

REPORT ARCHIVE COPY



**JOINT STOCK COMPANY
KAZAKHSTAN ELECTRICITY
GRID OPERATING COMPANY**

**Consolidated financial statements
for the year ended December 31, 2011**

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JOINT STOCK COMPANY KAZAKHSTAN ELECTRICITY GRID OPERATING COMPANY

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JOINT STOCK COMPANY KAZAKHSTAN ELECTRICITY GRID OPERATING COMPANY

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

Management is responsible for preparation of the consolidated financial statements that present fairly the consolidated financial position of Joint Stock Company Kazakhstan Electricity Grid Operating Company (hereafter – “the Company” or “KEGOC”) and its subsidiary JSC “Energoinform” (hereafter – the Company and its subsidiary jointly named as “the Group”) as at December 31, 2011, the consolidated financial results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (“IFRS”).

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

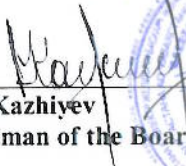
- properly selecting and applying suitable accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements of IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company’s consolidated financial position and consolidated financial performance;
- making 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 Group’s consolidated financial position, and which enable them to ensure that the Group’s consolidated financial statements comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and IFRS;
- taking such steps as are reasonably available to them to safeguard the Group’s assets; and
- preventing and detecting fraud and other irregularities.

These consolidated financial statements for the year ended December 31, 2011 were approved and authorised for issue by the management of the Group on February 28, 2012.

On behalf of the management of the Group:


B.T. Kazhiyev
Chairman of the Board

February 28, 2012
Astana, Kazakhstan


D.T. Mukanova
Chief accountant



INDEPENDENT AUDITORS' REPORT

To the Shareholder of Joint Stock Company Kazakhstan Electricity Grid Operating Company:

We have audited the accompanying consolidated financial statements of Joint Stock Company Kazakhstan Electricity Grid Operating Company (hereafter – “the Company” or “KEGOC”) and its subsidiary JSC “Energoinform” (hereafter – “the Group”), which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management’s responsibility for the consolidated financial statements

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

Auditors’ responsibility

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

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors’ judgment, including an assessment of the risk of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Group’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 Group’s internal controls. An audit also involves evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

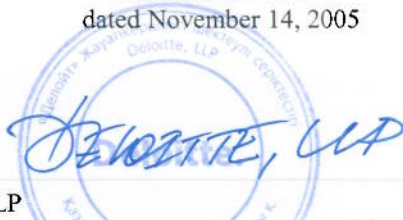
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group at December 31, 2011, and the consolidated financial results of its operations and cash flows for the year then ended in accordance with International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



Dulat Taituleyev
Engagement Partner
Certified Public Accountant,
State of Alaska, USA
License No. 2155
dated November 14, 2005



Timur Zhumazhan
Auditor-performer
Auditor's qualification
certificate No. 0000039
dated August 8, 2011
Republic of Kazakhstan



Deloitte, LLP
Audit license of the Republic of Kazakhstan No. 0000015,
type MFU-2, issued by the Ministry of Finance of the Republic
of Kazakhstan dated September 13, 2006.



Nurlan Bekenov
General Director
Deloitte, LLP

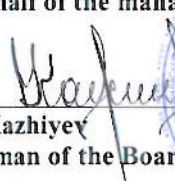
February 28, 2012
Almaty, Republic of Kazakhstan

JOINT STOCK COMPANY KAZAKHSTAN ELECTRICITY GRID OPERATING COMPANY


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

	Notes	December 31, 2011	December 31, 2010
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	5	146,143,536	135,342,786
Intangible assets		583,382	640,909
Advances paid for long-term assets	8	26,547,321	5,453,058
Cash restricted in use	10	-	2,844,820
Other financial assets	9	3,309,454	3,195,284
Other non-current assets		115,558	129,999
		<u>176,699,251</u>	<u>147,606,856</u>
CURRENT ASSETS:			
Inventories	6	1,441,768	1,428,749
Trade accounts receivable	7	4,357,098	1,776,393
Taxes receivable		1,045,399	654,278
Prepaid income tax		1,006,803	1,155,230
Other accounts receivable and advances paid	8	1,072,319	127,962
Other financial assets	9	17,942,595	19,834,986
Cash restricted in use	10	4,459,658	2,408,391
Cash and cash equivalents	11	9,543,637	5,375,640
		<u>40,869,277</u>	<u>32,761,629</u>
TOTAL ASSETS		<u><u>217,568,528</u></u>	<u><u>180,368,485</u></u>
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	12	105,842,972	105,242,972
Reserves		(55,123)	(54,956)
Retained earnings		15,177,838	8,224,996
		<u>120,965,687</u>	<u>113,413,012</u>
NON-CURRENT LIABILITIES:			
Long-term portion of loans	13	68,022,832	46,855,988
Deferred tax liabilities	21	10,098,604	7,227,463
		<u>78,121,436</u>	<u>54,083,451</u>
CURRENT LIABILITIES:			
Trade accounts payable	14	10,220,047	4,105,707
Current portion of loans	13	6,407,716	6,750,534
Advances received		475,023	472,120
Taxes payable		185,717	462,219
Other accounts payable and accrued liabilities		1,192,902	1,081,442
		<u>18,481,405</u>	<u>12,872,022</u>
TOTAL EQUITY AND LIABILITIES		<u><u>217,568,528</u></u>	<u><u>180,368,485</u></u>

On behalf of the management of the Group:


B.T. Kazhiyev
Chairman of the Board

February 28, 2012
Astana, Kazakhstan


D.T. Mukanova
Chief accountant

February 28, 2012
Astana, Kazakhstan


The notes on pages 9-43 form an integral part of these consolidated financial statements. The independent auditors' report is on pages 2-3.

JOINT STOCK COMPANY KAZAKHSTAN ELECTRICITY GRID OPERATING COMPANY


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

	Notes	2011	2010
REVENUE	15	54,793,163	44,408,045
COST OF SALES	16	<u>(39,581,302)</u>	<u>(31,447,356)</u>
GROSS PROFIT		15,211,861	12,960,689
General and administrative expenses	17	(6,332,179)	(4,870,035)
Selling expenses		(156,142)	(223,840)
Interest income from deposits, current accounts, and bond coupons		1,699,050	2,162,572
Finance costs	18	<u>(2,102,170)</u>	<u>(2,124,818)</u>
OPERATING PROFIT		<u>8,320,420</u>	<u>7,904,568</u>
Other income	19	3,192,829	2,295,977
Other expenses	20	(2,119,754)	(1,353,869)
Foreign exchange gain		<u>1,306,839</u>	<u>368,557</u>
NON-OPERATING PROFIT		<u>2,379,914</u>	<u>1,310,665</u>
PROFIT BEFORE INCOME TAX EXPENSE		10,700,334	9,215,233
INCOME TAX EXPENSE	21	<u>(2,878,089)</u>	<u>(3,419,211)</u>
PROFIT FOR THE YEAR		7,822,245	5,796,022
Other comprehensive loss less income tax		<u>(167)</u>	<u>(417)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>7,822,078</u>	<u>5,795,605</u>
Earnings (basic and diluted) per share (tenge for share)	12	741	551

On behalf of the management of the Group:


B.T. Kazhiyev
Chairman of the Board

February 28, 2012
Astana, Kazakhstan


D.T. Mukanova
Chief accountant

February 28, 2012
Astana, Kazakhstan

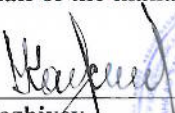
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JOINT STOCK COMPANY KAZAKHSTAN ELECTRICITY GRID OPERATING COMPANY

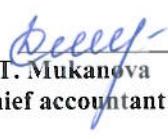
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2011 (in thousands of Kazakhstan tenge)

	Share capital	Reserves	Retained earnings	Total equity
At January 1, 2010	105,242,972	(54,539)	2,428,974	107,617,407
Profit for the year	-	-	5,796,022	5,796,022
Other comprehensive loss for the year less income tax	-	(417)	-	(417)
Comprehensive income for the year	-	(417)	5,796,022	5,795,605
At December 31, 2010	105,242,972	(54,956)	8,224,996	113,413,012
Profit for the year	-	-	7,822,245	7,822,245
Other comprehensive loss for the year less income tax	-	(167)	-	(167)
Comprehensive income for the year	-	(167)	7,822,245	7,822,078
Contribution to share capital (Note 12)	600,000	-	-	600,000
Dividends (Note 12)	-	-	(869,403)	(869,403)
At December 31, 2011	105,842,972	(55,123)	15,177,838	120,965,687

On behalf of the management of the Group:


B.T. Kazhiyev
Chairman of the Board

February 28, 2012
Astana, Kazakhstan


D.T. Mukanova
Chief accountant

February 28, 2012
Astana, Kazakhstan

The notes on pages 9-43 form an integral part of these consolidated financial statements. The independent auditors' report is on pages 2-3.

JOINT STOCK COMPANY KAZAKHSTAN ELECTRICITY GRID OPERATING COMPANY

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

	Notes	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax expense		10,700,334	9,215,233
Adjustments for:			
Amortisation of intangible assets and depreciation of property, plant and equipment	5	7,560,379	7,043,804
Foreign exchange gain		(1,306,839)	(368,557)
Movement in provisions for doubtful debts and impairment of advances paid	17	(68,726)	32,923
Movement in provision for obsolete inventories		(240)	-
(Gain)/loss from disposal of property, plant and equipment and intangible assets		(7,664)	104,552
Finance costs	18	2,102,170	2,124,818
Interest income on deposits, current accounts, and bond coupons		<u>(1,699,050)</u>	<u>(2,162,572)</u>
Cash flows before changes in working capital		17,280,364	15,990,201
Change in other non-current assets		-	16,244
Change in inventories		(12,779)	73,180
Change in trade accounts receivable		(2,610,943)	(906,806)
Change in taxes receivable		1,203,896	586,344
Change in other accounts receivable and advances paid		(1,264,959)	2,664,777
Change in trade accounts payable		3,835,627	240,087
Change in advances received		2,903	20,943
Change in taxes payable		(259,458)	299,973
Change in prepaid expenses		(197,547)	-
Change in other accounts payable and accrued liabilities		<u>(246,508)</u>	<u>(361,177)</u>
Cash generated from operating activities		17,730,596	18,623,766
Interest received		1,513,565	1,674,497
Interest paid		(1,690,418)	(1,761,439)
Income tax paid		<u>(17,044)</u>	<u>(1,338,730)</u>
Net cash generated by operating activities		<u>17,536,699</u>	<u>17,198,094</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Replenishment of deposit accounts		(16,081,820)	(18,581,130)
Withdrawal from deposit accounts		17,827,356	17,073,735
Changes in cash restricted in use		806,458	251,667
Proceeds from sale of property, plant and equipment and intangible assets		53,281	91,329
Purchase of property, plant, equipment, emergency stock and advances paid for long-term assets		(37,509,363)	(14,898,528)
Purchase of intangible assets		<u>(106,638)</u>	<u>(62,868)</u>
Net cash used in investing activities		<u>(35,010,726)</u>	<u>(16,125,795)</u>

JOINT STOCK COMPANY KAZAKHSTAN ELECTRICITY GRID OPERATING COMPANY

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

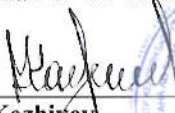
	Notes	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash received as a contribution to share capital	12	600,000	-
Dividends paid	12	(869,403)	-
Loans repaid		(25,842,334)	(5,227,493)
Loans received		47,707,210	2,324,689
		<u>21,595,473</u>	<u>(2,902,804)</u>
Net cash generated by/(used in) financing activities			
NET CHANGE IN CASH AND CASH EQUIVALENTS		4,121,446	(1,830,505)
Effect of exchange rate changes on the balance of cash and cash equivalents		46,551	(7,788)
CASH AND CASH EQUIVALENTS, at the beginning of the year	11	<u>5,375,640</u>	<u>7,213,933</u>
CASH AND CASH EQUIVALENTS, at the end of the year	11	<u><u>9,543,637</u></u>	<u><u>5,375,640</u></u>

Non-cash transactions:


For the year ended December 31, 2011 the Group transferred assets of 180,898 thousand tenge (2010: 272,899 thousand tenge) from construction in progress to intangible assets (see Note 5).

For the year ended December 31, 2011 and 2010 the Group capitalised borrowing costs of 566,835 thousand tenge and 35,201 thousand tenge, respectively (see Note 5), as well as foreign exchange loss of 88 thousand tenge and 775 thousand tenge, respectively.

On behalf of the management of the Group:


B.T. Kazhiyev
Chairman of the Board

February 28, 2012
Astana, Kazakhstan


D.T. Mukanova
Chief accountant

February 28, 2012
Astana, Kazakhstan

The notes on pages 9-43 form an integral part of these consolidated financial statements. The independent auditors' report is on pages 2-3.

JOINT STOCK COMPANY KAZAKHSTAN ELECTRICITY GRID OPERATING COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

(in thousands of Kazakhstan tenge, unless otherwise stated)

1. GENERAL INFORMATION

The Joint Stock Company Kazakhstan Electricity Grid Operating Company (hereafter – “the Company” or “KEGOC”) was founded in accordance with Government Resolution No. 1188 dated September 28, 1996 by transferring part of the assets of the former National Energy System Kazakhstanenergo (hereafter – “the NES”). By Order of the State Property and Privatisation Committee of the Ministry of Finance of the Republic of Kazakhstan No. 142 dated April 27, 2006, shares of the Company owned by the State were transferred to JSC Kazakhstan Holding Company for the Management of State Assets Samruk (hereafter – “Samruk”).

In accordance with Decree No. 669 of the President of the Republic of Kazakhstan, dated October 13, 2008 JSC “Sustainable Development Fund “Kazyna” and Samruk were reorganized by merge in “National welfare fund “Samruk-Kazyna” (hereafter – “Samruk-Kazyna”). Based on the decision made by the President and the Government of the Republic of Kazakhstan 100% of Samruk shares were transferred to Samruk-Kazyna. As at December 31, 2011 and 2010 the Company’s sole shareholder was Samruk-Kazyna.

KEGOC renders services on electricity transmission, technical dispatching of electricity supply to network and consumption of electricity, organizes balancing of electricity production/consumption and ensures contracted cross-border flows with energy systems of neighbouring countries according to concluded agreements and carries out the centralised operating and dispatch control of facilities in the Unified Power System of the Republic of Kazakhstan (hereafter – “the UPS”), irrespective of ownership types.

As at December 31, 2011 KEGOC was the parent company of the subsidiary JSC “Energoinform” (information technology on the Company’s activities), (hereafter referred to collectively as the “Group”), whose financial statements are included in these consolidated financial statements of the Group (as at December 31, 2010 KEGOC also was the parent company of division “KEGOC-Service” (auxiliary services), which was liquidated in December 2011).

In addition, as at December 31, 2011 and 2010 the Company owned 20% of shares in JSC “Batys-Transit”. The main activity of JSC “Batys-Transit” is construction and exploitation of inter-regional transmission line connecting Northern Kazakhstan with Aktobe oblast.

The property of the Group includes 110-1150 kV power transmission lines and support substations to ensure the international transmission of electricity, supply of electricity from electric power stations connected to UPS and links to regional electric power companies (hereafter – “REC”) and major customers.

The Group has 9 branches representing intersystem electricity networks located throughout Kazakhstan, a head office and a National Dispatch Center of the System Operator in Astana.

The Group’s operating activities are regulated by Law dated July 9, 1998 No. 272-I *On Natural Monopolies and Regulated Markets* as the Group is a monopolist in electricity transmission, technical dispatching of electricity supply to network and consumption of electricity and organising the balancing of electricity production/consumption. According to the law, the Group’s electricity transmission, technical dispatch and organising the balancing of electricity production/consumption services tariffs shall be approved by the Agency of the Republic of Kazakhstan for the Regulation of Natural Monopolies (hereafter – the “Agency”) (see Notes 3 and 24).

Legal name of the Company:	Joint Stock Company Kazakhstan Electricity Grid Operating Company “KEGOC”
Legal address of the Company:	37 Beibitshilik St., Astana, 010000, Republic of Kazakhstan
Legal registration number:	No. 12156-1910-AO registered with the Ministry of Justice on July 11, 1997 (original registration) No. 6801-1901-AO registered with the Ministry of Justice on October 21, 2004 (re-registration)
Legal status of the Company:	Joint Stock Company

JOINT STOCK COMPANY KAZAKHSTAN ELECTRICITY GRID OPERATING COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2011

(in thousands of Kazakhstan tenge, unless otherwise stated)

2. ADOPTION OF NEW AND REVISED STANDARDS

Standards and amendments thereto and Interpretations effective in the current year

In the current year the Group has adopted the following Standards and amendments thereto and Interpretations:

- IAS 24 “Related Party Disclosures” – revised definition of related parties (effective for accounting periods beginning on or after January 1, 2011);
- IFRS 1 “First-time Adoption of International Financial Reporting Standards” - Limited exemption from comparative IFRS 7 disclosures for first-time adopters (effective for accounting periods beginning on or after July 1, 2010);
- Amendments to IAS 32 “Financial Instruments: Presentation” related to classification of rights issues (effective for accounting periods beginning on or after February 1, 2010);
- IFRIC 13 “Customer Loyalty Programmes” (effective for accounting periods beginning on or after July 1, 2010);
- Amendments to IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” with respect to voluntary prepaid contributions (effective for accounting periods beginning on or after January 1, 2011);
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (effective for accounting periods beginning on or after July 1, 2010);
- Improvements to some existing standards and interpretations dated May 6, 2010 issued by IFRS Committee within an annual initiative aimed at the general improvement of the effective International Financial Reporting Standards. These amendments are related to certain expressions and issues regarding presentation of financial statements, issues of recognition and appraisal. The majority of these amendments are effective from January 1, 2011.

The adoption of these standards and amendments thereto and interpretations has not led to any changes in the Group’s accounting policies.

Standards and amendments to them and Interpretations in issue not yet adopted

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

- Amendments to IAS 1 “Presentation of Financial Statements” to revise the way other comprehensive income is presented (effective for the periods beginning on or after July 1, 2012);
- IAS 12 “Income Taxes” – Limited scope amendment (recovery of underlying assets) (effective for accounting periods beginning on or after January 1, 2012);
- Amended IAS 19 “Employee Benefits” (effective for accounting periods beginning on or after January 1, 2013);
- IAS 27 “Consolidated and Separate Financial Statements” - Reissued as IAS 27 “Separate Financial Statements” (effective for accounting periods beginning on or after January 1, 2013);
- IAS 28 “Investments in Associates” - Reissued as IAS 28 “Investments in Associates and Joint Ventures” (effective for accounting periods beginning on or after January 1, 2013);
- Amendments to application guidance of IAS 32 “Financial Instruments: Presentation” on the offsetting of financial assets and financial liabilities (effective for accounting periods beginning on or after January 1, 2014);
- IFRS 1 “First-time Adoption of International Financial Reporting Standards” - Replacement of ‘fixed dates’ for certain exceptions with ‘the date of transition to IFRSs’ (effective for accounting periods beginning on or after July 1, 2011);
- IFRS 1 “First-time Adoption of International Financial Reporting Standards” - Additional exemption for entities ceasing to suffer from severe hyperinflation (effective for accounting periods beginning on or after July 1, 2011);
- Amendments to IFRS 7 “Financial Instruments: Disclosures” related to enhancing disclosures about transfers of financial assets (effective for accounting periods beginning on or after July 1, 2011);
- Amendments to IFRS 7 “Financial Instruments: Disclosures” related to enhancing disclosures about offsetting of financial assets and financial liabilities (effective for accounting periods beginning on or after January 1, 2013);
- Amendments to IFRS 7 “Financial Instruments: Disclosures” requiring disclosures about the initial application of IFRS 9 (effective for accounting periods beginning on or after July 1, 2015);
- IFRS 9 “Financial instruments” (effective for accounting periods beginning on or after January 1, 2015);
- IFRS 10 “Consolidated Financial Statements” (effective for the periods beginning on or after January 1, 2013);

JOINT STOCK COMPANY KAZAKHSTAN ELECTRICITY GRID OPERATING COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2011

(in thousands of Kazakhstan tenge, unless otherwise stated)

- IFRS 11 “Joint Agreements” (effective for accounting periods beginning on or after January 1, 2013);
- IFRS 12 “Disclosure of Interests in Other Entities” (effective for accounting periods beginning on or after January 1, 2013);
- IFRS 13 “Fair Value Measurement” (effective for accounting periods beginning on or after January 1, 2013);
- Amendments to IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for accounting periods beginning on or after January 1, 2013).

Management assumes that these Standards and amendments thereto and Interpretations, will be applied in the consolidated financial statements of the Group during the period of initial application, and that their use can have a significant impact on the amounts recognized in the accounts and the amount of information disclosed by the Group. Group management has not yet performed a detailed analysis of the impact of application of these standards, and hence has not yet quantified the effect of the impact.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

These consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments, which are measured at revalued amounts or fair values, as explained below. Historical cost is determined based on fair value of compensation transferred for the acquisition of asset.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary controlled by the Company. Control is achieved when the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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

When a subsidiary is acquired, its assets and liabilities are assessed at a fair value as at the acquisition date. The non-controlling interest is reflected in proportion to the recognised fair value of the assets and liabilities. Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

All intergroup transactions, corresponding balances and unrealised gains (losses) on transactions are eliminated in full on consolidation.

Segment information

Operating segments

The main format for the Group on presenting the information on reportable segment is the operating segment. For the purpose of these consolidated financial statements there is a single operating segment presented as electricity transmission, technical dispatching of supply to networks and consumption of electricity and organising the balancing of electricity producing/consumption defined as an operating segment.

Geographical segments

For the purpose of these consolidated financial statements there is a single geographical segment presented by the Republic of Kazakhstan.

Foreign currency transactions

These consolidated financial statements are presented in Kazakhstan Tenge (“tenge”, “KZT”), which is the Group’s functional currency and the presentation currency of the consolidated financial statements.

JOINT STOCK COMPANY KAZAKHSTAN ELECTRICITY GRID OPERATING COMPANY

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In preparing the consolidated financial statements, transactions in currencies other than the Group's functional currency are recorded at the exchange rate prevailing at the dates of transactions. At each reporting date monetary items are retranslated into tenge at the exchange rate prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated into tenge at the exchange rate prevailing at the date when fair value was determined. Non-monetary items that are measured at their historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the consolidated statement of comprehensive income in the period in which they arise, except for exchange differences on loans in foreign currencies which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings.

Exchange rates for the currencies in which the Group transacts were as follows:

	December 31, 2011	December 31, 2010
Exchange rate at the year end		
1 US dollar	148.40	147.40
1 Euro	191.72	195.23
Average exchange rate for the year		
1 US dollar	146.62	147.34
1 Euro	204.22	195.70

Property, plant and equipment

The book value of the property, plant and equipment transferred from the National Power Grid in 1997 represents the net book value of these assets at the date of transfer. Property, plant and equipment purchased after the Group's formation are recorded at their historical cost less accumulated depreciation and subsequent accumulated impairment losses. The cost of self-constructed property, plant and equipment includes the cost of materials, direct labour and appropriate proportion of construction related overheads. Borrowing costs are capitalised in accordance with the Group's accounting policy discussed below. When property, plant and equipment are comprised of various assets with different useful lives they are accounted for as separate items of property, plant and equipment.

Construction in progress includes expenses directly related to the construction of property, plant and equipment as well as the corresponding allocation of direct variable costs incurred during construction less impairment losses. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Capitalised costs include major improvement and replacement expenses that extend the useful lives of assets or increase their revenue generating capacity. Repairs and maintenance expenses that do not meet these capitalisation criteria are charged to the consolidated statement of comprehensive income as incurred.

Depreciation is recognised in the consolidated statement of comprehensive income and calculated using the straight-line method over the estimated useful lives of assets. Depreciation commences from the date of acquisition of the asset or in regards of the assets constructed by the Group, when the assets are ready for their intended use. Land is not depreciated. The estimated useful lives of the assets are as follows:

Buildings and constructions:

Buildings	60 years
Constructions	30 years
Removable constructions	10 years

Machinery and transmission equipment:

Power transmission lines	50 years
Other transmission equipment	20 years
Substation equipment	12-30 years
Other machinery and transmission equipment	3-25 years

Vehicles and other property, plant and equipment:

Vehicles	11 years
Other property, plant and equipment	3-15 years

Office equipment and computer machines:

Computers and other data processing equipment	4-10 years
Furniture	7 years

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The estimated useful lives of the assets and depreciation method are reviewed at each year end, with the effect of any changes in estimate being accounted for on a prospective basis (see Note 4).

The gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between sales proceeds and the carrying amount of the asset, and is recognised in the consolidated statement of comprehensive income.

Impairment of property, plant and equipment

At each reporting date the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is impossible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less cost 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 risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are recorded at the lower of cost or net realisable value. Cost includes direct costs for materials, customs duties, transportation and handling costs. Cost is calculated using the FIFO method. Net realisable value represents the estimated selling price for inventories less estimated costs of completion and costs necessary to make the sale.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and 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, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the Grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the consolidated statement of comprehensive income/income statement. Fair value is determined in the manner described in Note 23.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

Loans and accounts receivable

Trade accounts receivable, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Long-term loans and long-term accounts receivable are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts, petty cash and short-term deposits with original maturity of less than three months.

Cash restricted in use

In accordance with loan agreements on project financing signed with International Bank for Reconstruction and Development ("IBRD"), European Bank for Reconstruction and Development ("EBRD") and Development Bank of Kazakhstan ("DBK"), the Group opened bank escrow accounts, necessary for debt service. Cash, held on these bank accounts, can be used exclusively for the purposes of planned payments on interest and principal loan amounts. If cash restricted in use for the period not exceeding 12 months from the reporting date, such cash is treated as other financial asset and an appropriate disclosure is provided in the notes to the consolidated financial statements. If cash is restricted in use for the period exceeding 12 months from the reporting date, such cash is reflected within non-current assets.

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Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when 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 affected.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets such as trade receivables, assets that individually were not considered impaired are also evaluated for impairment in the whole portfolio. Objective indicator of reducing the value of the portfolio of receivables could be historical data on its repayment, the increase in arrears on repayment of debt over the medium term, determined by the contracts of the Group, as well as significant changes in the economy, which may affect the level of defaults on receivables.

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

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If in a subsequent period, the amount of the impairment loss of financial asset, carried at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. At the same time the carrying amount of the financial assets at the date of impairment is reversed can not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity instruments issued by the Group

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

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Financial liabilities

Financial liabilities are classified as either financial liabilities “at FVTPL” or “other financial liabilities”.

Financial liabilities FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near term; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading, may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 “Financial Instruments: Recognition and Measurement” permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividends or interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of the accounting of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Provisions

Provisions are recognised when the Group has a present obligations (legal or constructive) as a result of past events, and it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably. Revenue is recognised at the fair value of compensation received or receivable net of discounts and value added tax. Revenue is recognised when services are rendered.

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

The basis for the revenue accruals (services of electricity transmission, technical dispatching, organization of balancing of producing/consumption of electricity) is tariffs approved by the Agency.

The new tariffs for electricity transmission services, technical dispatching and organization of balancing of producing/consumption of electricity were approved on September 1, 2011 by order of the Agency No. 210-OD dated July 11, 2011.

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

Lease

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.

Lease payments within the operating lease are recognised as an expense in the profit or loss in the period in which they are incurred.

Borrowing costs

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

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

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

Retirement benefit costs

In accordance with the legislative requirements of the Republic of Kazakhstan, in 2011 the Group paid 10% from each employee's wage, but no more than 119,992 tenge per month (2010: 112,140 tenge), into an employee pension fund. Pension fund payments are withheld from employees' salaries and included with other salary costs in the consolidated income statement when they are incurred. The Group has no other retirement benefit obligations.

Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

Current tax

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

Deferred tax

Deferred tax is recognised 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 is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised 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.

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Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized. Deferred taxes are recognized in the consolidated statement of comprehensive income, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in 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.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

Transactions with related parties

The following parties are deemed 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 control with, the Company (this includes holding companies, subsidiaries and fellow subsidiaries);
 - ii. has an interest in the Company that gives it significant influence over the Company;
 - iii. has joint control over the Company;
- (b) the party is an associate of the Company;
- (c) the party is a joint venture in which the Company is a venturer;
- (d) the party is members of key management personnel of the Company or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is post-employment benefit plan for the benefit of employees of the Company, 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.

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4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the management is required to make judgements, 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 estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Provisions for doubtful debts and impairment of advances paid for long-term assets, and provision for obsolete inventories

Management's assessment of the provisions for doubtful debts and impairment of advances paid for long-term assets, in addition to management's estimation of provision for obsolete inventories requires management to use assumptions based on the best estimates of the Group's ability to sell these assets. As a result of changes to general economic environment or other circumstances after the reporting date, management may draw conclusions which could be different to those made in preparing these consolidated financial statements.

Deferred tax assets

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The estimation of that probability includes judgments based on expected performance.

Useful lives of property, plant and equipment

As described in Note 3, the Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. The estimate of the useful life of an asset is dependent upon economic use, repair and maintenance programs, technological advancements and other business conditions. Management's estimate of the useful lives of property, plant and equipment reflects information available as at the date of these consolidated financial statements.

Impairment of property, plant and equipment

Since the use of each item of property, plant and equipment of the Group does not provide separate cash flow and represents inseparable operations within a single technological process, the Group assesses possible impairment losses based on the identification of a cash generating unit. A cash generating unit of the Group is all assets of the Group as a whole. At each reporting date the Group assesses whether there is any indication that an asset can be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the assets' recoverable value.

Capitalisation of borrowing costs

As described in Note 3, it is a Group's policy to capitalise borrowing costs directly attributable to the acquisition, construction and production of qualifying assets until the assets are ready for their intended use or sale. Qualifying assets are the assets that require substantial period of time to get ready for their intended use or sale.

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5. PROPERTY, PLANT AND EQUIPMENT

For the years ended December 31, 2011 and 2010, the movement of property, plant and equipment presented as follows:

	Land	Buildings and constructions	Machinery and transmission equipment	Vehicles and other property, plant and equipment	Construction in progress	Total
Cost:						
At January 1, 2010	790,060	10,251,387	151,756,886	4,648,681	16,822,422	184,269,436
Additions	67,594	54,069	356,544	600,136	6,821,053	7,899,396
Transfer from construction in progress to property, plant and equipment, intangible assets	116,983	2,032,219	15,750,728	88,005	(18,260,834)	(272,899)
Internal movements	-	1,341	(1,459)	118	-	-
Disposals	(1,010)	(34,386)	(268,794)	(47,352)	(49,042)	(400,584)
At December 31, 2010	973,627	12,304,630	167,593,905	5,289,588	5,333,599	191,495,349
Additions	12,080	64,569	531,207	538,190	17,137,045	18,283,091
Transfer from construction in progress to property, plant and equipment, intangible assets	5,702	374,317	610,020	78,734	(1,249,671)	(180,898)
Internal movements	-	(14,763)	13,826	937	-	-
Disposals	(793)	(24,629)	(202,660)	(76,840)	(4,937)	(309,859)
At December 31, 2011	990,616	12,704,124	168,546,298	5,830,609	21,216,036	209,287,683
Accumulated depreciation:						
At January 1, 2010	-	(1,946,275)	(45,182,490)	(2,543,153)	-	(49,671,918)
Charge for the year	-	(342,976)	(5,976,782)	(413,900)	-	(6,733,658)
Internal movements	-	(30)	38	(8)	-	-
Disposals	-	4,661	205,209	43,143	-	253,013
At December 31, 2010	-	(2,284,620)	(50,954,025)	(2,913,918)	-	(56,152,563)
Charge for the year	-	(383,798)	(6,404,461)	(454,257)	-	(7,242,516)
Internal movements	-	(7,994)	7,889	105	-	-
Disposals	-	4,136	171,820	74,976	-	250,932
At December 31, 2011	-	(2,672,276)	(57,178,777)	(3,293,094)	-	(63,144,147)
Net book value:						
At December 31, 2011	990,616	10,031,848	111,367,521	2,537,515	21,216,036	146,143,536
At December 31, 2010	973,627	10,020,010	116,639,880	2,375,670	5,333,599	135,342,786

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As at December 31, 2011 and 2010 information on property, plant and equipment includes the following:

	December 31, 2011	December 31, 2010
Fully amortised property, plant and equipment	9,570,613	7,860,344
Idle property, plant and equipment	60,375	60,375

For the years ended December 31, 2011 and 2010, the Group has capitalised borrowing costs amounted to 566,835 thousand tenge and 35,201 thousand tenge, respectively, as well as foreign exchange loss of 88 thousand tenge and 775 thousand tenge, respectively.

Construction in progress is mainly represented by equipment and construction works as part of the implementation of the projects "Alma Electricity Transmission Project", "Moinak Electricity Transmission Project", "Ossakarovka Transmission Rehabilitation Project", and the cost of inspection of substations and engineering surveys within the 2nd phase of the "Kazakhstan Electricity Transmission Rehabilitation Project".

The Group has obligations to the Government and customers to maintain continued electric power supply through main transmission lines, as well as to keep an appropriate level of emergency stock at its facilities in accordance with industry standards. Such emergency stock includes certain spare parts, equipment and materials to be immediately made available in the event of an emergency. As at December 31, 2011 and 2010, emergency stock included fixed assets with a carrying value of 426,405 thousand tenge and 352,378 thousand tenge, respectively (see Note 24).

6. INVENTORIES

As at December 31, 2011 and 2010 inventories consisted of the following:

	December 31, 2011	December 31, 2010
Spare parts	1,023,040	1,079,832
Raw materials	640,104	580,523
Fuel and lubricants	122,667	122,921
Other inventories	74,760	64,516
	<u>1,860,571</u>	<u>1,847,792</u>
Less provision for obsolete inventories	<u>(418,803)</u>	<u>(419,043)</u>
	<u>1,441,768</u>	<u>1,428,749</u>

As at December 31, 2011 and 2010 inventories with a carrying value of 995,232 thousand tenge and 907,397 thousand tenge, respectively, were included in emergency stock (see Note 24).

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7. TRADE ACCOUNTS RECEIVABLE

As at December 31, 2011 and 2010 trade accounts receivable consisted of the following:

	December 31, 2011	December 31, 2010
Sales of purchased electricity	1,792,557	-
Electricity transmission	1,348,948	1,093,618
Power regulation	1,118,535	599,019
Technical dispatching	321,857	287,468
Organization of power balancing of production-consumption of electricity	201,595	311,079
Reservation of electricity power	51,447	51,592
Other	182,720	171,404
	<u>5,017,659</u>	<u>2,514,180</u>
Less provision for doubtful debts	<u>(660,561)</u>	<u>(737,787)</u>
	<u>4,357,098</u>	<u>1,776,393</u>

As at December 31, 2011 and 2010 accounts receivable from large consumers for electricity transmission services in the amounts of 90,539 thousand tenge and 64,293 thousand tenge, respectively, were pledged as collateral of credit lines granted by European Bank for Reconstruction and Development (“EBRD”), International Bank for Reconstruction and Development (“IBRD”) and Development Bank of Kazakhstan (“DBK”) under phases 2-3 of “Construction of 500 kV Second Transmission Line of Kazakhstan North-South Transit” Project. In connection with early repayment of loans from EBRD and DBK, obtained within this project, the Group has agreed with EBRD, DBK and IBRD release of pledges, which will be ultimately discharged in 2012 after registering the agreements in respective authorities (see Note 13).

The average trade credit period provided to customers of the Group is 30 days. The Group has recognised an allowance for doubtful debts of 100% against all receivables (less VAT) over 1 year period because historical experience has been that receivables that are past due beyond this term are not recoverable. Allowances for doubtful debts are recognised against trade receivables between 30 days and 360 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

Trade receivables of the Group include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts.

Age of receivables that are past due but not impaired:

	December 31, 2011	December 31, 2010
30-90 days	244,514	200,586
91-180 days	16,363	22,657
181-360 days	22,159	21,494
Above 360 days	19,842	25,322
	<u>302,878</u>	<u>270,059</u>
Average age (days)	<u>69</u>	<u>84</u>

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Age of impaired trade receivables:

	December 31, 2011	December 31, 2010
30-90 days	11,429	9,373
91-180 days	3,559	4,478
181-360 days	17,870	16,932
Above 360 days	<u>627,703</u>	<u>707,004</u>
	<u>660,561</u>	<u>737,787</u>
Average age (days)	<u>1,832</u>	<u>1,597</u>

Trade accounts receivable as at December 31, 2011 and 2010 were denominated in the following currencies:

	December 31, 2011	December 31, 2010
US Dollar	2,308,009	-
Tenge	1,983,389	1,646,393
Russian rouble	<u>65,700</u>	<u>130,000</u>
	<u>4,357,098</u>	<u>1,776,393</u>

8. OTHER ACCOUNTS RECEIVABLE AND ADVANCES PAID

As at December 31, 2011 and 2010 other accounts receivable and advances paid consisted of the following:

	December 31, 2011	December 31, 2010
Advances paid for work, services and long-term assets	27,501,663	5,542,052
Advances paid for inventories and other assets	3,341	3,568
Prepaid expenses	21,507	177
Other receivables	<u>138,129</u>	<u>81,317</u>
	27,664,640	5,627,114
Less provision for impairment of advances paid and other doubtful debts	<u>(45,000)</u>	<u>(46,094)</u>
	27,619,640	5,581,020
Less advances paid for long-term assets	<u>(26,547,321)</u>	<u>(5,453,058)</u>
	<u>1,072,319</u>	<u>127,962</u>

As at December 31, 2011, advances paid for long-term assets mainly represented by advances paid to LLP "Satty Zhol" for works on realization of project "Alma Electricity Transmission Project" and to KEC International Ltd on realization of "Kazakhstan Electricity Transmission Rehabilitation Project", phase II, and Korea Electric Power Corporation (KEPCO) for projects: "Moinak Electricity Transmission Project" and "Kazakhstan Electricity Transmission Rehabilitation Project", phase II.

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9. OTHER FINANCIAL ASSETS

As at December 31, 2011 and 2010 other financial assets consisted of the following:

	December 31, 2011		December 31, 2010	
	% rate	Amount	% rate	Amount
Deposits in banks	3.5%-8.2%	20,201,201	5%-11%	21,984,217
Bonds of JSC Batys-Transit	7.8%-8.6%	1,050,805	7.8%-9.2%	1,044,757
Accrued interest income on bank accounts of projects	0.1%-1%	43	1%-5.5%	1,296
		<u>21,252,049</u>		<u>23,030,270</u>

Deposits in banks

As at December 31, 2011 and 2010, deposits in banks were presented as follows:

	December 31, 2011	December 31, 2010
Deposits in banks with original maturity date from 3 to 12 months	17,875,594	17,054,194
Deposits in banks with original maturity date more than 12 months	<u>2,325,607</u>	<u>4,930,023</u>
	20,201,201	21,984,217
Less long-term portion	<u>(2,325,607)</u>	<u>(2,211,270)</u>
	<u>17,875,594</u>	<u>19,772,947</u>

As at December 31, 2011 and 2010 deposits were placed in the following banks:

	% rate	December 31, 2011	December 31, 2010
		Amount	Amount
JSC Eurasian Bank	8.1%-8.2%	7,020,081	7,020,081
JSC Almaty Trade-Financial Bank	5.25%	5,834,369	2,969,467
JSC Tsesna Bank	6.2%-7.7%	3,066,154	3,014,998
JSC Kazinvest Bank	6.5%	2,010,743	3,014,790
JSC AsiaCredit Bank	7.5%	1,513,812	-
JSC Halyk Bank	3.5%	756,042	3,817,749
JSC Bank CentreCredit	-	-	2,147,132
		<u>20,201,201</u>	<u>21,984,217</u>

As at December 31, 2011 deposits in banks comprised a deposit in JSC Almaty Trade-Financial Bank in the amount of USD 15,671 thousand (equivalent to 2,325,607 thousand tenge) with a fixed interest rate of 5.25% per annum (December 31, 2010: USD 15,002 thousand (equivalent to 2,211,270 thousand tenge) with a fixed rate of 5.25% per annum). In accordance with the agreement dated November 18, 2005 to provide a state guarantee for the IBRD loan, the deposit can only be used upon the approval of the Ministry of Finance of the Republic of Kazakhstan (see Note 13).

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As at December 31, 2011 and 2010, deposits were stated in the following currencies:

	December 31, 2011	December 31, 2010
Tenge	13,610,790	15,769,052
USD	<u>6,590,411</u>	<u>6,215,165</u>
	<u>20,201,201</u>	<u>21,984,217</u>

As at December 31, 2011 and 2010 accrued, but not received, interest income on deposits amounted to 320,001 thousand tenge and 394,225 thousand tenge, respectively.

10. CASH RESTRICTED IN USE

As at December 31, 2011 and 2010, cash restricted in use consisted of the following:

	December 31, 2011	December 31, 2010
Cash on reserve accounts	3,073,181	3,998,239
Cash on debt service accounts	<u>1,386,477</u>	<u>1,254,972</u>
	4,459,658	5,253,211
Less long-term portion	<u>-</u>	<u>(2,844,820)</u>
	<u>4,459,658</u>	<u>2,408,391</u>

As at December 31, 2011 and 2010 restricted cash can be used exclusively for the purposes determined by the loan agreement with IBRD and EBRD.

As at December 31, 2011 cash in the amount of 2,708,282 thousand tenge (December 31, 2010: 3,509,700 thousand tenge) from aforementioned residuals was pledged as collateral for credit lines granted by IBRD, EBRD and DBK for "Construction of 500 kV Second Transmission Line of Kazakhstan North-South Transit" project, phases 2-3. In connection with early repayment of loans from EBRD and DBK, obtained within this project, the Group has agreed with EBRD, DBK and IBRD release of pledges, which will be ultimately discharged in 2012 after registering the agreements in respective authorities (see Note 13).

As at December 31, 2010 long-term portion of restricted cash is the amount denominated in tenge and equivalent to USD 19,300 thousand, which is a guarantee of commitment's execution by the Group before lenders under the loan agreements of EBRD and DBK obtained for the project "Construction of 500 kV Second Transmission Line of Kazakhstan North-South Transit" 1-2-3 phases. Restriction could be cancelled after complete execution by the Group of its obligations in the future. In connection with early repayment of loans from EBRD and DBK, received for "Construction of 500 kV Second Transmission Line of Kazakhstan North-South Transit" phase 1 (see Note 13), restriction on part of the amount referred above denominated in tenge and equivalent to USD 6,500 thousand was removed, accordingly, this amount was transferred to current cash account. Restriction for the rest amount denominated in tenge and equivalent to USD 12,800 thousand within the project "Construction of 500 kV Second Transmission Line of Kazakhstan North-South Transit" phase 2-3, will be removed in 2012, accordingly as at December 31, 2011 these funds were reflected in the amount of short-term portion of restricted cash.

The short-term portion of restricted cash is the amount intended for payment of principal debt and interest payables on loans and accumulated during semi-annual period preceding payment date.

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As at December 31, 2011 and 2010, cash restricted in use was stated in the following currencies:

	December 31, 2011	December 31, 2010
Tenge	2,975,402	3,783,301
USD	1,484,256	1,469,910
	<u>4,459,658</u>	<u>5,253,211</u>

11. CASH AND CASH EQUIVALENTS

As at December 31, 2011 and 2010 cash and cash equivalents consisted of the following:

	December 31, 2011	December 31, 2010
Cash in bank accounts, tenge	9,086,173	4,896,974
Cash in bank accounts, foreign currency	448,364	460,313
Cash in special accounts	4,724	8,764
Petty cash	4,376	9,589
	<u>9,543,637</u>	<u>5,375,640</u>

As at December 31, 2011 cash in the amount of 1,365,040 thousand tenge (December 31, 2010: 1,137,547 thousand tenge) from aforementioned residuals was pledged as collateral for credit lines granted by IBRD, EBRD and DBK for "Construction of 500 kV Second Transmission Line of Kazakhstan North-South Transit" project phases 2-3. In connection with early repayment of loans from EBRD and DBK, obtained within this project, the Group has agreed with EBRD, DBK and IBRD release of pledges, which will be ultimately discharged in 2012 after registering the agreements in respective authorities (see Note 13).

Cash and cash equivalents as at December 31, 2011 and 2010 were denominated in the following currencies:

	December 31, 2011	December 31, 2010
Tenge	9,095,273	4,915,327
Euro	188,700	52,420
USD	152,967	241,411
Russian rouble	105,960	165,692
Pound sterling	629	674
Tajik somoni	108	116
	<u>9,543,637</u>	<u>5,375,640</u>

As at December 31, 2011 and 2010 accrued, but not received, interest income on current accounts amounted to 43 thousand tenge and 1,296 thousand tenge, respectively.

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12. SHARE CAPITAL

As at December 31, 2011 and 2010 the Group's share capital consisted of 10,584,297 and 10,524,297 ordinary shares respectively, issued and fully paid with a par value of 10,000 tenge each. Each ordinary share has equal voting power. The Group did not have preferred shares as at December 31, 2011 and 2010.

As at December 31, 2011 and 2010 the sole shareholder of the Group was Samruk-Kazyna.

In 2011 60,000 ordinary shares authorised in 2008 were paid-in, which were acquired by first option right by the sole shareholder – Samruk-Kazyna.

The holders of ordinary shares have voting rights, but dividend payments are not guaranteed. In 2011 the Group's sole shareholder decided to pay dividends in extent of 15% of net income. Group paid dividends in the amount of 869,403 thousand tenge (2010: dividends were not paid by decision of sole shareholder).

Calculation of earnings per share is based on net income and weighted average number of ordinary shares, circulated during 2011 and 2010: 10,559,297 and 10,524,297, respectively. The Group does not have potential diluted ordinary shares. For the years ended December 31, 2011 and 2010, basic and diluted earnings per share were equal to 741 tenge and 551 tenge, respectively.

13. LOANS

As at December 31, 2011 and 2010 loans consisted of the following:

	December 31, 2011	December 31, 2010
International Bank for Reconstruction and Development ("IBRD")	30,025,074	28,824,541
European Bank for Reconstruction and Development ("EBRD")	45,012,897	17,115,749
JSC Development Bank of Kazakhstan ("DBK")	-	8,362,405
Accrued interest	508,518	221,650
	<u>75,546,489</u>	<u>54,524,345</u>
Less: current portion of loans from IBRD, EBRD and DBK repayable within 12 months	(6,407,716)	(6,750,534)
Less: unamortized portion of front-end commission	(1,115,941)	(917,823)
	<u>68,022,832</u>	<u>46,855,988</u>

As at December 31, 2011 and 2010 the information on loans was represented by maturities and banks as follows:

December 31, 2011	IBRD	EBRD	DBK	Total
Current portion of loans	<u>2,596,506</u>	<u>3,811,210</u>	<u>-</u>	<u>6,407,716</u>
1 to 2 years	2,632,722	5,148,173	-	7,780,895
2 to 3 years	2,715,826	6,574,195	-	9,290,021
3 to 4 years	3,158,800	6,745,303	-	9,904,103
Over 4 years	<u>18,962,916</u>	<u>23,200,838</u>	<u>-</u>	<u>42,163,754</u>
Long-term portion of loans	<u>27,470,264</u>	<u>41,668,509</u>	<u>-</u>	<u>69,138,773</u>
Total	<u>30,066,770</u>	<u>45,479,719</u>	<u>-</u>	<u>75,546,489</u>

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December 31, 2010	IBRD	EBRD	DBK	Total
Current portion of loans	<u>2,518,354</u>	<u>3,370,000</u>	<u>862,180</u>	<u>6,750,534</u>
1 to 2 years	2,563,286	3,482,648	805,243	6,851,177
2 to 3 years	2,640,671	2,918,096	805,243	6,364,010
3 to 4 years	2,723,215	2,602,875	805,243	6,131,333
Over 4 years	<u>18,407,046</u>	<u>4,878,813</u>	<u>5,141,432</u>	<u>28,427,291</u>
Long-term portion of loans	<u>26,334,218</u>	<u>13,882,432</u>	<u>7,557,161</u>	<u>47,773,811</u>
Total	<u>28,852,572</u>	<u>17,252,432</u>	<u>8,419,341</u>	<u>54,524,345</u>

As at December 31, 2011 and 2010 the Group had no overdue principal and interest payments.

As at December 31, 2011 and 2010 loans were denominated in the following currencies:

	December 31, 2011	December 31, 2010
Loans in USD	52,913,021	48,099,643
Loans in Euro	22,633,468	254,177
Loans in tenge	-	6,170,525
	<u>75,546,489</u>	<u>54,524,345</u>

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

- A credit line facility of USD 140,000 thousand from IBRD for 20 years period, secured by a guarantee of the Government of the Republic of Kazakhstan dated December 21, 1999 and repayable by annual instalments commencing 2005. Interest at LIBOR base rate plus LIBOR total spread is payable semi-annually on June 15 and December 15.
- A credit line facility of USD 45,000 thousand from EBRD for 15 years period, secured by a guarantee of the Government of the Republic of Kazakhstan dated December 3, 1999 and repayable by annual instalments commencing 2004. Interest at LIBOR base rate plus LIBOR total spread is payable semi-annually on January 27 and July 27.

In 2004, the Group received the following credit line facilities for the purpose of implementation of the Phase 1 of the "Construction of 500 kV Second Transmission Line of Kazakhstan North-South Transit" Project:

- A credit line facility of USD 21,000 thousand from DBK for 15 years period secured by the Group's accounts receivable and cash in banks (see Notes 7 and 10) and repayable by annual instalments commencing 2007. Interest rate of 7.93% per annum is payable semi-annually on May 19 and November 19.
- A credit line facility of USD 35,000 thousand from EBRD secured by the Group's accounts receivable and cash in banks (see Notes 7 and 10). The loan matures on March 12, 2016 and is repayable by annual instalments commencing 2007. Interest at the LIBOR plus a 4% margin is payable semi-annually on March 12 and September 12.
- A credit line facility of USD 25,000 thousand from EBRD secured by the Group's accounts receivable and cash in banks (see Notes 7 and 10). The loan matures on March 12, 2013 and is repayable by annual instalments commencing 2006. Interest at LIBOR plus a 3.5% margin is payable semi-annually on March 12 and September 12.

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In 2005 the Group received the following credit line facilities for the purpose of implementation of phases 2 and 3 of the “Construction of 500 kV Second Transmission Line of Kazakhstan North-South Transit”:

- (a) Two credit line facilities of USD 52,800 thousand and USD 21,500 thousand from EBRD for 12 years, of which the first three years are a grace period. Credit line facilities are secured by the Group’s accounts receivable and cash in banks (see Notes 7 and 10). The interest rate is the interbank six-month USD LIBOR rate plus a 3.25% margin, and is repayable by semi-annual instalments on May 12 and November 12.
- (b) A credit line facility of USD 13,500 thousand from EBRD for 9 years, of which the first two years are a grace period. A credit line facility is secured by the Group’s accounts receivable and cash in banks (see Notes 7 and 10). The interest rate is the interbank six-month USD LIBOR rate plus a 2.75% margin, and is repayable by semi-annual instalments on May 12 and November 12.
- (c) A credit line facility of 6,970,132 thousand tenge from DBK for 15 years, with the first repayment date in three years from the day of first consumption. A credit line facility is secured by the Group’s accounts receivable and cash in banks (see Notes 7 and 10). The interest rate is 9.82% per annum, and is repayable by semi-annual instalments on December 8 and June 8.
- (d) A credit line facility of USD 100,000 thousand from IBRD for 17 years period first six years of which are the grace period. A credit line facility is secured by the Group’s accounts receivable and state guarantee of the Government of the Republic of Kazakhstan dated November 18, 2005 (see Notes 9 and 10). The interest rate is USD LIBOR rate plus LIBOR total spread set by the bank for each interest accrual period and is payable by semi-annual instalments on April 15 and October 15.

In 2009-2011 years non-disbursed part of the EBRD and IBRD loans in the amount of USD 6,999 thousand and USD 1,918 thousand was cancelled due to the fact that amount of actual costs incurred within this project was less than expected.

In 2008 for the realization of the 2nd phase of the “Kazakhstan Electricity Transmission Rehabilitation Project” the following new credit lines were opened:

- (a) Two credit-line facilities of Euro 127,500 thousand and Euro 75,000 thousand, from EBRD for 15 years, of which the first four years are a grace period. Interest at the interbank six months EURIBOR rate plus a 3.85% margin is repayable semi-annually on February 12 and August 12.
- (b) A credit line facility of Euro 47,500 thousand from EBRD for 12 years period, of which the first four years are a grace period. Interest at the interbank six months EURIBOR rate plus a 3.55% margin is repayable semi-annually on February 12 and August 12.
- (c) A credit line facility of Euro 5,000 thousand from EBRD for 9 years period, of which the first four years are a grace period. Interest at the interbank six months EURIBOR rate plus a 2.75% margin is repayable semi-annually on February 12 and August 12.

In 2009 for the realization of the “Moinak Electricity Transmission Project” new credit line facility from IBRD of USD 48,000 thousand was opened for period of 25 years, of which the first five years are a grace period. A credit line facility is secured by the guarantee of the Government of the Republic of Kazakhstan dated 12 November 2009. The interest rate is USD LIBOR rate plus fixed spread set by the bank for each interest accrual period and is payable by semi-annual instalments on March 15 and September 15.

In 2010 for the realization of the “Alma Electricity Transmission Project” a credit line facility was obtained in amount of USD 78,000 thousand from IBRD for the period of 25 years, of which the first five years are a grace period. A credit line facility is secured by the guarantee of the Government of the Republic of Kazakhstan dated 24 December 2010. The interest rate is USD LIBOR rate plus fixed spread set by the bank for each interest accrual period and is payable by semi-annual instalments on January 15 and July 15.

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In 2011 for the realization of the "Ossakarovka Transmission Rehabilitation Project" the following credit line facilities were opened:

- (a) Two credit-line facilities of USD 8,160 thousand and USD 4,740 thousand, from EBRD for 15 years, of which the first three years are a grace period. Interest at the interbank six months LIBOR rate plus a 3.95% margin is repayable semi-annually on May 12 and November 12.
- (b) Credit-line facility of USD 1,900 thousand, from EBRD for 12 years, of which the first three years are a grace period. Interest at the interbank six months LIBOR rate plus a 3.70% margin is repayable semi-annually on May 12 and November 12.

In 2011, for refinancing of EBRD and DBK loans received in 2004-2005 for realization of "Construction of 500 kV Second Transmission Line of Kazakhstan North-South Transit" project 1-2-3 phases, were opened credit lines presented as follows:

- (a) Two credit-line facilities of USD 77,840 thousand and USD 45,260 thousand, from EBRD for 15 years period. Interest at the interbank six months LIBOR rate plus a 3.95% margin is repayable semi-annually on May 12 and November 12.
- (b) Credit-line facility of USD 18,100 thousand, from EBRD for 12 years period. Interest at the interbank six months LIBOR rate plus a 3.70% margin is repayable semi-annually on May 12 and November 12.

Using these funds, in September-November 2011 the Group made early repayment of loans received under the project "Construction of 500kV Second Overhead Transmission Line of Kazakhstan North-South Transit" from EBRD in the amount of USD 85,826 thousand (12,684,001 thousand tenge) and from DBK in the amount of USD 14,280 thousand (2,104,015 thousand tenge) and 5,854,911 thousand tenge.

In 2010, in accordance with the above mentioned facilities, the Group received USD 13,879 thousand (2,053,160 thousand tenge), Euro 816 thousand (154,017 thousand tenge) and 117,511 thousand tenge. In 2010 the Group repaid USD 8,095 thousand (1,192,443 thousand tenge) to IBRD, USD 21,936 thousand (3,230,312 thousand tenge) to EBRD and USD 1,680 thousand (247,128 thousand tenge) and 557,611 thousand tenge to DBK, respectively.

In 2011, in accordance with the above mentioned facilities, the Group received USD 163,936 thousand (24,147,499 thousand tenge) and Euro 115,067 thousand (23,559,711 thousand tenge). For the year ended December 31, 2011 the Group repaid USD 16,956 thousand (2,488,193 thousand tenge) to IBRD, USD 101,619 thousand (14,993,979 thousand tenge) (including amount of early repaid loan) to EBRD and USD 15,120 thousand (2,226,445 thousand tenge) and 6,133,716 thousand tenge (including amount of early repaid loan) to DBK, respectively.

The Group is obliged to pay annual commission charge on the non-withdrawn portion of the loan at 0.25% for the IBRD loan, 0.5% and 0.75% for the EBRD loan and 0.25% for the DBK loan. For the years ended December 31, 2011 and 2010 the sum of commissions on the non-withdrawn portion of the loans was 356,684 thousand tenge and 370,275 thousand tenge, respectively.

14. TRADE ACCOUNTS PAYABLE

As at December 31, 2011 and 2010 trade accounts payable consisted of the following:

	December 31, 2011	December 31, 2010
Accounts payable for electricity purchased	4,620,245	1,068,442
Accounts payable for services rendered	2,557,342	612,852
Accounts payable for work and services related to property, plant and equipment	2,274,401	1,649,721
Accounts payable for inventory and other assets	768,059	774,692
	<u>10,220,047</u>	<u>4,105,707</u>

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As at December 31, 2011 and 2010 trade accounts payable were denominated in the following currencies:

	December 31, 2011	December 31, 2010
Tenge	5,774,423	3,529,760
Russian rouble	3,087,734	436,607
USD	753,695	34,492
Euro	604,195	104,848
	<u>10,220,047</u>	<u>4,105,707</u>

15. REVENUE

Revenue from rendering services for the years ended December 31, 2011 and 2010 consisted of the following:

	2011	2010
Electricity transmission	38,765,735	32,444,327
Technical dispatch services	9,272,079	8,107,685
Services on organizing and balancing of electricity production and consumption	4,668,378	3,310,105
Revenue from electricity sales for the purpose of compensation of hourly volumes of declinations of the interstate balances of electricity flows	2,660,677	1,340,675
Revenue from rendering power regulation services	460,226	-
Revenue from rendering other services	111,379	-
	<u>55,938,474</u>	<u>45,202,792</u>
Discounts to customers	<u>(1,145,311)</u>	<u>(794,747)</u>
	<u>54,793,163</u>	<u>44,408,045</u>

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

16. COST OF SALES

Cost of sales for the years ended December 31, 2011 and 2010 consisted of the following:

	2011	2010
Technological losses of electric energy	14,180,057	10,588,025
Depreciation and amortisation	7,231,004	6,718,417
Payroll expenses and related taxes	7,076,913	6,172,351
Expenses on purchase of electricity for the purpose of compensation of hourly volumes of declinations of the interstate balances of transmitted electricity	5,683,975	2,913,062
Maintenance costs	2,482,787	2,246,042
Repair expenses	1,057,748	1,046,134
Inventories	854,298	810,680
Other	1,014,520	952,645
	<u>39,581,302</u>	<u>31,447,356</u>

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17. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended December 31, 2011 and 2010 consisted of the following:

	2011	2010
Payroll expenses and related taxes	2,340,920	1,897,415
Taxes (except for income tax)	1,739,148	1,279,218
Bank guarantees commission	355,786	70,730
Depreciation and amortisation	319,031	320,476
Consulting services	242,507	233,436
Rent expenses	134,842	98,169
Insurance	106,416	121,080
Inventories	101,775	64,066
Business trip expenses	84,518	75,100
Bank services	52,817	51,867
Utilities	38,246	33,569
Security services	28,430	24,929
Repair expenses	27,515	17,005
Accrual/(release) of provision for doubtful debts and impairment of advances paid	(68,726)	32,923
Other	828,954	550,052
	<u>6,332,179</u>	<u>4,870,035</u>

18. FINANCE COSTS

Finance costs for the years ended December 31, 2011 and 2010 consisted of the following:

	2011	2010
Interest accrued on EBRD loan	1,223,938	672,523
Interest accrued on DBK loan	538,648	827,698
Interest accrued on IBRD loan	224,846	216,717
Commission on unused loan principal (see Note 13)	356,684	370,275
Other	324,889	72,806
	<u>2,669,005</u>	<u>2,160,019</u>
Less capitalised borrowing costs (see Note 5)	(566,835)	(35,201)
	<u>2,102,170</u>	<u>2,124,818</u>

19. OTHER INCOME

Other income for the years ended December 31, 2011 and 2010 consisted of the following:

	2011	2010
Sales of purchased electricity	1,794,017	1,091,766
Revenue from electric power reserving services	528,197	505,405
Revenue from servicing power network assets	134,140	121,079
Fines and penalties	123,720	105,667
Other	612,755	472,060
	<u>3,192,829</u>	<u>2,295,977</u>

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20. OTHER EXPENSES

Other expenses for the years ended December 31, 2011 and 2010 consisted of the following:

	2011	2010
Cost of electricity sold	1,781,250	1,091,766
Cost of property, plant and equipment sold and disposed	40,819	112,838
Other	297,685	149,265
	<u>2,119,754</u>	<u>1,353,869</u>

21. INCOME TAXES

The Group's income tax expense for the years ended December 31, 2011 and 2010 consisted of the following:

	2011	2010
Current income tax expense	-	24,087
Corrections of current income tax of previous years	6,948	504,378
Deferred income tax expense	2,871,141	2,890,746
	<u>2,878,089</u>	<u>3,419,211</u>

The income tax rate in the Republic of Kazakhstan, where the Group operates, was 20% in 2011 and 2010.

In November 2008 an amendment to the tax code was issued which imposed reduction of the income tax rate from 30% to 20% effective from January 1, 2009, then to 17.5% effective from January 1, 2010 and to 15% effective from January 1, 2011. In November 2009 and 2010 new amendments to Tax Code were issued according to which the current corporate income tax rate at 20% was at first prolonged till 2012, but later the tax rate was fixed at 20%.

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

	2011	2010
Profit before income tax expense	10,700,334	9,215,233
Income tax expense at 20% statutory rate	2,140,067	1,843,047
Effect of changes in tax rate and tax legislation	-	1,277,171
Effect of finance costs not deducted in tax return	74,277	7,040
Effect of tax losses not recognized as deferred tax asset	279,485	-
Other permanent differences	384,260	291,953
	<u>2,878,089</u>	<u>3,419,211</u>

Deferred taxes reflect the net tax effect of temporary differences between the book value of assets and liabilities recognized for the accounting and tax purposes. Deferred tax assets and liabilities are determined at the rates expected to be applied during the period of recovery of assets or repayment of liabilities.

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Tax effect on temporary differences leading to deferred tax assets and liabilities at December 31, 2011 and 2010 is provided below:

	December 31, 2011	December 31, 2010
Deferred tax assets		
Provision for unused vacations	179,406	123,027
Losses carried forward	84,172	1,335,355
Part of the provision for doubtful debts	18,797	34,630
Taxes	8,090	6,950
Estimated liabilities	3,179	-
	<u>293,644</u>	<u>1,499,962</u>
Deferred tax liabilities		
Property, plant and equipment and intangible assets	<u>(10,392,248)</u>	<u>(8,727,425)</u>
Deferred tax liabilities, net	<u>(10,098,604)</u>	<u>(7,227,463)</u>

22. TRANSACTIONS WITH RELATED PARTIES

The Group's related parties are the Group's sole shareholder, subsidiaries and associates of the sole shareholder.

Transactions with related parties for the years ended December 31, 2011 and 2010 as well as receivables from and payables to related parties as at December 31, 2011 and 2010 were as follows:

Entities	Description of transaction	Sale/(purchase) for the year ended December 31, 2011	Sale/(purchase) for the year ended December 31, 2010	Accounts receivable/ (payable) as at December 31, 2011	Accounts receivable/ (payable) as at December 31, 2010
Group's sole shareholder:					
Shareholder of the Group JSC National Welfare Fund	Dividends paid	(869,403)	-	-	-
Samruk-Kazyna					

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Entities	Description of transaction	Sale/(purchase) for the year ended December 31, 2011	Sale/(purchase) for the year ended December 31, 2010	Accounts receivable/(payable) as at December 31, 2011	Accounts receivable/(payable) as at December 31, 2010
Entities under common control of the Group's sole shareholder:					
JSC NC KazMunayGaz	Electricity dispatching and regulation	(4,676)	(5,647)	825	325
JSC Kazakhtelekom	Telecommunication services	(149,057)	(160,956)	(14,755)	(23,216)
JSC Kazakhstan Research Institute of energy named after Chokin	Procurement of tender documents	(7,100)	-	-	-
JSC Kazakhstan Operator of Electric Power and Capacity Market	Preparation of system to conduct centralised auctions	(6,850)	(5,587)	(791)	(2,983)
JSC Kazpost	Postal services	(11,177)	(14,321)	558	468
JSC NC Kazakhstan Temir Zholy	Communication services and cargo services	3,140,017	(8,912)	(7,410)	(1,714)
LLP Repair Corporation Kamkor	Power transmission, dispatching and regulation	-	2,922,614	-	(1,328)
JSC Samruk-Energo	Power transmission, dispatching and regulation	4,463,753	4,542,709	85,592	(4,664)
JSC Development Bank of Kazakhstan	Bank services	(1,918)	(3,368)	-	-
JSC NC Kazatomprom	Power dispatching and regulation	(78,218)	(65,578)	36,014	(5,852)
JSC NC Kazakhstan Engineering	Purchasing of goods	(3,369)	16	-	-
LLP Samruk-Kazyna Contract	Design of monitoring map, technical support of monitoring map	(1,800)	(2,700)	-	-
JSC Alliance Bank	Communication services, rent, utilities	58	76	-	5
Significant associated entities of the Group:					
LLP GSM Kazakhstan JSC Kazakhtelecom	Telecommunication services, rent of premises	6,936	5,167	1,674	1,036
LLP SP KATKO	Power grid facilities maintaining	65,003	51,452	(5,386)	(4,440)
Significant entities under joint control of the Group:					
LLP JV TengizChevroil	Sale of electricity, energy supply and reservation, technical dispatching	731,900	691,089	72,631	46,149
LLP JV Kazgermunai	Energy transmission and power balancing, equipment maintenance	133,414	109,970	(34,572)	(10,231)
LLP Kazakhstan-Chinese Pipeline	Operation and maintenance of bay equipment	2,202	1,835	205	205
LLP Bogatyr Komir	Energy transmission	344,682	288,255	(16,167)	(12,231)
JSC Ekibastuz GRES-2	Energy transmission, technical dispatching, energy balancing, energy purchase	(9,804,314)	(5,817,089)	(443,441)	(533,674)
LLP Ekibastuz GRES-1 named after Bulat Nurzhanov	Energy transmission, technical dispatching, energy balancing, energy purchase	1,404,387	844,963	(10,225)	(18,502)

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Other operations

Besides the services related to operational activity the Group, has been conducting various operations with related parties associated with investment and financial activities, including:

As at December 31, 2011 and 2010 the Group placed cash funds on deposit, current and corporate card accounts of JSC Halyk Bank of Kazakhstan. Amounts of placed funds, including amounts of accrued but not received interest income presented as follows:

	December 31, 2011	December 31, 2010
JSC Halyk Bank of Kazakhstan		
Cash on current accounts and corporate cards (see Note 11)	2,823,377	2,278,935
Deposits with placement term more than 3 months (see Note 9)	742,000	3,653,200
Interest accrued	14,042	164,549

For the year ended December 31, 2011 the amount of accrued interest on deposits and current accounts in JSC Halyk Bank of Kazakhstan accounted for 105,845 thousand tenge (2010: 253,762 thousand tenge).

As at December 31, 2011 some of the Group's loans in total amount of 32,406,884 thousand tenge were guaranteed by the Government of the Republic of Kazakhstan (December 31, 2010: 31,762,090 thousand tenge).

As at December 31, 2011 loan of the Group (including interest) received from JSC Development Bank of Kazakhstan amounted to nil tenge (December 31, 2010: 8,419,341 thousand tenge).

Key management remuneration

The remuneration of directors and other key management for the years ended December 31, 2011 and 2010 was as follows:

	2011	2010
Salary	59,819	54,735
Income tax	6,877	6,299
Social tax	6,887	5,635
Pension contributions	6,182	5,090
Social deductions	736	1,300
Total	<u>80,501</u>	<u>73,059</u>

Management remuneration is set by the Group's Board of Directors.

23. FINANCIAL INSTRUMENTS

Capital management

The Group manages its capital to obtain assurance that the Group will be able to continue its operations as a going concern by maximising profit for the shareholder through the optimisation of the debt and equity balance. As compared to 2010 general strategy of the Group has not changed.

The Group's capital structure includes share capital as disclosed in Note 12, reserves and retained earnings.

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Categories of financial instruments

As at December 31, 2011 and December 31, 2010 financial instruments included:

	December 31, 2011	December 31, 2010
Financial assets		
Loans to employee	151,199	166,568
Trade accounts receivable (see Note 7)	4,357,098	1,776,393
Other accounts receivable (see Note 8)	138,129	81,317
Other financial assets (see Note 9)	21,252,049	23,030,270
Cash restricted in use (see Note 10)	4,459,658	5,253,211
Cash and cash equivalents (see Note 11)	9,543,637	5,375,640
	December 31, 2011	December 31, 2010
Financial liabilities		
Long-term portion of loans (see Note 13)	68,022,832	46,855,988
Trade accounts payable (see Note 14)	10,220,047	4,105,707
Current portion of loans (see Note 13)	6,407,716	6,750,534
Other accounts payable and accrued liabilities	1,192,902	1,081,442

Financial risk management objectives

The Group controls and manages financial risks related to the Group's operations through the internal risk reports, which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The description of risks management policy is provided below.

Market risk management

The Group's activities expose it primarily to the risks of changes in foreign currency exchange rates (see "Foreign currency risk management" below) and interest rates (see "Interest rate risk management" below). The Group does not additionally enter into any derivative financial instrument agreements to manage its exposure to interest rate and foreign currency risks as management believes that existing mitigation measures, described below, are efficient for their minimisation.

Foreign currency risk management

The Group performs operations denominated in foreign currencies; hence, exposures to exchange rate fluctuations arise. At the same time the Group has assets and liabilities denominated in foreign currencies. As the Group's borrowings are primarily denominated in US dollars the Group maintains a portion of its cash on deposits in US dollars and also accumulates on current bank accounts an amount in foreign currency required for upcoming loan due payment in order to control the risk of foreign currency rate fluctuations. And thereby the Group minimises the exposures to exchange rate fluctuations.

As at December 31, 2011 and 2010 the book value of the Group's monetary assets and liabilities denominated in foreign currencies include:

	Assets		Liabilities	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
	KZT'000	KZT'000	KZT'000	KZT'000
USD	10,535,643	7,926,486	53,666,716	48,134,135
Russian roubles	171,660	165,692	1,117,734	6,607
Euro	188,700	52,420	23,237,663	359,025
Pound sterling	629	674	-	-
Tajik somoni	108	116	-	-

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Foreign currency sensitivity analysis

The Group has exposure mainly to USD and Euro exchange rate fluctuations.

The following table details the Group's sensitivity to a 10% increase/decrease in tenge against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of possible changes in foreign currency exchange rates. The sensitivity analysis includes only the following outstanding monetary items denominated in foreign currency: a) external loans and accounts payable as well as b) accounts receivable, other financial assets and cash of the Group; and adjusts their translation at the end of the period for a 10% change in foreign currency rates. The table below details changes in the value of assets and liabilities when the tenge appreciates by 10% against the relevant currency. A positive value indicates an increase in profit for the period and a negative value indicates a decrease in profit. For a 10% weakening of the tenge against the relevant currency, there would be an equal and opposite impact on the profit.

	USD impact		Euro impact	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Financial assets	(1,053,564)	(792,649)	(18,870)	(5,242)
Financial liabilities	5,366,672	4,813,414	2,323,766	35,903

Increase of financial liabilities' sensitivity to foreign currency related to receiving the USD and Euro loans, which in turn led to increase of the USD and Euro loan balances as at December 31, 2011.

Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds. The Group limits its interest rate risk by monitoring changes in interest rates in the currencies in which the borrowings are denominated, and by maintaining a balance between its loans with fixed and floating interest rates.

The Group's exposure to interest rate risk on its financial assets and liabilities is detailed in liquidity risk management section of this Note.

Interest rate sensitivity analysis

The sensitivity analysis presented below covers non-derivative instruments as at the reporting date. For liabilities with floating interest rates the analysis assumed that liabilities unpaid as at the reporting date remained unpaid for the entire year. In its internal reports management uses the assumption that fluctuating interest rates on liabilities increased or decreased by 100 basis points and that represents management's estimate of a possible change in interest rates.

If interest rates had been by 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended December 31, 2011 would decrease/increase by 617,484 thousand tenge (2010: decrease/increase by 490,295 thousand tenge), but these changes would be compensated by the Group through change in tariffs on the Group's services.

The Group's sensitivity to interest rates increased during the current period as more loans were received as at December 31, 2011 compared to December 31, 2010.

Other price risks

The Group is exposed to price risk due to its equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a business policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigations the risk of financial loss from defaults. The Group's exposure and the creditworthiness of its counterparties are controlled constantly.

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Credit risk is mainly linked to accounts receivable and other current assets (see Notes 7 and 8). As at December 31, 2011 due to sale of unplanned electricity volumes in November-December 2011 to "Uzbekenergy" JSC, the Group has concentration of the credit risk with this customer (51%). The Group does not expect that any counterparties, including "Uzbekenergy" JSC will be unable to repay their liabilities, except for those counterparties for which the Group has created an allowance for doubtful debts, as while determining the possibility of debt collection the Group is considering all the changes of the financial position of the debtor from the date of the origin of debt till the end of reporting period.

Book value of financial assets recognized in consolidated financial statements of the Group less impairment allowance reflects the maximal extent of Groups' credit risk. Except for "Uzbekenergy JSC", the concentration of credit risk is limited due to the fact that the Group's customer base consists of many unrelated companies.

The credit risk on liquid funds financial instruments is limited because the counterparties of the Group are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk management

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

Liquidity and interest rate risk tables

The following tables detail the Group's contractual maturity for its non-derivative financial assets and liabilities. The table was compiled on the basis of the undiscounted cash flows of financial assets and liabilities based on the earliest date that a) the Group expects receipt of payment and b) payment may be demanded from the Group. The table includes both interest and principal cash flows.

December 31, 2011	Weighted average effective interest rate	Up to 1 year	1-5 years	Over 5 years	Total
Financial assets					
Loans provided to employees	10.08%	35,641	126,219	32,780	194,640
Trade accounts receivable (see Note 7)	-	4,357,098	-	-	4,357,098
Other accounts receivable (see Note 8)	-	138,129	-	-	138,129
Other financial assets (see Note 9)	3.5%-8.2%	18,757,684	2,880,537	1,325,098	22,963,319
Cash restricted in use (see Note 10)	-	4,459,658	-	-	4,459,658
Cash and cash equivalents (see Note 11)	-	9,543,637	-	-	9,543,637
		<u>37,291,847</u>	<u>3,006,756</u>	<u>1,357,878</u>	<u>41,656,481</u>
Financial liabilities					
Floating interest rate loans (see Note 13)	1%-4.68%	8,576,069	44,100,729	35,976,642	88,653,440
Fixed interest rate loans (see Note 13)	7.93%-9.82%	-	-	-	-
Trade accounts payable (see Note 14)	-	10,220,047	-	-	10,220,047
Other account payable and accrued liabilities	-	1,192,902	-	-	1,192,902
		<u>19,989,018</u>	<u>44,100,729</u>	<u>35,976,642</u>	<u>100,066,389</u>
		<u>17,302,829</u>	<u>(41,093,973)</u>	<u>(34,618,764)</u>	<u>(58,409,908)</u>

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December 31, 2010	Weighted average effective interest rate	Up to 1 year	1-5 years	Over 5 years	Total
Financial assets					
Loans provided to employees	10.08%	34,892	136,255	49,461	220,608
Trade accounts receivable (see Note 7)	-	1,776,393	-	-	1,776,393
Other accounts receivable (see Note 8)	-	81,317	-	-	81,317
Other financial assets (see Note 9)	5%-11%	20,811,411	2,830,387	1,298,172	24,939,970
Cash restricted in use (see Note 10)	-	2,408,391	884,400	1,960,420	5,253,211
Cash and cash equivalents (see Note 11)	-	5,375,640	-	-	5,375,640
		<u>30,488,044</u>	<u>3,851,042</u>	<u>3,308,053</u>	<u>37,647,139</u>
Financial liabilities					
Floating interest rate loans (see Note 13)	1%-4.68%	6,851,302	24,494,127	18,818,510	50,163,939
Fixed interest rate loans (see Note 13)	7.93%-9.82%	1,642,936	5,567,432	5,570,345	12,780,713
Trade accounts payable (see Note 14)	-	4,105,707	-	-	4,105,707
Other account payable and accrued liabilities	-	1,081,442	-	-	1,081,442
		<u>13,681,387</u>	<u>30,061,559</u>	<u>24,388,855</u>	<u>68,131,801</u>
		<u>16,806,657</u>	<u>(26,210,517)</u>	<u>(21,080,802)</u>	<u>(30,484,662)</u>

As at December 31, 2011 the Group has access to financing facilities with the total unused funds of 43,988,506 thousand tenge (December 31, 2010: 68,412,104 thousand tenge). The Group believes it will repay all other liabilities using cash flows from operating activities and funds from financial assets with subsequent maturity.

	December 31, 2011	December 31, 2010
Secured loans, with different maturity dates till 2034 year		
Amount used	76,489,161	72,523,228
Amount unused	15,209,025	18,877,784
	<u>91,698,186</u>	<u>91,401,012</u>
Not secured loans, with maturity dates till 2026 year		
Amount used	43,112,376	249,330
Amount unused	28,779,481	49,534,320
	<u>71,891,857</u>	<u>49,783,650</u>

Fair value of financial instruments calculated at amortized cost

The management considers that except for borrowings, as at December 31, 2011 and 2010 the carrying amount of financial assets and financial liabilities, recorded at their amortized cost in the consolidated financial statements approximate their fair value:

The fair value of the borrowings received from international and Kazakhstani development institutions – EBRD, IBRD, DBK was not disclosed as there is no possibility to estimate the interest rate on comparable loans, which Group would be able to obtain from these parties, as well as the interest rates applied by the commercial banks may substantially vary. The fair value of these loans may significantly change when recalculating using the rates applied by the commercial banks.

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24. COMMITMENTS AND CONTINGENCIES

Operating environment

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

Laws and regulations affecting businesses in the Republic of Kazakhstan continue to change rapidly. Tax, currency and customs legislation are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Republic of Kazakhstan. The future economic direction of Republic of Kazakhstan is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

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

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

Business regulation

The Group's operating activities are regulated by Law of Republic of Kazakhstan "On Natural Monopolies and Regulated Markets" as the Group is a monopolist in electricity transmission and technical dispatching, and balancing of electricity production/consumption. According to the law, the Group's electricity transmission and technical dispatch tariffs should be agreed and approved by the Agency of the Republic of Kazakhstan for the Regulation of Natural Monopolies and the Protection of Competition. The Group believes that its activity complies with all requirements of Agency.

Taxation

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

In particular, taxes are subject to review and investigation by a number of authorities, which are entitled to impose severe fines, penalties and interest charges. Though the Company believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, above mentioned facts could, possibly, have some tax risks for the Group.

Compliance with loan covenants

The Group is required to comply with loan covenants stipulated by the loan agreements with the European Bank for Reconstruction and Development (EBRD), International Bank for Reconstruction and Development (IBRD) and Development Bank of Kazakhstan (DBK). Management believes that the Group complied with all existing loan covenants as at December 31, 2011 and 2010.

JOINT STOCK COMPANY KAZAKHSTAN ELECTRICITY GRID OPERATING COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2011

(in thousands of Kazakhstan tenge, unless otherwise stated)

Property, plant and equipment

In accordance with an Agreement on Mutual Recognition of Rights and Regulation of Property Relations dated October 9, 1992, CIS countries recognised their obligation to transfer ownership rights for the property located in other countries back to the respective entities within those countries. In accordance with the Agreement signed between the Group and OJSC Federal Grid Company of Unified Energy System of Russian Federation, dated January 26, 2005 the parties agreed to delimitate 500-1150 kV interstate power transmission lines across the state borders of Russian Federation and the Republic of Kazakhstan. Later in 2006 agreements were signed on delimitation of the property of 4 interstate power transmission lines across the state borders with voltage of 220 kV, and in December 2010 an agreement was signed on delimitation of the property of 7 interstate power transmission lines.

Also, in accordance with the Agreement signed between the Group and JSC “NES Kyrgyzstan”, the Kyrgyz Republic dated April 10, 2008 the parties agreed to delimitate interstate power transmission lines across the state borders of the Republic of Kazakhstan and the Kyrgyz Republic.

As of the reporting date, the Government of the Republic of Kazakhstan did not make a final decision with respect to transferring assets to the Republic of Uzbekistan. No provision has been made in these consolidated financial statements to cover any possible expenses that may be incurred as a result of the transfer of these assets as management of the Group believes that this issue will not have significant influence on consolidated financial statements of the Group.

Safety of energy transmission facilities

The Group permanently faces issue of theft and damage to its energy facilities. Despite its security program, including attracting the specialised security services for safeguarding of these assets the Group cannot guarantee full security of energy facilities because of vulnerability of the power grids. As a result, the Group incurs losses every year, including repair and replacement costs of individual sections of transmission lines which are subsequently reimbursed by the specialised security services. The Group has not made a complete estimate of these losses and, accordingly, no provision has been made in these consolidated financial statements, as Group considers this issue will not have material effect on the Group's consolidated financial statement.

Insurance

As at December 31, 2011 and, 2010 the Group insured operating assets with a carrying value of 41,635,406 thousand tenge and 41,500,902 thousand tenge respectively. The Group does not insure its other operating assets. Since absence of any insurance does not imply a reduction of the cost of assets or occurrence of any liabilities, no provision has been made in these consolidated financial statements for unexpected expenses associated with damage or loss of these assets.

Emergency stock

The Group is obliged to maintain an appropriate level of emergency stock to provide the continuous power transmission through the main grid lines. Emergency stock includes spare parts, equipment and materials to be used immediately in emergency cases. The size of emergency stock is set according to production/technical requirements (see Notes 5 and 6). The management believes that the Group maintains sufficient level of emergency stock as at December 31, 2011 and 2010.

Contractual commitments

To ensure the stable and reliable performance of the national electricity grid equipment, the Group developed a capital investment plan. As at December 31, 2011 the Group's outstanding contractual commitments within the frameworks of this plan amount to 56,139,553 thousand tenge (December 31, 2010: 19,346,900 thousand tenge).

JOINT STOCK COMPANY KAZAKHSTAN ELECTRICITY GRID OPERATING COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2011

(in thousands of Kazakhstan tenge, unless otherwise stated)

Co-financing

In accordance with the loan agreements signed with IBRD, EBRD and DBK under the “Construction of 500 kV Second Transmission Line of Kazakhstan North-South Transit” Project the Group has co-financing commitments in the amount of USD 110,093,689. As at December 31, 2011 the Group actually co-financed USD 151,473,241.

In accordance with the Project Implementation Plan of “Kazakhstan Electricity Transmission Rehabilitation Project”, phase II, agreed with EBRD, the Group has co-financing commitments in the amount of Euro 2,060,000. As at December 31, 2011 the Group actually co-financed Euro 11,725,574.

In accordance with the Project Implementation Plan of “Moinak Electricity Transmission Project” agreed with IBRD, the Group has co-financing commitments in the amount of USD 19,429,000. As at December 31, 2011 the Group actually co-financed USD 11,791,004. The management of the Group believes that co-financing will be accomplished timely and in full.

In accordance with the Project Implementation Plan of “Alma Electricity Transmission Project” the Group has co-financing commitments in the amount of 17,160,930 thousand tenge. As at December 31, 2011 the Group actually co-financed 10,320,802 thousand tenge. The management of the Group believes that co-financing will be accomplished timely and in full.

In accordance with the Project Implementation Plan of “Ossakarovka Transmission Rehabilitation Project” the Group has co-financing commitments in the amount of 2,132,758 thousand tenge. As at December 31, 2011 the Group actually co-financed 957,500 thousand tenge. The management of the Group believes that co-financing will be accomplished timely and in full.

25. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements for the year ended December 31, 2011 were approved and authorised for issue by the management of the Group on February 28, 2012.

Прошито и пронумеровано
44 (сорок четыре)

