

**"Kazakhstan Electricity Grid
Operating Company" JSC**

Consolidated Financial Statements

31 December 2013

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Independent auditors' report

To the Shareholder of JSC "Kazakhstan Electricity Grid Operating Company"

We have audited the accompanying consolidated financial statements of JSC "Kazakhstan Electricity Grid Operating Company" and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the 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.

Opinion

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

Ernst & Young LLP



Aisulu Narbayeva
Auditor

Auditor Qualification Certificate
No. 0000137 dated 21 October 1994

4 March 2014



Evgeny Zhemaletdinov
General Director
Ernst & Young LLP

State Audit License for audit activities on the
territory of the Republic of Kazakhstan: series
MFO-2, No. 0000003 issued by the Ministry of
Finance of the Republic of Kazakhstan on
15 July 2005



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

<i>In thousands of Tenge</i>	Notes	31 December 2013	31 December 2012
Assets			
Non-current assets			
Property, plant and equipment	6	308,819,164	163,444,227
Intangible assets		885,708	752,000
Advances paid for non-current assets	6	8,765,506	23,967,873
Investments in associates	7	220,446	114,756
Other financial assets	10	868,269	983,847
Other non-current assets		56,662	82,243
		319,615,755	189,344,946
Current assets			
Inventories	8	1,916,887	1,646,174
Trade accounts receivable	9	8,501,318	3,944,197
VAT recoverable and other prepaid taxes		2,817,752	1,190,546
Income tax prepaid		1,141,931	1,437,851
Other financial assets	10	18,992,431	24,844,456
Cash restricted in use	11	1,688,834	1,629,862
Other current assets	12	919,263	322,302
Cash and cash equivalents	13	11,727,555	8,044,502
		47,705,971	43,059,890
Total assets		367,321,726	232,404,836
Equity and liabilities			
Equity			
Share capital	14	107,245,972	106,842,972
Asset revaluation reserve	14	110,878,954	—
Other reserves	14	(170,701)	(55,123)
Retained earnings		3,227,238	19,772,193
		221,181,463	126,560,042
Non-current liabilities			
Borrowings	15	82,323,069	72,674,498
Deferred tax liability	22	36,090,576	11,728,828
		118,413,645	84,403,326
Current liabilities			
Trade and other accounts payable	16	14,713,802	11,348,499
Borrowings	15	10,218,204	8,134,316
Advances received		789,884	574,972
Taxes payable other than income tax		713,332	185,861
Other current liabilities	17	1,291,396	1,197,820
		27,726,618	21,441,468
Total liabilities		146,140,263	105,844,794
Total equity and liabilities		367,321,726	232,404,836
Book value per ordinary share (in Tenge)	14	1,027	589

Chairman of the Management Board

Chief Accountant


Kachiyev B.T.


Mukanova D.T.

The accounting policies and explanatory notes on pages 7 to 41 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

<i>In thousands of Tenge</i>	Notes	2013	2012
Revenue	18	73,811,723	65,855,173
Cost of sales	19	(55,574,322)	(49,268,483)
Gross profit		18,237,401	16,586,690
General and administrative expenses	20	(6,422,878)	(5,829,446)
Selling expenses		(154,408)	(168,612)
Revaluation deficit	6	(26,807,757)	—
Operating (loss) / profit		(15,147,642)	10,588,632
Interest income from deposits, current accounts, and bonds		1,797,051	1,604,788
Finance costs	21	(2,021,023)	(1,991,132)
Foreign exchange loss, net		(2,680,967)	(1,806,822)
Share of loss of an associate		(3,659)	—
Other income		381,865	138,783
Other expenses		(13,972)	(49,423)
(Loss) / profit before tax		(17,688,347)	8,484,826
Income tax benefit / (expense)	22	3,188,073	(1,543,797)
(Loss) / profit for the period		(14,500,274)	6,941,029
(Loss) / earnings per share			
Basic, (loss) / profit for the year attributable to ordinary equity holders	14	(67.70)	32.72

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

<i>In thousands of Tenge</i>	Notes	2013	2012
(Loss) / profit for the period		(14,500,274)	6,941,029
Other comprehensive (loss) / income			
<i>Other comprehensive loss to be reclassified to profit or loss in subsequent periods:</i>			
Net loss on available for sale financial assets		(115,578)	—
Income tax effect		—	—
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		(115,578)	—
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Gain on revaluation of property, plant and equipment	6	138,645,728	—
Income tax effect	22	(27,729,146)	—
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		110,916,582	—
Other comprehensive income for the year, net of tax		110,801,004	—
Total comprehensive income for the period, net of tax		96,300,730	6,941,029

Chairman of the Management Board



Kazhiyev B.T.

Chief Accountant

Mukanova D.T.

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

<i>In thousands of Tenge</i>	Notes	2013	2012
Operating activities			
(Loss)/ profit before tax		(17,688,347)	8,484,826
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortisation		8,549,023	7,282,676
Finance costs	21	2,021,023	1,991,132
Foreign exchange loss		2,470,792	1,585,679
Provision for doubtful receivables and impairment of advances	20	195,153	26,065
Movement in provision for obsolete inventory	20	(217,628)	146,702
(Gain)/ loss from disposal of property, plant and equipment and intangible assets		(9,841)	3,285
Interest income		(1,797,051)	(1,604,788)
Share of profit of an associate	7	3,659	—
Impairment loss of PPE	6	26,807,757	—
<i>Working capital adjustments:</i>			
Change in inventories		(53,085)	(351,108)
Change in trade accounts receivable		(4,784,595)	407,202
Change in VAT recoverable and other prepaid taxes		(1,627,206)	(145,147)
Change in other current assets		(564,640)	745,528
Change in trade and other accounts payable		849,837	(1,832,731)
Change in advances received		214,912	99,949
Change in taxes payable other than income tax		977,477	326,859
Change in other current liabilities		96,672	80,859
Cash flows from operating activities		15,443,912	17,246,988
Interest paid		(2,925,527)	(3,032,611)
Income tax paid		(333,411)	(445,903)
Interest received		2,273,350	896,352
Net cash flows from operating activities		14,458,324	14,664,826
Investing activities			
(Withdrawal)/ placement of bank deposits, net		5,537,427	(3,981,216)
Change in cash restricted in use		(19,500)	2,854,448
Proceeds from sale of property, plant and equipment and intangible assets		314,149	68,114
Purchase of property, plant, equipment		(23,706,522)	(17,925,504)
Purchase of intangible assets		(51,764)	(177,307)
Repayment of loans given to employees		35,697	—
Investments in an associate	7	(109,350)	(115,000)
Net cash flows used in investing activities		(17,999,863)	(19,276,465)
Financing activities			
Contribution to share capital	14	403,000	1,000,000
Payment of dividends	14	(2,082,309)	(2,346,674)
Repayment of borrowings		(7,858,832)	(5,689,903)
Proceeds from borrowings		16,526,701	10,164,236
Net cash flows from financing activities		6,988,560	3,127,659

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

<i>In thousands of Tenge</i>	Notes	2013	2012
Net increase in cash and cash equivalents		3,447,021	(1,483,980)
Net foreign exchange difference		236,032	(15,155)
Cash and cash equivalents at 1 January		8,044,502	9,543,637
Cash and cash equivalents at 31 December	13	11,727,555	8,044,502

Non-cash transactions:

For the year ended 31 December 2013 the Group off-set its taxes payable other than income tax by prepaid income tax in the amount of KZT 450,006 thousand (2012: KZT 326,715 thousand).

During the year ended 31 December 2013 the Group capitalized borrowing costs in the amount of KZT 1,047,882 thousand (2012: KZT 1,149,583 thousand).

Chairman of the Management Board



Kazhiyev B.T.

Chief Accountant



Mukanova D.T.

The accounting policies and explanatory notes on pages 7 to 41 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

<i>In thousands of Tenge</i>	Share capital	Asset revaluation reserve	Other reserves	Retained earnings	Total
As at 1 January 2012	105,842,972	—	(55,123)	15,177,838	120,965,687
Profit for the period	—	—	—	6,941,029	6,941,029
Total comprehensive income	—	—	—	6,941,029	6,941,029
Issue of share capital (Note 14)	1,000,000	—	—	—	1,000,000
Dividends (Note 14)	—	—	—	(2,346,674)	(2,346,674)
As at 31 December 2012	106,842,972	—	(55,123)	19,772,193	126,560,042
Loss for the period	—	—	—	(14,500,274)	(14,500,274)
Net loss on available for sale financial assets, net of tax (Note 14)	—	—	(115,578)	—	(115,578)
Gain on revaluation of property, plant and equipment, net of tax (Note 14)	—	110,916,582	—	—	110,916,582
Total comprehensive income	—	110,916,582	(115,578)	(14,500,274)	96,300,730
Transfer of asset revaluation reserve (Note 14)	—	(37,628)	—	37,628	—
Issue of share capital (Note 14)	403,000	—	—	—	403,000
Dividends (Note 14)	—	—	—	(2,082,309)	(2,082,309)
As at 31 December 2013	107,245,972	110,878,954	(170,701)	3,227,238	221,181,463

Chairman of the Management Board


Kazhiyev B.T.


Mukanova D.T.

Chief Accountant

The accounting policies and explanatory notes on pages 7 to 41 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. GENERAL INFORMATION

Kazakhstan Electricity Grid Operating Company JSC ("the Company" or "KEGOC") was established in accordance with the Government Resolution No. 1188 dated 28 September 1996 by transferring of some assets of the former National Energy System "Kazakhstanenergo".

The Company's sole shareholder is Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna"). Samruk-Kazyna is controlled by the Government of the Republic of Kazakhstan.

KEGOC is the national company which provides electricity transmission, dispatch and electricity production-consumption balancing services in Kazakhstan. As the state-appointed system operator, the Company provides centralized dispatching control, ensures parallel work with energy systems of other countries, maintains the balance in energy system, provides system services and acquires auxiliary services from wholesale entities at energy market, as well as transmits electricity through unified power system (the "UPS"), ensures its technical support and maintenance. The UPS consists of substations, distribution devices, interregional and international power transmission lines which provide the output of electricity of electrical stations with the voltage of 220 kV and more.

As at 31 December 2013 and 31 December 2012, KEGOC is the parent company of a 100% subsidiary, Energoinform JSC. Energoinform JSC is engaged in maintenance of the Company's IT system.

In 2013 the Company established a new 100% subsidiary Accounting and Finance Center for the support of renewable energy resources LLP. The main activities of the subsidiary will be centralised sales and purchase of electricity produced by energy producers using renewable energy sources and delivery into the electricity grid of the Republic of Kazakhstan.

The Company and its subsidiaries are hereafter referred as the "Group".

The Group's operating activities are regulated by the Law of the Republic of Kazakhstan dated 9 July 1998 No.272-III *On Natural Monopolies and Regulated Markets* as the Group is a natural monopolist in electricity transmission, technical dispatch and electricity production-consumption balancing services. According to the Law, the Group's electricity transmission, technical dispatch and electricity production-consumption tariffs are approved by the Agency of the Republic of Kazakhstan for the Regulation of Natural Monopolies (the "Agency").

The Company's registered office is located at 37 Beibitshilik Str., Astana, 010000, the Republic of Kazakhstan.

These accompanying consolidated financial statements were authorised for issue by the Company's Chairman of the Management Board and Chief Accountant on 4 March 2014.

2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements have been prepared on a historical cost basis, except for certain classes of property, plant and equipment, which are stated at revalued amounts and available for sale financial assets that have been measured at fair value as described in the accounting policies and notes to these consolidated financial statements. The consolidated financial statements are presented in Kazakhstan Tenge ("Tenge" or "KZT") and all values are rounded to the nearest thousands, except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2013. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**2. BASIS OF PREPARATION (continued)****Basis of consolidation (continued)**

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***Changes in accounting policy******Revaluation of UPS constructions***

The Group reassessed its accounting for property, plant and equipment with respect to measurement of certain classes of property, plant and equipment after initial recognition. The Group has previously measured all property, plant and equipment using the cost model as set out in IAS 16.30, whereby after initial recognition of the assets classified as property, plant and equipment, the asset was carried at cost less accumulated depreciation and accumulated impairment losses.

On 1 November 2013 the Group elected to change the method of accounting for UPS constructions classified in property, plant and equipment, since the Group believes that revaluation model more effectively demonstrates the financial position of UPS constructions. After initial recognition, the Group uses the revaluation model, whereby UPS constructions will be measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The Group applied the exemption in IAS 8, which exempts this change in accounting policy from retrospective application and extensive disclosure requirements.

New and amended standards and interpretations

The adopted accounting policies of the Group are consistent with those of the previous financial year, except for the accounting for UPS constructions discussed above and the following new standards and interpretations effective as of 1 January 2013.

- IFRS 10 *Consolidated Financial Statements* and IAS 27 *Separate Financial Statements*;
- IFRS 11 *Joint Arrangements* and IAS 28 *Investment in Associates and Joint Ventures*;
- IFRS 12 *Disclosure of Interests in Other Entities*;
- IFRS 13 *Fair Value Measurement*;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****New and amended standards and interpretations (continued)**

- IAS 1 *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1);
- IAS 1 *Clarification of the requirement for comparative information* (Amendment);
- IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* – Amendments to IFRS 7;
- Amendments to IAS 19 *Employee Benefits* (Revised 2011);
- IAS 32 *Tax effects of distributions to holders of equity instruments* (Amendment);
- IAS 34 *Financial reporting and segment information for total assets and liabilities* (Amendment).

The nature and impact of new standard/amendment is described below:

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidated financial statements of the Group.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11 eliminates the possibility of accounting for jointly controlled entities using the proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* and is effective for annual periods beginning on or after 1 January 2013.

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed – IAS 28 *Investments in Associates and Joint Ventures*. Revised standard describes the application of the equity method to investments in joint ventures in addition to associates. Amendment is effective for annual periods beginning on 1 January 2013.

The adoption of these standards and amendments did not have any impact on the financial position or performance of the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. IFRS 12 disclosures are provided in *Note 1* and *Note 7*.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required for financial instruments under IAS 34.16A(j), thereby affecting the condensed consolidated financial statements. These requirements have not materially impacted the fair value measurements carried out by the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****New and amended standards and interpretations (continued)***IAS 1 Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)*

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net loss or gain on available-for-sale financial assets) have to be presented separately from items that will not be reclassified (for example, revaluation of UPS construction). The amendments affect presentation only and have no impact on the Group's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendment clarifies that the opening statement of financial position (as at 1 January 2012 in case of the Group) presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. As a result, the Group has not included comparative information in respect to the opening statement of financial position as at 1 January 2012. The amendments affect presentation only and have no impact on the Group's financial position or performance.

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments did not have any impact on the Group's financial position or performance.

Amendments to IAS 19 Employee Benefits

The IFRS Board issued amendments to IAS 19 *Employee Benefits*, which become effective for annual periods beginning on or after 1 January 2013. The amendments make significant changes in accounting for employee benefits, in particular they remove the possibility of deferred recognition in plan assets and liabilities (corridor mechanism). In addition, these amendments limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. The amendments had no impact on the Group's financial position or performance.

IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)

The amendment to IAS 32 *Financial Instruments: Presentation* clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the consolidated financial statements of the Group, as there is no tax consequences attached to cash or non-cash distribution.

Standards issued, but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Standards issued, but not yet effective (continued)***IFRS 9 Financial Instruments: Classification and Measurement*

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendment to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (Amendment)

In June 2013 IASB issued *Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*. This amendment to IAS 39 *Financial Instruments: Recognition and Measurement* provides an exception to the requirement to discontinue hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly, novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. The amendment is effective from 1 January 2014 with early application permitted.

IFRIC 21 Levies

In May 2013, the IASB issued IFRIC Interpretation 21 *Levies*. The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. The interpretation is effective for annual periods beginning on or after 1 January 2014, with early application permitted.

IFRS 10 Investment Entities (Amendment)

Amendment to IFRS 10 *Consolidated Financial Statements* provides an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*. The amendment applies for annual periods beginning on or after 1 January 2014. Early application is permitted.

These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

Amendments to IAS 36 Assets impairment – Disclosures on recoverable amount for non-financial assets

These amendments remove unintended consequences for disclosures in accordance with IAS 36, associated with IFRS 13 coming into effect. In addition, these amendments require disclosure of information on asset's or CGU recoverable amount on which impairment loss was recognized or reimbursed during the reporting period. These amendments are applied retrospectively for annual periods beginning on or after 1 January 2014. The amendments when applied would require more comprehensive disclosure for impairment of non-financial assets.

Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realized or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Standards issued, but not yet effective (continued)*****Current versus non-current classification (continued)***

All other assets are classified as non-current. A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

The Group measures financial instruments, such as, AFS financial assets at fair value at each balance sheet date, and non-financial assets (UPS constructions) at fair value when fair value differs materially from their carrying value. Also, fair values of financial instruments measured at amortized cost are disclosed in *Note 24*.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's finance management determines the policies and procedures for both recurring fair value measurement, such as UPS constructions and unquoted AFS financial assets, and for non-recurring measurement, if any.

External valuers are involved for valuation of UPS constructions. Involvement of external valuers is decided upon annually by the finance management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The finance management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Standards issued, but not yet effective (continued)*****Fair value measurement***

At each reporting date, the finance management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the finance management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The finance management, in conjunction with the Group's external valuers, also compares each the changes in the fair value of each asset of revalued class of property, plant and equipment in accordance with Group accounting policy with relevant external sources to determine whether the change is reasonable.

The finance management and external valuers discusses the major assumptions used in the valuations. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Foreign currencies

The Group's consolidated financial statements are presented in Tenge ("KZT"), which is also the Group's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

Exchange rates for foreign currencies in which the Group had significant transactions are represented as follows:

<i>Exchange rate as at the end of the period (to KZT)</i>	31 December 2013	31 December 2012
USD 1	153.61	150.74
EUR 1	211.17	199.22
RUS 1	4.69	4.96
<i>Average exchange rate for 12 months (to KZT)</i>	2013	2012
USD 1	152.14	149.11
EUR 1	202.08	191.71
RUS 1	4.78	4.80

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Property, plant and equipment**

Property, plant and equipment, except for UPS constructions, is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied.

All other repair and maintenance costs are recognized in profit or loss as incurred.

UPS constructions are measured at fair value less accumulated depreciation and impairment losses recognized at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

A revaluation surplus is recorded in OCI and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation is computed on a straight-line basis over the estimated useful lives set out in the following table:

<i>Buildings:</i>	60 years
<i>UPS constructions:</i>	
Power transmission lines	50 years
Substation equipment	12-30 years
Constructions	10-30 years
<i>Vehicles and other property, plant and equipment:</i>	
Other machinery and equipment	7-25 years
Vehicles	11 years
Computers and other data processing equipment	4-10 years
Furniture	7 years
Other property, plant and equipment	3-15 years

Land is not depreciated.

The useful lives and residual values of property, plant and equipment are reviewed annually and, where applicable, adjustments are made on a prospective basis. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors". These estimates may have a material impact on the amounts of the carrying values of property, plant and equipment and on depreciation expenses recognized in the consolidated statement of comprehensive income.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of comprehensive income in the year the asset is derecognized.

Intangible assets

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the profit and loss in the year in the period in which expenditure is incurred.

Intangible assets of the Group consist primarily of licenses and software. Intangible assets are amortized on a straight-line basis over their estimated useful lives, generally from 3 to 20 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Research and development costs**

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the intangible asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future economic benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on value in use, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the consolidated statement of comprehensive income in expense categories consistent with the function of the impaired asset, except for UPS constructions previously revalued with the revaluation taken to OCI. For such assets, the impairment is recognized in OCI up to the amount of any previous revaluation.

For assets previously impaired, except for goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased.

If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Investments in an associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in an associate (continued)

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investment in its associate is accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of comprehensive income reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Group recognized its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognized the loss as 'Share of loss of an associate in profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognized any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Financial instruments – initial recognition and subsequent measurement

Financial assets

Initial recognition and measurement

The Group's financial assets include cash, short-term and long-term deposits, trade and other accounts receivable, quoted and unquoted financial instruments.

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial instruments – initial recognition and subsequent measurement (continued)***Financial assets (continued)**Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the profit or loss. The losses arising from impairment are recognised in the profit or loss in finance costs for loans and operating expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the EIR, less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance income in the profit or loss. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs.

Available-for-sale financial investments

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to the profit or loss in finance costs. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method. The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held to maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in other comprehensive income is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the profit or loss.

Derecognition

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

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial instruments – initial recognition and subsequent measurement (continued)***Financial assets (continued)**Derecognition (continued)*

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as finance income in the profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial instruments – initial recognition and subsequent measurement (continued)*****Financial assets (continued)******Available-for-sale financial investments***

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss.

Financial liabilities***Initial recognition and measurement***

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of comprehensive income.

Trade and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial liabilities (continued)***Derecognition*

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Inventory

Inventories are valued at the lower of cost and net realizable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Inventories: Purchase cost on a first in, first out basis;

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Cash restricted in use

In accordance with loan agreements on projects financing signed with International Bank for Reconstruction and Development ("IBRD") and European Bank for Reconstruction and Development ("EBRD"), the Group opened bank escrow accounts, necessary for debt service. Cash, held on these bank accounts, can be used exclusively for the purposes of planned payments on interest and principal loan amounts. If cash is restricted in use for the period not exceeding 12 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 12 months from the reporting date, such cash is reflected within non-current assets.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income, net of any reimbursement.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Revenue recognition (continued)***Rendering of services*

Revenue from rendering of services is recognised by reference to the stage of completion.

The Group receives its revenue from rendering of transmission services of electricity from power generators to wholesale and major customers, technical dispatching of the input of electricity into the energy system and consumption of electricity, organization of balancing of electricity producing and consumption and ensuring a contractual power supply with energy systems of neighbouring countries and other.

Tariffs for services of electricity transmission, technical dispatch, organization of balancing of production / consumption of electricity are approved by the Agency.

Revenues from providing a contractual power supply with energy systems of neighbouring countries are recognised in accordance with terms of contracts conducted on the basis of Agreement between the Government of Republic of Kazakhstan and Russian Federation "On Measures Securing Parallel Operation of Unified Power Systems of the Republic of Kazakhstan and Russian Federation".

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Lease

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight-line basis over the lease term.

Retirement benefit costs

In accordance with the legislation of the Republic of Kazakhstan, the Group deducted 10% of employees' salaries, but no more than KZT 139,950 per month (2012: KZT 130,793) to accumulative pension funds. Pension fund payments are withheld from employees' salaries and included with payroll expenses in the profit and loss when they are incurred. The Group has no other retirement benefit obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Current income tax**

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are approved before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Contingencies

Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of any outflow in settlement is remote.

A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Revaluation of property, plant and equipment

From 1 November 2013 the Group has changed its accounting policy for the measurement of UPS constructions to the revaluation model. The Group engaged Deloitte LLP, an accredited independent appraiser, to assess the fair value of its constructions.

The revalued UPS constructions constitute one class of asset under IFRS 13, based on the nature, characteristics and risks of the property. Input data for determining the fair value of UPS constructions refer to Level 3 in the fair value hierarchy (unobservable inputs).

Fair value of UPS constructions was determined by using the cost approach. The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (current replacement cost). Cost approach has been used due to highly specialized nature of the assets and because there is no history of such assets ever being sold.

The appraised current replacement cost of UPS constructions amounts 365,639,671 thousand Tenge as of 1 November 2013.

The appraised current replacement cost has been further tested for impairment using the recoverable amount estimated as assets value in use. As a result of the assessment, the value in use amounts 224,682,778 thousand Tenge as of 1 November 2013. Consequently, the Group recognized impairment on the appraised current replacement costs.

The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested.

In assessment of the value in use the following main assumptions have been applied:

Discount rate (WACC)	9.35%
Long term growth rate	1.99%
Remaining useful life of the primary asset	40 years

An increase in the discount rate by 0.56% or a reduction in long term growth rate by 0.42% would result in a decrease in the fair value of Group's property, plant and equipment for approximately KZT 30,881,916 thousand (or 10%).

As a result of the revaluation the Group recognized revaluation surplus on certain assets credited to OCI in the amount of 138,645,728 thousand Tenge, and respective deferred tax liability in the amount of 27,729,146 thousand Tenge and revaluation deficit on certain assets debited to profit and loss in the amount of 26,807,757 thousand Tenge. The revaluation deficit of UPS constructions resulted from deterrence of KEGOC transfer to full economically justified tariff, which assumes market return on investments into generation of similar assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)****Allowances on doubtful accounts receivable**

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. Further details are contained in *Note 9*.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

As the Group assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value reported in the consolidated financial statements.

5. OPERATING SEGMENTS INFORMATION*Operating segments*

For management purposes, the Group is organized into one business unit, operating a Kazakhstan electricity grid for rendering services of electricity transmission, technical dispatch of electricity supply to the network and consumption of electricity, balancing of electricity generation and consumption. This operating segment represents the only reportable segment of the Group.

Geographic information

Revenues from external customers based on the locations of the customers represent the following:

<i>In thousands of Tenge</i>	2013	2012
Revenue from Kazakhstan customers	58,219,000	51,536,040
Revenue from Russian customers	9,799,791	10,955,099
Revenue from Uzbekistan customers	5,792,932	3,364,034
Total revenue per consolidated statement of comprehensive income	73,811,723	65,855,173

Management analyses the Group's revenue and profit before tax determined in accordance with IFRS.

For the year ended 31 December 2012 the revenue from one customer amounted to KZT 7,379,970 thousand, arising from electricity transmission. There was no revenue from one customer exceeding 10% of total revenue for the year ended 31 December 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT

<i>In thousands of Tenge</i>	Land	Buildings	UPS constructions	Vehicles and other property, plant and equipment	Construction in progress	Total
Cost:						
At 1 January 2012*	990,616	6,322,069	157,622,666	23,136,296	21,216,036	209,287,683
Additions	168,756	3,399	8,210	845,526	23,420,037	24,445,928
Transfers	4,192	227,886	8,636,602	1,317,071	(10,185,751)	—
Disposals	(1,566)	(3,501)	(165,002)	(193,522)	(2,936)	(366,527)
At 31 December 2012*	1,161,998	6,549,853	166,102,476	25,105,371	34,447,386	233,367,084
Additions	157,755	228	23,725	956,691	41,333,399	42,471,798
Transfers	17,348	652,664	36,539,756	1,218,906	(38,428,674)	—
Transfers to intangible assets	—	—	—	—	(254,026)	(254,026)
Disposals	(12,866)	(218,375)	(129,492)	(302,408)	(61,112)	(724,253)
Revaluation surplus (OCI)	—	—	327,943,843	—	—	327,943,843
Revaluation deficit (Profit or loss)	—	—	(34,145,727)	—	(99,212)	(34,244,939)
At 31 December 2013	1,324,235	6,984,370	496,334,581	26,978,560	36,937,761	568,559,507
Accumulated depreciation and impairment:						
At 1 January 2012*	—	(1,167,749)	(49,652,419)	(12,323,979)	—	(63,144,147)
Charge for the period	—	(144,499)	(5,062,040)	(1,897,658)	—	(7,104,197)
Disposals	—	825	161,133	163,529	—	325,487
At 31 December 2012*	—	(1,311,423)	(54,553,326)	(14,058,108)	—	(69,922,857)
Charge for the period	—	(145,059)	(6,458,729)	(1,772,710)	—	(8,376,498)
Disposals	—	50,546	67,904	301,495	—	419,945
Revaluation surplus (OCI)	—	—	(189,298,115)	—	—	(189,298,115)
Revaluation deficit (Profit or loss)	—	—	7,437,182	—	—	7,437,182
At 31 December 2013	—	(1,405,936)	(242,805,084)	(15,529,323)	—	(259,740,343)
Net book value:						
At 1 January 2012	990,616	5,154,320	107,970,247	10,812,317	21,216,036	146,143,536
At 31 December 2012	1,161,998	5,238,430	111,549,150	11,047,263	34,447,386	163,444,227
At 31 December 2013	1,324,235	5,578,434	253,529,497	11,449,237	36,937,761	308,819,164

* During the year ended 31 December 2013 the Group changed classification of its property, plant and equipment ("PPE") between classes of PPE. Such reclassifications have no effect on total cost of PPE as of 1 January 2012 and 31 December 2012 and total accumulated depreciation as of 1 January 2012 and 31 December 2012.

Revaluation of property, plant and equipment

As stated in *Notes 3 and 4*, from 1 November 2013 the Group has changed its accounting policy for the measurement of UPS constructions to the revaluation model. The Group engaged Deloitte LLP, an accredited independent appraiser, to assess the fair value of its constructions.

The revalued UPS constructions constitute one class of asset under IFRS 13, based on the nature, characteristics and risks of the property. Input data for determining the fair value of UPS constructions refer to Level 3 in the fair value hierarchy (unobservable inputs).

The appraisal approach, key assumptions applied are disclosed in *Note 4*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

As a result of the revaluation the Group recognized revaluation surplus on certain assets credited to OCI in the amount of 138,645,728 thousand Tenge, and respective deferred tax liability in the amount of 27,729,146 thousand Tenge and revaluation deficit on certain assets debited to profit and loss in the amount of 26,807,757 thousand Tenge. The revaluation deficit of UPS constructions resulted from deterrence of KEGOC transfer to full economically justified tariff, which assumes market return on investments into generation of similar assets.

If UPS constructions were measured using the cost model, the carrying amount would be as follows:

<i>In thousands of Tenge</i>	2013	2012
At costs	201,961,515	166,102,476
Accumulated depreciation	(59,478,037)	(54,553,326)
Net carrying amount at 31 December	142,483,478	111,549,150

As at 31 December 2013 and 2012 information on property, plant and equipment included the following:

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
Fully amortised property, plant and equipment at cost (FV), which are still in use	5,270,606	10,682,289

Capitalized borrowing costs

During the year ended 31 December 2013 the Group capitalized borrowing costs at the average capitalization rate of 3.6% in the amount of KZT 1,047,882 thousand (year ended 31 December 2012: KZT 1,149,583 thousand at the average capitalization rate of 4.42%).

Construction in progress

Construction in progress is mainly represented by equipment and construction works as part of the implementation of the "Construction of the Alma 500 kW substation with connection to UPS of Kazakhstan with the voltage of 500, 200 kW", "Reconstruction of the Ossakarovka 220 kW power line" and "Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2".

Advances paid for non-current assets

As at 31 December 2013, advances paid for non-current assets mainly represent prepayments made to suppliers for construction work related to the following projects:

- "Construction of the Alma 500 kW substation with connection to UPS of Kazakhstan with the voltage of 500, 200 kW";
- "Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2";
- Reconstruction of the Ossakarovka 220 kW power line;
- Construction of an administrative building.

7. INVESTMENTS IN ASSOCIATES

Investments in associates comprised the following as at:

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
KazEnergoprovod LLP	220,446	114,756
Batys Transit JSC	–	–
	220,446	114,756

Group's ownership in associates is as follows:

	31 December 2013	31 December 2012
KazEnergoprovod LLP	49.9%	49.9%
Batys Transit JSC	20.0%	20.0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INVESTMENTS IN ASSOCIATES (continued)

KazEnergoProvod LLP

In October 2012 the Group and "East Industry Company Ltd" LLP, a third party entity, established "KazEnergoProvod" LLP ("KazEnergoProvod"). The Group's interest in KazEnergoProvod is 49.9%. KazEnergoProvod's principal place of operations and country of incorporation is the Republic of Kazakhstan. The main activity of KazEnergoProvod is production and sale of cable and wire products. The investment in KazEnergoProvod is measured using the equity method.

During the year ended 31 December 2013 the Group contributed KZT 109,350 thousand and "East Industry Company Ltd" LLP contributed KZT 130,000 thousand to the capital of KazEnergoProvod.

The following table illustrates the summarised financial information of KazEnergoProvod:

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
Statement of financial position:		
Current assets	214,167	134,426
Non-current assets	153,012	85
Current liabilities	(652)	-
Non-current liabilities	-	-
Net assets	366,527	134,511

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
Statement of comprehensive income:		
Revenue	221,533	-
Net profit	(7,334)	489

Share in loss of an associate is presented on the face of the Statement of comprehensive income for the year ended 31 December 2013 in the amount of KZT 3,659 thousand. The share in loss of an associate for the comparative period in 2012 is presented within other expenses in the amount of KZT 244 thousand.

A reconciliation of the summarised financial information of KazEnergoProvod to its carrying value is as follows:

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
Group's share in net assets	182,897	67,121
Unpaid capital contribution of other partners	37,549	47,635
Carrying amount of the investment	220,446	114,756

Batys Transit JSC

As at 31 December 2013 and 31 December 2012 the Group has a 20% interest in "Batys Transit" JSC ("Batys Transit"). Batys Transit's principal place of operations and country of incorporation is the Republic of Kazakhstan. The main activity of Batys Transit is realization of a project on construction and exploitation of interregional power line, which connects the North Kazakhstan region with Aktobe region. Batys Transit has bonds traded on the Kazakhstan Stock Exchange. The investment in Batys Transit is measured under the equity method.

As at 31 December 2013 and 31 December 2012, carrying value of investments in Batys Transit was nil, due to accumulated losses that resulted in equity pick-up to zero balance. The cumulative amount of unrecognized share of losses of Batys Transit is KZT 49,520 thousand as at 31 December 2013 (as at 31 December 2012: KZT 134,311 thousand).

The following table illustrates the summarised financial information of Batys Transit:

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
Statement of financial position:		
Current assets	1,709,039	1,972,013
Non-current assets	22,548,744	22,243,513
Current liabilities	(3,568,396)	(2,791,755)
Non-current liabilities	(20,936,989)	(22,095,324)
Net liability	(247,602)	(671,553)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INVESTMENTS IN ASSOCIATES (continued)

Batys Transit JSC (continued)

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
Statement of comprehensive income:		
Revenue	4,066,214	2,650,615
Net profit	423,951	187,830

A reconciliation of the summarised financial information of Batys Transit to its carrying value is as follows:

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
Group's share in net liability	(49,520)	(134,311)
Unrecognized losses	49,520	134,311
Carrying amount of the investment	-	-

8. INVENTORIES

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
Spare parts	1,064,197	1,250,351
Raw and other materials	841,503	766,000
Fuel and lubricants	118,636	139,722
Other inventory	56,523	55,606
Less: allowance for obsolete inventories	(163,972)	(565,505)
	1,916,887	1,646,174

Movement in the allowance for obsolete inventories was as follows:

<i>In thousands of Tenge</i>	Individually impaired
At 1 January 2012	418,803
Charge for the period	146,702
At 31 December 2012	565,505
Reversal	(217,628)
Written-off	(183,905)
At 31 December 2013	163,972

9. TRADE ACCOUNTS RECEIVABLE

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
Trade receivables	9,394,712	4,610,457
Less: allowance for doubtful receivables	(893,394)	(666,260)
	8,501,318	3,944,197

Movement in the allowance for doubtful receivables was as follows:

<i>In thousands of Tenge</i>	Individually impaired
At 1 January 2012	660,561
Charge for the period	65,665
Reversed	(59,969)
Utilised	3
At 31 December 2012	666,260
Charge for the period	254,330
Reversed	(26,856)
Utilized	(340)
At 31 December 2013	893,394

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**9. TRADE ACCOUNTS RECEIVABLE (continued)**

The ageing analysis of trade receivables is as follows:

<i>In thousands of Tenge</i>	Total	Neither past due nor impaired	Past due but not impaired			
			30 – 90 days	91 – 180 days	181 – 270 days	above 271 days
31 December 2013	8,501,318	8,037,914	160,121	2,731	300,552	-
31 December 2012	3,944,197	3,581,682	300,398	8,720	53,397	-

Trade receivables were denominated in the following currencies:

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
Tenge	3,830,074	2,815,020
United States Dollar	4,388,875	611,721
Russian Rouble	282,369	517,456
	8,501,318	3,944,197

10. OTHER FINANCIAL ASSETS

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
Long-term other financial assets		
Bonds of Batys Transit JSC	868,269	983,847
	868,269	983,847
Short-term other financial assets		
Bank deposits	18,937,123	24,794,585
Interest accrued on bonds of Batys Transit JSC	55,308	49,871
	18,992,431	24,844,456
Total other financial assets	19,860,700	25,828,303

In 2007-2009 the Group acquired bonds of Batys Transit JSC, an entity listed on the Kazakhstan Stock Exchange. The interest rate on the bonds is 6.4%. The bonds are classified as available for sale investments. Fair value is the price to sell an asset or transfer a liability, and therefore an exit price, not an entry price. During the year ended 31 December 2013 there was a decrease in fair value of the bonds by KZT 115,578 thousand.

Short-term deposits as at 31 December 2013 and 31 December 2012 represents deposits placed in Kazakhstan banks with the fixed interest rate of 5%-8.5% per annum; and also includes the accrued and uncollected interest in the amount of KZT 322,929 thousand and KZT 807,881 thousand, respectively.

Other financial assets were denominated in the following currencies:

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
Tenge	7,796,480	16,993,009
United States Dollar	12,064,220	8,835,294
	19,860,700	25,828,303

11. CASH RESTRICTED IN USE

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
Cash on debt service accounts	369,953	421,032
Cash on reserve accounts	1,240,009	1,208,830
Cash restricted on current account	78,872	-
	1,688,834	1,629,862

As at 31 December 2013 and 31 December 2012 cash restricted in use represents cash held on a debt service account and reserve account.

According to the terms of the loan agreements with IBRD and EBRD, the Group's creditors, the Group accumulates cash on a special debt service bank account opened in a Kazakhstan bank during the semi-annual period preceding the scheduled payment date of principal, interest and commission fees related to the IBRD and EBRD loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**11. CASH RESTRICTED IN USE (continued)**

In accordance with the terms of the guarantee agreements with the Government of the Republic of Kazakhstan, the guarantor of Group's loans (*Note 15*), the Group is obliged to hold cash on a special reserve account opened in a Kazakhstan bank. The Group is obliged to reserve cash for at least 110% of the upcoming semi-annual payment of principal, interest and commission fees of the IBRD and EBRD loans.

At 31 December 2013 and 31 December 2012, cash restricted in use was denominated in the following currencies:

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
United States Dollar	1,609,962	1,570,609
Euro	–	59,253
Tenge	78,872	–
	1,688,834	1,629,862

12. OTHER CURRENT ASSETS

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
Deferred expenses	410,330	160,040
Advances paid for goods and services	427,372	71,976
Loans to employees	30,082	36,564
Other receivables	81,053	119,088
Less: provision for impairment of other current assets	(29,574)	(65,366)
	919,263	322,302

Changes in the provision for impairment of other current assets are as follows:

<i>In thousands of Tenge</i>	Individually impaired
At 1 January 2012	45,000
Charge for the period	25,592
Reversed	(5,226)
At 31 December 2012	65,366
Charge for the period	2,623
Reversed	(34,944)
Utilized	(3,471)
At 31 December 2013	29,574

13. CASH AND CASH EQUIVALENTS

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
Current accounts with banks, in Tenge	2,862,774	4,265,381
Current accounts with banks, in foreign currencies	4,855,815	2,769,799
Short-term deposits	4,000,000	1,000,000
Cash on hand	4,550	3,578
Cash at special accounts	4,416	5,744
	11,727,555	8,044,502

At 31 December 2013 and 2012, cash and cash equivalents were stated in the following currencies:

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
Tenge	6,871,741	5,274,703
Euro	1,658,253	106,055
United States Dollar	3,082,412	2,644,898
Russian Rouble	114,821	18,066
Others	328	780
	11,727,555	8,044,502

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**14. EQUITY**

	31 December 2013	31 December 2012
Authorized shares:	Shares	Shares
Ordinary shares of 500 Tenge each (2012: 10,000 Tenge)	238,324,377	10,767,297
Ordinary shares issued and fully paid:	Shares	In thousands of Tenge
At 1 January 2012 (10,000 Tenge each)	10,584,297	105,842,972
Issued on 5 October 2012 (10,000 Tenge each)	100,000	1,000,000
At 31 December 2012 (10,000 Tenge each)	10,684,297	106,842,972
Stock split on 18 March 2013 (1:20)	203,001,643	–
Issued on 28 May 2013 (500 Tenge each)	806,000	403,000
At 31 December 2013 (500 Tenge each)	214,491,940	107,245,972

Each ordinary share has equal voting power. The Group does not have preferred shares. The holders of ordinary shares have voting rights but dividend payments are not guaranteed.

An increase in number of shares

On 18 March 2013 the Group performed a share split of authorized shares (the license on state registration of emission of financial securities # A3493 dated 18 March 2013). As a result of the share split in proportion of 1:20, a number of authorized shares has increased from 10,767,297 to 215,345,940, however share capital has not changed (KZT 106,842,972 thousand). In addition, on 18 March 2013 the Group increased the number of authorized shares by 22,978,437, whereof 806,000 shares were issued or paid as at 31 December 2013. The share split and issuance of shares were made due to upcoming placement of shares of the Company on the Kazakhstan Stock Exchange as part of the "People's IPO" program.

Dividends

On 12 June 2012 the shareholder declared dividends for 2011 in the amount of KZT 2,346,674 thousand. On 17 July 2012 the declared dividends were paid.

On 29 March 2013 the Group declared dividends for 2012, in the amount of KZT 2,082,309 thousand. The dividend amounted to 9.74 Tenge per common share according to the total number of shares equalling to 213,685,940. On 11 April 2013 the declared dividends were paid. The Group has revised its dividend per common share measure for comparative period ended 31 December 2012 retrospectively for presentation purposes.

(Loss) / earnings per share

Basic (loss) / earnings per share amounts are calculated by dividing the net loss or profit for the period by the weighted average number of ordinary shares outstanding during the period. The Group had 214,184,998 weighted average number of ordinary shares for the year ended 31 December 2013 (year ended 31 December 2012: 212,162,652). The Group does not have potential diluted ordinary shares. For the year ended 31 December 2013 and 31 December 2012 basic loss and earnings per share amounted to 67.70 Tenge and 32.72 Tenge, respectively.

The Group has revised its earnings per share measure for comparative period ended 31 December 2012 retrospectively for presentation purposes.

Book value of ordinary shares

In accordance with the decision of the Exchange Board of the Kazakhstan Stock Exchange JSC ("KASE") dated 4 October 2010 financial statements shall disclose book value per share (ordinary and preferred) as of the reporting date, calculated in accordance with the KASE rules.

<i>In thousand Tenge</i>	2013	2012
Total assets	367,321,726	232,404,836
Less: Intangible assets	(885,708)	(752,000)
Less: Total liabilities	(146,140,263)	(105,844,794)
Net assets of ordinary share	220,295,755	125,808,042
Number of ordinary shares as of 31 December	214,491,940	213,685,940
Book value per ordinary share, Tenge	1,027	589

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**14. EQUITY (continued)**

The Group has revised its book value per share measure for comparative period ended 31 December 2012 retrospectively for presentation purposes.

Asset revaluation reserve

At 31 December 2013 the revaluation reserve represents revaluation surplus recognized as a result of revaluation of Group's UPS constructions in the amount of KZT 110,916,582 thousand, net of related deferred income tax in the amount of KZT 27,729,146 thousand (*Note 6*). Transfer of asset revaluation reserve upon disposal of PPE for the year then ended 31 December 2013 amounted to KZT 37,628 thousand.

Other reserves

Other reserves represent accumulated reserve on available for sale investments. After initial measurement, available for sale investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the other reserves until the investment is derecognised. Fair value is the price to sell an asset or transfer a liability, and therefore an exit price, not an entry price. During the year ended 31 December 2013 there was a decrease in a fair value of bonds by KZT 115,578 thousand.

15. BORROWINGS

<i>In thousands of Tenge</i>	Interest rate	31 December 2013	31 December 2012
International Bank of Reconstruction and Development (IBRD)	0.87% - 1.55%	37,906,593	34,609,407
European Bank of Reconstruction and Development (EBRD)	1.4% - 4.30%	54,634,680	46,199,407
		92,541,273	80,808,814
Less: current portion of loans repayable within 12 months		(10,218,204)	(8,134,316)
		82,323,069	72,674,498

At 31 December 2013 and 2012 the accrued and unpaid interest amounts to KZT 712,253 thousand and KZT 618,088 thousand, respectively.

At 31 December 2013 and 2012 the unamortized portion of loan origination fees amounts to KZT 976,862 thousand and KZT 1,038,190 thousand, respectively.

Loans were denominated in the following currencies:

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
In US dollars	57,725,280	55,384,024
In Euro	34,815,993	25,424,790
	92,541,273	80,808,814

In 1999 the Group received the following credit line facilities for the purpose of implementation of the "Kazakhstan National Electricity Transmission Rehabilitation Project":

(a) USD 140,000 thousand from IBRD for the 20 years period, secured by a guarantee of the Government of the Republic of Kazakhstan. The loan is repayable by annual instalments commencing 2005. An interest at LIBOR base rate plus general spread is payable semi-annually. The outstanding balances as at 31 December 2013 and 2012 are USD 70,415 thousand (equivalent to KZT 10,816,448 thousand) and USD 80,000 thousand (equivalent to KZT 12,059,200 thousand), respectively.

(b) USD 45,000 thousand from EBRD for the 15 years period, secured by a guarantee of the Government of the Republic of Kazakhstan. The loan is repayable by annual instalments commencing 2004. An interest at LIBOR base rate plus 1% margin is payable semi-annually. The outstanding balances as at 31 December 2013 and 2012 are USD 7,827 thousand (equivalent to KZT 1,202,305 thousand) and USD 11,749 thousand (equivalent to KZT 1,771,044 thousand), respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**15. BORROWINGS (continued)**

In 2005, for the purpose of implementation of the Phase 2 of the "North-South Electricity Transmission Project", the Group received from IBRD a credit line facility of USD 100,000 thousand provided by IBRD for a period of 17 years of which first five years are a grace period. This credit line facility is secured by a guarantee of the Government of the Republic of Kazakhstan. An interest at LIBOR dollar rate plus general spread is payable semi-annually. In 2011 the non-disbursed part of this IBRD credit line in the amount of USD 1,918 thousand was cancelled due to the fact that actual costs incurred within this project were less than expected. The outstanding balances as at 31 December 2013 and 2012 are USD 73,441 thousand (equivalent to KZT 11,281,206 thousand) and USD 81,596 thousand (equivalent to KZT 12,299,823 thousand), respectively.

In 2008, for the realization of the "Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2" the Group opened the following credit lines:

(a) two credit-line facilities of Euro 127,500 thousand and Euro 75,000 thousand from EBRD for 15 years, of which the first four years are a grace period. An interest at the interbank six months EURIBOR rate plus a 3.85% margin is payable semi-annually. The outstanding balances as at 31 December 2013 and 2012 are Euro 130,252 thousand (equivalent to KZT 27,505,277 thousand) and Euro 101,453 thousand (equivalent to KZT 20,211,442 thousand), respectively.

(b) a credit line facility of Euro 47,500 thousand from EBRD for 12 years, of which the first four years are a grace period. An interest at the interbank six months EURIBOR rate plus a 3.55% margin is payable semi-annually. The outstanding balances as at 31 December 2013 and 2012 are Euro 30,743 thousand (equivalent to KZT 6,492,013 thousand) and Euro 23,428 thousand (equivalent to KZT 4,667,362 thousand), respectively.

(c) a credit line facility of Euro 5,000 thousand from EBRD for 9 years, of which the first four years are a grace period. An interest at the interbank six months EURIBOR rate plus a 2.75% margin is repayable semi-annually. The outstanding balances as at 31 December 2013 and 2012 are Euro 2,918 thousand (equivalent to KZT 616,299 thousand) and Euro 2,381 thousand (equivalent to KZT 474,259 thousand), respectively.

In November 2013 the Group concluded supplementary agreement, according to which the second credit line was decreased from Euro 75,000 thousand to Euro 53,443 thousand with other terms remaining unchanged.

In 2009, for the realization of the "Moinak Electricity Transmission Project" a credit line facility from IBRD of USD 48,000 thousand was opened for 25 years, of which the first five years are a grace period. The credit line facility is secured by the guarantee of the Government of the Republic of Kazakhstan. An interest rate is USD LIBOR rate plus fixed spread is payable semi-annually. In May 2013 unused portion of the credit line from the IBRD in the amount of USD 3,274 thousand was cancelled due to the fact that the amount of actual expenses incurred in the course of the project was less than expected. The outstanding balances as at 31 December 2013 and 2012 are USD 44,726 thousand (equivalent to KZT 6,870,377 thousand) and USD 43,151 thousand (equivalent to KZT 6,504,509 thousand), respectively.

In 2010 for the realization of the project "Construction of the Alma 500 kW substation with connection to UPS of Kazakhstan with the voltage of 500, 200 kW" the Group received a credit line facility of USD 78,000 thousand from IBRD for 25 years, of which the first five years are a grace period. The credit line facility is secured by a guarantee of the Government of the Republic of Kazakhstan. An interest at LIBOR dollar rate plus fixed spread is repayable semi-annually. The outstanding balances as at 31 December 2013 and 2012 are USD 59,869 thousand (equivalent to KZT 9,196,545 thousand) and USD 26,624 thousand (equivalent to KZT 4,013,357 thousand), respectively.

In 2011, for refinancing of EBRD and DBK loans received in 2004-2005 for realization of the Phases 1, 2 and 3 of the "North-South Electricity Transmission Project" the Group opened the following credit lines for realization of the "Ossakarovka Transmission Rehabilitation Project":

(a) two credit-line facilities of USD 77,293 thousand and USD 44,942 thousand, from EBRD for a 15 years. An interest at the interbank six months LIBOR rate plus a 3.95% margin is payable semi-annually. The outstanding balances as at 31 December 2013 and 2012 are USD 103,290 thousand (equivalent to KZT 15,866,327 thousand) and USD 111,553 thousand (equivalent to KZT 16,815,476 thousand), respectively.

(b) a credit-line facility of USD 17,973 thousand, from EBRD for 12 years. An interest at the interbank six months LIBOR rate plus a 3.70% margin is payable semi-annually. The outstanding balances as at 31 December 2013 and 2012 are USD 14,480 thousand (equivalent to KZT 2,224,245 thousand) and USD 16,004 thousand (equivalent to KZT 2,412,444 thousand) respectively.

In 2011, for execution of "Reconstruction of the Ossakarovka 220 kW power line" the Group received from EBRD credit lines for the amounts of USD 12,900 thousand (A2, B1b) and USD 1,900 thousand (B2b). The credit lines were provided for 12 years, of which the first three years is a grace period. An interest at the interbank six months LIBOR rate plus 3.95% (A2, B1b) and 3.70% (B2b) margin is payable semi-annually. The outstanding balances as at 31 December 2013 and 2012 are USD 4,783 thousand (equivalent to KZT 734,803 thousand) and nil, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**16. TRADE AND OTHER ACCOUNTS PAYABLE**

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
Accounts payable for property, plant and equipment and construction works	10,978,705	8,463,239
Accounts payable for electricity purchased	2,005,930	1,898,068
Accounts payable for inventories, works and services	1,729,167	987,192
	14,713,802	11,348,499

Accounts payable as at 31 December 2013 and 2012 are stated in the following currencies:

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
Tenge	7,530,783	7,162,691
Euro	4,951,818	3,836,187
United States Dollar	1,579,960	298,733
Russian Rouble	650,229	50,888
British Pound	1,012	-
	14,713,802	11,348,499

17. OTHER CURRENT LIABILITIES

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
Due to employees	1,000,599	1,011,672
Commission payable on the non-withdrawn portion of EBRD loans [a]	84,620	81,529
Other	206,177	104,619
	1,291,396	1,197,820

[a] The Group is obliged to pay EBRD an annual commission charge on the non-withdrawn portion of the borrowings at the rate of 0.5% and 0.1%. For the year ended 31 December 2013 the commission on the non-withdrawn portion of the borrowings amounted to KZT 163,719 thousand (year ended 31 December 2012: KZT 213,903 thousand) (Note 21).

18. REVENUE

<i>In thousands of Tenge</i>	2013	2012
Electricity transmission	47,046,175	43,378,750
Technical dispatch	10,827,210	10,081,550
Balancing of electricity production and consumption	6,843,284	5,269,657
Revenue from electricity sales for compensation of the interstate balances of electricity flows	3,995,050	3,575,129
Revenue from sales of purchased electricity	3,470,894	2,685,490
Other	4,323,550	1,625,147
	76,506,163	66,615,723
Discounts to customers	(2,694,440)	(760,550)
	73,811,723	65,855,173

Discounts to customers are authorised by the Agency of the Republic of Kazakhstan for the Regulation of Natural Monopolies.

19. COST OF SALES

<i>In thousands of Tenge</i>	2013	2012
Technical losses of electric energy	17,715,238	16,799,998
Cost of purchased electricity for compensation of interstate balances of electricity flows	8,424,124	8,438,372
Payroll expenses and related taxes	8,888,182	7,856,799
Depreciation and amortization	8,266,091	6,987,329
Repair and maintenance expenses	5,499,698	3,311,764
Cost of purchased electricity	2,962,063	2,611,281
Inventories	1,171,032	990,561
Security costs	890,566	863,366
Other	1,757,328	1,409,013
	55,574,322	49,268,483

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**20. GENERAL AND ADMINISTRATIVE EXPENSES**

<i>In thousands of Tenge</i>	2013	2012
Payroll expenses and related taxes	2,573,322	2,510,533
Taxes other than income tax	2,007,031	1,285,472
Depreciation and amortization	278,973	290,272
Sponsorship and charitable donations	243,342	177,695
Consulting services	196,221	223,765
Provision for doubtful receivables and impairment of advances (Notes 9 and 12)	195,153	26,062
Rent expenses	162,712	142,933
Insurance	142,206	139,852
Business trip expenses	128,203	117,655
Corporate events	89,330	85,737
Materials	81,859	87,349
Trainings	61,408	41,044
Utilities	41,750	38,758
Bank services	33,225	29,658
Security services	31,757	31,193
Communication services	23,745	39,955
Repair expenses	8,303	21,347
(Reversal) / provision for obsolete inventory (Note 8)	(217,628)	146,702
Other	341,966	393,464
	6,422,878	5,829,446

21. FINANCE COSTS

<i>In thousands of Tenge</i>	2013	2012
Interest expense	2,416,311	2,446,965
Commission on bank guarantees	404,375	395,739
Commission on the non-withdrawn portion of EBRD loans (Note 17)	163,719	213,903
Amortization of loan origination fees	84,500	84,108
Less interest capitalized into the cost of qualifying assets (Note 6)	(1,047,882)	(1,149,583)
	2,021,023	1,991,132

22. INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31 December 2013 and 2012 are:

<i>In thousands of Tenge</i>	2013	2012
Current income tax:		
Current income tax expense	178,518	113,237
Adjustments in respect of current income tax of previous year	807	(199,664)
Deferred tax:		
Deferred tax (benefit) / expense during the period recognized in profit or loss	(3,367,398)	1,630,224
Income tax (benefit) / expense reported in the statement of profit or loss	(3,188,073)	1,543,797
Deferred tax related to items recognised in OCI during in the year:		
Tax expense on revaluation of UPS constructions	27,729,146	–
Tax expense during the period recognized in OCI	27,729,146	–

The income tax rate in the Republic of Kazakhstan was 20% in 2013 and 2012.

A reconciliation of the 20% income tax rate and actual income tax recorded in the consolidated statement of comprehensive income is provided below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**22. INCOME TAX EXPENSE (continued)**

<i>In thousands of Tenge</i>	2013	2012
(Loss) / profit before income tax expense	(17,688,347)	8,484,826
Tax at statutory income tax rate of 20%	(3,537,669)	1,696,965
Adjustments in respect of current income tax of previous year	807	(199,664)
Other non-deductible expenses	348,789	46,496
Income tax (benefit) / expense reported in the statement of profit or loss	(3,188,073)	1,543,797

Tax effect on temporary differences leading to deferred income tax assets and liabilities at 31 December is provided below:

	Consolidated statement of financial position			Consolidated statement of profit or loss	
<i>In thousands of Tenge</i>	31 December 2013	31 December 2012	1 January 2012	2013	2012
Allowance for doubtful receivables	24,460	10,479	18,797	13,981	(8,318)
Accrued liabilities	309,246	217,117	190,675	92,129	26,442
Property, plant and equipment	(36,424,282)	(11,956,424)	(10,392,248)	3,261,288	(1,564,176)
Tax loss carried forward	-	-	84,172	-	(84,172)
Net deferred tax liabilities	(36,090,576)	(11,728,828)	(10,098,604)		
Deferred tax benefit / (expense)				3,367,398	(1,630,224)

Reconciliation of deferred tax liabilities, net:

<i>In thousands of Tenge</i>	2013	2012
Opening balance as of 1 January	(11,728,828)	(10,098,604)
Origination and reversal of temporary differences:		
Tax benefit / (expense) during the period recognized in profit or loss	3,367,398	(1,630,224)
Tax expense during the period recognized in OCI (Note 6)	(27,729,146)	-
Closing balance as of 31 December	(36,090,576)	(11,728,828)

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

23. TRANSACTIONS WITH RELATED PARTIES

Related parties include key management personnel of the Group, enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by the Group's key management personnel and other entities controlled by the Government. The related party transactions were made on terms agreed between the parties that may not necessarily be at market rates, except for regulated services, which are provided based on tariffs available to related and third parties.

The following table provides the balances of Trade accounts payable to/receivable from related parties as at 31 December 2013 and 31 December 2012:

<i>In thousands of Tenge</i>		Trade accounts receivable from related parties	Trade accounts payable to related parties
	2013	436,939	308,585
Subsidiaries of Samruk-Kazyna Group	2012	150,010	119,743
	2013	8,726	214,072
Associated entities of Samruk-Kazyna	2012	4,079	-
	2013	93,532	872,269
Entities under joint control of Samruk-Kazyna	2012	93,424	666,573
	2013	12,484	13,308
Associates of the Group	2012	8,369	13,675

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**23. TRANSACTIONS WITH RELATED PARTIES (continued)**

The Group had the following transactions with related parties for the twelve months period ended 31 December 2013 and 2012:

<i>In thousands of Tenge</i>		Sales to related parties	Purchases from related parties
	2013	12,902,886	1,702,341
Subsidiaries of Samruk-Kazyna Group	2012	9,019,568	943,483
	2013	2,395,193	1,016,208
Associated entities of Samruk-Kazyna	2012	76,471	–
	2013	4,406,637	18,603,048
Entities under joint control of Samruk-Kazyna	2012	4,223,958	15,609,441
	2013	174,782	329,743
Associates of the Group	2012	141,883	125,156

Samruk-Kazyna is the sole shareholder of the Group.

The Group's sales to related parties mainly represent electricity transmission, technical dispatch and services on organizing and balancing of electricity production and consumption services. The Group's purchases from related parties mainly represent communication services, energy services and purchase of electricity.

As of 31 December 2013 there were current bank accounts and deposits in the amount of KZT 95,769 thousand with "Development Bank of Kazakhstan" JSC, which is considered to be related party of the Group (31 December 2012: KZT 104,474 thousand). The "Development Bank of Kazakhstan" JSC is a 100% subsidiary of Samruk-Kazyna Group.

As at 31 December 2013 the Group's borrowings of KZT 39,467,326 thousand were guaranteed by the Government of the Republic of Kazakhstan (31 December 2012: KZT 36,762,907 thousand).

On 29 March 2013 the Group declared dividends for 2012 year in the amount of KZT 2,082,309 thousand, which were paid on 11 April 2013. In July 2012 the Group declared and paid dividends for 2011 in the amount of KZT 2,346,674 thousand.

During the year ended 31 December 2013 the Group made contribution to the capital of KazEnergoProvd LLP, the associate in the amount of KZT 109,350 thousand.

Interest income accrued on bonds of Batys Transit JSC, the associate, amounted to KZT 53,308 thousand for the year ended 31 December 2013 (year ended 31 December 2012: KZT 49,871 thousand).

Total compensation to key management personnel included in personnel costs in the accompanying consolidated statement of comprehensive income was KZT 326,786 thousand for the year ended 31 December 2013 (31 December 2012: KZT 315,644 thousand). Compensation to key management personnel mainly consists of contractual salary and performance bonus based on operating results.

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Group's investment projects and operations. The Group has trade and other receivables, cash and short-term and long-term deposits that arrive directly from its operations. The Group also holds available-for-sale investments.

The Group is exposed to interest rate risk, foreign currency risk, credit risk and liquidity risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term and short-term borrowings with floating interest rates (*Note 15*). The Group limits its interest rate risk by monitoring changes in interest rates in the currencies in which the borrowings are denominated.

The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in interest rates with all other variables held constant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

<i>In thousands of Tenge</i>	Increase / (decrease) in basis points*	Effect on profit before tax
For the year ended 31 December 2013		
Libor	3 / (3)	(17,457) / 17,457
Euribor	12 / (12)	(41,536) / 41,536
For the year ended 31 December 2012		
Libor	5 / (5)	(27,938) / 27,938
Euribor	16 / (16)	(40,565) / 40,565

* 1 basis point = 0.01%

The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility than in prior years.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's financing activities. Also, the Group's exposure to the risk of changes in foreign exchange rates relates to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency).

The following tables demonstrate the sensitivity to a reasonably possible change in the US Dollar and Euro exchange rate, with all other variables held constant. The Group's exposure to foreign currency changes for all other currencies is not material.

<i>In thousands of Tenge</i>	Increase / (decrease) in exchange rate	Effect on profit before tax
At 31 December 2013		
US Dollar	30% / 10%	(11,447,961) / (3,815,987)
Euro	30% / 10%	(11,432,867) / (3,810,956)
At 31 December 2012		
US Dollar	1.57% / (1.57%)	(659,718) / 659,718
Euro	10.77% / (10.77%)	(3,133,604) / 3,133,604

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities, primarily trade receivables (Note 9) and from its financing activities, including deposits with banks (Notes 10, 11 and 13). The Group's exposure and the creditworthiness of its counterparties are controlled constantly. It is the Group's policy to enter into financial instruments with a diversity of creditworthy parties. The maximum exposure to the credit risk is represented by the carrying value of each financial asset (Notes 9, 10, 11, 13).

Book value of financial assets recognized in the consolidated financial statements of the Group less impairment allowance reflects the maximal extent of the Group's credit risk.

The credit risk on cash and deposits is limited because the counterparties of the Group are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk

The management of the Group has built an appropriate liquidity risk management framework in accordance with the short, medium and long-term funding and liquidity management requirements. The Group manages its liquidity risk by maintaining adequate reserves, bank loans and credit lines, by monitoring projected and actual cash flows and comparing maturity dates of financial assets and liabilities.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Liquidity risk (continued)**

<i>In thousands of Tenge</i>	On demand	Due later than 1 month but not later than 3 months	Due later than 3 month but not later than 1 year	Due later than 1 year but not later than 5 years	Due after 5 years	Total
At 31 December 2013						
Borrowings	–	3,008,118	9,111,297	51,220,352	42,982,662	106,322,429
Accounts payable	–	14,713,802	–	–	–	14,713,802
	–	17,721,920	9,111,297	51,220,352	42,982,662	121,036,231
At 31 December 2012						
Borrowings	–	2,218,805	7,708,021	47,028,953	36,717,598	93,673,377
Accounts payable	–	11,348,499	–	–	–	11,348,499
	–	13,567,304	7,708,021	47,028,953	36,717,598	105,021,876

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximise the shareholder's value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes for managing capital during the twelve months ended 31 December 2013.

The Group monitors capital using a debt to capital ratio, which is debt divided by total capital. The Group's objective is to keep the ratio not higher than 0.5. Debt is considered to be equal to all borrowings. Capital is considered to be equal to the total liabilities and entire equity.

	31 December 2013	31 December 2012
Debt / Capital	0.25	0.35

<i>In thousands of Tenge</i>	31 December 2013	31 December 2012
Long-term borrowings	82,323,069	72,674,498
Short-term borrowings	10,218,204	8,134,316
Debt	92,541,273	80,808,814
Total liabilities	146,140,263	105,844,794
Equity	221,181,463	126,560,042
Capital	367,321,726	232,404,836

The structure of the Group capital includes the share capital as disclosed in *Note 14*, reserves and retained earnings.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments and non-financial assets by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2013, the Group held the following financial instruments and non-financial assets carried at fair value in the statement of financial position:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Assets measured at fair value**

<i>In thousands of Tenge</i>	31 December 2013	Level 1	Level 2	Level 3
Financial assets				
Available-for-sale financial assets (Note 10)	868,269	—	868,269	—
Non-financial assets				
UPS constructions (Note 6)	253,529,497	—	—	253,529,497

<i>In thousands of Tenge</i>	31 December 2012	Level 1	Level 2	Level 3
Financial assets				
Available-for-sale financial assets (Note 10)	983,847	983,847	—	—

Significant transfer between Level 1 and Level 2 of the fair value hierarchy explained by lack of active market for quoted bonds of Batys Transit JSC (Note 10). As of 31 December 2013 the fair value of these bonds was settled at recent transaction price.

Fair values of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments. The table does not contain fair value of non-financial assets and liabilities:

<i>In thousands of Tenge</i>	Carrying value		Fair value	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Financial assets				
Trade accounts receivable	8,501,318	3,944,197	8,501,318	3,944,197
Other financial assets	19,860,770	25,828,303	19,860,770	25,828,303
Cash restricted in use	1,688,834	1,629,862	1,688,834	1,629,862
Cash and cash equivalents	11,727,555	8,044,502	11,727,555	8,044,502
Loans to employees	30,082	36,564	30,082	36,564
Financial liabilities				
Borrowings	92,541,273	80,808,814	92,541,273	80,808,814
Accounts payable	14,713,802	11,348,499	14,713,802	11,348,499

25. COMMITMENTS AND CONTINGENCIES**Taxation**

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for 5 calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2013.

As at 31 December 2013, Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. COMMITMENTS AND CONTINGENCIES (continued)**Compliance with loan covenants**

The Group is required to comply with loan covenants stipulated by the loan agreements with the European Bank for Reconstruction and Development (EBRD) and International Bank for Reconstruction and Development (IBRD). The Group complied with all existing loan covenants with EBRD and IBRD as at 31 December 2013 and 31 December 2012.

Insurance

As at 31 December 2013, the Group insured property and equipment with the carrying value of KZT 134,361,065 thousand. The Group does not insure its other property. Since absence of any insurance does not imply a reduction of the cost of assets or occurrence of any liabilities, no provision has been made in these consolidated financial statements for unexpected expenses associated with damage or loss of these assets.

Capital commitments

To ensure the stable and reliable performance of the national electricity grid, the Group developed a capital investment plan. As at 31 December 2013, the Group's outstanding contractual commitments within the frameworks of this plan amount to KZT 68,611,801 thousand (31 December 2012: KZT 31,678,342 thousand), including co-financing commitments:

In accordance with the Project Implementation Plan of "Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2", agreed with EBRD, the Group has outstanding co-financing commitments in the amount of KZT 386,441 thousand.

In accordance with the Project Implementation Plan of "Moinak Electricity Transmission Project" agreed with IBRD, the Group has outstanding co-financing commitments in the amount of KZT 3,087,561 thousand.

In accordance with the Project Implementation Plan of "Construction of the Alma 500 kW substation with connection to UPS of Kazakhstan with the voltage of 500, 200 kW", agreed with IBRD, the Group has outstanding co-financing commitments in the amount of KZT 16,697,090 thousand.

In accordance with the Project Implementation Plan of "Reconstruction of the Ossakarovka 220 kW power line" the Group has outstanding co-financing commitments in the amount of KZT 2,003,000 thousand.

26. EVENTS AFTER REPORTING PERIOD

National Bank of the Republic of Kazakhstan starting from 11 February 2014 made a decision to cease supporting exchange rate of Tenge against US Dollar and other major currencies on the same level, reduce volume of currency interventions and reduce interventions in process of exchange rate formation. Exchange rate before and after devaluation was 155.56 Tenge and 185.00 Tenge per 1 US Dollar respectively. As of 4 March 2014 exchange rate was equal to 184.07 Tenge per 1 US Dollar.

Прошито и пронумеровано

44 (срок хранения)

