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 2011

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 2011

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 2011, the consolidated results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

These consolidated financial statements of the Group for the year ended 31 December 2011 were authorized for issue by management on 31 May 2012.

On behalf of management of the Group:

Amirkhanov Y.A.	**Serikova K.E.**
President	**Chief Accountant**
31 May 2012	31 May 2012
Almaty, Republic of Kazakhstan	Almaty, Republic of Kazakhstan

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Translation from the original in Russian

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 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows 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 2011, 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 37 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 No.0000314,
dated 23 December 1996
Republic of Kazakhstan

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

Nurlan Bekenov
General Director
Deloitte, LLP

31 May 2012
Almaty, Republic of Kazakhstan

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011
(in thousands of Tenge)

	Notes	31 December 2011	31 December 2010	1 January 2010
ASSETS				
NON-CURRENT ASSETS:				
Property, plant and equipment	6	89,183,271	60,827,080	52,361,618
Goodwill	7	2,424,419	2,424,419	2,424,419
Intangible assets		75,932	34,428	40,286
Deferred tax assets	36	93,823	120,344	50,852
Other non-current assets	8	4,681,112	5,301,651	4,567,758
Other financial assets	9	-	-	614,807
Restricted cash	9, 19	110,000	-	-
Total non-current assets		96,568,557	68,707,922	60,059,740
CURRENT ASSETS:				
Inventories	10	2,629,033	2,001,219	1,533,643
Trade accounts receivable	11	7,827,157	6,052,511	5,535,024
Advances paid	12	929,613	1,791,484	891,925
Income tax prepaid		414,439	201,197	31,395
Taxes receivable and prepaid taxes	13	809,768	286,446	107,825
Other accounts receivable	14	2,554,174	2,773,697	2,941,015
Current portion of other financial assets	9	12,769,586	6,251,167	14,650,343
Financial assets held-for-trading		-	995,491	-
Restricted cash	19	243,025	-	-
Cash	15	1,344,978	5,019,799	1,000,434
Total current assets		29,521,773	25,373,011	26,691,604
TOTAL ASSETS		126,090,330	94,080,933	86,751,344
EQUITY AND LIABILITIES				
EQUITY:				
Share capital	16	37,590,045	30,302,544	30,302,544
Additional paid-in capital	17	1,348,105	1,348,105	1,443,622
Revaluation reserve on property, plant and equipment		20,448,020	10,406,139	11,444,910
Retained earnings		16,376,282	11,302,478	8,054,073
Equity attributable to equity holders of the Parent		75,762,452	53,359,266	51,245,149
Non-controlling interests		-	-	475,667
Total equity		75,762,452	53,359,266	51,720,816
NON-CURRENT LIABILITIES:				
Bonds issued	18	10,952,049	8,911,639	6,825,153
Long-term loans	19	9,025,284	6,978,512	8,690,782
Deferred revenue	20	491,803	262,238	278,517
Long-term accounts payable	21	107,023	112,369	109,119
Ash disposal area restoration liabilities	22	291,353	186,390	117,605
Employee benefit obligations	23	72,654	68,367	62,571
Deferred tax liabilities	36	13,037,819	8,689,563	5,965,749
Total non-current liabilities		33,977,985	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 2011

(in thousands of Tenge)

	Notes	31 December 2011	31 December 2010	1 January 2010
CURRENT LIABILITIES:				
Current portion of bonds issued	18	578,293	2,142,081	2,083,525
Current portion of long-term loans	19	1,828,499	1,239,056	1,147,161
Current portion of ash disposal area restoration liabilities	22	150,111	20,661	11,080
Current portion of employee benefit obligations	23	7,954	6,910	5,773
Short-term loans	24	4,291,981	4,383,463	2,708,548
Trade accounts payable	25	6,315,719	4,478,905	4,500,555
Advances received	26	1,918,226	1,674,692	1,351,699
Income tax payable		1,832	234,089	44,100
Taxes and non-budget payable	27	437,794	441,690	562,040
Other liabilities and accrued expenses	28	819,484	891,042	566,551
Total current liabilities		16,349,893	15,512,589	12,981,032
TOTAL EQUITY AND LIABILITIES		126,090,330	94,080,933	86,751,344

Signed on behalf of management of the Group:

Amirkhanov Y.A.
President

31 May 2012
Almaty, Republic of Kazakhstan

Serikova K.E.
Chief Accountant

31 May 2012
Almaty, Republic of Kazakhstan

The notes on pages 11-56 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

(in thousands of Tenge)

	Notes	2011	2010
REVENUE	29	65,159,449	55,073,833
COST OF SALES	30	(51,786,573)	(42,541,797)
GROSS PROFIT		13,372,876	12,532,036
General and administrative expenses	31	(4,081,662)	(5,194,948)
Selling expenses	32	(601,314)	(551,127)
Finance costs	33	(2,224,142)	(1,952,080)
Finance income	34	1,180,110	1,526,555
Foreign exchange loss		(83,625)	(75,303)
Impairment loss on property, plant and equipment	6	(256,524)	-
Other income	35	550,402	466,100
PROFIT BEFORE TAXATION		7,856,121	6,751,233
INCOME TAX EXPENSE	36	(1,966,080)	(2,745,152)
PROFIT FOR THE YEAR		5,890,041	4,006,081
OTHER COMPREHENSIVE INCOME/(LOSS):			
Increase in cost of property, plant and equipment as a result of revaluation	6	13,206,175	-
Income tax relating to components of other comprehensive income	36	(2,641,234)	-
Effect of changes in income tax rates on revaluation of property, plant and equipment	36	-	(444,143)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		10,564,941	(444,143)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		16,454,982	3,561,938

Signed on behalf of management of the Group:

Amirkhanov Y.A.	**Serikova K.E.**
President	**Chief Accountant**
31 May 2012	31 May 2012
Almaty, Republic of Kazakhstan	Almaty, Republic of Kazakhstan

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The notes on pages 11-56 form an integral part of these consolidated financial statements.

Translation from the original in Russian

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

(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**
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
Changes in subsidiaries ownership		-	-	-	(725,491)	(725,491)	(462,236)	(1,187,727)
Effect of re-registration of subsidiary into joint stock company		-	(95,517)	-	95,517	-	-	-
Amortization of revaluation reserve		-	-	(594,628)	594,628	-	-	-
Dividends declared	16	-	-	-	(527,131)	(527,131)	(13,431)	(540,562)
Fair value adjustment of interest-free loan issued to Shareholder less deferred tax of 48,800 thousand tenge	14	-	-	-	(195,199)	(195,199)	-	(195,199)
As at 31 December 2010		**30,302,544**	**1,348,105**	**10,406,139**	**11,302,478**	**53,359,266**	-	**53,359,266**
Profit for the year		-	-	-	5,890,041	5,890,041	-	5,890,041
Other comprehensive income for the year		-	-	10,564,941	-	10,564,941	-	10,564,941
Total comprehensive income for the year		-	-	10,564,941	5,890,041	16,454,982	-	16,454,982
Share issue	16	7,287,501	-	-	-	7,287,501	-	7,287,501
Amortization of revaluation reserve		-	-	(523,060)	523,060	-	-	-
Dividends declared	16	-	-	-	(1,201,824)	(1,201,824)	-	(1,201,824)
Fair value adjustment of interest-free loan issued to Shareholder less deferred tax of 34,369 thousand tenge	14	-	-	-	(137,473)	(137,473)	-	(137,473)
As at 31 December 2011		**37,590,045**	**1,348,105**	**20,448,020**	**16,376,282**	**75,762,452**	-	**75,762,452**

Signed on behalf of management of the Group:

CAEPCO

Amirkhanov Y.A.	**Serikova K.E.**
President	**Chief Accountant**
31 May 2012	31 May 2012
Almaty, Republic of Kazakhstan	Almaty, Republic of Kazakhstan

The notes on pages 11-56 form an integral part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

(in thousands of Tenge)

	Notes	2011	2010
OPERATING ACTIVITIES:			
Profit before taxation		7,856,121	6,751,233
Adjustments for:			
Depreciation and amortization	30, 31, 32, 35	2,976,318	2,812,513
Finance costs	33	2,224,142	1,952,080
(Recovery)/provision for doubtful debts	31, 35	(12,004)	1,176,882
Loss from disposal of property, plant and equipment		7,186	6,560
Employee benefit expenses	23, 30, 31	16,621	18,138
Interest income from deposits	34	(960,921)	(1,255,993)
Interest income from interest-free financial aid	34	(201,754)	(256,956)
Interest income from guarantee fees	34	(10,029)	(13,606)
Income from repurchase of bonds issued		-	(392)
Foreign exchange loss		83,625	75,303
Accrual of provision for unused vacations		27,937	10,340
Accrual of provision for obsolete inventories	10, 31	18,692	11,545
Impairment loss on property, plant and equipment		256,524	-
Operating cash flow before changes in working capital		12,282,458	11,287,647
Increase in inventories		(646,506)	(478,316)
Increase in trade accounts receivable		(1,752,107)	(1,591,303)
Decrease/(increase) in advances paid		895,237	(967,904)
Increase in taxes receivable and prepaid taxes		(71,531)	(24,923)
Decrease in other accounts receivable		205,534	148,176
Increase/(decrease) in trade accounts payable		1,813,079	(21,586)
Decrease in deferred revenue		(2,400)	(11,907)
Increase in advances received		243,534	322,993
Decrease in taxes and non-budget payable		(434,321)	(329,001)
Change in employee benefit obligations	23	(11,290)	(11,205)
Decrease in ash disposal area restoration liabilities		(165,117)	(18,863)
(Decrease)/increase in other liabilities and accrued expenses		(122,590)	282,969
Cash provided by operating activity		12,233,980	8,586,777
Income tax paid		(665,033)	(323,500)
Interest paid		(2,180,382)	(1,921,376)
Net cash (used in)/provided by operating activities		9,388,565	6,341,901

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

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2011

(in thousands of Tenge)

	Notes	2011	2010
INVESTING ACTIVITIES:			
Cash withdrawn from deposits		17,385,052	14,127,943
Cash placed on deposits		(23,930,294)	(5,333,114)
Acquisition of property, plant and equipment		(18,187,155)	(11,433,862)
Change in advances paid for property, plant and equipment		620,539	(734,301)
Acquisition of intangible assets		(50,845)	(750)
Proceeds from disposal of property, plant and equipment		346,207	350,923
Proceeds from interest accrued on placed deposits		711,479	1,369,244
Repurchase of shares from non-controlling interest		-	(1,187,727)
Purchases of financial assets held-for-trading		-	(995,491)
Sale of financial assets held-for-trading		995,491	-
Net cash used in investing activities		(22,109,526)	(3,837,135)
FINANCING ACTIVITIES:			
Share issue	16	7,287,501	-
Proceeds from issue of bonds		1,917,284	2,002,331
Repayment of bonds		(1,638,855)	-
Proceeds from loans		10,079,300	7,607,845
Repayment of loans		(7,280,348)	(7,469,845)
Dividends paid	16	(1,201,824)	(540,562)
Net cash generated from financing activities		9,163,058	1,599,769
NET (DECREASE)/INCREASE IN CASH		(3,557,903)	4,104,534
CASH at the beginning of the year	15	5,019,799	1,000,435
Effect of changes in foreign exchange rate on cash balance in foreign currency		(116,918)	(85,170)
CASH at the end of the year	15	1,344,978	5,019,799

Non-cash operations:

- In 2011, the Group capitalized borrowing costs for the total amount of 213,391 thousand tenge (2010: 160,357 thousand tenge) (Note 6).
- In 2011, the Group paid withholding tax using the offset of other accounts receivable of 69,636 thousand tenge (2010: 106,162 thousand tenge).
- In 2011, the Group amortized the discount on the bonds issued of 129,688 thousand tenge (2010: 106,162 thousand tenge).
- In 2011, the Group transferred to other non-current assets the inventories held-for-use as a component for production of property, plant and equipment of 183,659 thousand tenge (2010: 107,082 thousand tenge).
- In 2011, the Group carried out capital repair of property, plant and equipment using its own resources and capitalized payroll expenses of 67,020 thousand tenge (2010: 35,671 thousand tenge).
- In 2011, the Group paid current corporate income tax using the offset of withholding tax of 57,196 thousand tenge (2010: nil tenge).

Signed on behalf of management of the Group:

Amirkhanov Y.A.	**Serikova K.E.**
President	**Chief Accountant**
31 May 2012	31 May 2012
Almaty, Republic of Kazakhstan	Almaty, Republic of Kazakhstan

CAEPCO

The notes on pages 11-56 form an integral part of these consolidated financial statements.

(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 2011, the shareholders of the Company are JSC Central-Asian Power Energy Company (JSC CAPEC) (65.12%), European Bank of Reconstruction and Development (EBRD) (24.99%) and KAZ HOLDINGS COOPERATIEF U.A. (12.89%) (31 December and 1 January 2010: JSC CAPEC - 75.12%, EBRD - 24.88%) (Note 16).

The ultimate shareholders of the Company as at 31 December 2011 are Mr. E. Amirkhanov, Mr. A. Klebanov, Mr. S. Kan and Ms. G. Artambayeva, residents of the Republic of Kazakhstan (31 December and 1 January 2010: Mr. E. Amirkhanov, Mr. A. Klebanov, Mr. S. Kan).

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 2011	2010	2009	Principal activity
JSC PAVLODARENERGO	Pavlodar	100%	100%	100%	Production, transmission and sale of electricity and heat
JSC SEVKAZENERGO	Petropavlovsk	100%	100%	100%	Production, transmission and sale of electricity and heat
LLP Astanaenergosbyt	Astana	100%	100%	100%	Sale of electricity and heat

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

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 2011 and 2010 and 1 January 2010 was 8,085, 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 31 May 2012.

2. CURRENT ECONOMIC SITUATION

Operating environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Kazakhstan and the Kazakhstan's economy in general.

Laws and regulations affecting businesses in Kazakhstan continue to change rapidly. Tax, currency and customs legislation within Kazakhstan are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Kazakhstan. The future economic direction of Kazakhstan is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The global financial system continues to exhibit signs of deep stress and many economies around the world are experiencing lesser or no growth than in prior years. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These conditions could slow or disrupt the Kazakhstan's economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

Because Kazakhstan produces and exports large volumes of oil and gas, Kazakhstan's economy is particularly sensitive to the price of oil and gas on the world market which has fluctuated significantly during 2011 and 2010.

3. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

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

- Valuation of property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment; and
- Valuation of financial instruments in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

Functional and presentation currency

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

(in thousands of Tenge)

Adoption of the new and revised International Financial Reporting Standards

Standards and Interpretations effective in the current period:

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

- IAS 1 Presentation of Financial Statements – (amendment);
- IAS 24 Related Party Disclosures (as revised);
- IFRIC 14 Prepayments of a Minimum Funding Requirement;
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments;
- IAS 32 Financial Instruments: Presentation Classification of Rights Issues (amendment); and
- IFRS 3 Business Combinations.

Moreover the Group has adopted amendments to other Standards within an annual initiative aimed at the general improvement of the effective IFRS. These amendments are related to certain expressions and issues regarding presentation of consolidated financial statements, issues of recognition and appraisal. The improvements have led to a number of changes in the detail of the Group's accounting policies – some of which are changes in terminology only, and some of which are substantive, but have had no effect on amounts reported.

The adoption of these Standards did not affect the consolidated results of operations or the consolidated financial position.

Standards and Interpretations in issue to be adopted in future periods

As at the date of authorisation of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

	Effective for annual periods beginning on or after
Amendments to IFRS 7 Disclosures – Transfers of Financial Assets	1 July 2011
IFRS 9 Financial Instruments	1 January 2015
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013
Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	1 July 2013
Amendments to IAS 12 Deferred Tax – Recovery of Underlying Assets	1 January 2012
IAS 19 (as revised in 2011) Employee Benefits	1 January 2013
IAS 27 (as revised in 2011) Separate Financial Statements	1 January 2013
IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures	1 January 2013

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011). These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

Management anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have not significant impact on amounts reported in the consolidated financial statements.

Management assumes that all other stated above standards will have no material impact on the Group's consolidated financial statements in the period of initial application.

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, 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 in the financial statements of the subsidiaries to bring their accounting policies into line with the accounting policy used by the Group.

All 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 a subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received recognized directly in equity.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss 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. N on-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 deemed 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 is recalculated 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 r ecognized 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	5-50 years
Machines and production equipment	5-35 years
Vehicles	5-15 years
Other	3-15 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.

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

Trade and other accounts receivable

Trade and other receivables are 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.

Cash restricted in use

In accordance with loan agreements on project financing signed with European Bank for Reconstruction and Development ("EBRD"), the Group opened bank escrow accounts, necessary for debt service. Cash held on these bank accounts can be used exclusively for the purposes of planned payments on interest and principal loan amounts. If cash restricted in use for the period not exceeding 12 months from the reporting date, such cash is treated as other financial asset and an appropriate disclosure is provided in the notes to the consolidated financial statements. If cash is restricted in use for the period exceeding 12 months from the reporting date, such cash is reflected within non-current assets.

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, 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 accounts 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 n et 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 r esult of loans in foreign currency to the extent they are considered an adjustment of interest payments. The amount of the exchange difference capitalized in the form of an adjustment of interest expenses does not exceed the amount of interest expenses, which the Group would have capitalized, had the loan been taken in local currency. Any excess 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 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

Social tax and pension contributions

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 2011 and 2010 was approximately 6% 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 119,993 tenge per month in 2011 (2010: not more than 112,140 tenge per month). According to the legislation of the Republic of Kazakhstan, pension contributions are obligations of the employee, and the Group carries no current or future obligations on employee benefits after their retirement, except for payments provided for by the collective agreement.

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 statements, the following parties were considered as related parties:

A party is related if:

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

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

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 ash disposal areas. At the end of the useful life, these ash disposal areas should be restored. In order to determine the amount of the restoration liability of these ash disposal areas management of the Group is required to conduct the evaluation of future cost of restoration of ash disposal areas. The management 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.

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 of the customers 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 23 years and 16-25 years, respectively, starting from the 37th 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.

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.

(in thousands of Tenge)

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.

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.

Recognition of revenue from sale of electricity

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.

Reclassifications

In the consolidated financial statements as at 31 December 2010 and for the year then ended changes in classification have been made to conform to the form of presentation of the consolidated financial statements as at 31 December 2011 and for the year then ended due to the fact that form of presentation of the current year consolidated financial statements provides more accurate presentation of the consolidated financial position of the Group. These reclassifications won't have impact on consolidated comprehensive income for the year ended 31 December 2011 and consolidated retained earnings as at 31 December 2011.

Consolidated statement of comprehensive income	As previously stated 2010	Amount of reclassification	Reclassified 2010
COST OF SALES	(42,178,988)	(362,809)	(42,541,797)
GROSS PROFIT	12,894,845	(362,809)	12,532,036
General and administrative expenses	(5,294,837)	99,889	(5,194,948)
Selling expenses	(915,690)	364,563	(551,127)
Other income	567,743	(101,643)	466,100

(in thousands of Tenge)

6. PROPERTY, PLANT AND EQUIPMENT

As at 31 December, the movement of property, plant and equipment was presented as follows:

Cost	Land, buildings and constructions	Machines and production equipment	Vehicles	Other	Construction in progress	Total
At 1 January 2010	**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)	-
Change in estimate on ash disposal area restoration	(5,179)	-	-	-	-	(5,179)
Disposals	(80,670)	(372,311)	(49,333)	(19,846)	(21)	(522,181)
At 31 December 2010	**16,012,274**	**40,386,512**	**428,871**	**189,584**	**11,654,338**	**68,671,579**
Additions	14,253	595,871	80,343	28,199	5,875,810	6,594,476
Revaluation	3,748,614	9,115,123	80,400	5,514	-	12,949,651
Elimination of accumulated depreciation	(2,594,423)	(7,690,857)	(172,757)	(64,592)	-	(10,522,629)
Transfers from inventories	-	487	-	515	11,797,587	11,798,589
Internal transfers	241,518	15,787,867	-	(37)	(16,029,348)	-
Change in estimates on liquidation fund	333,845	-	-	-	-	333,845
Disposals	(22,485)	(426,480)	(20,099)	(18,306)	(9,246)	(496,616)
At 31 December 2011	**17,733,596**	**57,768,523**	**396,758**	**140,877**	**13,289,141**	**89,328,895**
Accumulated depreciation and impairment						
At 1 January 2010	**(1,350,475)**	**(3,689,081)**	**(112,829)**	**(55,124)**	**143**	**(5,207,366)**
Depreciation 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)**
Depreciation charge for the year	(695,272)	(2,198,729)	(45,996)	(26,980)	-	(2,966,977)
Impairment loss	-	-	-	-	(452)	(452)
Elimination of accumulated depreciation	2,594,423	7,690,857	172,757	64,592	-	10,522,629
Disposals	7,970	114,464	13,251	7,990	-	143,675
At 31 December 2011	**(82,419)**	**(40,504)**	**-**	**(22,392)**	**(309)**	**(145,624)**
Net book value						
At 31 December 2011	**17,651,177**	**57,728,019**	**396,758**	**118,485**	**13,288,832**	**89,183,271**
At 31 December 2010	**14,022,734**	**34,739,416**	**288,859**	**121,590**	**11,654,481**	**60,827,080**
At 1 January 2010	**14,590,187**	**33,915,707**	**360,380**	**122,551**	**3,372,793**	**52,361,618**

(in thousands of Tenge)

The Group's property, plant and equipment were revalued by independent appraiser as at 31 December 2011. The fair value of property, plant and equipment at the specified date was determined in aggregate by the following generally used valuation approaches: market, income and cost approaches. The management believes that the results of the evaluation appropriately reflect economic condition of the Group's property, plant and equipment at that date.

As a result of revaluation the Group recognized increase in the cost of property, plant and equipment of 13,206,175 thousand tenge, which was recognized in other comprehensive income, also the Group recognized impairment loss on property, plant and equipment of 256,524 thousand tenge, which was recognized in profit or loss.

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**	**Construc-tion in progress**	**Total**
At 31 December 2011	11,366,985	42,556,176	219,031	96,730	13,288,832	67,527,754
At 31 December 2010	5,191,066	17,430,382	137,073	117,499	11,654,478	34,530,498
At 1 January 2010	6,323,238	17,388,327	103,789	123,163	3,372,793	27,311,310

For the years ended 31 December 2011 and 2010, the Group capitalized interest expenses in the total amount of 213,391 thousand tenge and 160,357 thousand tenge, respectively.

As at 31 December 2011 and 2010 and 1 January 2010 the net book value of pledged property, plant and equipment was equal to 31,099,328 thousand tenge, 20,200,224 thousand tenge and 20,011,023 thousand tenge, respectively (Notes 19 and 24).

As at 31 December 2011 and 2010 and 1 January 2010 the fully depreciated property, plant and equipment at revalued cost amounted to nil, 76,501 thousand tenge and 107,303 thousand tenge, respectively.

7. GOODWILL

For the years ended 31 December, the movement of goodwill was presented as follows:

	2011	**2010**	**2009**
Cost			
At 1 January	2,424,419	2,424,419	2,424,431
Goodwill on disposed investments	-	-	(12)
At 31 December	2,424,419	2,424,419	2,424,419

(in thousands of Tenge)

The carrying amount of goodwill was allocated as follows:

	JSC PAVLODAR-ENERGO	LLP Astana-energosbyt	Total
Goodwill recognized at 1 January 2010	1,687,141	737,278	2,424,419
Goodwill recognized at 31 December 2010	1,687,141	737,278	2,424,419
Goodwill recognized at 31 December 2011	1,687,141	737,278	2,424,419

As at 31 December 2011 and 2010 and 1 January 2010, no impairment of goodwill was identified.

8. OTHER NON-CURRENT ASSETS

As at 31 December 2011 and 2010 and 1 January 2010, other non-current assets consisted of the following:

	31 December 2011	31 December 2010	1 January 2010
Advance paid for delivery of non-current assets, property, plant and equipment and intangible assets	4,497,453	5,194,569	4,459,871
Inventories to be used as a component for production of property, plant and equipment	183,659	107,082	107,887
			-
	4,681,112	5,301,651	4,567,758

9. OTHER FINANCIAL ASSETS

As at 31 December 2011 and 2010 and 1 January 2010, other financial assets consisted of the following:

	31 December 2011	31 December 2010	1 January 2010
Deposits with maturity of more than three months to one year	12,147,808	5,886,597	14,084,067
Deposits with maturity of more than one year	-	-	614,807
Interest receivable	621,778	364,570	566,276
	12,769,586	6,251,167	15,265,150
Current portion	12,769,586	6,251,167	14,650,343
Long-term portion	-	-	614,807
	12,769,586	6,251,167	15,265,150

(in thousands of Tenge)

On 6 and 18 May 2011, LLP Petropavlovsk Thermal Networks, the subsidiary of JSC SEVKAZENERGO, and LLP Pavlodar Thermal Networks, the subsidiary of JSC PAVLODARENERGO, concluded long-term bank deposit agreements with JSC Eximbank Kazakhstan. In accordance with these agreements it is allowed to make a partial withdrawal of the deposited amount leaving minimum total balance of 100,000 thousand tenge, which is classified as restricted cash in non-current assets in the consolidated statement of financial position.

As at 31 December 2011 and 2010 and 1 January 2010, the pledge funds on deposits amounted to nil, 140,000 thousand tenge and 2,498,303 thousand tenge, respectively (Note 24).

In 2011, the Group recognized interest income totaling 960,921 thousand tenge (2010: 1,255,993 thousand tenge) (Note 34).

In 2011, the interest rates on deposits were 5.3%-10.5% (2010: 5.3%-13.25%).

Deposits with banks as at 31 December 2011 and 2010 and 1 January 2010 were denominated in the following currencies:

	31 December 2011	31 December 2010	1 January 2010
Tenge	8,817,710	5,860,387	12,291,185
US Dollars	3,951,876	390,780	2,973,965
	12,769,586	6,251,167	15,265,150

10. INVENTORIES

As at 31 December 2011 and 2010 and 1 January 2010, inventories consisted of the following:

	31 December 2011	31 December 2010	1 January 2010
Raw materials	901,534	733,236	588,196
Spare parts	892,935	493,612	303,915
Fuel	418,323	228,282	311,815
Rolled metal products	220,399	147,875	56,026
Construction materials	69,853	38,879	61,961
Tools and metering devices	33,442	31,704	25,494
Chemicals	50,079	33,237	17,571
Uniforms	20,464	20,031	16,597
Isolating materials	19,976	27,948	11,236
Other	80,747	306,442	189,314
	2,707,752	2,061,246	1,582,125
Provision for obsolete inventories	(78,719)	(60,027)	(48,482)
	2,629,033	2,001,219	1,533,643

(in thousands of Tenge)

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

	2011	**2010**
At 1 January	(60,027)	(48,482)
Accrued (Note 31)	(18,692)	(11,545)
At 31 December	(78,719)	(60,027)

11. TRADE ACCOUNTS RECEIVABLE

As at 31 December 2011 and 2010 and 1 January 2010, trade accounts receivable consisted of the following:

	31 December 2011	**31 December 2010**	**1 January 2010**
Sale and transmission of electricity and heat	9,089,575	7,634,841	6,722,829
Sale of inventories and provision of other services	473,237	346,040	92,233
Other	46,673	46,618	42,453
	9,609,485	8,027,499	6,857,515
Provision for doubtful debts	(1,782,328)	(1,974,988)	(1,322,491)
	7,827,157	6,052,511	5,535,024

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:

	2011	**2010**
At 1 January	(1,974,988)	(1,322,491)
(Recovered)/accrued	22,539	(1,075,990)
Written-off against previously created provisions	170,121	423,493
At 31 December	(1,782,328)	(1,974,988)

(in thousands of Tenge)

Trade accounts receivable as at 31 December 2011 and 2010 and 1 January 2010 were denominated in the following currencies:

	31 December 2011	31 December 2010	1 January 2010
Tenge	7,808,166	6,041,630	5,530,134
Russian rouble	18,991	10,881	4,890
	7,827,157	6,052,511	5,535,024

12. ADVANCES PAID

As at 31 December 2011 and 2010 and 1 January 2010, advances paid consisted of the following:

	31 December 2011	31 December 2010	1 January 2010
For services	878,825	1,178,351	895,014
For goods	274,941	834,159	189,438
Other	6,971	43,464	3,618
	1,160,737	2,055,974	1,088,070
Provision for doubtful debts	(231,124)	(264,490)	(196,145)
	929,613	1,791,484	891,925

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

	2011	2010
At 1 January	(264,490)	(196,145)
Recovered/(accrued)	33,366	(68,345)
At 31 December	(231,124)	(264,490)

13. TAXES RECEIVABLE AND PREPAID TAXES

As at 31 December 2011 and 2010 and 1 January 2010, taxes receivable and prepaid taxes consisted of the following:

	31 December 2011	31 December 2010	1 January 2010
Value added tax	758,268	254,943	32,885
Withholding tax	40,349	16,446	24,488
Property tax	5,856	12,935	44,485
Other	5,295	2,122	5,967
	809,768	286,446	107,825

(in thousands of Tenge)

14. OTHER ACCOUNTS RECEIVABLE

As at 31 December 2011 and 2010 and 1 January 2010, other accounts receivable consisted of the following:

	31 December 2011	31 December 2010	1 January 2010
Interest-free loan	1,703,543	2,206,760	2,232,779
Receivables on court proceedings	247,221	243,238	162,309
Accrued penalties	143,137	116,588	376,098
Prepaid expenses	37,373	34,530	12,919
Receivables from employees and shortages	33,742	24,599	57,823
Other	510,448	300,483	222,122
	2,675,464	2,926,198	3,064,050
Provision for doubtful debts	(121,290)	(152,501)	(123,035)
	2,554,174	2,773,697	2,941,015

As at 31 December 2011, the interest-free loan included:

(a) Interest-free financial aid in amount of 1,544,820 thousand tenge issued to the shareholder, JSC CAPEC (31 December 2010 and 1 January 2010: 2,046,275 thousand tenge and 2,192,409 thousand tenge, respectively). The Group recorded the interest-free financial aid at the amortized cost using the effective interest rate of 12.5% (2010: 12.5%). As a result, the Group recognized in equity the fair value adjustment of 171,842 thousand tenge less deferred tax of 34,369 thousand tenge (31 December 2010 and 1 January 2010: 243,999 thousand tenge less deferred tax of 48,800 thousand tenge and 257,714 thousand tenge less deferred tax of 51,543 thousand tenge, respectively).

(b) Interest-free loan included a loan in amount of 127,853 thousand tenge, issued to LLP Aksar-Pavlodar, which is not a related party of the Group (31 December 2010 and 1 January 2010: 129,115 thousand tenge and nil, respectively). The loan was granted in order to assist in the development of the social sphere of the Pavlodar region. As at the date of approval of the consolidated financial statement the interest-free loan was fully repaid.

(c) Interest-free financial aid in amount of 30,870 thousand tenge, issued to LLP Avtotransportnoe predpriyatie SevKazEnergo (31 December 2010 and 1 January 2010: 31,370 thousand tenge and 40,370 thousand tenge, respectively).

For the year ended 31 December 2011 the Group recognized interest income of 201,754 thousand tenge (2010: 256,956 thousand tenge) (Note 34).

As at 31 December 2011 and 2010 and 1 January 2010, accrued penalties of 143,137 thousand tenge, 116,588 thousand tenge and 376,098 thousand tenge, respectively, represented penalties imposed on JSC Centrkazenergomontazh, LLP Sredenergomontazh Pavlodar and individuals for the late fulfillment of the terms of the contracts for delivery of materials, construction works 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:

	2011	**2010**
At 1 January	(152,501)	(123,035)
Accrued	(43,901)	(32,547)
Written off against previously created provision	75,112	3,081
At 31 December	(121,290)	(152,501)

As at 31 December 2011 and 2010 and 1 January 2010 other accounts receivable were denominated in tenge.

15. CASH

As at 31 December 2011 and 2010 and 1 January 2010, cash consisted of the following:

	31 December 2011	**31 December 2010**	**1 January 2010**
Cash on bank accounts	1,112,833	4,843,264	893,598
Petty cash	229,967	176,535	106,836
Cash in transit	2,178	-	-
	1,344,978	5,019,799	1,000,434

As at 31 December 2011 and 2010 and 1 January 2010 claim to receive cash under public service agreements and incoming cash transfers on account of LLP Astanaenergosbyt, the subsidiary, in future, limited to the amount of the loan was provided as a collateral within the frame of credit line in JSC Eximbank Kazakhstan (Note 24).

As at 31 December 2011 and 2010 and 1 January 2010, cash were denominated in tenge.

16. SHARE CAPITAL

As at 31 December 2011 and 2010 and 1 January 2010, share capital consisted of the following:

	31 December 2011		**31 December 2010**		**1 January 2010**	
	Interest	**Thousand tenge**	**Interest**	**Thousand tenge**	**Interest**	**Thousand tenge**
JSC CAPEC	62.12%	19,968,884	75.12%	21,035,623	75.12%	21,035,623
EBRD	24.99%	10,333,660	24.88%	9,266,921	24.88%	9,266,921
KAZ HOLDINGS COOPERATIEF U.A.	12.89%	7,287,501	-	-	-	-
	100%	37,590,045	100%	30,302,544	100%	30,302,544

In 2011, the Company entered into a subscription agreement with the Islamic Infrastructure Fund (hereinafter – "IIF"), according to which IIF acquired 12.89% shares of the Company of 7,287,501 thousand tenge. As at 31 December, under the Treaty of Innovations as of 12 April 2011, KAZ HOLDINGS COOPERATIEF U.A. is the successor of IIF.

In 2011 and 2010 the shareholders of the Group declared dividends for 1,201,824 thousand tenge and 540,562 thousand tenge, respectively.

17. ADDITIONAL PAID-IN CAPITAL

As at 31 December 2011 and 2010 and 1 January 2010, additional paid-in capital of 1,348,105 thousand tenge, 1,348,105 thousand tenge and 1,443,622 thousand tenge included:

- the difference between net book value of property, plant and equipment received by the Group under the finance lease agreement and minimum value of discounted lease payments under this lease. During the finance lease the founder transferred part of the property, plant and equipment under the agreement into the share capital of the Group, and the additional paid-in capital was adjusted accordingly;
- the revenue from factoring operations due to acquisition and subsequent sale of the legal claim from related party at the value greater than the actual cost of this claim;
- the fair value adjustment of the interest-free loans issued to JSC CAPEC.

18. BONDS ISSUED

In December 2005, the JSC Pavlodar Electricity Distribution Network Company, the subsidiary of JSC PAVLODARENERGO, 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. These bonds were fully repaid in January 2011.

In July 2007, JSC PAVLODARENERGO, the subsidiary, 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 December 2009, JSC SEVKAZENERGO, the subsidiary, 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.

(in thousands of Tenge)

As at 31 December 2011 and 2010 and 1 January 2010, bonds issued were presented as follows:

Bonds placed at the price	**Maturity date**	**Interest rate, per annum**	**31 December 2011**	**31 December 2010**	**1 January 2010**
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	1,902,320
96.22%	10 July 2017	9.8%-13%	1,499,900	1,499,900	1,499,900
101.24%	10 July 2017	9.8%-13%	500,000	500,000	500,000
105.47%	10 July 2017	9.8%-13%	948,000	948,000	948,000
86.31%	10 July 2017	9.8%-13%	1,159,000	1,159,000	1,159,000
82.55%	10 July 2017	9.8%-13%	840,500	840,500	840,500
87.39%	10 July 2017	9.8%-13%	549,900	549,900	550,000
76.63%	10 July 2017	9.8%-13%	502,000	502,000	502,000
99.96%	10 January 2020	12.5%	1,999,990	1,999,990	-
103.50%	10 January 2020	12.5%	1,820,000	-	-
			11,721,610	11,882,310	9,879,590
Including/(excluding):					
(Discount on bonds issued)			(196,958)	(324,275)	(415,522)
Premium on bonds issued			90,638	-	
Accumulated interest on bonds issued			578,293	503,226	451,961
(Repurchase of bonds issued)			(663,241)	(1,007,541)	(1,007,351)
			11,530,342	11,053,720	8,908,678
Less: current portion of bonds issued			(578,293)	(2,142,081)	(2,083,525)
			10,952,049	8,911,639	6,825,153

The bonds issued are repaid as follows:

	31 December 2011	**31 December 2010**	**1 January 2010**
After five years and more	10,952,049	8,911,639	6,825,153
	10,952,049	8,911,639	6,825,153

(in thousands of Tenge)

19. LONG-TERM LOANS

As at 31 December 2011 and 2010 and 1 January 2010, loans consisted of the following:

	Interest rate %	Currency	31 December 2011	Interest rate %	Currency	31 December 2010	Interest rate %	Currency	1 January 2010
(a) JSC SB Sberbank of Russia	10%	Tenge	4,586,987	12.5%	Tenge	3,365,600	12.5%	Tenge	4,905,280
(b) EBRD	Libor + 3%	US Dollars	3,816,000	Libor + 3%	US Dollars	4,422,000	Libor + 3%	US Dollars	4,450,800
(c) EBRD	KIBOR + 4.5%	Tenge	2,220,000			-			-
(c) Clean Technology Fund (CTF)	0.75%	US Dollars	370,100			-			-
JSC Eximbank Kazakhstan			-	17%	Tenge	337,508	14-16%	Tenge	310,381
Interest payable			147,764			124,202			207,758
			11,140,851			8,249,310			9,874,219
Less:									
fair value adjustment of CTF loan (Note 20)			(241,994)			-			-
unamortized part of lump- sum commission			(45,074)			(31,742)			(36,276)
Total			10,853,783			8,217,568			9,837,943
Less: current portion of long-term loan			(1,828,499)			(1,239,056)			(1,147,161)
			9,025,284			6,978,512			8,690,782

(a) On 1 October 2008, JSC SEVKAZENERGO, the subsidiary, concluded agreement No.01/10 on opening of a revolving credit line with JSC SB Sberbank of Russia of 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. As at 31 December 2011, the credit limit comprises 4,703,641 thousand tenge (31 December and 1 January 2010: 4,900,000 thousand tenge and 6,111,839 thousand tenge, resepctively). In 2011, the interest rate was reduced from 11% to 10% per annum (2010: from 12% to 11%).

(b) On 29 November 2007, JSC PAVLODARENERGO, the subsidiary, concluded an agreement with EBRD for the loan totaling 30,000,000 US dollars with maturity in 2017. The loan is repaid by annual payments, starting from 2011. Interest on the loan is paid paid semi-annually according to the schedule. For the years ended 31 December 2011 and 2010 and 1 January 2010 the effective interest rate was 3.62%.

(in thousands of Tenge)

(c) On 26 March 2011, LLP Pavlodar Thermal Networks, the subsidiary of JSC PAVLODARENERGO, and EBRD signed a loan agreement, which will focus on reconstruction and modernization of district heating networks in Pavlodar of 3,991,280 thousand tenge. Funding will be provided as follows: 2,997,000 thousand tenge – in two tranches from the the common resources of EBRD, and the amount of 6,700,000 US dollars - from the resources of Clean Technology Fund (CTF). Interest rates are KIBOR +4.5% and 0.75%, respectively. The loan is settled by 20 equal semi-annual installments starting from 15 April 2014. Interest is paid in quarterly installments. On 16 June 2011, the tranche of 1,498,500 thousand tenge was received from EBRD and on 30 December 2011 the tranche of 2,500,000 US dollars or 370,100 thousand tenge was received from CTF. In 2011, the effective interest rate amounted to 7.52%. The subsidiary recorded CTF loan at amortized cost, using effective interest rate of 4.3% and as a result recognized fair value adjustment of this loan of 241,994 thousand tenge in deferred revenue (Note 20). JSC CAEPCO acted as a guarantor for this loan.

On 26 March 2011 LLP Petropavlovsk Thermal Networks, the subsidiary of JSC SEVKAZENERGO, and EBRD concluded loan agreement, which will focus on reconstruction and modernization of district heating networks in the city of Petropavlovsk for the amount of 1,924,000 thousand tenge. The funding will be as follows: 1,443,000 thousand tenge – in two tranches of the common resources of EBRD, and 3,250,000 US dollars - from the resources of CTF. The interest rates of KIBOR+4.5% and 0.75%. The loan is settled by 20 equal semi-annual installments starting from 18 April 2014. Interest is paid in quarterly installments. In 2011, the effective interest rate on loan of EBRD amounted to 7.38% per annum. On 30 June 2011, the first tranche of 721,500 thousand tenge was received. JSC CAEPCO acted as a guarantor for this loan.

Moreover, in accordance with loan agreements with EBRD dated 29 November 2007 and 26 March 2011 the Group accumulated funds on debt service reserve accounts during the semiannual period preceding the payment date. These funds can be used exclusively for the purposes defined in the loan agreements, and, respectively, were classified as restricted cash in the non-current and current assets in the consolidated statements of financial position of 10,000 thousand tenge and 243,025 thousand tenge, respectively, as at December 31, 2011 (31 December and 1 January 2010: nil).

As at 31 December 2011 and 2010 and 1 January 2010 loans are secured by property, plant and equipment (Note 6).

The loans are repayable as follows:

	31 December 2011	31 December 2010	1 January 2010
During second year	1,277,360	-	-
In the second to the fifth years inclusive	5,945,726	6,346,797	5,037,056
After five years and more	1,802,198	631,715	3,653,726
	9,025,284	6,978,512	8,690,782

(in thousands of Tenge)

As at 31 December 2011 and 2010 and 1 January 2010, long-term loans were denominated in the following currencies:

	31 December 2011	31 December 2010	1 January 2010
Tenge	6,889,925	3,777,530	5,334,359
US Dollars	3,963,858	4,440,038	4,503,584
	10,853,783	8,217,568	9,837,943

20. DEFERRED REVENUE

As at 31 December 2011 and 2010 and 1 January 2010, deferred revenue of 491,803 thousand tenge, 262,238 thousand tenge and 278,517 thousand tenge, respectively, represents:

(a) an adjustment of guarantee fees for additional capacity of 249,809 thousand tenge, 262,238 thousand tenge and 278,517 thousand tenge, respectively, decreased by accrued interest income for 2011 of 10,029 thousand tenge (2010: 13,606 thousand tenge) (Note 34) and effect of change in estimate in 2011 and 2010 of 2,400 thousand tenge and 2,673 thousand tenge, respectively.

(b) fair value adjustment of loan from CTF for the amount of 241,994 thousand tenge , nil, and nil, respectively (Note 19).

21. LONG-TERM ACCOUNTS PAYABLE

As at 31 December 2011 and 2010 and 1 January 2010, long-term accounts payable consisted of the following:

	31 December 2011	31 December 2010	1 January 2010
Guarantee fees for additional capacity	380,705	389,958	393,768
Discount on guarantee fees for additional capacity	(253,673)	(266,394)	(281,454)
Current portion of guarantee fees for additional capacity (Note 28)	(20,009)	(11,195)	(3,195)
	107,023	112,369	109,119

The Group received cash from customers as a guarantee fees for additional capacity. As per decree of the Government of the Republic of Kazakhstan No.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 2011, the Group recognized fair value adjustment as deferred revenue with amortization period during 19-28 years (Note 20).

(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 2011, the liability on r eturn of the guarantee fees for additional capacity amounted to 36,816 thousand tenge (31 December and 1 January 2010: 72,288 thousand tenge and 106,269 thousand tenge, respectively), which is recorded within other liabilities (Note 28).

The amortization of the discount for the years ended 31 December 2011 and 2010 was recognized within finance costs of 10,103 thousand tenge and 9,887 thousand tenge, respectively (Note 33).

22. 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 2011 and 2010 and 1 January 2010 the Group evaluated the total ash disposal area restoration liability at amortized cost of 414,464 thousand tenge, 207,051 thousand tenge and 128,685 thousand tenge, respectively. This liability was discounted at effective interest rate of 12%-14%, which represents a market financing rate for the Group.

For the years ended 31 December 2011, 2010 and 2009, the movement in the ash disposal area restoration liability was as follows:

	2011	**2010**	**2009**
At 1 January	207,049	128,685	194,167
Finance cost (Note 33)	65,685	18,913	15,652
Restored during the year	(165,115)	(13,685)	(11,080)
Change in estimate (Note 6 and 33)	333,845	73,138	(70,054)
At 31 December	441,464	207,051	128,685
Current portion	150,111	20,661	11,080
Long-term portion	291,353	186,390	117,605
	441,464	207,051	128,685

23. EMPLOYEE BENEFIT OBLIGATIONS

As at 31 December 2011 and 2010, the Group concluded collective agreements with employees 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 employees.

(in thousands of Tenge)

As at 31 December 2011 and 2010 and 1 January 2010, the total employee benefit obligation of the Group comprised:

	31 December 2011	31 December 2010	1 January 2010
Current portion of short-term liability	7,954	6,910	5,773
Current portion of long-term liability	72,654	68,367	62,571
	80,608	75,277	68,344

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

	2011	2010
Total liabilities at the beginning of the year	75,277	68,344
Current service costs	8,332	7,831
Interest cost	5,924	4,872
Payments for the year	(11,290)	(11,205)
Actuarial loss	2,365	5,435
Total liabilities at the end of the year	80,608	75,277

The current service cost, interest cost and actuarial loss were recognized in cost of sales and general and administrative expenses of 8,565 thousand tenge and 8,056 thousand tenge, respectively (2010: 5,996 thousand tenge and 12,142 thousand tenge, respectively) (Notes 30 and 31).

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:

	2011	2010
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	9.00%	9-10%

(in thousands of Tenge)

24. SHORT-TERM LOANS

As at 31 December 2011 and 2010 and 1 January 2010, loans consisted of the following:

	Interest rate %	Currency	31 December 2011	31 December 2010	1 January 2010
(a) JSC SB Sberbank of Russia	10-12%	Tenge	3,695,750	4,017,844	2,387,292
(b) JSC Halyk Bank of Kazakhstan	12.5%	Tenge	300,000	300,000	300,000
(c) JSC Eximbank Kazakhstan	17%	Tenge	267,619	20,000	-
			4,263,369	4,337,844	2,687,292
Interest payable			28,612	45,619	21,256
Total			4,291,981	4,383,463	2,708,548

(a) On 27 June 2008, JSC SEVKAZENERGO, the subsidiary, opened a credit line with JSC SB Sberbank of Russia with maturity on 27 June 2014 and at interest rate of 11% per annum. On 26 October 2010, the subsidiary concluded additional agreement whereby interest rate was reduced to 10% per annum. Interest on the loan is payable on a monthly basis.

On 25 June 2010, LLP Astanaenergosbyt, the subsidiary opened a credit line with JSC SB Sberbank of Russia 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, LLP Pavlodarenergosbyt, the subsidiary of JSC PAVLODARENERGO, opened a credit line with JSC Halyk Bank of Kazakhstan with maturity on 23 April 2010. In June 2010, an additional agreement was concluded on extension of the credit line until 23 June 2012. Interest on the loan is payable on a monthly basis.

(c) On 28 August 2008, JSC SEVKAZENERGO, the subsidiary, opened a credit line with JSC Eximbank Kazakhstan 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 17% per annum.

(c) On 15 May 2009, LLP Astanaenergosbyt, the subsidiary, opened a credit line for replenishment of working capital with JSC Eximbank Kazakhstan with maturity in 2012. Starting from 1 April 2010 in accordance with additional agreement the interest rate was increased to 17% per annum. In accordance with credit agreements the principal amount is repaid from October to April (from May to September, principal repayment is not made), interest on the loan is paid monthly.

As at 31 December 2011 and 2010 and 1 January 2010, short-term loans are secured by property, plant and equipment (Note 6), and also the claim to receive cash under public service agreements and incoming cash transfers on account of LLP Astanaenergosbyt, the subsidiary, in future, limited to the amount of the loan (Note 15).

As at 31 December and 1 January 2010, deposits amounting to 140,000 thousand tenge and 2,498,303 thousand tenge were pledged to provide loans to JSC Eximbank Kazakhstan. On 5 January 2011, the Group terminated the contract of pledge money (Note 9).

(in thousands of Tenge)

25. TRADE ACCOUNTS PAYABLE

As at 31 December 2011 and 2010 and 1 January 2010, trade accounts payable consisted of the following:

	31 December 2011	31 December 2010	1 January 2010
For provided services	4,797,734	3,703,966	3,802,511
For purchased goods	782,134	518,921	578,357
For fuel	226,738	-	-
For repairs and construction services	175,105	234,048	76,985
For property, plant and equipment	12,622	379	33,924
Other	321,386	21,591	8,778
	6,315,719	4,478,905	4,500,555

As at 31 December 2011 and 2010 and 1 January 2010, trade accounts payable were denominated in the following currencies:

	31 December 2011	31 December 2010	1 January 2010
Tenge	6,171,739	4,436,362	4,500,507
Russian roubles	143,980	2,631	48
US Dollars	-	39,912	-
	6,315,719	4,478,905	4,500,555

26. ADVANCES RECEIVED

As at 31 December 2011 and 2010 and 1 January 2010 advances received of 1,918,226 thousand tenge, 1,674,692 thousand tenge and 1,351,699 thousand tenge, respectively, included advances received for delivery of electricity and heat and other services.

27. TAXES AND NON-BUDGET PAYMENTS PAYABLE

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

	31 December 2011	31 December 2010	1 January 2010
Environmental tax	169,719	165,690	126,119
Value added tax	140,088	170,529	273,583
Personal income tax	56,822	51,088	41,940
Social tax	23,973	28,899	19,647
Property tax	18,307	4,572	17,469
Social security liabilities	7,727	19,800	6,838
Other	21,158	1,112	76,444
	437,794	441,690	562,040

(in thousands of Tenge)

28. OTHER LIABILITIES AND ACCRUED EXPENSES

As at 31 December 2011 and 2010 and 1 January 2010, other liabilities and accrued expenses consisted of the following:

	31 December 2011	31 December 2010	1 January 2010
Interest-free financial aid from shareholders	200,000	-	-
Payables to the personnel	171,683	238,563	218,412
Provisions for unused vacations	154,120	126,183	115,843
Penalties for non-fulfillment of the terms of agreements	104,366	109,165	-
Pension contributions	79,203	65,412	61,745
Guarantee fees for additional capacity to be reimbursed (Note 21)	36,816	72,288	106,269
Current portion of guarantee fees for additional capacity (Note 21)	20,009	11,195	3,195
Insurance payable	13,564	-	9,191
Voluntary pension contributions	2,794	11,579	13,356
Other	36,929	256,657	38,540
	819,484	891,042	566,551

On 30 November 2011, LLP Astanaenergosbyt, the subsidiary, received interest-free financial aid from JSC CAPEC of 200,000 thousand tenge under the contract for funding No.72 dated 30 November 2011. The purpose of providing interest-free financial aid for the above contract is replenishment of working capital of the subsidiary. The maturity of the debt is 31 March 2012.

29. REVENUE

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

	2011	2010
Sale of electricity	40,797,378	33,049,491
Sale of heat energy	13,310,578	12,428,069
Transmission of electricity	7,035,896	6,008,770
Transmission of heat energy	3,826,330	3,400,639
Other	189,267	186,864
	65,159,449	55,073,833

(in thousands of Tenge)

30. COST OF SALES

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

	2011	2010
Electricity and heat energy acquired for sale	24,826,077	18,785,792
Fuel	10,040,947	8,456,188
Payroll and related taxes	4,807,011	4,241,273
Services received	4,196,035	3,874,593
Inventories	3,391,881	2,814,748
Depreciation and amortization	2,825,439	2,658,242
Technical water (injection)	474,720	419,658
Transmission of heat energy and electricity	320,497	394,623
Electricity and heat acquired for own use	19,985	40,114
Employee benefit expense (Note 23)	8,565	5,996
Other	875,416	850,570
	51,786,573	42,541,797

31. GENERAL AND ADMINISTRATIVE EXPENSES

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

	2011	2010
Payroll and related taxes	1,454,164	1,296,589
Taxes, other than income tax	657,287	590,008
Transportation services	205,344	161,859
Rent expenses	145,533	122,818
Inventories	132,368	104,961
Losses on consumers' substations	130,593	209,168
Bank commission	108,815	93,722
Legal and audit services	107,187	59,913
Consulting services	103,749	292,283
VAT	99,986	122,738
Security	99,834	108,190
Depreciation and amortization	90,449	91,319
Remuneration of the board of directors members	67,017	61,695
Business trip expenses	55,258	61,061
Sponsorship and financial aid	48,904	66,248
Penalties and fines	48,639	7,624
Communication expenses	43,460	32,494
Provision for unused vacation	27,937	10,340
Electricity acquired for own needs	27,318	19,032
Accrual of provision for obsolete inventories (Note10)	18,692	11,545
Insurance	14,478	14,458
Employee benefit expense (Note 23)	8,056	12,142
(Recovery)/accrual of provision for doubtful debts (Notes 11,12, 14 and 35)	(22,286)	1,176,882
Other	408,880	467,859
	4,081,662	5,194,948

(in thousands of Tenge)

32. SELLING EXPENSES

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

	2011	2010
Payroll and related taxes	338,592	300,866
Bank commission	87,463	81,034
Transportation services	45,167	41,863
Inventories	25,586	25,346
Depreciation and amortization	25,561	16,605
Rent expenses	20,580	18,220
Security	19,793	18,920
Other	38,572	48,273
	601,314	551,127

33. FINANCE COSTS

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

	2011	2010
Interest expenses relating to bonds issued	1,079,432	908,729
Interest expenses relating to bank loans	938,149	846,235
Amortization of the discount on bonds	130,773	89,999
Change in estimate on ash disposal area restoration	-	78,317
Interest expenses relating to ash disposal area restoration liabilities (Note 22)	65,685	18,913
Interest expenses on guarantee fees (Note 21)	10,103	9,887
	2,224,142	1,952,080

34. FINANCE INCOME

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

	2011	2010
Interest income from cash placed on the deposits (Note 9)	960,921	1,255,993
Amortization of fair value adjustment on financial aid issued to JSC CAPEC (Note 14)	201,754	256,956
Interest income on guarantee fees (Note 20)	10,029	13,606
Interest income on bonds placement	7,406	-
	1,180,110	1,526,555

(in thousands of Tenge)

35. OTHER INCOME

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

	2011	2010
Income from penalties for incompliance with the terms of the contract	268,549	302,273
Rent income	112,306	71,170
Income from sale of inventories	32,723	83,980
Income from assets found during stock count	31,240	36,120
Income from write-off of accounts payable	17,961	51,272
Expenses on depreciation of property, plant and equipment transferred to operating lease	(34,869)	(46,347)
Rent expenses	(31,437)	(32,000)
Accrual of provision for doubtful debts	(10,282)	-
Other income/(expenses)	164,211	(368)
	550,402	466,100

36. 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 2011 and 2010, the income tax rate was 20%.

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

	2011	2010
Current income tax expense	198,168	486,173
Deferred income tax expense	1,767,912	2,258,979
Income tax expense	1,966,080	2,745,152

(in thousands of Tenge)

As at 31 December 2011 and 2010 and 1 January 2010 deferred tax assets and liabilities were as follows:

Deferred tax assets as a result of:	**31 December 2011**	**31 December 2010**	**1 January 2010**
Tax loss carry-forward	748,884	156,500	110,345
Provision for doubtful debts	147,854	151,192	81,208
Taxes accrued but unpaid	46,236	57,412	32,938
Fair value adjustment on interest-free loan issued to JSC CAPEC	20,169	15,972	28,727
Ash disposal area restoration liabilities	89,803	41,410	19,472
Provision for obsolete inventories	15,744	7,340	9,638
Provision for unused vacations	30,822	32,249	20,976
Deferred revenue	15,334	-	13,545
Fair value adjustment on guarantee fees for additional capacity	18,656	19,639	676
Other temporary differences	6,539	15,300	4,301
Total deferred tax assets	1,140,041	497,014	321,826
Deferred tax liabilities as a result of:			
Carrying value of property, plant and equipment and intangible assets	(14,045,302)	(9,025,821)	(6,190,754)
Long-term accounts payable	(13,883)	(13,791)	(13,545)
Discount on interest income on guarantee fees for additional capacity	(24,852)	(26,621)	(837)
Other temporary differences	-	-	(31,587)
Total deferred tax liabilities	(14,084,037)	(9,066,233)	(6,236,723)
Deferred tax liabilities, net including:	**(12,943,996)**	**(8,569,219)**	**(5,914,897)**
Deferred tax liabilities	(13,037,819)	(8,689,563)	(5,965,749)
Deferred tax assets	93,823	120,344	50,852

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

	2011	**2010**
Balance at 1 January	(8,569,219)	(5,914,897)
Increase in deferred tax liabilities	(4,374,777)	(2,654,322)
Balance at 31 December	**(12,943,996)**	**(8,569,219)**
Recorded:		
In profit or loss	(1,767,912)	(2,258,979)
In other comprehensive income	(2,641,234)	(444,143)
In equity	34,369	48,800
	(4,374,777)	**(2,654,322)**

(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:

	2011	**2010**
Profit before taxation	7,856,121	6,751,233
Tax at statutory rate of 20%	1,571,224	1,350,247
Change in unrecognized tax assets	37,165	(45,022)
Adjustment of current income tax for income of previous years	31,625	-
Effect of change in tax rate	-	986,725
Tax effect of permanent differences	326,066	453,202
Income tax expenses	1,966,080	2,745,152

37. RELATED PARTY TRANSACTIONS

The related parties of the Group include shareholders, 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.

During the year the entities of the Group had the following transactions on main and other activities with related parties not within the Group:

	Sale of services		**Purchase of services**		**Purchase of assets**	
Name	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
JSC CAPEC	201,811	195	127,364	112,226	-	-
JSC Eximbank Kazakhstan	184,208	2,785	62,194	47,354	-	-
JSC Institute Kaznipienergoprom	-	-	-	-	200,000	-
LLP Alash-Service	11,201	-	-	-	-	-
Other	13,080	23,298	11,530	51,577	10,723	35,168
	399,099	26,278	201,088	211,157	210,723	35,168

(in thousands of Tenge)

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

Name	Due from related party			Due to related party		
	31 December 2011	**31 December 2010**	**1 January 2010**	**31 December 2011**	**31 December 2010**	**1 January 2010**
JSC CAPEC (Note 14)	1,544,820	2,046,275	2,192,409	255,534	4,776	11,223
JSC Institute Kaznipienergoprom	298,592	-	-	15,773	-	-
JSC Eximbank Kazakhstan	66	-	-	267,639	359,967	-
LLP Energocomplect PV	-	244,210	25,647	-	-	-
Other	2,738	5,624	5,624	2,199	40,947	-
	1,846,216	2,296,109	2,223,680	541,145	405,690	11,223

Also, the Group entered into transactions with related parties, related to financial activities, including the following:

(a) As at 31 December 2011, loans and accrued interest of 6,070,407 thousand tenge and 268,456 thousand tenge, respectively (31 December and 1 January 2010: 4,471,780 thousand tenge and 359,899 thousand tenge, respectively, and 4,761,181 thousand tenge and 18,192 thousand tenge, respectively) were represented by European Bank for Reconstruction and Development and JSC Eximbank Kazakhstan within the frame of concluded credit agreements. For the years ended 31 December 2011 and 2010 finance cost on loans amounted to 300,742 thousand tenge and 237,310 thousand tenge, respectively.

(b) As at 31 December 2011 and 2010 and 1 January 2010 cash on deposits in JSC Eximbank Kazakhstan, including accrued interest comprised 12,769,586 thousand tenge, 6,092,222 thousand tenge and 15,265,150 thousand tenge, respectively (Note 9). For the years ended 31 December 2011 and 2010 interest income on these deposits comprised 953,706 thousand tenge and 1,145,996 thousand tenge, respectively (Note 34).

(c) As at 31 December 2011 and 2010 and 1 January 2010 cash in JSC Eximbank Kazakhstan, comprised 1,036,224 thousand tenge, 4,655,928 thousand tenge and 805,419 thousand tenge, respectively.

Key personnel of the Group

In 2011, the compensation to the Board of Directors and other key personnel of the Group in the form of salary and bonuses amounted to 166,849 thousand tenge (2010: 215,624 thousand tenge).

(in thousands of Tenge)

38. 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:

	31 December 2011	31 December 2010	1 January 2010
Financial assets			
Other financial assets (Note 9)	12,769,586	6,251,167	15,265,150
Trade accounts receivable (Note 11)	7,827,157	6,052,511	5,535,024
Other accounts receivable (Note 14)	2,516,801	2,739,167	2,928,096
Restricted cash	353,025	-	-
Cash (Note 15)	1,344,978	5,019,799	1,000,434
Financial assets held for trading	-	995,941	-
Financial liabilities			
Bonds issued (Note 18)	11,530,342	11,053,720	8,908,678
Long-term loans (Note 19)	10,853,783	8,217,568	9,837,943
Long-term accounts payable (Note 21)	107,023	112,369	128,685
Short-term loans (Note 24)	4,291,981	4,383,463	2,708,548
Trade accounts payable (Note 25)	6,315,719	4,478,905	4,500,555
Other liabilities and accrued expenses (Note 28)	583,367	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 loans with fixed and floating interest rates. The Group manages the risk by appropriate balancing of loans at floating and fixed interest rates.

Interest rate sensitivity analysis

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

If interest rates on liabilities were 1% more/less and all the other variables remained constant, then the profit of the Group for the year ended 31 December 2011 and retained earnings as at 31 December 2011 would decrease/increase by 120,537 thousand tenge (2010: 110,860 thousand tenge).

Credit risk

Credit risk arising as a result of counterparties' failure to meet the terms of contracts with financial instruments of the Group is normally limited to the amounts, if any, by which the amount of liabilities of the counterparties exceed the Group's liabilities 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 11) and other accounts receivable (Note 14) 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.

(in thousands of Tenge)

Market risk

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

Currency risk

The Group 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 2011 and 2010 is as follows:

	Assets			Liabilities		
	31 December 2011 Thousand tenge	**31 December 2010 Thousand tenge**	**1 January 2010 Thousand tenge**	**31 December 2011 Thousand tenge**	**31 December 2010 Thousand tenge**	**1 January 2010 Thousand tenge**
US Dollars	3,951,876	390,780	2,973,965	3,963,858	4,479,950	4,503,584
Russian roubles	18,991	10,881	4,890	143,980	2,631	48

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 US dollar 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	
	2011	**2010**
Financial assets	395,188	39,078
Financial liabilities	396,386	447,995

It mainly relates to the risk on l oans and deposits of the Group denominated in US dollars as of 31 December 2011 and 2010.

(in thousands of Tenge)

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 tables

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

The table on liquidity risk and interest rate risk as at 31 December 2011 is presented as follows:

	Weighted average effective interest rate	**Up to 1 year**	**1-5 years**	**Over 5 years**	**Undefined term**	**Total**
31 December 2011						
Non-interest-bearing:						
Trade accounts receivable		7,827,157	-	-	1,782,328	9,609,485
Other accounts receivable		2,516,801	-	-	121,290	2,638,091
Cash		1,344,978	-	-	-	1,344,978
Long-term accounts payable		20,009	81,753	278,943	-	380,705
Trade accounts payable		6,315,719	-	-	-	6,315,719
Other liabilities and accrued expenses		583,367	-	-	-	583,367
Interest-bearing:						
Other financial assets	5.3-10.5%	13,215,036	-	-	-	13,215,036
Restricted cash	7.2%	331,662	62,798	-	-	394,460
Bonds issued	9-13%	1,321,046	4,615,752	14,392,091	-	20,328,889
Long-term loans	Libor+3%, KIBOR+4.5%	1,960,471	9,810,003	1,864,490	-	13,634,964
Short-term loans	10-17%	4,606,644	-	-	-	4,606,644

(in thousands of Tenge)

	Weighted average effective interest rate	Up to 1 year	1-5 years	Over 5 years	Undefined term	Total
31 December 2010						
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		4,478,905	-	-	-	4,478,905
Other liabilities and accrued expenses		687,868	-	-	-	687,868
Interest-bearing:						
Other financial assets	5.3-13.25%	6,627,125	-	-	-	6,627,125
Financial assets held-for-trading	7.2%	995,941	-	-	-	995,941
Bonds issued	9-13%	3,032,111	3,560,120	11,314,378	-	17,906,609
Long-term loans	Libor+3%	1,501,678	7,811,601	672,667	-	9,985,946
Short-term loans	10-17%	4,420,607	-	-	-	4,420,607
1 January 2010						
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
Long-term loans	Libor+3%	1,960,117	9,012,977	1,996,004	-	12,969,098
Short-term loans	12.5-16%	2,516,728	-	-	-	2,516,728

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 2011 and 2010 and 1 January 2010 the carrying value of all other financial assets and financial liabilities approximates their fair value.

39. COMMITMENTS AND CONTINGENCIES

Legal issues

The Group was and continues to be the subject of legal proceedings and adjudications which separately or in total 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 m arket economy. As a r esult 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 2011 the Group paid taxes on time on due dates.

Environmental issues

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

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

Insurance

As at 31 December 2011 and 2010, JSC PAVLODARENEGO, the 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

The Group developed and approved the following plan of capital commitments with the Agency of the Republic of Kazakhstan on regulation of natural monopolies:

(a) JSC PAVLODARENERGO, the subsidiary, developed and agreed with the Agency of the Republic of Kazakhstan on regulation of natural monopolies:

- plan of capital investments for 2007-2013 whereby JSC PAVLODARENERGO shall invest 8,000,000 thousand tenge into production assets;
- additional investment reconstruction and technical retooling program for 2010-2015, according to which JSC PAVLODARENERGO shall invest 21,769,470 thousand tenge into production assets;
- investment reconstruction and technical retooling program for the mid-term period of 2010-2013, according to which JSC PAVLODARENERGO shall invest into production assets 4,540,100 thousand tenge.

(b) JSC SEVKAZENERGO, the subsidiary, signed the Agreement with the Ministry of industry and new technologies of the Republic of Kazakhstan on investment obligations of the Group for 2012. According to this agreement the Group is obliged to invest in construction, modernization and acquisition of property, plant and equipment of 4,349,086 thousand tenge till the end of 2012.

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 16). In 2011 Parent company, JSC CAPEC, made a transfer of a part of shares to EBRD in accordance with the agreement between the shareholders of the Company. As at 31 December 2011 EBRD owns 24.99% of the Company's shares. Pursuant to the terms of the agreement the Group is to meet a number of terms. Management of the Company believes that as at 31 December 2011 the Group did not violate any terms of the agreement and met all the requirements.

Agreement with the Islamic Infrastructure Fund

In 2011, the Company concluded an agreement on subscription with the IIF, whereby IIF acquired 12.89% shares of the Company (Note 16). Pursuant to the terms of the agreement the Group is to meet a number of terms. Management of the Company believes that as at 31 December 2011 the Group did not violate any terms of the agreement and met all the requirements.

40. SUBSEQUENT EVENTS

Starting from 1 January 2012 the Department of the Agency for Regulation of Natural Monopolies of the Republic of Kazakhstan increased tariffs of JSC PAVLODARENERGO for heat in average by 6%, electricity distribution and transmission services – by 12%, heat distribution and transmission services – 25.3%, sale of heat – by 15.1%.

Pursuant to the agreement No.183 On implementation of the investment commitments between JSC PAVLODARENERGO and Ministry of industry and new technologies of the Republic of Kazakhstan for 2012 maximum tariff for sale of electricity increased in average by 10% starting from 1 January 2012.

Pursuant to the agreement dated 12 D ecember 2011 On implementation of the investment commitments between JSC SEVKAZENERGO and Ministry of industry and new technologies of the Republic of Kazakhstan for 2012 maximum tariff for sale of electricity increased from 1 April 2012 by 13.5%.

From 1 January 2012 to the date of authorization of these consolidated financial statements JSC SEVKAZENERGO, the subsidiary, received 1,621,000 thousand tenge within the frame of credit line with JSC SB Sberbank of Russia. The interest rate on these loans comprised 10% per annum.

On 18 January 2012, under a contract of a bank loan dated 26 March 2011 with EBRD LLP Pavlodar Thermal Networks, the subsidiary of JSC PAVLODARENERGO received the second tranche of 1,498,500 thousand tenge.

On 25 January 2012, under a contract of a bank loan dated 26 March 2011 with EBRD LLP Petropavlovsk Thermal Networks, the subsidiary of JSC SEVKAZENERGO, received the second tranche of 1,077,708 thousand tenge.

On 31 January 2012, LLP Astanaenergosbyt, the subsidiary, entered into a supplementary agreement with JSC CAPEC for additional interest-free financial aid amounting to 200,000 thousand tenge under the contract on financing No.72 dated 30 November 2011. On 5 April 2012 the subsidiary repaid financial aid of 400,000 thousand tenge.

On 28 March 2012, according to the letter of the Department of the Agency for Regulation of Natural Monopolies of the Republic of Kazakhstan the tariff for electric power of SEVKAZENERGOSBYT LLP, the subsidiary of JSC SEVKAZENERGO, amounted to 8.435 tenge/kWh without VAT.