Translation from the original in Russian

JOINT STOCK COMPANY PAVLODARENERGY

Consolidated Financial Statements
for the year ended December 31, 2013

Translation from the original in Russian

JOINT STOCK COMPANY PAVLODARENERGY AND ITS SUBSIDIARIES

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

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

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended December 31, 2013 were approved by management on April 7, 2014.

On behalf of the management of the Group:

Perfilov O.V.
Acting Chairman of the Board

April 7, 2014
Pavlodar, Republic of Kazakhstan

Belikova S.N.
Chief Accountant

April 7, 2014
Pavlodar, Republic of Kazakhstan

Translation from the original in Russian

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholder of Joint Stock Company PAVLODARENERGY:

We have audited the accompanying consolidated financial statements of Joint Stock Company PAVLODARENERGY (the "Company") and its subsidiaries (collectively - the "Group"), which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statements of profit and loss and other comprehensive income, of changes in equity and 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Translation from the original in Russian

Opinion

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

Dulat Taituleyev
Engagement Partner
Qualified auditor
Qualified certificate No. MF-0000095
dated August 27, 2012
Republic of Kazakhstan

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

Nurlan Bekenov
General Director
Deloitte, LLP

April 7, 2014
Almaty, Republic of Kazakhstan

Translation from the original in Russian

JOINT STOCK COMPANY PAVLODARENERGY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2013
(in thousands KZT)

	Notes	December 31, 2013	December 31, 2012
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	6	64,166,677	56,301,528
Goodwill	7	1,687,141	1,687,141
Intangible assets		53,606	59,157
Restricted cash	9, 19	-	62,536
Other non-current assets	8	6,418,960	5,172,281
Total non-current assets		72,326,384	63,282,643
CURRENT ASSETS:			
Inventories	10	2,253,432	1,474,312
Trade accounts receivable	11	3,081,158	2,833,639
Advances paid	12	377,776	413,028
Taxes recoverable	13	112,769	63,494
Income tax prepaid		67,786	17,035
Other accounts receivable	14	486,785	826,304
Other financial assets	9	758,065	1,371,556
Restricted cash	9, 19	420,309	315,923
Cash	15	1,257,822	316,599
Total current assets		8,815,902	7,631,890
TOTAL ASSETS		81,142,286	70,914,533
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	16	16,663,996	16,663,996
Additional paid-in capital	17	1,188,176	1,188,176
Revaluation reserve on property, plant and equipment		14,266,156	15,009,344
Retained earnings		15,731,291	10,699,833
Total equity		47,849,619	43,561,349
NON-CURRENT LIABILITIES:			
Bonds issued	18	7,352,804	7,185,677
Loans	19	9,125,655	5,844,260
Deferred revenue	20	862,967	919,867
Long-term accounts payable		36,457	40,711
Deferred tax liabilities	32	9,789,093	8,615,492
Ash disposal area restoration liability		134,113	120,141
Employee benefit obligation		58,485	55,868
Total non-current liabilities		27,359,574	22,782,016

JOINT STOCK COMPANY PAVLODARENERGY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2013 (CONTINUED)

(in thousands KZT)

	Notes	December 31, 2013	December 31, 2012
CURRENT LIABILITIES:			
Current portion of bonds issued	18	277,742	225,196
Short-term loans and current portion of long-term loans	19	1,565,542	1,025,178
Current portion of employee benefit obligation		5,787	4,818
Trade accounts payable	21	1,491,905	1,458,718
Advances received	22	1,460,507	1,075,660
Taxes payable	23	550,112	271,960
Income tax payable		-	1,968
Other liabilities and accrued expenses	24	581,498	507,670
Total current liabilities		5,933,093	4,571,168
TOTAL EQUITY AND LIABILITIES		81,142,286	70,914,533

On behalf of management of the Group:

Perfilov O.Y.
Acting Chairman of the Board

April 7, 2014

Belikova S.N.
Chief Accountant

April 7, 2014

The notes on pages 10-50 form an integral part of these consolidated financial statements. Independent Auditors' Report is on pages 2-3.

JOINT STOCK COMPANY PAVLODARENERGY

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

(in thousands KZT)

	Notes	2013	2012
REVENUE	25	32,872,017	29,446,746
COST OF SALES	26	(22,005,773)	(21,419,515)
Gross profit		10,866,244	8,027,231
General and administrative expenses	27	(2,396,640)	(1,988,618)
Selling expenses	28	(551,964)	(460,083)
Finance costs	29	(842,024)	(959,238)
Finance income	30	37,453	124,645
Foreign exchange loss		(64,354)	(44,683)
Other income	31	125,184	422,980
PROFIT BEFORE TAX		7,173,899	5,122,234
INCOME TAX EXPENSE	32	(1,645,293)	(1,182,059)
PROFIT AND OTHER COMPREHENSIVE INCOME FOR THE YEAR		5,528,606	3,940,175
EARNINGS PER SHARE			
Earnings for the year per share, basic and diluted, in tenge	34	33.1	24.3

On behalf of management of the Group:

Perfilov O.V.	**Belikova S.N.**
Acting Chairman of the Board	**Chief Accountant**
April 7, 2014	April 7, 2014

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JOINT STOCK COMPANY PAVLODARENERGY

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

(in thousands KZT)

	Notes	Share capital	Additional paid-in capital	Revaluation reserve on property, plant and equipment	Retained earnings	Total equity
At January 1, 2012		15,859,996	1,188,176	15,745,718	6,440,161	39,234,051
Profit and other comprehensive income for the year		-	-	-	3,940,175	3,940,175
Share issuance	16	804,000	-	-	-	804,000
Amortization of the revaluation reserve		-	-	(736,374)	736,374	-
Adjustment to fair value of an interest-free loan to JSC CAPEC, net of income tax of 5,365 thousand tenge		-	-	-	(21,461)	(21,461)
Dividends declared	16	-	-	-	(395,416)	(395,416)
At December 31, 2012		16,663,996	1,188,176	15,009,344	10,699,833	43,561,349
Profit and other comprehensive income for the year		-	-	-	5,528,606	5,528,606
Amortization of the revaluation reserve		-	-	(743,188)	743,188	-
Dividends declared	16	-	-	-	(1,240,336)	(1,240,336)
At December 31, 2013		16,663,996	1,188,176	14,266,156	15,731,291	47,849,619

On behalf of management of the Group:

Perfilov O.V.
Acting Chairman of the Board

April 07, 2014

Belikova S.N.
Chief Accountant

April 07, 2014

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JOINT STOCK COMPANY PAVLODARENERGY

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2013
(in thousands KZT)

	Notes	2013	2012
Cash flows from operating activities:			
Profit before tax		7,173,899	5,122,234
Adjustments for:			
Depreciation and amortization	26, 27, 28, 31	2,378,069	2,114,445
Finance cost	29	842,024	959,238
Accrual of allowance for doubtful debts	27	253,971	135,432
Loss from disposal of property, plant and equipment	31	16,789	39,583
Employee benefit expenses	26, 27	9,608	22,891
Finance income	30	(37,453)	(124,645)
Foreign exchange loss		64,354	44,683
Accrual of allowance for obsolete and slow-moving inventories	27	13,408	5,791
Accrual of provision on unused vacation	27	5,649	98
Cash flow before changes in working capital		10,720,318	8,319,750
Changes in working capital			
Increase in inventories		(792,528)	(117,954)
Increase in trade accounts receivable		(394,309)	(1,394,788)
Decrease in advanced paid		14,066	2,658
Increase in taxes recoverable		(22,684)	(174,244)
Decrease/(increase) in other accounts receivable		267,673	(447,138)
Increase in trade accounts payable		31,999	271,686
Decrease in deferred revenue		(36,881)	(31,891)
Increase in advances received		384,847	69,786
Increase/(decrease) in taxes payable		278,152	(8,283)
Change in employee benefit obligation		(6,022)	(8,731)
Increase in other liabilities and accrued expenses		67,836	68,716
Cash generated by operating activities		10,512,467	6,549,567
Income tax paid		(524,411)	(185,637)
Interest paid		(921,000)	(1,062,654)
Net cash generated by operating activities		9,067,056	5,301,276

JOINT STOCK COMPANY PAVLODARENERGY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013 (CONTINUED)
(in thousands KZT)

	Notes	2013	2012
Cash flows from investing activities:			
Cash from deposit withdrawal		1,302,122	4,392,699
Cash placed on deposits		(744,622)	(4,251,550)
Purchases of property, plant, and equipment		(11,158,025)	(8,805,726)
Purchase of intangible assets		(9,619)	(26,887)
Proceeds from disposal of property, plant, and equipment		9,856	36,940
Proceeds from interest accrued on placed deposits		37,971	667,296
Loans issued to employees		(30)	(32,224)
Net cash used in investing activities		(10,562,347)	(8,019,452)
Cash flows from financing activities:			
Dividends paid	16	(1,240,336)	(395,416)
Issuance of shares	16	-	804,000
Receipts from bank loans		4,767,680	2,430,925
Repayment of bank loans		(1,101,150)	(937,050)
Net cash generated by financing activities		2,426,194	1,902,459
NET INCREASE/(DECREASE) IN CASH		930,903	(815,717)
CASH at the beginning of the year	15	316,599	1,136,865
Effect of changes in foreign exchange rates on cash balances in a foreign currency		10,320	(4,549)
CASH at the end of the year	15	1,257,822	316,599

Non-cash transactions:

- In 2013, the Group capitalized borrowing costs of 479,016 thousand tenge (2012: 238,474 thousand tenge) (Note 6).
- In 2013, the Group amortized the discount on bonds issued of 167,127 thousand tenge (2012: 143,577 thousand tenge) (Note 29).
- In 2013, the Group carried out capital repair of property, plant and equipment using its own resources and capitalized payroll costs and inventory of 22,369 thousand tenge and nil, respectively (2012: 42,364 thousand tenge and 194,596 thousand tenge, respectively).

On behalf of management of the Group:

Perfilov O.V.
Acting Chairman of the Board

April 7, 2014

Belikova S.N.
Chief Accountant

April 7, 2014

The notes on pages 10-50 form an integral part of these consolidated financial statements. Independent Auditors' Report is on pages 2-3.

(in thousands KZT)

1. NATURE OF THE BUSINESS

Joint Stock Company PAVLODARENERGY (hereinafter the "Company") was established on the basis of Severnye Teploviye Seti LLP in 2002 and was registered in Pavlodar Justice Department (register number 10539-1945-AO) on June 27, 2002. The Company is located at 27 Krivenko str., Pavlodar, 140000, Republic of Kazakhstan.

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

As at December 31, 2013 and 2012 the Company's shareholder was JSC Central Asian Electric Power Corporation ("CAEPCO" or the "Parent company"). The ultimate shareholders of the Company are JSC Central Asian Power Energy Company ("CAPEC") (62.12%), European Bank for Reconstruction and Development ("EBRD") (24.99%) and KAZ HOLDINGS COOPERATIEF U.A. (12.89%).

The Company is a parent company of the following enterprises:

Subsidiaries:	Location	Ownership interest 2013	Ownership interest 2012	Principal activity
JSC Pavlodar Electricity Distribution Network Company (till February 27, 2009 JSC Pavlodarenergyservice)	Pavlodar, the Republic of Kazakhstan	100%	100%	Electricity transmission
Pavlodar Thermal Networks LLP (till September 12, 2011, JSC Pavlodar Thermal Networks)	Pavlodar, the Republic of Kazakhstan	100%	100%	Heat transmission
Pavlodarenergosbyt LLP (till September 12, 2011, JSC Energocenter)	Pavlodar, the Republic of Kazakhstan	100%	100%	Sale of electricity and heat

The financial statements of subsidiaries are consolidated with the financial statements of the Company (collectively - the "Group").

The Group is included into the local section of State register of subjects of natural monopolies in Pavlodar region on production, transmission and distribution of heat and electricity supply. Therefore, the Group's decisions to increase heating production, transmission and distribution tariffs are subject to approval by the Natural Monopoly Regulatory Agency of the Republic of Kazakhstan after inspection and assessment of various internal and external factors.

Total number of employees of the Group as at December 31, 2013 and 2012 was 4,953 and 4,929 employees, respectively.

The consolidated financial statements prepared in accordance with IFRS were authorized for issue by management of the Group on April 7, 2014.

2. CURRENT ECONOMIC SITUATION

Operating environment

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

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

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

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

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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

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

Functional and presentation currency

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

Adoption of the new and revised International Financial Reporting Standards

Standards and Interpretations effective in the current period:

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

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

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

(in thousands KZT)

Standards and Interpretations in issue to be adopted in future periods

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

	Effective for annua periods beginning on or after
Amendments to IAS 32 Offsetting financial assets and financial liabilities	July 1, 2014
IFRS 9 Financial Instruments	January 1, 2015
Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated financial statements, joint arrangements and disclosure of interests in other entities: transition guidance	January 1, 2014
Amendments to IFRS 9 and IFRS 7 Mandatory effective date of IFRS 9 and transition disclosures	January 1, 2015
Amendments to IAS 39 Financial Instruments: Recognition and Measurement	January 1, 2014
Amendments to IAS 36 Impairment of Assets	January 1, 2014
Interpretation IFRIC 21 Levies	January 1, 2014

Management of the Group assumes that Standards and Interpretations will have no material impact on the Group's financial position, profit and loss and other comprehensive income and statement of cash flows.

Segmental reporting

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

Goodwill

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

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

Changes in a Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). In such circumstances the carrying amounts of the controlling and non-controlling interests adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received recognized directly in equity.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Foreign currency transactions

Transactions in currencies other than the functional currency of the Group are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the reporting date. Non-monetary items carried at historical cost and denominated in a foreign currency are not revalued. The foreign exchange differences arising from translation are recognized in profit or loss except for foreign exchange differences on loans in a foreign currency related to purchase, construction or manufacture of qualifying asset.

Property, plant and equipment

Property, plant and equipment initially are carried at the acquisition cost. All property, plant and equipment purchased before January 1, 2005, the IFRS transition date, are recorded at the revalued amount, which is the deemed cost. The cost of purchased property, plant and equipment includes contributions paid for purchased assets, and also other directly attributable costs incurred when supplying assets and preparing them for their intended use.

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

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

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognized in other comprehensive income and accumulated in equity under the heading of revaluation reserve on property, plant and equipment. However, the increase shall be recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss. However, the decrease shall be recognized in other comprehensive income to the extent of any credit balance existing in the revaluation reserve on property, plant and equipment in respect of that asset. The decrease recognized in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation reserve on property, plant and equipment.

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

Carrying value of assets, useful lives and methods reviewed and adjusted, if required, at the end of each financial year.

Depreciation on revalued property, plant and equipment is recorded in profit or loss. Depreciation of assets under construction commences when the assets are ready for their intended use. Depreciation is charged so as to write off the cost of assets over the estimated useful lives of the assets, close to the following terms:

	2013 and 2012
Buildings and constructions	5-70 years
Machinery and production equipment	3-40 years
Vehicles	3-15 years
Other	3-18 years

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

Intangible assets

Intangible assets are stated at cost less accumulated amortization. Amortization is computed under the straight-line method over the estimated useful lives of assets, which equal 6-15 years.

Impairment of long-term assets

At each reporting date the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where recoverable amount cannot be determined for a separate asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

Inventories

Inventories are stated at the lower of cost or net realizable value. Costs comprise direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

Group as lessee

Rental payments under operating leases are charged to expense on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Financial instruments

Financial assets and liabilities are recognized in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are fixed a trade date basis.

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

Effective interest method

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

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

Trade and other accounts receivable

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

Cash

Cash and cash equivalents include cash on hand and cash on bank current accounts.

Cash restricted in use

In accordance with the loan agreements on project financing signed with European Bank for Reconstruction and Development ("EBRD"), the Group opened bank escrow accounts, necessary for debt service. Cash, held on these bank accounts, can be used exclusively for the purposes of planned payments of 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 twelve months from the reporting date, such cash is recognised within non-current assets.

Other financial assets

Deposits with original maturity more than three months, but not more than 1 year, are recognised in the consolidated statement of financial position as other financial assets. Deposits with original maturity more than one year are recognised in the consolidated statements of financial position as other non-current assets.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For all other financial assets objective evidence may include:

- significant financial difficulties of issuers and counterparties; or
- default or overdue payment of compensation or principal amount amortization; or
- there is a possibility that the borrower may become bankrupted or reorganized.

For some categories of financial assets such as trade accounts receivable, assets which are not subject for impairment individually are estimated for impairment as a group. Objective evidence of receivables portfolio impairment may include past experience of the Group in receiving and gathering payments, increased level of overdue payments with maturity over 60 days and observable changes in the national economic environment directly affecting defaults on accounts receivable.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets except for trade accounts receivable where the carrying amount of non-recoverable accounts receivable is reduced by allowance for doubtful debts. When trade accounts receivable are not collectible, they are written off against the allowance for doubtful debts. Allowance for doubtful debts is reversed for subsequent recovery of previously written off amount. Changes in the carrying amount of the allowance are recognized in profit or loss.

Except for equity instruments available-for-sale, if in the subsequent period the amount of the impairment loss is decreased and the decrease can be objectively related to the event occurring after recognition of impairment, then the previously recognized impairment loss is reversed in profit or loss, and the carrying value of the financial assets at the date of reverse shall not exceed the carrying value, which would be reflected if impairment loss had not been recognized.

Financial liabilities and equity

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

Bank loans and debt securities

Interest bearing bank loans and debt securities are measured after initial recognition at amortized cost using effective interest method.

Accounts payable and other liabilities

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

Offset of financial assets and liabilities

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

Derecognition of financial assets and liabilities

Financial assets

Financial asset (or, if applicable, portion of a financial asset or portion of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group retains rights to receive cash flows from asset, but assumed an obligation to pay them fully without significant delay to a third party in accordance with transfer agreement, and transferred, all risks and rewards of the asset; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial liabilities

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

Borrowing costs

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

Borrowing costs comprise exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Amount of foreign exchange difference capitalized as an adjustment to interest costs does not exceed the amounts of costs which the Group would capitalize if the loan was denominated in a functional currency. Any excess over foreign exchange difference is charged to profit or loss.

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for electricity and heat provided in the normal course of business, net of discounts and value added tax (hereinafter "VAT").

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

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

Income tax

Income tax expense includes the taxes currently payable and deferred tax.

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

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

Employee benefits

<u>Social tax</u>

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. The effective rate of the Group's social tax in 2013 approximated 6% of the gross income of employees (2012: approximately 6% of gross income). Social tax and payroll are expensed as incurred.

The Group also withholds 10% from the salaries of its employees as the employee's contribution to their pension funds, but not more than 139,950 tenge per month in 2013 (2012: not more than 130,793 tenge per month) According to the legislation of the Republic of Kazakhstan, pension contributions are the responsibility of employees, and the Group has no current or future obligations to make payments to employees following their retirement, apart from those stipulated by the Labor Union Agreement.

Defined Benefit Scheme

In accordance with the Labor Union Agreement the Group provides certain benefits to its employees upon their retirement ("Defined Benefit Scheme"). Pursuant to this agreement, the Group provides the following benefits:

- one-time retirement grant;
- one-time jubilee reward.

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

The Group recognizes actuarial gains and losses arising from the reassessment of the employee benefit obligation in the period they arose as employees benefit expenses.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation (either based on legal regulations or implied) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. Provisions reviewed at each reporting date and adjusted for presenting the best current estimate.

Where impact of time value of money is material, amount of reserve is calculated as current amount of expenses that will be needed for paying-off obligations. When discount is used, increase in provision that reflected past service cost is recognized as interest expense.

Contingent assets and contingent liabilities

Contingent assets are not recognized in the consolidated financial statements. If it is probable that the economic benefits associated with these assets, the data about these assets are disclosed in the notes to the consolidated financial statements.

Contingent liabilities are not recognized in the consolidated financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made.

Related party transactions

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

A party is related to an entity if:

(a) directly, or indirectly through one or more intermediaries, the party:
  - i) controls, is controlled by, or is under common control with, the Group (this includes holding companies, subsidiaries and fellow subsidiaries);
  - ii) has an interest in the Group that gives it significant influence over the Group; or
  - iii) has joint control over the Group;

(b) the party is an associate of the Group;

(c) the party is a joint venture in which the Group is a venturer;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party represents a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

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

4. KEY SOURCES OF UNCERTAINTY ESTIMATION AND CRITICAL JUDGEMENTS

In the application of the Group's accounting policies (Note 3), management of the Group is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The key assumptions concerning the future, and other key sources of uncertainty estimation 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 discussed below.

Property, plant and equipment held under trust management

The Group received property, plant and equipment under trust management agreement from the Department of Finance of Pavlodar region and the Division of Finance of Pavlodar city. Trust agreement is treated as service concession agreement, as the Government regulates the Group's activity and controls property, plant and equipment held under trust management. Property, plant and equipment held under trust management is not recognized in the Group's consolidated statement of financial position, and income generated from the use of property, plant and equipment are measured at fair value of the consideration received or receivable, and represents amounts receivable from heat transmission included into the profit or loss at the moment of customer supply. Expenses are recognized as incurred and recorded in profit or loss in the period they relate to.

Ash disposal area restoration liability

The Group uses three ash disposal areas in production purposes related to Heat Energy Station-3, Heat Energy Station-2 and Ekibastuz Heat Energy Station. At the end of their useful life those ash disposal areas shall be restored. To determine the amount of ash disposal area restoration liabilities, the management of the Group is required to make estimates of future costs related to ash disposal area restoration. The management of the Group estimates costs related to ash disposal area restoration in the end of their useful lives. The Group reflects this liability at discounted value using effective interest rate that represent market borrowing rate for the Group.

Definition of fair value of property, plant and equipment

At each reporting date the Group assesses indicators of the change of fair value of property, plant and equipment. In case of significant change in carrying value from fair value the Group performs revaluation of property, plant and equipment by involving an independent appraiser.

Useful economic lives of property, plant and equipment

As indicated in Note 3, the Group reviews useful economic lives of property, plant and equipment at the end of each annual period. The assessment of the useful economic life of an asset depends on such factors as economic use, maintenance programs, technological improvements and other business conditions. The evaluation by management of useful economic lives of fixed assets reflects relevant information available at the reporting date. Information on useful lives of property, plant and equipment can have significant effect of the Group's profits or losses.

Impairment of non-current assets

At each reporting date, the Group reviews whether there is any indication of possible impairment of non-current assets. If any such indication exists, or there is a need in its annual impairment testing, the Group estimates recoverable amount. Recoverable amount of an asset represents the higher of fair value of asset or cash generating unit less cost to sell and value-in-use, and determined for separate asset except for cases when asset do not generate cash flow that slightly depend on cash flow generated by other assets or group of assets. If carrying amount of asset exceeds recoverable amount the asset is considered as impaired and its cost decreases to recoverable amount. In performing impairment test the future cash flows were discounted to its present value using effective interest rate before tax, which reflects current market rate of temporary value of cash and risks related to assets.

Allowances

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

Annually the Group considers the need of allowance accrual for obsolete inventories based on annual stock taking and estimate of on future use of obsolete stock.

(in thousands KZT)

5. SEGMENT REPORTING

The Group determines the reportable segments based on the services rendered, and the Group identifies five main segments: the production of heat and electricity, transmission and distribution of electricity, transmission and distribution of heat, sale of heat and electricity and other. Other services do not exceed the quantitative thresholds, therefore, do not require separate disclosure.

Accounting policy of segmental reporting is similar to the Group's accounting policy described in Note 3.

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

	For the year ended December 31, 2013					
Key operational activities	**Production of heat and electricity**	**Trans-mission and distribution of electricity**	**Trans-mission and distribution of heat**	**Sale of heat and electricity**	**Other**	**Total**
Revenue, total	27,965,156	6,392,895	3,058,210	20,546,838	325,964	58,289,063
Intrasegment revenue	(6,822,171)	-	-	(18,458,663)	(136,212)	(25,417,046)
Revenue from external customers	21,142,985	6,392,895	3,058,210	2,088,175	189,752	32,872,017
Cost of sales	(11,469,837)	(5,388,198)	(3,389,950)	(1,756,822)	(966)	(22,005,773)
General and administrative expenses	(908,777)	(439,462)	(739,081)	(309,320)	-	(2,396,640)
Selling expenses	(3,792)	-	-	(548,172)	-	(551,964)
Finance costs	(812,729)	(3,592)	(20,711)	(4,992)	-	(842,024)
Finance income	26,425	5,207	5,059	762	-	37,453
Foreign exchange loss	(64,354)	-	-	-	-	(64,354)
Other income	(76,076)	44,261	10,369	146,630	-	125,184
Income tax expense	(1,572,737)	(207,661)	134,826	279	-	(1,645,293)
Profit for the year	6,261,108	403,450	(941,278)	(383,460)	188,786	5,528,606
Other key segmental information						
Capital expenditure on property, plant and equipment	6,180,897	1,272,902	854,884	15,393	-	8,324,076
Depreciation	1,603,538	452,987	289,856	16,518	-	2,362,899

(in thousands KZT)

	For the year ended December 31, 2012					
Key operational activities	**Production of heat and electricity**	**Trans-mission and distribution of electricity**	**Trans-mission and distribution of heat**	**Sale of heat and electricity**	**Other**	**Total**
Revenue, total	22,957,518	5,450,141	2,456,120	18,702,699	419,888	49,986,366
Intrasegment revenue	(5,829,764)	-	-	(14,472,140)	(237,716)	(20,539,620)
Revenue from external customers	17,127,754	5,450,141	2,456,120	4,230,559	182,172	29,446,746
Cost of sales	(10,593,443)	(4,369,379)	(2,986,480)	(3,288,041)	(182,172)	(21,419,515)
General and administrative expenses	(190,185)	(373,906)	(919,056)	(505,471)	-	(1,988,618)
Selling expenses	(3,470)	-	-	(456,613)	-	(460,083)
Finance costs	(926,464)	(9,069)	(11,340)	(12,365)	-	(959,238)
Finance income	114,137	5,706	4,189	613	-	124,645
Foreign exchange loss	(43,681)	(35)	(967)	-	-	(44,683)
Other income	167,934	12,299	99,070	143,677	-	422,980
Income tax expense	(1,155,206)	(141,617)	146,892	(32,128)	-	(1,182,059)
Profit for the year	4,497,376	574,140	(1,211,572)	80,231	-	3,940,175
Other key segmental information						
Capital expenditure on property, plant and equipment	3,889,061	1,228,496	1,614,988	21,182	-	6,753,727
Depreciation	1,495,201	411,374	178,995	18,105	-	2,103,675

(in thousands KZT)

6. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and constructions	Machinery and production equipment	Vehicles	Other	Construction in progress	Total
Revalued cost						
At January 1, 2012	11,589,120	34,948,092	290,420	67,231	4,325,578	51,220,441
Additions	1,111	141,945	57,535	13,975	6,539,161	6,753,727
Transfers from inventories	-	8,035	-	867	483,883	492,785
Internal transfers	673,489	3,268,230	-	8	(3,941,727)	-
Disposals	(34,295)	(18,499)	(107)	(1,776)	-	(54,677)
Other	10,976	280	-	10	(20,483)	(9,217)
At December 31, 2012	12,240,401	38,348,083	347,848	80,315	7,386,412	58,403,059
Additions	5,845	247,261	26,485	10,233	8,034,252	8,324,076
Transfers from inventories	-	7,809	-	133	1,922,675	1,930,617
Internal transfers	738,775	5,941,456	165,364	703	(6,846,298)	-
Disposals	(20,059)	(19,087)	-	(1,457)	-	(40,603)
At December 31, 2013	12,964,962	44,525,522	539,697	89,927	10,497,041	68,617,149
Accumulated depreciation and impairment						
At January 1, 2012	-	-	-	-	(309)	(309)
Depreciation charge	(493,753)	(1,547,866)	(43,476)	(18,580)	-	(2,103,675)
Impairment loss	-	-	-	-	(217)	(217)
Disposals	1,560	1,435	23	315	(782)	2,551
Elimination of accumulated depreciation	-	119	-	-	-	119
At December 31, 2012	(492,193)	(1,546,312)	(43,453)	(18,265)	(1,308)	(2,101,531)
Depreciation charge	(475,401)	(1,819,421)	(48,877)	(19,200)	-	(2,362,899)
Impairment loss	-	-	-	-	137	137
Disposals	10,119	2,816	-	569	317	13,821
At December 31, 2013	(957,475)	(3,362,917)	(92,330)	(36,896)	(854)	(4,450,472)
Net book value						
At December 31, 2013	12,007,487	41,162,605	447,367	53,031	10,496,187	64,166,677
At December 31, 2012	11,748,208	36,801,771	304,395	62,050	7,385,104	56,301,528

The Group's property, plant and equipment were revalued by independent appraiser as at December 31, 2011. Fair value of property, plant and equipment at the valuation date was determined using the cost approach, namely the method of determining the replacement cost, which is an estimate of the Level 3 in the fair value hierarchy. In estimating the fair value of property, plant and equipment, their current use is considered the best and most profitable form of use.

(in thousands KZT)

For the years ended December 31, 2013 and 2012 the Group capitalized to the cost of fixed assets interest on bank loans and also amortization of discount on loan from CTF and foreign exchange loss on revaluation of loans in foreign currency for amount of 542,209 thousand tenge, by decreasing borrowing costs for amount of investment income of 62,851 thousand tenge that was received from temporary investment of those borrowings prior to purchase of a qualifying asset including foreign exchange gain on revaluation of deposits in foreign currency (2012: 251,356 thousand tenge and 115,418 thousand tenge, respectively).

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

	Land, buildings and constructions	Machinery and production equipment	Vehicles	Other	Construction in progress	Total
As at December 31, 2013	7,192,475	31,842,919	311,334	57,606	10,496,187	49,900,521
As at December 31, 2012	6,682,361	26,996,581	171,995	56,144	7,385,104	41,292,185

As at December 31, 2013, property, plant and equipment of 23,938,892 thousand tenge were pledged as a collateral of loans (December 31, 2012: 21,331,075 thousand tenge) (Note 19).

As at December 31, 2013 and 2012, fully depreciated property, plant and equipment at revalued amount were 22,592 thousand tenge and 105 thousand tenge, respectively.

7. GOODWILL

	JSC Pavlodar Electricity Distribution Network Company	Pavlodar-energosbyt LLP	Total
Goodwill recognized as at December 31, 2012	1,405,202	281,939	1,687,141
Goodwill recognized as at December 31, 2013	1,405,202	281,939	1,687,141

As at December 31, 2013 and 2012, no impairment of goodwill was identified.

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

- Sale of heat and electricity;
- Transmission and distribution of electricity.

The recoverable amount of these cash-generating units is determined based on a value in use calculation which uses cash flow projections based on financial budgets and a discount rate of 11.68% per annum approved by management of the Company.

(in thousands KZT)

Cash flow projections for a period of planning (5 years) are based on the expected rate of return and inflation of prices for services and materials during the period of planning. Cash flows beyond this period are extrapolated based on the constant growth rate of 10.5% per annum (2012 – 12.5%). Management believes that any reasonably possible change in key assumptions in determining the recoverable amount not cause the carrying value of the cash-generating units of their recoverable amounts.

8. OTHER NON-CURRENT ASSETS

	December 31, 2013	December 31, 2012
Advances paid for property, plant and equipment	5,982,951	4,714,155
VAT receivable	418,079	444,670
Long-term receivables from loans to employees	17,930	13,456
	6,418,960	5,172,281

9. OTHER FINANCIAL ASSETS

	December 31, 2013	December 31, 2012
Deposits with a maturity of more than three months to one year	758,054	1,341,892
Interest receivable	11	29,664
	758,065	1,371,556

In 2013, the Group recognized interest income of 11,006 thousand tenge (2012: 100,438 thousand tenge) (Note 30).

In 2013, interest rates on deposits were 1.0%-9.0% (2012: 2.8%-9.0%).

As at December 31, 2012, cash placed on deposits of 269,978 thousand tenge, respectively, were provided as collateral for loans (Note 19).

As at December 31, 2013 and 2012, cash placed on deposits of 67,680 thousand tenge and 92,444 thousand tenge, respectively, represented the minimum balance, and, accordingly, were classified in the consolidated statement of financial position as restricted cash.

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

	December 31, 2013	December 31, 2012
Tenge	137,432	292,550
US dollars	684,219	1,079,006
	821,651	1,371,556

(in thousands KZT)

10. INVENTORIES

	December 31, 2013	December 31, 2012
Coal and fuel oil	700,540	543,889
Spare parts	639,560	315,142
Metal-roll and finished goods	336,136	233,703
Electrotechnical materials	200,667	85,582
Construction materials	83,240	78,549
Chemicals	72,494	78,278
Measurement devices and instruments	55,085	39,642
Covering materials	39,804	12,358
Uniform	30,951	26,105
Fuel	26,104	13,764
Other	112,196	77,237
	2,296,776	1,504,249
Allowance for obsolete and slow-moving inventories	(43,344)	(29,937)
	2,253,432	1,474,312

11. TRADE ACCOUNTS RECEIVABLE

	December 31, 2013	December 31, 2012
Sale and transmission of electricity and heat	3,740,102	3,435,082
Sale of inventories and rendering other services	316,038	290,440
Other	48,100	48,282
	4,104,240	3,773,804
Allowance for doubtful debts	(1,023,082)	(940,165)
	3,081,158	2,833,639

The Group believes that trade accounts receivable net of allowance will be recovered as it undertakes measures to collect trade accounts receivable with involvement of independent lawyers. The Group believes that it has accrued sufficient allowance for the receivables from the third parties. The Group determines recoverability of the accounts receivable based on the conditions prevailing at the reporting date.

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

	2013	2012
At January 1	(940,165)	(945,030)
Accrual	(146,790)	(104,567)
Written off against previously recognized provision	63,873	109,432
At December 31	(1,023,082)	(940,165)

(in thousands KZT)

Below is the aging analysis of impaired trade accounts receivables:

	2013	2012
90-180 days	29,557	39,082
181-270 days	18,005	144,543
271-365 days	134,618	719,492
Over 365 days	840,902	37,048
At December 31	1,023,082	940,165

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

12. ADVANCES PAID

	December 31, 2013	December 31, 2012
For services	172,992	295,248
For goods	226,764	118,573
Other	6,051	6,052
	405,807	419,873
Allowance for impairment of advances	(28,031)	(6,845)
	377,776	413,028

13. TAXES RECOVERABLE

	December 31, 2013	December 31, 2012
Value added tax recoverable	97,792	58,541
Property tax	11,394	3,874
Other	3,583	1,079
	112,769	63,494

(in thousands KZT)

14. OTHER ACCOUNTS RECEIVABLE

	December 31, 2013	December 31, 2012
Fines accrued	304,153	604,316
Interest-free loan to JSC CAPEC	129,206	115,057
Receivables on legal proceedings	49,062	50,115
Prepaid expenses	36,981	40,946
Other	177,372	148,843
	696,774	959,277
Allowance for doubtful debts	(209,989)	(132,973)
	486,785	826,304

In 2012, the Group issued interest-free loan to JSC CAPEC of 129,206 thousand tenge. The loan was issued under the agreement on joint activities on a repayable basis. Group recognized this loan at amortized cost at the rate of 11.6%, and recognized the fair value adjustments of 21,461 thousand tenge net of income tax of 5,365 thousand tenge recognized in equity. The loan was repayable until December 31, 2013. In 2013 an additional agreement was signed to the extension of maturity date until December 31, 2014.

As at December 31, 2013 and 2012, accrued fines of 304,153 thousand tenge and 604,316 thousand tenge, respectively, were represented by fines charged to Sredazenergomontazh Pavlodar LLP, JSC Kaustik and individuals for late performance of the terms under the contract for materials supply, construction works and purchase of heat and electricity.

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

	2013	2012
At January 1	(132,973)	(121,271)
Accrual	(85,995)	(30,708)
Written-off against previously created provision	8,979	19,006
At December 31	(209,989)	(132,973)

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

15. CASH

	December 31, 2013	December 31, 2012
Cash in banks	1,133,811	203,500
Petty cash	124,011	113,099
	1,257,822	316,599

As at December 31, 2013 and 2012, cash were denominated in tenge.

(in thousands KZT)

16. SHARE CAPITAL

	December 31 2013		December 31 2012	
	%	Amount	%	Amount
JSC CAEPCO	100%	16,663,996	100%	16,663,996
Shares declared but not issued		3,336,004		3,336,004
		20,000,000		20,000,000

In August 2012, the Parent company in accordance with the agreement on share placement purchased 804,000 common shares for 804,000 thousand tenge, the payment was made by cash.

The Company does not have preferred shares as at December 31, 2013 and 2012.

In 2013 the Company declared and paid dividends of 1,240,336 thousand tenge for 2012 (2012: 395,416 thousand tenge for 2011).

17. ADDITIONAL PAID-IN CAPITAL

As at December 31, 2013 and 2012, additional paid-in capital of 1,188,176 thousand tenge included the following:

- Gain from factoring operations related to purchase of receivables from related party on the basis of shareholder decision and further sale at cost higher than actual cost;
- Fair value adjustment of interest-free loan issued to JSC CAPEC, the ultimate shareholder.

(in thousands KZT)

18. BONDS ISSUED

In July 2007, the Company declared issuance of 80,000,000 coupon bonds of 8,000,000 thousand tenge with nominal value of 100 tenge, at interest rate of 13%, with semiannual coupon payments, and maturity of 10 years.

As at December 31, 2013 and 2012, the bonds were represented as follows:

Bonds placed at price	Date of maturity	Interest rate, per annum	December 31, 2013	December 31, 2012
76.05%	July 10, 2017	6.8%-13%	1,902,320	1,902,320
96.22%	July 10, 2017	6.8%-13%	1,499,900	1,499,900
101.24%	July 10, 2017	6.8%-13%	500,000	500,000
105.47%	July 10, 2017	6.8%-13%	948,000	948,000
86.31%	July 10, 2017	6.8%-13%	1,159,000	1,159,000
82.55%	July 10, 2017	6.8%-13%	840,500	840,500
87.39%	July 10, 2017	6.8%-13%	549,900	549,900
76.63%	July 10, 2017	6.8%-13%	502,000	502,000
			7,901,620	7,901,620
Including/(less):				
Discount on issued bonds			(548,816)	(715,943)
Accumulated interest on issued bonds			277,742	225,196
			7,630,546	7,410,873
Less: current portion of bonds issued			(277,742)	(225,196)
			7,352,804	7,185,677

Bonds issued are repayable as follows:

	December 31, 2013	December 31, 2012
In the second to fifth years inclusive	7,352,804	7,185,677
	7,352,804	7,185,677

(in thousands KZT)

19. LOANS

	Interest rate %	Currency	December 31, 2013	December 31, 2012
Short-term loans:				
JSC Halyk Bank of Kazakhstan	12.5%	Tenge	500,000	300,000
Interest payable			722	2,813
Long-term loans:				
European Bank for Reconstruction and Development	LIBOR + 3.75%	US dollar	4,147,470	-
European Bank for Reconstruction and Development	LIBOR + 3%	US dollar	2,633,314	3,230,143
European Bank for Reconstruction and Development	All in cost +4.5%	Tenge	2,997,000	2,997,000
Clean Technology Fund	0.75%	US dollar	1,036,868	1,017,495
Interest payable			124,931	99,010
			11,440,305	7,646,461
Less:				
Fair value adjustment of CTF loan (Note 20)			(730,969)	(754,349)
Unamortized portion of lump-sum commission			(18,139)	(22,674)
			10,691,197	6,869,438
Less: short-term loans and current portion of long-term loans			(1,565,542)	(1,025,178)
			9,125,655	5,844,260

On June 23, 2009 LLP Pavlodarenergosbyt, the subsidiary, opened credit line of 300,000 thousand tenge in JSC Halyk Bank of Kazakhstan with maturity on April 23, 2010. In December 2013, additional agreement was concluded to increase the credit line up to 500,000 thousand tenge and on extension of the credit line till February 24, 2014. Interest on the loan is accrued on the principal of debt at effective interest rate of 12.5% per annum and paid semi-annually according to schedule. According to additional agreement dated December 19, 2012 the interest rate reduced to 10% per annum from January 1, 2013.

On November 29, 2007, the Company concluded agreement with European Bank for Reconstruction and Development (EBRD) on opening of credit line of 30,000,000 US dollars with maturity in 2017. Loan is repayable annually starting from 2012. Interest on the loan is accrued on the principal of debt at floating interest rate LIBOR+3% and is to be paid semi-annually according to schedule.

On May 22, 2013, the Company concluded agreement with European Bank for Reconstruction and Development (EBRD) on opening of credit line of 27,000,000 US dollars with maturity in 2025. Loan is repayable annually starting from 2016. Interest on the loan is accrued on the principal of debt at floating interest rate LIBOR+3.75% and is to be paid semi-annually according to schedule.

(in thousands KZT)

On March 26, 2011 LLP Pavlodar Thermal Networks, the subsidiary, concluded loan agreement with EBRD and the Clean Technology Fund (CTF) of 2,997,000 thousand tenge and 6,750 thousand of US dollars or 994,280 thousand tenge, respectively, for the purpose of implementation of Investment Program on repair and modernization of central heating networks. In 2012 under this agreement LLP Pavlodar Thermal Network received 1,498,500 thousand tenge from EBRD, and 2,500 thousand of US dollars or 370,100 thousand tenge from the CTF. In 2013 under this agreement LLP Pavlodar Thermal Network received 1,498,500 thousand tenge from EBRD, and 4,250 thousand of US dollars or 640,645 thousand tenge from the CTF. The loan is repayable in semi-annual installments starting from 2014 and 2022, respectively. Interest on the loan is accrued on the principal amount at floating interest rate All in cost+4.5% for tranche from EBRD and interest rate 0.75% on the tranche from CTF and paid semi-annually according to schedule. In 2013, the effective interest rate for the tranche from EBRD amounted to 11.12% per annum (2012: 9.63%%). The subsidiary recorded CTF loan at amortized cost, using effective interest rate of 7.96% (2012: 7.38%) and as a result in 2013 it recognized fair value adjustment of this loan of 765,951 thousand tenge in deferred revenue (2012: 765,951 thousand tenge) net of amortization of the discount for the year ended December 31, 2013, in the amount of 23,380 thousand tenge, which was capitalized to property, plant and equipment (2012: 11,602 thousand tenge).

As at December 31, 2013 property, plant and equipment with a carrying value of 23,938,892 thousand tenge (December 31, 2012: 21,331,075 thousand tenge) (Note 6). As at December 31, 2012 cash on deposits of 269,978 thousand tenge were provided as collateral for these loans (Note 9), and was classified in the consolidated statement of financial position as restricted cash.

Moreover, in accordance with loan agreements with EBRD dated November 29, 2007 and March 26, 2011, the Group continues to accumulate on debt service reserve accounts during the semi-annual period preceding the payment date. These funds can be used exclusively for the purposes defined in the loan agreements, and, respectively, were classified as restricted cash in the consolidated statement of financial position of 306,643 thousand tenge as at December 31, 2013 (December 31, 2012: 286,015 thousand tenge, respectively).

The loans are repayable as follows:

	2013	2012
During the second year	641,938	945,729
From the second till fifth year, inclusive	5,592,978	2,082,836
More than five years	2,890,739	2,815,695
	9,125,655	5,844,260

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

	December 31, 2013	December 31, 2012
Tenge	3,497,722	3,299,813
US dollars	7,193,475	3,569,625
	10,691,197	6,869,438

(in thousands KZT)

20. DEFERRED REVENUE

As at December 31, 2013 and 2012, deferred revenue of 862,967 thousand tenge and 919,867 thousand tenge represented:

(a) fair value adjustment of guarantee fees for connection to additional capacity of JSC Pavlodar Electricity Distribution Network Company and LLP Pavlodar Thermal Networks of 97,016 thousand tenge and 173,137 thousand tenge reduced by interest income accrued for 2013 of 7,854 thousand tenge (2012: 8,889 thousand tenge) (Note 30).

(b) fair value adjustment of loan from CTF of 765,951 thousand tenge and 241,994 thousand tenge, respectively (Note 19).

21. TRADE ACCOUNTS PAYABLE

	December 31, 2013	December 31, 2012
For goods purchased	739,178	653,569
For services provided	386,591	258,475
For repair and construction services	315,153	495,125
For property, plant and equipment	6,092	9,400
Other	44,891	42,149
	1,491,905	1,458,718

As at December 31, 2013 and 2012, trade accounts payable were primarily denominated in tenge.

22. ADVANCES RECEIVED

As at December 31, 2013 and 2012, advances received of 1,460,507 thousand tenge and 1,075,660 thousand tenge, respectively, consisted mainly of advances received for electricity and heat, and other services.

23. TAXES PAYABLE

	December 31, 2013	December 31, 2012
Value added tax	250,554	28,825
Environmental tax	171,178	135,219
Personal income tax	63,035	50,006
Other	65,345	57,910
	550,112	271,960

(in thousands KZT)

24. OTHER LIABILITIES AND ACCRUED EXPENSES

	December 31, 2013	December 31, 2012
Due to employees	196,645	119,126
Unused vacation reserves	170,266	134,632
Pension contributions	83,388	68,584
Insurance payable	18,117	14,485
Other	113,082	98,843
	581,498	507,670

25. REVENUE

	2013	2012
Sales of electricity	17,427,681	16,124,910
Transmission of electricity	6,392,895	5,450,141
Sales of heating	5,803,479	5,233,403
Transmission of heating	3,058,210	2,456,120
Other	189,752	182,172
	32,872,017	29,446,746

26. COST OF SALES

	2013	2012
Coal and fuel oil	6,533,881	5,639,518
Payroll expenses and related taxes	4,548,673	3,777,885
Services purchased	3,485,353	3,225,591
Depreciation and amortization	2,247,428	2,005,856
Inventories	2,229,151	1,951,772
Heat and electricity transmission purchased for resale	923,033	3,142,447
Water for technological purpose	678,635	582,391
Electricity and heating purchased for resale	154,158	164,972
Electricity and heating for own use	18,179	19,064
Employee benefit expenses	3,885	13,010
Other	1,183,397	897,009
	22,005,773	21,419,515

(in thousands KZT)

27. GENERAL AND ADMINISTRATIVE EXPENSES

	2013	2012
Payroll expenses and related taxes	742,427	648,964
Taxes, other than income tax	359,279	296,969
Accrual of allowance for doubtful debts	253,971	135,432
Transportation services	105,016	84,947
Security expenses	85,252	68,043
Depreciation and amortization	79,692	68,556
Fire and operational service	56,763	44,982
Value added tax	48,276	78,886
Legal and audit fees	45,700	53,098
Inventories	43,631	53,085
Excessive losses of electricity	42,262	40,246
Penalties and fines	41,841	38,356
Electricity purchased for own needs	40,106	-
Bank charges	37,506	22,604
Business trip expenses	26,685	31,072
Communication expenses	15,564	34,504
Accrual of allowance for obsolete and slow-moving inventories	13,408	5,791
Compensation to the members of the Board of Directors	20,000	20,502
Employee benefit expenses	5,723	9,881
Accrual of provision on unused vacation	5,649	98
Sponsorship and financial aid	3,659	15,628
Rent expenses	3,399	13,383
Other	320,831	223,591
	2,396,640	1,988,618

28. SELLING EXPENSES

	2013	2012
Payroll expenses and related taxes	337,071	264,578
Bank charges	48,419	48,228
Transportation services	39,579	38,889
Depreciation and amortization	22,479	18,105
Inventories	21,495	20,110
Rent expenses	21,322	20,813
Security expenses	17,271	13,928
Communication expenses	4,678	4,159
Business trip expenses	2,227	2,971
Other	37,423	28,302
	551,964	460,083

(in thousands KZT)

29. FINANCE COSTS

	2013	2012
Interest expenses on bonds issued	546,397	599,338
Expenses on amortization of discount on bonds issued	167,127	143,577
Interest expenses on bank loans	107,567	134,188
Interest expenses on ash disposal area restoration	13,972	52,940
Change in fair value adjustment of long-term receivables on loans to employees	-	21,408
Interest expenses on guarantee fees	6,961	7,787
	842,024	959,238

30. FINANCE INCOME

	2013	2012
Interest income on interest-free loan to JSC CAPEC	14,149	12,678
Interest income from cash placed on deposit for less than one year (Note 9)	11,006	100,438
Interest income on guarantee fees (Note 20)	7,854	8,889
Amortization of fair value adjustment of long-term receivables on loans to employees (discount)	4,444	2,640
	37,453	124,645

31. OTHER INCOME

	2013	2012
Income from fines, accrued for non-compliance with contract terms	94,594	539,153
Income from write-off of accounts payable	93,062	3,951
Rent income	84,106	63,793
Income form auxiliary production	37,902	12,851
Income from sales of heat purchased	-	2,339
Income from inventory found in the inventory count	5,431	-
Income from sales of inventories	828	184
Income from overdue payables	-	6,869
Expenses from auxiliary production	(35,765)	(12,233)
Rent expenses	(34,895)	(45,874)
Loss from write-off of doubtful debts	(30,910)	-
Depreciation expenses for property, plant and equipment, transferred into operating lease	(28,470)	(21,928)
Loss from disposal of property, plant and equipment	(16,789)	(39,583)
Other expenses	(43,910)	(86,542)
	125,184	422,980

(in thousands KZT)

32. INCOME TAX

In the Republic of Kazakhstan, where the Group operates in 2013 and 2012 income tax rate was 20%.

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

	2013	2012
Deferred income tax expense	1,173,601	920,599
Current income tax expense	471,692	261,460
Income tax expense	1,645,293	1,182,059

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

	December 31, 2013	December 31, 2012
Deferred tax assets as a result of:		
Loss carry forward	565,579	431,347
Taxes accrued but not paid	42,597	36,533
Provision on unused vacation	34,053	26,927
Ash disposal area restoration liability	26,823	25,796
Fair value adjustment on guarantee fees for connection to additional capacity	8,341	16,209
Allowance for obsolete inventories	8,826	6,144
Discounting of financial aid to JSC CAPEC	5,365	5,365
Allowance for doubtful debts	22,027	4,265
Other temporary differences	13,806	12,925
Total deferred tax assets	727,417	565,511
Deferred tax liabilities as a result of:		
Carrying value of property, plant and equipment	(10,510,378)	(9,160,676)
Discount on guarantee fees for connection to additional capacity	(5,192)	(15,557)
Other temporary differences	(940)	(4,770)
Total deferred tax liabilities	(10,516,510)	(9,181,003)
Deferred tax liabilities, net	(9,789,093)	(8,615,492)

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

	2013	2012
Balance as at January 1	(8,615,492)	(7,700,258)
Recorded in profit or loss	(1,173,601)	(920,599)
Recorded in equity	-	5,365
Balance as at December 31	(9,789,093)	(8,615,492)

(in thousands KZT)

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

	2013	2012
Profit before income tax	7,173,899	5,122,234
Tax at the statutory rate	1,434,780	1,024,447
Effect of change in unrecognized deferred tax assets	54,553	(1,455)
Unused tax losses of prior years recognized as deferred tax assets in the reporting year	-	(24)
Tax effect of permanent differences	155,960	159,091
Income tax expenses	1,645,293	1,182,059

33. TRANSACTIONS WITH RELATED PARTIES

The Group's related parties include the Group's shareholder, its subsidiaries and associates or companies over which the Group or its shareholder have control, and key management personnel.

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

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

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

	Sale of services		Purchase of services		Purchase of assets	
Name	2013	2012	2013	2012	2013	2012
JSC CAPEC	-	-	2,056	7,445	108	-
Subsidiaries and associates of JSC CAPEC	3,974,613	302,378	371,164	257,787	311,004	48,880
	3,974,613	302,378	373,220	265,232	311,112	48,880

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

	Due from related party		Due to related party	
Name	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
JSC CAPEC	129,206	115,057	96	576
Subsidiaries and associates of JSC CAPEC	908,377	27,681	6,526	13,566
	1,037,583	142,738	6,622	14,142

(in thousands KZT)

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

	Loans including accrued interest owed to related parties		Cash deposits, held in bank, related party		Cash, held in bank, related party	
Name	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
EBRD	9,882,956	6,326,153	-	-	-	-
Subsidiaries and associates of JSC CAPEC	-	-	999,213	1,371,556	1,104,730	171,172
	9,882,956	6,326,153	999,213	1,371,556	1,104,730	171,172

For the years ended December 31, 2013 and 2012, the Group has the following financing transactions with related parties:

	Interest expenses accrued on loans owed to related parties		Interest income accrued on cash deposits, held in bank, related party	
Name	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
EBRD	438,251	238,474	-	-
JSC CAPEC	-	-	14,149	
Subsidiaries and associates of JSC CAPEC	-	-	69,612	100,438
	438,251	238,474	83,761	100,438

Key management personnel of the Group

In 2013 compensation to the Board of Directors and other key management personnel of the Group in the form of salaries and bonuses was 97,076 thousand tenge (2012: 81,376 thousand tenge).

34. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing net profit for the year related to the shareholder of the Group by weighted average number of common shares, participating in distribution of net profit, outstanding during the year. The amount of common shares and common shares with diluted effect are the same as no dilution was made.

	2013	2012
Net profit related to the Shareholder	5,528,606	3,940,175
Weighted average number of common shares for calculating basic earnings per share	166,639,960	161,948,124
Earnings per share, in tenge	33.18	24.33

(in thousands KZT)

As at December 31, 2013 and 2012, the carrying value per share by type is presented below.

Type of shares	Quantity of shares placed	Net assets, excluding intangible assets	Balance value per share, in tenge
December 31, 2013:			
Common shares	166,639,960	47,796,013	286.82
December 31, 2012:			
Common shares	166,639,960	43,502,192	261.05

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

35. FINANCIAL INSTRUMENTS, FINANCIAL RISK POLICY AND OBJECTIVES

The Group's main financial instruments include bank loans, bonds, other financial assets and cash, as well as accounts receivable and payable. The main risks specific to the financial instruments of the Group are liquidity risks and credit risks. The Group also controls the market risk and interest rate risk arising on all financial instruments.

Categories of financial instruments

As at December 31, financial instruments were presented as follows:

	2013	2012
Financial assets		
Other financial assets (Note 9)	758,065	1,371,556
Trade accounts receivable (Note 11)	3,081,158	2,833,639
Other accounts receivable (Note 14)	449,804	785,358
Restricted cash (Note 9, 19)	420,309	378,459
Cash (Note 15)	1,257,822	316,599
Financial liabilities		
Bonds issued (Note 18)	(7,630,546)	(7,410,873)
Loans (Note 9, 19)	(10,691,197)	(6,869,438)
Long-term accounts payable	(36,457)	(40,711)
Trade accounts payable (Note 21)	(1,491,905)	(1,458,718)
Other liabilities and accrued expenses (Note 24)	(327,844)	(304,454)

Capital risk management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximizing the tariffs and the optimizing the debt and equity balance.

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

Significant accounting policies

Significant accounting principles and adopted methods including categories of recognition, valuation and profit or loss recognition basis regarding each class of financial assets, financial liabilities and equity instruments are disclosed in Note 3 to the consolidated financial statements.

Objectives of financial risk management

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

Interest rate risk

The Group's operations are exposed to interest rate risk as it has borrowings with fixed and floating interest rates. The Group manages the interest rate risk by retaining balanced ratio of loans and borrowings with fixed and floating interest rates.

Group's risks related to changes in interest rates on financial assets and financial liabilities are detailed below in the liquidity risk paragraph.

Interest rate sensitivity analysis

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

If interest rates on liabilities were 1% more/less and all other variables remained unchanged, the Group's profit for the year ended December 31, 2013, would decrease/increase by 31,130 thousand tenge (2012: 35,375 thousand tenge), but the Group would compensate these changes by changes in tariffs for the Group's services. This relates to the Group's exposure to interest rate risk on its loan with floating interest rate.

Credit risk

Credit risk arising as a result of counterparties failing to meet the conditions of agreements with the Group's financial instruments is usually limited to amounts, if any, that the counterparties' liabilities exceed the Group's liabilities to these counterparties. The Group's policy stipulates transactions with financial instruments with a number of solvent counterparties. The Group's maximum credit risk equals the carrying amount of each financial asset. The Group considers that its maximum risk equals its trade accounts receivable (Note 11) and other accounts receivable (Note 14) less allowance for doubtful debts recognised as at the reporting date.

A credit risk concentration could arise if there were several amounts outstanding from one borrower or a group of borrowers with similar operating conditions, in relation to which there are reasons to expect that changes in economic conditions or other circumstances may have the same impact on their ability to meet their obligations.

(in thousands KZT)

The Group is exposed to concentrations of credit risk as 38% of trade accounts receivable consist of trade receivables from related parties.

The Group has a policy to ensure that transaction are concluded with clients with a suitable credit history and do not exceed established credit limits.

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

Market risk

Market risk involves a possible variation in the value of a financial instrument as a result of a change in market prices. The Group manages the market risk by a periodic assessment of potential losses that may arise due to negative changes in the market condition.

Currency risk

The Group conducts certain transactions denominated in foreign currency and thus risk of changes in foreign exchange rates may arise. The Group also has assets and liabilities denominated in the foreign currencies. Hence, the Group minimizes currency risk.

As at December 31, 2013 and 2012, the carrying amount of foreign-currency denominated monetary assets and liabilities of the Group was as follows:

	Assets		Liabilities	
	December 31, 2013 Thousand tenge	December 31, 2012 Thousand tenge	December 31, 2013 Thousand tenge	December 31, 2012 Thousand tenge
US dollars	684,219	1,079,006	7,942,583	4,346,648

Foreign currency sensitivity analysis

The Group is mainly exposed to the risk of changes in US dollar exchange rate. Besides, the Group has deposits denominated in US dollars which do not expose the Group to a significant risk related to the changes in US dollar exchange rate.

(in thousands KZT)

The following table details the Group's sensitivity to a 20% increase or decrease in tenge against relevant currencies. 20% is the sensitivity rate used in internal foreign currency risk reports to the key management and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 20% change in foreign currency rates. The sensitivity analysis includes loans and the Group's other financial assets denominated in the currency other that the currency of the borrower or a lender. A positive number below indicates an increase in the profit and other items of equity upon 20% strengthening tenge against the relevant currency. For a 20% weakening of tenge against the relevant currency there would be an equal and opposite impact on profit and equity and the numbers below will be negative.

	US dollar impact	
	2013	**2012**
Financial assets	(136,844)	(215,801)
Financial liabilities	1,588,517	869,330

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

Liquidity risk

The Group's shareholder is ultimately responsible for liquidity risk management and created an appropriate system of controls for Group management in accordance with requirements of liquidity management and short-, mid- and long-term financing. The Group manages the liquidity risk by maintaining sufficient reserves, bank borrowings and available credit lines by means of constant monitoring of estimated and actual cash flows and comparison of maturity dates of its financial assets and liabilities.

Liquidity risk and interest rate risk tables

The following tables detail the Group's contractual maturities on its non-derivative financial assets and liabilities. The table was compiled on the basis of undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

(in thousands KZT)

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

	Weighted average effective interest rate	Up to 1 year	1-5 years	Over 5 years	Undefined	Total
December 31, 2013						
Non-interest bearing:						
Trade accounts receivable		3,081,158	-	-	1,023,082	4,104,240
Other accounts receivable		449,804	-	-	209,989	659,793
Cash		1,257,822	-	-	-	1,257,822
Long-term accounts payable		(17,403)	(46,199)	(112,382)	-	(175,984)
Trade accounts payable		(1,491,905)	-	-	-	(1,491,905)
Other liabilities and accrued expenses		(327,844)	-	-	-	(327,844)
		2,951,632	(46,199)	(112,382)	1,233,071	4,026,122
Interest bearing:						
Other financial assets	1.0%-9.0%	882,146	-	-	-	882,146
Restricted cash	5.3%-9%	420,712	-	-	-	420,712
Bonds issued	8.1-10.08%	(751,840)	(9,525,836)	-	-	(10,277,676)
Loans	Libor+3%, 0.75%, All in cost+4.5% 12.5%	(1,583,681)	(6,268,045)	(6,396,506)	-	(14,248,231)
		(1,032,652)	(15,793,881)	(6,396,506)	-	(23,223,039)
December 31, 2012						
Non-interest bearing:						
Trade accounts receivable		2,833,639	-	-	940,165	3,773,804
Other accounts receivable		785,358	-	-	132,973	918,331
Cash		316,599	-	-	-	316,599
Long-term accounts payable		(36,265)	(53,319)	(148,385)	-	(237,969)
Trade accounts payable		(1,458,718)	-	-	-	(1,458,718)
Other liabilities and accrued expenses		(304,454)	-	-	-	(304,454)
		2,136,159	(53,319)	(148,385)	1,073,138	3,007,593
Interest bearing:						
Other financial assets	6.5%-11%	1,453,192	-	-	-	1,453,192
Restricted cash	5.3-9%	321,912	62,536	-	-	384,448
Bonds issued	8.1-10.08%	(699,293)	(9,574,130)	-	-	(10,273,423)
Loans	LIBOR+3%, 0.75%, All in cost+4.5% 12.5%	(1,149,531)	(5,217,915)	(3,415,850)	-	(9,783,296)
		(73,720)	(14,729,509)	(3,415,850)	-	(18,219,079)

Fair value of financial instruments

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

As at December 31, 2013 and 2012, the carrying amount of all other financial assets and liabilities was approximately equal to their fair value.

36. COMMITMENTS AND CONTINGENCIES

Legal issues

The Group might be the subject of legal proceedings and adjudications from time to time none of which has had individually or in the aggregate a material adverse impact on the Group.

Taxation

The Government of the Republic of Kazakhstan continues to reform the business and commercial infrastructure in its transition to a market economy. As a result, laws and regulations affecting businesses continue to change rapidly. These changes are characterized by poor drafting, different interpretations and arbitrary application by the authorities.

In particular, taxes are subject to review and investigation by a number of authorities enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may not create tax risks for the Group.

In 2013, the Company paid taxes on time according to the terms of payment.

Environment protection matters

Management of the Group believes the Group is currently in compliance with all existing environmental laws and regulations on health and workplace safety of the Republic of Kazakhstan. However, these laws and regulations may change in the future. The Group is unable to predict the timing or extent to which these environmental laws and regulations may change. Such change, if it occurs, may require the Group to modernize technology to meet more stringent standards. In 2012, JSC PAVLODARENERGY implemented environmental management system in accordance with the requirements of the International Standard IOC 14001:2004.

At each reporting date management of the Group makes estimation of the future liabilities and creates provision for ash disposal area restoration in accordance with the legislation of the Republic of Kazakhstan. As at December 31, 2013 and 2012, the amount of such provision was equal to 134,113 thousand tenge and 120,141 thousand tenge, respectively.

Insurance

As at December 31, 2013 and 2012, the Group insured production complexes Heat Energy Station-2, Heat Energy Station-3 and oxygen workshop. The Group did not insure its administrative building. Since absence of insurance does not result in decrease in value of assets or occurrence of liabilities, no provision for unforeseen expenses was created in the consolidated financial statements related to spoilage and loss of such assets.

Capital investments

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

- Capital investments plan for 2007-2013 whereby the Group shall invest 8,000,000 thousand tenge into production assets;
- Additional investment reconstruction and technical retooling program for 2010-2015, according to which JSC PAVLODARENERGY shall invest 21,769,470 thousand tenge into production assets;
- Investment program on reconstruction and development of quarterly heating networks for 2014-2015, according to which, Pavlodar Thermal Networks LLP shall invest in production assets 118,915 thousand tenge,
- Investment Program for Reconstruction and Development of quarterly heating networks in Pavlodar and Ekibastuz for 2013-2015, according to which, Pavlodar Thermal Networks LLP shall invest to productive assets 474,644 thousand tenge;
- Investment reconstruction and technical retooling program for the mid-term period of 2013-2015, according to which JSC Pavlodar Electricity Distribution Network Company shall invest into production assets 6,700,800 thousand tenge;
- Investment program on technical re-equipment of property, plant and equipment in 2014 according to which, Pavlodarenergosbyt LLP shall invest in productive assets 26,897 thousand tenge;

The Company signed an agreement #244 "On the performance of the investment obligations" with the Ministry of Industry and New Technologies of the Republic of Kazakhstan on the capital commitments of the Group for 2014. In accordance with this agreement, the Group is required to invest in the construction, modernization and acquisition of property, plant and equipment 8,088,365 thousand tenge until the end of 2014 (2013: 7,601,302 thousand tenge).

37. EVENTS AFTER THE REPORTING DATE

Operational environment

On February 11, 2014, the National Bank of the Republic of Kazakhstan took the decision to temporarily reduce its intervention in setting exchange rate of tenge. As a result, the official exchange rate of KZT to US dollar fell to 184.55 KZT per US dollar as at February 12, 2014, i.e. by approximately 19%. To prevent the destabilisation of the financial market and economy as a whole, the National Bank plans to set an exchange corridor for the KZT against the US dollar at KZT 182-188 per US dollar. As at April 7, 2014 the official exchange rate of tenge to US dollar official exchange rate is 182.05 tenge per US dollar.

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

Tariffs

Effective from January 1, 2014, the following tariffs were approved in accordance with the order of the Agency of the Republic of Kazakhstan for regulation of natural monopolies:

- At Heat Energy Station-2 average increase from 1,676.58 tenge/Gkal to 1,791.22 tenge/Gkal without VAT, i.e. by 6.8% in comparison with previous tariff;
- At Heat Energy Station-3 average increase from 1,447.20 tenge/Gkal to 1,658.21 tenge/Gkal without VAT, i.e. by 14.5% in comparison with previous tariff;
- For electricity transmission and distribution services from 2.8 tenge to 3.306 tenge without VAT, i.e. by 18% in comparison with previous tariff;
- For heat transportation and distribution services average increase from 956.08 tenge/Gkal to 1,070.31 tenge/Gkal without VAT, i.e. by 11.9% to previous tariff;
- For heat supply of population and other consumers in Pavlodar city, for 5% and 15%, respectively.

According to Government Decree #392 dated March 25, 2009, the Company entered into an agreement "On the performance of the investment obligations" with the Ministry of Industry and New Technologies of the Republic of Kazakhstan for 2014 #296 dated November 15, 2013, according to which effective from January 1, 2014, maximum tariff for sales of electricity at Heat Energy Station-2 and Heat Energy Station-3 increased to 6.9 tenge/Kwh without VAT, and at Ekibastuz Heat Energy Station to 7.2 tenge/Kwh without VAT, i.e. by 7.8% and 9.0% in comparison with previous tariff, respectively.

Loans

On January 14, 2014 JSC Pavlodar Electricity Distribution Network Company, a subsidiary, has signed a loan agreement with the European Bank for Reconstruction and Development of 9,000 thousand US dollars. Interest on this loan to be repaid quarterly at a rate of 3.75% considering LIBOR rate. Repayment of principal falls due after 3 years after the date of signing of the contract by 18 equal semi-annual installments. Cash received on this loan will be spent on measures to implement the Automated System of Commercial Electricity Metering (ASCEM) of the retail electricity market.

On February 13, 2014 the Company under the agreement with the European Bank for Reconstruction and Development dated May 22, 2013 has received tranche of 13,000 thousand US dollars.