan of a related party was recognized in the consolidated statement of changes in equity, of third parties in the consolidated income statement (Note 15).

Finance lease – In 1999, Access Industries corporation (Eurasia) acquired assets from the Government of the Republic of Kazakhstan which subsequently were transferred under the finance lease to the Group. The transferred assets included fixed assets, materials and accounts receivable owned by LLP SevKazEnergo Petropavlovsk, subsidiary.

The acquisition of business was considered by the Group's management as a pooling of interests. Accordingly the Group recognized property, plan and equipment received under the finance lease at cost, obligations under finance lease at present value of minimum lease payments with use of the effective interest rate of 12%; the difference between the carrying value and discounted value was recognized in additionally paid-in capital.

The effect of all subsequent amendments in the finance lease is reflected in the obligation under finance lease and additionally paid-in capital.

Property, plant and equipment held in trust management – The Group received property, plant and equipment for trust management from the Department of finances of Pavlodar region and Department of finances of Pavlodar (Note 1) and applied IFRIC 12, Concession agreements in advance during preparation of its 2007 consolidated financial statements. The trust management agreement is considered as 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 for trust management is not recorded in the consolidated balance sheet 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 heating energy, which are included in the consolidated income statement at the moment of delivery to consumers. The expenses are recognized as incurred and reflected in the consolidated income statement in the period to which they relate.

Employee benefits – JSC Pavlodarenergo and LLP SevKazEnergo Petropavlovsk have a collective agreement whereby one-time benefits and payments are made to employees.

The Group used the actuarial method for assessment of the current value of the liabilities on defined payments and respective current cost of services. It requires the use of demographic assumptions with regard to future characteristics of existing and past employees to which benefits are due (mortality at and after work, statistics on changes in the quantity of workforce, etc.) and financial assumptions (discounting rate, future annual material aid, future annual minimum salary, etc.) (Note 30).

Assessment of the effect of deferred income tax – At each consolidated balance sheet date management of the Group determines the future effect of deferred income tax by comparing the carrying values of assets and liabilities in the consolidated financial statements with the respective tax basis. The deferred tax assets and liabilities are calculated at tax rates which are applicable to the period when the asset is realized or the liability is repaid.

The deferred tax assets are recognized to the extent the taxable profit is probable against which respective time differences can be realized. The deferred tax assets are analyzed as of each reporting date and decreased to the extent the realization of respective tax benefits is not probable anymore (Note 39).

Useful lives of property, plant and equipment – As discussed in Note 4, the Group reviews the useful lives of property, plant and equipment as of the end of each financial year. The evaluation of the useful life of an asset depends on such factors as economic use, repair and maintenance programs, technological upgrades and other business conditions. Management's assessment of the useful lives of property, plant and equipment reflects the respective information available as at the date of these consolidated financial statements. During the current year the Group revised useful lives of property, plant and equipment. The effect of this change, assuming that all property, plant and equipment are supposed to be used till the end of their useful lives, is disclosed in Note 6.

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

6. PROPERTY, PLANT AND EQUIPMENT

As at 31 December, property, plant and equipment consisted of the following:

	Land, buildings and constructions	Machines and production equipment	Vehicles	Other	Construction in progress	Total
Cost						
At 1 January 2007	3,192,388	7,730,965	125,149	200,374	826,959	12,075,835
Acquisitions of subsidiaries	5,708,920	13,967,489	311,123	28,894	90,825	20,107,251
Additions	2,006,989	1,253,209	36,252	12,729	896,452	4,205,631
Transfers from inventories	-	703	15,299	-	445,088	461,090
Internal transfers	541,180	1,002,382	638	(34,433)	(1,509,767)	-
Revaluation	4,518,059	10,135,480	175,294	5,011	103,587	14,937,431
Elimination of accumulated depreciation of property and equipment at the date of revaluation	(760,185)	(1,510,648)	(40,141)	(42,354)	-	(2,353,328)
Disposals	(46,161)	(219,632)	(73)	(29,317)	(24,179)	(319,362)
Assets classified as held for sale	-	-	-	-	(85,733)	(85,733)
At 31 December 2007	15,161,190	32,359,948	623,541	140,904	743,232	49,028,815
Acquisitions of subsidiaries (Note 43)	35,223	45,972	7,788	18,891	-	107,874
Additions	20,675	139,532	219	22,397	1,719,482	1,902,305
Transfers from inventories	-	1,872	-	12	482,164	484,048
Internal transfers	447,794	1,479,937	15,816	4,638	(1,948,185)	-
Disposals	10,254	(79,481)	(158,195)	(22,817)	-	(250,239)
At 31 December 2008 г.	15,675,136	33,947,780	489,169	164,025	996,693	51,272,803
Accumulated depreciation						
At 1 January 2007	(583,185)	(1,525,265)	(21,265)	(31,891)	-	(2,161,606)
Acquisitions of subsidiaries	(85,953)	(19,560)	(23,451)	(3,885)	-	(132,849)
Charge for the year	(211,573)	(753,738)	(20,545)	(15,222)	-	(1,001,078)
Disposals	26,663	767,976	29	4,476	-	799,144
Elimination of accumulated depreciation of property and equipment at the date of revaluation	760,185	1,510,648	40,141	42,354	-	2,353,328
Assets classified as held for sale	108	379	-	234	-	721
At 31 December 2007	(93,755)	(19,560)	(25,091)	(3,934)	-	(142,340)
Acquisitions of subsidiaries (Note 43)	-	(19,337)	-	(5,827)	-	(25,164)
Charge for the year	(654,103)	(1,765,144)	(83,333)	(22,518)	-	(2,525,098)
Disposals	2,769	16,262	46,892	3,118	-	69,041
Recovery of provision for impairment losses	-	-	-	-	143	143
At 31 December 2008	(745,089)	(1,787,779)	(61,532)	(29,161)	143	(2,623,418)
Net book value						
At 31 December 2008	14,930,047	32,160,001	427,637	134,864	996,836	48,649,385
At 31 December 2007	15,067,435	32,340,388	598,450	136,970	743,232	48,886,475

Some items of property, plant and equipment were acquired from the Parent under the finance lease agreement, which were subsequently transferred into the own property, plant and equipment.

On 27 October 2008 due to the decision of the sole founder, the leased property, plant and equipment with net book value of 915,188 thousand tenge were transferred into the own property, plant and equipment, and lease liabilities were transferred as a contribution to the share capital of 357,164 thousand tenge (2007: net book value of the own property, plant and equipment transferred and contribution to the share capital equaled 2,847,524 thousand tenge and 4,357,680 thousand tenge, respectively).

The revaluation of property, plant and equipment of the Group was conducted by an independent appraiser at 31 December 2007. The fair value of property, plant and equipment was determined by a comparison of the amortized recoverable value and net adjusted cash flows from the use of these property, plant and equipment. Management believes that the results of the revaluation appropriately reflect the economic conditions of property, plant and equipment of the Group at that date.

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

	Land, buildings and constructions	Machines and production equipment	Vehicles	Other	Construction in progress	Total
At 31 December 2008	10,598,955	22,443,950	259,597	130,060	897,536	34,330,098
At 31 December 2007	10,549,376	22,204,908	423,156	131,959	639,645	33,949,044

The Group changed the useful lives of property, plant and equipment since 1 January 2008 (Note 5). The effect of this change, assuming that all the property, plant and equipment will be used till the end of their useful lives, resulted in the decrease in depreciation expenses in the current year by 469,978 thousand tenge.

As at 31 December 2008 and 2007, the net book value of property, plant and equipment pledged was 15,720,490 thousand tenge and 4,729,239 thousand tenge, respectively (Note 21).

As at 31 December 2008 and 2007, the fully depreciated property, plant and equipment at revalued cost amounted to 46,620 thousand tenge and 13,069 thousand tenge, respectively.

7. GOODWILL

As at 31 December, goodwill consisted of the following:

	2008	2007
Cost		
At 1 January	1,454,194	660,560
Goodwill on acquired investments	970,237	811,610
Goodwill on disposed investments	-	(17,976)
At 31 December	2,424,431	1,454,194
Impairment loss for the year	-	-
Net book value		
At 31 December	2,424,431	1,454,194

The net book value of goodwill was distributed as follows:

	JSC Pavlodar Electricity Distribution Network Company	JSC Energocenter	JSC Pavlodar Heat Network	LLP Astanaenergosbyt	Total
Identifiable assets and liabilities at the date of acquisition	3,416,988	(233,139)	78,000	-	3,261,849
Cost of business combination	3,863,080	48,800	78,000	-	3,989,880
Goodwill recognized at the date of acquisition	446,092	281,939	-	-	728,031
Goodwill on disposed investments	(67,471)	-	-	-	(67,471)
Goodwill recognized at 31 December 2006	378,621	281,939	-	-	660,560
Goodwill on acquired investments	811,610	-	-	-	811,610
Goodwill on disposed investments	(17,976)	-	-	-	(17,976)
Goodwill recognized at 31 December 2007	1,172,255	281,939	-	-	1,454,194
Identifiable assets and liabilities at the date of acquisition	-	-	-	(671,278)	(671,278)
Cost of business combination	-	-	-	66,000	66,000
Goodwill recognized at the date of acquisition	-	-	-	737,278	737,278
Goodwill on acquired investments	232,959	-	-	-	232,959
Goodwill recognized at 31 December 2008	1,405,214	281,939	-	737,278	2,424,431

As at 31 December 2008 and 2007, no impairment of goodwill was identified.

8. INTANGIBLE ASSETS

As at 31 December, intangible assets consisted of the following:

	2008	2007
Cost		
At 1 January	113,781	13,294
Additions	1,882	48,929
Disposals	(5,801)	-
Acquisition of subsidiaries	24,117	51,558
At 31 December	133,979	113,781
Accumulated amortization		
At 1 January	(27,790)	(4,849)
Amortization charge	(25,256)	(3,347)
Disposals	4,588	-
Acquisition of subsidiaries	(9,123)	(19,594)
At 31 December	(57,581)	(27,790)
Net book value		
At 31 December	76,398	85,991

9. OTHER FINANCIAL ASSETS

As at 31 December, other financial assets consisted of the following:

	2008	2007
Other short-term financial assets	1,003,847	-
Other long-term financial assets	875,287	1,573,287
	1,879,134	1,573,287

On 29 March 2006, JSC Pavlodar Electricity Distribution Network, a subsidiary of JSC Pavlodarenergo, concluded agreement on cash pledge #01 Dog/82 with JSC Eximbank Kazakhstan. Under the agreement JSC Pavlodar Electricity Distribution Network provided 500,000 thousand tenge as a security of fulfillment of the obligations of JSC Energocenter, a subsidiary of JSC Pavlodarenergo, under the bank loan agreement for 3 years. An interest rate of 9.5% per annum was accrued on the subject of the pledge. As per additional agreements #01 Dop/33-1/08 dated 30 January 2008 and #01Dop/230 dated 26 June 2007, the interest rate for the subject of the pledge was increased to 11% and 10% per annum, respectively. The effective period of additional agreement #01Dop/33-1/08 is until 29 March 2009.

On 7 April 2006, JSC Pavlodar Electricity Distribution Network concluded agreement for cash pledge #01Dog/96 with JSC Eximbank Kazakhstan. Under the agreement JSC Pavlodar Electricity Distribution Network provided 500,000 thousand tenge as a security of fulfillment of the obligations of the Company under the bank loan agreement for 3 years. An interest rate of 9.5% per annum was accrued on the subject of the pledge. As per additional agreement #02Dop/109 dated 14 April 2006 the amount of the pledge was increased to 650,000 thousand tenge. As per additional agreement #01Dop/231 dated 26 June 2006, the interest rate for the subject of the pledge was increased to 10% per annum. As per additional agreement #01Dop/561 dated 29 December 2006, the total amount of the pledge was increased to 1,100,000 thousand tenge. As per additional agreement #01Dop/31/08 dated 30 January 2008 the interest rate for the subject of the pledge was increased to 11% per annum. As per additional agreement #01Dop/184-2/08 dated 17 April 2008, the total amount of the pledge was decreased to 523,287 thousand tenge. As per additional agreement #01Dop/641-2/08 dated 25 December 2008 the total amount of the pledge was decreased to 475,287 thousand tenge. The effective period of additional agreement # 01Dop/641-2/08 is until 7 April 2010.

On 3 April 2007, a part of encumbrance was freed from the pledge as per agreement #01Sog/107 dated 14 April 2006 and agreement on cash pledge #01Dog/96 dated 7 April 2006. Subsequently, JSC Pavlodar Electricity Distribution Network concluded agreement on a cash pledge #01Dog/185-1 as a security of fulfillment of the obligations of JSC CAPEC of 400,000 thousand tenge with maturity on 13 July 2007. The effective period of the agreement was extended by additional agreement #01Dop/409/07 dated 12 June 2007 till 13 September 2007. On 25 September 2007 JSC Pavlodar Electricity Distribution Network concluded agreement #01Dog/492/07 on extension of the cash pledge as a security of fulfillment of the obligations of JSC CAPEC for 36 months, the interest rate was set at 10%. As per additional agreement #01Dop/32-1/08 dated 30 January 2008, the interest rate on the subject of the pledge was increased to 11% per annum. The effective period of additional agreement #01Dop/32-1/08 is till 29 September 2010.

On 31 July 2008 the Company concluded agreement on cash pledge #01Dog/346/08 with JSC Eximbank Kazakhstan. Under the agreement the Company provided 1,200,847 thousand tenge as a security of fulfillment of the obligations of the Company under a bank loan agreement for 1 year. An interest rate at 11% per annum was accrued on the subject of the pledge. During 2008 the Company partially freed cash of 697,000 thousand tenge from the pledge and as a result the amount of the pledge was reduced to 503,847 thousand tenge.

Accordingly, as at 31 December 2008 the restricted cash amounted to 1,879,134 thousand tenge (2007: 1,573,287 thousand tenge).

In 2008, the Group recognized interest income under cash pledge agreements on 209,613 thousand tenge (2007: 162,402 thousand tenge) (Note 36). As at 31 December 2008 interest receivable from JSC Eximbank Kazakhstan on 46,323 thousand tenge (2007: 3,059 thousand tenge) was classified as short-term and recorded in other accounts receivable (Note 15).

As at 31 December 2008 and 2007 the related party transactions amounted to 1,879,134 thousand tenge and 1,573,287 thousand tenge, respectively (Note 42).

10. OTHER NON-CURRENT ASSETS

As at 31 December, other non-current assets consisted of the following:

	2008	2007
Advance paid for delivery of property, plant and equipment	2,965,788	1,343,496
Inventories to be used as a component for production of property, plant and equipment	142,673	82,126
Non-current accounts receivable	36,808	3,218
Deferred expenses	-	30,591
	3,145,269	1,459,431

11. INVENTORIES

As at 31 December, inventories consisted of the following:

	2008	2007
Raw materials	438,852	338,667
Spare parts	218,705	218,114
Fuel	216,374	218,758
Rolled metal products	59,776	37,735
Construction materials	57,501	21,584
Tools and metering devices	32,800	56,155
Piping	17,376	11,835
Chemical agents	13,660	9,416
Uniforms	13,532	12,642
Isolating materials	12,628	3,257
Electrodes	6,720	6,352
Other	92,684	67,278
	1,180,608	1,001,793
Provision for obsolete inventories	(55,653)	(64,123)
	1,124,955	937,670

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

	2008	2007
At 1 January	(64,123)	(37,266)
Acquisitions of subsidiaries	-	(23,074)
Reversed/(accrued)	8,470	(3,783)
At 31 December	(55,653)	(64,123)

During 2008, the related party transactions on inventory sales amounted to 1,641 thousand tenge (2007: nil) (Note 42).

12. TRADE ACCOUNTS RECEIVABLE

As at 31 December, trade accounts receivable consisted of the following:

	2008	2007
Sales and transmission of electric and heating energy	5,442,638	2,526,912
Sales of inventories and provision of other services	91,244	125,221
Other	40,213	44,487
	5,574,095	2,696,620
Provision for doubtful debts	(1,156,416)	(469,402)
	4,417,679	2,227,218

As discussed in Note 2, as a result of volatility at the security and credit markets and accompanying economic uncertainty as at the reporting date there is a possibility that the recoverable value of assets of the Group can be less than their net book value.

The Group believes that trade accounts receivable less provisions will be recovered, since it conducts procedures on recovery of trade accounts receivable through hiring independent lawyers and creation of a subsidiary JSC Legal agency Garant-Energo. The Group believes that sufficient provision was created on receivables from the third parties. The Group determines the collectibility of accounts receivable based on the terms existing as at the reporting date.

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

	2008	2007
At 1 January	(469,402)	(347,472)
Acquisitions of subsidiaries	(500,861)	(49,159)
Write-off against previously created provisions	28,875	-
Accrued	(215,028)	(72,771)
At 31 December	(1,156,416)	(469,402)

As at 31 December 2008 and 2007 trade accounts receivable from related parties amounted to 15,922 thousand tenge and 306 thousand tenge, respectively (Note 42).

As at 31 December 2008 and 2007 trade accounts receivable were denominated in tenge.

13. ADVANCE PAID

As at 31 December, advances paid consisted of the following:

	2008	2007
For services	1,782,116	106,306
For goods	123,767	463,921
Other	636	6,770
	1,906,519	576,997
Provision for doubtful debts	(61,295)	(21)
	1,845,224	576,976

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

	2008	2007
At 1 January	(21)	(305)
Acquisitions of subsidiaries	(60,092)	-
(Accrued)/recovered	(1,182)	284
At 31 December	(61,295)	(21)

As at 31 December 2008 and 2007 advances paid to related parties amounted to 180,000 thousand tenge and 27 thousand tenge, respectively (Note 42).

14. TAXES RECEIVABLE AND PREPAID TAXES

As at 31 December, taxes receivable and prepaid taxes consisted of the following:

	2008	2007
Value added tax	55,759	30,227
Income tax	49,238	20,005
Withholding tax	48,407	24,363
Property tax	7,406	370
Other	9,249	1,181
	170,059	76,146

15. OTHER ACCOUNTS RECEIVABLE

As at 31 December, other accounts receivable consisted of the following:

	2008	2007
Interest-free loan (including JSC CAPEC)	2,867,029	636,600
Accrued penalties	194,059	171,680
Receivables from employees and shortages	143,365	123,143
Interest receivables (Note 9)	46,323	3,059
Deferred expenses	24,740	4,627
Commission for opening a credit line with EBRD	-	46,554
Accounts receivable from factoring operations	-	95,687
Accounts receivable on litigations	-	19,902
Other	144,951	41,518
	3,420,467	1,142,770
Provision for doubtful debts	(96,960)	(59,953)
	3,323,507	1,082,817

During 2008 the Group issued an interest-free financial aid to the sole founder – JSC CAPEC on 6,515,770 thousand tenge (2007: 636,600 thousand tenge). During the current year JSC CAPEC repaid 1,528,780 thousand tenge, including the liability for 2007 on 636,600 thousand tenge. Also, in December 2008, the Group offset this financial aid against long-term loan of 504,894 thousand tenge and liabilities on finance lease of 2,108,679 thousand tenge (Note 22). As a result, as at 31 December 2008 and 2007 the liability of JSC CAPEC amounted to 2,826,659 thousand tenge and 636,600 thousand tenge, respectively.

In 2008 and 2007 the Group assessed interest-free loans at the amortized value using the effective interest rate of 12.5%-14.58% and 12%-14.00%, respectively. As a result, the Group recognized fair value adjustment on interest-free loan for 476,060 thousand tenge and 8,094 thousand tenge. For the years ended 31 December 2008 and 2007, the Group recognized respective interest income of 295,517 thousand tenge and 5,277 thousand tenge (Note 36) and the effect on the deferred income tax of 12,465 thousand tenge and 845 thousand tenge, respectively (Note 38).

In addition, as at 31 December 2008 the financial aid given to the related party included an interest-free financial aid of 40,370 thousand tenge provided to the related party, LLP Autotransport enterprise SevKazEnergo Petropavlovsk (2007: nil tenge). In 2008, the financial aid provided to LLP Autotransport enterprise SevKazEnergo Petropavlovsk amounted to 63,370 thousand tenge, and the repayment amounted to 23,000 thousand tenge (2007: nil tenge).

As at 31 December 2008 and 2007 the accrued penalties of 117,378 thousand tenge and 171,680 thousand tenge, respectively, represented penalties imposed on JSC Tsentrkazenergomontazh, LLP Institut Kaznipienergoprom and individuals for the late fulfillment of the terms under the contracts for delivery of materials, construction work and purchase of heating and electric energy.

In 2008 and 2007 JSC Energocenter, subsidiary of JSC Pavlodarenergo, assumed an obligation to repay the accounts payable of LLP Ekibastuzskaya teplotsentral to consumers on 29,271 thousand tenge and 119,280 thousand tenge, respectively. As at 31 December 2008 and 2007 the Group offset the liability against liabilities to pay the acquired debt in the amount of 94,263 thousand tenge and 23,593 thousand tenge, respectively (Note 38).

The Company concluded an agreement with European Bank of Reconstruction and Development (EBRD) on 29 November 2007 for opening a credit line totaling USD 30,000,000 with the maturity of 10 years. Under the loan agreement the Company paid a commission for opening a credit line. As at 31 December 2007 this commission was reflected within other accounts receivable prior to receipt of the loan. In 2008, within this agreement the Group received loan on USD 10,000,000, accordingly the Group reclassified the commission for opening of a credit line from other accounts receivable into loans (Note 21).

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

	2008	2007
At 1 January	(59,953)	(59,999)
(Accrued)/ recovered	(37,007)	46
At 31 December	(96,960)	(59,953)

As at 31 December 2008 and 2007 other accounts receivable were denominated in tenge.

As at 31 December 2008 and 2007 other accounts receivable from related parties were 3,028,561 thousand tenge and 639,658 thousand tenge, respectively (Note 42).

16. CASH AND CASH EQUIVALENTS

As at 31 December, cash and cash equivalents consisted of the following:

	2008	2007
Cash in bank accounts	190,884	105,557
Petty cash	52,448	50,283
Cash in transit	-	210
	243,332	156,050

As at 31 December 2008 and 2007, cash and cash equivalents in the bank of the related party amounted to 154,593 thousand tenge and 46,241 thousand tenge, respectively (Note 42).

As at 31 December 2008 and 2007, cash and cash equivalents were denominated in the following currencies:

	2008	2007
Tenge	243,332	131,295
Russian Rouble	-	24,755
	243,332	156,050

17. SHARE CAPITAL

As at 31 December 2008 the share capital of the Group consisted of 18,463,123 placed common shares with par value of 1,000 tenge each. Each common share has an equal voting right. The sole shareholder of the Company is JSC CAPEC. The share capital of the Group was formed by shares of subsidiaries and cash.

In 2008 and 2007 no dividends were declared and paid.

18. ADDITIONAL PAID-IN CAPITAL

As at 31 December 2008 and 2007, the additional paid-in capital of 1,234,747 thousand tenge and 18,527,785 thousand tenge, respectively, included:

- the difference between net book value of property, plant and equipment received by the Group under the finance lease agreement and present value of minimum 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;
- revenue from factoring operations due to acquisition and subsequent sale of the legal claim from the related party at value greater than the actual cost of this claim;
- fair value adjustment of interest-free loan issued to the related party;
- contribution to the share capital of subsidiaries to the date of creation of the Company.

19. MINORITY INTEREST

As at 31 December 2008 and 2007, the minority interest represented an interest in JSC Pavlodarenergo (20.23% and 28%, respectively) and LLP SevKazEnergo Petropavlovsk (1% and nil, respectively) (Note 1).

20. BONDS ISSUED

In December 2005 the Group declared an issue of 20,000,000 coupon bonds totaling 2,000,000 thousand tenge with par value of 100 tenge, with an interest rate of 9%, semi-annual coupon payments and maturity of 5 years.

In July 2007 the Group declared an issue of 80,000,000 coupon bonds totaling 8,000,000 thousand tenge with par value of 100 tenge, with an interest rate of 13%, semi-annual coupon payments and maturity of 10 years.

On 31 March and 31 December 2008, the Group repurchased 19,400 and 3,000,000 coupon bonds, respectively, totaling 301,940 thousand tenge. The proceeds from the repurchase of own bonds amounted to 14,778 thousand tenge (Note 38).

As at 31 December, bonds issued were presented as follows:

Bonds placed at the price	Maturity date	Interest rate, per annum	2008	2007
100.00%	24 December 2010	9%	500,000	500,000
99.99%	24 December 2010	9%	408,660	408,660
99.97%	24 December 2010	9%	500,000	500,000
98.10%	24 December 2010	9%	500,000	500,000
98.19%	24 December 2010	9%	19,980	19,980
96.51%	24 December 2010	9%	5,120	5,120
96.52%	24 December 2010	9%	10,230	10,230
94.84%	24 December 2010	9%	30,000	30,000
97.53%	24 December 2010	9%	1,860	1,860
98.18%	24 December 2010	9%	2,020	2,020
76.05%	10 July 2017	13%	1,907,000	-
79.17%	10 July 2017	13%	416,810	-
			4,301,680	1,977,870
Including/(excluding):				
(Discount on bonds issued)			(503,450)	(7,436)
Accumulated interest on bonds issued			96,248	91,971
(Repurchase of bonds issued)			(301,940)	-
			3,592,538	2,062,405

The bonds issued are repaid as follows:

	2008	2007
Within one year	96,248	91,971
In the second to the fifth years inclusive	1,671,810	1,970,434
After five years	1,824,480	-
	3,592,538	2,062,405

21. LOANS

As at 31 December, loans including interest payable consisted of the following:

	Interest rate %	Currency	2008	Interest rate %	Currency	2007
JSC DB Sberbank Russia (a)	12.5%	Tenge	7,132,203	13%	Tenge	-
JSC Eximbank Kazakhstan (b)	14%-16%	Tenge	1,610,557	14%-16%	Tenge	1,124,215
JSC European Bank of Reconstruction and Development (c)	Libor + 3%	US Dollars	1,226,172	-	-	-
JSC Narodniy Bank of Kazakhstan (d)	15%-17.3%	Tenge	90,220	10.5%-13%	Tenge	160,304
JSC Eurasian Bank (e)	12%	US Dollars	-	12%	US Dollars	608
A Energo Holdings Cooperatief U.A. (f)	Interest free	Tenge	-	Interest free	Tenge	283,561
OJSC Alfa Bank (g)	12%	Tenge	-	11.5%	Tenge	232,447
Commission for opening of the credit line (Note 15)			(40,810)			-
			10,018,342			1,801,135

(a) On 1 October 2008, LLP SevKazEnergo Petropavlovsk concluded agreement #01/10 for opening of the revolving credit line with JSC DB Sberbank Russia for 6,111,839 thousand tenge with interest rate of 12.5% per annum, maturity on 1 October 2015. The loan was received on the basis of the decision of the founders for refinancing of the debt of JSC CAPEC (Note 15). The loan was secured by shares in the number of 5,400,000 of JSC Eximbank.

On 27 June 2008, LLP SevKazEnergo Petropavlovsk concluded accessory (loan) agreement # 27/06 and an agreement for opening of a credit line with JSC DB Sberbank for 2,414,800 thousand tenge with an interest rate of 12.5% per annum and maturity on 27 June 2011. The credit line was secured by property complex of TETS-2 of JSC Pavlodarenergo, guarantees of the Group. In 2008 within the concluded agreement the Group received 2,414,800 thousand tenge for replenishment of working capital and repaid 1,606,500 thousand tenge. As at 31 December 2008 and 2007 the balance of the loan equaled to 808,300 thousand tenge. The loan was secured by guarantee of JSC CAPEC and property of JSC Pavlodarenergo in the amount of 3,922,874 thousand tenge.

(b) On 14 April 2006, JSC Pavlodarenergo opened the credit line with JSC Eximbank Kazakhstan for 650,000 thousand tenge and received cash within separate loan agreements concluded on a revolving basis. The borrowing period was extended until 7 October 2008. The maturity of loans within the credit line is 7 April 2009. At the date of conclusion of the credit line the interest rate was equal to 11% per annum. During 2007, the Company concluded an additional agreement with JSC Eximbank Kazakhstan for the increase in the interest rate to 14% per annum. The loans were received for refinancing of the loan from JSC Eurasian Bank and for upgrade of property and equipment of JSC Pavlodarenergo. In 2008, the Company concluded an additional agreement with JSC Eximbank Kazakhstan for the increase of the interest rate to 15% per annum.

As at 31 December 2008 and 2007 the loan from JSC Eximbank Kazakhstan was secured by property, plant and equipment of the Company on 3,924,728 thousand tenge and 3,985,535 thousand tenge, respectively (Note 6).

On 12 September 2006, JSC Energocentr, a subsidiary of JSC Pavlodarenergo, opened a credit line with JSC Eximbank Kazakhstan for 500,000 thousand tenge and received money within separate loan agreements concluded on a revolving basis. The period of issuance of loans was extended till 28 February 2009. The maturity of the loans within the credit line is 29 March 2009. At the date of conclusion of the credit line, the interest rate was equal to 11% per annum. During 2007, the Company concluded an additional agreement with JSC Eximbank Kazakhstan for increase of interest rate to 13% per annum. The loans were received for refinancing of the loan from JSC TEXAKABANK and for settlements with JSC Pavlodarenergo for supplied electric energy. In 2008, JSC Energocenter concluded an additional agreement with JSC Eximbank Kazakhstan for increase of interest rate to 14% per annum and from 22 December 2008 to 16% per annum.

As at 31 December 2008 and 2007, JSC Pavlodar Electricity Distribution Network and JSC Pavlodarenergo provided the collateral to secure loans of JSC Pavlodarenergo and JSC Energocenter from JSC Eximbank Kazakhstan in the amount of 1,479,134 thousand tenge and 1,173,287 thousand tenge, respectively (Note 9).

On 8 August 2008, LLP SevKazEnergo Petropavlovsk opened the credit line with JSC Eximbank Kazakhstan for 250,000 thousand tenge and received money within separate loan agreements concluded on a revolving basis. The maturity of loans within the credit line is 8 August 2011. The interest rate is 16% per annum. Within the credit line, LLP SevKazEnergo Petropavlovsk received loans for replenishment of working capital. As per loan agreement the principal is to be repaid from October to April (from May to September the principal is not repaid), interest is repaid on a monthly basis.

On 29 August 2008, LLP SevKazEnergo Petropavlovsk opened the credit line with JSC Eximbank Kazakhstan for 150,000 thousand tenge and received money within separate loan agreements concluded on a revolving basis. The maturity of the loans within the credit line is 29 August 2011. The interest rate is 16% per annum. Within the credit line the Group received loans for replenishment of the working capital. As per loan agreements the principal is repaid from October to April (from May to September the principal is not repaid), the interest is repaid on a monthly basis.

On 28 August 2008, LLP Astanaenergosbyt, a subsidiary, concluded the framework agreement on provision of a limit on overdraft #01 Sog (O)-08 with JSC Eximbank Kazakhstan. The amount of the limit on the overdraft was equal to 300,000 thousand tenge with the effective period not more than 90 days from the date of signing of each overdraft agreement. The interest rate was 16%-20%. As a collateral the LLP Astanaenergosbyt provided the premises of the customer service department with the accompanying land plot.

On 29 December 2008 LLP Astanaenergosbyt concluded the bank loan agreement #001 Dog/26/08 with JSC Eximbank Kazakhstan, within the revolving portion of the limit in the amount of 50,000 thousand tenge with maturity on 29 September 2009. The interest rate was 17.4%. As a collateral LLP Astanaenergosbyt provided the premises of the customer service department in the amount of 35,106 thousand tenge.

(c) On 29 November 2007, JSC Pavlodarnergo concluded the agreement with European Bank of Reconstruction and Development (EBRD) for opening of a credit line totaling USD 30,000,000 with maturity of 10 years. In 2008 JSC Pavlodarnergo received the first tranche of USD 10,000,000.

As at 31 December 2008 the Company provided a collateral for a security of the loans of the Company from EBRD in the form of property and equipment of 7,837,782 thousand tenge (Note 6).

(d) On 22 May 2007, JSC Energocenter, a subsidiary of JSC Pavlodarnergo, opened the credit line with JSC Narodniy Bank of Kazakhstan for 150,000 thousand tenge and received money within separate loan agreements concluded on a revolving basis. The period of provision of loans was extended to 22 April 2009. The maturity of the loans within the credit line is 22 May 2009. In 2007, the interest rate was 10.5%-13% per annum. The loans were received for settlements with JSC Pavlodarenergo for provided electric energy. On 22 March 2008, JSC Energocenter concluded an additional agreement with JSC Narodniy Bank of Kazakhstan for increase of interest rate to 15%-17% per annum and from 22 May 2008 to 16.8%-17.3%.

(e) In June 2004, JSC Pavlodarenergo received the loan from JSC Eurasian Bank with maturity on 7 June 2009. The loan was received for upgrade of property and equipment of JSC Pavlodarenergo, increase in working capital and for repayment of other debts. As at 31 December 2007 the debt amounted to 608 thousand tenge. In 2008, the Company repaid the loan fully in advance.

(f) The long-term interest-free loan represents the debt for inventories, obligations to repay accounts payable and collection of accounts receivable. The agreement on the long-term loan was signed on 1 January 2002 between LLP SevKazEnergo Petropavlovsk and Access Industries (Eurasia). On 17 September 2007, Access Industries (Eurasia) and A Energo Holdings Cooperatief U.A., a subsidiary of JSC CAPEC, signed an agreement on cessation of the legal claim under the loan agreement dated 1 January 2002. In December 2008 the agreements on cessation of the legal claim on this loan to JSC CAPEC were signed. On 26 December 2008, as per the additional agreement LLP SevKazEnergo Petropavlovsk offset 504,894 thousand tenge under the loan against the financial aid given to JSC CAPEC (Note 15). The discount on interest-free loan of 221,333 thousand tenge was fully written-off against additional paid-in capital.

(g) On 18 December 2002, LLP SevKazEnergo Petropavlovsk concluded the agreement on a credit line with OJSC Alfa Bank for 350,000 thousand tenge with an interest rate of 16% per annum and maturity on 5 November 2003. During the effective period of the credit line, some amendments were made to the terms of the agreement for credit line regarding the effective periods and interest rates. As at 31 December 2007 the interest rate on a credit line was equal to 11.5% per annum. On 1 January 2008 an additional agreement was concluded, whereby the interest rate was increased to 13% per annum and the maturity extended till 6 December 2009. The credit line was secured by the guarantees of the enterprises of LLP SevKazEnergo Petropavlovsk and property and equipment of LLP Petropavlovsk Heat Network, subsidiary of LLP SevKazEnergo Petropavlovsk (formerly LLP Access Energo-Teplotranzit), with net book value as at 31 December 2007 of 743,704 thousand tenge (Note 6). In July 2008 the loan was fully repaid and the credit line was closed.

The loans are repayable as follows:

	2008	2007
Within one year	3,443,866	1,414,422
In the second to the fifth years inclusive	4,310,650	266,842
After five years	2,263,826	119,871
	10,018,342	1,801,135

As at 31 December 2008 and 2007 the loans from the bank of the related party amounted to 1,610,557 thousand tenge and 1,124,215 thousand tenge, respectively (Note 42).

22. OBLIGATIONS UNDER FINANCE LEASE

As at 31 December, obligations under finance lease consisted of the following:

	Minimum lease payments		Present value of minimum lease payments	
	2008	2007	2008	2007
Amounts payable under finance lease:				
Within one year	54,040	-	54,040	511,593
In the second to the fifth years inclusive	-	3,083,009	-	2,387,315
	54,040	3,083,009	54,040	2,898,908
Less future finance charges	-	(184,101)	-	-
Present value of lease payments	54,040	2,898,908	54,040	2,898,908
Less: Amount due for settlement within 12 months			(54,040)	(511,593)
Amount due for settlement after 12 months			-	2,387,315

LLP SevKazEnergo Petropavlovsk had liabilities under finance lease as per finance lease agreement dated 1 March 1999 concluded with Access Industries (Eurasia), which were transferred to A Energo Holdings Cooperatief U.A., a subsidiary of JSC CAPEC. Initially, the agreement was in effect during 10 years, afterwards on 1 January 2003 the agreement was extended till 1 February 2016.

At the moment of recognition of the finance lease obligation the amount of liabilities was interest-free with no principal amount repayment during the first 5 years. Subsequently the interest rate was changed from 5% to 15% per annum. LLP SevKazEnergo Petropavlovsk recorded the liabilities at the present value of minimum lease payments applying the effective interest rate of 12%, which was determined as incremental.

During 2008 LLP SevKazEnergo Petropavlovsk repaid 1,106,690 thousand tenge under the lease and paid interest of 156,593 thousand tenge. On 30 June 2008 as per amendment to the lease agreement, LLP SevKazEnergo Petropavlovsk returned vehicles to the lessor and decreased liabilities by 19,839 thousand tenge.

On 27 October 2008 due to decision of JSC CAPEC, the leased property, plant and equipment were transferred to own ones, and lease liabilities were transferred as a contribution to the share capital on 359,167 thousand tenge.

In December 2008 all rights and liabilities of the lessor under the lease were transferred to the major owner, JSC CAPEC. On 26 December 2008, as per additional agreement, LLP SevKazEnergo Petropavlovsk offset the obligation under finance lease against the financial aid given to JSC CAPEC for 2,108,679 thousand tenge (Note 15).

In 2008 the interest expenses under the finance lease amounted to 239,354 thousand tenge (2007: 152,717 thousand tenge) (Note 35). The discount under the finance lease of 666,746 thousand tenge was fully written off against the additional paid-in capital.

23. DEFERRED REVENUE

As at 31 December 2008 and 2007, deferred revenue of 293,610 thousand tenge and 234,391 thousand tenge, respectively, represent an adjustment of guarantee deposits for turning on additional capacity in JSC Pavlodar Electricity Distribution Network, JSC Pavlodar Heat Network and LLP North Kazakhstan Electric Network Company, decreased by accrued interest (see Note 36) and the effect of change in rates.

24. LONG-TERM ACCOUNTS PAYABLE

As at 31 December, long-term accounts payable consisted of the following:

	2008	2007
Guarantee deposit for turning on additional capacity	395,749	307,394
Deferred revenue (Note 23)	(306,353)	(245,119)
Change in estimate	6,379	-
Interest payables (Note 35)	4,550	9,112
	100,325	71,387

In 2008 and 2007, JSC Pavlodar Electricity Distribution Network received cash on 86,137 thousand tenge and 209,511 thousand tenge, respectively, from consumers as a guarantee deposit for turning on additional capacity. As per decree of the Government of the Republic of Kazakhstan #1044 dated 8 October 2004 the JSC Pavlodar Electricity Distribution Network was to pay received cash during 23 years, starting from the 37th month after the receipt of the guarantee deposit. JSC Pavlodar Electricity Distribution Network records these liabilities at amortized value using the effective interest rate of 14.4% (2007: 14.0%). As at 31 December 2008, JSC Pavlodar Electricity Distribution Network recognized an adjustment to fair value on 107,897 thousand tenge (2007: 165,819 thousand tenge) as deferred revenue with an amortization period of 26 years. The change in estimate is connected with the change in the size of payment per one unit of turned on additional capacity. As per resolution #291/12 dated 18 December 2008, the akimat of Pavlodar region approved the plan of perspective development of electric grids of Pavlodar region (except for Ekibastuz and Ekibastuz region). Based on the plan, the payment for one unit of turned on additional capacity amounted to 26,273 tenge per 1 kW, while in 2007 the payment per one unit of turned on additional capacity was 54,900 tenge per 1 kW. As a result, the variance of the previously placed guarantee deposits of 159,312 thousand tenge was reclassified as other short-term liability and will be returned to consumers during 2009 (Note 29).

In 2008 and 2007, JSC Pavlodar Heat Network received cash on 41,329 thousand tenge and 97,883 thousand tenge, respectively, from consumers as a guarantee deposit for turning on additional capacity. As per decree of the Government of the Republic of Kazakhstan # 1044 dated 8 October 2004 JSC Pavlodar Heat Network had to repay received cash during 26 years, starting from the 37th month after the receipt of the guarantee deposit. JSC Pavlodar Heat Network records these liabilities at amortized value using the effective interest rate of 14.4% (2007: 14.0%). As of 31 December 2008 JSC Pavlodar Heat Network recognized the adjustment to fair value of 109,942 thousand tenge (31 December 2007: 79,300 thousand tenge) as deferred revenue with the amortization period of 25 years.

In 2008, LLP North Kazakhstan Electric Network Company and JSC Petropavlovsk Heat Network received cash from consumers of 120,201 thousand tenge as a guarantee deposit for turning on additional capacity. As per decree of the Government of the Republic of Kazakhstan # 1044 dated 8 October 2004 the companies had to pay received cash during 16-25 лет, starting from the 37th month after the receipt of the guarantee deposit. LLP North Kazakhstan Electric Network Company and JSC Petropavlovsk Heat Network recorded these liabilities at amortized value using the effective interest rate of 12.5%. The companies recognized the adjustment to fair value of 88,513 thousand tenge as deferred revenue with the amortization period of 19-28 years.

25. ASH DUMP RESTORATION LIABILITIES

For production purposes the Group uses six ash dumps. At the end of the useful life these ash dumps should be recovered. As at 31 December 2008 and 2007 the Group evaluated the total ash dump restoration liability at amortized value of 194,167 thousand tenge and 188,208 thousand tenge, respectively. This liability was discounted at the effective interest rate of 12-14%.

In 2008 and 2007, the Group recognized interest expenses relating to the site restoration liability of 5,959 thousand tenge and 5,231 thousand tenge, respectively (Note 35).

As at 31 December, the movement in the ash dump restoration liability was as follows:

	2008	2007
At 1 January	188,208	36,601
Interest expenses	5,959	5,231
Change in estimates	-	(7,050)
Acquisition of subsidiaries	-	153,426
At 31 December	194,167	188,208
Current portion	16,380	17,290
Long-term portion	177,787	170,918
	194,167	188,208

26. TRADE ACCOUNTS PAYABLE

As at 31 December, trade accounts payable consisted of the following:

	2008	2007
For provided services	2,632,159	662,032
For purchased goods	751,910	422,307
For repairs and construction services	112,278	181,335
For property, plant and equipment	34,684	28,408
Other	4,632	27,516
	3,535,663	1,321,598

As at 31 December 2008 and 2007, accounts payable were denominated in the following currencies:

	2008	2007
Tenge	3,535,334	1,320,555
Russian Ruble	165	1,043
US Dollars	164	-
	3,535,663	1,321,598

As at 31 December 2008 and 2007, trade accounts payable to related parties amounted to 1,487 thousand tenge and 195 thousand tenge, respectively (Note 42).

27. ADVANCES RECEIVED

As at 31 December 2008 and 2007 advances received on 1,516,922 thousand tenge and 761,629 thousand tenge, respectively, included advances received for delivery of electric and heating energy and other services.

28. TAXES AND NON-BUDGET PAYMENTS PAYABLE

As at 31 December, taxes and non-budget payments payable consisted of the following:

	2008	2007
Penalties and fines	550,862	334,472
Value added tax	475,640	425,788
Environment fund	266,763	168,772
Personal income tax	69,641	41,535
Social tax	61,215	88,439
Income tax	36,483	86,226
Property tax	28,031	24,398
Social security liabilities	22,321	11,625
Other	7,320	21,936
	1,518,276	1,203,191

As at 31 December 2008 and 2007 penalties and fines represented penalties and fines for late payment of tax liabilities.

29. OTHER LIABILITIES AND ACCRUED EXPENSES

As at 31 December, other liabilities and accrued expenses consisted of the following:

	2008	2007
Payables to the personnel	222,445	189,469
Voluntary pension contributions	185,038	70,003
Guarantee deposit for turning on additional capacity (Note 24)	159,312	-
Provisions for unused vacations	109,511	83,292
Pension contributions	61,475	58,784
Penalty for pension contributions	39,238	21,857
Insurance payable	9,898	7,852
Liability on shares	-	813,301
Other	73,730	46,144
	860,647	1,290,702

At the end of December 2007 JSC Pavlodarenergo repurchased from Dorington Investment Limited and LLP Ekibastuzskoe teplo 7,517,019 and 615,990 shares of JSC Pavlodar Heat Network totaling 813,301 thousand tenge. In 2008 JSC Pavlodarenergo fully repaid the liability.

As at 31 December 2008 and 2007 other liabilities and accrued expenses to related parties were equal to 137 thousand tenge and nil tenge, respectively (Note 42).

30. EMPLOYEE BENEFIT OBLIGATIONS

As at 31 December 2008 and 2007, the Group concluded collective agreements with the labor collective of JSC Pavlodarenergo (including its subsidiaries) and LLP SevKazEnergo Petropavlovsk (including its subsidiaries).

Employee benefit liabilities are paid as per the collective agreement concluded between the Group and the labor collective.

As at 31 December, the total employee benefit liability of the Group comprised:

	2008	2007
Long-term portion	6,203	3,741
Current portion of liabilities	73,761	36,012
	79,964	39,753

Below is the reconciliation of the current amount of employee benefit liabilities for the years ended 31 December:

	2008	2007
Total liabilities at the beginning of the year	39,753	37,748
Current cost of services	35,936	2,522
Benefit cost	5,125	755
Payments made for the year	(7,118)	-
Actuarial loss/(gain) recognized for the year	6,268	(1,272)
Total liabilities at the end of the year	79,964	39,753
Liability that matures during the year	(6,203)	(3,741)
Liability that matures after one year	73,761	36,012

The current value of services, benefit cost and actuarial loss recognized during 2008 were recognized in administrative expenses and other expenses on 43,088 thousand tenge and 4,241 thousand tenge, respectively (2007: 1,710 thousand tenge and 295 thousand tenge, respectively).

The calculations of the liabilities of the Group were prepared on the basis of published statistical data on the level of mortality, and actual data on the number, age, sex and length of service of employees and pensioners, and statistics on changes in the quantity of personnel. Other main assumptions at the date of consolidated balance sheet are presented below:

	2008	2007
Discount rate	6.5%	8%
Expected annual growth of the minimum computation index	6.0%-10%	10%
Expected annual growth of the minimum salary in the future	6.0%-10%	10%

31. REVENUE

Revenue for the years ended 31 December consisted of the following:

	2008	2007
Sales of electric energy	16,371,744	9,534,641
Sales of heating energy	8,205,203	3,060,612
Transmission of electric energy	251,210	683,752
Transmission of heating energy	659	971,796
Other	223,428	95,710
	25,052,244	14,346,511

In 2008 and 2007, revenues from related party transactions amounted to 152 thousand tenge and 2,331 thousand tenge, respectively (Note 42).

32. COST OF SALES

Cost of sales for the years ended 31 December consisted of the following:

	2008	2007
Fuel	6,389,228	2,940,585
Payroll and related taxes	3,406,678	2,214,927
Services received	3,302,862	2,448,834
Depreciation and amortization	2,398,421	949,041
Inventories	1,852,285	1,306,974
Transmission of heating and electric energy	1,419,997	406,238
Electric and heating energy acquired for sale	515,957	1,644,751
Technical water (injection)	-	129,029
Electric and heating energy acquired for own use	65,421	20,278
Technical losses	10,990	8,249
Other	991,876	140,457
	20,353,715	12,209,363

In 2008 and 2007, the expenses from related party transactions amounted to 3,545 thousand tenge and nil tenge, respectively (Note 42).

Translation from original in Russian

33. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 December consisted of the following:

	2008	2007
Payroll and related taxes	948,584	557,639
Taxes, other than income tax	605,614	219,894
Penalties and fines	284,411	114,805
Provision for doubtful debts (Notes 12, 13 and 15)	253,217	72,441
Sponsorship and financial aid	241,477	47,297
Heating losses (above-norm)	148,826	-
Depreciation and amortization	97,922	26,838
Security	88,455	44,985
VAT on losses	78,400	45,342
Legal and audit services	68,150	56,878
Transportation services	64,472	48,802
Inventories	64,339	37,060
Electric power losses (above-norm)	62,165	32,405
Bank commission	51,811	15,511
Employee benefit expenses	43,088	1,710
Consulting services	36,339	6,871
Business trip expenses	31,771	16,927
Remuneration of the board of directors members	31,581	6,637
Insurance	27,457	-
Electric power acquired for own needs	23,057	10,648
Provision for unused vacation	18,109	12,118
Communication expenses	12,600	11,849
Lease expenses	8,594	11,506
(Reversal)/accrual of the provision for impairment of construction in progress (Note 6)	(143)	114
(Reversal)/accrual of the provision for obsolete inventories (Note 11)	(8,470)	3,783
Other	290,365	100,451
	3,572,191	1,502,511

The above-norm losses of heating and electric power represent the cost of produced heating and electric power lost in transmission by heating and electric grids due to thefts or other reasons.

In 2008 and 2007 the related party transactions amounted to 22,175 thousand tenge and 3,092 thousand tenge, respectively (Note 42).

34. SELLING EXPENSES

Selling expenses for the years ended 31 December consisted of the following:

	2008	2007
Payroll and related taxes	281,345	217,449
Dispatcher services	255,630	69,950
Transportation	40,512	39,722
Bank commission	38,383	23,805
Inventories	16,531	11,545
Depreciation and amortization	12,855	14,743
Security	11,911	11,369
Lease expenses	10,688	3,145
Communication	7,621	5,875
Business trip expenses	5,566	4,443
Other	51,006	18,708
	732,048	420,754

In 2008 and 2007 the related party transactions amounted to 287 thousand tenge and 14 thousand tenge, respectively (Note 42).

35. FINANCE COSTS

Finance costs for the years ended 31 December consisted of the following:

	2008	2007
Interest expenses relating to bank loans	540,711	124,924
Interest expenses relating to bonds issued	376,177	178,008
Interest expenses under finance lease	239,354	152,717
Amortization of the discount on bonds	44,158	-
Interest expenses relating to ash dump recovery liabilities (Note 25)	5,959	5,231
Expenses on opening of a credit line with EBRD	5,744	14,034
Interest expenses on guarantee deposits (Note 24)	4,550	9,112
Interest expenses relating to repo operations with shares	-	12,142
	1,216,653	496,168

In 2007, JSC Pavlodarenergo conducted repo operations with the shares of a subsidiary, JSC Pavlodar Electricity Distribution Network, expenses on these operations amounted to 12,142 thousand tenge.

In 2008 and 2007, the related party transactions amounted to 418,273 thousand tenge and 201,944 thousand tenge, respectively (Note 42).

36. INTEREST INCOME

Interest income for the years ended 31 December consisted of the following:

	2008	2007
Interest income on financial aid from JSC CAPEC (Note 15)	295,517	5,277
Interest income from cash placed on the deposit for more than one year (Note 9)	160,750	162,402
Interest income from cash placed on the deposit with maturity for less than one year (Note 9)	48,863	-
Interest income on guarantee deposits (Note 23)	4,847	10,728
	509,977	178,407

In 2008 and 2007, the related party transactions amounted to 505,130 thousand tenge and 167,679 thousand tenge, respectively (Note 42).

37. (LOSS)/INCOME FROM PURCHASE AND DISPOSAL OF INVESTMENTS

In 2008, JSC Pavlodarenergo acquired 421,234 shares of JSC Pavlodar Electricity Distribution Network and recognized loss from investing operations of 25,009 thousand tenge. In 2007, JSC Pavlodarenergo sold 500,080 common shares of JSC Pavlodar Electricity Distribution Network in two stages, at that the total net profit from investment operations amounted to 368,736 thousand tenge.

38. OTHER INCOME, NET

Other income, net, for the years ended 31 December consisted of the following:

	2008	2007
Income from penalties for incompliance with the terms of the contract	194,646	179,238
Acquisition of accounts receivable	131,741	87,692
Lease income	61,050	38,550
Income from inventories found as a result of stock count	52,111	-
Income from sales of inventories, net	24,686	9,573
Income from products of auxiliary workshops	16,186	11,024
Income from repurchase of own bonds issued	14,778	-
Income from write-off of accounts payable	9,967	14,521
Income from sales of purchased heating energy	3,215	2,091
Expenses on depreciation of property, plant and equipment transferred to operating lease	(41,156)	(13,803)
Loss from disposal of property, plant and equipment	(38,928)	(24,293)
Expense from sales of purchased heating energy	(3,313)	(2,091)
Expense from products of auxiliary workshops	(2,288)	(1,161)
Other income/(expenses), net	90,042	(18,480)
	512,737	282,861

Penalties and fines consist of penalties from customers for incompliance with the terms of the contracts for delivery of heating and electric energy. During 2008 and 2007 the Group accrued penalties and fines mainly on JSC Tsentrkazenergomontazh and LLP Institut Kaznipienergoprom for incompliance with the terms of the contract.

In 2008 and 2007 JSC Energocenter purchased from LLP Ekibastuzskaya teplotsentral, the company unrelated to the Group, accounts receivable for heating energy at face value of 226,004 thousand tenge and 222,571 thousand tenge for 94,263 thousand tenge and 23,593 thousand tenge, respectively, for further work with consumers of heating energy and deriving profit. At the date of the purchase the fair value of the these accounts receivable was 226,004 thousand tenge and 111,285 thousand tenge, respectively. JSC Energocenter recognized the difference between the fair value and actually paid money in other revenue.

In 2008 and 2007 the Group incurred other expenses from related party transactions on 16,133 thousand tenge and nil tenge, respectively (Note 42).

39. INCOME TAX

Income tax (benefit)/expenses for the years ended 31 December are as follows:

	2008	2007
Current income tax expenses	33,421	(64,360)
Deferred income tax (benefit)/expenses	(2,957,805)	583,232
Income tax (benefit)/expenses	(2,924,384)	518,872

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

	2008	2007
Deferred tax assets as a result of:		
Loss carry-forward	185,189	206,065
Provision for doubtful debts	221,134	158,279
Taxes accrued but unpaid	63,209	59,961
Discount on interest-free loan provided to JSC CAPEC	47,249	845
Ash dump restoration liabilities	30,345	56,463
Provision for obsolete inventories	18,339	6,641
Provision for unused vacations	21,902	24,613
Deferred revenue	13,593	-
Employee benefit obligations	-	11,894
Interest expenses on guarantee deposits for additional capacity	637	2,733
Other temporary differences	1,829	24,718
Total deferred tax assets	603,426	552,212
Deferred tax liabilities as a result of:		
Revaluation of property, plant and equipment	(3,051,247)	(6,026,834)
Carrying value of property, plant and equipment and intangible assets prior to revaluation	(2,370,630)	(4,481,230)
Long-term accounts payable	(13,593)	(78,547)
Interest income on guarantee deposits for turning on additional capacity	(788)	(3,218)
Taxes	-	(948)
Obligations under finance lease	-	(257,719)
Total deferred tax liabilities	(5,436,258)	(10,848,496)
Deferred tax liabilities	(4,832,832)	(10,296,284)
Valuation provision	(234,714)	(245,388)
Deferred tax liabilities, net including	(5,067,546)	(10,541,672)
Deferred tax liabilities	(5,107,604)	(10,541,672)
Deferred tax assets	40,058	-

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

	2008	2007
Balance at 1 January	(10,541,672)	(793,121)
Acquisition of a subsidiary	40,058	(4,684,089)
Deferred tax liabilities	5,434,068	(5,064,462)
Balance at 31 December	(5,067,546)	(10,541,672)
Recorded in:		
consolidated income statement	2,957,805	(583,232)
consolidated statement of changes in equity	2,476,263	(4,481,230)
	5,434,068	(5,064,462)

Below is a reconciliation of income tax expense for the years ended 31 December to the profit before tax in the consolidated income statement:

	2008	2007
Profit before tax	153,956	9,504,931
Tax at statutory rate of 30%	46,187	2,851,479
Change in valuation provision	(46,987)	(15,042)
Technical losses	44,613	40,281
Income from subsidiary acquisition	-	(2,681,572)
Effect of change in tax rate	(3,152,010)	-
Tax effect of permanent differences	183,813	323,726
Income tax (benefit)/expenses	(2,924,384)	518,872

The Group pays income tax at 30% rate from the taxable profit according to the legislation of the Republic of Kazakhstan. Due to changes in the tax legislation of the Republic of Kazakhstan effective since 1 January 2009, the income tax in 2009 decreased from 30% to 20%, in 2010 from 20% to 17.5%, in 2011 and subsequent years from 17.5% to 15%. In the current year, income tax was calculated at 30% rate (2007: 30%) of the projected taxable profit. Starting from December 2008, deferred taxes are calculated at the rate which should be applicable in the period when the assets are realized or liabilities are fulfilled.

40. DISCONTINUED OPERATIONS

On 1 March 2008 and 1 February 2007, JSC Energocenter, a subsidiary of JSC Pavlodarenergo, disposed of its subsidiaries, LLP Sanatory profilaktory Energetik and JSC Dom otdykha Energetik and, accordingly, since that date the control over these enterprises was transferred to the buyer. The sale was conducted to optimize the structure of JSC Energocenter.

The profit from discontinued operations for the month ended 29 February 2008 and for the month ended 31 January 2007 was as follows:

	Month ended 29 February 2008	Month ended 31 January 2007
Loss of the subsidiary	(843)	(694)
Income from disposal of the subsidiary	13,411	17,385
	12,568	16,691

The results of the business operations of the subsidiary, JSC Energocenter, for the month ended 29 February 2008 and for the month ended 31 January 2007 were as follows:

	Month ended 29 February 2008	Month ended 31 January 2007
Revenue	-	-
Cost of sales	-	(1,314)
	-	(1,314)
General and administrative expenses	(845)	(224)
Other income, net	2	844
Loss before taxation	(843)	(694)
Income tax expenses	-	-
Loss of subsidiary	(843)	(694)

During 2008 and 2007 the subsidiaries of JSC Energocenter did not have any cash flows from financing and investing activities.

Net assets of the subsidiary, JSC Energocenter, at the date of disposal on 29 February 2008 and 31 January 2007 were as follows:

	29 February 2008	31 January 2007
Property, plant and equipment, net	108,679	112,545
Inventories	2,391	4,149
Trade accounts receivable	3	688
Advances paid	-	17
Taxes receivable and prepaid taxes	14,613	17,359
Other accounts receivable	10,167	36
Cash	475	192
Trade accounts payable	(3,823)	(106,356)
Taxes payable	(22)	(114)
Other liabilities and accrued expenses	(131,694)	(45,541)
Net assets /(liabilities)	789	(17,025)
Income from sale of subsidiary	13,411	17,385
Total consideration	14,200	360
Repaid:		
Offset against repayment of accounts receivable	-	360
Deferred payment	14,200	-
	14,200	360
Net cash arising on disposal:		
Offset against repayment of accounts receivable	14,200	360
Cash and cash equivalents disposed	(475)	(192)
	13,725	168

41. ASSETS CLASSIFIED AS HELD FOR SALE

JSC Energocenter sold its interest in LLP Sanatory profilaktory Energetik on 1 March 2008. As at 31 December 2007 the major classes of assets and liabilities of the operating activity of this partnership were classified as held for sale in the consolidated balance sheet and presented as follows:

	LLP Sanatory profilaktory Energetik
Property, plant and equipment	97,792
Inventories	2,390
Accounts receivable	3
Taxes receivable and prepaid taxes	13,127
Cash	228
Assets classified as held for sale	113,540
Accounts payable	111,872
Taxes payable	36
Liabilities associated with assets classified as held for sale	111,908

42. RELATED PARTY TRANSACTIONS

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

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

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

In 2008 and 2007 the related parties of the Group were the following:

Name of related party	Relationship
LLP Autotransport Enterprise SevKazEnergo Petropavlovsk	Subsidiary of LLP SevKazEnergo Petropavlovsk
JSC Central Asian Power Energy Company (JSC CAPEC)	Ultimate shareholder
LLP CapitalImportCorp	Shareholder of JSC Pavlodarenergo
JSC Eximbank Kazakhstan	Subsidiary of JSC CAPEC
JSC Cumulative Fund Amanat Kazakhstan (former JSC D.A. Kunayev Public Cumulative Pension Fund)	Subsidiary of JSC CAPEC

In 2008 and 2007 the Group had significant transactions with the following related parties:

Other financial assets (Note 9)

	31 December 2008	31 December 2007
Deposits of JSC Eximbank Kazakhstan with maturity less than one year	1,003,847	-
Deposits of JSC Eximbank Kazakhstan with maturity over one year	875,287	1,573,287
	1,879,134	1,573,287

Acquisition of inventories (Note 11)

	31 December 2008	31 December 2007
LLP Autotransport Enterprise SevKazEnergo Petropavlovsk	1,641	-
	1,641	-

Trade accounts receivable (Note 12)

	31 December 2008	31 December 2007
LLP Autotransport Enterprise SevKazEnergo Petropavlovsk	15,616	-
JSC Eximbank Kazakhstan	306	306
	15,922	306

Advances paid (Note 13)

	31 December 2008	31 December 2007
Energocomplect PV LLP	180,000	-
JSC D.A. Kunayev Public Cumulative Pension Fund	-	27
	180,000	27

Other accounts receivable (Note 15)

	31 December 2008	31 December 2007
JSC CAPEC	2,826,658	636,600
Liability of key management personnel of the Group	115,210	-
JSC Eximbank Kazakhstan	46,323	3,059
LLP Autotransport Enterprise SevKazEnergo Petropavlovsk	40,370	-
	3,028,561	639,659

Cash and cash equivalents (Note 16)

	31 December 2008	31 December 2007
JSC Eximbank Kazakhstan	154,593	46,241
	154,593	46,241

Loans (Note 21)

	31 December 2008	31 December 2007
JSC Eximbank Kazakhstan	1,610,557	1,124,215
	1,610,557	1,124,215

Trade accounts payable (Note 26)

	31 December 2008	31 December 2007
LLP Autotransport Enterprise SevKazEnergo Petropavlovsk	1,212	-
JSC Eximbank Kazakhstan	178	-
JSC CAPEC	97	195
	1,487	195

Other liabilities and accrued expenses (Note 29)

	31 December 2008	31 December 2007
JSC Eximbank Kazakhstan	137	-
	137	-

The following amounts arising as a result of related party transactions are included into the consolidated income statements for the years ended 31 December 2008 and 2007:

Revenue (Note 31)

	2008	2007
JSC D.A. Kunayev Public Cumulative Pension Fund	109	2,331
JSC CAPEC	43	-
	152	2,331

Cost of sales (Note 32)

	2008	2007
LLP Autotransport Enterprise SevKazEnergo Petropavlovsk	3,545	-
	3,545	-

General and administrative expenses (Note 33)

	2008	2007
JSC Eximbank Kazakhstan	20,725	1,040
JSC CAPEC	1,381	2,052
LLP Autotransport Enterprise SevKazEnergo Petropavlovsk	69	-
	22,175	3,092

Selling expenses (Note 34)

	2008	2007
LLP Autotransport Enterprise SevKazEnergo Petropavlovsk	195	-
JSC Eximbank Kazakhstan	92	14
	287	14

Finance costs (Note 35)

	2008	2007
A Energo Holdings Cooperatief U.A.	239,354	152,580
JSC Eximbank Kazakhstan	178,919	49,364
	418,273	201,944

Interest income (Note 36)

	2008	2007
JSC Eximbank Kazakhstan	209,613	162,402
JSC CAPEC	295,517	5,277
	505,130	167,679

Other income, net (Note 38)

	2008	2007
LLP Autotransport Enterprise SevKazEnergo Petropavlovsk	(18,853)	-
JSC Eximbank Kazakhstan	2,720	-
	(16,133)	-

Key personnel of the Group – In 2008 the compensation to the Board of Directors and other key personnel of the Group in the form of salary and bonuses amounted to 140,122 thousand tenge (2007: 73,770 thousand tenge).

43. ACQUIRED COMPANIES

The following significant acquisitions took place in 2008 and 2007. Each acquisition of business was accounted for using the purchase method:

	Principal activity	Date of acquisition	Interest	Cost of acquisition, thousand tenge
Group of companies in the Northern Kazakhstan region of the Republic of Kazakhstan	Production, transmission and distribution of electric and heating energy	1 October 2007	100%	6,768,320
LLP Astanaenergosbyt	Transmission and distribution of electric and heating energy	31 December 2008	100%	66,000

In September 2007 Sherfield Limited (on behalf of the major shareholder) purchased 100% share in A Energo Holdings Coöperatief U.A. from Access Indusries for 71,000 thousand USD. A Energo Holdings Coöperatief U.A. was a sole owner of companies in North Kazakhstan. Main activity of these companies is production, transmission and distribution of electricity and heat (Note 1). A Energo Holdings Coöperatief U.A purchased the property of companies in North Kazakhstan from Access Industries (Eurasia) for 6,768,320 thousand tenge including obligations under cession agreements. In 2007 income from excess of the fair value of net assets over the consideration paid from acquisition of the group of companies in the Northern Kazakhstan was 8,938,572 thousand tenge.

In November 2008 (according to the decision of major shareholder JSC CAPEC) the Group of companies in North Kazakhstan was consolidated in LLP SevKazEnergo Petropavlovsk. In December 2008 JSC CAPEC distributed to share capital of the Company 99% of LLP SevKazEnergo Petropavlovsk share.

On 31 December 2008 the Company acquired 100% share in Astanaenergosbyt LLP from Investment fund CAPEC Invest.

The distribution of acquisition price of acquired company in 2008 is based on the fair value of acquired assets, accepted liabilities and contingent liabilities. The net acquired assets and related profit from acquisition of company and goodwill are presented as follows:

	LLP Astana-energosbyt
Current assets:	
Cash and cash equivalents	36,699
Trade accounts receivable	1,753,738
Inventories	432
Advances paid	252,706
Taxes receivable and taxes prepaid	60,955
Other accounts receivable	112,689
Non-current assets:	
Property, plant and equipment	82,710
Intangible assets	14,994
Deferred tax asset	40,058
Other accounts receivable	4,931
Current liabilities:	
Short-term loans and interest payable	(250,222)
Trade accounts payable	(2,149,865)
Taxes and non-budget payments payable	(3,399)
Advances received	(589,234)
Other liabilities and accrued expenses	(38,470)
	(671,278)
Goodwill	737,278
Cash payment	66,000
Less cash and cash equivalents	(36,699)
	29,301

44. FINANCIAL INSTRUMENTS, RISK MANAGEMENT POLICY AND ITS OBJECTIVES

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

Categories of financial instruments – As at 31 December, financial instruments are as follows:

	2008	**2007**
Financial assets		
Other financial assets (Note 9)	1,879,134	1,573,287
Trade accounts receivable (Note 12)	4,417,679	2,227,218
Other accounts receivable (Note 15)	3,298,767	1,031,636
Cash and cash equivalents (Note 16)	243,332	156,050
Financial liabilities		
Bonds issued (Note 20)	3,592,538	2,062,405
Loans (Note 21)	10,018,342	1,801,135
Long-term accounts payable (Note 24)	100,325	71,387
Trade accounts payable (Note 26)	3,535,663	1,321,598
Other liabilities (Note 29)	465,385	1,056,766
Obligations under finance lease (Note 22)	54,040	2,898,908
Employee benefit obligations (Note 30)	79,964	39,753

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 maximizing the tariffs and the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from 2006.

The capital structure of the Company consists of share capital, additional paid-in capital, revaluation reserve on property, plan and equipment and retained earnings as disclosed 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 recognized, with respect to each class of financial assets, financial liabilities and equity instruments is disclosed in Note 4 to the consolidated financial statements.

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

Interest rate risk – The Group is exposed to interest rate risk since the Group received the loans. The Group manages the risk by receipt of loans at floating and fixed interest rates. The Group views this risk as insignificant.

The Group's exposure to interest rate risk on financial assets and financial liabilities is reflected in the section on liquidity risk management in this Note.

The following sensitivity analysis was made with respect to exposure of interest rates on non-derivative instruments to interest rate risk as at the reporting date.

The following tables shows distribution of changes in interest expenses, interest rates and net interest expense between changes in the value and changes in the rate over the years ended 31 December 2008 and 2007. The fluctuations between the value and rate were calculated on the movement in average balances and change in interest rates on average liabilities on which interest is accrued.

As at the reporting date, the effect of change in interest rates on received loans and bonds of the Group:

	2008/2007 Change due to increase		Total change	Change in interest rate, %
	Value	Rate		
Loans	1,128,496	175,321	1,303,817	2.5%
Bonds	157,154	71,851	229,005	2%

The Group's sensitivity to interest rates increased during the current period, mainly due to increase in loans as at 31 December 2008 compared to 31 December 2007.

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 before 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 15) less provisions for doubtful debts recognized at the reporting date.

A credit risk concentration can arise if one borrower or a group of borrowers with similar operating conditions owe 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 providing for constant control over adequate credit history of customers with which the deals are concluded and over observance of the set crediting limits on transactions.

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

Market risk – The market risk involves a possible variation in the value of a financial instrument as a result of a change in market prices. The Group manages market risk by periodic evaluation of potential losses that may arise due to negative changes in the situation in the market.

Currency risk – The Group does not conduct sale or purchase operations denominated in foreign currencies. Accordingly, there is no risk of changes in exchange rates. However, the Group has liabilities denominated in foreign currencies. Therefore the Group minimizes the currency risk by monitoring the changes in exchange rates in which the liabilities are denominated.

The carrying value of monetary assets and liabilities of the Group in foreign currency as at 31 December 2008 and 2007 is as follows:

	Assets		Liabilities	
	2008 Thousand tenge	2007 Thousand tenge	2008 Thousand tenge	2007 Thousand tenge
US Dollars	-	-	1,226,172	-
Russian Ruble	-	24,755	-	-

Foreign currency sensitivity analysis - The Group is mainly exposed to a risk related to changes in exchange rates of the US dollar.

The following table details the Group's sensitivity to 25% increase in 2008 and 10% in 2007 in tenge against foreign currencies. Management of the Group believes that increase of foreign currency rate to tenge by 25% is realistic fluctuation in current economic situation. This rate of the sensitivity is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only balances denominated in foreign currency and adjusted by 25% at 31 December 2008 and 10% at 31 December 2007.

	Impact of US dollar	
	2008	**2007**
Financial assets	-	2,476
Financial liabilities	306,543	-

The Group's sensitivity to foreign currency increased in the current period, mainly due to additional receipt of US dollar loans, which resulted in the increase in the balance of loans in US dollars as at 31 December 2008.

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

Liquidity and interest rate risk tables

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

The table on liquidity risks and interest rate risk as at 31 December 2008 is presented as follows:

	Weighted average effective interest rate	Up to 1 year	1-5 years	Over 5 years	Undefined term	Total
Non-interest-bearing:						
Trade accounts receivable	-	4,417,679	-	-	1,156,416	5,574,095
Other accounts receivable	-	3,298,767	-	-	96,960	3,395,727
Cash and cash equivalents	-	243,332	-	-	-	243,332
Long-term accounts payable	-	-	57,393	338,356	-	395,749
Trade accounts payable	-	3,535,663	-	-	-	3,535,663
Other liabilities	-	465,385	-	-	-	465,385
Employee benefit obligations	-	6,203	27,740	75,164	-	109,107
Interest-bearing:						
Other financial assets	11%	1,092,095	1,031,191	-	-	2,123,286
Bonds issued	9%-13%	96,248	3,506,999	3,403,801	-	7,007,048
Loans	13%-14% and Libor+3%	4,087,493	6,328,968	2,772,845	-	13,189,306
Obligations under finance lease	12.5%	54,040	-	-	-	54,040

The table on liquidity risks and interest rate risk as at 31 December 2007 is presented as follows:

	Weighted average effective interest rate	Up to 1 year	1-5 years	Over 5 years	Undefined term	Total
Non-interest-bearing:						
Trade accounts receivable	-	2,227,218	-	-	469,602	2,696,620
Other accounts receivable	-	1,031,636	-	-	59,953	1,091,589
Cash and cash equivalents	-	156,050	-	-	-	156,050
Long-term accounts payable	-	-	42,401	264,993	-	307,394
Trade accounts payable	-	1,321,598	-	-	-	1,321,598
Other liabilities	-	1,056,766	-	-	-	1,056,766
Long-term loans	-	-	187,055	317,839	-	504,894
Employee benefit obligations	-	3,741	18,206	40,324	-	62,271
Interest-bearing:						
Other financial assets	10%	3,059	1,570,228	314,657	-	1,887,944
Bonds issued	9%	178,006	2,333,882	-	-	2,511,888
Long-term loans	13%-14%	1,181,975	609,340	345,690	-	2,137,005
Short-term loans	11.5%	456,498	-	-	-	456,498
Obligations under finance lease	11.3%	511,593	2,387,315	-	-	2,898,908

Fair value of financial instruments – Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in 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.

As at 31 December 2008 and 2007 the carrying value of all other financial assets and financial liabilities approximates their fair value.

45. COMMITMENTS AND CONTINGENCIES

Legal issues – The Group can be the subject of legal proceedings and adjudications which separately or in totality did not have a material impact on the Group.

Taxation – The Government of the Republic of Kazakhstan continues to reform the business and commercial infrastructure in its transition to a market economy. As a result laws and regulations affecting businesses continue to change rapidly. These changes are characterized 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, possibly will lead to tax risks for the Group.

The Group does not pay current taxes on time, which can lead to a potential risk of significant additional penalties. As at 31 December 2008 and 2007 the Group estimates such a risk and made provisions in the consolidated financial statements of 28,662 thousand tenge and 19,198 thousand tenge, respectively.

Environmental issues – The Group's management believes that at the moment the Group follows current environmental laws and regulatory acts of the Republic of Kazakhstan. However, Kazakhstani environmental laws and regulatory acts may change in future. The Group's management is not able to foresee how and when the legislation changes. If changes happen, the Group might need to upgrade its technological equipment in order to meet new rigid requirements.

At each consolidated balance sheet date, the Group's management estimates the future obligations and creates a provision for recovery of ash dumps as per the legislation of the Republic of Kazakhstan. As at 31 December 2008 and 2007 the amount of such provision is equal to 194,167 thousand tenge and 188,208 thousand tenge, respectively (Note 25).

Insurance – As at 31 December 2008 and 2007, the Group insured production complexes of TETS-2, TETS-3 and oxygen shop in Pavlodar. The Group did not insure the rest of the assets. Since the lack of insurance does not mean the decrease in the value of assets or occurrence of liabilities, no provision for unforeseen expenses relating to damage or loss of such assets was created in these consolidated financial statements.

Capital commitments – Notifying the Agency of the Republic of Kazakhstan on regulation of natural monopolies, the Group developed and commissioned an additional investment program for 2007-2013 whereby the Group has to invest into production assets 9,013,673 thousand tenge. As at 31 December 2008, the Group invested 1,013,673 thousand tenge.

LLP SevKazEnergo Petropavlovsk concluded contracts on investment tax preferences for 2003-2008 with the Investment Committee of the Ministry of Industry and Trade of the Republic of Kazakhstan. Under these contracts LLP SevKazEnergo Petropavlovsk was to invest into production assets 1,795,500 thousand tenge. As at 31 December 2008, the Group invested 1,795,500 thousand tenge (Note 1).

Tariffs – The Group approves with the Agency of the Republic of Kazakhstan on regulation of natural monopolies the tariffs on electric and heating energy. Management of the Group believes that it sets tariffs according to the legislation of the Republic of Kazakhstan.

46. EVENTS AFTER THE BALANCE SHEET DATE

Repurchase of treasury bonds – On 23 January 2009, JSC Pavlodarenergo repurchased 422,600 treasury placed coupon bonds in the amount of 39,766 thousand tenge taking into account interest as at the date of acquisition.

Placement of bonds issued– In April 2009 JSC Pavlodarenergo placed 15,000,000 coupon bonds in the amount of 1,443,302 thousand tenge.

Reorganization of the Group – On 23 February 2009 the Group made decision to create JSC Legal agency Guarant-Energo for the purpose of ensuring effective work with accounts receivable.

Agreement with EBRD – On 26 March 2009 the Company signed with EBRD a Subscription Agreement according to which EBRD will purchase the shares of the Company at 1,330 tenge for each share. As a result the Company's shares will be allocated to JSC CAPEC - 75.12% and to EBRD - 24.88% on the basis of 18,463,123 shares with nominal value of 1,000 tenge each. As per contract EBRD intends to finance the project on restoration and renovation of heat stations and networks of the subsidiaries JSC Pavlodarenergo and LLP SevKazEnergo Petropavlovsk for total amount of 9,267,000 thousand tenge during 2009-2018.

Legal events – On 4 June 2009, Petropavlovsk regional court issued a decision in favor of the Group regarding payment for environmental emission for the 1st quarter of 2008 at the previous rates. As at 31 December 2008 the Group created the provision for 65,037 thousand tenge for the difference between new and previous rates.

Translation from original in Russian

Increase of share capital – On 30 June 2009 according to the decision of the Board of Directors of JSC CAPEC the share capital of the Company was increased by 2,499,999 thousand tenge. The contribution was made by shares of JSC Pavlodarenergo in amount of 2,499,999 shares with nominal value of 1,000 tenge each.

Governmental programs – The Government of the Republic of Kazakhstan exercised and continues to exercise a significant impact on the economy of the Republic of Kazakhstan. In response to the economic crisis the government introduced a wide range of economic reforms aimed at improvement of economic conditions. In particular, the government acquired an interest in large banks of the Republic of Kazakhstan through contributions to the share capital in order to increase the liquidity of the banking sector. Also, on 4 February 2009 the National Bank of the Republic of Kazakhstan announced a new corridor of the change rate on the level of 150 tenge per USD 1, +/- 3%, which reflects approximately 25% devaluation of the national currency against the US dollar. Kazakhstan is a country rich in natural resources, whose tax proceeds significantly depend on the world prices on commodities, such as oil, grain, gold, zinc, copper and uranium. The sufficiency of the tax proceeds and accumulated reserves is critical for support of the programs initiated by the Government of the Republic of Kazakhstan.

Increase in country credit risk – In February 2009 the sovereign five-year swaps of the Republic of Kazakhstan were estimated at 1,300 basic points. The profitability of Kazakh corporate bonds also increased significantly, which indicates significant difficulties with attraction of foreign capital into the country.

Loans – During the 1st quarter of 2009 LLP SevKazEnergo Petropavlovsk received short-term loans within the credit line with JSC DB Sberbank for 1,510,000 thousand tenge with an interest rate of 12% per annum. Subsequently, the Group placed these funds on the deposit in JSC Eximbank Kazakhstan. The interest rate on the deposit was equal to 12% per annum.

On 6 March 2009 for the fulfillment of the obligations on the loan given to LLP SevKazEnergo Petropavlovsk under the agreement # 27/06 on opening of a credit line dated 27 June 2008 and agreement #01/10 on opening of a credit line dated 1 October 2008, property, plant and equipment with the carrying value of 11,813,619 thousand tenge were pledged. The credit line is also secured by real estate of JSC CAPEC, shares of JSC Eximbank Kazakhstan, an interest in the share capital of LLP SevKazEnergo Petropavlovsk.

Investment program – Within the governmental program for 2009-2015 the Ministry of Energy and Mineral Resources and LLP SevKazEnergo Petropavlovsk signed an agreement # 22 dated 12 May 2009 "On investment obligations of LLP SevKazEnergo Petropavlovsk for 2009", under which the tariff for production of electric power since 28 May 2009 was increased by 11.1% and amounted to 3.60 tenge. This agreement provides for investment obligations of the Group on construction, upgrade and acquisition of property, plant and equipment for 1,446,877 thousand tenge till the end of 2009.