Translation from the original in Russian

JOINT STOCK COMPANY SEVKAZENERGO

Consolidated financial statements
for the year ended December 31, 2011

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JOINT STOCK COMPANY SEVKAZENERGO

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

Management of the Group is responsible for the preparation of the consolidated financial statements that present fairly, in all material respects, the consolidated financial position of Joint Stock Company SEVKAZENERGO (hereinafter the "Company") and its subsidiaries (hereinafter jointly the "Group") as of December 31, 2011, the consolidated results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

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

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

Management of the Group 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 accounting records in compliance with legislation and accounting standards of the Republic of Kazakhstan;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

These consolidated financial statements for the year ended December 31, 2011 were approved and authorized for issue on May 8, 2012 by management of the Group.

On behalf of management of the Group:

КАЗАКСТАН РЕСПУБЛИКАСЫ СКО ПЕТРОПАВЛ К.
СЕВКАЗЭНЕРГО
АКЦИОНЕРЛІК ҚОҒАМЫ
АКЦИОНЕРНОЕ ОБЩЕСТВО
РЕСПУБЛИКА КАЗАХСТАН СКО Г.ПЕТРОПАВЛОВСК

Tatarov I.V.	**Alexeevene T.V.**
Chairman of Board	**Chief Accountant**
May 8, 2012	May 8, 2012

Translation from the original in Russian

INDEPENDENT AUDITORS' REPORT

To the shareholders and management of Joint Stock Company SEVKAZENERGO:

We have audited the accompanying consolidated financial statements of Joint Stock Company SEVKAZENERGO (hereinafter the "Company") and its subsidiaries (hereinafter jointly the "Group"), which comprise the consolidated statement of financial position as of December 31, 2011, and related consolidated statements of comprehensive income, of changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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 about 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 auditor's 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 auditor considers internal control 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Translation from the original in Russian

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2011, and the consolidated financial results of its operations and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw attention to Note 36 to the accompanying consolidated financial statements that discloses significant transactions of the Group with related parties. Our opinion is not qualified in respect of this matter.

Tatiana Gutova
Engagement Partner
Qualified auditor
Qualification certificate
No. 0000314
dated December 23, 1996
the Republic of Kazakhstan

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

Nurlan Bekenov
General Director
Deloitte, LLP

May 8, 2012
Almaty, the Republic of Kazakhstan

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JOINT STOCK COMPANY SEVKAZENERGO

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2011
(in thousands of tenge)

	Notes	December 31, 2011	December 31, 2010
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	6	37,796,242	24,009,186
Intangible assets		5,459	4,149
Advances paid for acquisition of property, plant and equipment	7	1,980,367	2,448,226
Restricted cash	13,18,	55,000	-
Total non-current assets		39,837,068	26,461,561
CURRENT ASSETS:			
Inventories	8	1,259,679	644,231
Trade accounts receivable	9	1,028,877	933,620
Advances paid for acquisition of current assets	10	394,436	250,804
Taxes recoverable and prepaid	11	543,073	40,300
Other accounts receivable	12	1,663,186	2,099,303
Other financial assets	13	1,190,728	2,000,305
Restricted cash	18	18,552	-
Cash and cash equivalents	14	78,097	226,952
Total current assets		6,176,628	6,195,515
TOTAL ASSETS		46,013,696	32,657,076
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	15	15,810,512	14,810,513
Additional paid-in capital	16	159,931	159,931
Revaluation reserve		5,830,089	1,137,649
Retained earnings		3,820,475	2,086,943
Total equity		25,621,007	18,195,036
NON-CURRENT LIABILITIES:			
Bonds issued	17	3,909,950	1,999,227
Long-term loans	18	4,218,678	3,488,330
Deferred tax liabilities	19	5,399,923	3,613,858
Deferred revenue	20	76,672	79,860
Long-term accounts payable	21	40,938	40,869
Ash dump restoration liability	22	235,128	137,068
Employee benefit obligations	23	30,365	33,228
Total non-current liabilities		13,911,654	9,392,440
CURRENT LIABILITIES:			
Current-portion of the bonds issued	17	225,486	118,055
Trade accounts payable	24	951,602	246,252
Short-term loans and current portion of long-term loans	18, 25	4,493,315	3,873,042
Advances received	26	442,033	504,820
Taxes and non-budget payable	27	113,528	212,497
Current portion of ash dump restoration liability	22	150,111	20,660
Current portion of employee benefit obligations	23	3,717	3,737
Other liabilities and accrued expenses	28	101,243	90,537
Total current liabilities		6,481,035	5,069,600
TOTAL EQUITY AND LIABILITIES		46,013,696	32,657,076

On behalf of management of the Group:

Tatarov I.V.
Chairman of Board

May 8, 2012

Alexeevene T.V.
Chief Accountant

May 8, 2012

ҚАЗАҚСТАН РЕСПУБЛИКАСЫ СҚО ПЕТРОПАВЛ Қ.
СЕВКАЗЭНЕРГО
АКЦИОНЕРЛІК ҚОҒАМЫ
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The notes on pages 9-48 form an integral part of these consolidated financial statements. Independent Auditors' Report is on pages 2-3.

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JOINT STOCK COMPANY SEVKAZENERGO

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2011
(in thousands of tenge)

	Notes	2011	2010
REVENUE	29	15,881,409	13,416,513
COST OF SALES	30	(9,677,706)	(8,797,174)
GROSS PROFIT		6,203,703	4,619,339
Selling expenses	31	(610,336)	(534,952)
General and administrative expenses	32	(1,716,386)	(1,385,384)
Finance costs	33	(1,314,494)	(1,065,462)
Interest income	34	390,079	478,468
Foreign exchange loss		(136,987)	(84,756)
Impairment loss on property, plant and equipment	6	(140,135)	-
Other income	35	137,949	170,821
PROFIT BEFORE INCOME TAX		2,813,393	2,198,074
INCOME TAX EXPENSE	19	(712,954)	(1,278,216)
PROFIT FOR THE YEAR		2,100,439	919,858
OTHER COMPREHENSIVE INCOME:			
Effect of changes in tax rates on deferred tax arising from revaluation of property, plant and equipment	19	-	(62,361)
Surplus from revaluation of property, plant and equipment	6	5,927,479	-
Income tax relating to components of other comprehensive income	19	(1,185,495)	-
Total other comprehensive loss, excluding income tax		4,741,984	(62,361)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		6,842,423	857,497

Earnings per share for the year ended December 31, 2011 is equal to 15.17 tenge (2010: 6.73 tenge) (Note 37).

On behalf of management of the Group:

Tatarov I.V.	**Alexeevene T.V.**
Chairman of Board	**Chief Accountant**
May 8, 2012	May 8, 2012

КАЗАХСТАН РЕСПУБЛИКАСЫ СҚО ПЕТРОПАВЛ Қ.
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JOINT STOCK COMPANY SEVKAZENERGO

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2011
(in thousands of tenge)

	Notes	Share capital	Additional paid-in capital	Revaluation reserve	Retained earnings/ (accumulated deficit)	Total equity
As of December 31, 2009		14,810,513	255,446	2,695,535	27,678	17,789,172
Profit for the year		-	-	-	919,858	919,858
Other comprehensive income for the year, excluding income tax		-	-	(62,361)	-	(62,361)
Total comprehensive income for the year		-	-	(62,361)	919,858	857,497
Dividends declared and paid	15	-	-	-	(256,439)	(256,439)
Amortization of revaluation reserve		-	-	(75,536)	75,536	-
Adjustment to fair value, net of deferred tax in the amount of 48,799 thousand tenge	12	-	-	-	(195,194)	(195,194)
The effect of re-registration into joint stock company		-	(95,515)	(1,419,989)	1,515,504	-
As of December 31, 2010		14,810,513	159,931	1,137,649	2,086,943	18,195,036
Profit for the year		-	-	-	2,100,439	2,100,439
Other comprehensive income for the year, excluding income tax		-	-	4,741,984	-	4,741,984
Total comprehensive income for the year net of deferred tax in the amount of 1,185,495 thousand tenge		-	-	4,741,984	2,100,439	6,842,423
Dividends declared and paid	15	-	-	-	(278,979)	(278,979)
Contribution to share capital	15	999,999	-	-	-	999,999
Amortization of revaluation reserve		-	-	(49,544)	49,544	-
Adjustment to fair value, net of deferred tax in the amount of 34,368 thousand tenge	12	-	-	-	(137,472)	(137,472)
As of December 31, 2011		15,810,512	159,931	5,830,089	3,820,475	25,621,007

On behalf of management of the Group:

Tatarov I.V.
Chairman of Board

May 8, 2012

Alexeevene T.V.
Chief Accountant

May 8, 2012

ҚАЗАҚСТАН РЕСПУБЛИКАСЫ СҚО ПЕТРОПАВЛ Қ.
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JOINT STOCK COMPANY SEVKAZENERGO

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011
(in thousands of tenge)

	Notes	2011	2010
CASH FROM OPERATING ACTIVITIES:			
Profit before income tax		2,813,393	2,198,074
Adjustments for:			
Depreciation and amortization		1,523,712	1,390,281
Finance costs	33	1,314,494	1,065,462
Accrual/(recovery) of allowance for doubtful debts	32, 35	117,933	(3,773)
Accrual of allowance for obsolete inventories	8, 32	17,874	9,399
Loss/(gain) from disposal of property, plant and equipment and intangible assets		9,244	(387)
Employee benefit expense	23	2,405	8,054
Provision for unused vacations	32	2,280	2,014
Loss from revaluation of property plant and equipment		140,135	-
Foreign exchange loss		136,987	84,756
Interest income	34	(390,079)	(478,468)
Cash flow before working capital changes		5,688,378	4,275,412
Increase in inventories		(7,315,637)	(1,289,058)
Increase in trade accounts receivable		(213,707)	(166,488)
Increase in advanced paid for acquisition of current assets		(143,389)	(148,557)
(Increase)/decrease in taxes recoverable and prepaid		(318,353)	19,519
(Increase)/decrease in other accounts receivable		(31,883)	62,545
Increase/(decrease) in trade accounts payable		685,283	(125,582)
(Increase)/decrease in advances received		(62,787)	107,673
Decrease in taxes and non-budget payable		(99,728)	(74,190)
Increase/(decrease) in other liabilities and accrued expenses		5,307	(144)
Decrease in ash dump restoration liability		(165,115)	(18,867)
Decrease in employee benefit obligations	23	(5,288)	(5,689)
Cash (used in)/generated by operating activities		(1,976,919)	2,636,574
Income tax paid		(262,436)	(157,864)
Interest paid		(1,201,194)	(911,004)
Net cash (used in)/generated by operating activities		(3,440,549)	1,567,706

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JOINT STOCK COMPANY SEVKAZENERGO

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011
(in thousands of tenge)

	Notes	2011	2010
CASH FROM INVESTING ACTIVITIES:			
Purchase of property, plant, and equipment	6	(2,835,576)	(2,555,687)
Change in advances paid for acquisition of property, plant, and equipment		466,045	(1,539,064)
Purchase of intangible assets		(2,479)	(1,073)
Placement of deposits		(3,329,464)	(2,950,000)
Proceeds from interest accrued on the deposits placed		174,479	297,059
Withdrawal of deposits		4,069,500	3,446,000
Proceeds from disposal of property, plant and equipment		320,238	329,286
Net cash used in investing activities		(1,137,257)	(2,973,479)
CASH FROM FINANCING ACTIVITIES:			
Proceeds from loans		6,604,700	5,420,045
Bond issue	17	1,917,284	1,999,227
Repayment of loans		(5,197,135)	(5,781,562)
Dividends paid	15	(278,979)	(256,439)
Contribution to share capital	15	999,999	-
Repayment of financial aid by related party		500,000	167,000
Net cash generated by financing activities		4,545,869	1,548,271
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(31,937)	142,498
CASH AND CASH EQUIVALENTS at the beginning of the year	14	226,952	168,813
Impact of exchange rates on cash		(116,918)	(84,359)
CASH AND CASH EQUIVALENTS at the end of the year	14	78,097	226,952

Non-cash transactions:

In 2011 the Group transferred inventories of 6,682,316 thousand tenge to property, plant and equipment (2010: 1,261,257 thousand tenge).

On behalf of management of the Group:

Tatarov I.V.
Chairman of Board

May 8, 2012

Alexeevene T.V.
Chief Accountant

May 8, 2012

The notes on pages 9-48 form an integral part of these consolidated financial statements. Independent Auditors' Report is on pages 2-3.

(in thousands of tenge)

1. NATURE OF THE BUSINESS

Joint Stock Company SEVKAZENERGO (earlier SevKazEnergo Petropavlovsk LLP) (hereafter the "Company") was established on January 19, 1999 and reformed into joint stock company on July 13, 2009 on the basis of the minutes of participants' meeting of SevKazEnergo Petropavlovsk LLP dated June 19, 2009. The Company is located at the following address: 215 Zhambyl Street, Petropavlovsk, 150009, the Republic of Kazakhstan.

As of December 31, 2011 the sole owner of the Company was JSC Central Asian Energy Power Corporation (hereinafter – JSC CAEPCO), holding 100% of share capital (Note 15). The ultimate owners of the Company are JSC Central Asian Petrol Energy Company (hereinafter – JSC CAPEC) owning 24.99%, European Bank of Reconstruction and Development owning 12.89% and KAZ HOLDINGS COOPERATIEF U.A. owning 12.89% (December 31, 2010: CAPEC - 75.12%, EBDR - 24.88%).

The Company is a founder/shareholder company of the following enterprises (hereinafter jointly the "Group"):

Subsidiary	Principal activity	Location	Ownership interest 2011	Ownership interest 2010
JSC North-Kazakhstan Electricity Distribution Company	Transmission and distribution of electricity	Petropavlovsk, Kazakhstan	100	100
Petropavlovsk Heat Network LLP	Transmission and distribution of heat	Petropavlovsk, Kazakhstan	100	100
Sevkazenergosbyt LLP	Supply of electricity and heat	Petropavlovsk, Kazakhstan	100	100

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

The Group's activities are closely related with JSC CAPEC's requirements and its subsidiaries with respect to policies and regulations used. Transactions with related parties are described in detail in Note 36.

The Group's primary activity is production, transmission and supply of electricity and heat.

The Group has all required licenses for production, transmission and allocation of electricity and heat.

The Group is included into the local section of State register of subjects of natural monopolies in North Kazakhstan region by types of regulated services: production and supply of heat, transmission and distribution of electricity, and also it is included into the State register of subjects of the market having a dominating (monopoly) position at the relevant commodity market in North Kazakhstan region on the wholesale and retail supply of electricity.

The total number of employees of the Group as of December 31, 2011 was 2,421 employees (2010: 2,432 employees).

These consolidated financial statements prepared in accordance with IFRS were approved and authorized for issue by management of the Group on May 8, 2012.

2. CURRENT ECONOMIC SITUATION

Operating environment

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

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

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

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

3. ADOPTION OF NEW AND REVISED STANDARDS

Standards and Interpretations effective in the current period

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

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

Moreover the Group has adopted amendments to other Standards within an annual initiative aimed at the general improvement of the effective IFRSs. These amendments are related to certain expressions and issues regarding presentation of consolidated financial statements, issues of recognition and appraisal. Amendments have led to several changes in the details of accounting policies - some of which represent a change in terminology only, while others are significant, but do not affect the numbers in the financial statements

The adoption of these Standards and related amendments did not result in changes of the Group's accounting policy.

(in thousands of tenge)

Standards and Interpretation in issue not yet adopted

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

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

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

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

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

4. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Statement of compliance with IFRS

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

Basis of measurement

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

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

Segment reporting

Based on information included in the reports, which are regularly reviewed by management in order to allocate resources to the segment and assess its performance, as well as upon the results of the analysis of aggregation criteria, the Group determined one operating segment - the Group identified one operating segment – production, transmission and distribution of heat and electricity.

Functional and presentation currency

The national currency of the Republic of Kazakhstan is the Kazakhstani Tenge (“tenge”) that is the Group’s functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in tenge has been rounded to the nearest thousand.

Use of judgment, estimates and assumption

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRS. Due to uncertainty of such estimations actual results might differ from initial estimations made.

Estimates and underlying assumptions are reviewed on an ongoing basis as to necessity for change. Changes to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is presented below:

Ash dump restoration liability

The Group uses in production purposes three ash dumps. At the end of their useful life those ash dumps should be restored. In order to determine the amount of the ash dumps restoration liability management of the Group is required to evaluate the future cost of restoration of ash dumps. For valuation of amortized cost of this liability at the Group used effective interest rate of 12% which is the market borrowing rate for the Group at the reporting date. The Group calculates liability on the basis of projected costs of restoration, and based on the planned schedule of works. The Group reviews the amount of liabilities in the case of significant changes to the schedule and/or the amount of planned expenditures.

Determination of fair value of property, plant and equipment

At each reporting date the Group evaluates significance of the change in the net book value of property, plant and equipment from its fair value. In case of significant change in the net book value from fair value the Group has the fair value of property, plant and equipment evaluated by independent appraisers.

Impairment of property, plant and equipment

At each reporting date, the Group reviews property, plant and equipment to determine whether there is any indication that those assets have impaired. If any such indication exists or annual testing is required for impairment, the Group evaluates the recoverable amount. The recoverable amount of an asset is the greater of the fair value of the asset or cash generating unit less selling costs or value in use, and is determined for a separate asset except for cases when the asset does not generate cash flows that are mainly independent of cash flows generated by other assets or groups of assets. If the carrying value of an asset exceeds the recoverable amount, the asset is considered to be impaired and its value is decreased to the recoverable amount. In evaluating the value in use, estimated future cash flows are discounted to their present value using the pre-tax effective interest rate.

Allowances

The Group accrues allowance for doubtful debts. Significant judgments are used to identify doubtful debt. Debt aging as well as historical and expected customer behavior is considered when identifying doubtful debts. Changes in customer economic or financial conditions may require changes to provision for doubtful debts in the consolidated financial statements.

Annually the Group considers the need to create allowance for obsolete inventories based on annual stock counts and estimation on future use of obsolete stock.

The actual amount of losses from write-off of inventories and accounts receivable may differ from estimated amounts that may have a significant effect on future operating results.

Guarantee fees

The Group reviews guarantee fees received from the customers for additional power connection at each reporting date and makes adjustments to reflect them at fair value. For determining present value of guarantee fees, the Group evaluates future estimated cash outflow and relevant discount rate for present value calculation based on best estimations of the management. Guarantee fees received from the customers for additional power connection will be settled in full in equal installments within 16-25 years starting from 37th month after receiving guarantee fee. Besides, present value of guarantee fees may be affected by future changes in the legislation and discount rate estimations. The Group recorded the adjustment to fair value as deferred revenue with amortization period of 19-28 years.

Employee benefit obligations

The Group uses actuarial valuation method for measurement of the present value of defined post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions related to future characteristics of active and retired employees entitled to remuneration (mortality, both during and after employment, rates of employee turnover, etc.) as well as financial assumptions (including discount rate, future annual material assistance, and future annual minimum salary etc.). Changes in estimates could have a significant effect on the profits or losses of the Group.

Useful economic lives of property, plant and equipment

The Group considers useful economic lives of property, plant and equipment at the end of each annual period. The evaluation of the useful economic life of an asset depends on such factors as economic use, maintenance programs, technological improvements and other business conditions. The evaluation by management of useful economic lives of property, plant and equipment reflects relevant information available at the date of these consolidated financial statements. As the result of changes in these estimates, the amount of depreciation may differ materially from amounts recorded in past years. Any adjustments accounted for prospectively as a change in estimates.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and other enterprises under Group's direct and indirect control. Control is achieved where the Group has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

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

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

Foreign currency transactions

Transactions in currencies other than the functional currency of the Group are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the reporting date. Non-monetary items carried at historical cost denominated in foreign currency are not retranslated. Gains and losses arising on exchange are included in the consolidated statement of comprehensive income, except for exchange differences on borrowings in foreign currencies related to the acquisition, construction or production of qualified assets

Property, plant and equipment

Property, plant and equipment initially are carried at the acquisition cost. All property, plant and equipment purchased before January 1, 2006 the IFRS transition date, are recorded at the revalued cost, which is the deemed cost. The cost of purchased property, plant and equipment is the value of contributions paid to purchase the related assets, and also other directly attributable costs incurred when supplying assets and preparing them for their intended use.

Construction in progress includes costs directly related to the construction of property, plant and equipment, as well as the corresponding allocation of directly related variable costs incurred during construction. Depreciation for these assets is calculated as for remaining property, plant and equipment from the moment they are put into operations. The present value of construction in progress is reviewed regularly so that it is recorded fairly and whether impairment losses need to be recognized.

After initial recognition, property, plant and equipment is recorded at its revalued amount which is the fair value of property, plant and equipment at the revaluation date, less accumulated depreciation and any accumulated impairment losses. Property, plant and equipment are revalued regularly to avoid significant differences between the carrying value and its fair value at the reporting date. Accumulated depreciation at the revaluation date is eliminated against the total value of the asset, after which the carrying value is recalculated to its revalued value.

If the carrying amount of asset increases as a result of revaluation, the amount of such increase shall be recognized in other comprehensive income and accumulated in equity under the note line “capital gains from the revaluation”. However, such increase shall be recognized in profit or loss in the extent to which it recovers the decrease in value of that asset after revaluation previously recognized in profit or loss.

If the carrying amount of asset decreases as a result of revaluation, the amount of such reduction is included in profit or loss. However, this decrease should be recognized in other comprehensive income in the amount of existing credit balance, if any, reflected in the note line “capital gains from the revaluation” belonging to the same asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under the note line “capital gains from the revaluation”.

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

Depreciation is charged so as to write off the cost of assets, other than assets under construction, over the estimated useful lives of the assets, using the straight-line method, close to the following terms:

Buildings and constructions	5-40 years
Machinery and production equipment	5-35 years
Vehicles	5-12 years
Other	3-14 years

Depreciation on property, plant and equipment is recorded in profit or loss. Depreciation of assets under construction commences when the assets are ready for their intended use.

Gains and losses on property, plant and equipment disposals are calculated as the difference between selling price and carrying amount of an asset, and included in profit or loss.

Methods of depreciation, useful lives are analyzed at each reporting date.

Impairment of long-term 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 impaired. 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 the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the 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 (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (or 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 (or 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 materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the FIFO method. Net realizable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and liabilities are recognized on the Group’s consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are fixed at the reporting date of calculation.

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

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or where appropriate, a shorter period.

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

Financial instruments comprise cash and cash equivalents, trade and other receivables, loans and borrowings, and accounts payable and other liabilities.

Cash and cash equivalents

Cash include cash on hand, cash with bank accounts and deposits with initial maturity not more then three months.

Cash restricted in use

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

Trade and other accounts receivable

Trade and other receivables are recognized and stated at the amounts of issued invoices less provision for doubtful debts. The allowance for doubtful debts is determined in cases when it is probable that the debts will not be repaid in full. The allowance for doubtful debts is accrued by the Group when accounts receivable are not repaid within contractual terms. The allowance for doubtful debts is regularly reviewed and if there is a need for adjustments the relevant amounts are reflected in profit or loss of the reporting period in which such a need was revealed. Bad debts identified are written off against previously created allowance.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, except for trade accounts receivable where the carrying amount is reduced through the use of provision on doubtful debts. When trade accounts receivable are not collectible, they are written off against the provision on doubtful debts. Subsequent recoveries of amounts previously written off are credited against the provision on doubtful debts. Changes in the carrying amount of the provision account are recognized in profit or loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the nature of signed contractual agreements and definitions of the financial liability and equity instrument. Equity instrument is any contract which confirms the residual share in the assets of the Group after deduction of all its liabilities. The accounting policy accepted for specific financial liabilities and equity instruments is stated below.

Loans

Loans initially recorded at the fair value plus expenses on related transactions and subsequently measured at amortized cost using effective interest method. Any difference between gains (less transaction costs) and estimate or repayment of loans is recognized during the borrowing terms according to the accounting policy of the Group on borrowing costs.

Accounts payable and other liabilities

Accounts payable and other liabilities are initially stated at their fair value and subsequently at amortized cost using effective interest method.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position when the Group has a legally enforceable right to offset the recognized amounts and the Group intends either to settle on a net basis or sell the asset and settle the liability simultaneously.

Derecognition of financial assets and liabilities

Financial assets

Financial asset (or, if applicable, portion of a financial asset or portion 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 of 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 compensation that the Group could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

Revenue recognition

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

Electricity and heat sale revenue included in profit or loss as delivered to customers. Basis for accrual of heat sale revenue and transmission of electricity is tariffs approved by Agency of the Republic of Kazakhstan on regulation of natural monopolies.

Sales of goods recognized in profit or loss when goods are delivered and title has passed to customer.

Taxation

Income tax expense represents the sum of the taxes currently payable and deferred tax.

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

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and 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 assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is recognized in profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also recognized in other comprehensive income or equity.

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

Deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are 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.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs.

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

Retirement benefit costs

Current pension obligations

In 2011 in accordance with legislative requirements of the Republic of Kazakhstan, the Group pays 10% of employee's salary (2010: 10%), as contributions to saving pension funds. These amounts are expensed when they are incurred. Pension fund payments are withheld from employee salaries and included in salary costs in profit or loss.

Other employee benefits

In accordance with the Collective Agreement the Group pays one time compensation to its employees relating to payment of medical and funeral services (social benefits, guarantees and compensations). In accordance with this agreement the Group pays the following main fees and benefits:

- incentive payments in honor of the Day of power engineers and Day of senior citizens to retirement pensioners, invalids in groups I, II and III, who do not work currently;
- lump sum benefit payment for the Victory Day to participants of the Great Patriotic War, to the widows of soldiers deceased during the war, rear area workers and the persons equivalent to participants of the Great Patriotic War;
- lump sum payment in the amount of a monthly salary upon retirement due to pension;

The obligation and cost of benefits under the Defined Benefit Scheme are determined using the projected unit credit method. This method considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The cost of providing benefits is charged to the statement of comprehensive income, so as to allocate the total benefit cost over the service lives of employees in accordance with the benefit formula of the Defined Benefit Scheme. This obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest on government bonds where the currency and terms of these bonds are consistent with the currency and estimated terms of the defined benefit obligation.

The Group recognizes actuarial gains and losses arising from the reassessment of the employee benefit obligation in the period they are identified and recognizes employee benefit costs.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation (either based on legal regulations or implied) 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 a reliable estimate of the obligation can be made. Provisions reviewed at each date of the consolidated statement of financial position and corrected for presenting the best current valuation.

Where influence of temporary value of money is material, amount of reserve is calculated as current amount of expenses that will be needed for paying-off obligations. When discounting is used, increase in provision that reflects prior period is recognized as interest expense.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Related party transactions

The following parties are deemed related parties in preparation of these consolidated financial statements:

A party is related to the Group 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 is 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 relationship, attention is directed to the substance of the relationship, and not merely the legal form.

(in thousands of tenge)

6. PROPERTY, PLANT AND EQUIPMENT

For the years ended December 31 movement of property, plant and equipment presented as follows:

	Land, buildings and constructions	Machinery and production equipment	Vehicles	Other	Construction in progress	Total
Cost						
At January 1, 2010	5,677,756	16,985,693	176,770	39,794	1,569,216	24,449,229
Additions	35,862	281,931	144	11,509	2,226,238	2,555,684
Transfers from inventories	-	-	-	-	1,261,257	1,261,257
Internal transfers	72,372	1,917,554	797	(797)	(1,989,926)	-
Change in estimation on liquidation fund (Note 22 and 33)	(5,179)	-	-	-	-	(5,179)
Disposals	(74,243)	(270,513)	(33,664)	(4,112)	(21)	(382,533)
At December 31, 2010	5,706,568	18,914,662	144,047	46,394	3,066,764	27,878,438
Additions	13,625	328,835	1,570	12,058	2,479,488	2,835,576
Transfers from inventories	-	-	-	-	6,682,316	6,682,316
Internal transfers	174,933	3,080,845	-	(19)	(3,255,759)	-
Property, plant and equipment revaluation	957,730	4,793,401	34,154	2,059	-	5,787,344
Elimination of property, plant and equipment accumulated depreciation on the date of revaluation	(1,069,973)	(4,048,807)	(78,754)	(11,070)	-	(5,208,604)
Change in estimation on liquidation fund (Note 22)	333,845	-	-	-	-	333,845
Disposals	(15,635)	(368,364)	(11,081)	(8,008)	(9,246)	(412,334)
At December 31, 2011	6,101,093	22,700,575	89,936	41,414	8,963,563	37,896,581
Accumulated depreciation						
At January 1, 2010	(591,738)	(1,882,956)	(49,841)	(14,431)	-	(2,538,966)
Charge for the year	(264,002)	(1,101,501)	(25,756)	2,088	-	(1,389,171)
Disposals	7,796	39,490	11,457	142	-	58,885
At December 31, 2010	(847,944)	(2,944,967)	(64,140)	(12,201)	-	(3,869,252)
Charge for the year	(308,302)	(1,189,714)	(19,870)	(4,731)	-	(1,522,617)
Elimination of property, plant and equipment revaluation	1,069,973	4,048,807	78,754	11,070	-	5,208,604
Internal transfers	284	(299)	-	15	-	-
Disposals	2,157	73,326	5,256	2,187	-	82,926
At December 31, 2011	(83,832)	(12,847)	-	(3,660)	-	(100,339)
Net book value						
At December 31, 2011	6,017,261	22,687,728	89,936	37,754	8,963,563	37,796,242
At December 31, 2010	4,858,624	15,969,698	79,907	34,193	3,066,764	24,009,186

(in thousands of tenge)

Revaluation of property, plant and equipment of the Group was conducted by an independent appraiser in accordance with IVS as of December 31, 2011. Fair value of property, plant and equipment at this date was determined by applying the following generally accepted methods of carrying value determination: comparable, cost and income methods of valuation compared to the depreciated replacement cost. Management believes that the results of the valuation duly reflect the economic condition of the Group's property, plant and equipment at that date.

The carrying value of each class of property, plant and equipment that would have been recognized in the consolidated financial statements if property, plant and equipment had been recorded at initial cost less accumulated depreciation and an impairment provision was as follows:

	Land, buildings and constructions	**Machinery and production equipment**	**Vehicles**	**Other**	**Construction in progress**	**Total**
As of December 31, 2011	5,059,531	17,894,327	55,782	35,695	8,963,563	32,008,898
As of December 31, 2010	4,858,624	15,969,698	79,907	34,193	3,066,764	24,009,186

As of December 31, 2011 and 2010 the loan of the Group was secured by property, plant and equipment with net book value of 17,972,106 thousands tenge and 12,228,698 thousands tenge, respectively (Note 18 and 25).

As of December 31, 2011 the value of fully depreciated property, plant and equipment at revalued cost amounted to nil tenge (2010: 59,459 thousand tenge).

7. ADVANCES PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

As of December 31, 2011 and 2010 advances paid in the amount of 1,980,367 thousand tenge and 2,448,226 thousand tenge, respectively, included advances paid to Energoinvest-PV LLP for the construction of ash dump of 896,394 thousand tenge (2010: 544,311 thousand tenge), OJSC Sibenergomash in the amount of 271,820 thousand tenge for the purchase of boilers (2010: 1,903,915 thousand tenge), CJSC Uralsk Turbine Factory in the amount of 792,207 thousand tenge for the purchase of turbine and turbine components (2010: nil tenge).

(in thousands of tenge)

8. INVENTORIES

As of December 31 inventories presented as follows:

	2011	2010
Raw materials	469,713	321,670
Spare parts	407,108	135,998
Fuel	406,353	207,259
Construction materials	15,266	7,780
Other	15,812	8,223
	1,314,252	680,930
Allowance for obsolete inventory	(54,573)	(36,699)
Total	1,259,679	644,231

For the years ended December 31 movement of the allowance for obsolete inventory presented as follows:

	2011	2010
At January 1	36,699	27,300
Accrued for the year	17,874	9,399
At December 31	54,573	36,699

9. TRADE ACCOUNTS RECEIVABLE

As of December 31 trade accounts receivable presented as follows:

	2011	2010
Sales and transmission of electricity and heat	1,067,627	883,682
Sales of inventories and providing for other services	200,999	171,237
	1,268,626	1,054,919
Allowance for doubtful debts	(239,749)	(121,299)
Total	1,028,877	933,620

For the years ended December 31 movement of allowance for doubtful debts is presented as follows:

	2011	2010
At January 1	121,299	121,504
Accrued/(recovered)	118,450	(205)
At December 31	239,749	121,299

(in thousands of tenge)

As of December 31 trade accounts receivable are denominated in following currencies:

	2011	2010
Tenge	1,009,886	922,739
Russian roubles	18,991	10,881
	1,028,877	933,620

As of December 31, 2011 trade accounts receivable from related parties amounted to 93,265 thousand tenge (2010: 60,042 thousand tenge) (Note 36).

10. ADVANCES PAID FOR ACQUISITION OF CURRENT ASSETS

As of December 31 advances paid for acquisition of current assets presented as follows:

	2011	2010
For acquisition of services	190,753	117,862
For acquisition of goods	204,958	95,836
For acquisition of fuel	919	39,545
	396,630	253,243
Allowance for doubtful debts	(2,194)	(2,439)
Total	394,436	250,804

As if December 31, advances paid to related parties of the Group amounted to 138,045 thousand tenge (2010: 941 thousand tenge) (Note 36)

For the years ended December 31 movement of allowance for advances paid for acquisition of current assets is presented as follows:

	2011	2010
At January 1	2,439	70
(Recovered)/accrued	(245)	2,369
At December 31	2,194	2,439

11. TAXED RECOVERABLE AND PREPAID

As of December 31 taxes recoverable and prepaid consisted of the following:

	2011	2010
Corporate income tax	147,674	18,252
VAT recoverable	386,215	13,163
Property tax	5,374	7,096
Other taxes	3,810	1,789
Total	543,073	40,300

(in thousands of tenge)

12. OTHER ACCOUNTS RECEIVABLE

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

	2011	2010
Financial aid	1,575,690	2,046,275
Receivables from employees and shortages	6,434	7,931
Other	81,081	47,202
	1,663,205	2,101,408
Allowance for doubtful debts	(19)	(2,105)
Total	1,663,186	2,099,303

As of December 31, 2011 financial aid included an interest free financial aid of 1,544,820 thousand tenge, given to the ultimate owner, JSC CAPEC (Note 36), and 30,870 thousand tenge, given to Transportation company SevKazEnergo LLP (as of December 31, 2010: 2,014,905 thousand tenge, given to the ultimate owner, JSC CAPEC and 31,370 thousand tenge, given to Transportation company SevKazEnergo LLP). The Group presented interest free loan at the amortized cost using an effective interest rate of 12.5%. On June 30, 2011 the Group signed additional agreement on extension of the maturity to June 30, 2012. During 2011, CAPEC JSC repaid part of debt in the amount of 500,000 thousand tenge. As the result, the Group recognized an adjustment to the fair value in equity in the amount of 171,840 thousand tenge, net of deferred income tax of 34,368 thousand tenge (2010: 243,993 thousand tenge, net of deferred income tax of 48,799 thousand tenge). For the year ended December 31, 2011 the Group recognized related interest income of 201,754 thousand tenge (2010: 256,956 thousand tenge) (Note 34).

As of December 31, 2011 and 2010 other accounts receivable is denominated in tenge.

13. OTHER FINANCIAL ASSETS

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

	Interest rate	Currency	2011	2010
Short-term deposit	10.9%-12%	tenge	1,186,712	2,000,300
Interest receivable			4,016	5
Total			1,190,728	2,000,305

As of December 31, 2011 and 2010 all deposits are placed at accounts of Eximbank Kazakhstan JSC (Note 36).

On 31 December 2010 the Group placed deposit at Eximbank Kazakhstan JSC at interest rate 12% per annum and maturity period up to 1 year. In accordance with terms of agreement, bank changed annual effective interest rate during 2011, which was 10.9% as at 31 December 2011. Then the Group signed additional agreement to change maturity period till 31 December 2012. During 2011 the Group has partially withdrawn deposit in the amount of 1,821,000 thousand tenge.

(in thousands of tenge)

On 6 May the Group entered into bank deposit account agreement with Eximbank Kazakhstan JSC. According to deposit agreement partial withdrawal is possible with preservation of limit balance in amount 50,000 thousand tenge, which presented as non-current restricted cash in the statement of financial position as of 31 December 2011. Interest income rate on the deposit constitutes from 4.5% to 9% per annum.

On December 31, 2011 and 2010 cash on deposit at Eximbank Kazakhstan JSC, which is related party, including accrued interest totaled to 1,190,728 thousand tenge and 2,000,305 thousand tenge, respectively (Note 36).

14. CASH AND CASH EQUIVALENTS

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

	2011	**2010**
Cash in banks current accounts	62,777	219,347
Petty cash	14,979	7,605
Cash in transit	341	-
Total	78,097	226,952

As of December 31, 2011 and 2010 cash at Eximbank Kazakhstan JSC, which is related party, totalled to 37,860 thousand tenge and 86,095 thousand tenge, respectively (Note 36).

As of December 31, 2011 and 2010 cash are denominated in tenge.

15. SHARE CAPITAL

As of December 31, 2011 and 2010 the Group’s sole shareholder is CAEPCo JSC. Registered share capital of the Company is 16,152,439 thousand tenge, of which paid amounts to 15,810,512 thousand tenge (2010: 14,810,513 thousand tenge), which equals 141,458,799 shares (2010: 136,580,751 shares)

In accordance with share issue from August 1, 2011 the Company transferred to the sole shareholder 4,878,048 common shares, in the amount of 999,999 thousand tenge. Addition to share capital was paid by cash in the amount of 999,999 thousand tenge.

As a result of the Group’s operation for 2010 have been declared and paid dividends during 2011 in the amount of 278,979 thousand tenge (2010: for 2009 have been declared and paid dividends in the amount of 256,439 thousand tenge).

(in thousands of tenge)

16. ADDITIONAL PAID-IN CAPITAL

As of December 31, 2011 and 2010 additional paid-in capital amounted to 159,931 thousand tenge.

Additional paid-in capital includes the following:

- difference between the carrying amount of property, plant and equipment received by the Group under the finance lease agreements and present value of minimum lease payments under the finance lease agreements. During the period of finance lease the owner transferred part of property, plant and equipment under the agreement to share capital of the Group with a respective adjustment of additional paid-in capital;
- fair value adjustment of an interest free long-term loan from the owner.

17. BONDS ISSUED

As of December 31 bonds issued were as follow:

Bonds placed with price of	**2011**	**2010**
Coupon bonds (17.05.2010: 99.95920%)	1,999,990	1,999,990
Coupon bonds (31.05.2011: 105.34530%)	1,820,000	-
	3,819,990	1,999,990
Including/(excluding):		
(Discount on bonds issued)	(678)	(763)
Premium on bonds issued	90,638	-
Accrued interest on bonds issued	225,486	118,055
Total bonds issued	4,135,436	2,117,282
Less: current portion	(225,486)	(118,055)
	3,909,950	1 999 227

On December 31, 2009 the Agency on regulation and supervision of financial market and financial institution of Republic of Kazakhstan made state registration of the issue of the coupon bonds of Joint Stock Company SEVKAZENERGO. The volume of the issue of the bonds face value is 100 tenge amounted to 8,0000,00 thousand tenge. The issue of bonds has been divided into 80,000,000 non-secured coupon bonds, which have been assigned with national identification number KZ2C0Y10D695. Issue was included in State register of the issued securities with number of D69.

On March 30, 2010 was effective the Listing commission's decision about inclusion of the Company's bonds to the official list of Kazakhstan Stock Exchange JSC with category "Debt securities with ratings". Between Kazakhstan Stock Exchange JSC and the Group was signed an agreement on listing of issue of non-state securities.

On May 14, 2010 the Group issued 19,999,900 coupon bonds at 99.95920% of its nominal value with fixed interest rate of 12.5%. Interest is payable twice a year every six months till maturity. The bond issue prospectus does not include any requirements.

(in thousands of tenge)

On May 30, 2011 the Group additionally issued 18,200,000 coupon bonds at 105.34530% of its nominal value with fixed interest rate of 12.5%. Interest is payable twice a year every six months till maturity. The bond issue prospectus does not include any requirements.

As of December 31, 2011 was placed bonds in the quantity of 38,199,900. The Holders of the securities are:

Pension fund “Ular Umit” JSC – 19,999,900 coupon bonds,
Pension fund “Astana” JSC – 18,200,000 coupon bonds.

18. LONG-TERM LOANS

As of December 31 long-term loans were as follows:

	Interest rate %	Currency	2011	2010
Sberbank SB JSC	10 - 11%	Tenge	4,586,987	3,365,600
European bank for Reconstruction and Development.	6.10%	Tenge	703,634	-
Eximbank Kazakhstan JSC (Note 36)	16-17%	Tenge	-	337,508
Interest payable			78,537	74,422
Total			5,369,158	3,777,530
Less: short-term portion of long-term loan			(1,150,480)	(289,200)
			4,218,678	3,488,330

Loans are paid off as follows:

	2011	2010
Within the second year	1,277,360	868,970
After the second and fifth years inclusive	2,941,318	2,619,360
After five years	-	-
	4,218,678	3,488,330

On October 1, 2008 the Group concluded agreement No.01/10 on opening of credit line with Sberbank SB JSC for amount of 6,111,839 thousand tenge, maturity till October 1, 2015. The loan was received based on decision of owners for refinancing of debt of CAPEC JSC. In accordance with agreement, amount of principal and interest payments are repaid quarterly. On December 28, 2011 the Group concluded additional agreement to agreement #01/10, according to which the interest rate was decreased from 11% to 10%. On December 29, 2011 the Group concluded additional agreement to agreement #01/10, according to which amount of the credit limit was shortened to 4,703,641 thousand tenge. On March 6, 2009 the loan was secured by property, plant and equipment with the carrying value of 17,972,106 thousand tenge (2010: 12,228,698 thousand tenge) (Note 6).

(in thousands of tenge)

On May 15, 2009 the Group opened credit line for the amount of 400,000 thousand tenge in Eximbank Kazakhstan JSC with maturity period till May 15, 2012. In 2011 the debt was fully repaid by the Group.

On May 26, 2011 "Petropavlovskiye Teplovye Sety" LLP, subsidiary, and European Bank for Reconstruction and Development ("EBRD") signed loan agreement, which is aimed at renewal and upgrade of centralized heating nerworks in Petropavlovsk city for amount 1,924,000 thousand tenge. Financing will be exercised by the following way: 1,443,000 thousand tenge – two tranches from ordinary sources of EBRD, and 3,250 thousand dollars – Special Fund from Fund of Pure Technologies subaccount ("FPT"). Interest rates are 4.5% including margin, and 0.75%, respectively. The loan is repaid by the 20 equal half-year installments starting from 18 April 2014. Interest expense is paid on a quarter basis. In 2011 effective interest rate on loans provided by EBRD constituted 7.38%. On June 30 2011, first tranche in the amount of 721,500 thousand tenge was received. CAEPCo JSC is a guarantor for this loan.

According to agreement with EBRD the Group accumulates cash means on the bank accounts, during half year period, preceding the date of repayment, opened for maintenance of the debt. These cash means might be used exclusively for the purpose of interest expenses' and principle amount of loan repayments provided by EBRD, and accordingly as of 31 December 2011 were classified in the non-current assets within consolidated statement of financial position as restricted cash for amount 5,000 thousand tenge and 18,552 thousand tenge (2010: nil), respectively. These cash means were placed at deposits on accounts of JSC Eximbank Kazakhstan, related party of the Group (Note 36).

As of December 31, 2011 long-term loans for the amount of nil tenge (31 December 2010: 339,899 thousands tenge) were attracted from Eximbank Kazakhstan JSC (Note 36).

19. INCOME TAX

The Group's income tax expense for the years ended December 31 presented as follows:

	2011	**2010**
Current income tax expense	78,016	209,966
Deferred income tax expense	634,938	1,068,250
Income tax expense	712,954	1,278,216

(in thousands of tenge)

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

	2011	2010
Deferred tax assets arising from:		
Loss carried forward	117,814	-
Ash dump restoration liability	77,048	31,546
Provisions for doubtful debts	47,950	24,698
Provision for obsolete inventories	10,915	7,340
Provision for unused vacation	3,866	3,306
Accrued but unpaid taxes	14,336	10,319
Fair value adjustment of financial aid	20,169	26,152
Deferred revenue	15,334	15,972
Total deferred tax assets	307,432	119,333
Deferred tax liabilities arising from:		
Carrying value of property, plant and equipment and intangible assets	5,693,472	3,719,400
Long-term accounts payable	13,883	13,791
Total deferred tax liabilities	5,707,355	3,733,191
Deferred tax liabilities, net	(5,399,923)	(3,613,858)
Unrecognized deferred tax assets:		
Loss carried forward	-	13,898
	-	13,898

Movement in deferred taxes during the years ended December 31 was as follows:

	2011	2010
At January 1	(3,613,858)	(2,532,046)
(Increase)/decrease in deferred tax liabilities recorded:		
In profit or loss	(634,938)	(1,068,250)
In other comprehensive income	(1,185,495)	(62,361)
In consolidated statement of change in equity	34,368	48,799
At December 31	(5,399,923)	(3,613,858)

Income tax expense for the years ended December 31 and profit before income tax were reconciled in profit or loss as follows:

	2011	2010
Profit before income tax	2,813,393	2,198,074
Tax at statutory rate	562,678	439,615
Finance costs	76,656	107,491
Technical over-normative losses	49,472	64,233
Current income tax adjustments related to prior year profits	31,625	-
Unused tax losses not recognised as deferred tax assets	(43,637)	(1,600)
Effect of decreased income tax rate	-	672,502
Tax effect of other permanent differences	36,160	(4,025)
Income tax expense	712,954	1,278,216

(in thousands of tenge)

20. DEFERRED REVENUE

As of December 31, 2011 deferred revenue in the amount of 76,672 thousand tenge represents a fair value adjustment of guarantee fee for connection to additional capacity of North-Kazakhstan Electricity Distribution Company LLP and Petropavlovsk Heat Network LLP (2010: 79,860 thousand tenge) (Note 21). For the year ended December 31, 2011 the Group recognized interest income on guarantee fees in amount of 1,000 thousands tenge (2010: 4,541 thousands tenge) (Note 34).

21. LONG-TERM ACCOUNTS PAYABLE

As of December 31 long-term accounts payable was as follows:

	2011	2010
Guarantee fee for additional power connection	117,610	120,729
Deferred revenue (Note 20)	(76,672)	(79,860)
	40,938	40,869

The Group received cash from consumers as a guarantee fee for connection to additional capacity. In accordance with Resolution of Government of the Republic of Kazakhstan No.1044 dated October 8, 2004 the Group should redeem cash received within 16-25 years beginning from the 37th month after receipt of the guarantee fee. The Group records these liabilities at amortized cost using the effective interest rate of 12.5%. Interest expense on guarantees for additional capacity as of December 31 amounted to 2,188 thousand tenge (2010: 1,945 thousand tenge) (Note 33). As of December 31, 2011 the Group recognized a fair value adjustment in the amount of 76,672 thousand tenge (2010: 79,860 thousand tenge) as deferred revenue with amortization period of 19-28 years.

22. ASH DUMP RESTORATION LIABILITY

The Group uses three ash dumps for production purposes. At the end of the useful life those ash dumps should be restored. In order to determine the amount of the ash dump restoration liability management of the Group is required to perform estimation of the future cost of restoration of ash dumps. As of December 31, 2011 the Group evaluated general obligations on ash dumps restoration for the amount of 385,239 thousand tenge (2010: 157,729 thousand tenge). This liability was discounted using the effective interest rate of 12%, which is incremental borrowing rate of financing for the Group.

The movement of the ash dump restoration liability is as follow:

	2011	2010
As at January 1	157,728	85,420
Finance cost (Note 33)	58,781	12,857
Restoration during the year	(165,115)	(13,687)
Change in estimates (Note 6 and 33)	333,845	73,138
As at December 31	385,239	157,728
Current portion	150,111	20,660
Non-current portion	235,128	137,068
	385,239	157,728

(in thousands of tenge)

23. EMPLOYEE BENEFIT OBLIGATIONS

Employee benefit obligations are paid in accordance with the Collective Agreement concluded between the Group and its labor collective. The Group's employee benefit obligations as of December 31 consisted of:

	2011	2010
Present value of current employee benefit obligation	3,717	3,737
Present value of non-current employee benefit obligation	30,365	33,228
	34,082	36,965

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

	2011	2010
Total amount of liabilities at the beginning of the year	36,965	34,600
Interest expense	2,909	2,467
Current service cost	1,625	1,868
Actuarial (gain)/loss recognized for the year	(2,129)	3,719
Payments made	(5,288)	(5,689)
Total amount of liabilities at the end of the year	34,082	36,965
Obligation which matures during the year	(3,717)	3,737
Obligation which matures after one year	30,365	33,228

Actuarial (gain)/loss recognized for the years ended December 31, 2011 and 2010 is mainly the result of change in assumption regarding the annual growth of the minimum salary in the future as a result of a significant increase in the minimum salary in the Republic of Kazakhstan, and additional increase in the average salary of the employees of the Group in 2011.

The carrying amount of services, value of benefits and actuarial (gain)/loss recognized in 2011, were recorded within other expenses of cost of sales in the amount of 388 thousand tenge (2010: 1,721 thousand tenge) and general and administrative expenses in the amount of 2,017 thousand tenge (2010: 6,333 thousand tenge).

Calculations of the liabilities of the Group were prepared based on published statistic data on the level of mortality and actual data of the Group on the quantity, age, sex and length of service of workers and pensioners, and statistics on changes in the number of personnel. Other main assumptions at the reporting date presented below:

	2011	2010
Discount rate	7.87%	7.87%
Expected annual growth of minimum calculation index	7.00%	7.00%
Expected annual growth of minimum salary in the future	8.00%	10.00%

(in thousands of tenge)

24. TRADE ACCOUNTS PAYABLE

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

	2011	**2010**
For services rendered	501,659	186,007
For fuel	226,738	-
For purchased goods	222,496	59,726
Other	709	519
Total	951,602	246,252

As of December 31 trade accounts payable denominated in the following currencies:

	2011	**2010**
Tenge	807,622	243,621
Russian rouble	143,980	2,631
	951,602	246,252

25. SHORT-TERM LOANS

As of December 31 short-term loans consisted of the following:

	Interest rate	**Currency**	**2011**	**2010**
Sberbank SB JSC	10-12.5%	Tenge	3,196,250	3,518,327
Eximbank Kazakhstan JSC	17%	Tenge	118,286	20,000
Interest payable			28,299	45,515
Total			3,342,835	3,583,842

On June 27, 2008 the Group concluded accessory (loan) agreement No.27/06 and agreement on opening of credit line with Sberbank SB JSC available until June 27, 2014. Loan was attracted according to decision of shareholders to replenish working capital and receiving of loan is performed in tranches at most every 12 months. On December 29, 2011 the Group concluded additional agreement to agreement No.27/06, according to which the interest rate was decreased from 11% to 10%.The loan was secured by property, plant and equipment with the carrying value of 17,972,106 thousand tenge (2010: 12,228,698 thousand tenge) (Note 6).

On May 15, 2009 the Group opened credit line for the amount of 400,000 thousand tenge in Eximbank Kazakhstan JSC with maturity period till May 15, 2012. As of December 31, 2011 amount of debt payable equals 118,285 thousand tenge (2010: 20,000 thousand tenge). The group was receiving money in accordance with different loan agreements, concluded on automatically renewable basis. In accordance with credit lines the Group received loans for replenishment of working capital. Interest rate on loan is 17% per annum, annual effective interest rate 19.4%. In accordance with loan agreements principal is repaid in period from October to April (repayment is not performed in the period from May to September), interest accrued is repaid on a monthly basis. The loan was secured by cash of PAVLODARENERGO JSC. On January 5, 2011 the Group agreed to cancel the agreement on cash collateral.

(in thousands of tenge)

As of December 31, 2011 short-term loans and accrued interest for the amount of 119,123 thousand tenge (December 31, 2010: 20,000 thousand tenge) were attracted from Eximbank Kazakhstan JSC (Note 36)

26. ADVANCES RECEIVED

As of December 31 advances received consisted of the following:

	2011	**2010**
Advances received for electricity	285,462	319,675
Advances received for heat	152,393	174,084
Advances received for other assets	4,178	11,061
Total	442,033	504,820

As of December 31, 2011 advances received from related parties amounted to nil tenge (2010: 7,303 thousand tenge) (Note 36).

27. TAXES AND NON-BUDGET PAYABLE

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

	2011	**2010**
Corporate income tax	759	52,570
Environmental tax	42,975	39,969
Value added tax	19,468	82,319
Property tax	14,755	4,572
Pension fund	14,499	12,641
Personal income tax	10,035	7,671
Social tax	4,761	6,903
Other	6,276	5,852
Total	113,528	212,497

28. OTHER LIABILITIES AND ACCRUED EXPENSES

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

	2011	**2010**
Due to employees	70,507	63,741
Provision for unused vacation	19,334	16,528
Other	11,402	10,268
Total	101,243	90,537

As of December 31 other liabilities and accrued expenses are denominated in tenge.

(in thousands of tenge)

29. REVENUE

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

	2011	2010
Sales of electricity	9,997,845	8,233,132
Transmission of electricity	2,639,599	2,344,123
Transmission of heat	1,693,981	1,308,744
Sales of heat	1,531,612	1,512,283
Sale of chemical products	17,484	18,231
Power control and balancing	888	-
Total	15,881,409	13,416,513

In 2011 revenue from transactions with the related parties amounted to 655,057 thousand tenge (2010: 1,096,258 thousand tenge) (Note 36).

30. COST OF SALES

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

	2011	2010
Fuel	5,005,186	4,267,451
Depreciation and amortization	1,470,196	1,333,654
Services purchased	1,190,045	1,003,771
Payroll expenses and related taxes	1,048,763	965,798
Inventories	901,928	979,258
Electricity and heat purchased for resale	7,501	5,745
Other	54,087	241,497
Total	9,677,706	8,797,174

31. SELLING EXPENSES

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

	2011	2010
Dispatcher services	328,099	269,956
Transportation	103,075	94,607
Payroll expenses and related taxes	88,812	84,532
Bank charges	41,282	36,191
Security expenses	8,325	6,794
Inventories	5,691	5,548
Depreciation and amortization	3,117	3,135
Other	31,935	34,189
Total	610,336	534,952

(in thousands of tenge)

32. GENERAL AND ADMINISTRATIVE EXPENSES

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

	2011	2010
Payroll expenses and related taxes	584,968	481,166
Taxes other than income tax	371,894	338,079
Transportation expenses	130,200	98,977
Allowance /(recovery of allowance) for doubtful debts	107,651	(3,773)
Inventories	59,824	43,349
Security expenses	42,038	40,536
Legal and audit services	41,252	10,701
Bank charges	29,836	19,686
Depreciation and amortization	27,038	24,239
VAT for heat and electricity losses	26,616	34,409
Sponsorship and financial aid	25,664	57,533
Business trip expenses	20,039	28,790
Allowance for obsolete inventories (Note 8)	17,874	9,399
Penalties and fines	13,381	(46,261)
Insurance	11,567	12,053
Consulting services	9,251	33,153
Maintenance of property, plant and equipment	8,725	7,833
Provision for unused vacation	2,280	2,014
Other	186,288	193,501
Total	1,716,386	1,385,384

(in thousands of tenge)

33. FINANCE COSTS

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

	2011	2010
Interest expenses on bank loans	869,733	812,750
Interest expenses on issued securities	382,707	156,944
Interest expenses on the ash-dump restoration liability (Note 22)	58,781	12,857
Interest expenses on guarantees on additional capacities (Note 22)	2,188	1,945
Discount on issued securities	1,085	2,649
Change in estimate of ash dumps restoration liabilities (Notes 6 and 22)	-	78,317
Total	1,314,494	1,065,462

For the years ended December 31, 2011 and 2010 finance costs for loans of related parties amounted to 50,743 thousand tenge and 80,366 thousand tenge, respectively (Note 36).

For the years ended December 31, 2011 and 2010 finance costs for bonds issued by related parties were equal to 132,708 thousand tenge and 156,944 thousand tenge, respectively (Note 36).

34. INTEREST INCOME

Interest income for the years ended December 31 was as follows:

	2011	2010
Interest income on interest-free loan (Note 12)	201,754	256,956
Interest income from cash placed on deposit for less than one year	180,678	216,971
Interest income from bond issue	6,647	-
Interest income on guarantee fee (Note 20)	1,000	4,541
Total	390,079	478,468

In 2011 interest income of 201,754 thousand tenge (2010: 256,956 thousand tenge) presented as interest income resulted from amortization of adjustment to fair value of interest free financial aid, provided to CAPEC JSC (Note 12 and 36). In 2011 interest income from cash placed on deposit of Eximbank Kazakhstan JSC amounted to 180,678 thousand tenge (2010: 216,971 thousand tenge) (Note 36).

(in thousands of tenge)

35. OTHER INCOME

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

	2011	2010
Rent income	50,504	18,136
Income from sales of inventories, net	32,092	13,236
Income from fines for non-compliance with the terms of the contract	-	62,517
Income from building and construction works	16,186	5,939
Income from inventory from dismantling of property, plant and equipment	42,973	38,896
(Loss)/gain from disposal of property, plant and equipment	(9,244)	440
Accrued provision on doubtful debts	(10,282)	-
Depreciation expenses on property, plant and equipment, transferred into operating lease	(23,361)	(27,625)
Other income	39,081	59,282
Total	137,949	170,821

36. TRANSACTIONS WITH RELATED PARTIES

The Group’s related parties include the Group’s owners, their subsidiaries and associates or companies over which the Group or its owners have significant control and key management personnel.

The transactions with related parties are conducted on terms that might not necessarily be available to third parties.

Transactions among the Company and its subsidiaries and jointly controlled companies are eliminated upon consolidation and are not presented in this note.

As of, and for the years ended December 31, 2011 and 2010 the Group had significant operations with the following related parties

(in thousands of tenge)

During the year Company's of the Group performed following deals on main and other activities, with related parties not included in the Group:

Company	Services provided 2011	Services provided 2010	Services acquired 2011	Services acquired 2010	Purchase of assets 2011	Purchase of assets 2010
Pavlodarenergosbyt LLP (Note 29)	384,475	190,066	-	-	-	2,705
Astanaenergosbyt LLP (Note 29)	270,582	905,618	-	-	-	-
Eximbank Kazakhstan JSC	-	-	12,865	10,312	-	-
CAEPCO JSC	-	-	9,027	-	-	-
Pavlodarenergo JSC (Note 29)	-	574	-	-	-	-
KazNIPIEnergoprom Institute JSC	-	-	-	-	200,000	-
iPoint Kazakhstan LLP (earlier MacCenter Kazakhstan LLP)	-	-	59	65	8,643	17,521
	655,057	1,096,258	21,951	10,377	208,643	20,226

Settling between the Group and related parties as at reporting date are as follows:

Наименование компании	Payables of related party December 31, 2011	Payables of related party December 31, 2010	Payables to related party December 31, 2011	Payables to related party December 31, 2010
Pavlodarenergosbyt LLP (Note 9)	93,265	60,042	-	-
iPoint Kazakhstan LLP (earlier MacCenter Kazakhstan LLP) (Notes 10 and 24)	941	941	615	-
KazNIPIEnergoprom Institute JSC (Note 10)	137,104	-	-	-
CAEPCO JSC (Note 12 and 24)	-	-	10,111	-
Eximbank Kazakhstan JSC (Note 24)	-	-	20	18
Pavlodarenergosbyt LLP (Note 26)	-	-	-	7,303
	231,310	60,983	10,746	7,321

Also the Group performed different operations with related parties related to financial activity, including following:

(a) As of December 31, 2011 short-term loans and accrued interest for the amount of 119,123 thousand tenge (December 31, 2010: 20,000 thousand tenge) and long-term loans for the amount of nil tenge (December 31, 2010: 339,899 thousands tenge) were attracted from Eximbank Kazakhstan JSC (Notes 18 and 25). For the years ended December 31, 2011 and 2010 finance costs for these loans amounted to 50,743 thousand tenge and 80,366 thousand tenge, respectively (Note 33).

(in thousands of tenge)

(b) As of December 31, 2011 and 2010 cash on deposit at Eximbank Kazakhstan JSC including accrued interest of 1,190,728 thousand tenge and 2,000,300 thousand tenge, respectively (Note 13). Interest income on deposits for the years ended December 31, 2011 and 2010 amounted to 180,678 thousand tenge and 216,971 thousand tenge, respectively (Note 34).

(c) As of December 31, 2011 and 2010 cash balance placed in Eximbank Kazakhstan JSC equaled 37,860 thousand tenge and 86,095 thousand tenge, respectively (Note 14).

(d) As of December 31, 2011 cash restricted in use placed in Eximbank Kazakhstan JSC amounted to 73,552 thousand tenge (2010: nil tenge) (Note 14 and 18).

(e) As of December 31, 2011 and 2010 coupon bonds held by related parties, Pension Fund Astana JSC and Pension Fund Ular Umit JSC, amounted to 1,820,000 thousand tenge and 1,999,990 thousand tenge, respectively (Note 17). For the years ended December 31, 2011 and 2010 finance costs for bonds issued by related parties, Pension Fund Astana JSC and Pension Fund Ular Umit JSC amounted to 132,708 thousand tenge and 156,944 thousand tenge, respectively (Note 33). As at December 31, 2011 Pension Fund Ular Umit JSC was excluded from the list of related parties.

(f) As of December 31, 2011 and 2010 financial aid included an interest free financial aid of 1,544,820 thousand tenge and 2,014,905 thousand tenge, respectively, given to the ultimate owner, CAPEC JSC (Note 12). For the year ended December 31, 2011 the Group recognized interest income of 201,754 thousand tenge (2010: 256,956 thousand tenge) (Note 34).

Key personnel of the Group

During 2011 the compensation to the key management of the Group amounted to 42,044 thousand tenge (2010: 35,945 thousand tenge).

37. EARNING PER SHARE

The earning per share in calculation of profit on the shares calculates on the basis of the weighted average quantity of the issued shares for the years ended on December, 31 2011 and 2010. Sum of ordinary shares and sum of diluted shares are equal because dilution was not made.

	2011	**2010**
Profit for the year	2,100,439	919,858
Weighted average quantity of shares	138,456,923	136,580,751
Earning per share in tenge	15.17	6.73

On November 8, 2010 KASE has installed new rules for the companies included in listing lists which required representation of balance cost of one ordinary share in the financial statement of the companies included in listing lists.

(in thousands of tenge)

Balance cost of one ordinary share by each kind of shares as of December, 31 2011 and 2010 is presented below.

Type of shares	Quantity of issued shares	Net assets	Balance cost in tenge
December 31, 2011	141,458,799	25,615,548	181.08
December 31, 2010	136,580,751	18,190,887	133.19

Balance cost of one ordinary share calculated as net assets divided by quantity of ordinary shares issued as of December 31, 2011.

Net assets comprise all assets except of intangible assets, liabilities in the consolidated statement of financial position as of December 31, 2011.

38. FINANCIAL INSTRUMENTS, FINANCIAL RISK POLICY AND OBJECTIVES

The Group's financial instruments include cash, and also accounts receivable and payable. The main financial instruments risks are the risks related to liquidity and credit risks. The Group also controls the market risk and interest rate risk that arises on all financial instruments.

Category of financial instruments

As of December 31, financial instruments are presented as follows:

	2011	2010
Financial assets		
Trade accounts receivable (Note 9)	1,028,877	933,620
Other accounts receivable (Note 12)	1,663,186	2,099,303
Other financial assets (Note 13)	1,190,728	2,000,305
Restricted cash (Note 13, 18)	73,552	-
Cash and cash equivalents (Note 14)	78,097	226,952
Financial liabilities		
Bonds issued (Note 17)	4,135,436	2,117,282
Long-term loans (Note 18)	5,369,158	3,777,530
Long-term payables (Note 21)	40,938	40,869
Trade accounts payable (Note 24)	951,602	246,252
Short-term loans (Note 25)	3,342,835	3,583,842
Other liabilities and accrued expenses (Note 28)	81,909	74,009

Risk of capital insufficiency management

The Group manages the risk of capital insufficiency to ensure that it will be able to continue as a going concern while increasing tariffs and optimizing the balance, debt and equity.

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

(in thousands of tenge)

Significant accounting policies

Details of the significant accounting policies and methods adopted including the criteria for recognition, the bases of measurement, and the bases for recognition of income and expenses for each class of financial asset, financial liability and equity instrument are disclosed in Note 5 to the consolidated financial statements.

Financial risk management objectives

Risk management is an important part of the Group's activities. The Group monitors and manages the financial risks relating to the operations of the Group by analyzing exposures by degree and magnitude of risks. These risks include market risk, liquidity risk and cash flow interest rate risk. The Group's risk management policies are listed below.

Currency risk

Amount of current and non-current debt of the Group is mainly denominated in tenge.

Interest rate risk

The interest rate risk for the Group is the risk of a change in market interest rates that could lead to increase of cash outflows on the Group's loans. The Group limits the interest rate risk by attracting loans with fixed interest rate, except EBRD loan.

Interest rate sensitivity analysis

The table below presents sensitivity analysis in terms of fluctuation of interest rates on non-derivative instruments as at the reporting date. As for the liabilities with floating interest rates, the analysis was prepared based on the assumption that the amount of outstanding liabilities remained outstanding for the whole year. In preparation of management reports on interest rate risks for the key management of the Group, an assumption is made that the interest rate will be changed by 1% which is in compliance with the management's expectations regarding reasonably possible fluctuations of interest rates.

If interest rates on liabilities were 1% more/less and all other variables remained unchanged, the Group's profit for the year ended December 31, 2011 and retained earnings as at December 31, 2011 would decrease by 79,674 thousand tenge/would increase by 79,674 thousand tenge (2010: respectively: would decrease by 65,055 thousand tenge, would increase by 65,055 thousand tenge). This applies to the Group's exposure to interest rate sensitivity risk on its loan with floating interest rate.

Weighted average effective interest rates are as follows as of December 31:

	2011	**2010**
Other financial assets	11.00%	11.00%
Short-term loans	11.85%	12.00%
Long-term loans	9.68%	14.25%
Bonds issued	12.50%	12.50%

Credit risk

Credit risk arising as a result of contracting parties failing to meet the conditions of agreements with the Group's financial instruments is usually limited to amounts, if any, that the contracting parties liabilities exceed the Group's liabilities to these contracting parties. The Group's policy talks of concluding transactions with financial instruments with a series of solvent contracting parties. The Group's maximum credit risk equals the carrying value of each financial asset. The Group considers that its maximum risk equals its trade accounts receivable (Note 9) and other accounts receivable (Note 12) less allowance for doubtful debts recorded as at the reporting date.

Credit risk concentration could arise if one borrower or a group of borrowers due several amounts with similar operating conditions, in relation to which there are reasons 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 to ensure that transaction clients have a suitable credit history and do not exceed established credit limits.

The Group does not act as the guarantor for third parties' liabilities.

Market risk

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

Currency risk management

The Group performs certain transactions denominated in foreign currency and thus risk changes in foreign exchange rates may arise. The Group considers this risk as insignificant.

Sensitivity analysis related to foreign currency

The Group's currency risk exposure is not significant since the majority of the transactions are denominated in tenge.

Liquidity risk

The Group's owners are ultimately responsible for liquidity risk management due to having created an appropriate system of controls for Group Management in accordance with requirements of liquidity management and short-, middle-, and long-term financing. The Group manages liquidity risks by maintaining sufficient reserves, bank borrowings and available credit lines by means of constant monitoring of budgeted and cash flow and comparing of maturity dates of its financial assets and liabilities.

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

(in thousands of tenge)

Liquidity and interest rate risk tables were as follows as of December 31, 2011:

	Weighted average effective interest rate	Up to 1 year	1-5 years	Over 5 years	Overdue	Total
Interest-free:						
Trade accounts receivable		1,028,877	-	-	239,749	1,268,626
Other accounts receivable		1,663,186	-	-	19	1,663,205
Cash and cash equivalents		78,097	-	-	-	78,097
Long-term payables		601	24,661	92,348	-	117,610
Trade accounts payable		951,602	-	-	-	951,602
Other liabilities and accrued expenses		81,909	-	-	-	81,909
Interest:						
Other financial assets	10.00-12.00%	1,190,728	-	-	-	1,190,728
Restricted cash	4.0%-9.0%	23,477	62,798	-	-	86,275
Short-term loans	11.00-17.00%	3,591,150	-	-	-	3,591,150
Long-tern loans	11.00-17.00%	1,150,480	5,346,727	132,929	-	6,630,136
Bonds issued	12.50%	225,486	2,387,495	5,355,711		7,968,692

Liquidity and interest rate risk tables were as follows as of December 31, 2010:

	Weighted average effective interest rate	Up to 1 year	1-5 years	Over 5 years	Overdue	Total
Interest-free:						
Trade accounts receivable		933,620	-	-	121,299	1,054,919
Other accounts receivable		2,099,303	-	-	2,105	2,101,408
Cash and cash equivalents		226,952	-	-	-	226,952
Long-term payables		-	27,485	93,244	-	120,729
Trade accounts payable		246,252	-	-	-	246,252
Other liabilities and accrued expenses		74,009	-	-	-	74,009
Interest:						
Other financial assets	10.00-12.00%	2,000,305	-	-	-	2,000,305
Short-term loans	11.00-17.00%	3,575,259	-	-	-	3,575,259
Long-tern loans	11.00-17.00%	709,208	4,305,554	-	-	5,014,762
Bonds issued	12.50%	118,055	2,387,495	3,922,487	-	6,428,037

Fair value of financial instruments

Fair value is defined as the amount for which an instrument can be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument.

As of December 31, 2011 and 2010 the carrying value of all other financial assets and liabilities was approximately equal to their fair value.

39. COMMITMENTS AND CONTINGENCIES

Legal issues

The Group might be the subject of legal proceedings and adjudications from time to time none of which has had individually or in the aggregate a material adverse 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 enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group.

Environment, health and labor protection matters

The Group believes it is currently in compliance with all existing environmental laws and regulations on health and workplace safety of the Republic of Kazakhstan. However, environmental laws and regulations may change in the future. The Group is unable to predict the timing or extent to which these environmental laws and regulations may change. Such change, if it occurs, may require the Group to modernize technology to meet more stringent standards.

Insurance

As of December 31, 2011 the Group did not insure its assets. Since absence of insurance does not mean decrease in cost of assets or appearance of liabilities no provision was created in the consolidated financial statements for unforeseen expenses related to spoilage and loss of such assets.

Capital investments

On December 12, 2011 Agreement on investment obligations of the Group for 2011 was signed between the Ministry of industry and new technologies of the Republic of Kazakhstan and the Group. Under the agreement the tariff for production of electric power equalled to 4.80 tenge from January 1 to March 2012 and increased by 13.5% to 5.45 tenge from April 1, 2012. According to this agreement the Group is obliged to invest in construction, modernization and acquisition of property, plant and equipment of 4,349,086 thousand tenge till the end of 2012 (2011: 3,550,461 thousand tenge).

Tariffs formation

The Group agrees with the Agency of the Republic of Kazakhstan on regulation of natural monopolies the tariffs on electricity and heat. Management of the Company believes that all the rebates were provided in accordance with the legislation of the Republic of Kazakhstan.

40. EVENTS AFTER THE REPORTING PERIOD

Loans

In 2012 the Group received a short-term loans in accordance with credit line with Sberbank SB JSC in the amount of 1,621,000 thousand tenge at an interest rate of 10% per annum.

In accordance with agreement No.42579 dated March 26, 2011, on January 25, 2012 the Group received the second tranche of the loan in the amount of 721,500 thousand tenge from the EBRD, and on February 21, 2012 - 2,400 thousand dollars from the FPT

Deposits

On February 1, 2012 The group placed deposit in the amount of 751,500 thousand tenge in Eximbank Kazakhstan JSC at an interest rate of 7% per annum and a with maturity of 37 months. On March 1, 2012 The Group placed a deposit of 2,400 thousand dollars in the Eximbank Kazakhstan JSC an interest rate of 3.2% per annum and a maturity of 37 months.

Equity

In 2012, a shareholder of the Company carried out a contribution to share capital by cash in the amount of 481,000 thousand tenge.

Tariffs

In accordance with the Agreement № 182 dated December 12, 2011 between the Group and the Ministry of Industry and New technologies of the Republic of Kazakhstan on the implementation of investment commitments, from April 1, 2012 the tariff for electricity production increased to 5.45 tenge (net of VAT) per kWh. Average sale tariff for consumers from domestic market from April 1, 2012 increased to KZT 8.435 (net of VAT) per 1 kWh.

Claims

In March 2012 GU Esil Department of Ecology of Committee of ecological regulation and control of the Ministry of Environmental protection of the Republic of Kazakhstan, sued the Company with the requirements to recover damages caused to the environment caused by discharge of industrial water into the Beloe lake, without permission for emission and for excess emissions into Ishim river. Esil department of Ecology claim 76,484 thousand tenge, as well as to withdraw the Company permission to discharge industrial waters into Ishim river without treatment facilities. The Company raised a counterclaim to invalidate conclusions of Esil Department of Ecology’s act about prohibiting operating without the use of treatment facilities. The Company’s management assesses the risk of a negative outcome with probability less then 50%, consequently, provision was not created in the consolidated financial statements.