Translation from the original in Russian

JOINT STOCK COMPANY SEVKAZENERGO

Consolidated financial statements
for the year ended December 31, 2012

Translation from the original in Russian

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, 2012

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, 2012, 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, 2012 were approved and authorized for issue by management of the Group on April 9, 2013.

On behalf of management of the Group:

Kopenov E.K.
Chairman of Board

April 9, 2013

СЕВКАЗЭНЕРГО
АКЦИОНЕРЛІК ҚОҒАМЫ
АКЦИОНЕРНОЕ ОБЩЕСТВО
ҚАЗАҚСТАН РЕСПУБЛИКАСЫ СКО ПЕТРОПАВЛ Қ.
РЕСПУБЛИКА КАЗАХСТАН СКО Г.ПЕТРОПАВЛОВСК

Alexeevene T.V.
Chief Accountant

April 9, 2013

Translation from the original in Russian

INDEPENDENT AUDITOR'S 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, 2012, and consolidated statement of comprehensive income, statement of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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, 2012, 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 37 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

April 9, 2013
Almaty, the Republic of Kazakhstan

JOINT STOCK COMPANY SEVKAZENERGO

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012
(in thousands of tenge)

	Notes	December 31, 2012	December 31, 2011 (Restated)	January 1, 2011 (Restated)
ASSETS				
NON-CURRENT ASSETS:				
Property, plant and equipment	7	44,011,993	37,796,242	24,009,186
Intangible assets		11,679	5,459	4,149
Advances paid for acquisition of property, plant and equipment	8	1,042,514	1,980,367	2,448,226
Restricted cash	14	180,370	55,000	-
Total non-current assets		45,246,556	39,837,068	26,461,561
CURRENT ASSETS:				
Inventories	9	1,878,445	1,259,679	644,231
Trade accounts receivable	10	1,250,925	1,028,877	933,620
Advances paid for acquisition of current assets	11	542,184	394,436	250,804
Taxes recoverable and prepaid	12	774,573	395,399	22,048
Income tax prepaid		98,214	147,674	18,252
Other accounts receivable	13	1,313,913	1,663,186	2,099,303
Other financial assets	14	1,453,608	1,190,728	2,000,305
Restricted cash	14	65,203	18,552	-
Cash and cash equivalents	15	499,476	78,097	226,952
Total current assets		7,876,541	6,176,628	6,195,515
TOTAL ASSETS		53,123,097	46,013,696	32,657,076
EQUITY AND LIABILITIES				
EQUITY:				
Share capital	16	16,291,512	15,810,512	14,810,513
Additional paid-in capital	17	385,724	159,931	159,931
Revaluation reserve		5,356,629	5,830,089	1,137,649
Retained earnings		5,693,665	3,820,475	2,086,943
Total equity		27,727,530	25,621,007	18,195,036
NON-CURRENT LIABILITIES:				
Bonds issued	18	6,492,844	3,909,950	1,999,227
Long-term loans	19	3,908,689	4,218,678	3,488,330
Deferred tax liabilities	20	6,107,522	5,399,923	3,613,858
Deferred revenue	21	202,383	76,672	79,860
Long-term accounts payable	22	728,108	40,938	40,869
Ash dump restoration liability	23	133,207	235,128	137,068
Employee benefit obligations	24	36,203	30,365	33,228
Total non-current liabilities		17,608,956	13,911,654	9,392,440

JOINT STOCK COMPANY SEVKAZENERGO

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS OF DECEMBER 31, 2012
(in thousands of tenge)

	Notes	December 31, 2012	December 31, 2011 (Restated)	January 1, 2011 (Restated)
Current-portion of the bonds issued	18	357,832	225,486	118,055
Trade accounts payable	25	1,736,138	951,602	246,252
Short-term loans and current portion of long-term loans	19,26	4,730,077	4,493,315	3,873,042
Advances received	27	511,791	442,033	504,820
Income tax payable		-	759	52,570
Taxes and non-budget payable	28	112,044	98,270	147,286
Current portion of ash dump restoration liability	23	155,427	150,111	20,660
Current portion of employee benefit obligations	24	4,023	3,717	3,737
Other liabilities and accrued expenses	29	179,279	115,742	103,178
Total current liabilities		7,786,611	6,481,035	5,069,600
TOTAL EQUITY AND LIABILITIES		53,123,097	46,013,696	32,657,076

On behalf of management of the Group:

Kopenov E.K.
Chairman of Board

April 9, 2013

Alexeevene T.V.
Chief Accountant

April 9, 2013

The notes on pages 10-53 form an integral of these consolidated financial statements. Independent Auditors' Report is on pages 2-3.

Translation from the original in Russian

JOINT STOCK COMPANY SEVKAZENERGO

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2012

(in thousands of tenge)

	Notes	2012	2011 (Restated)
REVENUE	30	16,584,956	15,881,409
COST OF SALES	31	(11,192,070)	(10,098,975)
GROSS PROFIT		5,392,886	5,782,434
Selling expenses	32	(203,217)	(189,067)
General and administrative expenses	33	(1,711,811)	(1,716,386)
Finance costs	34	(1,403,397)	(1,314,494)
Finance income	35	199,360	390,079
Foreign exchange loss		(9,199)	(136,987)
Impairment loss on property, plant and equipment	7	-	(140,135)
Other income	36	308,382	137,949
PROFIT BEFORE INCOME TAX		2,573,004	2,813,393
INCOME TAX EXPENSE	20	(733,821)	(712,954)
PROFIT FOR THE YEAR		1,839,183	2,100,439
OTHER COMPREHENSIVE INCOME:			
Surplus from revaluation of property, plant and equipment	7	-	5,927,479
Income tax relating to components of other comprehensive income	20	-	(1,185,495)
Total other comprehensive income, excluding income tax		-	4,741,984
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,839,183	6,842,423

Earnings per share for the year ended December 31, 2012 is equal to 12.84 tenge (2011: 15.17 tenge) (Note 38).

On behalf of management of the Group:

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

Kopenov E.K.	**Alexeevene T.V.**
Chairman of Board	**Chief Accountant**
April 9, 2013	April 9, 2013

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Translation from the original in Russian

JOINT STOCK COMPANY SEVKAZENERGO

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2012

(in thousands of tenge)

	Notes	Share capital	Additional paid-in capital	Revaluation reserve	Retained earnings	Total equity
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		-	-	4,741,984	2,100,439	6,842,423
Dividends	16	-	-	-	(278,979)	(278,979)
Contribution to share capital	16	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	13	-	-	-	(137,472)	(137,472)
As of December 31, 2011		15,810,512	159,931	5,830,089	3,820,475	25,621,007
Profit for the year		-	-	-	1,839,183	1,839,183
Other comprehensive income for the year, excluding income tax		-	-	-	-	-
Total comprehensive income for the year		-	-	-	1,839,183	1,839,183
Dividends	16	-	-	-	(252,053)	(252,053)
Contribution to share capital	16	481,000	-	-	-	481,000
Amortization of revaluation reserve		-	-	(473,460)	473,460	-
Adjustment to fair value, net of deferred tax in the amount of 46,850 thousand tenge	13	-	-	-	(187,400)	(187,400)
Adjustment to fair value, net of deferred tax in the amount of 56,449 thousand tenge	22	-	225,793	-	-	225,793
As of December 31, 2012		16,291,512	385,724	5,356,629	5,693,665	27,727,530

On behalf of management of the Group:

Kopenov E.K.
Chairman of Board

April 9, 2013

Alexeevene T.V.
Chief Accountant

April 9, 2013

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JOINT STOCK COMPANY SEVKAZENERGO

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012
(in thousands of tenge)

	Notes	2012	2011
CASH FROM OPERATING ACTIVITIES:			
Profit before income tax		2,573,004	2,813,393
Adjustments for:			
Depreciation and amortization		1,846,028	1,523,712
Finance costs	34	1,403,397	1,314,494
(Recovery)/accrual of allowance for doubtful debts	33, 36	(10,434)	117,933
Accrual of allowance for obsolete inventories	9, 33	5,484	17,874
Loss from disposal of property, plant and equipment and intangible assets	36	376	9,244
Employee benefit expense	24	11,771	2,405
(Recovery)/accrual of provision for unused vacations	33	(1,806)	2,280
Loss from revaluation of property plant and equipment	7	-	140,135
Foreign exchange loss		9,199	136,987
Revenue from derecognition of guarantee fees	36	(121,449)	-
Finance income	35	(199,360)	(390,079)
Cash flow before working capital changes		5,516,210	5,688,378
Increase in inventories		(624,250)	(633,322)
Increase in trade accounts receivable		(154,943)	(213,707)
Increase in advanced paid for acquisition of current assets		(164,952)	(143,389)
Increase in taxes recoverable and prepaid		(290,398)	(318,353)
Decrease/(increase) in other accounts receivable		491,160	(31,883)
Increase in trade accounts payable		767,956	685,283
Increase/(decrease) in advances received		69,758	(62,787)
Decrease in taxes and non-budget payable		(1,484)	(99,728)
Increase in other liabilities and accrued expenses		64,842	5,307
Decrease in ash dump restoration liability	23	(155,427)	(165,115)
Decrease in employee benefit obligations	24	(5,627)	(5,288)
Cash generated by operating activities		5,512,845	4,705,396
Income tax paid		(75,137)	(262,436)
Interest paid		(1,289,759)	(1,201,194)
Net cash generated by operating activities		4,147,949	3,241,766

JOINT STOCK COMPANY SEVKAZENERGO

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2012

(in thousands of tenge)

	Notes	2012	2011
CASH FROM INVESTING ACTIVITIES:			
Purchase of property, plant, and equipment		(8,100,041)	(9,517,891)
Change in advances paid for acquisition of property, plant, and equipment		939,668	466,045
Purchase of intangible assets		(7,322)	(2,479)
Placement of deposits		(3,009,880)	(3,329,464)
Proceeds from interest accrued on the deposits placed		64,976	174,479
Withdrawal of deposits		2,584,103	4,069,500
Proceeds from disposal of property, plant and equipment		89,789	320,238
Net cash used in investing activities		(7,438,707)	(7,819,572)
CASH FROM FINANCING ACTIVITIES:			
Proceeds from loans		6,306,964	6,604,700
Bond issue		2,613,360	1,917,284
Repayment of loans		(6,184,479)	(5,197,135)
Repayment of bonds		(6,308)	-
Dividends paid	16	(252,053)	(278,979)
Contribution to share capital	16	481,000	999,999
Repayment of financial aid by a related party		(250,000)	500,000
Financial aid from a related party		1,000,000	-
Net cash generated by financing activities		3,708,484	4,545,869
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		417,726	(31,937)
CASH AND CASH EQUIVALENTS at the beginning of the year	15	78,097	226,952
Impact of exchange rates on cash		3,653	(116,918)
CASH AND CASH EQUIVALENTS at the end of the year	15	499,476	78,097

On behalf of management of the Group:

Kopenov E.K.
Chairman of Board

April 9, 2013

Alexeevene T.V.
Chief Accountant

April 9, 2013

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

The notes on pages 10-53 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, 2012, the sole owner of the Company was JSC Central Asian Electric Power Corporation (hereinafter – JSC CAEPCO), holding 100% of share capital (Note 16). The ultimate owners of the Company are JSC Central Asian Power Energy Company (hereinafter – JSC CAPEC) owning 62.12%, European Bank of Reconstruction and Development owning 24.99% and KAZ HOLDINGS COOPERATIEF U.A. owning 12.89% (December 31, 2011: CAPEC - 62.12%, EBRD - 24.99%, KAZ HOLDINGS COOPERATIEF U.A. – 12.89%).

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

Subsidiary	Principal activity	Location	Ownership interest 2012	2011
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	Sale of electricity and heat	Petropavlovsk, Kazakhstan	100	100

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 37.

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

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

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 heat, 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 supply of electricity.

The total number of employees of the Group as of December 31, 2012 was 2,413 employees (2011: 2,421 employees).

These consolidated financial statements prepared in accordance with IFRS were approved and authorized for issue by management of the Group on April 9, 2013.

2. CURRENT ECONOMIC SITUATION

Operational Environment

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

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

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:

- IAS 12 *Income taxes* – change of the limited scale (recovery of underlying assets) (effective for annual period beginning on or after January 1, 2012);
- Amendments to IAS 1 *Presentation of financial statements* (as part of the Annual Improvements to IFRSs 2009-2011 Cycle issued in May 2012);
- Amendments to IFRS 7 *Financial instruments - disclosure* related to disclosure requirements for transactions involving the transfer of financial assets (effective for annual periods beginning on or after July 1, 2011).

Moreover, the Group has adopted amendments to other Standards within an annual initiative aimed at the general improvement of the effective International Financial Reporting Standards. These amendments are related to certain expressions and issues regarding presentation of consolidated financial statements, issues of recognition and measurement. The amendments had an impact on details of accounting policy of the Group – some of them constitute only changes in terminology and did not have significant effect on the amounts reported. The adoption of these Standards did not affect the results of operations or the consolidated financial position of the Group.

(in thousands of tenge)

Standards and Interpretations in issue to be adopted in future periods

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

	Effective for annual periods beginning on or after
Amendments to IAS 32 *Offsetting financial assets and financial liabilities*	July 1, 2014
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
Amendments to IFRS 7 *Disclosures* – offsetting financial assets and financial liabilities	January 1, 2013
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 IFRS 10, IFRS 11 and IFRS 12 *Consolidated financial statements, joi arrangements and disclosure of interests in other entities: transition guidance*	January 1, 2014
Amendments to IFRS 9 and IFRS 7 *Mandatory effective date of IFRS 9 and transitic disclosures*	January 1, 2015

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 2012) and IAS 28 (as revised in 2012). These five standards are effective for annual periods beginning from January 1, 2013. Earlier application is permitted provided that all of these five standards are adopted early at the same time.

Management anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 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 Standards and Interpretations will be adopted in the Group's consolidated financial statements in periods beginning from the day this standards be effective and will have no material impact on the Group's consolidated financial statements in the period of their 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

The Group determines the following operational segments on the basis of information included in reports, which are regularly reviewed by management for the purpose of resources allocation and for the purpose of performance appraisal, as well as on the basis of the analysis of aggregation criteria – production of heat and power, transmission and distribution of power, transmission and distribution of heat, sale of heat and power and others.

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. 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 allowance 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 were supposed to be settled in full in equal installments within 16-25 years starting from 37th month after receiving guarantee fee. In 2012, the Group revised the plans to return guarantee fees and wrote off the obligations of guarantee fees received from customers for the connection of additional capacity, due to the fact that the contract was not provided a return of guarantee fees and the fee for connection of additional capacity from 2008 and has not been approved by the competent authority.

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 have brought 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 carrying 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 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 weighted average 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 current asset and an appropriate disclosure is provided in the notes to the consolidated financial statements. If cash is restricted in use for the period exceeding 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 2012 in accordance with legislative requirements of the Republic of Kazakhstan, the Group pays 10% of employee's salary (2011: 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.

(in thousands of tenge)

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.

Reclassifications

Certain reclassifications have been made to the consolidated financial statements as at December 31, 2011 and January 1, 2011 to conform to the form of presentation of the consolidated financial statements as at December 31, 2012 as current year presentation provides a better view of the Group's financial position. These reclassifications have not affected profit, comprehensive income and retained earnings for the year ended December 31, 2011.

Consolidated statement of financial position	As previously reported as at December 31, 2011	Amount of reclassification	As reclassified as at December 31, 2011
Income tax prepaid	-	147,674	147,674
Income tax payable	-	759	759
Taxes recoverable and prepaid	543,073	(147,674)	395,399
Taxes and non-budget payable	113,528	(15,258)	98,270
Other liabilities and accrued expenses	101,243	14,499	115,742

(in thousands of tenge)

Consolidated statement of financial position	As previously reported as at January 1, 2011	Amount of reclassification	As reclassified as at January 1, 2011
Income tax prepaid	-	18,252	18,252
Income tax payable	-	52,570	52,570
Taxes recoverable and prepaid	40,300	(18,252)	22,048
Taxes and non-budget payable	212,497	(65,211)	147,286
Other liabilities and accrued expenses	90,537	12,641	103,178

Consolidated statement of comprehensive income	As previously reported for the year ended December 31, 2011	Amount of reclassification	As reclassified for the year ended December 31, 2011
Cost of sales	(9,677,706)	(421,269)	(10,098,975)
Selling expenses	(610,336)	421,269	(189,067)

6. SEGMENT REPORTING

In the reporting period, the Group revised its segment allocation methodology adopted by the change, according to the Group, disclose reportable segments more detailed. The Group determined reporting segments on the basis of services provided and, accordingly, the Group highlights five major segments: production of heat and power, transmission and distribution of power, transmission and distribution of heat, sale of heat and power and others, which include the sale of chemical water, power control and sale of chemical products. Other services do not exceed the quantitative thresholds, therefore, do not require separate disclosure.

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

(in thousands of tenge)

	For the year ended December 31, 2012					
Key operational activities	Production of heat and power	Trans-mission and distribution of power	Trans-mission and distribution of heat	Sale of heat and power	Other	Total
Total revenue	13,336,909	3,202,882	1,472,385	9,945,946	131,434	28,089,556
Intrasegment revenue	(1,925,954)	(99,218)	(14,680)	(9,347,794)	(116,954)	(11,504,600)
Revenue from sales to external customers	11,410,955	3,103,664	1,457,705	598,152	14,480	16,584,956
Cost of sales	(7,365,550)	(2,307,178)	(1,327,919)	(176,943)	(14,480)	(11,192,070)
General and administrative expenses	(649,079)	(487,898)	(475,598)	(99,236)	-	(1,711,811)
Selling expenses	(39,636)	-	-	(163,581)	-	(203,217)
Finance cost	(1,374,183)	-	(29,214)	-	-	(1,403,397)
Finance income	199,360	-	-	-	-	199,360
Foreign exchange (loss)/gain	(12,780)	(159)	3,740	-	-	(9,199)
Other income	76,486	120,271	104,698	6,927	-	308,382
Income tax expense	(528,657)	(92,095)	(76,415)	(36,654)	-	(733,821)
Profit/(loss) for the year	1,716,916	336,605	(343,003)	128,665	-	1,839,183
Other key segmental information						
Capital expenditure on property, plant and equipment	6,431,828	840,921	767,950	59,342	-	8,100,041
Depreciation	1,290,129	364,659	182,384	7,754	-	1,844,926

(in thousands of tenge)

	For the year ended December 31, 2011					
Key operational activities	Production of heat and power	Trans-mission and distribution of power	Trans-mission and distribution of heat	Sale of heat and power	Other	Total
Total revenue	12,679,540	2,628,721	1,577,754	10,659,975	131,111	27,677,101
Intrasegment revenue	(1,517,793)	(75,935)	(18,208)	(10,071,015)	(112,741)	(11,795,692)
Revenue from sales to external customers	11,161,747	2,552,786	1,559,546	588,960	18,370	15,881,409
Cost of sales	(6,744,860)	(2,087,100)	(1,096,591)	(152,054)	(18,370)	(10,098,975)
General and administrative expenses	(721,149)	(422,196)	(506,896)	(66,145)	-	(1,716,386)
Selling expenses	(11,944)	-	-	(177,123)	-	(189,067)
Finance cost	(1,274,011)	(1,047)	(39,436)	-	-	(1,314,494)
Finance income	386,891	1,000	2,188	-	-	390,079
Foreign exchange (loss)/gain	(132,031)	(707)	(4,249)	-	-	(136,987)
Impairment loss on property, plant and equipment	(107,769)	(22,604)	(6,070)	(3,692)	-	(140,135)
Other income	30,243	68,029	6,506	33,171	-	137,949
Income tax expense	(616,555)	(26,703)	(25,025)	(44,671)	-	(712,954)
Profit/(loss) for the year	1,970,562	61,458	(110,027)	178,446	-	2,100,439
Other key segmental information						
Capital expenditure on property, plant and equipment	7,985,289	987,134	526,746	18,723	-	9,517,892
Depreciation	1,008,989	329,765	176,823	7,040	-	1,522,617

(in thousands of tenge)

7. 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, 2011	5,706,568	18,914,665	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 23)	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
Additions	7,106	191,089	12,198	15,758	4,410,738	4,636,889
Transfers from inventories	-	-	-	-	3,463,152	3,463,152
Interest expenses capitalisation	1,938	31,532	-	-	6,283	39,753
Internal transfers	2,808,679	5,083,531	(2,861)	(100)	(7,889,249)	-
Change in estimation on liquidation fund (Note 23)	11,048	-	-	-	-	11,048
Disposals	(1,526)	(87,736)	-	(3,092)	(400)	(92,754)
At December 31, 2012	8,928,338	27,918,991	99,273	53,980	8,954,087	45,954,669
Accumulated depreciation						
At January 1, 2011	(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)
Charge for the year	(404,471)	(1,415,937)	(17,284)	(7,234)	-	(1,844,926)
Internal transfers	(3)	-	-	3	-	-
Disposals	32	2,023	-	534	-	2,589
At December 31, 2012	(488,274)	(1,426,761)	(17,284)	(10,357)	-	(1,942,676)
Net book value						
At December 31, 2012	8,440,064	26,492,230	81,989	43,623	8,954,087	44,011,993
At December 31, 2011	6,017,261	22,687,728	89,936	37,754	8,963,563	37,796,242

(in thousands of tenge)

Revaluation of property, plant and equipment of the Group was conducted by an independent appraiser in accordance with International Valuation Standards as at 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. In 2011, the revaluation of property, plant and equipment was recognized in profit and loss as impairment loss on property, plant and equipment of 140,135 thousand tenge, as well as in other comprehensive income as a surplus from revaluation of property, plant and equipment of 5,927,479 thousand tenge.

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 at December 31, 2012	7,482,334	21,698,829	47,835	41,564	8,954,087	38,224,649
As at December 31, 2011	5,059,531	17,894,327	55,782	35,695	8,963,563	32,008,898

As at December 31, 2012 and 2011, the loans of the Group were secured by property, plant and equipment with net book value of 20,490,746 thousands tenge and 17,972,106 thousands tenge, respectively (Notes 19 and 26).

As at December 31, 2012, the value of fully depreciated property, plant and equipment at revalued cost amounted to 4,246 thousand tenge (2011: nil tenge).

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

As at December 31, 2012 and 2011, advances paid in the amount of 1,042,514 thousand tenge and 1,980,367 thousand tenge, respectively, included advances paid to Energoinvest-PV LLP for the construction of ash dump of 728,769 thousand tenge (2011: 896,394 thousand tenge), JSC Sibenergomash in the amount of 5,508 thousand tenge for the purchase of boilers (2011: 271,820 thousand tenge), CJSC Uralsk Turbine Factory in the amount of 308,237 thousand tenge for the purchase of turbine and turbine components (2011: 792,207 thousand tenge). As at December 31, 2012 the Group accrued provision for doubtful advances amounting to 1,814 thousand tenge (2011: nil tenge).

(in thousands of tenge)

9. INVENTORIES

As at December 31, inventories presented as follows:

	2012	2011
Raw materials	526,273	469,713
Spare parts	904,309	407,108
Fuel	481,716	406,353
Construction materials	11,961	15,266
Other	14,243	15,812
	1,938,502	1,314,252
Allowance for obsolete inventory	(60,057)	(54,573)
Total	1,878,445	1,259,679

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

	2012	2011
At January 1	54,573	36,699
Accrued for the year	5,484	17,874
At December 31	60,057	54,573

10. TRADE ACCOUNTS RECEIVABLE

As at December 31, trade accounts receivable presented as follows:

	2012	2011
Sales and transmission of electricity and heat	1,238,162	1,067,627
Sales of inventories and providing for other services	186,092	200,999
	1,424,254	1,268,626
Allowance for doubtful debts	(173,329)	(239,749)
Total	1,250,925	1,028,877

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

	2012	2011
At January 1	239,749	121,299
(Recovered)/accrued	(66,420)	118,450
At December 31	173,329	239,749

(in thousands of tenge)

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

	2012	2011
Tenge	1,242,058	1,009,886
Russian roubles	8,867	18,991
Total	1,250,925	1,028,877

As at December 31, 2012, trade accounts receivable from related parties amounted to 101,173 thousand tenge (2011: 93,265 thousand tenge) (Note 37).

11. ADVANCES PAID FOR ACQUISITION OF CURRENT ASSETS

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

	2012	2011
For acquisition of services	195,292	190,753
For acquisition of goods	364,750	204,958
For acquisition of fuel	1,262	919
	561,304	396,630
Allowance for doubtful debts	(19,120)	(2,194)
Total	542,184	394,436

As at December 31, 2012, advances paid to related parties of the Group amounted to 326 thousand tenge (2011: 138,045 thousand tenge) (Note 37).

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

	2012	2011
At January 1	2,194	2,439
Accrued/(recovered)	16,926	(245)
At December 31	19,120	2,194

12. TAXED RECOVERABLE AND PREPAID

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

	2012	2011 (Restated)
VAT recoverable	755,391	386,215
Property tax	14,081	5,374
Other taxes	5,101	3,810
Total	774,573	395,399

(in thousands of tenge)

13. OTHER ACCOUNTS RECEIVABLE

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

	2012	2011
Financial aid	1,250,824	1,575,690
Receivables from employees and shortages	2,225	6,434
Other	101,757	81,081
	1,354,806	1,663,205
Allowance for doubtful debts	(40,893)	(19)
Total	1,313,913	1,663,186

As at December 31, 2012, financial aid included an interest free financial aid of 1,229,483 thousand tenge, given to the ultimate owner, JSC CAPEC (Note 37), and 21,341 thousand tenge, given to Transportation company SevKazEnergo LLP (December 31, 2011: 1,544,820 thousand tenge, given to the ultimate owner, JSC CAPEC and 30,870 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%. During 2012, JSC CAPEC repaid part of debt in the amount of 250,000 thousand tenge. On June 30, 2012, the Group signed additional agreement with JSC CAPEC on extension of the maturity to December 31, 2013. As the result, the Group recognized an adjustment to the fair value in equity in the amount of 234,250 thousand tenge, net of deferred income tax of 46,850 thousand tenge (2011: 171,840 thousand tenge, net of deferred income tax of 34,368 thousand tenge). For the year ended December 31, 2012, the Group recognized related interest income of 168,913 thousand tenge (2011: 201,754 thousand tenge) (Note 35).

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

	2012	2011
At January 1	19	2,105
Accrued/(recovered)	40,874	(2,086)
At December 31	40,893	19

As at December 31, 2012 and 2011, other accounts receivable is denominated in tenge.

14. OTHER FINANCIAL ASSETS

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

	Interest rate	Currency	2012	2011
Short-term deposit	5%-9%	Tenge	1,180,095	1,186,712
Short-term deposit	3.2%	US Dollar	267,533	-
Interest receivable		Tenge	5,980	4,016
Total			1,453,608	1,190,728

(in thousands of tenge)

As at December 31, 2012 and 2011, all deposits are placed at accounts of JSC Eximbank Kazakhstan (Note 37).

On December 31, 2011, the Group placed deposit at JSC Eximbank Kazakhstan 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 2012, which was 5% as at December 31, 2012. During 2012 the Group has replenished deposit in the amount of 1,424,700 thousand tenge and has partially withdrawn deposit in the amount of 1,545,500 thousand tenge.

On May 6, 2011, the Group placed non-current deposit to JSC Eximbank Kazakhstan. The deposit maturity is of 36 months and the annual interest rates are 8.5% and 9%. According to deposit agreement, partial withdrawal of amount of the deposit is possible with the minimal limited cash balance of 5,000 thousand tenge and 50,000 thousand tenge.

On January 25, 2012, the Group entered into bank deposit agreement with JSC Eximbank Kazakhstan with interest rate of 7% and the maturity period of 36 months. Minimal limited cash balance is 50,000 thousand tenge.

On February 21, 2012 the Group entered into bank deposit agreement with JSC Eximbank Kazakhstan with interest rate of 3.2% and the maturity period of 36 months. Minimal limited cash balance is 500 thousand US dollars.

As at December 31, 2012, non-current restricted cash recognized in non-current and current assets, respectively, 180,370 thousand tenge and 65,203 thousand tenge (December 31, 2011: 55,000 thousand tenge and 18,552 thousand tenge).

15. CASH AND CASH EQUIVALENTS

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

	2012	2011
Cash in banks current accounts	477,419	62,777
Petty cash	22,057	14,979
Cash in transit	-	341
Total	499,476	78,097

As of December 31, 2012 and 2011 cash at JSC Eximbank Kazakhstan, which is a related party, amounted to 247,929 thousand tenge and 37,860 thousand tenge, respectively (Note 37).

As at December 31, 2012 and 2011, cash are denominated in tenge.

16. SHARE CAPITAL

As at December 31, 2012 and 2011, the Company's sole shareholder is JSC CAEPCO. Share capital of the Company is 16,291,512 thousand tenge (December 31, 2011: 15,810,512 thousand tenge).

In accordance with share issue agreement dated January 30, 2012, and March 15, 2012, the Company transferred to the sole shareholder 2,405,000 common shares, in the amount of 481,000 thousand tenge. Contribution to share capital was paid by cash in the amount of 481,000 thousand tenge.

In accordance with share issue agreement dated 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 Company's operation for 2011 have been declared and paid dividends during 2012 of 252,053 thousand tenge (2011: for 2010 have been declared and paid dividends in the amount of 278,979 thousand tenge).

17. ADDITIONAL PAID-IN CAPITAL

As of December 31, 2012 and 2011 additional paid-in capital amounted to 385,724 thousand tenge (December 31, 2011: 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 shareholder.

(in thousands of tenge)

18. BONDS ISSUED

As at December 31, bonds issued were as follow:

Bonds placed	2012	2011
Coupon bonds (from May, 15 - November 30, 2012)	2,247,600	-
Coupon bonds (May 30, 2011)	1,820,000	1,820,000
Coupon bonds (May 14, 2010)	1,994,490	1,999,990
	6,062,090	3,819,990
Including/(excluding):		
(Discount on bonds issued)	(593)	(678)
Premium on bonds issued	431,347	90,638
Accrued interest on bonds issued	357,832	225,486
Total bonds issued	6,850,676	4,135,436
Less: current portion	(357,832)	(225,486)
	6,492,844	3,909,950

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, the Listing commission's decision came into effect about inclusion of the Company's bonds to the official list of Kazakhstan Stock Exchange JSC with category "Debt securities with ratings". Kazakhstan Stock Exchange JSC and the Group signed agreement on listing of issue of non-state securities. Maturity date of bonds' repayment is January 10, 2020.

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. Maturity date of bonds' repayment is January 10, 2020.

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. Maturity date of bonds' repayment is January 10, 2020.

During the period from May 15, 2012 till November 30, 2012, the Group additionally issued 22,476,000 coupon bonds at price from 119.75316% to 128.50% 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. Maturity date of bonds' repayment is January 10, 2020.

(in thousands of tenge)

19. LONG-TERM LOANS

As at December 31, long-term loans were as follows:

	Interest rate	Currency	2012	2011
SB JSC Sberbank	10%	Tenge	3,515,044	4,586,987
European bank of Reconstruction and Development	All-in Cost+4.5%	Tenge	1,443,000	703,634
Clean Technology Fund	0.75%	US Dollar	361,776	-
Interest payable			70,176	78,537
Total			5,396,449	5,369,158
One-time commission			(16,378)	-
Fair value adjustment (Note 21)			(195,930)	-
			5,177,688	5,369,158
Less: current portion of non-current loan			(1,268,999)	(1,150,480)
			3,908,689	4,218,678

Loans are paid off as follows:

	2012	2011
Within one year	1,268,999	1,150,480
Within the second year	1,201,208	1,277,360
After the second and fifth years inclusive	1,360,681	2,436,268
After five years	1,346,800	505,050
	5,177,688	5,369,158

On October 1, 2008, the Group concluded agreement No.01/10 on opening of non-renewable credit line with SB JSC Sberbank for amount of 6,111,839 thousand tenge, with maturity period till October 1, 2015. The loan was received based on owners' decision for refinancing of debt of JSC CAPEC. In accordance with agreement, principal and interest payments are repaid on a quarterly basis. 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 June 14, 2012, the Group concluded additional agreement to agreement #01/10, according to which amount of the credit limit was shortened to 4,114,641 thousand tenge. The loan was secured by property, plant and equipment with the carrying value of 20,490,746 thousand tenge (2011: 17,972,106 thousand tenge) (Note 7).

(in thousands of tenge)

On March 26, 2011, Petropavlovsk Heat Network LLP, subsidiary, and European Bank of Reconstruction and Development ("EBRD") signed loan agreement 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 3,250,000 thousand dollars – from Clean Technology Fund subaccount ("CTF"). The loan is aimed for renewal and upgrade of centralized heating nerworks with the purpose of increase of energy use effectiveness, decreasing losses and improvement of ecological standards. Interest expenses are accrued on principle with the floating interest rate of All-in Cost+4.5% on tranches from EBRD and with interest rate of 0.75% on tranches from CTF. JSC Central Asia Electrical Power Company is a guarantor for this loan. All-inn Cost rate includes loan financing costs (fees, commissions and etc.), which are paid by borrower through the term of loan and are presented as an annual interest rate.

On June 30, 2011, the Group received first tranche for amount 721,500 thousand tenge. On January 25, 2012, the Company received second tranche for amount 721,500 thousand tenge. The loan is repaid by the 20 equal half-year installments starting from April 18, 2014. Last payment is scheduled for October 18, 2023. Interest accrued is repaid by the quarterly payments. In 2012 effective interest rate is 7.26% per annum (2011: 7.38%).

On February 21, 2012, the Group received loan from CTF for the amount of 2,400 thousand US Dollar. The loan is repaid by the 20 equal half-year installments starting from April 18, 2021. Last payment is scheduled for October 18, 2030. Interest accrued is repaid by the quarterly payments. The Company recognized the loan from CTF at fair value by applying effective interest rate of 7.38%, and as the result recognized adjustment for amount 202,383 thousand tenge in deferred revenue. During the year ended December 31, 2012 the Group amortized the amount of adjustment to fair value by 6,453 thousand tenge, which was capitalized to the cost of property, plant and equipment.

Also 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 servicing of the debt. This cash aimed to be used exclusively for the purpose of interest expenses' and principle amount of loan repayments provided by EBRD, and accordingly was classified in non-current and current assets in the consolidated statement of financial position as of December 31, 2012 as restricted cash for amounts 5,000 thousand tenge and 65,203 thousand tenge, respectively (December 31, 2011: in non-current and current assets in amounts 5,000 thousand tenge и 18,552 thousand tenge, respectively). This cash is placed on deposit accounts at JSC Eximbank Kazakhstan, related party of the Company (Note 37).

20. INCOME TAX

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

	2012	2011
Current income tax expense	35,821	78,016
Deferred income tax expense	698,000	634,938
Income tax expense	733,821	712,954

(in thousands of tenge)

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

	2012	2011
Deferred tax assets arising from:		
Loss carried forward	600,471	117,814
Ash dump restoration liability	57,727	77,048
Allowance for doubtful debts	42,844	47,950
Allowance for obsolete inventories	12,011	10,915
Provision for unused vacation	4,721	3,866
Accrued but unpaid taxes	11,452	14,336
Fair value adjustment of financial aid	33,219	20,169
Deferred revenue	40,477	15,334
Other assets	3,284	-
Total deferred tax assets	806,206	307,432
Deferred tax liabilities arising from:		
Carrying value of property, plant and equipment and intangible assets	6,816,887	5,693,472
Loan commission	3,276	-
Long-term accounts payable	93,565	13,883
Total deferred tax liabilities	6,913,728	5,707,355
Deferred tax liabilities, net	(6,107,522)	(5,399,923)

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

	2012	2011
At January 1	(5,399,923)	(3,613,858)
(Increase)/decrease in deferred tax liabilities recorded:		
In profit or loss	(698,000)	(634,938)
In other comprehensive income	-	(1,185,495)
In consolidated statement of change in equity	(9,599)	34,368
At December 31	(6,107,522)	(5,399,923)

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

	2012	2011
Profit before income tax	2,573,004	2,813,393
Tax at statutory rate	514,601	562,678
Finance costs (long-term loans)	59,139	76,656
Technical abnormal losses	71,007	49,472
Current income tax adjustments related to prior years	-	31,625
Unused tax losses not recognized as deferred tax assets	49,492	(43,637)
Tax effect of other permanent differences	39,582	36,160
Income tax expense	733,821	712,954

(in thousands of tenge)

21. DEFERRED REVENUE

As at December 31, 2012, deferred revenue for the amount of 202,383 thousand tenge represents fair value adjustment of loan received from Clean Technology Fund (Note 19). As at December 31, 2011, deferred revenue of 76,672 thousand tenge represented fair value adjustment for connection to additional capacity of JSC North-Kazakhstan Electricity Distribution Company and Petropavlovsk Heat Network LLP (Note 22). In 2012, the Group recognized income for write-off of the whole amount of guarantee fees received from customers for the connection of additional capacity, due to the fact that the fee for connection of additional capacity was not approved by the competent authority, and the agreements, the limitation period for which expired in 2012, do not provide for the return of guarantee fees under the circumstances.

22. LONG-TERM ACCOUNTS PAYABLE

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

	2012	2011
Guarantee fee for additional power connection	-	117,610
Financial aid from shareholder	1,000,000	-
	1,000,000	117,610
Less:		
Discount on financial aid	(271,892)	-
Deferred revenue (Note 21)	-	(76,672)
	728,108	40,938

As at December 31, 2011 the Group recognized these liabilities on guarantee fees at amortized cost using the effective interest rate of 12.5%. Interest expense for the guarantee fees for connection of additional capacity for the year ended December 31, 2012 amounted to nil tenge (2011: 2,188 thousand tenge) (Note 34). In 2012, due to the expiration of the limitation period and the discharge of obligations under the connection of additional capacity the Group wrote-off the obligations of the guarantee fees.

In 2012 the Group has signed agreement with JSC CAEPCO on borrowing of interest free financial aid with the repayment date of December 31, 2015. As the result the Group has recognised fair value adjustment in additional paid in capital in amount of 282,242 thousand tenge excluding deferred income tax in the amount of 56,449 thousand tenge. For the year ended December 31, 2012, the Group recognised financial costs in amount of 10,351 thousand tenge (2011: nil tenge) (Note 34).

23. 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 at December 31, 2012, the Group evaluated general obligations on ash dumps restoration for the amount of 288,634 thousand tenge (2011: 385,239 thousand tenge). This liability was discounted using the effective interest rate of 12% per annum, which is incremental borrowing rate of financing for the Group.

(in thousands of tenge)

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

	2012	2011
As at January 1	385,239	157,728
Finance cost (Note 34)	47,774	58,781
Restoration during the year	(155,427)	(165,115)
Change in estimates (Note 7)	11,048	333,845
As at December 31	288,634	385,239
Current portion	155,427	150,111
Non-current portion	133,207	235,128
	288,634	385,239

24. 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 at December 31, consisted of:

	2012	2011
Present value of current employee benefit obligation	4,023	3,717
Present value of non-current employee benefit obligation	36,203	30,365
	40,226	34,082

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

	2012	2011
Total amount of liabilities at the beginning of the year	34,082	
Interest expense	2,536	
Current service cost	1,813	
Actuarial loss /(gain) recognized for the year	7,422	
Payments made	(5,627)	(5,288)
Total amount of liabilities at the end of the year	40,226	
Obligation which matures during the year	(4,023)	(3,717)
Obligation which matures after one year	36,203	

Actuarial loss/(gain) recognized for the years ended December 31, 2012 and 2011, 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 2012.

(in thousands of tenge)

The carrying service cost, interest expense and actuarial loss/(gain) recognized in 2012, were recorded within other expenses of cost of sales in the amount of 5,959 thousand tenge (2011: 388 thousand tenge) and general and administrative expenses in the amount of 5,812 thousand tenge (2011: 2,017 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:

	2012	2011
Discount rate	7.87%	7.87%
Expected annual growth of minimum calculation index	6.00%	7.00%
Expected annual growth of minimum salary in the future	8.00%	8.00%

25. TRADE ACCOUNTS PAYABLE

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

	2012	2011
For services rendered	765,751	501,659
For fuel	242,749	226,738
For purchased goods	727,032	222,496
Other	606	709
Total	1,736,138	951,602

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

	2012	2011
Tenge	1,239,738	807,622
Russian rouble	496,400	143,980
Total	1,736,138	951,602

26. SHORT-TERM LOANS

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

	Interest rate	Currency	2012	2011
SB JSC Sberbank	10-11%	Tenge	3,432,000	3,196,250
JSC Eximbank Kazakhstan	17%	Tenge	-	118,286
Interest payable			29,078	28,299
Total			3,461,078	3,342,835

(in thousands of tenge)

On June 27, 2008, the Group concluded accessory (loan) agreement No.27/06 and agreement on opening of credit line with SB JSC Sberbank with availability till June 27, 2014. Loan was attracted according to decision of shareholders to replenish working capital and receiving of loan is performed in tranches with maturity not more than 12 months. On December 29, 2011, the Group concluded additional agreement to the agreement No.27/06, according to which the interest rate was decreased from 11% to 10%. In accordance with the loan agreements principal and interest is repaid on quarterly basis. The loan was secured by the property, plant and equipment with the net book value of 20,490,746 thousand tenge (2011: 17,972,106 thousand tenge) (Note 7).

On May 15, 2009, the Group opened a credit line for amount of 400,000 thousand tenge in JSC Eximbank Kazakhstan with maturity period till May 15, 2012. 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 is 19.4%. In accordance with the loan agreements principal is repaid during the period from October to April (repayment is not performed in the period from May to September), interest is repaid on a monthly basis. The loan was secured by cash means of JSC PAVLODARENERGO. On January 5, 2011, the Group concluded cancelation agreement on this on cash collateral. As at December 31, 2012, the loan is fully repaid.

As at December 31, 2012, short-term loans and accrued interest from related parties are nil tenge (December 31, 2011: 118,286 thousand tenge) were represented from JSC Eximbank Kazakhstan (Note 37).

27. ADVANCES RECEIVED

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

	2012	2011
Advances received for electricity	344,345	285,462
Advances received for heat	161,356	152,393
Advances received for other assets	6,090	4,178
Total	511,791	442,033

28. TAXES AND NON-BUDGET PAYABLE

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

	2012	2011 (Restated)
Environmental tax	46,498	42,975
Value added tax	37,408	19,468
Property tax	-	14,755
Personal income tax	10,596	10,035
Social tax	8,719	4,761
Land tax	22	-
Social insurance	7,183	-
Other	1,618	6,276
Total	112,044	98,270

(in thousands of tenge)

29. OTHER LIABILITIES AND ACCRUED EXPENSES

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

	2012	2011 (Restated)
Due to employees	92,983	70,507
Provision for unused vacation	23,601	19,334
Pension fund	16,508	14,499
Other	46,187	11,402
Total	179,279	115,742

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

30. REVENUE

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

	2012	2011
Sale of electricity	10,294,644	9,997,845
Transmission of electricity	3,202,881	2,639,599
Transmission of heat	1,472,385	1,693,981
Sale of heat	1,600,566	1,531,612
Sale of chemical products	14,480	17,484
Power control and balancing	-	888
Total	16,584,956	15,881,409

In 2012 revenue from transactions with the related parties amounted to 318,063 thousand tenge (2011: 655,057 thousand tenge) (Note 37).

31. COST OF SALES

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

	2012	2011 (Restated)
Fuel	5,421,742	5,005,186
Depreciation and amortization	1,739,779	1,470,196
Services purchased	1,674,196	1,508,239
Payroll expenses and related taxes	1,134,645	1,048,763
Inventories	973,962	901,928
Electricity and heat purchased for resale	-	7,501
Electricity transmission	128,704	103,075
Other	119,042	54,087
Total	11,192,070	10,098,975

(in thousands of tenge)

32. SELLING EXPENSES

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

	2012	2011 (Restated)
Dispatcher services	13,861	9,905
Payroll expenses and related taxes	98,322	88,812
Bank charges	44,014	41,282
Security expenses	3,128	8,325
Inventories	6,000	5,691
Depreciation and amortization	4,427	3,117
Other	33,465	31,935
Total	203,217	189,067

33. GENERAL AND ADMINISTRATIVE EXPENSES

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

	2012	2011
Payroll expenses and related taxes	630,946	584,968
Taxes other than income tax	388,790	371,894
Transportation expenses	136,052	130,200
(Recovery)/accrual of allowance for doubtful debts	(10,434)	107,651
Inventories	36,653	59,824
Security expenses	57,306	42,038
Legal and audit services	42,017	41,252
Bank charges	21,391	29,836
Depreciation and amortization	78,975	27,038
VAT on losses	38,694	26,616
Sponsorship and financial aid	4,153	25,664
Business trip expenses	24,467	20,039
Accrual of allowance for obsolete inventories (Note 9)	5,484	17,874
Rent expenses	1,132	-
Penalties and fines	80,685	13,381
Insurance	7,234	11,567
Consulting services	4,335	9,251
Maintenance of property, plant and equipment	8,023	8,725
Provision for unused vacation	(1,806)	2,280
Other	157,714	186,288
Total	1,711,811	1,716,386

(in thousands of tenge)

34. FINANCE COSTS

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

	2012	2011
Interest expenses on bank loans	785,063	869,733
Interest expenses on issued bonds	545,124	382,707
Interest expenses on the ash-dump restoration liability (Note 23)	47,774	58,781
Interest expenses on guarantees on additional capacities (Note 22)	-	2,188
Amortisation of discount on interest-free loan received (Note 22)	10,351	-
Other	15,085	1,085
Total	1,403,397	1,314,494

For the years ended December 31, 2012 and 2011, finance costs on loans from related parties amounted to 3,353 thousand tenge and 50,743 thousand tenge, respectively (Note 37).

For the years ended December 31, 2012 and 2011, finance costs on coupon bonds held by related parties amounted to 227,500 thousand tenge and 132,708 thousand tenge, respectively (Note 37).

35. FINANCE INCOME

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

	2012	2011
Interest income on interest-free loan (Note 13)	168,913	201,754
Interest income from cash placed on deposit	6,204	180,678
Interest income from bonds issue	24,243	6,647
Interest income on guarantee fees	-	1,000
Total	199,360	390,079

In 2012 interest income of 168,913 thousand tenge (2011: 201,754 thousand tenge) is presented as fair value adjustment of interest-free loan provided to JSC CAPEC (Notes 13 and 37). In 2012 interest income from cash placed on deposit at JSC Eximbank Kazakhstan amounted to 6,203 thousand tenge (2011: 180,678 thousand tenge) (Note 37).

(in thousands of tenge)

36. OTHER INCOME

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

	2012	2011
Rent income	12,985	50,504
Income from sales of inventories, net	38,620	32,092
Income from fines for non-compliance with the terms of the contract	94,628	-
Income from building and construction works	33,517	16,186
Income from inventory from dismantling of property, plant and equipment	23,592	42,973
Loss from disposal of property, plant and equipment and intangible assets	(376)	(9,244)
Accrued allowance on doubtful debts	-	(10,282)
Income from inventories	51	-
Income from write-off of accounts payable	121,449	-
Income from assets identified during stock-count	4,989	-
Depreciation expenses on property, plant and equipment, transferred into operating lease	(22,847)	(23,361)
Other income	1,774	39,081
Total	308,382	137,949

37. 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.

(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 2012	Services provided 2011	Services acquired 2012	Services acquired 2011	Purchase of assets 2012	Purchase of assets 2011
Pavlodarenergosbyt LLP (Note 30)	234,537	384,475	-	-	-	-
Astanaenergosbyt LLP (Note 30)	83,526	270,582	-	-	-	-
Eximbank Kazakhstan JSC	-	-	10,816	12,865	-	-
CAPEC JSC	-	-	434	9,027	-	-
European Bank for Reconstruction and Development	-	-	871	-	-	-
KazNIPIEnergoprom Institute JSC	-	-	-	-	371,402	200,000
iPoint Kazakhstan LLP (previously MacCenter Kazakhstan LLP)	-	-	-	59	64	8,643
	318,063	655,057	12,121	21,951	371,466	208,643

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

Company	Payables of related party December 31, 2012	Payables of related party December 31, 2011	Payables to related party December 31, 2012	Payables to related party December 31, 2011
Astanaenergosbyt LLP (Note 10)	94,718	93,265	-	-
iPoint Kazakhstan LLP (previously - MacCenter Kazakhstan LLP (Notes 11 and 25)	326	941	-	615
KazNIPIEnergoprom Institute JSC (Note 11)	-	137,104	-	-
CAEPCO JSC (Note 13 and 25)	-	-	10,111	10,111
CAPEC JSC	-	-	487	-
Eximbank Kazakhstan JSC (Note 25)	-	-	20	20
Pavlodarenergosbyt LLP (Note 27)	6,455	-	-	-
	101,449	231,310	10,618	10,746

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

(a) As at December 31, 2012 short-term loans and accrued interest of nil tenge (December 31, 2011: 118,286 thousand tenge) were attracted from Eximbank Kazakhstan JSC (Notes 26). For the years ended December 31, 2012 and 2011, finance costs for these loans amounted to 3,353 thousand tenge and 50,743 thousand tenge, respectively (Note 34).

(b) As at December 31, 2012 and 2011, cash on deposit at Eximbank Kazakhstan JSC including accrued interest of 1,453,608 thousand tenge and 1,190,728 thousand tenge, respectively (Note 14). Interest income on deposits for the years ended December 31, 2012 and 2011, amounted 6,204 thousand tenge and to 180,678 thousand tenge, respectively (Note 35).

(in thousands of tenge)

(c) As at December 31, 2012 and 2011, cash balance placed in Eximbank Kazakhstan JSC equaled 247,929 thousand tenge and 37,860 thousand tenge, respectively (Note 15).

(d) As at December 31, 2012, cash restricted in use placed in Eximbank Kazakhstan JSC amounted to 245,573 thousand tenge (2011: 73,552 thousand tenge) (Note 15 and 19).

(e) As at December 31, 2012 and 2011, coupon bonds held by related parties, Pension Fund Astana JSC, amounted to 1,820,000 thousand. For the years ended December 31, 2012 and 2011, finance costs for bonds issued amounted to 227,500 thousand tenge and 132,708 thousand tenge, respectively (Note 34).

(f) As at December 31, 2012 and 2011, financial aid included an interest free financial aid of 1,229,483 thousand tenge and 1,544,820 thousand tenge, respectively, given to the ultimate owner, CAPEC JSC (Note 13). For the year ended December 31, 2012, the Group recognized interest income of 168,913 thousand tenge (2011: 201,754 thousand tenge) (Note 35).

Key personnel of the Group

During 2012 the compensation to the key management of the Group amounted to 43,377 thousand tenge (2011: 42,044 thousand tenge).

38. 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 December 31, 2012 and 2011. Sum of ordinary shares and sum of diluted shares are equal because dilution was not made.

	2012	2011
Profit for the year	1,839,183	2,100,439
Weighted average quantity of shares	143,204,697	138,456,923
Earning per share in tenge	12.84	15.17

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.

Carrying value of one ordinary share by each kind of shares as of December 31, 2012 and 2011 is presented below.

Type of shares	Quantity of issued shares	Net assets	Carrying value in tenge
December 31, 2012	143,863,799	27,715,851	192.65
December 31, 2011	141,458,799	25,615,548	181.08

Balance cost of one ordinary share calculated as net assets divided by quantity of ordinary shares issued as of December 31, 2012 and 2011.

Net assets comprise all assets except of intangible assets and liabilities in the consolidated statement of financial position as of December 31, 2012 and 2011.

(in thousands of tenge)

39. 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:

	2012	2011
Financial assets		
Trade accounts receivable (Note 10)	1,250,925	1,028,877
Other accounts receivable (Note 13)	1,313,913	1,663,186
Other financial assets (Note 14)	1,453,608	1,190,728
Restricted cash (Notes 14, 19)	245,573	73,552
Cash and cash equivalents (Note 15)	499,476	78,097
Financial liabilities		
Bonds issued (Note 18)	6,850,676	4,135,436
Long-term loans (Note 19)	5,177,688	5,369,158
Long-term payables (Note 22)	728,108	40,938
Trade accounts payable (Note 25)	1,736,138	951,602
Short-term loans (Note 26)	3,461,078	3,342,835
Other liabilities and accrued expenses (Note 29)	139,170	81,909

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.

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.

(in thousands of 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, 2012 and retained earnings as at December 31, 2012 would decrease by 88,315 thousand tenge/would increase by 88,315 thousand tenge (2011: respectively: would decrease by 79,674 thousand tenge, would increase by 79,674 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:

	2012	2011
Other financial assets	7.00%	7.00%
Short-term loans	11.85%	11.85%
Long-term loans	7.26%	8.74%
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 10) and other accounts receivable (Note 13) 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, 2012:

	Weighted average effective interest rate	Up to 1 year	1-5 years	Over 5 years	Overdue	Total
Interest-free:						
Trade accounts receivable		1,250,925	-	-	173,329	1,424,254
Other accounts receivable		1,313,913	-	-	40,893	1,354,806
Cash and cash equivalents		499,476	-	-	-	499,476
Long-term payables		728,108	-	-	-	728,108
Trade accounts payable		1,736,138	-	-	-	1,736,138
Other liabilities and accrued expenses		139,170	-	-	-	139,170
Interest bearing:						
Other financial assets	3.2% - 9.00%	1,480,408	-	-	-	1,480,408
Restricted cash	3.2% -9.00%	70,746	191,595	-	-	262,341
Short-term loans	10.00%	3,744,571	-	-	-	3,744,571
Long-tern loans	0.75%- 10.00%	1,654,726	3,088,011	1,663,611	-	6,406,348
Bonds issued	12.50%	757,761	3,788,806	7,629,486	-	12,176,053
Total		13,375,942	7,068,412	9,293,097	214,222	29,951,673

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 bearing:						
Other financial assets	10%-12.00%	1,190,728	-	-	-	1,190,728
Restricted cash	4%-9.00%	23,477	62,798	-	-	86,275
Short-term loans	11%-17.00%	3,591,150	-	-	-	3,591,150
Long-tern loans	7.2%-11.00%	1,150,480	4,841,677	637,979	-	6,630,136
Bonds issued	12.50%	225,486	2,387,495	5,355,711	-	7,968,692
		9,985,593	7,316,631	6,086,038	239,768	23,628,030

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, 2012 and 2011 the carrying value of all other financial assets and liabilities was approximately equal to their fair value.

40. 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.

In 2010, Petropavlovsk Heat Network LLP applied for a new heating energy supply tariff. In August 2010, the Department of the Agency of the Republic of Kazakhstan for the Regulation of Natural Monopolies for the North Kazakhstan Oblast ("DARNM") approved a tariff at the 2009 level and introduced it from October 1, 2010. Petropavlovsk Heat Network LLP went to court to dispute the DARNM order and tariff reduction. After being reviewed in courts of all instances on May 30, 2012, a verdict entered into force on January 30, 2012 which recognised DARNM's actions reducing the tariff and setting tariffs at 2009 levels as illegal. DARNM has not yet executed the court verdict, and has not accepted the part of the order dealing with the annulment of tariff levels, between December 1, 2011 and October 1, 2012, i.e. before a tariff was approved according to a new 2012 application was approved. During the court proceedings, Petropavlovsk Heat Network LLP is reviewing two tariff periods:

1) from October 1, 2010 until December 1, 2011
2) from December 1, 2011 until October 1, 2012

The use of the tariff from May 26, 2011 during the first period is based on a DARNM order. The probability of a reduction (use of the 2009 tariff) for the period in question does not exist as the Petropavlovsk Heat Network LLP followed the DARNM order dated May 26, 2011, which was invalidated on November 22, 2011 and recognised as invalid. In addition, a court verdict came into force based on which the Company was entitled to use a tariff higher than the 2009 tariff.

For the second period heating energy transmission services should be increased in line with the court verdict. During the period in question the Petropavlovsk Heat Network LLP worked using the 2009 tariff, while a court verdict was in place allowing the Company to use a tariff higher than that from 2009. The increase is possible if the court verdict is executed and DARNM issues an order approving a new higher tariff. In this case, the Group may generate additional income of 247,771 thousand tenge. As at December 31, 2012, DARNM had not issued an order to approve the tariff, the income in question was not recognised in the Group's consolidated financial statements.

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, 2012 and 2011 the Group did not insure its assets, except for TETs-2 production facility. 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 November 5, 2012, Agreement on investment obligations of the Group for 2013 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 6.25 tenge for 1 KWT/hr from January 1, 2013. According to this agreement the Group is obliged to invest in construction, modernization and acquisition of property, plant and equipment of 5,645,106 thousand tenge till the end of 2013 (2012: 4,349,086 thousand tenge). As at December 31, 2012, the Group complied all investment obligations.

Tariffs formation

The Group agrees with the Department of the Agency of the Republic of Kazakhstan on regulation of natural monopolies in the Northern Kazakhstan region 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.

41. EVENTS AFTER THE REPORTING PERIOD

Loans

In 2013 the Group received short-term loans under the credit line with SB JSC Sberbank of 1,080,000 thousand tenge at an interest rate of 10% per annum.

On February 28, 2013, the Group entered into a framework agreement with SB JSC HSBC Bank Kazakhstan on a loan of 250,000 thousand tenge with the interest rate of 7.5% per annum. On March 6, 2013 the Group received under this agreement the loan of 170,000 thousand tenge.