Translation from the original in Russian

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

Consolidated financial statements
For the year ended 31 December 2010

Translation from the original in Russian

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

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Management of the Joint Stock Company Central-Asian Electric Power Corporation (the "Company") and its subsidiaries (jointly the "Group") is responsible for the preparation of the consolidated financial statements that present fairly in all material aspects the consolidated financial position of the Group as at 31 December 2010, the 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:

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

Management is also responsible for:

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

These consolidated financial statements of the Group for the year ended 31 December 2010 were authorized for issue by management on 30 April 2011.

On behalf of management of the Group:

Amirkhanov Y.A.
President

30 April 2011
Almaty, Republic of Kazakhstan

Serikova K.E.
Chief Accountant

30 April 2011
Almaty, Republic of Kazakhstan

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and shareholders 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 (jointly the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

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 on the consolidated financial statements.

Translation from the original in Russian

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2010, and its consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 39 to the consolidated financial statements, which discloses significant operations of the Group with related parties. Our opinion is not qualified in respect of this matter.

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

30 April 2011
Almaty, Republic of Kazakhstan

Translation from the original in Russian

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

(in thousands of Tenge)

	Notes	2010	2009
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	6	60,827,080	52,361,618
Goodwill	7	2,424,419	2,424,419
Intangible assets		34,428	40,286
Deferred tax assets	38	120,344	50,852
Other financial assets	8	-	614,807
Other non-current assets	10	5,301,651	4,567,758
Total non-current assets		68,707,922	60,059,740
CURRENT ASSETS:			
Inventories	11	2,001,219	1,533,643
Trade accounts receivable	12	6,052,511	5,535,024
Advances paid	13	1,791,484	891,925
Income tax prepaid		201,197	31,395
Taxes receivable and prepaid taxes	14	286,446	107,825
Other accounts receivable	15	2,773,697	2,941,015
Current portion of other financial assets	8	6,251,167	14,650,343
Financial assets held for trading	9	995,491	-
Cash	16	5,019,799	1,000,434
Total current assets		25,373,011	26,691,604
TOTAL ASSETS		94,080,933	86,751,344
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	17	30,302,544	30,302,544
Additional paid-in capital	18	1,348,105	1,443,622
Revaluation reserve on property, plant and equipment		10,406,139	11,444,910
Retained earnings		11,302,478	8,054,073
Equity attributable to equity holders of the Parent		53,359,266	51,245,149
Non-controlling interests	19	-	475,667
Total equity		53,359,266	51,720,816
NON-CURRENT LIABILITIES:			
Bonds issued	20	8,911,639	6,825,153
Long-term loans	21	6,978,512	8,690,782
Deferred revenue	23	262,238	278,517
Long-term accounts payable	24	112,369	109,119
Deferred tax liabilities	38	8,689,563	5,965,749
Ash disposal area restoration liabilities	25	186,390	117,605
Employee benefit obligations	30	68,367	62,571
Total non-current liabilities		25,209,078	22,049,496

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED) AS AT 31 DECEMBER 2010

(in thousands of Tenge)

	Notes	2010	2009
CURRENT LIABILITIES:			
Current portion of bonds issued	20	2,142,081	2,083,525
Trade accounts payable	26	4,478,905	4,500,555
Current portion of long-term loans	21	1,239,056	1,147,161
Short-term loans	22	4,383,463	2,708,548
Advances received	27	1,674,692	1,351,699
Corporate income tax payable		234,089	44,100
Taxes and non-budget payable	28	441,690	562,040
Current portion of employee benefit obligations	30	6,910	5,773
Current portion of ash disposal area restoration liabilities	25	20,661	11,080
Other liabilities and accrued expenses	29	891,042	566,551
Total current liabilities		15,512,589	12,981,032
TOTAL EQUITY AND LIABILITIES		94,080,933	86,751,344

Signed on behalf of management of the Group:

Amirkhanov Y.A.
President

30 April 2011
Almaty, Republic of Kazakhstan

Serikova K.E.
Chief Accountant

30 April 2011
Almaty, Republic of Kazakhstan

The notes on pages 11-56 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 2-3.

Translation from the original in Russian

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

(in thousands of Tenge)

	Notes	2010	2009
REVENUE	31	55,073,833	43,941,850
COST OF SALES	32	(42,178,988)	(36,075,225)
GROSS PROFIT		12,894,845	7,866,625
General and administrative expenses	33	(5,294,837)	(3,895,562)
Selling expenses	34	(915,690)	(801,516)
Finance costs	35	(1,952,080)	(1,777,744)
Interest income	36	1,526,555	1,085,714
Gain from purchase and disposal of investments		-	8
Foreign exchange loss		(75,303)	(57,602)
Other income	37	567,743	731,223
PROFIT BEFORE TAXATION		6,751,233	3,151,146
INCOME TAX EXPENSE	38	(2,745,152)	(1,349,273)
PROFIT FOR THE YEAR		4,006,081	1,801,873
OTHER COMPREHENSIVE (LOSS)/ INCOME:			
Effect from changes in income tax rates on revaluation of property, plant and equipment		(444,143)	117,210
Revaluation of property, plant and equipment less income tax impact		-	219,975
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(444,143)	337,185
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,561,938	2,139,058
Profit attributable to:			
Shareholders of the Parent		4,006,081	1,757,104
Non-controlling interests		-	44,769
		4,006,081	1,801,873
Total comprehensive income attributable to:			
Shareholders of the Parent		3,561,938	2,094,289
Non-controlling interests		-	44,769
		3,561,938	2,139,058

Signed on behalf of management of the Group:

Amirkhanov Y.A.
President

30 April 2011
Almaty, Republic of Kazakhstan

Serikova K.E.
Chief Accountant

30 April 2011
Almaty, Republic of Kazakhstan

The notes on pages 11-56 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 2-3.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

(in thousands of Tenge)

	Notes	Share capital	Additional paid-in capital	Revaluation reserve on property, plant and equipment	Retained earnings	Equity attributable to equity holders of the Parent	Non-controlling interests	Total equity
As at 1 January 2010		30,302,544	1,443,622	11,444,910	8,054,073	51,245,149	475,667	51,720,816
Changes in subsidiaries ownership	19	-	-	-	(725,491)	(725,491)	(462,236)	(1,187,727)
Effect of re-registration of subsidiary into joint stock company	1	-	(95,517)	-	95,517	-	-	-
Amortization of revaluation reserve		-	-	(594,628)	594,628	-	-	-
Dividends declared	17	-	-	-	(527,131)	(527,131)	(13,431)	(540,562)
Fair value adjustment of interest- free loan issued to JSC CAPEC less deferred tax of 48,800 thousand tenge	15	-	-	-	(195,199)	(195,199)	-	(195,199)
Profit for the year		-	-	-	4,006,081	4,006,081	-	4,006,081
Other comprehensive loss for the year		-	-	(444,143)	-	(444,143)	-	(444,143)
Total comprehensive income for the year		-	-	(444,143)	4,006,081	3,561,938	-	3,561,938
As at 31 December 2010		30,302,544	1,348,105	10,406,139	11,302,478	53,359,266	-	53,359,266

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2010
(in thousands of Tenge)

	Notes	Share capital	Additional paid-in capital	Revaluation reserve on property, plant and equipment	Retained earnings	Equity attributable to equity holders of the Parent	Non-controlling interests	Total equity
As at 1 January 2009		18,463,123	1,234,747	8,660,519	5,666,475	34,024,864	6,442,469	40,467,333
Effect of re-registration of subsidiary into joint stock company		-	(140,021)	(216,981)	357,002	-	-	-
Contribution to share capital		9,266,921	-	-	-	9,266,921	-	9,266,921
Decrease in non-controlling interests		2,572,500	348,896	3,288,138	(197,963)	6,011,571	(6,011,571)	-
Amortization of revaluation reserve		-	-	(623,951)	623,951	-	-	-
Decrease in obligations under finance lease		-	-	-	53,675	53,675	-	53,675
Fair value adjustment of interest- free loan issued to JSC CAPEC less deferred tax of 51,543 thousand tenge	15	-	-	-	(206,171)	(206,171)	-	(206,171)
Profit for the year		-	-	-	1,757,104	1,757,104	44,769	1,801,873
Other comprehensive income for the year		-	-	337,185	-	337,185	-	337,185
Total comprehensive income for the year		-	-	337,185	1,757,104	2,094,289	44,769	2,139,058
As at 31 December 2009		30,302,544	1,443,622	11,444,910	8,054,073	51,245,149	475,667	51,720,816

Signed on behalf of management of the Group:

Amirkhanov Y.A.
President

30 April 2011
Almaty, Republic of Kazakhstan

Serikova K.E.
Chief Accountant

30 April 2011
Almaty, Republic of Kazakhstan

The notes on pages 11-56 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 2-3.

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

CONSOLIDATED STAEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

(in thousands of Tenge)

	Notes	2010	2009
OPERATING ACTIVITIES:			
Profit before taxation		6,751,233	3,151,146
Adjustments for:			
Amortization and depreciation	32, 33, 34, 37	2,812,513	2,669,468
Finance costs	35	1,952,080	1,777,744
Provision for doubtful debts	12, 13, 15	1,176,882	450,959
Loss/(gain) from disposal of property, plant and equipment		6,560	(5,834)
Loss from disposal of intangible assets		-	8,959
Gain from disposal of investments		-	(8)
Employee benefit expenses/(gain)	30	18,138	(3,299)
Interest income from deposit	36	(1,255,993)	(775,009)
Interest income from interest-free financial aid	36	(256,956)	(297,438)
Interest income from guarantee fees	36	(13,606)	(13,267)
Income from repurchase of bonds issued		(392)	(2,697)
Foreign exchange loss		75,303	57,602
Provision for unused vacations	29	10,340	6,332
Accrual/(recovery) of provision for obsolete inventories	11	11,545	(7,171)
Operating cash flow before changes in working capital		11,287,647	7,017,487
Increase in inventories		(478,316)	(1,108,406)
Increase in trade accounts receivable		(1,591,303)	(1,407,379)
(Increase)/decrease in advances paid		(967,904)	818,449
(Increase)/decrease in taxes receivable and prepaid taxes		(24,923)	57,636
Decrease in other accounts receivable		148,176	132,911
(Decrease)/increase in trade accounts payable		(21,586)	965,641
Decrease in deferred revenue		(11,907)	(5,179)
Increase/(decrease) in advances received		322,993	(165,223)
Decrease in taxes and non-budget payable		(329,001)	(1,015,975)
Decrease in employee benefit obligations		(11,205)	(8,321)
Decrease in ash disposal area restoration liabilities		(18,863)	(11,080)
Increase/(decrease) in other liabilities and accrued expenses		282,969	(300,870)
Cash provided by operating activity		8,586,777	4,969,691
Income tax paid		(323,500)	(242,129)
Interest paid		(1,921,376)	(1,851,403)
Net cash provided by operating activities		6,341,901	2,876,159

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

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2010

(in thousands of Tenge)

	Notes	2010	2009
INVESTING ACTIVITIES:			
Cash withdrawn from deposit		14,127,943	3,805,942
Cash placed on deposit		(5,333,114)	(16,670,076)
Acquisition of property, plant and equipment		(11,433,862)	(5,000,016)
Increase in advances paid for property, plant and equipment		(734,301)	(1,494,083)
Acquisition of intangible assets		(750)	-
Proceeds from disposal of property, plant and equipment		350,923	94,052
Proceeds from interest accrued on placed deposits		1,369,244	195,097
Repurchase of shares from non-controlling interest	19	(1,187,727)	20
Purchases of financial assets held for trading	9	(995,491)	-
Net cash used in investing activities		(3,837,135)	(19,069,064)
FINANCING ACTIVITIES:			
Contribution to share capital	17	-	9,266,921
Proceeds from issue of bonds		2,002,331	5,815,072
Repayment of bonds		-	(676,156)
Proceeds from loans		7,607,845	10,605,292
Repayment of loans		(7,469,845)	(8,309,266)
Financial aid provided to related party		-	(60,510)
Repayment of financial aid by related party		-	308,654
Dividends paid	17	(540,562)	-
Net cash generated from financing activities		1,599,769	16,950,007
NET INCREASE IN CASH		4,104,534	757,102
CASH at the beginning of the year		1,000,434	243,332
Effect of changes in foreign exchange rate on cash balance in foreign currency		(85,169)	-
CASH at the end of the year		5,019,799	1,000,434

Non-cash operations:

- In 2010 the Group capitalized borrowing costs and foreign exchange loss from loans in a foreign currency for the total amount of 160,537 thousand tenge (2009: 385,555 thousand tenge).
- In 2010 the Group paid withholding tax using the offset of other accounts receivable and interest accrued of 106,162 thousand tenge (2009: 60,250 thousand tenge).
- In 2010 the Group amortized the discount on the bonds issued of 87,350 thousand tenge (2008: 41,238 thousand tenge).
- In 2010 the Group transferred to other non-current assets the inventories held for use as a component for production of property, plant and equipment of 107,082 thousand tenge (2009: 107,887 thousand tenge).
- In 2010 the Group carried out capital repair of property, plant and equipment using its own resources and capitalized payroll expenses and costs of materials of 35,671 thousand tenge (2009: 36,821 thousand tenge).d
- In 2010 the Group transferred intangible assets of nil tenge to property, plant and equipment (2009: 18,237 thousand tenge).

Signed on behalf of management of the Group:

Amirkhanov Y.A.
President

30 April 2011
Almaty, Republic of Kazakhstan

Serikova K.E.
Chief Accountant

30 April 2011
Almaty, Republic of Kazakhstan

CAEPCO

The notes on pages 11-56 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on pages 2-3.

(in thousands of Tenge)

1. NATURE OF BUSINESS

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

As at 31 December 2010 and 2009 the shareholders of the Company are JSC Central-Asian Power Energy Company (JSC CAPEC) (75.12%) and European Bank of Reconstruction and Development (EBRD) (24.88%) (Note 17). 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 subsidiaries (hereinafter jointly as the "Group"):

Subsidiaries:	Location	Ownership interest 2010	2009	Principal activity
JSC PAVLODARENERGO	Pavlodar	100%	100%	Production, transmission and sale of electricity and heat
JSC SEVKAZENERGO (former SevKazEnergo Petropavlovsk LLP)	Petropavlovsk	100%	100%	Production, transmission and sale of electricity and heat
Astanaenergosbyt LLP	Astana	100%	100%	Sale of electricity and heat

On 15 January 2010 the subsidiary of JSC SEVKAZENERGO, North-Kazakhstan Electricity Distribution Company LLP was re-registered into JSC North-Kazakhstan Electricity Distribution Company.

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

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

The total number of employees of the Group as at 31 December 2010 and 2009 was 7,990 and 7,953 persons, respectively.

These consolidated financial statements prepared under IFRS were approved and authorized for issue by management of the Group on 30 April 2011.

2. CURRENT ECONOMIC SITUATION

Operating environment – The Group is exposed to economic, political, social, legal and regulatory risks, risks different from risks of more developed markets. Laws and regulations governing the conduct of business in the Republic of Kazakhstan are still subject to rapid changes. There is a possibility of different interpretation of tax, currency and customs legislation, as well as other legal and fiscal problems faced by companies operating in the Republic of Kazakhstan. Future direction of the development of the Republic of Kazakhstan is largely dependent on the measures of economic, fiscal and monetary policy, adopted laws and regulations, as well as changes in the political situation in the country.

The negative impact of the global financial crisis of 2008 and 2009 on financial and capital markets in the Republic of Kazakhstan has decreased and already in 2010 the country's economic growth renewed. At the same time a high economic uncertainty remains. Adverse effects associated with systemic risks in the global economy and finances, for example, with a decrease in liquidity, or with lowering of oil and gas prices could lead to a slowdown or recession of the economy of the Republic of Kazakhstan, which can adversely affect the business of the Group, its results of operations, financial position and development prospects.

In addition, the Republic of Kazakhstan has a relatively high inflation rate (according to government agencies, the increase in consumer prices for the years ended 31 December 2010 and 2009 amounted to 7.8% and 6.2%, respectively).

3. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

Adoption of new and revised standards.

Standards and Interpretations adopted for the current period:

In the current period, the Group adopted the following Standards and Interpretations:

- Amendments to IAS 27 *Consolidated and Separate Financial Statements* as a result of revision of IFRS 3 (effective for reporting periods beginning on or after 1 July 2009);
- Amendments to IAS 28 *Investments in Associates* as a result of revision of IFRS 3 (effective for reporting periods beginning on or after 1 July 2009);
- Amendments to IAS 31 *Interests in Joint Ventures* as a result of revision of IFRS 3 (effective for reporting periods beginning on or after 1 July 2009);
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*, related to Eligible Hedged Items (effective for reporting periods beginning on or after 1 July 2009);
- IFRS 1 (revised and restructured) *First-time Adoption of IFRS* (effective for reporting periods beginning on or after 1 July 2009);
  Amendments to IFRS 1 *First-time Adoption of IFRS*, relating to oil and gas assets and lease containing arrangements (effective for reporting periods beginning on or after 1 January 2010);
- Amendments to IFRS 2 *Share-based Payments: Group Cash-settled Share-based Payment Arrangements* (effective for reporting periods beginning on or after 1 January 2010);
- IFRS 3 (revised) *Business Combinations* (effective for reporting periods beginning on or after 1 July 2009);
- IFRIC 17 *Distribution of Non-cash Assets to Owners* (effective for reporting periods beginning on or after 1 July 2009);
- IFRIC 18 *Transfer of Assets from Customers* (effective for reporting periods beginning on or after 1 July 2009).

Amendments to 12 existing standards and interpretations dated 16 April 2009 issued by the IFRS Committee, within an annual initiative aimed at the general improvement of the effective International Financial Reporting Standards. These amendments are related to certain expressions and issues regarding presentation of financial statements, issues of recognition and appraisal. The revised version is effective for reporting periods beginning on or after 1 January 2010.

The adoption of these standards and amendments thereto and Interpretations did not result in any changes in the accounting policy of the Group.

Standards and Interpretations in issue but not yet adopted:

At the date of authorization of these consolidated financial statements the following Standards and Interpretations were in issue but not yet adopted:

- IAS 12 *Income taxes* – Change in limited scope (Recovery of Underlying Assets) (effective for reporting periods beginning on or after 1 January 2012);
- IAS 24 *Related Party Disclosures* – Revision of the definition of related parties (effective for reporting periods beginning on or after 1 January 2011);
- Amendments to IAS 32 *Financial Instruments – disclosure and presentation* relating to issues of rights classification (effective for reporting periods beginning on or after 1 February 2010);
- IFRS 1 *First-time Adoption of IFRS* – Limited exemption from comparative disclosure under IFRS 7 upon first time adoption (effective for reporting periods beginning on or after 1 July 2010);
- IFRS 1 *First-time Adoption of IFRS* – Change in fixed dates for certain exemptions relating to the date of transfer to IFRS (effective for reporting periods beginning on or after 1 July 2010);
- IFRS 1 *First-time Adoption of IFRS* – Additional exemption for entities ceasing to face acute hyperinflation (effective for reporting periods beginning on or after 1 July 2010);
- Amendments to IFRS 7 *Financial Instruments – disclosure*, relating to expansion of disclosures regarding transfer of financial assets (effective for reporting periods beginning on or after 1 July 2011);
- IFRS 9 *Financial Instruments* (effective for reporting periods beginning on or after 1 January 2013);
- Amendments to IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* relating to voluntary prepaid contributions (effective for reporting periods beginning on or after 1 January 2011);
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for reporting periods beginning on or after 1 July 2010).

On 6 May 2010, within an annual initiative aimed at the general improvement of the effective International Financial Reporting Standards, the IFRS Committee issued amendments to certain existing standards and interpretations. These amendments are related to certain expressions and issues regarding presentation of financial statements, issues of recognition and appraisal. The new version of the above standards and interpretations is effective for reporting periods beginning on or after 1 January 2011.

The management of the Group anticipates that all of the above Standards and Interpretations will be adopted in the consolidated financial statements for the period beginning on 1 January 2011, and the adoption of these Standards and Interpretations will have no material impact on consolidated financial statements of the Group in the period of initial application.

Basis of presentation – These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

These consolidated financial statements 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*;
- valuation of financial instruments according to IAS 39 *Financial Instruments: Recognition and Measurement*.

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

4. SIGNIFICANT ACCOUNTING POLICIES

Segmental reporting – Based on information contained in the reports, which are reviewed by the management for the purpose of allocation of resources and assessment of performance, as well as having analyzed aggregation criteria's, the Group identifies one operating segment, which is production, transmission and distribution of heat and power.

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

Income and expenses of subsidiaries acquired or sold during the year are included in the consolidated statement of comprehensive income from the date of their actual purchase or to the effective date of sale, respectively. The total comprehensive income of subsidiaries is distributed among the shareholders of the Company and holders of non-controlling interest (NCI), even if it leads to a negative balance of NCI.

Where necessary, adjustments are made the financial statements of the subsidiaries to bring their accounting policies into line with the accounting policy used by the Group.

All significant intra-group transactions, related balances and unrealized gains and losses are eliminated in full on consolidation.

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

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses.

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

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

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

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

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

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

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

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

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

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

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

Buildings and constructions	2-60 years
Machines and production equipment	2-50 years
Vehicles	2-15 years
Other	2-14 years

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

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

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

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

The recoverable amount is the higher of fair value less selling costs and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is 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 as income immediately.

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 risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Group as a lessor – Income from operating lease is recognized under the straight-line basis over the term of a respective lease.

Group as a lessee –Lease payments under operating lease are expensed under the straight-line basis over the term of a respective lease.

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

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

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

Effective interest rate method – The effective interest rate method is a method to calculate the 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.

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

Other financial assets – Deposits with initial maturity of over three months are recorded in the consolidated statement of financial position as other current financial assets. Deposits with initial maturity of more than a year are recorded in the consolidated statement of financial position as other non-current financial assets.

Cash– Cash includes petty cash and cash held in current bank accounts.

Impairment of financial assets – Impairment of any financial assets, except for FVTPL, is assessed on each reporting date. Financial assets are impaired when there is objective evidence that as a result of one or several events after the initial recognition of a financial asset 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 60 days, and observed changes in the national economy directly affecting the defaults on accounts receivable.

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

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

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

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

Bank loans and debt securities – Bank loans and debt securities, after initial recognition, are recorded at the amortized cost using effective interest rate method.

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

Offset of financial assets and liabilities – Financial assets and liabilities are offset and reported net on the consolidated statement of financial position 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

Financial assets

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is 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 it is discharged, cancelled or expires.

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

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

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

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

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

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

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

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

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

Deferred tax is the tax recognized on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the calculation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally 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 asset is realized or the liability is settled. Deferred taxes are charged or credited in profit or loss, except when they relate to items charged or credited directly to other comprehensive income or equity.

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

Employee benefits

<u>*Social tax*</u>

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 2010 was approximately 6% of the gross income of employees (2009: 10% 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 funds but not more than 112,140 tenge per month from 1 January to 1 July 2010 (2009: not more than 101,025 tenge per month from 1 January to 1 July 2009 and 102,877 tenge per month from 1 July to 31 December 2009). 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.

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.

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

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

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

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.

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

5. KEY ASSUMPTIONS AND SOURCES OF ESTIMATION UNCERTAINTY

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

Ash disposal area restoration liability – For production purposes the Group uses six ash disposal areas. At the end of the useful life, these ash disposal areas should be restored. In order to determine the amount of the liability on restoration of these ash disposal areas management of the Group is required to conduct the evaluation of future cost of restoration of ash disposal areas. The management evaluates liabilities on restoration of ash disposal areas at amortized cost using effective interest rate of 12%-14% which represents a market rate of financing for the Group (Note 25).

Determination of the fair value of property, plant and equipment – At each reporting date the Group assesses the 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 amount of property, plant and equipment from the fair value the Group evaluates the fair value of property, plant and equipment using independent appraisers.

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

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

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

Guarantee fees – JSC PAVLODARENERGO and JSC SEVKAZENERGO, the subsidiaries,recognize guarantee fees received from the customers for additional capacity at fair value. For determining the present value of guarantee fees the subsidiaries evaluate the future expected cash outflows and a respective discount rate for present value calculation based on the best estimates of management. The guarantee fees received from the customers for additional capacity will be fully repaid by equal installments during 26 years and 16-25 years, respectively, starting from the 37^{th} month after receipt of the guarantee fees. In addition, the present value of guarantee fees can be impacted by the future changes in the legislation and evaluation of the discount rate. The Group recorded fair value adjustment as deferred income with the period of amortization during 19-28 years (Notes 23 and 24).

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

Employee benefits – The defined benefit plan used by the Group is recorded according to requirements of IAS 19 *Employee Benefits*. Application of IAS 19 requires the use of estimates regarding various judgments including future annual increases in salary, demographics of the employer and pensioners and discount rates. The Group's assumptions under IAS 19, except other circumstances, are based on historical experience and recommendations of actuaries. The change in estimates can have a significant impact on profits or losses of the Group (Note 30).

Assessment of the effect of deferred income tax – At each reporting date, management of the Group determines the future effect of deferred income tax by comparing the carrying amounts 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 at each reporting date and decreased to the extent the realization of respective tax benefits is no more probable.

Useful lives of property, plant and equipment – As discussed in Note 4, the Group reviews the useful lives of property, plant and equipment as at the end of each financial year. The evaluation of the useful life of an asset depends on such factors as economic use, repair and maintenance program, technological upgrades and other business conditions. Management's assessment of the useful lives of property, plant and equipment reflects the respective information available as at the date of these consolidated financial statements.

(in thousands of Tenge)

Recognition of revenue from sale of electricit – The Group recognizes revenue at the moment of delivery of electricity as per meters of the electricity 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 electricity sold from the moment of the last metering to the end of the reporting period based on an estimate. As per this method, the daily volume of electricity consumed is determined according to the data of the previous month which is multiplied by the tariff.

6. PROPERTY, PLANT AND EQUIPMENT

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

Cost	Land, buildings and constructions	Machines and production equipment	Vehicles	Other	Construction in progress	Total
At 1 January 2009	**15,675,136**	**33,947,780**	**489,169**	**164,025**	**996,693**	**51,272,803**
Additions	53,305	228,977	5,768	41,236	4,507,369	4,836,655
Transfers from inventories	-	1,881	-	837	1,397,864	1,400,582
Internal transfers	301,449	3,487,940	-	1,037	(3,790,426)	-
Disposals	(89,228)	(61,790)	(21,728)	(29,460)	-	(202,206)
Revaluation	-	-	-	-	261,150	261,150
At 31 December 2009	**15,940,662**	**37,604,788**	**473,209**	**177,675**	**3,372,650**	**57,568,984**
Additions	37,105	423,662	4,198	30,452	4,809,565	5,304,982
Transfers from inventories	-	7,527	-	1,774	6,315,672	6,324,973
Internal transfers	120,356	2,722,846	797	(471)	(2,843,528)	-
Disposals	(85,849)	(372,311)	(49,333)	(19,846)	(21)	(527,360)
At 31 December 2010	**16,012,274**	**40,386,512**	**428,871**	**189,584**	**11,654,338**	**68,671,579**
Accumulated depreciation						
At 1 January 2009	**(745,089)**	**(1,787,779)**	**(61,532)**	**(29,161)**	**143**	**(2,623,418)**
Charge for the year	(651,810)	(1,919,514)	(58,213)	(31,105)	-	(2,660,642)
Disposals	46,424	18,212	6,916	5,142	-	76,694
At 31 December 2009	**(1,350,475)**	**(3,689,081)**	**(112,829)**	**(55,124)**	**143**	**(5,207,366)**
Charge for the year	(651,065)	(2,083,226)	(52,720)	(19,934)	-	(2,806,945)
Disposals	12,000	125,211	25,537	7,064	-	169,812
At 31 December 2010	**(1,989,540)**	**(5,647,096)**	**(140,012)**	**(67,994)**	**143**	**(7,844,499)**
Net book value						
At 31 December 2010	**14,022,734**	**34,739,416**	**288,859**	**121,590**	**11,654,481**	**60,827,080**
At 31 December 2009	**14,590,187**	**33,915,707**	**360,380**	**122,551**	**3,372,793**	**52,361,618**

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 at the stated date was determined by a comparing the depreciated replacement cost. Management believes that the results of the revaluation appropriately reflect the economic conditions of property, plant and equipment of the Group at that date.

(in thousands of Tenge)

The Group's management believes that at 31 December 2010 the carrying amount of property, plant and equipment does not differ significantly from the fair value.

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 2010	5,191,066	17,430,382	137,073	117,499	11,654,478	34,530,498
At 31 December 2009	6,323,238	17,388,327	103,789	123,163	3,372,793	27,311,310

For the years ended 31 December 2010 and 2009, the Group capitalized interest expenses and foreign exchange loss arising on loans in foreign currency, in the total amount of 160,357 thousand tenge and 385,555 thousand tenge, respectively.

As at 31 December 2010 construction in progress included costs of construction of ash disposal areas of 2,675,838 thousand tenge (2009: 1,307,400 thousand tenge).

As at 31 December 2010 and 2009 the net book value of pledged property, plant and equipment was equal to 20,222,216 thousand tenge and 20,011,023 thousand tenge, respectively (Notes 21 and 22).

As at 31 December 2010 and 2009 the fully depreciated property, plant and equipment at revalued cost amounted to 76,501 thousand tenge and 107,303 thousand tenge, respectively.

For the year ended 31 December 2010 and 2009 transactions with related parties amounted to 32,277 thousand tenge and 35,574 thousand tenge, respectively (Note 39).

7. GOODWILL

As at 31 December, the movement in goodwill consisted of the following:

	2010	2009
Cost		
At 1 January	2,424,419	2,424,431
Goodwill on disposed investments	-	(12)
At 31 December	2,424,419	2,424,419

(in thousands of Tenge)

The carrying amount of goodwill was allocated as follows:

	JSC PAVLODARENERGO	Astana-energosbyt LLP	Total
Goodwill recognized at 1 January 2009	1,687,153	737,278	2,424,431
Goodwill on disposed investments	(12)	-	(12)
Goodwill recognized at 31 December 2009	1,687,141	737,278	2,424,419
Goodwill recognized at 31 December 2010	1,687,141	737,278	2,424,419

As at 31 December 2010 and 2009, no impairment of goodwill was identified.

8. OTHER FINANCIAL ASSETS

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

	2010	2009
Other short-term financial assets	6,251,167	14,650,343
Other long-term financial assets	-	614,807
	6,251,167	15,265,150

As at 31 December 2010 and 2009 other financial assets represented deposits of 6,251,167 thousand tenge and 15,265,150 thousand tenge, respectively. Part of funds on deposits represented pledges for the fulfillment of obligations of the companies within the Group.

As at 31 December 2010 and 2009 the pledge funds on deposits amounted to 140,000 thousand tenge and 498,303 thousand tenge, respectively (Note 22). In 2010 the interest rates on deposits were 5.3%-13.25% (2009: 6.5%-11%).

As at 31 December 2009 a short-term deposit placed by JSC SEVKAZENERGO, the subsidiary, of 2,000,000 thousand tenge, served as a collateral for the loan from JSC Eximbank Kazakhstan, issued to SAEM-Snabtekhkomplekt LLP, not a related party of the Group.

In 2010 the Group recognized interest income totaling 1,255,993 thousand tenge (2009: 775,009 thousand tenge) (Note 36).

As at 31 December 2010, interest receivable amounted to 364,570 thousand tenge (31 December 2009: 566,276 thousand tenge). These receivables were recorded as current portion of other financial assets.

(in thousands of Tenge)

Deposits with banks as at 31 December were denominated in the following currencies:

	2010	2009
Tenge	5,860,387	12,291,185
US Dollar	390,780	2,973,965
	6,251,167	15,265,150

As at 31 December 2010 and 2009 the related party transactions amounted to 6,092,222 thousand tenge and 15,265,150 thousand tenge, respectively (Note 39).

9. FINANCIAL ASSETS HELD FOR TRADING

As at 31 December, financial assets held for trading consisted of the following:

	31 December 2010	31 December 2009
Bonds of JSC "BTA Bank Affiliate Mortgage Company "BTA Ipoteka"	995,491	-
	995,491	-

On 30 December 2010 the Group purchased 12,223,600 coupon bonds of JSC "BTA Bank Affiliate Mortgage Company "BTA Ipoteka". Profitability at the moment of purchase was 7.2%. The payment of the accrued coupon is made semiannually on 21 February and 21 August. These coupon bonds were sold in January 2011 (Note 42).

As at 31 December 2010, the financial assets held for trading were denominated in tenge.

10. OTHER NON-CURRENT ASSETS

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

	2010	2009
Advance paid for delivery of property, plant and equipment	5,194,569	4,459,871
Inventories to be used as a component for production of property, plant and equipment	107,082	107,887
	5,301,651	4,567,758

(in thousands of Tenge)

11. INVENTORIES

As at 31 December, inventories consisted of the following:

	2010	2009
Raw materials	733,236	588,196
Spare parts	493,612	303,915
Fuel	228,282	311,815
Rolled metal products	147,875	56,026
Construction materials	38,879	61,961
Tools and metering devices	31,704	25,494
Chemicals	33,237	16,597
Uniforms	20,031	17,571
Isolating materials	27,948	11,236
Other	306,442	189,314
	2,061,246	1,582,125
Provision for obsolete inventories	(60,027)	(48,482)
	2,001,219	1,533,643

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

	2010	2009
At 1 January	(48,482)	(55,653)
(Accrued)/reversed	(11,545)	7,171
At 31 December	(60,027)	(48,482)

During 2010, the related party transactions amounted to 2,891 thousand tenge (2009: 494 thousand tenge) (Note 39).

12. TRADE ACCOUNTS RECEIVABLE

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

	2010	2009
Sale and transmission of electricity and heat	7,634,841	6,722,829
Sale of inventories and provision of other services	346,040	92,233
Other	46,618	42,453
	8,027,499	6,857,515
Provision for doubtful debts	(1,974,988)	(1,322,491)
	6,052,511	5,535,024

(in thousands of Tenge)

The Group believes that trade accounts receivable less provision will be recovered, since it conducts procedures on recovery of trade accounts receivable through hiring independent lawyers. The Group believes that sufficient provision was created on receivables from the third parties. The Group determines the collectability of accounts receivable based on the terms existing as at the reporting date.

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

	2010	2009
At 1 January	(1,322,491)	(1,156,416)
Accrued	(1,075,990)	(290,034)
Write-off against previously created provision	423,493	123,959
At 31 December	(1,974,988)	(1,322,491)

Trade accounts receivable as at 31 December 2010 and 2009 were denominated in the following currencies:

	31 December 2010	31 December 2009
Tenge	6,041,630	5,530,134
Russian ruble	10,881	4,890
	6,052,511	5,535,024

As at 31 December 2010 and 2009 trade accounts receivable from related parties amounted to 1,414 thousand tenge and 128 thousand tenge, respectively (Note 39).

13. ADVANCE PAID

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

	2010	2009
For services	1,178,351	895,014
For goods	834,159	189,438
Other	43,464	3,618
	2,055,974	1,088,070
Provision for doubtful debts	(264,490)	(196,145)
	1,791,484	891,925

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

	2010	2009
At 1 January	(196,145)	(61,295)
Accrued	(68,345)	(134,850)
At 31 December	(264,490)	(196,145)

As at 31 December 2010 and 2009 advances paid to related parties amounted to 225,400 thousand tenge and 205,725 thousand tenge, respectively (Note 39).

(in thousands of Tenge)

14. TAXES RECEIVABLE AND PREPAID TAXES

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

	2010	2009
Value added tax	254,943	32,885
Withholding tax	16,446	24,488
Property tax	12,935	44,485
Other	2,122	5,967
	286,446	107,825

15. OTHER ACCOUNTS RECEIVABLE

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

	2010	2009
Interest-free loan	2,175,390	2,232,779
Receivables on court proceedings	243,238	162,309
Accrued penalties	116,588	376,098
Receivables from employees and shortages	24,599	57,823
Other	366,383	235,041
	2,926,198	3,064,050
Provision for doubtful debts	(152,501)	(123,035)
	2,773,697	2,941,015

As at 31 December 2010, the interest-free loan included interest-free financial aid in amount of 2,046,275 thousand tenge issued to the ultimate shareholder, JSC CAPEC (Note 39) (2009: 2,192,409 thousand tenge). The Group recorded the interest-free financial aid at the amortized cost using the effective interest rate of 12.5% (2009: 12.5%). As a result, the Group recognized in equity the fair value adjustment of 243,999 thousand tenge less deferred income tax of 48,800 thousand tenge (2009: 257,714 thousand tenge less deferred income tax of 51,543 thousand tenge). For the year ended 31 December 2010 the Group recognized interest income of 256,956 thousand tenge (2009: 297,438 thousand tenge) (Note 36).

As at 31 December 2010 the interest-free loan included a loan in amount of 129,115 thousand tenge, issued to Aksar-Pavlodar LLP, which is not a related party of the Group. The loan was granted in order to assist in the development of the social sphere of the Pavlodar region.

As at 31 December 2010 and 2009, the accrued penalties of 116,588 thousand tenge and 376,098 thousand tenge, respectively, represented penalties imposed on JSC Centrkazenergomontazh, Sredenergomontazh Pavlodar LLP, Institut Kaznipienergoprom LLP and individuals for the late fulfillment of the terms of the contracts for delivery of materials, construction work and acquisition of heat and electricity.

(in thousands of Tenge)

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

	2010	2009
At 1 January	(123,035)	(96,960)
Written off against the provision	3,081	-
Accrued	(32,547)	(26,075)
At 31 December	(152,501)	(123,035)

As at 31 December 2010 and 2009 other accounts receivable were denominated in tenge.

As at 31 December 2010 and 2009 other accounts receivable from related parties were 2,110,485 thousand tenge and 2,218,506 thousand tenge, respectively (Note 39).

16. CASH

As at 31 December, cash consisted of the following:

	2010	2009
Cash in bank accounts	4,843,264	893,598
Petty cash	176,535	106,836
	5,019,799	1,000,434

As at 31 December 2010 and 2009, cash in the bank of the related party amounted to 4,656,259 thousand tenge and 805,419 thousand tenge, respectively (Note 39).

As at 31 December 2010 and 2009, cash were denominated in tenge.

17. SHARE CAPITAL

As at 31 December, share capital consisted of the following:

	2010		2009	
	Interest	000'tenge	Interest	000'tenge
JSC CAPEC	75.12%	21,035,623	75.12%	21,035,623
EBRD	24.88%	9,266,921	24.88%	9,266,921
	100%	30,302,544	100%	30,302,544

In 2009 the Company entered into a subscription agreement with EBRD whereby EBRD acquired 24.88% shares in the Company amounting to 6,967,087 shares of 9,266,921 thousand tenge at 1,330 tenge each.

In 2010 the shareholders of the Group declared dividends for 540,562 thousand tenge on results of 2009, dividends on results of 2008 were neither declared not paid.

18. ADDITIONAL PAID-IN CAPITAL

As at 31 December 2010 and 2009, the additional paid-in capital of 1,348,105 thousand tenge and 1,443,622 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 minimum value of discounted lease payments under this lease. During the finance lease the founder transferred part of the property, plant and equipment under the agreement into the share capital of the Group, and the additional paid-in capital was adjusted accordingly;
- 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 the interest-free loans issued to JSC CAPEC.

19. NON-CONTROLLING INTERESTS

During 2010 the subsidiary, JSC PAVLODARENERGO, bought out remaining 901,738 shares of JSC Pavlodar Regional Electric Distribution Network Company for the amount of 1,187,727 thousand tenge, which amounted to 8.1% of the total outstanding shares. As a result, as at 31 December 2010 non-controlling interest of JSC Pavlodar Electric Distribution Company was nil. As at 31 December 2009, the non-controlling interests represented interests in JSC Pavlodar Regional Distribution Network Company amounted to 475,667 thousand tenge.

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.

(in thousands of Tenge)

In December 2009 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 12.5%, semi-annual coupon payments and maturity of 10 years. On 14 May 2010, within this bond loan the Group placed 19,999,900 coupon bonds.

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

Bonds placed at the price	Maturity date	Interest rate, per annum	31 December 2010	31 December 2009
100.00%	24 December 2010	9%-10.08%	500,000	500,000
99.99%	24 December 2010	9%-10.08%	408,660	408,660
99.97%	24 December 2010	9%-10.08%	500,000	500,000
98.10%	24 December 2010	9%-10.08%	500,000	500,000
98.19%	24 December 2010	9%-10.08%	19,980	19,980
96.51%	24 December 2010	9%-10.08%	5,120	5,120
96.52%	24 December 2010	9%-10.08%	10,230	10,230
94.84%	24 December 2010	9%-10.08%	30,000	30,000
99.04%	24 December 2010	10.08%	2,830	-
97.53%	24 December 2010	9%-10.08%	1,860	1,860
98.18%	24 December 2010	9%-10.08%	2,020	2,020
76.05%	10 July 2017	9.8%-13%	1,902,320	1,902,320
96.22%	10 July 2017	9.8%-13%	1,499,900	1,499,900
101.24%	10 July 2017	9.8%-13%	500,000	500,000
105.47%	10 July 2017	9.8%-13%	948,000	948,000
86.31%	10 July 2017	9.8%-13%	1,159,000	1,159,000
82.55%	10 July 2017	9.8%-13%	840,500	840,500
87.39%	10 July 2017	9.8%-13%	549,900	550,000
76.63%	10 July 2017	9.8%-13%	502,000	502,000
99.96%	1 October 2020	12.5%	1,999,990	-
			11,882,310	9,879,590
Including/(excluding):				
(Discount on bonds issued)			(324,275)	(415,521)
Accumulated interest on bonds issued			503,226	451,961
(Repurchase of bonds issued)			(1,007,541)	(1,007,352)
			11,053,720	8,908,678
Less: current portion of bonds issued			(2,142,081)	(2,083,525)
			8,911,639	6,825,153

The bonds issued are repaid as follows:

	2010	2009
After five years	8,911,639	6,825,153
	8,911,639	6,825,153

As at 31 December 2010 due to maturity of bonds for 1,638,855 thousand tenge and accumulated interest payable of 503,226 thousand tenge were recorded within the current portion of bonds issued (31 December 2009: 1,631,564 thousand tenge and 451,961 thousand tenge, respectively).

(in thousands of Tenge)

21. LONG-TERM LOANS

As at 31 December, loans consisted of the following:

	Interest rate %	Currency	2010	Interest rate %	Currency	2009
(a) JSC European Bank of Reconstruction and Development	Libor + 3%	US Dollars	4,422,000	Libor + 3%	US Dollars	4,450,800
(b) JSC SB Sberbank Russia	11%	Tenge	3,365,600	12.5%	Tenge	4,905,280
(c) JSC Eximbank Kazakhstan	17%	Tenge	337,508	14%-16%	Tenge	310,381
Interest payable			124,202			207,758
Less: unamortized part of lump- sum commission			(31,742)			(36,276)
Total			8,217,568			9,837,943
Less: current portion of long-term loan			(1,239,056)			(1,147,161)
			6,978,512			8,690,782

(a) On 29 November 2007 the Group concluded an agreement with European Bank of Reconstruction and Development for the loan totaling 30,000,000 USD with maturity in 2017. The loan is repaid by annual payments, starting from 2011, interest on the loan is paid twice a year, on 8 March and on 7 September.

As at 31 December 2010 property, plant and equipment with net book value of 7,971,526 thousand tenge (31 December 2009: 8,091,645 thousand tenge) were pledged as a collateral under this loan (Note 6).

(b) On 1 October 2008 the Group concluded agreement #01/10 on opening of a revolving credit line with JSC SB Sberbank totaling 6,111,839 thousand tenge, with maturity in 2015. The loan is repaid quarterly, starting from 2012, interest on the loan is paid on a quarterly basis. The loan was received based on the decision of the founders for refinancing the debt of JSC CAPEC. On 26 October 2010 the Group concluded an additional agreement to agreement #01/10 whereby the credit limit was reduced to 3,365,600 thousand tenge. On 14 December 2010 the Group concluded additional agreement to agreement #01/10 whereby the credit limit was increased to 4,900,000 thousand tenge and the interest rate was reduced from 12% to 11% per annum from the amount of the loan.

As at 31 December 2010 property, plant and equipment with net book value of 12,228,698 thousand tenge (31 December 2009: 11,919,378 thousand tenge) were provided as a security on this loan (Note 6).

(c) On 15 May 2009 the Group opened a credit line with JSC Eximbank Kazakshtan for replenishment of working capital totaling 400,000 thousand tenge, with maturity in 2012. Within this credit line in 2010 the Group received 242,170 thousand tenge and paid 153,233 thousand tenge. On 1 April 2010 the Group concluded additional agreement for increase in interest to 17% per annum. Under the loan agreement the principal is repaid since October to April (from May to September, the principal is not repaid), interest on the loan is paid on a monthly basis.

(in thousands of Tenge)

The loans are repayable as follows:

	2010	2009
In the second to the fifth years inclusive	6,346,797	5,037,056
After five years	631,715	3,653,726
	6,978,512	8,690,782

As at 31 December 2010 and 2009 loans from the bank of a related party were 4,811,679 thousand tenge and 4,815,649 thousand tenge, respectively (Note 39).

22. SHORT-TERM LOANS

As at 31 December, loans consisted of the following:

	Interest rate %	Currency	2010	2009
(a) JSC SB Sberbank Russia	12-12.5%	Tenge	4,017,844	2,387,292
(b) JSC Halyk Bank Kazakhstan	12.5%	Tenge	300,000	300,000
(c) JSC Eximbank Kazakhstan	17%	Tenge	20,000	-
			4,337,844	2,687,292
Interest payable			45,619	21,256
Total			4,383,463	2,708,548

(a) On 27 June 2008 the Group opened a credit line with JSC SB Sberbank Russia for the total of 2,414,800 thousand tenge with maturity on 27 June 2011 and at interest rate of 12% per annum. On 26 October 2010 the Group concluded additional agreement whereby the credit line was increased to 3,414,800 thousand tenge, extended the term of the credit line to 27 June 2014, reduced the interest rate to 11% per annum. Interest on the loan is payable on a monthly basis.

On 25 June 2010 the Group opened a credit line with JSC SB Sberbank Russia for the total of 500,000 thousand tenge with maturity before 25 June 2013. The interest rate on the loan is 12% per annum. Interest on the loan is payable on a monthly basis.

(b) On 23 June 2009 the Group opened a credit line with JSC Halyk Bank Kazakhstan totaling 300,000 thousand tenge with maturity on 23 April 2010. In June 2010 an additional agreement was concluded on extension of the credit line until 23 June 2011. Interest on the loan is payable on a monthly basis.

As at 31 December 2010 the property, plant and equipment with net book value of 21,992 thousand tenge were pledged as a collateral under this loan (Note 6), claim to receive cash under public service agreements and incoming cash transfers on subsidiary's account limited to the amount of the loan also were provided as a loan security.

(in thousands of Tenge)

(c) On 28 August 2008 the Group opened a credit line with JSC Eximbank Kazakhstan, related party, totaling 300,000 thousand tenge with effective period of not more than 90 days from the date of signing of each agreement on provision of an overdraft. The interest rate on the agreement was 16% per annum. On 24 March 2009 an additional agreement was concluded on extension of the credit line until 29 September 2012. As at 31 December 2010 the Group fully repaid obligations on this credit line.

On 8 August 2008 the Group opened a credit line totaling 250,000 thousand tenge with JSC Eximbank, related party, with maturity on 8 August 2011. Within this agreement, the Group received 271,250 thousand tenge in 2010 and during 2010 the Group paid 251,250 thousand tenge. Interest on the loan is payable on a monthly basis.

As at 31 December 2010 and 2009 the Group provided cash of 140,000 thousand tenge and 498,303 thousand tenge, respectively, as a collateral for loans from JSC Eximbank Kazakhstan (Note 8). On 5 January 2011 the Group concluded an agreement on canceling the cash security agreement in connection with full repayment of the loan.

As at 31 December 2010 and 2009 the loans from the bank of a related party amounted to 20,000 thousand tenge and nil, respectively (Note 39).

23. DEFERRED REVENUE

As at 31 December 2010 and 2009, deferred revenue of 262,238 thousand tenge and 278,517 thousand tenge, respectively, represent an adjustment of guarantee fees for additional capacity decreased by accrued interest income for 2010 of 13,606 thousand tenge (2009: 13,267 thousand tenge) (Note 36) and the effect of change in estimates in 2009 by 80 thousand tenge.

24. LONG-TERM ACCOUNTS PAYABLE

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

	2010	2009
Guarantee fees for additional capacity	389,958	393,768
Discount on guarantee fees for additional capacity	(266,394)	(281,454)
Current portion of guarantee fees for additional capacity (Note 29)	(11,195)	(3,195)
	112,369	109,119

The Group received cash of 556,032 thousand tenge from customers as a guarantee fees additional capacity. As per decree of the Government of the Republic of Kazakhstan #1044 dated 8 October 2004 the Group has to repay received cash during 16-25 years, starting from the 37th month after the receipt of the guarantee fees. The Group records these liabilities at amortized cost using effective interest rate of 12.5%-14.4%. As at 31 December 2010 the Group recognized fair value adjustment of 262,238 thousand tenge (2009: 278,517 thousand tenge) as deferred income with amortization period during 19-28 years.

(in thousands of Tenge)

As a result of a change in 2008 in payment for one unit of additional capacity for electricity from 54,900 tenge to 26,273 tenge, the Group reclassified part of received guarantee fees amount to be reimbursed as other accounts payable. As at 31 December 2010 the liability on return of the guarantee fees for additional capacity amounted to 72,288 thousand tenge (2009: 106,269 thousand tenge), which is recorded within other liabilities (Note 29).

The amortization of the discount for the years ended 31 December 2010 and 2009 was recognized within finance costs of 9,887 thousand tenge and 12,147 thousand tenge, respectively (Note 35).

25. ASH DISPOSAL AREA RESTORATION LIABILITIES

For production purposes the Group uses six ash disposal areas. At the end of the useful life these ash disposal areas should be restored. As at 31 December 2010 and 2009 the Group evaluated the total ash disposal area restoration liability at amortized cost of 207,051 thousand tenge and 128,685 thousand tenge, respectively. This liability was discounted at effective interest rate of 12%-14% (2009: 12%-14%), which represents a market financing rate for the Group.

In 2010 and 2009 the Group recognized interest expenses relating to the ash disposal area restoration liability of 18,913 thousand tenge and 15,652 thousand tenge, respectively (Note 35).

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

	2010	2009
At 1 January	128,685	194,167
Finance cost (Note 35)	18,913	15,652
Restored during the year	(13,685)	(11,080)
Change in estimate (Notes 5 and 35)	73,138	(70,054)
At 31 December	207,051	128,685
Current portion	20,661	11,080
Long-term portion	186,390	117,605
	207,051	128,685

26. TRADE ACCOUNTS PAYABLE

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

	2010	2009
For provided services	3,703,966	3,802,511
For purchased goods	518,921	578,357
For repairs and construction services	234,048	76,985
For property, plant and equipment	379	33,924
Other	21,591	8,778
	4,478,905	4,500,555

(in thousands of Tenge)

As at 31 December 2010 and 2009, trade accounts payable were denominated in the following currencies:

	2010	2009
Tenge	4,436,362	4,500,507
Russian ruble	2,631	48
US Dollars	39,912	-
	4,478,905	4,500,555

As at 31 December 2010 and 2009, trade accounts payable to related parties amounted to 42,641 thousand tenge and 11,293 thousand tenge, respectively (Note 39).

27. ADVANCES RECEIVED

As at 31 December 2010 and 2009 advances received on 1,674,692 thousand tenge and 1,351,699 thousand tenge, respectively, included advances received for delivery of electricity and heat and other services.

28. TAXES AND NON-BUDGET PAYMENTS PAYABLE

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

	2010	2009
Value added tax	170,529	273,583
Environmental tax	165,690	126,119
Personal income tax	51,088	41,940
Social tax	28,899	19,647
Social security liabilities	19,800	6,838
Property tax	4,572	17,469
Non-resident income tax	208	-
Penalties and fines	-	67,295
Other	904	9,149
	441,690	562,040

29. OTHER LIABILITIES AND ACCRUED EXPENSES

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

	2010	2009
Payables to the personnel	238,563	218,412
Provisions for unused vacations	126,183	115,843
Penalties for non-fulfillment of the terms of agreements	109,165	9,191
Guarantee fees for additional capacity to be reimbursed (Note 24)	72,288	106,269
Pension contributions	65,412	61,745
Voluntary pension contributions	11,579	13,356
Current portion of guarantee fees for additional capacity (Note 24)	11,195	3,195
Other	256,657	38,540
	891,042	566,551

(in thousands of Tenge)

As at 31 December 2010 and 2009 other liabilities and accrued expenses to related parties were equal to 3,150 thousand tenge and nil tenge, respectively (Note 39).

30. EMPLOYEE BENEFIT OBLIGATIONS

As at 31 December 2010 and 2009, the Group concluded collective agreements with the labor union of JSC PAVLODARENERGO (including its subsidiaries) and JSC SEVKAZENERGO (including its subsidiaries).

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

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

	2010	2009
Current portion of short-term liability	6,910	5,773
Current portion of long-term liability	68,367	62,571
	75,277	68,344

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

	2010	2009
Total liabilities at the beginning of the year	68,344	79,964
Current service costs	7,831	16,804
Interest cost	4,872	7,546
Payments for the year	(11,205)	(8,321)
Actuarial loss/(gain) recognized for the year	5,435	(27,649)
Total liabilities at the end of the year	75,277	68,344
Liability that matures during the year	(6,910)	(5,773)
Liability that matures after one year	68,367	62,571

The current service cost, interest cost and actuarial loss were recognized in other expenses of cost of sales and general and administrative expenses in the amount of 5,996 thousand tenge and 12,142 thousand tenge (2009: 125 thousand tenge and 6,152 thousand tenge, respectively).

The calculations of the obligations 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 of the Group, and statistics on changes in the quantity of personnel. Other main assumptions at the reporting date are presented below:

	2010	2009
Discount rate	7.87%	7.13%
Expected annual growth of the minimum computation index	7.00%	7.00%
Expected annual growth of the minimum salary in the future	9-10%	9-10%

(in thousands of Tenge)

31. REVENUE

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

	2010	2009
Sale of electricity	33,049,491	23,612,023
Sale of heat	12,428,069	11,132,829
Transmission of electricity	6,008,770	5,752,976
Transmission of heat	3,400,639	3,183,052
Other	186,864	260,970
	55,073,833	43,941,850

In 2010 and 2009 revenue from related party transactions amounted to 236 thousand tenge and 299 thousand tenge, respectively (Note 39).

32. COST OF SALES

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

	2010	2009
Electricity and heat acquired for sale	18,785,792	14,536,341
Fuel	8,456,188	6,931,279
Payroll and related taxes	4,261,569	3,681,412
Services received	3,604,637	3,336,305
Inventories	2,814,748	2,546,224
Depreciation and amortization	2,658,242	2,491,840
Transmission of heat and electricity	300,016	1,533,402
Technical water (injection)	419,658	392,487
Electricity and heat acquired for own use	40,114	50,644
Technical losses	15,815	11,379
Other	822,209	563,912
	42,178,988	36,075,225

In 2010 and 2009 cost of sales from related party transactions amounted to nil and 78,340 thousand tenge, respectively (Note 39).

(in thousands of Tenge)

33. GENERAL AND ADMINISTRATIVE EXPENSES

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

	2010	2009
Payroll and related taxes	1,328,103	1,116,400
Provision for doubtful debts (Notes 12,13 and 15)	1,176,882	450,959
Taxes, other than income tax	590,008	469,890
Consulting services	292,283	88,379
Overnormative losses of electricity	249,660	108,494
Rent expenses	143,366	141,627
Communication expenses	131,471	26,751
VAT on losses	122,738	89,680
Security	108,190	101,540
Inventories	104,961	91,274
Bank commission	93,722	72,487
Depreciation and amortization	91,319	75,851
Sponsorship and financial aid	66,248	12,929
Transportation services	62,882	139,652
Remuneration of the board of directors members	61,695	49,340
Business trip expenses	61,061	23,606
Legal and audit services	59,913	41,776
Electricity acquired for own needs	19,032	29,651
Insurance	14,458	9,185
Provision for unused vacation	10,340	6,332
(Accrual)/recovery of provision for obsolete inventories (Note11)	11,545	(7,171)
Penalties and fines	7,639	191,957
Overnormative losses of heat	-	248,096
Other	487,321	316,877
	5,294,837	3,895,562

The overnormative losses of electricity and heat represent the cost of produced electricity and heat lost during transmission through heat and electric grids due to thefts or other reasons.

In 2010 and 2009 the related party transactions amounted to 203,171 thousand tenge and 60,850 thousand tenge, respectively (Note 39).

(in thousands of Tenge)

34. SELLING EXPENSES

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

	2010	2009
Payroll and related taxes	300,866	270,636
Dispatcher services	269,956	179,647
Transportation	131,775	119,095
Bank commission	81,034	69,181
Inventories	25,346	19,157
Security	18,920	17,431
Rent expenses	18,210	10,309
Depreciation and amortization	16,605	14,737
Communication services	8,317	6,370
Business trip expenses	3,517	4,648
Other	41,144	90,305
	915,690	801,516

In 2010 and 2009 the related party transactions amounted to 7,986 thousand tenge and 7,821 thousand tenge, respectively (Note 39).

35. FINANCE COSTS

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

	2010	2009
Interest expenses relating to bonds issued	908,729	650,779
Interest expenses relating to bank loans	846,235	1,120,966
Amortization of the discount on bonds	89,999	41,238
Change in estimate on ash disposal area restoration	78,317	(63,038)
Interest expenses relating to ash disposal area restoration liabilities (Note 25)	18,913	15,652
Interest expenses on guarantee fees (Note 24)	9,887	12,147
	1,952,080	1,777,744

In 2010 and 2009 the related party transactions amounted to 237,310 thousand tenge and 171,244 thousand tenge, respectively (Note 39).

(in thousands of Tenge)

36. INTEREST INCOME

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

	2010	2009
Interest income from cash placed on the deposit with maturity for less than one year (Note 8)	930,209	441,461
Interest income from cash placed on the deposit for more than one year (Note 8)	325,784	333,548
Interest income on financial aid to JSC CAPEC (Note 15)	256,956	297,438
Interest income on guarantee fees (Note 23)	13,606	13,267
	1,526,555	1,085,714

In 2010 and 2009 the related party transactions amounted to 1,511,754 thousand tenge and 1,072,447 thousand tenge, respectively (Note 39).

37. OTHER INCOME

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

	2010	2009
Income from penalties for incompliance with the terms of the contract	302,273	562,713
Income from sale of inventories	83,980	32,444
Rent income	71,170	93,508
Income from write-off of accounts payable	51,272	27,997
Income from inventories found during stock count	36,120	64,528
Rent expenses	(32,000)	(54,178)
Expenses on depreciation of property, plant and equipment transferred to operating lease	(46,347)	(46,857)
Other income	101,275	51,068
	567,743	731,223

Penalties and fines consist of charged penalties for incompliance of customers with the terms of the contracts for delivery of heat and electricity. During 2010 and 2009 the Group accrued penalties and fines mainly on Sredazenergomontazh LLP, JSC Tsentrkazenergomontazh and Institut Kaznipienergoprom LLP for incompliance with the terms of the contract.
In 2010 and 2009 the Group incurred other income/(expenses) from related party transactions on 26,042 thousand tenge and (50,585) thousand tenge, respectively (Note 39).

(in thousands of Tenge)

38. INCOME TAX

Companies incorporated in the Republic of Kazakhstan pay income tax from the taxable profit according to the legislation of the Republic of Kazakhstan. In 2010 and 2009 the income tax rate was 20%. In 2009 new tax legislation provided for reduction in the rate to 17.5% in 2013 to 15% in 2014 and subsequent years. However during 2010 there were changes and the rate was set at 20% from 1 January 2011 and for subsequent years.

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

	2010	2009
Current income tax expense	486,173	374,346
Deferred income tax expense	2,258,979	974,927
Income tax expense	2,745,152	1,349,273

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

Deferred tax assets as a result of:	2010	2009
Loss carry-forward	156,500	110,345
Provision for doubtful debts	151,192	81,208
Taxes accrued but unpaid	57,412	32,938
Discount on interest-free loan provided to JSC CAPEC	15,972	28,727
Ash disposal area restoration liabilities	41,410	19,472
Provision for obsolete inventories	7,340	9,638
Provision for unused vacations	32,249	20,976
Deferred revenue	-	13,545
Interest expenses on guarantee fees for additional capacity	19,639	676
Employee benefits obligations	3,306	-
Other temporary differences	11,994	4,301
Total deferred tax assets	497,014	321,826

(in thousands of Tenge)

Deferred tax liabilities as a result of:	**2010**	**2009**
Revaluation of property, plant and equipment	(2,572,519)	(3,828,879)
Carrying value of property, plant and equipment and intangible assets prior to revaluation	(6,453,302)	(2,361,875)
Long-term accounts payable	(13,791)	(13,545)
Interest income on guarantee fees for additional capacity	(26,621)	(837)
Other temporary differences	-	(31,587)
Total deferred tax liabilities	(9,066,233)	(6,236,723)
Deferred tax liabilities, net including:	(8,569,219)	(5,914,897)
Deferred tax liabilities	(8,689,563)	(5,965,749)
Deferred tax assets	120,344	50,852

Unrecognized deferred tax assets and liabilities:	**2010**	**2009**
Loss carry-forward	80,173	150,955
Provision for doubtful debts	34,609	9,780
Interest expenses on guarantee fees for additional capacity	-	20,104
Other temporary differences	480	3,221
	115,262	184,060
Carrying value of property, plant and equipment	(3,860)	(20,843)
Interest income on guarantee fees for additional capacity	-	(26,943)
	(3,860)	(47,786)
Deferred tax assets, net	111,402	136,274

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

	2010	**2009**
Balance at 1 January	(5,914,897)	(5,067,546)
Increase in deferred tax liabilities	(2,654,322)	(847,351)
Balance at 31 December	(8,569,219)	(5,914,897)
Recorded:		
In profit or loss	(2,258,979)	(974,927)
In other comprehensive income	(444,143)	76,033
In consolidated statement of changes in equity	48,800	52,543
	(2,654,322)	(847,351)

(in thousands of Tenge)

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

	2010	2009
Profit before taxation	6,751,233	3,151,146
Tax at statutory rate of 20%	1,350,247	630,229
Change in unrecognized tax assets	(24,872)	145,793
Unused tax losses of previous years, recognized as deferred tax assets in the reporting year	(21,750)	-
Overnormative losses	64,233	66,443
Effect of change in tax rate	986,725	118,364
Tax effect of permanent differences	390,569	388,444
Income tax expenses	2,745,152	1,349,273

39. RELATED PARTY TRANSACTIONS

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

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

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

In 2010 and 2009 the Group had significant transactions with the following related parties:

Acquisition of property, plant and equipment (Note 6)

	31 December 2010	31 December 2009
MacCenter Kazakhstan LLP	26,490	29,806
IPoint LLP	3,264	-
Enter-Unit LLP	2,523	-
JSC CAPEC	-	5,768
	32,277	35,574

Other financial assets (Note 8)

	31 December 2010	31 December 2009
Deposits of JSC Eximbank Kazakhstan with maturity less than one year	6,092,222	14,650,343
Deposits of JSC Eximbank Kazakhstan with maturity over one year	-	614,807
	6,092,222	15,265,150

(in thousands of Tenge)

Acquisition of inventories (Note 11)

	31 December 2010	31 December 2009
MacCenter Kazakhstan LLP	2,827	373
IPoint LLP	64	-
Enter-unit LLP	-	121
	2,891	494

Trade accounts receivable (Note 12)

	31 December 2010	31 December 2009
JSC Cumulative Pension Fund Amanat Kazakhstan	1,314	91
JSC CAPEC	91	7
Alash Service LLP	9	-
JSC Eximbank Kazakhstan	-	30
	1,414	128

Advances paid (Note 13)

	31 December 2010	31 December 2009
Energocomplect PV LLP	180,000	-
JSC CAPEC	41,099	-
IPoint LLP	3,360	-
MacCenter Kazakhstan LLP	941	2,659
JSC Cumulative Pension Fund Amanat Kazakhstan	-	203,066
	225,400	205,725

Other accounts receivable (Note 15)

	31 December 2010	31 December 2009
JSC CAPEC	2,046,275	2,192,409
Energocomplect PV LLP	64,210	25,647
Liability of key management personnel of the Group	-	450
	2,110,485	2,218,506

Cash (Note 16)

	31 December 2010	31 December 2009
JSC Eximbank Kazakhstan	4,656,259	805,419
	4,656,259	805,419

(in thousands of Tenge)

Loans (Notes 21 and 22)

	31 December 2010	31 December 2009
European Bank of Reconstruction and Development	4,471,780	4,503,584
JSC Eximbank Kazakhstan	359,899	312,065
	4,831,679	4,815,649

Trade accounts payable (Note 26)

	31 December 2010	31 December 2009
IPoint LLP	30,722	-
MacCenter Kazakhstan LLP	7,630	-
Enter-Unit LLP	2,595	-
JSC CAPEC	1,676	11,293
JSC Eximbank Kazakhstan	18	-
	42,641	11,293

Other accounts payable (Note 29)

	31 December 2010	31 December 2009
JSC CAPEC	3,100	-
JSC Eximbank Kazakhstan	50	-
	3,150	-

The following amounts arising as a result of related party transactions are included into the consolidated statement of comprehensive income for the years ended 31 December 2010 and 2009:

Revenue (Note 31)

	2010	2009
JSC CAPEC	195	53
JSC Eximbank Kazakhstan	41	246
	236	299

Cost of sales (Note 32)

	2010	2009
JSC CAPEC	-	78,340
	-	78,340

(in thousands of Tenge)

General and administrative expenses (Note 33)

	2010	2009
JSC CAPEC	112,226	15,656
IPoint LLP	39,909	-
JSC Eximbank Kazakhstan	39,368	15,025
MacCenter Kazakhstan LLP	9,351	1,510
Enter-Unit LLP	2,317	-
JSC JSRIF CAPEC Invest	-	28,659
	203,171	60,850

Selling expenses (Note 34)

	2010	2009
JSC Eximbank Kazakhstan	7,986	7,821
	7,986	7,821

Finance costs (Note 35)

	2010	2009
CJSC APF Ular Umit	156,944	-
JSC Eximbank Kazakhstan	80,366	171,244
	237,310	171,244

Interest income (Note 36)

	2010	2009
JSC Eximbank Kazakhstan	1,294,783	775,009
JSC CAPEC	216,971	297,438
	1,511,754	1,072,447

Other income (Note 37)

	2010	2009
Energokomplekt PV LLP	22,320	(6,100)
JSC Eximbank Kazakhstan	2,744	(45,230)
JSC Cumulative Pension Fund Amanat Kazakhstan	978	745
	26,042	(50,585)

Key personnel of the Group – In 2010 the compensation to the Board of Directors and other key personnel of the Group in the form of salary and bonuses amounted to 215,624 thousand tenge (2009: 139,546 thousand tenge).

(in thousands of Tenge)

40. FINANCIAL INSTRUMENTS, RISK MANAGEMENT POLICY AND ITS OBJECTIVES

The Group's major financial instruments are other financial assets, financial assets held for trading, cash, bank loans, bonds, 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 financial instruments.

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

	2010	2009
Financial assets		
Other financial assets (Note 8)	6,251,167	15,265,150
Trade accounts receivable (Note 12)	6,052,511	5,535,024
Other accounts receivable (Note 15)	2,739,167	2,928,096
Cash (Note 16)	5,019,799	1,000,434
Financial assets held for trading (Note 9)	995,941	-
Financial liabilities		
Bonds issued (Note 20)	11,053,720	8,908,678
Long-term loans (Note 21)	8,217,568	9,837,943
Short-term loans (Note 22)	4,383,463	2,708,548
Long-term accounts payable (Note 24)	112,369	109,119
Trade accounts payable (Note 26)	4,478,670	4,500,555
Other liabilities and accrued expenses (Note 29)	687,868	375,607

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 is provided below.

Interest rate risk – The Group is exposed to interest rate risk since the Group receives the loans with fixed and floating interest rates. The Group manages the risk by appropriate balancing of loans at floating and fixed interest rates.

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.

(in thousands of Tenge)

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

If interest rates on liabilities were 1% more/less and all the other variables remained constant, then the profit of the Group for the year ended 31 December 2010 would decrease/increase by 44,805 thousand tenge (2009: 32,469 thousand tenge), but these changes would be compensated by the Group by changing tariffs on services of the Group. It relates to the Group's exposure to interest rate risk on its loan with a floating interest rate.

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

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. 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 2010 and 2009 is as follows:

	Assets		Liabilities	
	2010 000'tenge	2009 000'tenge	2010 000'tenge	2009 000'tenge
US Dollars	390,780	2,973,965	4,511,692	4,503,584
Russian rubles	10,881	4,890	2,631	48

(in thousands of Tenge)

Foreign currency sensitivity analysis – The Group is mainly exposed to a risk related to changes in exchange rates of the US dollar. The Group also has deposits denominated in US dollars, which do not expose the Group to a significant risk related to changes in USD exchange rate.

The following table reflects the Group's sensitivity to 10% increase or decrease in the value of tenge with respect to foreign currencies. 10% – is sensitivity percentage used in preparation of internal reports on currency risk for key management and represents the management's evaluation of justifiably possible changes in exchange rates. The sensitivity analysis includes only unregulated cash positions in foreign currency and adjusts their transfer at the end of the period taking into account 10% of change in exchange rates. The sensitivity analysis includes borrowings and other financial assets of the Group denominated in the currency different from the currency of the creditor or borrower. The positive figure indicated below reflects the increase in profits and other equity items when the tenge rate against a respective currency strengthens by 10%. In case of weakening of the tenge rate against a respective currency by 10%, there will be an equal and opposite effect on profits and equity, and the amounts indicated below will be negative.

	Effect of US dollar	
	2010	2009
Financial assets	39,078	297,886
Financial liabilities	451,169	450,363

It mainly relates to the risk on loans and deposits of the Group denominated in US dollars as of 31 December 2010 and 2009.

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 risk 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.

(in thousands of Tenge)

The table on liquidity risk and interest rate risk as at 31 December 2010 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		6,052,511	-	-	1,974,988	8,027,499
Other accounts receivable		2,739,167	-	-	152,501	2,891,668
Cash		5,019,799	-	-	-	5,019,799
Long-term accounts payable		11,195	77,736	301,027	-	389,958
Trade accounts payable		4,478,670	-	-	-	4,478,670
Other liabilities and accrued expenses		687,868	-	-	-	687,868
Interest-bearing:						
Other financial assets	5.3-11%	6,627,125	-	-	-	6,627,125
Financial assets held for trading	7.2%	995,941	-	-	-	995,941
Bonds issued	8.1-12.5%	3,032,111	3,560,120	11,314,378	-	17,906,609
Long-term loans	11% Libor+3%	1,501,678	7,811,601	672,667	-	9,985,946
Short-term loans	12-14%	4,420,607	-	-	-	4,420,607

The table on liquidity risk and interest rate risk as at 31 December 2009 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		5,535,024	-	-	1,322,491	6,857,515
Other accounts receivable		2,928,096	-	-	123,035	3,051,131
Cash		1,000,434	-	-	-	1,000,434
Long-term accounts payable		1,657	72,184	319,927	-	393,768
Trade accounts payable		4,500,555	-	-	-	4,500,555
Other liabilities and accrued expenses		375,607	-	-	-	375,607
Interest-bearing:						
Other financial assets	6.5%-12%	15,645,238	680,022	-	-	16,325,260
Bonds issued	9%-13%	3,022,635	3,097,474	9,859,152	-	15,979,261
Loans	12.5%-16%	4,476,845	9,012,977	1,996,004	-	15,485,828

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, the Group uses assumptions in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument.

As at 31 December 2010 and 2009 the carrying value of all other financial assets and financial liabilities approximates their fair value.

41. COMMITMENTS AND CONTINGENCIES

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

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

In 2010 the Group repaid the liability on penalties and fines and paid taxes on time on due dates.

Environmental issues – The Group's management believes that at the moment the Group follows current environmental, health and safety laws and regulatory acts of the Republic of Kazakhstan. However, these laws and regulatory acts may change in future. The Group is unable to foresee the timing and degree of changes in the environmental, health and safety laws. In case of such changes the Group might be required to upgrade its technological equipment in order to meet more rigid requirements. In 2009 JSC PAVLODARENERGO, a subsidiary, introduced a system of ecological management according to the requirements of International Standard IOC 14001:2004.

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

Insurance – As at 31 December 2010 and 2009, JSC PAVLODARENEGO, a subsidiary, insured production complexes of TETS-2, TETS-3 and oxygen shop. The Group did not insure other property, plant and equipment. 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 set up in these consolidated financial statements.

Capital commitments – JSC PAVLODARENERGO, a subsidiary, developed and agreed with the Agency of the Republic of Kazakhstan on regulation of natural monopolies (the "Agency") the plan of capital investments for 2007-2013. Pursuant to this plan, JSC PAVLODARENERGO is to invest 8,000,000 thousand tenge into production assets. In 2009 JSC PAVLODARENERGO developed and agreed with the Agency and the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan additional investment program of reconstruction and technical upgrade for 2010-2015, whereby JSC PAVLODARENERGO is to invest 21,769,470 thousand tenge into production assets. In October 2008 JSC Pavlodar Regional Electric Distribution Network Company, a subsidiary of JSC PAVLODARENERGO, agreed with the Agency the investment program for 2009-2013, whereby the subsidiary plans to invest approximately 3,957,000 thousand tenge. The Group has no obligations in case of a failure to fulfill this program.

On 20 December 2010 the Ministry of Industry and New Technologies of the Republic of Kazakhstan and JSC SEVKAZENERGO, a subsidiary, concluded an agreement on investment obligations of JSC SEVKAZENERGO for 2011, whereby the tariff for production of electricity from 1 January 2011 was increased by 14.6 % and amounted to 4.8 tenge. Under this agreement JSC SEVKAZENERGO is to invest 3,550,461 thousand tenge into construction, upgrade and acquisition of property, plant and equipment to the end of 2011 (2009: 2,011,000 thousand tenge).

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

Agreement with the European Bank of Reconstruction and Development – In 2009 the Company concluded an agreement on subscription with the EBRD, whereby EBRD acquired 24.88% shares of the Company (Note 17). Pursuant to the terms of the agreement the Group is to meet a number of terms. Management of the Group believes that as at 31 December 2010 the Group did not violate any terms of the agreement and met all the requirements.

42. SUBSEQUENT EVENTS

On 5 January 2011 JSC Pavlodar Electricity Distribution Company, a subsidiary of JSC PAVLODARENERGO, terminated the contract for cash pledge #02Dog/79/09 number of JSC Eximbank Kazakhstan in the amount of 140,000 thousand tenge for the repayment of the bond issue.

In the beginning of January 2011 JSC Pavlodar Electricity Distribution Company, a subsidiary of JSC PAVLODARENERGO, fully repaid the bond loan.

On January 19 and 24, 2011 the Company sold bonds of JSC "BTA Bank Affiliate Mortgage Copmany "BTA Ipoteka" for 1,016,887 thousand tenge (Note 9).

On 28 January 2011 JSC Energocentr, a subsidiary of JSC PAVLODARENERGO, received a bank loan of 100,000 thousand tenge, under agreement for credit line # 8-2009 of 23 June 2009 with JSC National Bank of Kazakhstan. During the first quarter of 2011 JSC Energocentr repaid the debt within the same credit line amounting to 400,000 thousand tenge.

Since 1 January 2011 JSC Pavlodarenergo, a subsidiary, has agreed the increase in tariffs:

- For production of heat energy for 2011:

a) for TETS-2 on average from 1,299.50 tenge/Gcal to 1,408.42 tenge/Gcal excluding VAT, i.e. by 8%;
b) for TETS-2 on average from 1,157.7 tenge/Gcal to 1,336.75 tenge/Gcal excluding VAT, i.e. by 15%;

- JSC Pavlodar Regional Electric Distribution Company, a subsidiary of JSC PAVLODARENERGO, has agreed to increase maximum tariff for the services on transmission and distribution of electricity for 2011-2012 from 1.77 tenge to 2.17 tenge excluding VAT, i.e. by 23%;
- JSC Energocentr, a subsidiary of JSC PAVLODARENERGO, has agreed to increase tariffs to supply heat and electricity for 2011, on average by 8% and 13%, respectively;

- JSC Pavlodar Thermal Network, a subsidiary of JSC PAVLODARENERGO, has agreed to increase the tariff for services of transmission and distribution of heat energy for 2011, on average by 2.4%;
- According to Government Decree #392 dated 25 March 2009 JSC PAVLODARENERGO, a subsidiary, increased the maximum tariff for sale of electricity for TETS-2 TETS-3 and Ekibastuz TETS for 2011 from 4.94 tenge/kWh to 5.4 tenge/kWh, excluding VAT, i.e. by 9.3%.

From 1 January 2010 Astanaenergosbyt LLP, a subsidiary, has agreed with Agency for Regulation of Natural Monopolies the increase in the tariff for the sale of heat and electricity by 5% and 16%, respectively.

In 2011 JSC SEVKAZENERGO, a subsidiary, received short-term borrowings under the credit line with the JSC SB Sberbank of 1,657,700 thousand tenge at an interest rate of 12% per annum. Under the credit line with JSC Eximbank Kazakhstan, the subsidiary received loans totaling 90,000 thousand tenge.

On 26 March 2011 Petropavlovsk Heat Network LLP, a subsidiary of JSC SEVKAZENERGO, and JSC Pavlodar Thermal Networks, a subsidiary of JSC PAVLODARENERGO, signed a loan agreement with EBRD. Under concluded loan agreement 4,440,000 thousand tenge and 10,000 thousand US dollars is planned to be allocated from funds of EBRD and Clean Technology Fund, respectively. The purpose of the loan is financing of the project of restoration and modernization of networks of the centralized heat supply of the Group, increasing of efficiency of use of energy, decreasing in losses and improvement of ecological standards. The Company acts as a guarantor under the given loan.
On 5 January 2011 the Company placed a deposit with JSC Eximbank Kazakhstan in the amount of 2,829,000 thousand tenge at interest rate of 13.25%.

On 12 April 2011 the Company signed an agreement with the Islamic Infrastructure Fund on placing of common shares of the Company amounting to 50,000 thousand US dollars.