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

**Consolidated financial statements**
For the year ended 31 December 2013

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

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### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Joint Stock Company Central-Asian Electric-Power Corporation (the "Company") and its subsidiaries (collectively – the "Group") as at 31 December 2013, the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2013 were authorized for issuance by management on 28 April 2014.

**On behalf of management of the Group:**

| | |
|---|---|
| **Amirkhanov Y.A.** | **Kassymkhanova K.E.** |
| **President** | **Chief Accountant** |
| 28 April 2014 | 28 April 2014 |
| Almaty, Republic of Kazakhstan | Almaty, Republic of Kazakhstan |

Deloitte.

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## 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 (collectively – the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, 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.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Dulat Taituleyev
Engagement Partner
Certified Auditor
Republic of Kazakhstan
Auditor's Certificate No. MF-0000095,
dated 27 August 2012

DELOITTE, LLP

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

Nurlan Bekenov
General Director
Deloitte, LLP

28 April 2014
Almaty, Republic of Kazakhstan

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

*(in thousands of Tenge)*

| | Notes | 31 December 2013 | 31 December 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| NON-CURRENT ASSETS: | | | |
| Property, plant and equipment | 6 | 116,195,184 | 100,491,319 |
| Goodwill | 7 | 2,424,419 | 2,424,419 |
| Intangible assets | | 155,503 | 95,349 |
| Deferred tax assets | 34 | 144,249 | 145,087 |
| Other non-current assets | 8 | 10,156,288 | 6,996,689 |
| Restricted cash | 9, 19 | 331,805 | 242,906 |
| Total non-current assets | | 129,407,448 | 110,395,769 |
| CURRENT ASSETS: | | | |
| Inventories | 10 | 4,750,996 | 3,353,885 |
| Trade accounts receivable | 11 | 9,574,879 | 9,651,081 |
| Advances paid | 12 | 1,364,973 | 1,018,365 |
| Income tax prepaid | | 158,171 | 137,663 |
| Taxes receivable and prepaid taxes | 13 | 1,055,527 | 1,027,519 |
| Other accounts receivable | 14 | 2,057,403 | 2,692,330 |
| Other financial assets | 9 | 9,263,602 | 9,115,805 |
| Restricted cash | 9, 19 | 562,530 | 381,126 |
| Cash | 15 | 2,341,928 | 986,622 |
| Total current assets | | 31,130,009 | 28,364,396 |
| TOTAL ASSETS | | 160,537,457 | 138,760,165 |
| **EQUITY AND LIABILITIES** | | | |
| EQUITY: | | | |
| Share capital | 16 | 37,590,045 | 37,590,045 |
| Additional paid-in capital | 17 | 1,348,105 | 1,348,105 |
| Revaluation reserve on property, plant and equipment | | 18,020,220 | 19,236,528 |
| Retained earnings | | 30,412,816 | 22,560,077 |
| Total equity | | 87,371,186 | 80,734,755 |
| NON-CURRENT LIABILITIES: | | | |
| Bonds issued | 18 | 14,885,375 | 13,678,521 |
| Long-term loans | 19 | 18,901,770 | 9,752,949 |
| Deferred revenue | 20 | 1,065,350 | 1,122,250 |
| Long-term accounts payable | | 36,457 | 40,711 |
| Ash disposal area restoration liabilities | 21 | 481,235 | 253,348 |
| Employee benefit obligations | | 98,905 | 92,071 |
| Deferred tax liabilities | 34 | 16,770,481 | 14,604,204 |
| Total non-current liabilities | | 52,239,573 | 39,544,054 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
## AS AT 31 DECEMBER 2012
*(in thousands of Tenge)*

| | Notes | 31 December 2013 | 31 December 2012 |
|---|---|---|---|
| CURRENT LIABILITIES: | | | |
| Current portion of bonds issued | 18 | 645,519 | 583,028 |
| Current portion of long-term loans | 19 | 2,969,013 | 1,991,364 |
| Current portion of ash disposal area restoration liabilities | 21 | - | 155,427 |
| Current portion of employee benefit obligations | | 9,633 | 8,841 |
| Short-term loans | 22 | 5,732,077 | 4,413,223 |
| Trade accounts payable | 23 | 7,079,878 | 7,905,116 |
| Advances received | 24 | 2,797,512 | 2,139,741 |
| Income tax payable | | - | 1,968 |
| Taxes and non-budget payments payable | 25 | 747,449 | 441,584 |
| Other liabilities and accrued expenses | 26 | 945,617 | 841,064 |
| Total current liabilities | | 20,926,698 | 18,481,356 |
| TOTAL EQUITY AND LIABILITIES | | 160,537,457 | 138,760,165 |

**Signed on behalf of management of the Group:**

**Amirkhanov Y.A.**
**President**

28 April 2014
Almaty, Republic of Kazakhstan

**Kassymkhanova K.E.**
**Chief Accountant**

28 April 2014
Almaty, Republic of Kazakhstan

The notes on pages 10-56 form an integral part of these consolidated financial statements.

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

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

*(in thousands of Tenge)*

| | Notes | 2013 | 2012 |
|---|---|---|---|
| REVENUE | 27 | 83,070,553 | 74,496,765 |
| COST OF SALES | 28 | (63,212,430) | (59,155,300) |
| GROSS PROFIT | | 19,858,123 | 15,341,465 |
| General and administrative expenses | 29 | (5,877,105) | (5,235,035) |
| Selling expenses | 30 | (1,312,758) | (1,098,898) |
| Finance costs | 31 | (2,376,140) | (2,416,229) |
| Finance income | 32 | 643,753 | 646,730 |
| Foreign exchange loss | | (27,532) | (2,281) |
| Other income | 33 | 468,379 | 792,233 |
| PROFIT BEFORE TAXATION | | 11,376,720 | 8,027,985 |
| INCOME TAX EXPENSE | 34 | (2,803,935) | (1,963,669) |
| PROFIT AND OTHER COMPREHENSIVE INCOME FOR THE YEAR | | 8,572,785 | 6,064,316 |
| EARNINGS PER SHARE | | | |
| Earnings per share for the year, basic and diluted, in tenge | 37 | 266.67 | 188.64 |

**Signed on behalf of management of the Group:**

**Amirkhanov Y.A.**
**President**

28 April 2014
Almaty, Republic of Kazakhstan

**Kassymkhanova K.E.**
**Chief Accountant**

28 April 2014
Almaty, Republic of Kazakhstan

The notes on pages 10-56 form an integral part of these consolidated financial statements.

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

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

*(in thousands of Tenge)*

| | Notes | Share capital | Additional paid-in capital | Revaluation reserve on property, plant and equipment | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| **At 1 January 2012** | | **37,590,045** | **1,348,105** | **20,448,020** | **16,376,282** | **75,762,452** |
| Profit and other comprehensive income for the year | | - | - | - | 6,064,316 | 6,064,316 |
| Amortization of revaluation reserve on property, plant and equipment | | - | - | (1,211,492) | 1,211,492 | - |
| Dividends declared | 16 | - | - | - | (883,505) | (883,505) |
| Fair value adjustment of interest-free loan issued to the shareholder less deferred tax of 52,514 thousand tenge | 14 | - | - | - | (208,508) | (208,508) |
| **At 31 December 2012** | | **37,590,045** | **1,348,105** | **19,236,528** | **22,560,077** | **80,734,755** |
| Profit and other comprehensive income for the year | | - | - | - | 8,572,785 | 8,572,785 |
| Amortization of revaluation reserve on property, plant and equipment | | - | - | (1,216,308) | 1,216,308 | - |
| Dividends declared | 16 | - | - | - | (1,819,295) | (1,819,295) |
| Fair value adjustment of interest-free loan issued to the shareholder less deferred tax of 29,265 thousand tenge | 14 | - | - | - | (117,059) | (117,059) |
| **At 31 December 2013** | | **37,590,045** | **1,348,105** | **18,020,220** | **30,412,816** | **87,371,186** |

**Signed on behalf of management of the Group:**

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

**Amirkhanov Y.A.**
**President**

28 April 2014
Almaty, Republic of Kazakhstan

**Kassymkhanova K.E.**
**Chief Accountant**

28 April 2014
Almaty, Republic of Kazakhstan

The notes on pages 10-56 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 2013

*(in thousands of Tenge)*

| | Notes | 2013 | 2012 |
|---|---|---|---|
| **OPERATING ACTIVITIES:** | | | |
| Profit before taxation | | 11,376,720 | 8,027,985 |
| Adjustments for: | | | |
| Depreciation and amortization | 28, 29, 30, 33 | 4,740,838 | 4,009,206 |
| Finance costs | 31 | 2,376,140 | 2,416,229 |
| Accrual of allowance for doubtful debts | 29 | 300,500 | 406,499 |
| Loss on disposal of property, plant and equipment | | 19,820 | - |
| Employee benefit expenses | | 23,500 | 34,662 |
| Interest income from cash placed on deposits | 32 | (409,623) | (429,367) |
| Amortization of fair value adjustment on interest-free loans | 32 | (160,475) | (181,591) |
| Interest income from guarantee fees and loans given to employees | 32 | (12,298) | (8,889) |
| Foreign exchange (gain)/loss | | (67,739) | 2,281 |
| Accrual of provision for unused vacations | | 13,570 | 8,348 |
| Accrual of allowance for slow-moving inventories | 29 | 5,047 | 11,275 |
| Operating cash flow before changes in working capital | | 18,206,000 | 14,296,638 |
| Increase in inventories | | (1,402,158) | (736,127) |
| Decrease/(increase) in trade accounts receivable | | 74,543 | (2,226,423) |
| (Increase)/decrease in advances paid | | (368,567) | 83,850 |
| Decrease in taxes receivable and prepaid taxes | | 647,982 | 471,431 |
| Decrease/(increase) in other accounts receivable | | 372,035 | (406,579) |
| (Decrease)/increase in trade accounts payable | | (1,001,145) | 1,607,814 |
| Decrease in deferred revenue | | (94,443) | (87,004) |
| Increase in advances received | | 657,771 | 221,515 |
| Decrease in taxes and non-budget payments payable | | (303,641) | (392,408) |
| Decrease in employee benefit obligations | | (15,874) | (14,358) |
| Decrease in ash disposal area restoration liabilities | | - | (155,427) |
| Increase/(decrease) in other liabilities and accrued expenses | | 51 | (108,835) |
| Cash provided by operating activities | | 16,772,554 | 12,554,087 |
| Income tax paid | | (669,907) | (412,406) |
| Interest paid | | (2,615,515) | (2,415,192) |
| Net cash provided by operating activities | | 13,487,132 | 9,726,489 |

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
## FOR THE YEAR ENDED 31 DECEMBER 2013
*(in thousands of Tenge)*

| | Notes | 2013 | 2012 |
|---|---|---|---|
| **INVESTING ACTIVITIES:** | | | |
| Cash withdrawn from deposits | | 5,785,446 | 12,993,852 |
| Cash placed on deposits | | (6,217,992) | (10,113,330) |
| Acquisition of property, plant and equipment | | (19,552,201) | (15,141,756) |
| Change in advances paid for property, plant and equipment | | (3,186,190) | (2,315,577) |
| Acquisition of intangible assets | | (84,582) | (36,836) |
| Proceeds from disposal of property, plant and equipment | | 82,591 | 135,350 |
| Proceeds from interest accrued on placed deposits | | 527,018 | 1,054,997 |
| Net cash used in investing activities | | (22,645,910) | (13,423,300) |
| **FINANCING ACTIVITIES:** | | | |
| Proceeds from issuance of bonds | | 1,106,167 | 2,613,360 |
| Repayment of bonds | | - | (6,308) |
| Proceeds from loans | | 20,748,300 | 10,250,889 |
| Repayment of loans | | (9,536,695) | (8,634,029) |
| Dividends paid | 16 | (1,819,295) | (883,505) |
| Net cash generated from financing activities | | 10,498,477 | 3,340,407 |
| NET INCREASE/(DECREASE) IN CASH | | 1,339,699 | (356,404) |
| CASH at the beginning of the year | | 986,622 | 1,344,978 |
| Effect of changes in foreign exchange rate on cash balance held in foreign currency | | 15,607 | (1,952) |
| CASH at the end of the year | 15 | 2,341,928 | 986,622 |

**Non-cash operations:**

- In 2013, the Group capitalized to the cost of property, plant and equipment 710,793 thousand tenge of borrowing costs on bank loans, including amortization of discount on loan from Clean Technology Fund and foreign exchange loss on revaluation of loans in foreign currency, less interest income on cash placed on deposits (2012: 278,227 thousand tenge) (Note 6).
- In 2013, the Group carried out capital repair of property, plant and equipment using its own resources and capitalized payroll expenses and expenses on materials of 22,369 thousand tenge and nil, respectively (2012: 42,364 thousand tenge and 194,596 thousand tenge, respectively).
- In 2013, the Group amortized discount/premium on the bonds issued in the amount of 173,607 thousand tenge (2012: 119,419 thousand tenge).

**Signed on behalf of management of the Group:**

**Amirkhanov Y.A.**
**President**

28 April 2014
Almaty, Republic of Kazakhstan

**Kassymkhanova K.E.**
**Chief Accountant**

28 April 2014
Almaty, Republic of Kazakhstan

The notes on pages 10-56 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 2013 and 2012, the shareholders of the Company were JSC Central-Asian Power Energy Company (JSC CAPEC) (62.12%), European Bank for Reconstruction and Development (EBRD) (24.99%) and KAZ HOLDINGS COOPERATIEF U.A. (12.89%) (Note 16).

The ultimate shareholders of the Company as at 31 December 2013 and 2012 are Mr. E. Amirkhanov, Mr. A. Klebanov, Mr. S. Kan and Ms. G. Artambayeva, residents of the Republic of Kazakhstan, who are the immediate owners of the JSC CAPEC.

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

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

| Subsidiaries | Location | Ownership interest 2013 | Ownership interest 2012 | Principal activity |
|---|---|---|---|---|
| JSC PAVLODARENERGO | Pavlodar | 100% | 100% | Production, transmission and sale of electricity and heat |
| JSC SEVKAZENERGO | Petropavlovsk | 100% | 100% | Production, transmission and sale of electricity and heat |
| LLP Astanaenergosbyt | Astana | 100% | 100% | Sale of electricity and heat |

The principal activity of the Group is production, transmission, distribution, and sale of the electricity and heat 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 and heat.

The total number of employees of the Group as at 31 December 2013 and 2012 was 8,073 and 7,817 persons, respectively.

On June 6, 2013 Fitch Ratings has assigned the following credit ratings to the Company:

- Long-term default rating of the Company (IDR) in foreign currency "BB-", "Stable" forecast;
- Short-term foreign currency IDR at "B";
- Long-term local currency IDR at "BB-", "Stable" forecast; and
- National Long-term rating "BBB + (kaz)", "Stable" forecast.

These consolidated financial statements were approved and authorized for issue by management of the Group on 28 April 2014.

## 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. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

## 3. PRESENTATION AND MAIN PRINCIPLES OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

***Statement of compliance***

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

***Basis of preparation***

The consolidated financial statements of the Group have been prepared on the historical cost basis except for property, plant and equipment and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when assessing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into levels based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs - are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs - are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs - are unobservable inputs for the asset or liability.

***Functional and presentation currency***

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

***Adoption of the new and revised International Financial Reporting Standards***

*Standards and Interpretations effective for the current period:*

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

- IFRS 10 Consolidated Financial Statements;
- IFRS 11 Joint Arrangements;
- IFRS 12 Disclosure of Interests in Other Entities;
- IFRS 13 Fair Value Measurement;
- Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities;
- Amendments to IFRS 10, IFRS 11 and IFRS 12. Transition Guidance;
- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income;
- IAS 19 Employee Benefits (as revised in 2011);
- IAS 27 Separate Financial Statements (as revised in 2011);
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011);
- Annual Improvements to IFRSs 2009 - 2011 Cycle; and
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine.

Basic requirements containing in these standards are presented below.

The Group has applied IFRS 13 for the first time in the current year. This standard establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. Transitional provisions allow not to applying the disclosure requirements set out in the IFRS 13 in comparative information provided for periods before the initial application of the IFRS 13. Therefore, the Group has not made any new disclosures required by IFRS 13 for the 2012 comparative period (please see Note 36 for the 2013 disclosures). Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

The Group has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income for the first time in the current year. The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the ‘statement of comprehensive income’ is renamed as the ‘statement of profit or loss and other comprehensive income’. Moreover, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments require retrospective application, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Adoption of these Standards and Interpretations have not led to any changes in the Group’s accounting policy. Additions have no material effect on the consolidated financial statements of the Group.

*(in thousands of Tenge)*

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 definitions and issues regarding presentation of the consolidated financial statements, issues of recognition and measurement. 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.

*New and revised IFRSs in issue but not yet effective*

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

| | **Effective for annual periods beginning on or after** |
|---|---|
| IFRS 9 Financial Instruments | 1 January 2015 |
| Amendments to IFRS 9 and IFRS 7 Mandatory effective date of IFRS 9 and transition disclosures | 1 January 2015 |
| Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities | 1 January 2014 |
| Amendments to IAS 32 Offsetting financial assets and financial liabilities | 1 January 2014 |
| Amendments to IAS 36 Impairment of Assets | 1 January 2014 |
| Amendments to IAS 39 Financial Instruments: Recognition and Measurement | 1 January 2014 |
| Interpretation IFRIC 21 Levies | 1 January 2014 |

Management assumes that all stated above Standards, Interpretations and amendments will have no material impact on the Group's consolidated financial statements in the period of initial application.

***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 contingent assets and liabilities. Due to uncertainty inherent in such estimates, the actual results reflected in future reporting periods may be based on the amounts different from these estimates.

The following are the key assumptions and estimations regarding future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

*Ash disposal area restoration liability*

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

*Allowances for doubtful debts and slow-moving inventories*

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

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

*Property, plant and equipment held in trust management*

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

*Useful lives of property, plant and equipment*

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

*Recognition of revenue from sale of 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES

***Segment reporting***

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

***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Company has less than a majority of the voting rights of an investee when the voting rights are sufficient to give it a practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company’s voting rights in an investee are sufficient to give it power, including:

- The size of the Company’s holding of voting rights relative to the size and dispersion of holdings of other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders’ meeting.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

***Goodwill***

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

Goodwill arising on an acquisition of a business is carried at cost at the date of acquisition of the business less accumulated impairment losses, if any.

Changes in a Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). In such circumstances the carrying amounts of the controlling and non-controlling interests adjusted to reflect the changes in their relative interests in a subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received 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. 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 reporting date. Non-monetary items recorded at historical cost denominated in foreign currency are not translated. Foreign exchange gains and losses on these operations are recorded in profit or loss, except for exchange differences on loans in foreign currency relating to items of construction in progress, which are included into the cost of these items.

*(in thousands of Tenge)*

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

| | **31 December 2013** | **31 December 2012** |
|---|---|---|
| US Dollar | 153.61 | 150.74 |
| Russian Ruble | 4.69 | 4.96 |

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

| | **2013** | **2012** |
|---|---|---|
| US Dollar | 152.13 | 149.11 |
| Russian Ruble | 4.78 | 4.80 |

***Property, plant and equipment***

Property, plant and equipment are initially recorded at acquisition cost. All property, plant and equipment acquired before 1 January 2005 – date of transition to IFRS – are recorded at revalued cost being the deemed cost. Cost of acquired property, plant and equipment represents cost of funds paid on acquisition of respective assets and other directly related costs incurred in delivery of assets to the facility and necessary preparation for their planned 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 is made on the same basis as for property, plant and equipment, commences when the assets are put into operation. Construction in progress is reviewed regularly to determine whether its carrying value is fairly stated and whether appropriate provision for impairment is required.

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

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

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

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

| | |
|---|---|
| Buildings and constructions | 5-70 years |
| Machinery and production equipment | 3-40 years |
| Vehicles | 3-15 years |
| Other | 3-18 years |

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

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 lives, which is 6-15 years.

***Impairment of non-current assets***

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

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

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

***Effective interest rate method***

The effective interest rate method is a method to calculate the 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) over expected period 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 allowance for doubtful debts. The allowance for doubtful debts is accrued when the debt is unlikely to be fully repaid. The allowance for doubtful debts is accrued by the Group when the debt is not repaid within contractual terms. The allowance for doubtful debts is regularly revised and, if adjustments are necessary, appropriate amounts are recorded in profit or loss in the period in which such need arises.

***Other financial assets***

Deposits with initial maturity of over three months 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 on current bank accounts.

***Restricted cash***

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 is restricted in use for the period not exceeding twelve months from the reporting date, such cash is treated as current assets and an appropriate disclosure is provided in the notes to the consolidated financial statements. If cash is restricted in use for the period exceeding twelve months from the reporting date, such cash is reflected within non-current assets.

The Group concludes bank deposit agreements with the minimum kept balance, which are also classified as restricted cash within current and non-current assets in the consolidated statement of financial position.

***Impairment of financial assets***

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

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

- significant financial difficulties of issuers or counterparties; or
- default or delay on interest or principal; or
- probable bankruptcy or 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 trade accounts receivable impairment may include the previous experience of the Group with regard to collection, increase in outstanding amounts delayed for more than 60 days, and observed changes in the national economy directly affecting the defaults on accounts receivable.

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

Carrying amount of the financial asset is reduced by impairment loss directly for all financial assets, except for trade accounts receivable where carrying amount of non-recoverable accounts receivable is reduced by allowance for doubtful debts. When trade accounts receivable are not collectable, they are written off against previously created allowance for doubtful debts. Allowance for doubtful debts is reversed for subsequent recovery of previously written off amount. Changes in the carrying amount of the provision are 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 on a net-basis in 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 them on a net-basis or to realise the asset and settle the liability simultaneously.

***Derecognition of financial assets and liabilities***

*Financial assets*

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

- the rights to receive cash flows from the asset have expired;
- the Group retains rights to receive cash flows from asset, but assumed an obligation to pay them fully without significant delay to a third party in accordance with transfer agreement, and transferred, all risks and rewards of the asset; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control over the asset.

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

*Financial liabilities*

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

***Borrowing costs***

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

Borrowing costs also include exchange differences arising as a result of loans in foreign currency to the extent they are considered an adjustment of interest 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 in exchange differences is charged to profit or loss.

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

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

Interest rate on loan agreements with the EBRD dated 26 March 2011 includes all-in cost. All-in-cost represents the cost of financing the loan (fees, commissions, etc.), which are paid by the Group during the term of the loan, in accordance with loan agreements.

***Revenue recognition***

Revenue is determined at the fair value of the consideration received or receivable and represents amounts receivable for 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 in 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.

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

Deferred tax is the tax 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 to profit or loss, except when they relate to items charged or credited directly to other comprehensive income or equity.

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

***Social tax***

The Group pays social tax according to the existing legislation of the Republic of Kazakhstan. The effective rate of social tax for the Group during 2013 and 2012 was approximately 6% of gross income of employees. The social tax and salary of the personnel are expensed in the period as accrued.

***Pension contributions***

The Group withholds 10% form the salary of its employees as contributions to the cumulative pension funds but not more than 139,950 tenge per month in 2013 (2012: not more than 130,793 tenge per month). According to the legislation of the Republic of Kazakhstan, pension contributions are obligations of the employee, and the Group carries no current or future obligations on pension contributions after their retirement.

***Provisions***

Provisions are 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 settle the obligations. Where the discounting is used, the increase in the provision reflecting the period of past time is recognized as finance cost.

***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. SEGMENT REPORTING

Information reported to the President of the Group, the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on the types of services provided and, accordingly, the Group identifies five main segments: production of heat and electricity, transmission and distribution of electricity, transmission and distribution of heat, sale of heat and electricity and other, which include maintenance of home networks and sale of chemical products. Other services do not exceed the quantitative thresholds, therefore, do not require a separate disclosure.

The Group monitors the multiple profitability ratios such as: profit before tax, profit for the year and gross profit. Despite this, the profit for the year is the ratio used for the purpose of resource allocation and assessment of segment performance.

*(in thousands of Tenge)*

| | For the year ended 31 December 2013 | | | | | |
|---|---|---|---|---|---|---|
| **Key operational activities** | **Production of heat and electric power** | **Transmission and distribution of electric power** | **Transmission and distribution of heat** | **Sale of heat and electric power** | **Other** | **Total** |
| Revenue | 44,759,364 | 10,206,953 | 4,777,649 | 65,355,197 | 468,893 | 125,568,056 |
| Intrasegment revenue | (6,451,667) | (214,487) | (1,595) | (35,562,454) | (267,300) | (42,497,503) |
| Revenue | 38,307,697 | 9,992,466 | 4,776,054 | 29,792,743 | 201,593 | 83,070,553 |
| Cost of sales | (22,558,430) | (8,036,014) | (4,981,470) | (27,623,710) | (12,806) | (63,212,430) |
| General and administrative expenses | (2,128,110) | (1,000,940) | (1,236,286) | (1,024,519) | (487,250) | (5,877,105) |
| Selling expenses | (20,669) | - | - | (1,303,462) | (11,373) | (1,312,758) |
| Finance cost | (2,226,386) | (3,592) | (22,940) | (97,657) | (25,565) | (2,376,140) |
| Finance income | 236,115 | 5,207 | 5,059 | 762 | 396,610 | 643,753 |
| Foreign exchange loss | (40,875) | (8) | 2,250 | (581) | 11,682 | (27,532) |
| Other income | (127,494) | 121,493 | 21,059 | 455,599 | (2,278) | 468,379 |
| Income tax expense | (2,438,859) | (330,306) | 108,272 | (143,042) | - | (2,803,935) |
| **Profit for the year** | 9,002,989 | 748,306 | (1,328,002) | 56,133 | 93,359 | 8,572,785 |
| **Other key segment information** | | | | | | |
| Capital expenditure on property, plant and equipment | 15,858,250 | 2,773,621 | 1,639,639 | 168,409 | 60,372 | 20,500,291 |
| Depreciation of property, plant and equipment | 3,251,464 | 863,786 | 519,949 | 53,586 | 27,483 | 4,716,268 |

| | For the year ended 31 December 2012 | | | | | |
|---|---|---|---|---|---|---|
| **Key operational activities** | **Production of heat and electric power** | **Transmission and distribution of electric power** | **Transmission and distribution of heat** | **Sale of heat and electric power** | **Other** | **Total** |
| Total revenue | 36,294,427 | 8,653,023 | 3,928,505 | 57,734,149 | 551,322 | 107,161,426 |
| Intrasegment revenue | (7,755,718) | (99,218) | (14,680) | (24,440,375) | (354,670) | (32,664,661) |
| Revenue from sales to external customers | 28,538,709 | 8,553,805 | 3,913,825 | 33,293,774 | 196,652 | 74,496,765 |
| Cost of sales | (17,958,993) | (6,676,557) | (4,314,399) | (30,008,699) | (196,652) | (59,155,300) |
| General and administrative expenses | (839,264) | (861,804) | (1,394,654) | (1,763,435) | (375,878) | (5,235,035) |
| Selling expenses | (43,106) | - | - | (1,055,792) | - | (1,098,898) |
| Finance cost | (2,290,296) | (9,069) | (40,554) | (76,310) | - | (2,416,229) |
| Finance income | 313,497 | 5,706 | 4,189 | 613 | 322,725 | 646,730 |
| Foreign exchange loss | (56,461) | (194) | 2,773 | (1,141) | 52,742 | (2,281) |
| Other income | 244,420 | 132,570 | 203,768 | 218,940 | (7,465) | 792,233 |
| Income tax expense | (1,683,863) | (233,712) | 70,477 | (107,422) | (9,149) | (1,963,669) |
| **Profit for the year** | 6,224,643 | 910,745 | (1,554,575) | 500,528 | (17,025) | 6,064,316 |
| **Other key segment information** | | | | | | |
| Capital expenditure on property, plant and equipment | 10,320,889 | 2,069,417 | 2,382,938 | 80,524 | - | 14,853,768 |
| Depreciation of property, plant and equipment | 2,784,538 | 776,396 | 361,689 | 50,859 | 18,305 | 3,991,787 |

*(in thousands of Tenge)*

## 6. PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2013 and 2012, movement of property, plant and equipment was presented as follows:

| Revalued cost | Land, buildings and constructions | Machinery and production equipment | Vehicles | Other | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **At 1 January 2012** | **17,733,596** | **57,768,523** | **396,758** | **140,877** | **13,289,141** | **89,328,895** |
| Additions | 10,155 | 397,422 | 75,467 | 45,013 | 10,956,182 | 11,484,239 |
| Transfers from inventories | - | 8,315 | - | 877 | 3,926,552 | 3,935,744 |
| Internal transfers | 3,482,168 | 8,351,761 | (2,861) | (92) | (11,830,976) | - |
| Change in estimate on ash disposal area restoration | 22,024 | - | - | - | - | 22,024 |
| Disposals | (35,821) | (106,235) | (107) | (4,868) | (400) | (147,431) |
| **At 31 December 2012** | **21,212,122** | **66,419,786** | **469,257** | **181,807** | **16,340,499** | **104,623,471** |
| Additions | 62,562 | 606,452 | 87,276 | 91,947 | 12,013,546 | 12,861,783 |
| Transfers from inventories | - | 7,809 | - | 133 | 7,630,566 | 7,638,508 |
| Internal transfers | 1,765,977 | 16,617,644 | 165,578 | 9,833 | (18,559,032) | - |
| Change in estimates on ash disposal area restoration | 22,253 | - | - | - | - | 22,253 |
| Disposals | (21,748) | (65,282) | - | (11,403) | (45,712) | (144,145) |
| **At 31 December 2013** | **23,041,166** | **83,586,409** | **722,111** | **272,317** | **17,379,867** | **125,001,870** |
| **Accumulated depreciation and impairment** | | | | | | |
| **At 1 January 2012** | **(82,419)** | **(40,504)** | **-** | **(22,392)** | **(309)** | **(145,624)** |
| Depreciation charge for the year | (900,388) | (2,999,329) | (62,605) | (29,465) | - | (3,991,787) |
| Elimination of accumulated depreciation | - | 119 | - | - | - | 119 |
| Disposals | 1,589 | 3,458 | 23 | 70 | - | 5,140 |
| **At 31 December 2012** | **(981,218)** | **(3,036,256)** | **(62,582)** | **(51,787)** | **(309)** | **(4,132,152)** |
| Depreciation charge for the year | (995,119) | (3,609,663) | (84,176) | (27,310) | - | (4,716,268) |
| Disposals | 10,161 | 24,587 | - | 6,986 | - | 41,734 |
| **At 31 December 2013** | **(1,966,176)** | **(6,621,332)** | **(146,758)** | **(72,111)** | **(309)** | **(8,806,686)** |
| **Net book value** | | | | | | |
| **At 31 December 2013** | **21,074,990** | **76,965,077** | **575,353** | **200,206** | **17,379,558** | **116,195,184** |
| **At 31 December 2012** | **20,230,904** | **63,383,530** | **406,675** | **130,020** | **16,340,190** | **100,491,319** |

*(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 valuation date was determined using the cost approach, namely the method of determining the replacement cost, which is an estimate of the Level 3 in the fair value hierarchy. In estimating the fair value of property, plant and equipment, their current use is considered the best and most profitable form of use.

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

| | **Land, buildings and constructions** | **Machinery and production equipment** | **Vehicles** | **Other** | **Construction in progress** | **Total** |
|---|---|---|---|---|---|---|
| At 31 December 2013 | 15,469,547 | 63,327,376 | 392,144 | 112,415 | 17,379,558 | **96,681,040** |
| At 31 December 2012 | 14,197,412 | 48,695,410 | 231,555 | 97,708 | 16,340,190 | **79,562,275** |

For the years ended 31 December 2013 and 2012, the Group capitalized to the cost of property, plant and equipment borrowing costs on bank loans, including amortization of discount on loan from CTF and foreign exchange loss on revaluation of loans in foreign currency, less interest income on cash placed on deposits of 710,793 thousand tenge and 278,227 thousand tenge, respectively.

As at 31 December 2013 and 2012, net book value of pledged property, plant and equipment was equal to 52,158,684 thousand tenge and 41,862,408 thousand tenge, respectively (Notes 19 and 22).

As at 31 December 2013 and 2012, fully depreciated property, plant and equipment at revalued cost amounted to 73,667 thousand tenge and 21,224 thousand tenge, respectively.

## 7. GOODWILL

For the years ended 31 December 2013 and 2012, movement of goodwill was presented as follows:

| | **2013** | **2012** |
|---|---|---|
| **Cost** | | |
| At 1 January | 2,424,419 | 2,424,419 |
| At 31 December | 2,424,419 | 2,424,419 |

*(in thousands of Tenge)*

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

| | **JSC PAVLODAR-ENERGO** | **LLP Astana-energosbyt** | **Total** |
|---|---|---|---|
| Goodwill recognized at 31 December 2012 | 1,687,141 | 737,278 | 2,424,419 |
| Goodwill recognized at 31 December 2013 | 1,687,141 | 737,278 | 2,424,419 |

The Group tests goodwill for impairment annually or more frequently if there are indications that goodwill might be impaired. Key assumptions on which management has determined the value in use include the discount rate and growth rate.

The management estimates the average interest rate in the range of 11% -12% in order to assess the cost of its use for the calculation of its generating units. Management believes that the planned annual increase in sales volumes and tariffs for heat and electricity in the next five years is reasonably achievable.

Due to stable conditions in the market and positive cash flow forecasts for these cash generating units no impairment of goodwill was identified as at 31 December 2013 and 2012.

## 8. OTHER NON-CURRENT ASSETS

As at 31 December 2013 and 2012, other non-current assets consisted of the following:

| | **31 December 2013** | **31 December 2012** |
|---|---|---|
| Advances paid for property, plant and equipment and intangible assets | 9,720,279 | 6,538,563 |
| Long-term portion of VAT receivable | 418,079 | 444,670 |
| Other | 17,930 | 13,456 |
| | 10,156,288 | 6,996,689 |

*(in thousands of Tenge)*

## 9. OTHER FINANCIAL ASSETS AND RESTRICTED CASH

As at 31 December 2013 and 2012, other financial assets and restricted cash consisted of the following:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| *Other financial assets:* | | |
| Deposits with maturity of more than three months to one year | 9,263,167 | 9,080,161 |
| Interest receivable | 435 | 35,644 |
| | 9,263,602 | 9,115,805 |
| *Restricted cash:* | | |
| Cash on debt service reserve accounts (Note 19) | 465,801 | 357,022 |
| Minimum balance on deposits | 428,534 | 267,010 |
| | 894,335 | 624,032 |

In 2013, the Group recognized interest income totaling to 409,623 thousand tenge (2012: 429,367 thousand tenge) (Note 32).

In 2013, interest rates on deposits were 1%-9% (2012: 2.8%-9%).

Other financial assets and restricted cash as at 31 December 2013 and 2012, were denominated in the following currencies:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Tenge | 8,477,445 | 7,573,638 |
| US Dollars | 1,680,492 | 2,166,199 |
| | 10,157,937 | 9,739,837 |

*(in thousands of Tenge)*

## 10. INVENTORIES

As at 31 December 2013 and 2012, inventories consisted of the following:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Spare parts | 1,930,953 | 1,272,007 |
| Coal and fuel oil | 1,340,798 | 1,025,745 |
| Rolled metal products | 585,603 | 404,081 |
| Electrotechnical materials | 276,750 | 132,289 |
| Construction materials | 171,022 | 127,006 |
| Isolating materials | 128,347 | 81,332 |
| Chemicals | 88,006 | 35,022 |
| Tools and metering devices | 82,208 | 123,624 |
| Uniforms | 41,045 | 24,307 |
| Fuel | 34,341 | 59,125 |
| Other | 166,963 | 159,341 |
| | 4,846,036 | 3,443,879 |
| Allowance for slow-moving inventories | (95,040) | (89,994) |
| | 4,750,996 | 3,353,885 |

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

| | 2013 | 2012 |
|---|---|---|
| At 1 January | (89,993) | (78,719) |
| Accrued (Note 29) | (5,047) | (11,275) |
| At 31 December | (95,040) | (89,994) |

## 11. TRADE ACCOUNTS RECEIVABLE

As at 31 December 2013 and 2012, trade accounts receivable consisted of the following:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Sale and transmission of electricity and heat | 10,889,215 | 11,018,242 |
| Sale of inventories and provision of other services | 407,337 | 476,532 |
| Other | 48,100 | 48,282 |
| | 11,344,652 | 11,543,056 |
| Allowance for doubtful debts | (1,769,773) | (1,891,975) |
| | 9,574,879 | 9,651,081 |

*(in thousands of Tenge)*

The average credit period on sales of services is 60 days. No interest is charged on trade accounts receivable for the first 60 days from the date of the invoice. Thereafter, interest is charged on the outstanding balance at average refinancing rate of National Bank of Republic of Kazakhstan. The Group recognized an allowance for doubtful debts of 100%, 50%, 25%, and 5% against all receivables outstanding for more than 365 days, 271-365 days, 181-270 days, and 90-180 days, respectively. The Group outsource independent legal firm for collecting receivables over 180 days. Irrecoverable amounts are written off against previously created allowance.

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

| | **2013** | **2012** |
|---|---|---|
| At 1 January | (1,891,975) | (1,782,328) |
| Accrued | (1,659) | (411,495) |
| Written-off against previously created allowance | 123,861 | 301,848 |
| At 31 December | (1,769,773) | (1,891,975) |

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

| | **31 December 2013** | **31 December 2012** |
|---|---|---|
| 90-180 days | 51,936 | 66,003 |
| 181-270 days | 69,508 | 63,362 |
| 271-365 days | 263,857 | 294,095 |
| more than 365 days | 1,384,472 | 1,468,515 |
| | 1,769,773 | 1,891,975 |

The Group does not hold any collateral over trade accounts receivable.

The concentration of credit risks is limited due to the fact that the customer base is large and unrelated. Customer base comprises of population (50%) and legal entities (50%).

Trade accounts receivable as at 31 December 2013 and 2012, were denominated in the following currencies:

| | **31 December 2013** | **31 December 2012** |
|---|---|---|
| Tenge | 9,574,879 | 9,642,214 |
| Russian rouble | - | 8,867 |
| | 9,574,879 | 9,651,081 |

*(in thousands of Tenge)*

## 12. ADVANCES PAID

As at 31 December 2013 and 2012, advances paid consisted of the following:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| For services | 918,482 | 585,972 |
| For goods | 473,605 | 483,323 |
| Other | 29,234 | 7,314 |
| | 1,421,321 | 1,076,609 |
| Allowance for doubtful debts | (56,348) | (58,244) |
| | 1,364,973 | 1,018,365 |

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

| | 2013 | 2012 |
|---|---|---|
| At 1 January | (58,244) | (231,124) |
| (Accrued)/recovered | (21,959) | 172,880 |
| Written off against previously created provision | 23,855 | - |
| At 31 December | (56,348) | (58,244) |

## 13. TAXES RECEIVABLE AND PREPAID TAXES

As at 31 December 2013 and 2012, taxes receivable and prepaid taxes consisted of the following:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Value added tax | 890,465 | 925,522 |
| Withholding tax | 140,519 | 77,784 |
| Property tax | 16,844 | 17,955 |
| Other | 7,699 | 6,258 |
| | 1,055,527 | 1,027,519 |

*(in thousands of Tenge)*

## 14. OTHER ACCOUNTS RECEIVABLE

As at 31 December 2013 and 2012, other accounts receivable consisted of the following:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Interest-free loan | 1,358,689 | 1,365,881 |
| Receivables on court proceedings and accrued penalties | 625,998 | 839,803 |
| Receivables from employees and shortages | 102,662 | 119,008 |
| Prepaid expenses | 46,611 | 57,445 |
| Other | 436,557 | 580,349 |
| | 2,570,517 | 2,962,486 |
| Allowance for doubtful debts | (513,114) | (270,156) |
| | 2,057,403 | 2,692,330 |

As at 31 December 2013 interest-free loan includes an interest-free loan of 1,358,689 thousand tenge, issued to the shareholder JSC CAPEC with maturity on 31 December 2014. The Group recorded an interest-free loan at amortized cost using the effective interest rate of 12.5%. As a result, the Group recognized adjustment to fair value of 146,324 thousand tenge in equity, net of deferred income tax of 29,265 thousand tenge.

As at 31 December 2012, interest-free loan included:

(a) An interest-free loan of 1,344,540 thousand tenge issued to the shareholder, JSC CAPEC with maturity on 31 December 2013. The Group recorded interest-free loan at amortized cost using the effective interest rate of 11.6%-12.5%. As a result, the Group recognized in equity the fair value adjustment of 260,722 thousand tenge net of deferred tax of 52,214 thousand tenge; and

(b) An interest-free loan of 21,341 thousand tenge, issued to LLP Avtotransportnoe predpriyatie SevKazEnergo.

For the year ended 31 December 2013, the Group recognized interest income as a result of amortization of the fair value adjustment of interest-free loans of 160,475 thousand tenge (2012: 181,591 thousand tenge) (Note 32).

As at 31 December 2013 and 2012, receivables on court proceedings and accrued penalties mainly comprised of penalties of 505,988 thousand tenge and 578,126 thousand tenge, respectively, imposed on individuals and legal entities for the late fulfillment of the terms of the contracts for delivery of materials, construction works and acquisition of heat and electricity.

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

| | 2013 | 2012 |
|---|---|---|
| At 1 January | (270,156) | (121,290) |
| Accrued | (276,882) | (167,884) |
| Written off against previously created allowance | 33,924 | 19,018 |
| At 31 December | (513,114) | (270,156) |

As at 31 December 2013 and 2012, other accounts receivable were denominated in tenge.

*(in thousands of Tenge)*

## 15. CASH

As at 31 December 2013 and 2012, cash consisted of the following:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Cash on bank accounts | 2,201,581 | 840,431 |
| Petty cash | 140,347 | 145,081 |
| Cash in transit | - | 1,110 |
| | 2,341,928 | 986,622 |

As at 31 December 2013 and 2012, cash were denominated in the following currencies:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Tenge | 1,906,493 | 978,180 |
| US Dollars | 435,432 | 8,438 |
| Euro | 3 | 4 |
| | 2,341,928 | 986,622 |

## 16. SHARE CAPITAL

As at 31 December 2013 and 2012, share capital consisted of the following:

| | 31 December 2013 | | 31 December 2012 | |
|---|---|---|---|---|
| | Interest | thousand tenge | Interest | thousand tenge |
| JSC CAPEC | 62.12% | 19,968,884 | 62.12% | 19,968,884 |
| EBRD | 24.99% | 10,333,660 | 24.99% | 10,333,660 |
| KAZ HOLDINGS COOPERATIEF U.A. | 12.89% | 7,287,501 | 12.89% | 7,287,501 |
| | 100% | 37,590,045 | 100% | 37,590,045 |

In 2013 and 2012, the shareholders of the Group declared and paid dividends of 1,819,295 thousand tenge and 883,505 thousand tenge, respectively.

Authorized share capital of the Group was 50,000,000 common shares. As 31 December 2013 and 2012 the number of unallocated common shares was 17,851,837.

## 17. ADDITIONAL PAID-IN CAPITAL

As at 31 December 2013 and 2012, additional paid-in capital of 1,348,105 thousand tenge included:

- the difference between net book value of property, plant and equipment received by the Group under the finance lease agreement and minimum value of discounted lease payments under this lease. During the finance lease the founder transferred part of the property, plant and equipment under the agreement into the share capital of the Group, and the additional paid-in capital was adjusted accordingly;

*(in thousands of Tenge)*

- the revenue from factoring operations due to acquisition and subsequent sale of the right claim from related party at the value greater than the actual cost of this claim;
- the fair value adjustment of interest-free loans issued to JSC CAPEC.

## 18. BONDS ISSUED

In July 2007, JSC PAVLODARENERGO declared an issuance of 80,000,000 coupon bonds totaling 8,000,000 thousand tenge with par value of 100 tenge, with an indexed interest rate of 6.8%-13%, semi-annual coupon payments and maturity of 10 years.

In December 2009, JSC SEVKAZENERGO declared an issuance of 80,000,000 coupon bonds totaling 8,000,000 thousand tenge with par value of 100 tenge, with a fixed interest rate of 12.5%, semi-annual coupon payments and maturity of 10 years.

In November 2013 JSC CAEPCO declared an issuance of 100,000,000 coupon bonds totaling 10,000,000 thousand tenge with a par value of 100 tenge, with a fixed interest rate of 6% during the first three years and then indexed interest rate in the range of 6-8%, semi-annual installments and a maturity of 10 years. As of December 31, 2013, the Company placed coupon bonds in the amount of 1,105,000 thousand tenge.

As at 31 December 2013 and 2012, bonds issued were presented as follows:

| Bonds placed at price | Maturity date | Interest rate, per annum | 31 December 2013 | 31 December 2012 |
|---|---|---|---|---|
| 76.05% | 10 July 2017 | 6.8%-13% | 1,902,320 | 1,902,320 |
| 96.22% | 10 July 2017 | 6.8%-13% | 1,499,900 | 1,499,900 |
| 86.31% | 10 July 2017 | 6.8%-13% | 1,159,000 | 1,159,000 |
| 105.47% | 10 July 2017 | 6.8%-13% | 948,000 | 948,000 |
| 82.55% | 10 July 2017 | 6.8%-13% | 840,500 | 840,500 |
| 87.39% | 10 July 2017 | 6.8%-13% | 549,900 | 549,900 |
| 76.63% | 10 July 2017 | 6.8%-13% | 502,000 | 502,000 |
| 101.24% | 10 July 2017 | 6.8%-13% | 500,000 | 500,000 |
| 99.96% | 10 January 2020 | 12.5% | 1,999,990 | 1,999,990 |
| 103.50% | 10 January 2020 | 12.5% | 1,820,000 | 1,820,000 |
| 115.24% | 10 January 2020 | 12.5% | 1,670,000 | 1,670,000 |
| 119.03% | 10 January 2020 | 12.5% | 567,400 | 567,400 |
| 123.13% | 10 January 2020 | 12.5% | 5,100 | 5,100 |
| 124.13% | 10 January 2020 | 12.5% | 5,100 | 5,100 |
| 99.9945% | 6 November 2023 | 6.0% | 547,500 | - |
| 99.9952% | 6 November 2023 | 6.0% | 448,000 | - |
| 99.3942% | 6 November 2023 | 6.0% | 109,500 | - |
| | | | 15,074,210 | 13,969,210 |
| **Including/(excluding):** | | | | |
| (Discount on bonds issued) | | | (553,325) | (716,536) |
| Premium on bonds issued | | | 369,990 | 431,347 |
| Accumulated interest on bonds issued | | | 645,519 | 583,028 |
| (Repurchase of bonds issued) | | | (5,500) | (5,500) |
| | | | 15,530,894 | 14,261,549 |
| Less: current portion of bonds issued | | | (645,519) | (583,028) |
| | | | 14,885,375 | 13,678,521 |

*(in thousands of Tenge)*

The bonds issued are repayable as follows:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| In the second to the fifth years inclusive | 7,352,804 | 7,185,677 |
| After five years and later | 7,532,571 | 6,492,844 |
| | 14,885,375 | 13,678,521 |

## 19. LONG-TERM LOANS

As at 31 December 2013 and 2012, loans consisted of the following:

| | Interest rate % | Currency | 31 December 2013 | 31 December 2012 |
|---|---|---|---|---|
| (a) SB JSC Sberbank of Russia | 10% | Tenge | 3,516,221 | 3,515,044 |
| (b) EBRD | Libor + 3% | US Dollar | 2,633,314 | 3,230,143 |
| (c) EBRD | All-in-cost + 4.5% | Tenge | 4,440,000 | 4,440,000 |
| (c) EBRD | All-in-cost + 3.75% | Tenge | 2,250,000 | - |
| (c) EBRD | Libor + 3.75% | US Dollar | 8,449,437 | - |
| (c) Clean Technology Fund (CTF) | 0.75% | US Dollar | 1,405,533 | 1,379,271 |
| Interest payable | | | 245,535 | 169,186 |
| | | | 22,940,040 | 12,733,644 |
| Less: | | | | |
| Fair value adjustment of CTF loan | | | (917,642) | (950,279) |
| Unamortized part of lump-sum commission | | | (151,615) | (39,052) |
| Total | | | 21,870,783 | 11,744,313 |
| Less: current portion of long-term loans | | | (2,969,013) | (1,991,364) |
| | | | 18,901,770 | 9,752,949 |

(a) On 1 October 2008 JSC SEVKAZENERGO concluded agreement on opening of a non-renewable credit line with SB JSC Sberbank of Russia of 6,111,839 thousand tenge, with maturity in 2015, annual interest rate of 10%. 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 2013, the credit limit comprises 2,765,780 thousand tenge (31 December 2012: 4,114,641 thousand tenge).

On 19 December 2013 JSC SEVKAZENERGO has entered into an agreement on the non-renewable credit line with JSC Sberbank of Russia of 1,500,000 thousand tenge, with maturity on 19 December 2015, annual interest rate of 10%. In accordance with the loan agreement, the amount of principal is to be paid in equal installments from October to May. Interest payments are redeemed and paid quarterly.

(b) On 29 November 2007 JSC PAVLODARENERGO 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 semi-annually according to the schedule. For the years ended 31 December 2013 and 2012, the effective interest rate was 3.62%.

(c) On 26 March 2011, LLP Pavlodar Thermal Networks, the subsidiary of JSC PAVLODARENERGO, and EBRD signed a loan agreement, aimed for reconstruction and modernization of municipal heating networks in Pavlodar city of 4,033,868 thousand tenge. Funding will be provided as follows: 2,997,000 thousand tenge – in two tranches from the general resources of EBRD, and 6,750,000 US dollars - from the resources of Clean Technology Fund (CTF). Interest rates are All-in-cost+4.5% and 0.75%, respectively. The loan is settled by 20 equal semi-annual installments starting from 2014 and 2022, respectively. Interest is paid in quarterly payments.

In 2013, the effective interest rate on tranche received from EBRD amounted to 10.12% (2012: 9.63%). As at 31 December 2013, the subsidiary recognized CTF loan at fair value, using effective interest rate of 7.38% (2012: 7.38%) and, as a result, recognized fair value adjustment of this loan of 765,951 thousand tenge (31 December 2012: 765,951 thousand tenge) in deferred revenue (Note 20). For the year ended 31 December 2013, the subsidiary amortized fair value adjustment of this loan of 23,080 thousand tenge (2012: 11,602 thousand tenge), which was capitalized to property, plant and equipment. JSC CAEPCO acted as a guarantor for that loan.

On 26 March 2011, LLP Petropavlovsk Thermal Networks, the subsidiary of JSC SEVKAZENERGO, and EBRD concluded loan agreement, aimed for reconstruction and modernization of municipal heating networks in Petropavlovsk city of 1,924,000 thousand tenge. The funding will be as follows: 1,443,000 thousand tenge – in two tranches from general resources of EBRD, and 3,250,000 US Dollars - from the resources of CTF. Interest rates are All-in-cost+4.5% and 0.75%, respectively. The loan is settled by 20 equal semi-annual installments starting from 2014 and 2022, respectively. Interest is paid in quarterly payments. As at 31 December 2013, the unused part of the loan amounted to 850,000 thousand US Dollars. In 2013, the effective interest rate on tranche received from EBRD amounted to 7.26% (2012: 7.26%). As at 31 December 2013, the subsidiary recorded CTF loan at fair value, using effective interest rate of 7.38% and, as a result, recognized fair value adjustment on this loan of 202,383 thousand tenge (31 December 2012: 202,383 thousand tenge) in deferred revenue (Note 20). For the year ended 31 December 2013, the subsidiary amortized fair value adjustment of this loan of 9,557 thousand tenge, which was capitalized to property, plant and equipment (2012: 6,453 thousand tenge). JSC CAEPCO acted as a guarantor for that loan.

The Group uses debt service reserve accounts for servicing of loans indicated above. During the semi-annual period preceding the payment date, the Group accumulates funds on these accounts. Since these funds can be used exclusively for the purposes defined in the loan agreements, as at 31 December 2013 the Group classified restricted cash within the current assets in the consolidated statement of financial position of 465,801 thousand tenge (31 December 2012: 10,000 thousand tenge within the non-current assets and 347,022 thousand tenge within the current assets).

*(in thousands of Tenge)*

d) On 22 May 2013 JSC CAEPCO and EBRD signed loan agreements, for the purposes of the reconstruction and modernization of production equipment and the installation of an automated system of commercial electricity metering at subsidiaries of JSC PAVLODARENERGO and JSC SEVKAZENERGO (JSC Pavlodar Electricity Distribution Company and JSC North Kazakhstan Electricity Distribution Company, respectively). Within this loan agreement, funds will be provided to JSC PAVLODARENERGO of 40,000,000 US Dollars and 6,000,000 thousand tenge, JSC SEVKAZENERGO of 20,000,000 US Dollars and 3,000,000 thousand tenge, JSC CAEPCO for investment programs of electric grid companies of 18,000,000 US Dollars. The interest rates on the loan in US Dollars – 6-months Libor+3.75 %, on the loan in tenge – All-in-cost +3.75%. Loans are repayable by 18 equal semi-annual installments starting from 2016. Interest on the loan is repaid in quarterly installments.

JSC CAEPCO acted as a guarantor on the loan. As at 31 December 2013, the Group received the first tranches of 27,000,000 US Dollars by JSC PAVLODARENERGO; 20,000,000 US Dollars and 2,250,000 thousand tenge by JSC SEVKAZENERGO; and 8,000,000 US Dollars by JSC CAEPCO.

As of December 31, 2013 and 2012 long-term loans are secured by property, plant and equipment (Note 6).

The loans are repayable as follows:

| | **31 December 2013** | **31 December 2012** |
|---|---|---|
| During the second year | 3,832,990 | 1,201,208 |
| In the second to the fifth years inclusive | 7,504,180 | 7,204,941 |
| After five years and later | 7,564,600 | 1,346,800 |
| | 18,901,770 | 9,752,949 |

As at 31 December 2013 and 2012, long-term loans were denominated in the following currencies:

| | **31 December 2013** | **31 December 2012** |
|---|---|---|
| Tenge | 10,252,819 | 8,044,927 |
| US Dollars | 11,617,964 | 3,699,386 |
| | 21,870,783 | 11,744,313 |

## 20. DEFERRED REVENUE

As at 31 December 2013 and 2012, deferred revenue of 1,065,350 thousand tenge and 1,122,250 thousand tenge, respectively, is represented by:

(a) an adjustment of guarantee fees for additional capacity of 97,016 thousand tenge (31 December 2012: 153,916 thousand tenge).

(b) fair value adjustment of loan from CTF of 968,334 thousand tenge (31 December 2012: 968,334 thousand tenge).

*(in thousands of Tenge)*

## 21. 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 2013 and 2012 the Group estimated total ash disposal area restoration liability at amortized cost of 481,235 thousand tenge and 408,775 thousand tenge, respectively. This liability was discounted at effective interest rate of 12%-14%, which represents a market financing rate.

For the years ended 31 December 2013 and 2012, movement in ash disposal area restoration liability was as follows:

| | 2013 | 2012 |
|---|---|---|
| At 1 January | 408,775 | 441,464 |
| Finance cost (Note 31) | 50,207 | 100,714 |
| Restored during the year | - | (155,427) |
| Change in estimate (Note 6) | 22,253 | 22,024 |
| At 31 December | 481,235 | 408,775 |
| Current portion | - | 155,427 |
| Long-term portion | 481,235 | 253,348 |
| | 481,235 | 408,775 |

## 22. SHORT-TERM LOANS

As at 31 December 2013 and 2012, short-term loans consisted of the following:

| | Interest rate % | Currency | 31 December 2013 | 31 December 2012 |
|---|---|---|---|---|
| (a) SB JSC Sberbank of Russia | 10.0% | Tenge | 4,199,366 | 3,931,333 |
| (b) JSC Halyk Bank of Kazakhstan | 12.5% | Tenge | 500,000 | 300,000 |
| (c) JSC Eximbank Kazakhstan | 17% | Tenge | 81,818 | 150,000 |
| (d) JSC HSBC | 7.5% | Tenge | 920,000 | - |
| | | | 5,701,184 | 4,381,333 |
| Interest payable | | | 30,893 | 31,890 |
| Total | | | 5,732,077 | 4,413,223 |

(a) On 27 June 2008, JSC SEVKAZENERGO opened a credit line with SB JSC Sberbank of Russia with maturity on 27 June 2014 bearing an interest rate of 10% per annum. Interest on the loan is payable on a quarterly basis.

On 25 June 2010, LLP Astanaenergosbyt opened a credit line with JSC SB Sberbank of Russia with maturity on 25 June 2013. On 3 August 2012 maturity of the credit line was prolonged till 25 June 2016. The interest rate on the loan is 10% per annum. Interest on the loan is payable on a monthly basis.

*(in thousands of Tenge)*

(b) On 23 June 2009, LLP Pavlodarenergosbyt, the subsidiary of JSC PAVLODARENERGO, opened a credit line with JSC Halyk Bank of Kazakhstan maturing on 23 April 2010. In 2013, an additional agreement on increasing the credit line to 500,000 thousand tenge and prolongation of term until 24 February 2014 was concluded. Interest on the loan is accrued on the principal amount at effective interest rate of 12.5% per annum and paid semi-annually according to the schedule. According to an additional agreement dated 19 December 2012, the interest rate was reduced to 10% per annum starting from 1 January 2013.

(c) On 28 August 2008, LLP Astanaenergosbyt opened a credit line with JSC Eximbank Kazakhstan with availability period of not more than 90 days from the date of signing of each bank loan agreement. An interest rate on the agreement was 17% per annum. On 28 September 2012, the subsidiary concluded an additional agreement on extension of maturity of the credit line till 29 September 2014.

(d) On 28 February 2013 the Group opened a credit line with JSC HSBC Bank Kazakhstan in the amount of 1,000,000 thousand tenge with an interest rate of 7.5% per annum. During 2013, the Group’s subsidiaries received 1,950,000 thousand tenge and repaid 1,000,000 thousand tenge. Tranches are issued for six months with the condition of repayment of principal at the same time at the end of the tranche. Loan interest is paid monthly. The funds are intended for replenishment of working capital.

As at 31 December 2013 and 2012, short-term loans were secured by property, plant and equipment (Note 6).

## 23. TRADE ACCOUNTS PAYABLE

As at 31 December 2013 and 2012, trade accounts payable consisted of the following:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| For purchased services | 4,021,758 | 5,414,251 |
| For purchased goods | 1,007,818 | 1,380,601 |
| For repairs and construction services | 1,041,996 | 495,125 |
| For fuel | 616,964 | 242,749 |
| For property, plant and equipment | 224,328 | 9,400 |
| Other | 167,014 | 362,990 |
| | 7,079,878 | 7,905,116 |

As at 31 December 2013 and 2012, trade accounts payable were denominated in the following currencies:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Tenge | 7,008,949 | 7,314,287 |
| Russian roubles | 70,929 | 496,400 |
| US Dollars | - | 94,429 |
| | 7,079,878 | 7,905,116 |

*(in thousands of Tenge)*

## 24. ADVANCES RECEIVED

As at 31 December 2013 and 2012, advances received of 2,797,512 thousand tenge and 2,139,741 thousand tenge, respectively, mainly included advances received for delivery of electricity and heat.

## 25. TAXES AND NON-BUDGET PAYMENTS PAYABLE

As at 31 December 2013 and 2012, taxes and non-budget payments payable consisted of the following:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Value added tax | 310,954 | 98,205 |
| Environmental tax | 227,943 | 181,717 |
| Personal income tax | 84,612 | 62,641 |
| Social tax | 45,009 | 23,044 |
| Social security liabilities | 21,913 | 8,610 |
| Property tax | 5,404 | 17,031 |
| Other | 51,614 | 50,336 |
| | 747,449 | 441,584 |

## 26. OTHER LIABILITIES AND ACCRUED EXPENSES

As at 31 December 2013 and 2012, other liabilities and accrued expenses consisted of the following:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| Payables to employees | 436,897 | 359,007 |
| Provisions for unused vacations | 211,047 | 162,468 |
| Pension contributions | 111,773 | 92,971 |
| Guarantee fees for additional capacity to be reimbursed | 22,270 | 35,241 |
| Insurance payable | 18,117 | 14,485 |
| Current portion of guarantee fees for additional capacity | 9,905 | 36,265 |
| Penalties for non-fulfillment of the terms of agreements | - | 48,902 |
| Other | 135,608 | 91,725 |
| | 945,617 | 841,064 |

*(in thousands of Tenge)*

## 27. REVENUE

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

| | 2013 | 2012 |
|---|---|---|
| Sale of electricity | 52,389,584 | 46,732,365 |
| Sale of heat | 15,494,775 | 14,986,221 |
| Transmission of electricity | 10,206,953 | 8,653,022 |
| Transmission of heat | 4,777,649 | 3,928,505 |
| Other | 201,592 | 196,652 |
| | 83,070,553 | 74,496,765 |

## 28. COST OF SALES

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

| | 2013 | 2012 |
|---|---|---|
| Electricity and heat acquired for sale | 15,134,279 | 17,501,601 |
| Transmission of electricity and heat | 13,492,646 | 12,374,206 |
| Coal and fuel oil | 12,936,746 | 11,061,260 |
| Payroll and related taxes | 6,232,163 | 4,912,530 |
| Services received | 5,497,252 | 4,972,510 |
| Depreciation and amortization | 4,436,334 | 3,745,635 |
| Inventories | 3,141,859 | 2,925,734 |
| Technical water | 678,635 | 582,391 |
| Other | 1,662,516 | 1,079,433 |
| | 63,212,430 | 59,155,300 |

*(in thousands of Tenge)*

## 29. GENERAL AND ADMINISTRATIVE EXPENSES

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

| | 2013 | 2012 |
|---|---|---|
| Payroll and related taxes | 2,061,711 | 1,723,544 |
| Taxes, other than income tax | 834,913 | 708,304 |
| Accrual of allowance for doubtful debts (Notes 11, 12, and 14) | 300,500 | 406,499 |
| Transportation services | 256,224 | 220,999 |
| Rent expenses | 230,629 | 160,270 |
| Depreciation and amortization | 220,416 | 190,217 |
| Bank commission | 185,053 | 119,922 |
| Legal and audit services | 171,404 | 208,483 |
| Security | 152,462 | 125,349 |
| Inventories | 117,808 | 122,384 |
| Business trip expenses | 105,429 | 122,563 |
| Penalties and fines | 93,498 | 208,575 |
| Value added tax | 82,154 | 117,580 |
| Remuneration of the members of the board of directors | 77,743 | 67,755 |
| Fire-operational services | 76,026 | 60,360 |
| Information technology services | 72,213 | 56,257 |
| Communication expenses | 58,814 | 68,446 |
| Electrical energy purchased for own use | 40,106 | - |
| Insurance | 18,445 | 10,491 |
| Provision for unused vacation | 11,534 | 744 |
| Employee benefit expenses | 11,203 | 15,693 |
| Sponsorship and financial aid | 6,806 | 19,781 |
| Accrual of allowance for slow-moving inventories (Note10) | 5,047 | 11,275 |
| Consulting services | 3,061 | 10,695 |
| Losses on consumers' substations | - | 6,491 |
| Other | 683,906 | 472,358 |
| | 5,877,105 | 5,235,035 |

## 30. SELLING EXPENSES

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

| | 2013 | 2012 |
|---|---|---|
| Payroll and related taxes | 832,772 | 652,295 |
| Bank commissions | 95,187 | 92,242 |
| Rent expenses | 73,758 | 72,969 |
| Transportation services | 61,762 | 46,380 |
| Inventories | 52,784 | 58,073 |
| Security | 39,982 | 35,436 |
| Depreciation and amortization | 31,587 | 28,579 |
| Other | 124,926 | 112,924 |
| | 1,312,758 | 1,098,898 |

*(in thousands of Tenge)*

## 31. FINANCE COSTS

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

| | **2013** | **2012** |
|---|---|---|
| Interest expenses on bonds issued | 1,304,160 | 1,144,462 |
| Interest expenses on bank loans | 841,205 | 983,196 |
| Amortization of the discount on bonds | 173,607 | 143,662 |
| Interest expenses on ash disposal area restoration liabilities (Note 21) | 50,207 | 100,714 |
| Other | 6,961 | 44,195 |
| | 2,376,140 | 2,416,229 |

## 32. FINANCE INCOME

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

| | **2013** | **2012** |
|---|---|---|
| Interest income from cash placed on the deposits (Note 9) | 409,623 | 429,367 |
| Amortization of fair value adjustment on interest-free loans (Note 14) | 160,475 | 181,591 |
| Interest income on emission of bonds | 61,357 | 24,243 |
| Interest income on guarantee fees | 7,854 | 8,889 |
| Interest income on loans given to employees | 4,444 | 2,640 |
| | 643,753 | 646,730 |

## 33. OTHER INCOME

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

| | **2013** | **2012** |
|---|---|---|
| Income from penalties for incompliance with the terms of the contract | 270,030 | 623,703 |
| Income from write-off of accounts payable | 143,209 | 125,400 |
| Rent income | 117,567 | 76,778 |
| Income from sale of inventories | 27,542 | 38,804 |
| Income from assets found during stock count | 5,431 | 5,040 |
| Expenses on depreciation of property, plant and equipment transferred to operating lease | (52,501) | (44,775) |
| Rent expenses | (34,895) | (45,874) |
| Other (expenses)/income | (8,004) | 13,157 |
| | 468,379 | 792,233 |

*(in thousands of Tenge)*

## 34. INCOME TAX

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

In 2013 and 2012, income tax rate was 20%.

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

| | **2013** | **2012** |
|---|---|---|
| Current income tax expense | 607,555 | 396,334 |
| Deferred income tax expense | 2,196,380 | 1,567,335 |
| Income tax expense | 2,803,935 | 1,963,669 |

As at 31 December 2013 and 2012, deferred tax assets and liabilities were as follows:

| **Deferred tax assets as a result of:** | **31 December 2013** | **31 December 2012** |
|---|---|---|
| Tax loss carry-forward | 1,401,448 | 1,031,818 |
| Allowance for doubtful debts | 203,566 | 197,734 |
| Taxes accrued but unpaid | 60,851 | 49,332 |
| Fair value adjustment on interest-free loan issued to JSC CAPEC | 29,265 | 38,584 |
| Ash disposal area restoration liabilities | 97,263 | 83,523 |
| Allowance for slow-moving inventories | 19,165 | 12,011 |
| Provision for unused vacations | 40,775 | 32,495 |
| Other temporary differences | 68,888 | 79,038 |
| Total deferred tax assets | 1,921,221 | 1,524,535 |
| **Deferred tax liabilities as a result of:** | | |
| Carrying value of property, plant and equipment and intangible assets | (18,503,191) | (15,922,933) |
| Other temporary differences | (44,262) | (60,719) |
| Total deferred tax liabilities | (18,547,453) | (15,983,652) |
| **Deferred tax liabilities, net, including:** | **(16,626,232)** | **(14,459,117)** |
| Deferred tax liabilities | (16,770,481) | (14,604,204) |
| Deferred tax assets | 144,249 | 145,087 |

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

| | **2013** | **2012** |
|---|---|---|
| Balance at 1 January | (14,459,117) | (12,943,996) |
| Increase in deferred tax liabilities | (2,167,115) | (1,515,121) |
| **Balance at 31 December** | (16,626,232) | (14,459,117) |

*(in thousands of Tenge)*

| **Recorded:** | **2013** | **2012** |
|---|---|---|
| in profit or loss | (2,196,380) | (1,567,335) |
| in other comprehensive income | - | - |
| in equity | 29,265 | 52,214 |
| | (2,167,115) | (1,515,121) |

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

| | **2013** | **2012** |
|---|---|---|
| Profit before taxation | 11,376,720 | 8,027,985 |
| Tax at statutory rate of 20% | 2,275,344 | 1,605,597 |
| Change in unrecognized tax assets | 98,507 | 55,636 |
| Income tax related to prior periods | 7,818 | (24) |
| Tax effect of permanent differences | 422,266 | 302,460 |
| Income tax expenses | 2,803,935 | 1,963,669 |

## 35. RELATED PARTY TRANSACTIONS

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

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

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

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

| | **Sale of services** | | **Purchase of services** | | **Purchase of assets** | |
|---|---|---|---|---|---|---|
| **Name** | **2013** | **2012** | **2013** | **2012** | **2013** | **2012** |
| JSC CAPEC | 192 | 57 | 153,900 | 137,166 | 108 | - |
| Subsidiaries of JSC CAPEC | 24,418 | 7,071 | 2,931,845 | 3,210,366 | - | - |
| Associates of JSC CAPEC | 846,277 | 12,258 | 400,936 | 90,715 | 315,140 | 420,909 |
| | 870,887 | 19,386 | 3,486,681 | 3,438,247 | 315,248 | 420,909 |

*(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 2013 | 31 December 2012 | 31 December 2013 | 31 December 2012 |
| JSC CAPEC | 1,358,689 | 1,344,540 | 40,071 | 71,112 |
| Subsidiaries of JSC CAPEC | 1,148 | - | 89,114 | - |
| Associates of JSC CAPEC | 758,497 | 1,867 | 12,169 | 122,487 |
| | 2,118,334 | 1,346,407 | 141,354 | 193,599 |

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

| Name | Loans, including interest payable, from related parties | | Cash at bank deposit accounts to the related party | | Cash in banks, to the related party | |
|---|---|---|---|---|---|---|
| | 31 December 2013 | 31 December 2012 | 31 December 2013 | 31 December 2012 | 31 December 2013 | 31 December 2012 |
| EBRD | 17,943,296 | 7,798,103 | - | - | - | - |
| Associates of JSC CAPEC | 81,818 | 151,166 | 9,964,727 | 9,115,805 | 2,133,881 | 553,487 |
| | 18,025,114 | 7,949,269 | 9,964,727 | 9,115,805 | 2,133,881 | 553,487 |

For the year ended 31 December 2013 and 2012 the Group had the following financial operations with related parties:

| Name | Interest expense, accrued on loans from related parties | | Interest income, accrued on bank deposit accounts to related parties | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| EBRD | 564,243 | 288,145 | - | - |
| Associates of JSC CAPEC | 13,416 | 92,665 | 409,623 | 429,367 |
| | 577,659 | 380,810 | 409,623 | 429,367 |

### *Key personnel of the Group*

In 2013, compensation to the Board of Directors and other key management personnel of the Group in the form of salary and bonuses amounted to 328,568 thousand tenge (2012: 285,602 thousand tenge).

*(in thousands of Tenge)*

## 36. FINANCIAL INSTRUMENTS, RISK MANAGEMENT POLICY AND ITS OBJECTIVES

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

***Categories of financial instruments***

As at 31 December, financial instruments were as follows:

| | 31 December 2013 | 31 December 2012 |
|---|---|---|
| ***Financial assets*** | | |
| Other financial assets (Note 9) | 9,263,602 | 9,115,805 |
| Trade accounts receivable (Note 11) | 9,574,879 | 9,651,081 |
| Other accounts receivable (Note 14) | 2,010,792 | 2,634,885 |
| Restricted cash (Notes 9, 19) | 894,335 | 624,032 |
| Cash (Note 15) | 2,341,928 | 986,622 |
| ***Financial liabilities*** | | |
| Bonds issued (Note 18) | 15,530,894 | 14,261,549 |
| Long-term loans (Note 19) | 21,870,783 | 11,744,313 |
| Long-term accounts payable | 36,457 | 40,711 |
| Short-term loans (Note 22) | 5,732,077 | 4,413,223 |
| Trade accounts payable (Note 23) | 7,079,878 | 7,905,116 |
| Other liabilities and accrued expenses (Note 26) | 622,797 | 585,625 |

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

***Summary of significant accounting policies***

The information on significant accounting policies and accepted methods, including criteria of recognition, basis for measurement and basis on which revenue and expenses are 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 related to operations of the Group by analyzing the risk exposure by degree and amount of risk. These risks include market risk, currency risk, liquidity risk and cash flow interest rate risk. The description of the Group's risk management policies is provided below.

***Interest rate risk***

The Group 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 an analysis was made assuming that the outstanding liability was not repaid during the entire year. When preparing the management reports on interest rate risk for the key management of the Group an assumption is used on a change in the interest rate by 1%, which meets the expectations of the management regarding the reasonably possible fluctuation of interest rates.

If interest rates on liabilities were 1% higher/lower and all the other variables remained constant, then the profit of the Group for the year ended 31 December 2013, and its retained earnings as at 31 December 2013, would decrease/increase by 77,458 thousand tenge (2012: 123,690 thousand tenge).

***Credit risk***

Credit risk arising as a result of counterparties' failure to meet the terms of contracts with financial instruments of the Group is normally limited to the amounts, if any, by which the amount of liabilities of the counterparties exceed the Group's liabilities to these counterparties. The Group's policy provides for conducting of operations with financial instruments with a number of creditworthy counterparties. The maximum exposure to credit risk equals the carrying amount of each financial asset. The Group believes that its maximum exposure equals the amount of trade accounts receivable (Note 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 due several amounts, in relation to which there are grounds to expect that changes in economic conditions or other circumstances may have the same impact on their ability to meet their obligations.

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

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

***Market risk***

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

*(in thousands of Tenge)*

***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.

Carrying value of monetary assets and liabilities of the Group in foreign currency as at 31 December 2013 and 2012, was as follows:

| | **Assets** | | **Liabilities** | |
|---|---|---|---|---|
| | **31 December 2013** | **31 December 2012** | **31 December 2013** | **31 December 2012** |
| US Dollars | 2,115,924 | 2,174,637 | 11,617,963 | 3,793,815 |
| Russian rubles | - | 8,867 | 70,929 | 496,400 |
| Euro | 3 | 4 | - | - |

***Foreign currency sensitivity analysis***

The Group is mainly exposed to 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 20% increase or decrease in value of tenge against foreign currencies. 20% – is sensitivity level used in preparation of internal reports on currency risk for key management and represents the management’s estimate of justifiably possible changes in exchange rates. The sensitivity analysis includes only unregulated cash positions in foreign currency and adjusts their transfer at the end of the period taking into account 20% change in exchange rates. The sensitivity analysis includes borrowings and other financial assets of the Group denominated in the currency different from the currency of the creditor or borrower. The positive figure indicated below reflects the increase in profits and other equity items when the tenge rate against a respective currency strengthens by 20%. In case of weakening of the tenge rate against a respective currency by 20%, there will be an equal and opposite effect on profits and equity, and the amounts indicated below will be negative.

| | **Effect of US dollar** | |
|---|---|---|
| | **31 December 2013** | **31 December 2012** |
| Financial assets | 423,185 | 434,928 |
| Financial liabilities | (2,323,593) | (758,763) |

This mainly relates to the risk on loans and deposits of the Group denominated in US dollars as at 31 December 2013 and 2012.

*(in thousands of Tenge)*

### *Liquidity risk*

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

*Liquidity risk tables*

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

The table on liquidity risk and interest rate risk as at 31 December 2013, is presented as follows:

| | Interest rate | Up to 1 year | 1-5 years | Over 5 years | Undefined term | Total |
|---|---|---|---|---|---|---|
| **31 December 2013** | | | | | | |
| Non-interest-bearing: | | | | | | |
| Trade accounts receivable | - | 9,574,879 | - | - | 1,769,773 | 11,344,652 |
| Other accounts receivable | - | 2,010,792 | - | - | 513,114 | 2,523,906 |
| Cash | - | 2,341,928 | - | - | - | 2,341,928 |
| Long-term accounts payable | - | (17,403) | (46,199) | (112,382) | - | (175,984) |
| Trade accounts payable | - | (7,079,878) | - | - | - | (7,079,878) |
| Other liabilities and accrued expenses | - | (622,797) | - | - | - | (622,797) |
| Interest-bearing: | | | | | | |
| Other financial assets | 2.8-9% | 10,034,735 | - | - | - | 10,034,735 |
| Restricted cash | 1-9% | 606,109 | 397,222 | 50,883 | - | 1,054,214 |
| Bonds issued | 6.8-12.5% | (1,575,719) | (13,646,324) | (7,811,353) | - | (23,033,396) |
| Long-term loans | 0.75-10% | (3,904,494) | (11,370,299) | (11,070,367) | - | (26,345,160) |
| Short-term loans | 7.5-12% | (6,234,923) | - | - | - | (6,234,923) |
| Net position | | 5,133,229 | (24,665,600) | (18,943,219) | 2,282,887 | (36,192,703) |

*(in thousands of Tenge)*

| | Interest rate | Up to 1 year | 1-5 years | Over 5 years | Undefined term | Total |
|---|---|---|---|---|---|---|
| **31 December 2012** | | | | | | |
| *Non-interest-bearing:* | | | | | | |
| Trade accounts receivable | - | 9,651,081 | - | - | 1,891,975 | 11,543,056 |
| Other accounts receivable | - | 2,634,885 | - | - | 270,156 | 2,905,041 |
| Cash | - | 986,622 | - | - | - | 986,622 |
| Long-term accounts payable | - | (36,265) | (53,319) | (148,385) | - | (237,969) |
| Trade accounts payable | - | (7,905,116) | - | - | - | (7,905,116) |
| Other liabilities and accrued expenses | - | (585,625) | - | - | - | (585,625) |
| *Interest-bearing:* | | | | | | |
| Other financial assets | 2.8-9% | 11,009,456 | - | - | - | 11,009,456 |
| Restricted cash | 2.8-8.5% | 392,658 | 254,231 | - | - | 646,889 |
| Bonds issued | 6.8-12.5% | (1,457,054) | (13,362,936) | (7,629,486) | - | (22,449,476) |
| Long-term loans | 0.75%, Libor+3%, All-in-cost+4.5%, 10% | (2,501,444) | (8,305,926) | (5,079,461) | - | (15,886,831) |
| Short-term loans | 10-17% | (4,696,717) | - | - | - | (4,696,717) |
| Net position | | 7,492,481 | (21,467,950) | (12,857,332) | 2,162,131 | (24,670,670) |

### *Fair value of financial instruments*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The following methods and assumptions are used by the Group to estimate the fair value of these financial instruments:

*Cash and cash equivalents*

The carrying value of cash and cash equivalents approximates their fair value due to the short-term maturity of these financial instruments.

*Non-current financial assets and liabilities*

For assets and liabilities maturing within twelve months, the carrying value approximates fair value due to the relatively short-term maturity of these financial instruments.

For financial assets and liabilities maturing in over twelve months, the fair value represents the present value of estimated future cash flows discounted at year-end market rates.

*(in thousands of Tenge)*

As at 31 December 2013 and 2012, the carrying value of all other financial assets and financial liabilities approximated their fair value.

## 37. EARNINGS PER SHARE

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

| | **2013** | **2012** |
|---|---|---|
| Net profit related to the shareholders | 8,572,785 | 6,064,318 |
| Weighted average number of common shares used for calculating basic earnings per share | 32,148,163 | 32,148,163 |
| Earnings per share, in tenge | 266.67 | 188.64 |

As at 31 December 2013 and 2012 carrying value of one share by types is presented below.

| **Type of shares** | **Quantity of shares issued** | **Net assets, excluding intangible assets** | **Carrying value per share, in tenge** |
|---|---|---|---|
| **31 December 2013:** | | | |
| Common shares | 32,148,163 | 87,215,683 | 2,712.93 |
| **31 December 2012:** | | | |
| Common shares | 32,148,163 | 80,639,406 | 2,508.37 |

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

## 38. COMMITMENTS AND CONTINGENCIES

***Legal issues***

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

***Taxation***

The Government of the Republic of Kazakhstan continues to reform the business and commercial infrastructure in its transition to a market economy. As a result, laws and regulations affecting businesses continue to change rapidly. These changes are 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.

During 2013 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 2013 and 2012, the Group insured production complexes of Heat Energy Station-2, Heat Energy Station-3 and oxygen workshop in Pavlodar and production complexes Heat Energy Station-2 in Petropavlovsk. The Group did not insure other property, plant and equipment. Since the lack of insurance does not represent the decrease in the value of assets or occurrence of liabilities, no provision for unforeseen expenses related to damage or loss of such assets was set up in these consolidated financial statements.

### *Capital commitments*

In 2009, the Resolution of the Government of the Republic of Kazakhstan "On Limiting Tariffs" was approved: the investment component was included in the electricity tariff to 2016 for the purpose of reconstruction, modernization and new construction of industrial assets. Subsidiaries of JSC CAEPCO annually conclude agreements with the Ministry of Industry and New Technologies of the Republic of Kazakhstan under the investment program:

(a) JSC PAVLODARENERGO signed an Agreement #244 "On Capital Commitments" with the Ministry of Industry and New Technologies of the Republic of Kazakhstan for 2014. In accordance with this agreement, the Group is required to invest in the construction, modernization and acquisition of fixed assets 8,088,365 thousand tenge until the end of 2014 (7,601,302 thousand tenge until the end of 2013).

(b) JSC SEVKAZENERGO signed an Agreement #236 "On Capital Commitments" with the Ministry of Industry and New Technologies of the Republic of Kazakhstan for 2014. According to this agreement the Group is obliged to invest in construction, modernization and acquisition of property, plant and equipment 6,109,252 thousand tenge till the end of 2014 (5,645,106 thousand tenge until the end of 2013).

### *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 a subscription agreement with EBRD, whereby EBRD acquired 24.88% shares of the Company (Note 16). In 2011, the Parent company, JSC CAPEC, transferred part of its shares to EBRD in accordance with the agreement between the shareholders of the Company. As at 31 December 2013 and 2012, EBRD owns 24.99% of the Company's shares. Pursuant to the terms of the agreement the Group shall meet a number of covenants. Management of the Company believes that as at 31 December 2013, the Group did not violate any covenants of the agreement and met all the requirements.

### *Agreement with the Islamic Infrastructure Fund*

In 2011, the Company concluded a subscription agreement with IIF, whereby IIF acquired 12.89% shares of the Company (Note 16). Pursuant to the terms of the agreement the Group shall meet a number of covenants. Management of the Company believes that as at 31 December 2013, the Group did not violate any covenants of the agreement and met all the requirements.

## 39. EVENTS AFTER THE REPORTING DATE

### *Operational environment*

On 11 February 2014, the National Bank of the Republic of Kazakhstan took the decision to temporarily reduce its intervention in setting exchange rate of tenge. As a result, the official exchange rate of KZT to US dollar fell to 184.55 KZT per US dollar as at 12 February 2014, i.e. by approximately 19%. To prevent the destabilisation of the financial market and economy as a whole, the National Bank plans to set an exchange corridor for the KZT against the US dollar at KZT 182-188 per US dollar. As at 28 April 2014 the official exchange rate of tenge to US dollar official exchange rate is 182.01 tenge per US dollar.

The Group management believes that it has taken appropriate measures to support the sustainability of the Group business under the current circumstances. However, a decrease in the KZT exchange rate could negatively affect the results and financial position of the Company in a manner not currently determinable.

### *Tariffs*

Starting from 1 January 2014, the Department of the Agency for Regulation of Natural Monopolies of the Republic of Kazakhstan increased tariffs of JSC PAVLODARENERGO for:

- generation of heat energy in average by 6.8-14.5%;
- electricity distribution and transmission services in average by 18%;
- heat distribution and transmission services in average by 11.9%;
- sale of heat: individuals in average by 5%, other consumers in average by 15%.

Pursuant to the agreement #296 as of 15 November 2013 "On Capital Commitments" between JSC PAVLODARENERGO and Ministry of Industry and New Technologies of the Republic of Kazakhstan for 2014 maximum tariff for production of electricity increased in average by 7.8%-9%.

Starting from 1 January 2014, the Department of the Agency for Regulation of Natural Monopolies of the Republic of Kazakhstan increased tariffs of JSC SEVKAZENERGO, for:

- retail sale of electricity on average by 11%, including for legal entities by 12% and for individuals by 9%;
- and for transmission of electricity on average by 6%.

Pursuant to the agreement #308 “On Capital Commitments” between JSC SEVKAZENERGO and Ministry of industry and new technologies of the Republic of Kazakhstan for 2014 maximum tariff for production of electricity increased in average by 14%.

***Loans***

On 14 January 2014, JSC CAEPCO concluded an additional agreement with EBRD on early repayment of loan, according to which, a received tranche in the amount of 8,000,000 US Dollars was repaid on 22 January 2014, for further financing of subsidiary electricity grid companies of the Group.

On 14 January 2014, JSC Pavlodar Electricity Distribution Network Company, a subsidiary of JSC PAVLODARENERGO and JSC North Kazakhstan Electricity Distribution Network Company, a subsidiary of JSC SEVKAZENERGO signed a loan agreement with the European Bank for Reconstruction and Development for an amount of 18,000,000 US Dollars. Interest on this loan to be repaid quarterly at a rate of LIBOR+3.75%. Repayment of principal falls due in 3 years after the date of signing of the contract by 18 equal semi-annual installments. Cash received on this loan will be used in implementation of Automated System of Commercial Electricity Metering (ASCEM) of the retail electricity market.

On 5 February 2014 and 11 February 2014, JSC Pavlodar Electricity Distribution Network Company and JSC North Kazakhstan Electricity Distribution Network Company received first tranches in the amount of 7,000,000 US Dollars each.

On 10 February 2014, LLP Petropavlovsk Thermal Networks, a subsidiary of JSC SEVKAZENERGO, received a tranche from CTF in the amount of 850,000 US Dollars.

On 13 February 2014, JSC PAVLODARENERGO according to a loan agreement dated 22 May 2013 with the EBRD has received a tranche of 13,000,000 US Dollars.

At the beginning of 2014 LLP Pavlodarenergosbyt, a subsidiary of JSC PAVLODARENERGO received a tranche according to the loan agreement with JSC Halyk Bank of Kazakhstan dated 23 June 2009 for a total amount of 250,000 thousand tenge. In the period from January to April 2014 LLP Pavlodarenergosbyt repaid 750,000 thousand tenge under this agreement.

At the beginning of 2014 JSC SEVKAZENERGO received short-term borrowings under the credit facility with JSC Sberbank of Russia of 1,405,000 thousand tenge with an interest rate of 10% per annum.

On 17 April 2014, JSC SEVKAZENERGO repaid the amount of 170,000 thousand tenge under the credit line agreement with JSC HSBC Bank Kazakhstan.

On 30 January 2014, LLP :Astanaenergosbyt received a tranche according to the loan agreement with JSC Sberbank of Russia dated 25 June 2010 for a total amount of 54,000 thousand tenge. At the beginning of 2014 LLP Astanaenergosbyt repaid 112,833 thousand tenge under this agreement.