ENGLISH TRANSLATION OF
THE OFFICIAL RUSSIAN LANGUAGE
INVESTMENT MEMORANDUM
DATED OCTOBER 30, 2014

JOINT STOCK COMPANY "KEGOC" (KAZAKHSTAN ELECTRICITY GRID OPERATING COMPANY)

(incorporated in the Republic of Kazakhstan under the Joint Stock Companies Law with registered number 6801-1901AO)

This Investment Memorandum contains information regarding the initial public offering of 25,999,999 ordinary shares (the "**Shares**") of Joint Stock Company "KEGOC" (Kazakhstan Electricity Grid Operating Company) ("**KEGOC**" or the "**Company**"), a joint stock company organized under the laws of the Republic of Kazakhstan. The Shares are being offered in a public offering solely in the Republic of Kazakhstan to citizens of the Republic of Kazakhstan and to Joint Stock Company "Unified Accumulative Pension Fund" ("**UPF**") organized under the laws of the Republic of Kazakhstan (the "**Offering**"). The price per Share is KZT 505 as approved by a Resolution of the Government of the Republic of Kazakhstan No. 1156 dated October 30, 2014.

Investing in the Shares involves risks. Prospective investors should read the entire document and in particular "*Risk Factors*" beginning on page 25 before making an investment decision with respect to the Shares.

The Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended, including the rules and regulations promulgated thereunder (the "Securities Act"), and, subject to certain exceptions, may not be offered or sold within the United States. The Shares are being offered and sold outside the United States solely in the Republic of Kazakhstan in reliance on Regulation S under the Securities Act. See "*Subscription and Settlement*".

The issuance of the Shares was registered with the National Bank of the Republic of Kazakhstan ("**NBK**") on March 18, 2013 and on September 10, 2014. The Company has filed an application with the Joint Stock Company Kazakhstan Stock Exchange ("**KASE**") to admit the Shares to the first category of the sector "Shares" on the Official List of the KASE. The Shares will be admitted to the first category of the sectors "*Shares*" of the Official List of the KASE. See "*Subscription and Settlement*". No application has been made, or is currently intended to be made, for the Shares to be admitted to listing or trading on any other stock exchange.

Sole Co-ordinator and Bookrunner

Halyk Finance

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GENERAL INFORMATION

Prior to the Offering, there has been no market inside or outside the Republic of Kazakhstan ("**Kazakhstan**") for the Shares. The Shares will rank *pari passu* in all respects with the existing shares of the Company including the right to receive dividends or other distributions declared, made or paid on the Shares after initial issuance.

Investors should rely on the information in this Investment Memorandum. No person has been authorized to give any information or make any representations other than those contained in this Investment Memorandum and, if given or made, such information or representations must not be relied on as having been authorized by the Company or JSC Subsidiary of Halyk Bank of Kazakhstan "Halyk Finance" (the "**Financial Advisor**") or any affiliate thereof. Neither the delivery of this Investment Memorandum nor any purchase made under this Investment Memorandum shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since, or that the information contained herein is correct as of any time subsequent to, the date of this Investment Memorandum.

The contents of this Investment Memorandum are not to be construed as legal, financial or tax advice. Each prospective investor should consult his, her or its own legal advisor, financial advisor or tax advisor for legal, financial or tax advice. Neither the Company nor the Financial Advisor is making any representation to any offeree or purchaser of Shares regarding the legality of an investment by such offeree or purchaser.

The information contained in this Investment Memorandum has been provided by the Company and other sources identified herein. The Financial Advisor makes no representation, express or implied, nor accepts any responsibility, with respect to the accuracy or completeness of any of the information in this document. This Investment Memorandum is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by either the Company or the Financial Advisor that any recipient of this Investment Memorandum should subscribe for or purchase Shares. Each potential investor in the Shares should read this Investment Memorandum in its entirety and determine for itself the relevance of the information contained in this Investment Memorandum and its subscription of Shares should be based upon such investigation as it deems necessary. In making an investment decision, prospective investors must rely upon their own examination of the Company and the terms of this document, including the risks involved.

The distribution of this Investment Memorandum and the offer and sale of the Shares in certain jurisdictions may be restricted by law. No action has been taken by the Company or the Financial Advisor that would permit a public offer of Shares or possession, publication or distribution of this Investment Memorandum (or any other offer or publicity material or application form relating to the Shares), in any jurisdiction where action for that purpose is required, other than Kazakhstan. Persons into whose possession this Investment Memorandum comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Investment Memorandum does not constitute an offer of, or an invitation to subscribe for or purchase, any Shares in any jurisdiction in which such offer or sale would be unlawful. See "*Subscription and Settlement*" for further information with regard to restrictions on offers and sales of Shares and the distribution of this Investment Memorandum.

The Financial Advisor is acting exclusively for the Company and not for anyone else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to its clients or for providing advice in relation to the transactions and arrangements detailed in this document.

The Financial Advisor and its controlling shareholder, JSC Halyk Bank, may from time to time provide various financial advisory, investment banking and commercial banking services for the Company and its affiliates, for which they may receive customary fees.

The Shares have not been and will not be registered by the U.S. Securities and Exchange Commission (the "**SEC**"), any U.S. state securities commission or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Shares or the accuracy or the adequacy of this Investment Memorandum. Any representation to the contrary is a criminal offence in the U.S. The Prospectus registered by the National Bank of the Republic of Kazakhstan ("**NBK**") on September 10, 2014 (the "**Prospectus**") and this Investment Memorandum are the only authorized and official documents containing information relating to the Shares pursuant to which the Offering is made in the Republic of Kazakhstan. The Prospectus is a separate and distinct document from the Investment Memorandum and is available from the Company's website, the official KASE website, and the NBK website.

Note on the Investment Memorandum

The Company and the Financial Advisor require persons into whose possession this Investment Memorandum comes to inform themselves about and to observe any restrictions imposed by applicable laws and jurisdictions. No action has been taken that would permit any offering to be made in any jurisdiction other than the Republic of Kazakhstan.

United States of America

The Shares have not been and will not be registered under the U.S. Securities Act and will not be offered or sold within the U.S. The Shares are being offered to investors outside the U.S. in reliance on Regulation S under the U.S. Securities Act. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Shares within the U.S. by a dealer, whether or not participating in the Offering, may violate the registration requirements of the U.S. Securities Act.

European Economic Area

The Financial Advisor has not offered any Shares to the public in any Member State of the European Economic Area that has implemented the Prospectus Directive (each, a "**Relevant Member State**"), from and including the date on which that Relevant Member State implements the Prospectus Directive (the "**Relevant Implementation Date**") to the date of:

- publication of a prospectus in relation to the Shares; and
- approval of such prospectus by the competent authority in that Relevant Member State or, where applicable, the approval of such prospectus by the competent authority in another Relevant Member State and the notification thereof to the competent authority in that Relevant Member State; all in accordance with the Prospectus Directive.

For the purposes of this provision, the expression "offer the Shares to the public" means, in relation to any Shares in any Relevant Member State, the communication, in any form and by any means, of sufficient information concerning the terms of the Offering and the Shares so as to enable an investor to decide to purchase or subscribe for the Shares, as such information may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State. The expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Russian Federation

This Investment Memorandum is not a public offer or advertisement of the Shares in the Russian Federation and is not an offer, or an invitation to make offers, to purchase any Shares in the Russian Federation. The Shares are not intended for "placement" or "public circulation" in the Russian Federation and neither the Shares nor any prospectus or other document relating to them have been or will be registered with the competent authority of the Russian Federation. Any information on the Shares in this Investment Memorandum is intended for, and addressed to, persons outside of the Russian Federation. The Shares may not be offered, sold or delivered in the Russian Federation or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except as may be permitted by Russian law.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

We advise you that financial statements as of and for the nine months ended September 30, 2014 are not presented in this Memorandum and are not expected to be presented in an amendment or modification to this Memorandum. See "*Risk Factors – Risk Factors Relating to the Offering and the Shares – The Investment Memorandum does not contain financial statements for the nine months ended September 30, 2014*".

Financial Information

The Company's audited financial statements as of and for the years ended December 31, 2011, 2012 and 2013 (the "**Audited Financial Statements**") and the Company's unaudited financial statements as of and for the six months ended June 30, 2014 (the "**Unaudited Interim Financial Statements**" and together with the Audited Financial Statements, the "**Financial Statements**") included in this Investment Memorandum have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

The Unaudited Financial Statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". Certain historical financial information as set out herein has been extracted without material adjustment from the Financial Statements.

Independent Auditors

The financial statements for the year ended December 31, 2011 have been audited by the Company's previous independent auditors, Deloitte LLP ("**Deloitte**"). The financial statements for the years ending December 31, 2012 and December 31, 2013 have been audited by Ernst & Young LLP ("**Ernst & Young**"), the Company's current independent auditors. Ernst & Young have reviewed the Unaudited Interim Financial Statements.

Presentation of Non-IFRS Measures

As presented in this Investment Memorandum, "**EBITDA**" is defined as income from core operating activities, less the cost of services and general administrative expenses before amortization, and less selling expenses. EBITDA is a supplemental measure of the Company's performance and liquidity that is not required by or presented in accordance with IFRS. Furthermore, EBITDA should not be considered as an alternative to income after taxes, income before taxes or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities as a measure of the Company's liquidity or as a measure of cash available to the Company to invest in the growth of its business.

The Company presents EBITDA because the Company believes it is frequently used by securities analysts, investors and other interested parties in evaluating similar issuers, most of which present EBITDA when reporting their results. Nevertheless, EBITDA has limitations as an analytical tool and it should not be considered in isolation from, or as a substitute for, analysis of the Company's results of operations. As a measure of performance, EBITDA presents some limitations for the following reasons:

- it does not reflect the Company's cash expenditures or future requirements for capital expenditures or contractual commitments;

- it does not reflect changes in, or cash requirements for, the Company's working capital needs;

- it does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments on, the Company's debt;

- it does not capture differences in income taxes, which may be significant even for companies operating in the same sector or country;

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and EBITDA does not reflect any cash requirements for such replacements;

- it does not reflect foreign exchange gains or losses; and

- other companies in the Company's industry may calculate these measures differently from the way the Company does, limiting its usefulness as a comparative measure.

Rounding

Some numerical and percentage amounts included in this Investment Memorandum have been subject to rounding adjustments. Accordingly, numerical and percentage amounts shown as totals in certain tables may not be an arithmetic aggregation of the amounts that preceded them.

Lack of Comparability of Certain Financial Information

Certain line items from the Company's consolidated statements of income for the year ended December 31, 2011 are not directly comparable to the Company's consolidated statements of income for the years ended December 31, 2012 and December 31, 2013 due to the reclassification of certain line items. The financial information derived from the Financial Statements (as set forth in "*Summary - Summary Historical Financial Information*" and "*Selected Historical Consolidated Financial Information*") has not been reclassified. The reclassifications had no impact on net profit and comprehensive income or equity for the year ended December 31, 2011. The above-mentioned reclassifications did not affect changes in the Company's accounting policy.

Currency The functional currency of the Company is the Kazakhstan Tenge. Accordingly, transactions in currencies other than the Company's functional currency are translated into Tenge at the exchange rates prevailing on the applicable transaction dates.

Unless otherwise indicated, all references to "**KZT**" or "**Tenge**" are to the lawful currency of Kazakhstan, all references to "**U.S. $**" or "**U.S. Dollars**" are to the lawful currency of the United States of America and all references to "**EUR**" or "**Euro**" are to the single currency of the European Economic and Monetary Union.

Information Regarding Kazakhstan and the Company's Market and Industry

Statistical data and other information appearing in this Investment Memorandum relating to Kazakhstan, and the electric power industry therein, have, unless otherwise stated, been extracted from documents and other publications released by the Statistics Agency of Kazakhstan, the Ministry of Finance of Kazakhstan, the NBK and other public sources in

Kazakhstan, including the NBK's Annual Report published on the official website of the NBK (www.nationalbank.kz). Some of the market and competitive position data appearing in this document has been obtained from U.S. government publications and other third-party sources, including publicly available data from the World Bank and the International Monetary Fund as well as from Kazakhstan press reports and publications of resolutions of the Government of Kazakhstan (the "**Government**"). In the case of the presented statistical information, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source.

The information described above has been accurately reproduced and, as far as the Company is aware and has been able to ascertain from information published by those sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where third party information has been used in this Investment Memorandum the source of such information has been identified.

FORWARD-LOOKING STATEMENTS

This Investment Memorandum includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including, but not limited to, terms such as "believes", "estimates", "expects", "anticipates", "may", "should" or the negative forms of these terms, or other variations or comparable terminology, or by discussions of strategies, plans, objectives and goals, future events or intentions. The forward-looking statements include all matters that are not historical facts and they appear in several places throughout this Investment Memorandum. Forward-looking statements include, but are not limited to, statements about:

- KEGOC's intentions, beliefs and statements of current expectations concerning, amongst other things, KEGOC's results of its operations, financial condition, liquidity, prospects, growth and strategies;
- KEGOC's expectations for future changes in its tariffs; and
- the development of the industry in which KEGOC operates.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which may or may not occur. Forward-looking statements are not guarantees of future performance. The actual results of the Company's operations, the Company's financial condition and liquidity, and the development of Kazakhstan and the industry in which the Company operates may differ materially from those described in or suggested by the forward-looking statements contained in this document. Important factors that could cause actual results to differ materially from KEGOC's expectations are contained in the cautionary statements in this document and include, among others, the following:

- operational limitations, including equipment failures and labor disputes;
- the Company's inability to enforce its rights under the Relationship Agreement, which was entered into between the Company and the Fund seeking to regulate certain aspects of the relationship between the Company and the Fund;
- assumptions underlying KEGOC's financial estimates regarding its business activity;
- changes in governmental regulation, including tariff policy, and governmental actions that may affect operations or the Company's planned investment program;
- the extent and nature of KEGOC's future strategy and business development;
- further development of the power sector in Kazakhstan;
- KEGOC's expectations with regard to risks having a material effect on its business activity;
- unfavorable changes in the economic or political conditions in Kazakhstan;
- unplanned events or accidents affecting the Company's operations or facilities; and
- KEGOC's dividend policy.

These and other factors are discussed in more detail in the sections titled "*Risk Factors*", "*Management Discussion and Analysis of Results of Operations and Financial Condition*" and "*Business*". Many of these factors are beyond KEGOC's control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document as anticipated, believed, estimated or expected. Save as required by law or by any appropriate regulatory authority, KEGOC does not intend, and does not assume any obligation, to update any industry information or forward-looking statements set out in this Investment Memorandum.

Any forward-looking statements in this Investment Memorandum reflect the Company's current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the Company's business, financial condition, results of operations, growth, strategy and liquidity.

Any forward-looking statements speak only as of the date of this Investment Memorandum. Subject to any obligations imposed by law, rule or regulation, the Company undertakes no obligation to update publicly or review any forward-looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to the Company or individuals acting on the Company's behalf are expressly qualified in their entirety by the information herein. Prospective investors should specifically consider the factors identified in this Investment Memorandum which could cause actual results to differ before making an investment decision.

EXCHANGE RATE INFORMATION

The following tables show, for the periods indicated, certain information regarding the exchange rate between the Tenge and the U.S. Dollar, based on data published by the NBK.

These rates may differ from the actual rates used in the preparation of the financial information provided herein.

	Tenge per U.S. Dollar			
	High	Low	Average	Period End
Year Ended December 31,				
2009	151.4	120.8	147.5	148.4
2010	148.5	146.4	147.3	147.4
2011	148.4	145.2	146.6	148.4
2012	150.9	147.5	149.1	150.7
2013	154.5	150.2	152.1	153.6
January, 2014	155.54	154.06	154.79	155.54
February, 2014	184.95	155.46	172.44	184.06
March, 2014	184.08	181.78	182.33	182.04
April, 2014	182.07	182.01	182.04	182.05
May, 2014	183.96	182.01	182.36	183.05
June, 2014	183.51	183.49	183.51	183.51

No representation is made that the Tenge or U.S. Dollar amounts in this Investment Memorandum could have been, can or will be able to be, converted to Tenge or U.S. Dollar, as the case may be, at any particular rate or at all.

SUMMARY

The following summary should be read as an introduction to the more detailed information appearing elsewhere in this Investment Memorandum. Prospective investors should read the entire Investment Memorandum carefully, including the Financial Statements, before investing in the Shares. In particular, prospective investors should consider carefully the factors set forth under the heading "Risk Factors". This summary does not contain all of the information that may be important to investors, and any decision by a prospective investor to invest in the Shares should be based on consideration of the Investment Memorandum as a whole, and not solely on this summarized information.

Overview

KEGOC is a company incorporated in Kazakhstan which renders services related to electricity transmission, technical dispatch and electricity production and consumption balancing services in Kazakhstan. The Company was established in 1997 as part of an initiative by the Government to restructure the management of the power system in Kazakhstan. It currently employs 4,729 people. As of the date of this Investment Memorandum, the Company is a wholly-owned subsidiary of Joint Stock Company Sovereign Wealth Fund Samruk-Kazyna (the "**Fund**"), and upon completion of the Offering, the Fund will own at least 90% plus one share of the Company.

As the state-appointed system operator, the Company operates Kazakhstan's unified electric power system (the "**UPS**"). As of the date of this Investment Memorandum, the UPS consists of (a) the national power grid (the "**NPG**"); (b) 76 power plants (including eight power plants of national importance); (c) 21 local distribution network companies connected directly to the NPG; and (d) 129 bulk consumers. KEGOC owns, operates, maintains and repairs the NPG, which consists of 24,564.733 kilometers of 35-1150 kV high voltage transmission lines and 77 substations. KEGOC provides electricity transmission over interstate and interregional electric power transmission lines, and the links between regional electric power grid companies and bulk consumers. The remaining UPS assets are owned by third parties. KEGOC does not own any interests in the power plants which generate electricity or in the companies which own and operate the local distribution networks. KEGOC is generally only responsible for the transmission of electric power from the power plants to the distribution companies and bulk consumers. KEGOC does not engage in the transmission of electric power to retail customers.

The Company's principal role is to maintain the steady operation of the UPS and to exercise control over the NPG in accordance with current technical, economic and environmental requirements. KEGOC is working to achieve its goals by:

- fulfilling the requirements of the Kazakhstan Government to maintain the reliable operation of the UPS;
- seeking to provide shareholder value by developing its primary business and increasing the NPG's transit potential, as well as pursuing the export potential of the Kazakhstan UPS; and
- developing practices of corporate governance and stable development.

In 2013, the Company generated total revenue of KZT 73,811,723 thousand from its core activities. Of its core revenue, KZT 44,351,735 thousand was generated from the Company's electricity transmission activities, KZT 10,827,210 thousand from technical dispatching and KZT 6,843,284 thousand from the balancing of generation and consumption of electric power. The remaining core revenue amount was generated from:

- the sale of electric power for compensation of hourly deviations of the actual interstate balance of electric power exchange from the planned schedule;
- the sale of purchased electric power to compensate for unsanctioned crossflows;
- the sale of capacity reservation services; and
- power balancing services, etc.

Strengths

The Company has the following key strengths, which management believes will enable it to retain and strengthen its position as the leading electricity transmitter in Kazakhstan:

As the owner and operator of the NPG, the Company is Kazakhstan's leading electric power transmitter

Under Kazakhstan law, KEGOC is the system operator appointed by the Ministry of Energy and is the owner and operator of the NPG. Therefore, it has the right to transmit electricity through the NPG, which includes substations, distribution units and interregional and/or interstate electricity transmission lines. As the system operator, the Company also provides services relating to dispatching and balancing the production and consumption of electric power. Each of transmission, dispatching and balancing services are included in the list of natural monopoly activities provided by the Natural Monopolies Law. KEGOC is included in the State Register of Natural Monopolies and is regulated by the Natural Monopolies Law. The Company has limited competition in the Kazakhstan market from the operators of private transmission lines.

In 2013 the Company provided (a) electricity transmission services of 41,055 million kWt/hour which comprised 40.13% of total electricity consumption in Kazakhstan, (b) technical dispatching services in the amount of 83,863 million kWt/hour, and (c) balancing of electric power generation and consumption in the amount of 153,521 million kWt/hour. Management believes that the Company will continue to maintain its right to own and operate the NPG under the laws and regulations of Kazakhstan, thus enabling KEGOC's continued position as the country's leading transmitter of electricity and the entity primarily responsible for the provision of dispatching and balancing services.

The Company has a significant asset base and an established track record in capital investments

Through the enactment of Government regulations following the independence of Kazakhstan, the Company was granted the right to own and operate the NPG, which currently consists of approximately 24,564,733 kilometers of 35-1150 kV transmission lines and related infrastructure. The Company has been implementing an investment program to maintain and update the electric substations' equipment and increase the capacity of electricity transmission between regions of the country in order to more efficiently manage the transmission of electricity. The Company has gained experience in its large-scale investment projects and believes it will be able to successfully implement the next phases of its investment program.

Stable macroeconomic environment in Kazakhstan with a growing demand for electricity

According to published statistical data, Kazakhstan's gross domestic product grew by 5% in 2012, 6% in 2013 and is anticipated to grow by 5% in 2014. The substantial growth in the Kazakhstan economy has led to an increasing demand for electricity. Between 2010 and 2013, the electricity transmission services of the Company increased from 30.3 billion kWh to 41.1 billion kWh, representing an annualized increase of 8.3%. Kazakhstan also has low levels of sovereign debt. The stable macroeconomic environment in Kazakhstan, including the stable growth of the domestic economy is expected to result in an increase in retail and industrial demand for the transmission of electricity.

Strong shareholder and governmental support

The Company is currently wholly owned by the Fund. Upon completion of the Offering, the Fund will continue to own 90% plus one share of KEGOC. The Fund's stated mission is to increase the national welfare of the Republic of Kazakhstan through maximizing the value of its holdings and efficient management of the Fund's Group assets. As a result, management believes that the Fund will continue to play a significant role in the Company's operations and the development of the Company following the Offering. The Fund's significant role in the economic development of Kazakhstan is expected to assist the Company in pursuing the Company's investment program, improving its operating efficiency and maintaining relationships with leading industrial consumers, as well as in creating new relationships with industrial consumers in Kazakhstan and in the export market.

Competent management team with extensive experience and highly qualified workforce

KEGOC benefits from a strong management team whose members possess a broad range of experience. Members of senior management have previously held a number of senior positions in Kazakhstan's electric power companies and state administration bodies. The management team has played a central role in the Company's growth. Management believes its experience will be of vital importance to the successful implementation of Company strategy and business expansion. In addition, the Company has been successful in attracting highly skilled, professional and committed personnel with many years of experience in operating and maintaining the transmission networks. Management believes that the Company's position as the country's leading electricity transmitter aids in recruiting high caliber candidates. The Company provides extensive training opportunities, including an apprenticeship program, to support and develop the skills and broad experience of its employees. KEGOC's employees report high levels of satisfaction, which aids in the efficient operations of the Company.

Attractive dividend policy

The Company may propose dividends on an annual and semi-annual basis reflecting six monthly and year end results. The payment of dividends is governed by the laws of Kazakhstan, the Company's Charter and its dividend policy. In accordance with the dividend policy, the Company intends to pay dividends of no less than 40% of its net income for the relevant financial period. However, the ability to pay dividends and the actual amount of any dividend payment will be subject to the laws of Kazakhstan which restrict and may prohibit the payment of dividends. In addition, the Board of Directors must take into account the contractual and other obligations of the Company and any other relevant factors, including the financial position of the Company, forecasts regarding the financial position and the Company's needs for funds (e.g., for capital expenditures and investment plans).

Strategy

KEGOC's mission is to provide for the reliable functioning and effective development of the Kazakhstan UPS in accordance with the latest technical, economic, environmental, labor safety and health protection standards. The main strategic objective of KEGOC's management is for the Company to become an independent, competitive commercial organization that can work successfully in Kazakhstan and in the global economic environment. As part of the process of achieving this core strategic objective, KEGOC will focus on the following strategies:

Maintaining the reliable functioning of the Kazakhstan NPG in accordance with the needs of Kazakhstan

To enable it to maintain the reliability of the NPG, in 2000 KEGOC commenced an investment program focused on the reconstruction and upgrading of its substations and transmission system's equipment. The Company's current investment program covers the period from 2015 through 2025 and includes the reconstruction and upgrading of existing assets with a total expected investment cost of KZT 142.1 billion, including KZT 84.8 billion allocated for rehabilitation of the electric power lines. Management believes that KEGOC's focus on upgrading and maintaining its electric power transmission infrastructure will increase its reliability, efficiency and useful economic life, as well as improve the operating performance of the NPG by reducing the volume of technological electric power that the Company requires in order to transmit the electric power throughout the NPG, along with reducing maintenance and repair costs.

Expanding the NPG to promote the growth of the Company's business and to accommodate the needs of Kazakhstan

The NPG is being improved through the construction of new electric power lines and substations which should cover the increasing demand for electric power in Kazakhstan. Therefore, at present, in accordance with the strategic plans of the Company, the investment portfolio of the Company includes 16 priority projects relating to development of the NPG. The Company's current investment program covers the period from 2015 through 2025 and includes projected capital expenses in the amount of KZT 429.3 billion for construction of new infrastructure and upgrading of the existing electric power transmission lines and substations. The investment program provides for the construction of additional electric power transmission lines with the network length of 4,571 km. Management believes that construction of new power lines and substations will enable the Company to enhance the reliability of the electric power supply to consumers, increase the capacity, increase the volume of transmitted electric power and create additional export and transit opportunities, all of which would in turn improve efficiency and accommodate the growth of the Company's business.

Enhancing the effectiveness of the Company's operations

In order to make its operations more effective, the Company uses innovative technologies, has invested in new equipment, intends to further invest in new equipment and has set the goal of optimizing the levels of transmission losses. In addition, the Company has introduced an advanced asset management system and a balanced scorecard system to monitor the Company's operations.

Providing shareholder value

KEGOC seeks to increase profitability and provide shareholder value through obtaining tariffs based on components that reflect actual costs, operational efficiency, increasing the volume of services, improving the quality of servicing clients based on studies of clients' satisfaction and participating in the process of improving the relevant tariff policy and power energy laws.

Improving and increasing the efficiency of the electric power market in Kazakhstan

As a system operator, KEGOC is actively involved in improving and increasing the effectiveness of the electric power market in Kazakhstan. KEGOC provides balancing services as one of its three core services. The launch of a short-term balancing market in 2016 seeks to enable the creation of market mechanisms aimed at encouraging consumers to reduce electricity consumption during the period of peak loads and power generating organizations to cover the power shortage by maintaining power reserves in a state of readiness to generate additional volumes of electricity in the event such additional volumes are needed.

The Company believes that the launch of the power capacity market will provide a basis for the long-term reliability of the Kazakhstan UPS by providing a platform for the rapid development of generating capacity. The Company believes this will improve the industry's investment appeal.

In addition, KEGOC is involved in the centralized purchase and sale of electricity generated using renewable energy sources ("**RES**") through its subsidiary organization, Settlement and Financial Center to Support Renewable Energy LLP.

Developing practices of corporate governance and stable development

KEGOC continues to pursue a policy of improving corporate governance and seeks to introduce best practices in this area. As a member of the UN Global Compact, KEGOC reaffirms its commitment to the principles of the Global Compact in matters of human rights, labor, environment and the fight against corruption.

Maintaining a stable partnership relationship with electric power companies of neighboring countries

The Company aims to maintain and develop cooperative relationships with electric power companies in neighboring countries through monitoring and coordinating operations with their power systems. As the system operator, the Company also aims to promote the interests of the UPS in relations with the power systems of Central Asia, Russia and other neighboring countries and to cooperate with its counterparts from the other CIS countries in the creation of a CIS electric power market. Most notably, the Company aims to promote the interests of the UPS in a unified electric power market with Russia and Belarus, in accordance with the ongoing integration in the Customs Union and establishment of the Eurasian Economic Union ("**EEU**").

The Company seeks to increase and improve its cross border activities. On May 29, 2014 the leaders of Kazakhstan, Russia and Belarus signed the treaty on the establishment of the Eurasian Economic Union, which contemplates, among other things, the establishment of a unified energy market between member-states. KEGOC, in its capacity as the system operator, acts as a member of the Electric Power Committee of the Eurasia Economic Committee and in the Committee on Establishment of Unified Energy Market of the Eurasian Economic Union.

In addition, the availability of large coal basins, natural gas and uranium fuel reserves in Kazakhstan, which substantially exceeds its own needs, creates the potential for the production and further export of electric power. The availability of interstate electric power transmission lines of 220 – 500 kV allows KEGOC to supply electric power to neighboring countries.

Risk Factors

An investment in the Shares of the Company is subject to risks relating to the Company's business and industry, political, social, economic and legal risks associated with Kazakhstan, and to risks arising from the nature of the Shares, including, among others, risks associated with the following matters:

Risks Relating to the Company

The Company has been subject to, and may continue to be subject to, adverse regulatory developments and a strict regulatory operating environment.

The Company's revenues and profitability are dependent on the current tariff policy, which in turn is reliant on legislative provisions, including those adopted by the regulator, its interpretation of the tariff regulation system and its calculation of the tariff amounts.

The regulator has a level of discretion in defining the extent of the grounds for tariff adjustment and their application in practice.

The long-term tariff structure may not provide the Company with sufficient return if the actual volume of services and their cost significantly deviate from the projected volume and cost.

Revisions to the asset valuation and tariff structure may may have a material adverse effect on the Company.

Although the Offering has been structured to comply with Kazakhstan law, it could be construed in a manner which would conflict with the prohibition of the privatization of the NPG.

A change in the Company's status as systems operator would have a material adverse effect on the Company's performance and prospects.

The Company relies on the services of third parties.

The Fund's interests as the Company's principal shareholder may differ from the interests of the Company and from those of the holders of the Shares.

The Company may be unable to enforce its rights under the Relationship Agreement with the Sole Shareholder.

The Company has recently taken a number of measures for the implementation of an employee reduction policy.

The Company's transmission capacity may be disrupted, which could result in the imposition of material penalties.

The condition of certain of the Company's assets may cause limitations on the level of its operating standards and/or require significant renovation and expansion work.

The failure of the Company to deliver its investment program on time and according to the approved budget could affect the Company's business.

The Company could be held responsible for losses and damages caused to third parties as a result of failures in its electricity transmission lines as well as interruptions or disturbances that may not be attributed to any identifiable third party.

The Company's insurance may not be sufficient to cover certain losses.

The Company is dependent on its management for its knowledge and expertise and the loss of competent management may adversely affect the Company's business, financial condition and results.

The Company's management has never been responsible for managing a listed Company.

The Company's business may be affected by slowdowns, stoppages, strikes and other disruptions due to labor-related developments.

The Company might have difficulty in attracting debt or equity financing for capital expenditure.

The Company's level of leverage may impair its profitability.

The Company is subject to various environmental laws and requirements to obtain permits for environmental emissions that affect its operations, which may expose it to costs, liabilities, obligations or restrictions.

A violation of health and safety requirements and the occurrence of accidents could disrupt the Company's operations and increase operating costs.

The Company's rights of way and real property rights may be challenged.

The Company depends on information and processing systems to operate its business, the inaccuracy or failure of which could adversely affect its financial condition and results.

Adverse decisions in lawsuits and other proceedings to which the Company or any member of the Company is a party may adversely impact the Company's business and affect its financial condition and results.

Risks Relating to Kazakhstan

The Company is exposed to general risks associated with operating in an emerging market.

The Kazakhstan economy could be adversely affected by economic developments in economies in other countries.

Any changes in laws, regulations or permit requirements to which the Company is subject could require substantial expenditure or subject the Company to material liabilities or other sanctions.

The Kazakhstan corporate governance code is not perceived to be effective at ensuring strong corporate governance practices in Kazakhstan.

External factors could have an adverse impact on Kazakhstan's economy.

The Currency Control Law could adversely affect the Company's foreign currency dealings.

The NBK may again decide to support the exchange rate of the Tenge, which may adversely impact the financial sector and the economy of the Republic of Kazakhstan

There is uncertainty regarding the outcome of the implementation of market-based economic reforms.

A slowdown in economic growth in Kazakhstan could adversely impact the Company's business.

The Kazakhstan economy could be adversely affected by commodity prices, foreign currency fluctuations and its dependence on export trade.

All of the Company's operations are conducted in Kazakhstan. Accordingly, it is substantially dependent on the economic, political and social conditions prevailing in Kazakhstan.

The taxation system in Kazakhstan is at a relatively early stage of development. The interpretation and application of tax laws and regulations are evolving, which significantly increases the risks with respect to the Company's operations and investment in Kazakhstan.

The Company cannot ensure the accuracy of official statistics and other data in this Investment Memorandum published by the Kazakhstan authorities.

Risk Factors Relating to the Offering and the Shares

An active trading market for the Shares may not develop.

Kazakhstan has a less developed securities market than the United States, the United Kingdom and other Western European Countries, which may hinder the development of an efficiently functioning market for the Shares.

The price of the Shares may fluctuate significantly.

Payment of dividends by the Company depends on a large number of factors.

Financial turmoil in emerging markets may lead to unstable pricing of the Shares.

Return on an investment in the Shares may be affected by charges incurred by investors.

Future offerings of debt or equity securities by the Company may adversely affect the market price of the Shares and dilute existing shareholders.

Financial statements may not be directly comparable across periods.

The Investment Memorandum does not contain financial statements for the nine months ended September 30, 2014.

Shares may be subject to taxation.

The foregoing is neither a comprehensive list nor a detailed description of the risks and uncertainties to which KEGOC and the Offer are subject. For further information, see "*Risk Factors*".

Summary Historical Financial Information

The following tables set forth the Company's historical consolidated financial information and other operating information as of and for the years ended December 31, 2011, 2012 and 2013 and for the six months ended June 30, 2014. The financial information set forth below has been derived from, and should be read in conjunction with, the Financial Statements included elsewhere in this Investment Memorandum. Ernst & Young has audited the financial statements as of and for the years ended December 31, 2012 and December 31, 2013 and has reviewed the Unaudited Interim Financial Statements for the six months ended June 30, 2014 and Deloitte has audited the financial statements as of and for the year ended December 31, 2011. The summary financial information should be read in conjunction with "*Presentation of Financial and Other Information*", "*Management's Discussion and Analysis of Results of Operations and Financial Condition*", and the Financial Statements (including the notes to the Financial Statements) included elsewhere in this Investment Memorandum.

	As of December 31,			**As of June 30,**	
	2011 (Audited)	**2012 (Audited)**	**2013 (Audited)**	**2013**	**2014**
		(KZT thousands)		*(KZT thousands)*	
Statement of Financial Position					
Non-current assets	176,699,251	189,344,946	319,615,755	191,189,064	473,445,342
Current assets	40,869,277	43,059,890	47,705,971	47,033,014	55,809,639
Total assets	**217,568,528**	**232,404,836**	**367,321,726**	238,222,078	529,254,981
Equity	**120,965,687**	**126,560,042**	221,181,463	129,075,310	332,197,751
Long-term liabilities	78,121,436	84,403,326	118,413,645	87,445,475	168,981,623
Current liabilities	18,481,405	21,441,468	27,726,618	21,701,293	28,075,607
Total liabilities	96,602,841	105,844,794	146,140,263	109,146,768	197,057,230
Total Equity and Liabilities	**217,568,528**	**232,404,836**	367,321,726	238,222,078	529,254,981

	As of December 31,			**As of June 30,**	
	2011 (Audited)	**2012 (Audited)**	**2013 (Audited)**	**2013**	**2014**
		(KZT thousands)		***(KZT thousands)***	
Consolidated Statement of Total Income					
Revenue	57,249,517	65,855,173	73,811,723	34,976,552	42,685,668
Cost of sales	(41,451,948)	(49,268,483)	(55,574,322)	(26,152,847)	(34,650,783)
Gross profit	**15,797,569**	**16,586,690**	18,237,401	8,823,705	8,034,885
General and administrative expenses	(5,976,393)	(5,829,446)	(6,422,878)	(2,837,073)	(6,332,064)
Selling expenses	(156,142)	(168,612)	(154,408)	(87,131)	(74,386)
Revaluation (loss)/gain			(-26,807,757)		14,194,012
Operating income	9,665,034	10,588,632	(-15,147,642)	5,899,501	15,822,447

	As of December 31,			As of June 30,	
	2011 (Audited)	**2012 (Audited)**	**2013 (Audited)**	**2013**	**2014**
		(KZT thousands)		*(KZT thousands)*	
Interest income from deposits, current accounts, and bond coupons	1,699,050	1,604,788	1,797,051	862,971	822,647
Finance costs	(2,457,956)	(1,991,132)	(2,021,023)	(967,831)	(1,693,881)
Foreign exchange gain/(loss)	1,306,839	(1,806,822)	(2,680,967)	(100,897)	(13,367,026)
Other income	736,475	138,783	381,865	74,102	115,677
Other expenses	(249,108)	(49,423)	(17,631)	(120,388)	(35,932)
Profit/(loss) before income tax expense	**10,700,334**	**8,484,826**	(-17,688,347)	5,647,458	1,663,932
Income tax expense	(2,878,089)	(1,543,797)	(3,188,073)	(1,337,303)	(1,076,012)
Profit/(loss) for the year	**7,822,245**	**6,941,029**	(-14,500,274)	4,310,155	587,920
Loss from revaluation of available-for-sale investments	(167)	-	(110,801,004)	(115,578)	(111,109,831)
Total comprehensive income/(loss) for the year	**7,822,078**	**6,941,029**	96,300,730	4,194,577	111,697,751

(1) The line items in the Company's consolidated statement of income in respect of revenue, cost of sales, other expenses, general and administrative expenses and finance costs are not directly comparable between the year ended December 31, 2011, on the one hand, and the year ended December 31, 2012, on the other hand, as a result of a change in the way in which certain revenue, costs and expenses are recognized. In order to enable comparability, across the relevant period, the relevant line items for the year ended December 31 2011 have been reclassified and are as set forth below. The reclassifications had no impact on net profit and comprehensive income for the year ended December 31, 2011 or equity as of December 31, 2011:

	Year ended December 31, 2011		
(KZT thousands)	**As previously reported**	**Reclassification**	**As reclassified**
Revenue(1)	54,793,163	2,456,354	**57,249,517**
Other income(1)	3,192,829	(2,456,354)	**736,475**
Cost of sales(2)	(39,581,302)	(1,870,646)	**(41,451,948)**
Other expenses(2)	(2,119,754)	1,870,646	**(249,108)**
General and administrative expenses(3)	(6,332,179)	355,786	**(5,976,393)**
Finance costs(3)	(2,102,170)	(355,786)	**(2,457,956)**

(1) Revenue from sale of purchased electricity in the amount of KZT 1,794,017 thousand, Revenue from electric power reserving services in the amount of 528,197 thousand, and Revenue from servicing power network assets in the amount of KZT 134,140 thousand were reclassified from Other income to Revenue;

(2) Cost of sale of purchased electricity in the amount of KZT 1,781,250 thousand and Cost of servicing power network assets in the amount of KZT 89,396 thousand were reclassified from Other expenses to Cost of sales;

(3) Commission on bank guarantees in the amount of KZT 355,786 thousand was reclassified from General and Administrative expenses to Finance costs.

	As of December 31,					As of June 30,	
	2011 (Audited)	2012 (Audited)	2011	2012	2013 (Audited)	2013	2014
	(KZT thousands)		% change		*(KZT thousands)*	*(KZT thousands)*	
Consolidated Statement of Cash Flows							
Net cash flow from operating activities	17,536,699	14,664,826	2.0	(16.4)	14,458,324	9,849,809	5,839,389
Net cash flows used in investing activities	(35,010,626)	(19,276,465)	117.1	(44.9)	(17,999,863)	(7 358,328)	(7,034,090)
Net cash flows used in financing activities	21,595,473	3,127,659	(844.0)	(85.5)	6,988,560	1 000,888	6,915,157
Net change in cash and equivalents	4,121,446	(1,483,980)	(325.2)	(136.0)	3,447,021	3,492,369	5,720,456
Net foreign exchange difference	46,551	(15,155)	(697.7)	(132.6)	236,032	47,001	765,190
Cash and cash equivalents at January 1	5,375,640	9,543,637	(25.5)	77.5	8,044,502	8 044,502	11,727,555
Cash and cash equivalents at December 31	9,543,637	8,044,502	77.5	(15.7)	11,727,555	11 583,872	18,213,201

	As of December 31,					As of June 30,	
	2011 (Audited)	2012 (Audited)	2011	2012	2013 (Audited)	2013	2014
	(KZT thousands)		% change		*(KZT thousands)*	*(KZT thousands)*	
EBITDA[(1)]							
EBITDA	**17,225,413**	**17,871,308**	**10.5**	**3.8**	**20,207,138**	**9,156,058**	**9,534,572**
EBITDA margin, %	30.1%	27.1%	24.1	15.0	27.4	27.2	22.3

EBITDA is defined as income from core operating activities, less the cost of services and general administrative expenses before amortization, and less selling expenses. EBITDA margin is defined as EBITDA divided by revenue from core operating activities. While the amounts included in EBITDA and EBITDA margin have been derived from the Company's consolidated financial statements, they are not financial measures calculated in accordance with IFRS and, accordingly, should not be considered as an alternative to revenue or total comprehensive income/(loss) as a measure of the Company's liquidity. The Company's management currently uses EBITDA and EBITDA margin in its business operations to, among other things, evaluate the performance of its operations, develop budgets and measure its performance against those budgets. The Company's management finds EBITDA and EBITDA margin useful tools to assist in evaluating performance because EBITDA and EBITDA margin eliminate items related to depreciation and amortization, interest expense, taxes and other non-cash charges. In addition, the Company believes EBITDA and EBITDA margin are measures commonly used by investors. As EBITDA and EBITDA margin are non-IFRS measures, the following table provides a reconciliation of EBITDA and EBITDA margin to IFRS line items of the income statement:

	As of December 31,					As of June 30,	
	2011 (Audit)	**2012 (Audit)**	**2011**	**2012**	**2013 (Audit)**	**2013**	**2014**
	(KZT thousands)		*% change*		*(KZT thousands)*	*(KZT thousands)*	
Revenue	57,249,517	65,855,173	24.1	15.0	73,811,723	34,976,552	42,685,668
Cost of sales	(41,451,948)	(49,268,483)	27.3	18.9	(55,574,322)	(26,152,847)	(34,650,783)
General and administrative expenses	(5,976,393)	(5,829,446)	24.5	(2.5)	(6,422,878)	(2,837,073)	(6,332,064)
Selling expenses	(156,142)	(168,612)	(30.2)	8.0	(154,408)	(87,131)	(74,386)
Depreciation and amortization	7,560,379	7,282,676	7.3	(3.7)	8,549,023	3,616,557	7,906,137
EBITDA	17,225,413	17,871,308	10.5	3.8	20,209,138	9,561,058	9,534,572
EBITDA margin, %	30.1%	27.1%			27.4	27.2	22.3

THE OFFER

The Issuer…………………..	Joint Stock Company Kazakhstan Electricity Grid Operating Company ("**KEGOC**"). KEGOC is a joint stock company established and registered under the laws of Kazakhstan.
The Offer…………………...	The offer comprises 25,999,999 ordinary shares issued by the Company. The Shares are being offered in the Republic of Kazakhstan to the citizens of the Republic of Kazakhstan and JSC "Unified Accumulative Pension Fund" organized under the laws of Kazakhstan.
The Shares………………….	25,999,999 ordinary shares of the Company.
Offer Price………………….	KZT 505 per Share.
Financial Advisor, Sole Co-ordinator and Bookrunner…………………	JSC "Subsidiary of Halyk Bank of Kazakhstan 'Halyk Finance'".
Use of Proceeds…………….	The Company plans to apply the net proceeds of the Offering to finance its investment program. Until the proceeds are used for such purpose, the funds will be deposited in second tier Kazakhstan banks.
Charter Capital……………...	On February 26, 2013 the Fund, the sole shareholder of the Company at that time, decided on a share split of the ordinary shares of the Company in the 1:20 proportion. The share split was registered with the NBK on March 18, 2013. Prior to the Offering, the Company's charter capital amounted to KZT 114,362,123 thousand and consisted of 234,000,001 issued and fully paid ordinary shares. The Company's share capital is divided into ordinary shares which give its shareholders certain rights, including voting rights, which are discussed in section "*Description of Charter*".
Dividend Policy…………….	The Company may make annual or semi-annual distributions of dividends. In accordance with the Company's dividend policy, the Company intends to pay dividends of no less than 40% of the net income for the relevant financial period. However, the actual amount of any proposed dividend payment will be subject to the laws of Kazakhstan which restrict and may prohibit payments of dividends certain circumstances. The distribution of dividends by the Company will be dictated primarily by, and will be adjusted from time to time to reflect the investment needs of the Company. The

	declaration and payment of dividends are governed by the legislation of Kazakhstan and depend, among other things, on the Company's net income, financial condition, capital requirements and contractual and other obligations. If dividends are declared, they are paid in Kazakhstan Tenge or, subject to consent of the shareholder, in shares or bonds issued by the Company. For more information, see "*Dividends and Dividend Policy*".
Listing and Market for the Shares……………………….	The Shares have been admitted to the first category of the sector "*Shares*" of the Official List of the KASE. For more information see "*Subscription and Settlement*". The shares of KEGOC are not listed on any other stock exchanges, and the Company does not currently intend to list its shares on any other stock exchange.
Settlement Procedures……...	See "*Subscription and Settlement*".
Voting………………………	Holders of shares in the capital of the Company are entitled to one vote per share at a shareholders' meeting. For more information, see "*Description of the Charter*".
Risk Factors………………………	Any investment in the Shares involves risk. Prospective investors should carefully consider risks relating to the Company and the Shares discussed in "*Risk Factors*" and elsewhere in this Investment Memorandum.
General Information………..	NIN: KZ1C34930012 ISIN: KZ1C00000959 CFI: ESVUPR Address of the Company: Republic of Kazakhstan, Astana, 010010, Almaty district, pr. Tauelsizdik, 59 Website: www.kegoc.kz

RISK FACTORS

Prior to investing in the Shares, you should carefully review this entire Investment Memorandum and, in particular, should consider all the risks inherent in making such an investment, including the risk factors set forth below. The Company may also face additional risks and uncertainties that are not presently known to it or that, as of the date of this Investment Memorandum, it deems to be immaterial, but which might still impair its business. The information in this Risk Factors section includes forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in the forward-looking statements as a result of numerous factors, including those described in "Forward-Looking Statements".

Risks Relating to the Company

The Company has been subject to, and may continue to be subject to, adverse regulatory developments and a strict regulatory operating environment.

The Company operates in a highly regulated industry and, as such, its results depend on the applicable regulatory framework and the interpretation and application of such framework by the relevant controlling and regulatory bodies, namely the Ministry of National Economy of the Republic of Kazakhstan ("**MNE**") and the State Committee for Nuclear Power and Energy Supervision under the Ministry of Energy of the Republic of Kazakhstan ("**ME**").

The Company is listed in the state register of monopolies in accordance with the Natural Monopolies Law. As a result, subject to certain exceptions, the Company is restricted from performing anything but the regulated activities prescribed to it thereunder. Consequently, the Company has limited scope for commercial flexibility or diversification, and is generally restricted to operating within the electricity transmission industry in Kazakhstan. Therefore, the Company is vulnerable to fluctuations in the Kazakhstan electricity market, which could have a material adverse effect on its profitability if the market suffers a downturn.

Governmental authorities which regulate or control the Company may, from time to time, adopt new regulations, reverse their position on regulatory matters, fail to amend existing regulations or slow down or accelerate electricity reform, any of which may materially adversely affect the Company's business, financial condition, results of operations and prospects.

The Mazhilis of the Parliament of Kazakhstan is currently considering amendments to the Natural Monopolies Law which is the primary regulation governing natural monopolies in Kazakhstan. Several draft amendments have been proposed to date, but none have been in final form or adopted. The Company and certain other state-controlled companies affected by the proposed amendments have received drafts of the amendments to allow them to provide feedback to the relevant Kazakhstan authorities. Although the Company does not believe the proposed amendments would have a material adverse impact on the Company, any amendments in the form adopted may have an adverse impact on the Company and other natural monopolies. In most cases, a draft law may significantly evolve while under review by the Mazhilis and the committees of Parliament. The Company does not have knowledge of how the actual amendments to the law may be drafted and when any such amendments may be enacted.

The Company's revenues and profitability are dependent on the current tariff policy, which in turn is reliant on legislative provisions, including those adopted by the regulator, its interpretation of the tariff regulation system and its calculation of the tariff amounts.

All of the Company's revenue derived from its core activities is regulated in accordance with the provisions of the Natural Monopolies Law and is limited by the level of approved tariffs. The Company's tariffs are set forth according to a "cost-plus" method. The Company's ability to influence the level of tariffs is limited to providing supporting documents to the MNE to justify the inclusion of certain costs into the tariff calculation. For purposes of setting tariffs, the Company assumes a fair profit on the capital. This allows the Company to set tariffs at a level guaranteeing the coverage of justified costs plus a permissible level of "profit" (as defined by MNE). The MNE is allowed to disagree with costs declared by the Company or with the levels of costs determined by the Company. The MNE could also disagree with regard to projections made by the Company, such as with respect to the volume of the relevant services. The MNE consults experts on the relevant calculations of the components used to set tariffs. These experts may include employees of state agencies, consumer groups and other natural monopolies. This decision can result in a rejection of the costs and other criteria submitted by the Company, which will thus not be taken into account for the setting of tariffs for the next period. As a result, this may have an overall negative impact on the Company's profitability, (i.e., the Company will have to cover deviations between the approved costs and the actual results of operations out of its net income).

In addition to the above, the prices for the services of certain subjects of natural monopolies are included in the calculation of the inflation index and are viewed as important contributors to inflation. In connection, on May 8, 2012, the then existing Agency for the Regulation of Natural Monopolies ("**ARNM**") and the Ministry of Economic Development and Trade of the Republic of Kazakhstan approved a methodology for calculating the acceptable impact on inflation from changes to the tariffs (i.e., prices, rates and levies) for the services of subjects of natural monopolies and the regulated market for a specific calendar year. Following the recent changes in the structure of the Government, the functions of the ARNM and the Ministry of Economic Development and Trade have been transferred to the MNE. As a matter of Government policy, an increase in the tariffs of KEGOC may be constrained due to the potential effect that such tariff increase will have on inflation in Kazakhstan.

There is also the possibility that regulated tariffs will be set at a level so as to prevent the Company from preserving its current investment capacity while generating an acceptable return on the capital invested in its transmission facilities.

Furthermore, the current tariff regulation may be expanded or modified and new schemes or methodologies of setting tariffs may be introduced. There can be no assurances that the tariff structure will not be changed in the future in a manner adverse to the Company, which could have a negative impact on the Company's business, financial condition and results of operations of the Company and prospects of the Company in general.

An interim adjustment of the existing tariffs during a tariff control period may only be approved by the regulator in a limited set of circumstances which are beyond the Company's control. These include force majeure events, deviations of actual volumes from estimated ones or measures taken to prevent accidents or any breach of technical standards or to comply with mandatory orders from state authorities. Additionally, exceptional measures taken by the MNE to safeguard human life or health, property, companies or the environment or to compensate for an increase in electric power prices or taxation may merit a tariff adjustment.

The regulator has a level of discretion in defining the extent of the grounds for tariff adjustment and their application in practice.

The Company has historically sought tariffs on an annual basis. Therefore, any deviation from the Company's reasonable costs for a relevant year could only affect the relevant current tariff year and the Company could adjust such costs in the following year by submitting a new request reflecting costs for the next annual tariff period. The Company is currently on a two year tariff period and intends to seek a five year tariff period with the MNE, which has become the standard tariff control period in accordance with the amendments to the Natural Monopolies Law in 2013 and 2014. Consequently, the Company currently bears a larger risk in the event that the Company's actual costs are greater than the approved "justified" costs submitted by the Company at the beginning of the multi-year tariff periods. The ability of the Company to seek interim adjustment is limited, as adjustment may only be sought on the basis of the limited grounds mentioned above, and there can be no assurances that the Company will be able to seek interim adjustments to the tariff during the current two year tariff period or for any future multi-year period. It is unclear how the MNE will treat construction costs or other events that generate costs or increased costs during the multi-year tariff period.

The possible formation of a common electricity market under the EEU Treaty may result in some sort of electricity tariff system reform (including the determination of the transmission, balancing and dispatching tariffs), and may directly or indirectly affect the Company's revenues.

The long-term tariff structure may not provide the Company with sufficient return if the actual volume of services and their cost significantly deviate from the projected volume and cost.

Due to the recent changes in the Natural Monopolies Law, in 2015 the Company will apply for the multi-year maximum tariffs which will be in effect for five years (or longer). This change reflects the Company's intention to create greater stability and longer-term predictability of tariffs and revenues. There is a risk that the MNE will not approve the maximum levels of tariffs proposed by the Company or that it will delay amendments to the approved maximum tariffs following an increase in the costs of services, because during the effective period of tariffs they may only be changed in the event of the limited set of circumstances mentioned above (i.e., force majeure, etc.), which is subject to regulatory approval. If the MNE does not increase the long-term maximum tariffs following an increase in the cost of services, the profits of the Company will decrease.

Revisions to the asset valuation and tariff structure may have a material adverse effect on the Company.

In 2013 the Company completed a revaluation of its asset. The Company's assets had not been revalued since it commenced operations in 1997.

Since the value of assets is a factor used in calculation of tariffs, the amount of the Company's tariffs and, consequently, the revenue of the Company have increased.

The revaluation of the assets will be implemented between 2013 and 2017, according to a five year schedule developed by the Company. However, the MNE may, at its discretion, apply a different transition schedule or may evaluate and adjust the value of the assets previously considered for each subsequent tariff control period. However, the management board of the ARNM issued an official letter to the Company on April 19, 2013 referring to Resolution No. 15 of April 16, 2013, which approved the increase of the Company's RAB by KZT 199 billion and its implementation calendar according to the five year schedule.

In 2014, the Company has done a subsequent additional revaluation as part of the change of policy of asset valuation from the 'historical cost' method to the 'fair market value' method for IFRS reporting purposes. Consequently the value of the Company's assets on its balance sheet is now higher than the assets values used for tariff setting purposes. The Company expects to seek inclusion of the revalued assets in future tariff control periods but there is no assurance as to whether the new 2014 revaluation will be approved by the regulator and, if so, what amounts or what timeframe for phasing-in any approved increase in the RAB will be decided for tariff setting purposes.

In addition, the Company expects to conduct revaluations from time to time as it reviews and considers the value and use of such assets in its business.

Furthermore, the ARNM has adopted a number of special procedures for setting the tariffs of the companies participating in the People's IPO Program. These special provisions establish a more favorable method for determining the value of the assets involved in providing the regulated services and increasing the regulated rate of return. In compliance with the new provisions, KEGOC may apply increased tariffs once the Government approves the Offering.

However, the regulator may change its position and revise these recent amendments, which could have an adverse impact on the Company's business, financial condition, results of operations and business prospects.

Although the Offering has been structured to comply with Kazakhstan law, it could be construed in a manner that could conflict with the prohibition of the privatization of the NPG.

This Offering is part of the People's IPO Program and involves the sale of the Shares of KEGOC. The Offering does not involve a sale of assets by the Company, notably no assets comprising the NPG are being sold. The definition of the NPG in the Power Industry Law states that the assets which constitute the NPG (i.e., a network of substations, switchgears, interregional and/or inter-state transmission power lines and transmission power lines transmitting the electric energy of electric power stations with a voltage of 220 kV and greater) may not be privatized and shall be transferred to a national company in accordance with the procedures and on terms which are determined by the Government. This provision in the law was introduced pursuant to the Edict of the President No. 422 dated July 28, 2000 "On the List of State-Owned Facilities Which Must Not Be Privatized".

In anticipation of the Offering, the above-mentioned Edict of the President was abolished and replaced with a new Edict of the President of the Republic of Kazakhstan "On the List of Facilities Which Must Not be Alienated". The new Edict does not include electric power lines among the list of assets that may not be privatized and, consequently, no longer prohibits their transfer.

In addition to the prohibition of privatization of certain assets, the Republic of Kazakhstan also controls the transfer of a range of assets, designated as "strategic assets" that have special importance for the stable development of the society of Kazakhstan. Such "strategic assets" may be owned privately or publicly but may not be transferred without a relevant decision of the Government. The state also has a preemptive right to purchase "strategic assets" in the event they are sought to be transferred. By Decision of the Government of the Republic of Kazakhstan No. 651 dated June 30, 2008, the NPG and the Shares of the Company were designated as "strategic assets".

In preparation for the Offering, the Company has obtained a Government decision approving the Offering and the number of Shares to be offered. The Company has also obtained an additional decision excluding such number of Shares equal to 10% less one share of the share capital of the Company from the list of "strategic assets".

However, the broad prohibition of privatization of individual assets, including the assets of the NPG, provided for by the Power Industry Law is still in effect. The Company believes that this Offering does not constitute the privatization of the assets of NPG, which is prohibited, because after the Offering the Company will remain the sole owner of the NPG.

In order to strengthen the Government's control over "strategic assets", on July 2, 2014, the Law On Amending and Supplementing Certain Regulatory Norms of the Republic of Kazakhstan Regarding the State Governance was adopted, amending the Power Industry Law. In particular, under the law as amended, a national management holding (i.e., the Fund) is prohibited from disposing of shares of a national company (in this case, KEGOC) that would result in the Fund owning less than 90% plus one voting share in the Company. The Fund, together with KEGOC, has taken steps to structure the Offering such that KEGOC is selling no more than 10% less one share and, therefore, the Fund will own no less than ninety percent plus one share.

However, there remains a risk that the Offering may be open to criticism and adverse publicity and may be subject to challenge. Whist the existing Government is in support of the People's IPO Program and this Offering, successive Governments may not show the same support. Any criticism by Government agencies or by future Governments of Kazakhstan may potentially affect the Company's business, results of operations and financial condition.

There are also no assurances that the laws regarding privatization of the NPG and the sale of KEGOC shares will not be further amended in ways that may negatively affect the Offering.

A change in the Company's status as systems operator would have a material adverse effect on the Company's performance and prospects.

According to the Power Industry Law, the system operator is a national company which implements real-time dispatching control, ensures parallel work with energy systems of other states, maintains the balance of the energy system, renders system services, purchases auxiliary services from other entities in the wholesale market of electricity, transmits electricity through the NPG and carries out the maintenance and ensures the operational capability of the NPG. As the system operator appointed by the ME, KEGOC has the sole right to operate the NPG and is responsible for transmission, dispatching and balancing services. However, the ME has the right to select another system operator. Any change in KEGOC's status as the country's system operator would have a material adverse effect on its position as the country's leading transmitter of electricity, which would have a material adverse effect on the financial performance and prospects of the Company.

The Company relies on the services of third parties.

The Company relies on its own human resources and material resources as well as, to a certain extent, external contractors in order to maintain and repair its assets and infrastructure. The Company also relies on external contractors to implement investment projects including major rehabilitation, reconstruction and construction work, as well as in relation to the purchase of equipment and spare parts.

Some services required for the Company's operations and implementation of some of its projects are currently available on commercially reasonable terms only from a limited number of providers. Any failure or delay in the performance of such services to a level the Company determines is satisfactory may lead to operational interruption or other adverse effect on the Company's operations and projects. Such delays or interruptions could have a material adverse effect on the Company's business, results of operations and financial condition.

Furthermore, the Company is subject to the rules governing the procurement of goods, works and services imposed on the Fund and entities in which the Fund directly or indirectly holds 50% or more of the voting shares or participatory interests, as approved by the board of the Fund on May 26, 2012 (the "**Samruk-Kazyna Procurement Rules**"). The Samruk-Kazyna Procurement Rules provide for different means of purchase. However, the Company purchases most goods, works and services by holding an open tender. The Samruk-Kazyna Rules require the Company to prepare detailed tender documents and to announce the purchase at least 15 days prior to the deadline for submitting bids for each tender.

For each tender, the Company forms a tender commission which will determine the winner. As a general rule, procurement agreements are entered into for one year. However, in specific cases agreements can be entered into for a longer term. Agreements can be renewed only after completion of a further tender. Therefore, the Company holds a significant number of tenders for goods, works and services, which results in delays, increased transaction costs and increased management time associated with procurement. The Company's inability to engage the necessary suppliers and contractors in a timely fashion or to establish long-term commercial relationships with preferred third parties as a result of being obliged to comply with the Samruk-Kazyna Procurement Rules could impair its operations and increase its operating costs. If the Company has to replace a contractor or a supplier, there can be no assurance that such replacement can be found in a timely manner and without significant additional expense.

The Fund's interests as the Company's principal shareholder may differ from the interests of the Company and from those of the holders of the Shares.

After giving effect to the Offering, the Fund and the Government (acting through the Fund) will continue to own a significant majority of the Company's shares. Pursuant to the People's IPO Program, KEGOC plans to sell 10% less one share through the Offering. The Fund and the Company have entered into the Relationship Agreement which will govern their relationship and provides certain guidelines following the Offering. See "*Principal Shareholder*", "*Related Party Transactions – Relationship Agreement*" and "*Risk Factors – Risks Relating to the Company – The Company may be unable to enforce its rights under the Relationship Agreement with the Sole Shareholder*". Nonetheless, there are certain inherent risks for minority shareholders of KEGOC due to the control that the Fund, and ultimately the Government, has over KEGOC as its principal shareholder.

The Fund, as the majority shareholder of the Company, is and will continue to be in a position to control the decisions that are made on most matters submitted to the Company's General Meeting of Shareholders ("**GMS**"), including the declaration of dividends, the appointment of management, reorganizations, liquidations, mergers and acquisitions, and amendments to the Company's Charter. Furthermore, the Fund exercises significant influence over the business strategy and operations of KEGOC through its effective control over KEGOC's Board of Directors. This concentrated control will limit the ability of other shareholders to influence corporate matters and, consequently, may result in decisions and actions by KEGOC that minority shareholders may not regard as in their best interests or otherwise beneficial.

There can be no assurance that the principal shareholder's approval will be obtained for any action by KEGOC which requires shareholders' approval, even if KEGOC's management deems it to be advisable. Additionally, there is nothing to prevent the principal shareholder from engaging in activities that are in competition with KEGOC's current businesses or activities. The interests of the Government as the principal beneficial shareholder of the Fund and the interest of KEGOC could conflict with the interests of other shareholders and the Government may make decisions that could have a material adverse effect upon the Company's business, financial condition, results of operations and prospects. Some of these decisions may not be driven by purely commercial considerations, but may be motivated by the political, economic or social goals of the Government. In such cases, the Company's business, financial condition, results of operations and prospects could be materially adversely affected.

As a result of the foregoing, KEGOC may undertake certain social duties such as the construction of social and recreational infrastructure, charitable activities, community development programs and other tasks customarily associated with governmental and quasi-governmental social spending and social, economic and industrial policy. As a regulated entity and as a company controlled by the Fund, KEGOC believes that its social profile and its involvement in activities associated with social, economic and industrial policy are an important part of its profile in Kazakhstan and doing business in Kazakhstan.

KEGOC, like other state controlled companies in Kazakhstan, has supported the development of Astana through maintaining its administration, managerial personnel and its headquarters in Astana and through the Company's support of socially beneficial projects in this city. Thus, the Company, at its own expense, is undertaking the construction of a kindergarten and is providing various types of sponsorship aid. Such activities entail capital expenditures which would otherwise apply towards the development of its business or payment of business expenses and, whilst consistent with applicable law, may be significant. KEGOC believes these projects are consistent with community and social objectives that maintain the Company's profile in Kazakhstan as a good corporate citizen and a socially responsible company.

The Government, through the Fund, may also adopt decisions involving or affecting the Company which may reflect the Government's domestic and foreign policy and such decisions may differ from decisions which would be adopted by a private company in the electric power transmission business operating solely for profit and for the benefit of shareholders.

In connection with the creation of the Eurasian Economic Union between Russia, Belarus and Kazakhstan, KEGOC, as the system operator, participates as a member of the Consulting

Committee for Electric Power at the Collegium of Eurasian Economic Commission and the Subcommittee for the Creation of the Common Electric Power Market of the Eurasian Economic Union in connection with preparing for the concept program to create a common electric power market by July 1, 2019. While such activities are helpful in preparing the Company for operating in the business, economic and political environment of the Eurasian Economic Union, KEGOC is guided primarily by the interests of Kazakhstan and makes decisions reflecting domestic and foreign policy considerations of Kazakhstan, and not by the interests of the Company itself.

The Company has also engaged in, and may continue to engage, in transactions with related parties, including the Government, the Fund and other companies controlled by the Government or in which the Government holds a significant interest. Conflicts of interest may arise as a direct or indirect result of the Company entering into transactions on terms that are not determined by market forces or may be less beneficial to the Company than if they had been entered into with an unaffiliated third party.

The Company may be unable to enforce its rights under the Relationship Agreement with the Sole Shareholder.

The Company has entered into the Relationship Agreement with the Fund seeking to regulate certain aspects of the relationships between the Company and the Fund. The Fund, as the controlling shareholder, of the Company has agreed to certain restrictions intended to balance management of the Company while also taking into account the interests of both the Fund and the minority shareholders. Although Kazakhstan law does not expressly prohibit entering into such agreements, there is no established practice for this type of agreements in Kazakhstan. There can be no assurances that Kazakhstan courts would fully comprehend the legal concept and core principles of the Relationship Agreement. In addition, as a matter of Kazakhstan law, certain fundamental rights and entitlements may not be contractually limited or restricted (unless specifically authorized by law). Although the Company believes that the Relationship Agreement does not limit or restrict the Fund’s fundamental rights and entitlements, there can be no assurances that a Kazakhstan court would come to the same conclusion and enforce the Relationship Agreement against the Fund, as intended. In addition, even if the courts fully honor the rights and obligations set forth in the Relationship Agreement, there is no guarantee that the courts would issue a decision requiring specific performance, as the rulings to take certain actions or refrain from acting may be difficult to enforce in practice.

The Company has recently taken a number of measures on the implementation of an employee reduction policy.

In 2013 and 2014, the Company implemented an employee reduction policy pursuant to which the Company’s manpower structure was optimized and certain ancillary services were outsourced. Although the Company believes that its current headcount is sufficient to conduct its business activities efficiently, there can be no assurances that the recent reduction will not have an adverse effect on the Company’s operations and financial performance. The KEGOC Development Plan for 2015-2019 does not provide for a reduction of personnel or headcount. However, the Plan is not immune to further changes and, therefore, the Company cannot ensure that it will maintain the current headcount level. Any further reduction in the Company’s headcount could have an adverse effect on its business, financial condition, results and prospects.

The Company's transmission capacity may be disrupted, which could result in the imposition of material penalties.

The Company's business depends on its ability to transmit electricity over long distances through the NPG. The Company's financial condition and results of operations would be adversely affected if a natural disaster, accident, terrorist activity, human error, or other disruption were to cause a material curtailment of its transmission capacity**.**

Since November 2011, Uzbekenergo SJSC ("**Uzbekenergo**"), an Uzbek company responsible for the transmission and distribution of electric power in Uzbekistan, has engaged in systematic violations of the parallel operation of the energy systems of Uzbekistan and Kazakhstan resulting in unscheduled offtakes of electricity from the UPS. This imbalance in the operation of the Uzbek energy system creates the risk of the overload and shutdown of the North-South power transit lines of Kazakhstan. The Company and Uzbekenergo have entered contracts in an effort to regulate such unscheduled offtakes.

Uzbekenergo has not paid or has delayed payment for the actually received electric power on multiple occasions. KEGOC has successfully instituted arbitration claims against Uzbekenergo for the repayment of the existing payments owed by Uzbekenergo under contracts from 2013-2014. See "*Business – Legal Proceedings*".

Uzbekenergo has repaid certain portions of the outstanding payments to the Company, but any such failure to pay in a timely manner negatively affects the Company. KEGOC has appealed to the Kazakhstan Government for assistance in resolving these issues at the intergovernmental level. The Kazakhstan Government supported this initiative and has sent the relevant request to the Uzbekistan Government. However, KEGOC cannot ensure that the measures taken will enable it to recover all the debt that has been accumulated by Uzbekenergo and that similar situations will not occur again in the future, which could cause even more substantial losses in KEGOC's trading position.

There is no guarantee that any future disruption (except for disruptions caused by a force majeure event, such as natural disasters, military actions, etc.) to its ability to transmit electricity will not result in significant penalties being imposed on the Company, which may have an adverse effect on its financial condition and results of operation.

The condition of certain of the Company's assets may cause limitations on the level of its operating standards and/or require significant renovation and expansion work.

A significant portion of the Company's assets are highly depreciated. Those of the Company's assets which are old may limit the Company's operating efficiency and/or cause substantial transmission losses, which could impair the Company's performance and/or result in the Company incurring significant costs to repair or replace such assets, which would then have an adverse impact on the Company's profitability. In order to improve the condition of these assets, the Company has increased efforts concerning replacement measures through the launch of a comprehensive modernization program. The investment budget formed to implement this investment program until 2025 is primarily allotted for the costs associated with the construction of new NPG facilities and modernization of equipment. Successful implementation of investment projects for construction and reconstruction of high-voltage power lines is expected to significantly help ensure reliable and efficient operation of the NPG and, as a result, the ability of the Company to generate revenue. Nevertheless, the risk of significant additional costs to repair or replace existing assets remains and could impact the Company's profitability. In addition, the budgets for the investment programs are approved by the MNE and there is a risk that if the actual costs for investment programs exceed the approved cost, the Company's profitability could be adversely affected. In multi-annual tariff periods, investment programs will need to be submitted for a long term and upfront, (i.e., at the beginning of the relevant tariff period). The *ex ante* nature of the regime will mean that there could be uncertainty about the reasonableness of the investment program and related revenue forecast, which in turn may significantly impact cost. It is also unclear how investment expenditure in a tariff period will be dealt with if delivery of the investment is foreseen in future tariff periods.

In addition, upgrades to the transmission system through investment in new equipment are intended to improve the performance of the system and reduce grid losses. The losses in the NPG are attributed not only to old assets, but also to the significant length of the NPG and the mismatch between the historical configuration of the UPS where the majority of power generation capacities are concentrated in the north of Kazakhstan but the majority of the power consumption is in the south of Kazakhstan. Thus, the potential for reductions in grid losses through modernization of the existing transmission assets and adjustment of their operation is limited in part because grid losses through transmission over larger distances would be unaffected.

While the Company maintains an emergency reserve of material and spare parts, it does not maintain a mandatory inventory of spare parts. Kazakhstan laws and regulations do not require the Company to carry an inventory of spare parts. If the Company were to exhaust its supply of spare parts and be unable to replace them in a timely or cost-effective manner, the Company's ability to repair or replace its assets could be adversely affected, which would also have a material negative effect on the Company's business, financial condition, results of operations and business prospects.

The failure of the Company to deliver its investment program on time and according to the approved budget could affect the Company's income.

The Company's investment program is approved by the authorized bodies, namely the MNE and the ME. The advance approval process of the investment program budget means that excessive costs may require a scaling back of the investment program, the result of which could be a decrease in the effectiveness of the investment program. Both could have a significant impact on the Company's profitability, adversely affecting its business, financial condition, results of operations and business prospects.

The Company could be held responsible for losses and damages caused to third parties as a result of failures in its electricity transmission lines, as well as interruptions or disturbances that may not be attributed to any identifiable third party.

Under applicable Kazakhstan law, the Company could be held liable for the payment of damages to third parties as a result of any failures in the operation of its equipment or transmission facilities that have caused interruptions or disturbances in the distribution systems of such third parties.

While the Company is entitled to claim compensation from a third party responsible for any damage caused, such recourse does not mitigate the Company's risk of exposure to potential liabilities in the first instance.

The Company does not maintain insurance coverage against civil liabilities that might result from such events and these events could have a material adverse effect on the Company's business, results, operations and financial condition. As a result, the Company's ability to pay dividends could be adversely affected.

The Company's insurance may not be sufficient to cover certain losses.

The Company insures its assets on an annual basis for emergencies, as well as unexpected and unforeseen natural disasters (e.g., blizzards, snowstorms, windstorms, earthquakes and floods). In 2014, the amount of insurance coverage is KZT 134 billion. Under the standard industry practice, the columns and transmission lines of the Company are not included in the coverage and the Company does not have additional insurance coverage for them. The Company is also not insured against any suspensions of operations. There is no guarantee that the columns and transmission lines will not be significantly damaged, or that any subsequent expenses to replace damaged columns and transmission lines will not significantly affect the financial position of the Company.

The Company is dependent on its management for its knowledge and expertise and the loss of competent management may adversely affect the Company's business, financial condition and results.

The Company's current and future business and performance depends significantly on the continuous contribution of the Company's managers, senior management and its highly skilled team of engineers and other key employees. It is also dependent on the Company's ability to attract, train, motivate and retain key management, as well as commercial and technical personnel, with the necessary skills and experience.

The Company's current sole shareholder, the Fund, has a rotation policy with respect to key management personnel at the companies it owns, including KEGOC. As a result, the Company cannot guarantee that it will be led by the same group of executives in the future, or that in the event that new executives are hired to replace the former executives, they will have the same knowledge and experience. The replacement of such executives could be disruptive and time consuming. The Company does not currently maintain "key man" insurance with respect to any member of its senior management, and there could be significant costs incurred with respect to the replacement of any departing executives.

The Company relies significantly on its technical and engineering employees, as well as its skilled and unskilled workforce. Ongoing competition for personnel could result in additional increases in labor costs which are currently limited by the existing tariff mechanisms or an inability to recruit or retain necessary personnel, each of which could materially and adversely affect the Company's business, financial condition, results and prospects.

The Company's management has never been responsible for managing a listed Company.

Publicly listed companies are typically more onerous to manage than their privately held counterparts. Publicly listed companies are subject to additional requirements including, amongst other things, disclosure requirements for certain information. Because of their potentially large investor base, public companies are subject to a higher level of scrutiny from any interested parties. The Company has not been listed before and the Company's management has never been responsible for the day to day running of a listed company or experienced the increased responsibilities that this may entail. Any additional burdens on management resulting from the Company becoming a publicly traded company could lead to less effective management of the Company, which could adversely affect the Company's business, financial condition, results and prospects.

The Company's business may be affected by slowdowns, stoppages, strikes and other disruptions due to labor-related developments.

A significant majority of the Company's employees are members of a labor union. The Company has enjoyed good relations with its employees' trade unions and has a workforce reporting high levels of satisfaction, but there can be no assurance that a work slowdown, work stoppage or strike will not occur prior to or upon the expiration of the Company's current labor agreements. Work slowdowns, stoppages, strikes and other labor-related developments could have an adverse effect on the Company's business, financial condition, results and prospects.

The Company might have difficulty in attracting debt or equity financing for capital expenditure.

The Company has undertaken large capital expenditure programs in the past and expects to continue implementing the capital expenditure program in the future. The Company expects that its capital expenditure projects will be funded through existing cash resources and the incurrence of additional indebtedness and/or the issuance of additional equity. Although the Company has been successful in attracting third party financing to date, it is possible that this may be more difficult in the future. This could prevent the Company from meeting its capital expenditure targets, which could negatively impact its operating profit and subsequently affect the marketability of the Shares.

Although the Fund, in its capacity as the Company's principal shareholder, has provided additional capital to the Company in the past, there is no assurance that the Fund will be willing or able to provide such support in the future. Furthermore, through its ownership of a significant majority of the Company's voting share capital, the Fund has the ability to block any increase in the Company's capital and no assurance can be given that, if the Company requires a capital increase, the Fund will approve such increase or participate in the subscription for any new Shares or other forms of equity or otherwise provide financing to the Company. Any inability to raise sufficient amounts of capital could substantially limit the Company's ability to increase the size of its asset base, to finance its capital expenditure or to meet its debt obligations.

In addition, the issuance of any new equity would be dilutive to existing shareholders that are unable to participate in such capital increase. See *"Risk Factors – Future offerings of debt or equity securities by the Company may adversely affect the market price of the Shares and dilute existing shareholders"*.

The Company's level of leverage may impair its profitability.

As of December 31, 2012, the Company's total consolidated indebtedness under loans and other forms of borrowing, denominated in U.S. Dollars, Euros and Tenge, amounted to the equivalent of approximately KZT 80,808,814,000 (approximately U.S. $536,081,000). As of December 31 2013, the total consolidated indebtedness of the Company and its subsidiaries (the "**Group**") denominated in U.S. Dollars, Euros and Tenge was approximately KZT

92,541,273,000 (U.S. $602,443,000). The Company's level of leverage may impair its ability to service its indebtedness, to obtain additional financing in the future, to withstand adverse economic conditions or to take advantage of significant business opportunities that may arise**.**

Fluctuations of the U.S. Dollar and other currencies against the Tenge could affect the Company's business, financial condition and results of operations.

The Company's revenues are denominated in Tenge, but the majority of the Company's total consolidated indebtedness and interest expense is denominated in U.S. Dollars and Euros. The mix of the Company's revenue and interest expense is such that the appreciation of the U.S. Dollar and/or the Euro against the Tenge tends to result in a decrease of the Company's revenues relative to its costs and a decline in its results of operations. In addition, the Company does not hedge against its foreign currency exposure, in part because the cost of hedging is non-recoverable through the Company's tariffs regime approved by the MNE. As a result, an appreciation of the U.S. Dollar against the Tenge could adversely affect the Company's financial condition and its ability to service its U.S. Dollar and Euro denominated indebtedness. In 2012, the Company had a foreign exchange loss of KZT 1,806,822 thousand, compared with foreign exchange gains of KZT 1,306,839 thousand and KZT 368,557 thousand in 2011 and 2010, respectively.

From February 11, 2014 the exchange rate of KZT versus all main currencies increased and this had a negative impact on the Company and the results of its operations. In the first six months of 2014, the Company had an exchange rate loss of KZT 13,367,026 thousand. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Foreign Exchange Gain/(Loss)*".

The Company is subject to various environmental laws and requirements to obtain permits for environmental emissions that affect its operations, which may expose it to costs, liabilities, obligations or restrictions.

The Company must obtain environmental emission permits from local executive authorities to conduct its activities and perform its services. In certain cases, the issuing body may amend, update or revoke environmental permits issued to the Company.

The Company's main activity of transmitting electric power does not significantly impact the environment. The Company's ordinary operations are not believed to have a significant impact on the water environment or on the atmosphere. The main activity of the Company does not produce any specific wastes. Water consumption by the Company is negligible because water is not used in the Company's activities. In order to reduce the Company's environmental risks in accordance with environmental control programs, specialized organizations monitor the condition of environment, including air condition, applying laboratory and calculation methods annually.

To date, the Company has not incurred significant expenditures with respect to environmental liability. It has taken measures to mitigate environmental liabilities including, but not limited to: complying with applicable waste removal procedures, working with the relevant authorities to facilitate their inspections, implementing an environmental management system which is certified by TÜV NORD CERT GmbH (Germany), a German authority qualified to certify management systems, subjecting its investment projects to state environmental expert review and the quarterly reporting requirements of the multi-lateral financial institutions (such as the EBRD), which have financed the Company's projects, and carrying out annual greenhouse gas inventory checks.

However, there can be no assurances that the Company will successfully comply with its environmental obligations in the future. Additionally, future environmental laws, regulations and authorizations may require the Company or another member of the Company to incur additional costs in order to bring its transmission systems into, and maintain, compliance. Particularly with respect to infrastructure situated close to or in urban areas, the Company's ability to expand its infrastructure and to meet increased demand could be limited by such future requirements.

Consequently, the Company's future costs, liabilities, obligations and restrictions relating to environmental matters could potentially have a material adverse effect on its business, financial condition and results. This could adversely impact its profitability and ability to create shareholder value.

A violation of health and safety requirements and the occurrence of accidents could disrupt the Company's operations and increase operating costs.

A violation of health and safety laws or failure to comply with the instructions of the relevant health and safety authorities could lead to, among other things, a temporary shutdown of all, or a portion of, the Company's transmission facilities and the imposition of costly compliance procedures. If the Kazakhstan health and safety authorities shut down all, or a portion of, the Company's transmission facilities or impose costly compliance measures, the Company's business, financial condition, results and prospects could be materially and adversely affected. In addition, although the costs of compliance with the laws including health, safety and environmental protection are included in the relevant component of justifiable costs for the calculation of tariffs, the regulator is unlikely to include any fines and additional amounts spent to cure violations into the calculation of the tariff, as the ARNM regulations do not allow for such expenses to be included in the justifiable costs for determining tariffs.

The nature of the Company's operations creates a risk of accidents and fatalities amongst its workforce. Although the Company maintains insurance policies to cover such risks, an accident or fatality amongst its workforce could potentially lead to the Company being liable for paying compensation to its workers or their relatives, which could in turn have a material adverse effect on the results and prospects of the Company.

The Company's rights of way and real property rights may be challenged.

Significant portions of the NPG are located on property over or through which the Company has acquired rights pursuant to easements. Although the Company believes that all easements have been prepared, obtained and recorded materially in accordance with applicable laws, legal challenges may be brought with respect to the form, content, priority or recording of such documents, or to the Company's compliance with the terms of such easements.

The Company depends on information and processing systems to operate its business, the inaccuracy or failure of which could adversely affect its financial condition and results.

Information and processing systems are vital to the Company's ability to monitor its transmission facilities and NPG performance, carry out its dispatching and balancing functions, generate invoices to customers, achieve operating efficiencies and meet the Company's service targets and standards. The inaccuracy or failure of any of these information and processing systems could have an adverse effect on the Company's financial and operational condition.

Adverse decisions in lawsuits and other proceedings to which the Company or any subsidiary of the Company is a party may adversely impact the Company's business and affect its financial condition and results.

The Company is involved in a number of judicial and administrative proceedings that, either alone or in combination with other proceedings, could, if resolved adversely in whole or in part, impose material costs, fines, judgments or other losses on the Company. While the Company believes that it has made appropriate provisions for such risks in accordance with applicable accounting rules, certain loss contingencies, particularly those relating to environmental matters, are subject to change as new information develops and it is possible that losses resulting from such risks, if proceedings are decided in whole or in part in an adverse manner, could significantly exceed any provisions which the Company may have established.

Risks Relating to Kazakhstan

The Company is exposed to general risks associated with operating in an emerging market.

Countries with emerging markets, such as Kazakhstan, are generally subject to greater risks, including legal, regulatory, economic, political and social risks, than countries with more developed markets. These risks make capital raising for issuers and borrowers in emerging markets more challenging and may have an adverse effect on economies in these emerging markets. Emerging economies, such as Kazakhstan's, may experience rapid change and, as a result, the information set out in this Investment Memorandum may quickly become outdated. The availability of credit to entities operating within the emerging markets is significantly influenced by the level of investor confidence in such markets as a whole and, as such, any factors that affect investor confidence (e.g., a decrease in credit ratings or state or central bank intervention) could affect the price or availability of funding for entities within these emerging markets. Investors should exercise care when evaluating the risks and suitability in investing in the Company.

The disruptions experienced in recent years due to the impact of the global financial and economic crisis in the international and domestic capital markets have led to reduced liquidity and increased risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in emerging markets such as Kazakhstan may be particularly susceptible to such disruptions, reductions in the availability of credit and increases in financing costs, which could result in financial difficulties for these companies.

Fluctuations in the global economy or an increase in the perceived risks associated with investing in emerging economies could reduce the attraction and appetite for foreign investment in Kazakhstan and adversely affect Kazakhstan's economy. If foreign funding in the Kazakhstan economy declines, it is possible the economy may experience liquidity constraints as a consequence. The Kazakhstan economy is not immune from developments in other emerging market economies. Even if the Kazakhstan economy remains relatively stable, financial unrest or instability experienced in one or more countries with an emerging economy, especially countries in the CIS, the Caspian Sea or Central Asian regions (which recently have experienced significant political instability, including terrorism and internal unrest) could negatively impact the Kazakhstan economy.

The political dispute and armed conflict in Ukraine, political events in Ukraine and Crimea and related events may have an adverse effect on the economic climate in Russia, which could in turn, have a "contagion effect" on the economics of the region, and in particular Kazakhstan, which is a close trading partner to Russia. Should the political dispute and armed conflict in Ukraine continue, new or escalated hostilities occur in Ukraine or other countries, or should new economic or other sanctions, such as limitations on trade, in connection with such conflicts or tensions be imposed, this could have a further adverse effect on the economics of the region, including the Russian economy, and companies active in the region. Inflation has increased above expectations and the credit ratings of a number of major banks in Kazakhstan have been downgraded. The European Union and the United States have imposed sanctions on certain individuals and companies in Russia. Russia has in turn imposed trade sanctions on certain goods and services coming from the United States and European Union. Although the Government of Kazakhstan is taking alleviative measures, such sanctions would have an adverse effect on Russia's economy, which may in turn have an adverse effect on Kazakhstan's economy.

No assurance can be given that the crisis in the Kazakhstan banking sector will not continue or worsen, or that inflation will not continue to rise. Financial problems or an increase in the perceived risks associated with investing in emerging economies may dampen foreign investment in Kazakhstan and adversely affect Kazakhstan's economy. A decline in the Kazakhstan economy could substantially disrupt the Company's business, which would have a material adverse effect on the Company's business, financial condition, results and prospects. In addition, during times of financial turmoil or an increase in the perceived risks associated with emerging economies, companies operating in such emerging markets can face severe liquidity constraints as foreign funding resources are withdrawn. Thus, whether or not Kazakhstan's economy is relatively stable, financial turmoil in any emerging market country, in particular those in the CIS in Central Asian regions which have recently experienced significant political instability (including terrorism), could disrupt the Company's business, which would, in turn, have a material adverse effect on the Company's business, results of operations and financial condition.

Despite the changes in the political, legal and economic situation occurring in Kazakhstan since it became an independent country in 1991, instances of private and governmental corruption have been reported. The effects of corruption on the Company are difficult to predict. Under certain circumstances, this could have a material adverse effect on its business and financial condition.

The Kazakhstan economy could be adversely affected by economic developments in economies in other countries.

Although economic conditions vary from country to country, the perceptions by investors of the events occurring in one country may substantially affect the flow of capital held and securities from issuers into other countries, including Kazakhstan. The Kazakhstan economy was adversely impacted by the political and economic events that occurred in several emerging economies in the 1990s, including the economic crisis in Russia in 1998 when the Government of Russia defaulted on its ruble-denominated securities and the Central Bank of Russia ceased its support of the ruble. In early 2014, the NBK decided to adjust the exchange rate of the Tenge against foreign currencies. This was reportedly caused by the need to maintain the level of the exchange rate between the Tenge and the ruble which had been gradually depreciating during 2013. The need to maintain a certain exchange rate is justified by the need to maintain competitive pricing of Kazakhstan goods, especially in territories within the Customs Union and Eurasian Economic Area.

Furthermore, the Kazakhstan economy may be affected by events in developed economies that are trading partners or that impact the global economy.

In the event any country or any number of important global entities becomes insolvent, such an event could have adverse consequences on the rest of the global financial system. Additionally, the recent global financial crisis has developed in the context of a general global economic slowdown. As a result, a global reduction in the availability of credit could be likely, which could result in an even more pronounced slowdown of global economies. This situation may lead to significant long-term consequences in Kazakhstan, principally due to significant reductions in foreign direct investment. The deterioration in any part of the global economy or in the economic position of Russia or Central Asian countries could have an material adverse effect on the Kazakhstan economy, which could result in adverse effects on the Company's business, financial condition and results.

Any changes in laws, regulations and permit requirements to which the Company is subject could require substantial expenditure or subject the Company to material liabilities or other sanctions.

The Company is required to obtain and maintain on an ongoing basis all permits as required by the laws of Kazakhstan. Failure to obtain all such permits could materially and adversely impact the Company's production, its business, financial condition or results.

The Kazakhstan corporate governance code is not perceived to be effective at ensuring strong corporate governance practices in Kazakhstan.

In 2001, Kazakhstan introduced its first corporate governance code, which became binding in 2003 for companies listed on the KASE. However, the Code of Corporate Governance has not yet proved to be efficient in ensuring a stable practice of corporate governance in Kazakhstan. Although the Company has considered and voluntarily implemented certain international practices associated with corporate governance, the Company is not required to comply with and is not purporting to comply with the UK Corporate Governance Code, principles on corporate governance or similar corporate governance standards of other European Union member states or the United States.

External factors could have an adverse impact on Kazakhstan's economy.

Factors outside Kazakhstan have also had an impact on Kazakhstan's economy, specifically the finance and banking sector. For example, in February 2009, the international rating agency Standard & Poor's downgraded the credit ratings of five of Kazakhstan's largest commercial banks, while the international rating agency Moody's Investors Service downgraded the bank financial strength ratings of six Kazakhstan banks. At the time, the rating agencies stated that these downgrades were the consequence of the increasingly negative impact of the global economic crisis on the Kazakhstan economy, its financial institutions and specifically mounting asset quality and liquidity problems as well as the inability of Kazakhstan banks to refinance their large foreign wholesale debt in large part because of the adjustment of the exchange rate of the Tenge in February 2009. Several commercial banks in Kazakhstan experienced difficulty in refinancing maturing international debt and, as a result, sought short-term funding from the National Bank of the Republic of Kazakhstan ("**NBK**") and substantially limited their issuances of new loans. In addition, several banks have undergone restructurings and/or have received state assistance as part of a restructuring. Several of these restructured banks continue to face challenges and are in the process of further restructurings, which may include changes to their capital structures and business operations. However, there can be no assurance that the restructuring efforts in respect of the Kazakhstan financial sector will ultimately be wholly successful and it is not clear what impact the crisis and the subsequent restructurings will ultimately have on the prospects of Kazakhstan's banks and their customers. The housing and construction industries and small and medium sized enterprises have been particularly affected while larger companies, subsoil use companies and State-owned companies have continued to have access to offshore funding albeit on a more limited basis and on less favorable terms.

The Republic of Kazakhstan has maintained a stable credit rating since April 2010. Any downgrade of sovereign ratings, however, is likely to result in a downgrade of the Company's ratings. Any future downgrade of Kazakhstan's sovereign credit rating and liquidity problems in Kazakhstan's economy could adversely affect its economic development, which could in turn, materially and adversely affect the Group's business, results of operations and financial condition.

The Currency Control Law could adversely affect the Company's foreign currency dealings.

In July 2009, the President of Kazakhstan signed a law on the introduction of various amendments to Kazakhstan's currency control legislation, which came into force as of August 10, 2009. The amendments empower the President, by special action and under circumstances when the economic stability of Kazakhstan is threatened, to introduce a special currency regime that would (i) require the placement of a certain portion of funds resulting from currency transactions into a non-interest bearing deposit in an authorized bank or the NBK, (ii) require a special permit from the NBK for conducting currency transactions, (iii) require the compulsory sale of foreign currency received by Kazakhstan residents, (iv) restrict the use of accounts in foreign banks, and (v) limit the volumes, amounts and currency of settlements under currency transactions. Moreover, the President may impose other requirements and restrictions on currency transactions when the economic stability of Kazakhstan is threatened.

In order for Kazakhstan to remain in compliance with its membership obligations under the Charter of the International Monetary Fund (the "**IMF**"), the new currency regime cannot restrict residents from repaying foreign currency-denominated obligations. As of the date of this Investment Memorandum, the President has not invoked the provisions of these amendments. Accordingly, it is unclear how any implementation of the currency regime would impact the Company. The significant restrictions on the Company's foreign currency dealings could have a material adverse effect on the Company's business, results of operations and financial condition.

The NBK may again decide to support the exchange rate of the Tenge, which would adversely impact the financial sector and the economy of the Republic of Kazakhstan.

The national currency of the Republic of Kazakhstan is the Tenge, which was introduced in November 1993. For the purpose of current account transactions, the Tenge is considered a convertible currency, although it is not freely convertible for the purpose of financial transactions outside the Republic of Kazakhstan. Since the NBK set a floating exchange rate for the Tenge in April 1999, the currency fluctuated significantly prior to its adjustment in February 2009. In the past, the NBK declared a corridor (i.e. a range) for the exchange rate of the Tenge versus the U.S. Dollar. However, in early 2014 the NBK abruptly adjusted the exchange rate of the Tenge against foreign currencies. After this adjustment the exchange rate of the Tenge to U.S. Dollar was maintained within the corridor declared in advance, which led to a slight strengthening of the Tenge. The exchange rate is also affected by the level of inflation in the Republic of Kazakhstan, as higher rates of inflation may lead to devaluation of the currency.

On February 4, 2009, the NBK adjusted the exchange rate of the Tenge to the U.S. Dollar by 18%, with the exchange rate being 143.98 Tenge to 1.00 U.S. Dollar, in part due to pressures on the current account of the Republic of Kazakhstan caused by falling commodity prices (in particular, crude oil and gas). The adjustment of the Tenge rate was also aimed at increasing the competitiveness of Kazakhstan exports. As of December 31, 2009, the official Tenge to U.S. Dollar exchange rate, according to KASE, was 148.36 Tenge to 1.00 U.S. Dollar, reflecting an adjustment of the Tenge rate of 22.8% from the December 31, 2008 level. The official Tenge to U.S. Dollar exchange rate remained relatively stable during the period from 2010 to 2012. As of December 31, 2010, December 31, 2011 and June 30, 2012, the official Tenge to U.S. Dollar exchange rate set by the NBK was 147.4 Tenge to 1.00 U.S. Dollar, 148.4 Tenge to 1.00 U.S. Dollar and 149.42 Tenge to 1.00 U.S: Dollar, respectively. On February 11, 2014 the NBK again adjusted the exchange rate of the Tenge against the U.S. Dollar with the exchange rate rising from approximately 155.6 Tenge to 163.9 on and, finally, to 184.5 Tenge for 1.00 U.S. Dollar by February 13, 2014. Since then, the Tenge has remained stable and has slightly appreciated against the U.S. Dollar to 181.6 Tenge to 1.00 U.S. Dollar.

Although the NBK has announced that it does not plan to revisit regulations on the currency exchange rate, there are no assurances that its policy will not change, and any future decision to support the currency exchange rate or adjust the Tenge rate may cause an adverse effect on the national budget and the economy of the Republic of Kazakhstan, which in turn may adversely affect the business, financial condition or results of operations of the Company.

There is uncertainty regarding the outcome of the implementation of market-based economic reforms.

The need for substantial investment in many enterprises has driven the Government's privatization program. Certain enterprises deemed to be strategically significant by the Government are excluded from the privatization program, although major privatizations in key sectors have taken place, such as full or partial sales of certain large oil producers, gas producers, mining companies and the national telecommunication company.

However, many sectors of the Kazakhstan economy require substantial investment in order to develop and grow, and inadequate business infrastructure restricts economic performance and growth in the private sector. Furthermore, the size of the shadow economy in Kazakhstan is thought to be sufficiently significant that it could adversely affect the implementation of reforms and hinder the efficient collection of taxes. The Government has stated that it intends to address these problems through improvements to the business infrastructure and tax administration and by continuing the privatization process. However, there can be no assurance that implementation of these measures will be effective or that any failure to implement them may not materially and adversely affect the Company's business, financial condition or results.

A slowdown in economic growth in Kazakhstan could adversely impact the Company's business.

The Company's performance and growth of its assets are necessarily dependent on the state of the overall Kazakhstan economy. Kazakhstan's economy could be adversely affected by a general rise in interest rates, weather conditions adversely affecting agriculture, commodity and energy prices, protectionist efforts in other countries or various other factors. In addition, the Kazakhstan economy is in a state of transition. The proportion of the economy formed by the services sector is increasing, while the shares of the industrial, manufacturing and agricultural sectors are declining. Furthermore, significant declines in demand for oil or gas could adversely affect the Kazakhstan economy, which could adversely affect the Company. It is difficult to accurately predict the impact of these fundamental economic changes on the Company's business. Any slowdown in the Kazakhstan economy, or future volatility in global commodity prices, could adversely affect the Company's business.

The Kazakhstan economy could be adversely affected by commodity prices, foreign currency fluctuations and its dependence on export trade.

The Kazakhstan economy is highly dependent on the export of oil, gas, metals and other commodities. As such, the Kazakhstan economy could be adversely affected by volatility of, or a sustained decrease in, oil, gas, metals and other commodity prices. An abundant supply of, or weakened demand for, oil, gas, metals or other commodities in the global markets, a general downturn in the economies of any of the significant markets for oil, gas or other commodities, or a weakening of the U.S. Dollar relative to other currencies could have a material adverse effect on the Kazakhstan economy, which, in turn, could have a material adverse effect on the Company's business, financial condition, results of operations and business prospects.

Because Kazakhstan is negatively affected by low commodity prices and economic instability elsewhere in the world, the Government has promoted economic reform, inward foreign investment and the diversification of the economy. The Government established the National Fund of Kazakhstan in 2000 (the "**National Fund**") to support the financial markets and the economy of Kazakhstan in the event of any sustained drop in oil revenue. Notwithstanding these efforts, weak demand in its export markets and low commodity prices, especially with respect to the oil and gas industry, may adversely affect Kazakhstan's economy in the future, which may materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operations. Most of the Company's operations are conducted, and a substantial part of its assets are located, in Kazakhstan; therefore, the Company is largely dependent on the economic and political conditions prevailing in Kazakhstan. See "*Risk Factors – Risk Relating to Kazakhstan – The Company is exposed to general risks associated with operating in an emerging market*".

The decline in world prices for oil and other commodities from 2008 through early 2009 had a negative impact on the growth prospects of the Kazakhstan economy. The national budget for 2009 to 2011 initially projected revenue on the basis of world oil prices of U.S.$60/bbl. These projections, which were revised to U.S.$40/bbl in light of the continuing decline in world oil prices and were further revised to U.S.$50/bbl for 2009-2010 and U.S.$60/bbl for 2011-2014 as the price of oil began to recover. The national budget for 2015-2017 is based on forecasted oil prices of U.S.$90/bbl. There can be no assurance that further revisions of the national budget will not be required in light of continuing oil price volatility.

While GDP has continued to grow in real terms following the adoption of a floating exchange rate policy in April 1999, there can be no assurance that GDP will continue to grow and any slowdown in GDP growth could adversely affect the development of Kazakhstan and, in turn, the Company's business, results of operations and financial condition.

All of the Company's operations are conducted in Kazakhstan. Accordingly, it is substantially dependent on the economic, political and social conditions prevailing in Kazakhstan.

Kazakhstan's existence as an independent state in 1991 resulted from the dissolution of the former Soviet Union. As such, the modern Republic of Kazakhstan has a relatively short history as an independent nation and has the potential for economic, political, social, legal and fiscal instability. Kazakhstan is moving from a command to a market-driven economy. While this change is establishing a more developed business environment, substantial differences remain between Kazakhstan and western market economies. Specific risks include, among other things, local currency instability, civil unrest (such as those experienced in the Mangistau region in 2011), changes in exchange controls, lack of availability of hard currency, changes in energy price tariffs, taxes, royalty rates, anti-monopoly legislation, nationalization or expropriation of property, and interruptions or blockages of exports. The occurrence of any of these events could have a material adverse effect on the Company's business, financial condition, results and prospects.

President Nazarbayev is 74 years old and has been in office since Kazakhstan became an independent sovereign state in 1991. As a result, Kazakhstan's constitutional succession processes have never been tested. Under President Nazarbayev's leadership, the foundations of a market economy have taken hold, including the privatization of state assets, liberalization of capital controls, tax reforms and pension system development. In May 2007, Kazakhstan's Parliament voted to amend Kazakhstan's Constitution to allow President Nazarbayev to run in an unlimited number of elections. President Nazarbayev was re-elected by a 95.5% majority for a new five year term in elections which took place in early April 2011. While this amendment will allow President Nazarbayev to seek re-election at the end of his term, there is no guarantee that he will seek or achieve re-election. Should another person be elected the President of Kazakhstan, Kazakhstan's political situation and economy could become unstable for a certain period of time and the investment climate in Kazakhstan could change, which could have a material adverse effect on the economy of Kazakhstan.

The taxation system in Kazakhstan is at a relatively early stage of development. The interpretation and application of tax laws and regulations are evolving, which significantly increases the risks with respect to the Company's operations and investment in Kazakhstan.

As tax legislation in Kazakhstan has only been in effect for a relatively short period of time, tax risks in Kazakhstan are generally perceived to be greater than the tax risks in other countries with more developed tax systems. The Company pays generally applied business taxes and also makes mandatory social security contributions for its employees to the state social security fund. Tax regulation and compliance is subject to review and investigation by the authorities who may impose severe fines, penalties and interest charges. Although any increase in taxes requires a similar increase of tariffs pursuant to the tariff regulation, KEGOC may still be affected by the negative changes in its tax regime. Furthermore, the tax regime of dividends and capital gains on Shares may also be changed.

Kazakhstan's tax laws are not always clearly determinable and have not always been applied or enforced in a consistent manner. In addition, the tax laws of Kazakhstan continue to evolve and become more sophisticated. The uncertain application and evolution of tax laws creates the risk of additional and substantial tax payments by the Company in the future, which could have a material adverse effect on the Company's business, financial condition, results and prospects. The tax authorities have the right to impose additional tax assessments for five years after the end of the relevant fiscal period.

The Company cannot ensure the accuracy of official statistics and other data in this Investment Memorandum published by the Kazakhstan authorities.

Official statistics and other data published by Kazakhstan state authorities may not be as complete or reliable as those published by the authorities of more developed countries. Official statistics and other data may also be produced from different bases than those used in more developed countries. The Company has not independently verified such official statistics and other data, and any such official statistics and data relating to Kazakhstan's electricity industry in this Investment Memorandum may therefore, be subject to uncertainty due to outstanding questions regarding the completeness or reliability of such information. Additionally, certain statistical information and other data set out in this Investment Memorandum have been extracted from official Government sources, which were not prepared in connection with the preparation of this Investment Memorandum.

Certain other information contained in this Investment Memorandum is based upon the knowledge and research of the Company's management, using information which has been obtained from unofficial sources. This information has not been independently verified regarding the completeness or reliability of such information and is, therefore, subject to uncertainty.

Material Factors for Assessing Market Risks Associated with the Shares

In addition to the risks associated with investing in emerging markets such as Kazakhstan, each potential investor in the Shares must determine the suitability of any investment in light of his or her individual circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Shares, the merits and risks of investing in the Shares and the information contained or incorporated by reference in this Investment Memorandum along with any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its own particular financial position, an investment in the Shares and the impact that the Shares might have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear any risk related to an investment in the Shares;

- understand thoroughly the terms of the Shares and be familiar with the behavior of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios relating to economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Risk Factors Relating to the Offering and the Shares

An active trading market for the Shares may not develop.

Shares issued and described in this Investment Memorandum may not have an established trading market when placed, and one may never develop. If a market does develop, it may have a low level of liquidity. Therefore, investors may not be able to sell their Shares easily or at prices that will provide them with a return comparable to similar investments for which there is a developed secondary market. If a liquid trading market for the shares does not develop, this may have a severely adverse effect on the market value of Shares. The liquidity of any market for the Shares will depend on the number of holders of Shares, the interest of securities dealers in making a market in the Shares and other factors. The only trading market for the Shares is expected to be on the KASE and the Company currently has no plans to list the Shares on any other stock exchange in the future. The KASE is materially less liquid than stock exchanges in more developed jurisdictions and also has smaller trading volumes. Accordingly, there can be no assurance as to the development or liquidity of any market for the Shares. Furthermore, the relatively low capitalization of the Company may result in reduced liquidity of the Company's shares.

In March 2014 all the assets of all private and state owned pension funds were combined into a single pension fund under the management of the NBK. The combination of all pension funds into a single fund under the management of the NBK may have an adverse impact on the liquidity of the Shares and the resulting share price.

Kazakhstan has a less developed securities market than the United States, the United Kingdom and other Western European Countries, which may hinder the development of an efficiently functioning market for the Shares.

An organized securities market was only established in Kazakhstan in the mid-to-late 1990s and procedures for settlement, clearing and registration of securities transactions may therefore be subject to certain legal uncertainties, technical difficulties and delays. Although significant developments have occurred in recent years, the sophisticated legal and regulatory framework necessary for the efficient functioning of modern capital markets has yet to be fully developed in Kazakhstan. In particular, legal protections against market manipulation and insider trading are not as well developed or as strictly enforced in Kazakhstan, as compared to the United States, the United Kingdom and other Western European countries. Furthermore, it is possible that existing laws and regulations may be applied and enforced inconsistently. In addition, less information relating to Kazakhstan-based entities, such as the Company, may be publically available to investors than is available to investors in entities organized in the United States, the United Kingdom or other Western European countries. The above-mentioned factors may impair foreign investment in Kazakhstan and hinder the development of Kazakhstan's economy.

The price of the Shares may fluctuate significantly.

The initial offer price of the Shares may not be indicative of the market price for the Shares after the listing. Following admission to trading on the KASE, the market price of the Shares could be subject to significant price and volume fluctuations that may be related or unrelated to the operating performance of the Company. The market price of the Shares may fluctuate significantly in response to a number of factors, many of which may be beyond the Company's control, including but not limited to: (i) actual or anticipated variations in the Company's operating results and those of its competitors in any given reporting period, (ii) the perception in the market with respect to investments in the Company's industry sector, (iii) adverse business developments, (iv) changes to the regulatory environment in which the Company operates, (v) changes in financial estimates or recommendations by securities analysts and (vi) the actual or expected sale of a large number of the Shares, as well as other factors. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations, which, if repeated in the future, could adversely affect the market price of the Shares regardless of the Company's results of operations, prospects or financial condition. Factors including increased competition, fluctuations in commodity prices, changes in the market valuation of similar companies, changes in the regulatory environment or introduction of tariff reform, availability of reserves, general market conditions, natural disasters, terrorist attacks, civil unrest, and war may have an adverse effect on the market price of the Shares.

Payment of dividends by the Company depends on a large number of factors.

In 2014, the Fund as the sole shareholder of the Company approved a new dividend policy for the Company, which provides for the possibility of paying dividends based on six monthly and year end results. The payment of dividends is governed by the laws of Kazakhstan, the Company's Charter and its dividend policy. In accordance with the dividend policy, the Company intends to pay dividends of no less than 40% of its net income for the relevant financial period. However, the ability to pay dividends and the actual amount of any dividend payment will be subject to the laws of Kazakhstan which restrict and may prohibit the payment of dividends. In addition, the Board of Directors must also take into account the contractual and other obligations of the Company and any other relevant facts, including the Company's results of operations, financial and capital investment requirements, profits, financial condition, prospects and general business conditions.

The MNE has also imposed special requirements regarding profits obtained as a result of savings on operating or investment expenses. In particular, such profits must be reinvested and may not be distributed to shareholders in the form of dividends. There is a risk that the Company will not be able to comply with the requirements of the dividend policy due to the existing regulations and other restrictions. In addition to the foregoing, there is a risk that in the future the regulator may impose additional restrictions which will directly or indirectly affect the amount of dividends paid by the Company.

As described above, future decisions by the Company to pay out dividends depend on various circumstances, some of which are outside of the Company's control. In particular, the final decision on payment of dividends may only be made by the GSM. Therefore, the Company cannot rule out the risk that it may be unable to distribute dividends to its shareholders during a given six month or one year financial period.

Financial turmoil in emerging markets may lead to unstable pricing of the Shares.

The market price of the Shares is influenced by the economic and market conditions in Kazakhstan and, to a varying degree, economic and market conditions in other CIS countries and emerging markets generally. Financial turmoil in other emerging markets in the past has adversely affected market prices in the world's securities markets for companies that operate in those and other developing economies. Even if Kazakhstan's securities market remains relatively stable, financial turmoil in other emerging markets, such as other CIS countries, could materially adversely affect the market price of the Shares.

Return on an investment in the Shares may be affected by charges incurred by investors.

An investor's total return on an investment in the Shares may be affected by the level of fees charged by any advisor, broker, agent, nominee service provider and/or clearing system used by the investor. Such a person or institution may charge fees for the opening and operation of an investment account, transfers of the Shares, custody services and on payments of dividends. Potential investors are, therefore, advised to investigate the basis on which any such fees will be charged on the Shares.

Future offerings of debt or equity securities by the Company may adversely affect the market price of the Shares and dilute existing shareholders.

Future attempts by the Company to obtain financing to further increase its capital resources by issuing additional Shares or offering debt or equity securities, or a perception that such events may occur, may have an adverse effect on the market price of the Shares. Issuing additional shares or offering other equity securities may dilute the economic and voting rights of the Company's shareholders and/or reduce the market price of the Shares. See also risk factor "*The Company might have difficulty in attracting debt or equity financing for capital expenditure.*"

Financial statements may not be directly comparable across periods.

The Company changed the manner in which it recognized certain revenue, costs and expenses in preparing the consolidated income statements for the years ended December 31, 2012 and 2013. While the Company's income statement for the year ended December 31, 2011, as included in the FY2012 audited financial statements was reclassified to reflect this change, the Company has not restated its financial statements for the previous years. As a result, the financial statements for the years ending December 31, 2012 and 2013 are not directly comparable to the Company's earlier financial statements. For more information see "*Management Discussion & Analysis of Financial Condition and Operating Results – Principal Factors Affecting the Company's Results of Operations – Reclassification*".

The Investment Memorandum does not contain financial statements for the nine months ended September 30, 2014.

The financial statements as of and for the 9 month period ended September 30, 2014 are not presented in this Investment Memorandum and the Company will not be amending this Investment Memorandum to reflect such financial statements. However, the Company intends to publish the results on its website and the website of the KASE. The financial statements for the 9 month period ended September 30, 2014 are expected to be published in November 2014.

Shares may be subject to taxation.

Dividends paid on the shares are exempt from income taxes, if the relevant shares were included on the official KASE list. Capital gains which an investor may receive by selling the shares included on the official KASE list are also exempt from income tax. Although the Company has applied for inclusion of the shares on the official KASE list and does not presently anticipate any difficulties in obtaining such listing, the Company, cannot provide assurances that such listing will, in fact, be obtained or maintained. See "*Taxation*".

USE OF PROCEEDS

In line with its strategy, the Company plans to apply the raised funds to finance the construction of overhead 500 kV OHL North-East – South as well as for general corporate purposes. See the description in the section entitled "*Business – Assets – Planned future projects*".

Until the raised funds are used for the purposes described above, the Company intends to deposit the raised funds in interest bearing accounts.

The estimated net proceeds of this Offering is expected to be KZT 12,434,982 thousand, after deducting the estimated offering expenses payable by the Company.

DIVIDENDS AND DIVIDEND POLICY

Dividend Policy

The Company's dividend policy has been developed in accordance with Kazakhstan law, the Company's charter, the Company's Corporate Governance Code and other internal documents.

In September 2014, the Fund, as the sole shareholder of the Company, amended the dividend policy to provide that the Company may pay dividends on an annual and semi-annual basis reflecting six monthly and year end results. The Company's policy lays out priorities to assist the Board of Directors when developing its recommendations regarding the amount to be paid by way of dividend. The purpose of the policy is to comply with applicable law and to ensure a balance of interests between the Company's interests in its own capital needs and its shareholders' interests in the attractiveness of the Company's shares as an investment. The Company's charter and dividend policy provide that the declaration and payment of dividends will be recommended by the Board of Directors, in its discretion, and the Company's shareholders shall have the right to approve the payment of any proposed dividend, or to determine not to pay any dividend for the applicable financial period. In accordance with the dividend policy, the Company intends to pay dividends of no less than 40% of its net income for the relevant period. However, the actual amount of any dividend payment will be subject to the laws of Kazakhstan which restrict and may prohibit payments in certain circumstances. When making its recommendation, the Board of Directors must also consider the contractual and other obligations of the Company and any other factors it determines to be relevant, including the financial condition and performance of the Company, forecasts regarding the financial position, and the Company's needs for funds (e.g., for capital expenditures and investment plans).

The actual amount of dividends paid by the Company may amount to or exceed the amount of the net income of the Company for the relevant financial period. Any payments by way of dividend will be subject to the laws of Kazakhstan, and any contractual obligations or other internal documents of the Company. Dividends exceeding the net income of the Company in the relevant financial period may only be paid from retained earnings of the Company.

The Company's dividend policy is published on its corporate website at www.kegoc.kz.

The Company reserves the right to change its dividend policy.

Contractual Covenants in Relation to Dividends

The Company's dividends are subject to certain restrictions imposed by covenants in the existing financing arrangements with the EBRD. In particular, the Company covenants not to declare a dividend if:

- a Default, as defined in the respective financing agreement, has occurred or would result from a dividend being declared;
- it exceeds the lower of: (a) cash available and (b) profits available for distribution in the financial year in respect of which the divided is declared.

Legal Restrictions on Payment of Dividends

The JSC Law prohibits the distribution of dividends in the following circumstances:

- the equity capital of a company is or may become negative as a result of such dividend distribution; or
- a company is or would be qualified for insolvency or bankruptcy in accordance with the bankruptcy laws of Kazakhstan as a result of such dividend distribution.

In addition, the JSC Law prohibits distribution of dividends on shares that have not been placed or that have been repurchased by a company.

Further, the Ministry of National Economy imposes special requirements regarding profits obtained as a result of savings on operating or investment expenses. In particular, such profits must be reinvested and may not be distributed to shareholders in the form of dividends.

Dividends Declared and Distributed by the Company between 2008-2014

On August 20, 2009 the Executive Body of the Fund resolved to approve the declaration and distribution by the Company of dividends for 2008 of KZT 746,044 thousand, which constituted 10% of the Company's consolidated net profit or KZT 90.04 per share.

On September 18, 2010 the Executive Body of the Fund resolved not to approve the declaration or payment of dividends for 2009 due to losses incurred by the Company in 2009.

On May 26, 2011 the Executive Body of the Fund resolved to approve the declaration and distribution by the Company of dividends for 2010 of KZT 869,403 thousand, which constituted 15% of the Company's consolidated net profit or KZT 82.61 per share.

On June 12, 2012 the Executive Body of the Fund resolved to approve, as the sole shareholder of the Company, the declaration and distribution by the Company of dividends for 2011 of KZT 2,346,674 thousand, which constituted 30% of the Company's consolidated net profit or KZT 221.71 per share.

On March 29, 2013 the Executive Body of the Fund resolved to approve, as the sole shareholder of the Company, the declaration and distribution by the Company of dividends for 2012 of KZT 2,082,309 thousand, which constituted 30% of the Company's consolidated net profit or KZT 9.74 per share (after giving effect to the 1:20 share split). The 2012 dividend was paid by the Company to the Fund on April 11, 2013.

As a result of trading losses of operations for 2013, the Management Board of the Fund resolved not to accrue and not to pay dividends on ordinary shares of the Company for the 2013 financial year.

CAPITALIZATION

The following table sets forth the Company's cash and capitalization on a consolidated basis as of June 30, 2014, as derived from the Company's unaudited consolidated financial statements and on a pro forma basis after giving effect to the Offering and the application of the net proceeds therefrom.

This table should be read in conjunction with the sections headed "*Selected Consolidated Financial Information*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Company's Financial Statements included elsewhere in this document.

	As of June 30, 2014 (in KZT thousands)	
	Actual	**Pro forma as adjusted**
Cash and cash equivalents(1)(2)(3)	20,237,849	32,672,831
Other financial assets	19,144,781	19,144,781
Current portion of borrowings	13,402,909	13,402,909
Long-term portion of borrowings	104,079,840	104,079,840
Share capital	107,245,972	119,680,954
Retained earnings and reserves	224,951,779	224,951,779
Shareholders' Equity(4)	332,197,751	344,632,733
Total Borrowings	117,482,749	117,482,749
Total Capitalization(5)	**449,680,500**	**462,115,482**

(1) Includes restricted cash of KZT 2,024,648 thousand.

(2) As adjusted for the pro forma of the Offering and assuming application of net proceeds of transaction fees and expenses which are estimated to be KZT 12,434,982.

(3) Cash, cash equivalents and other financial assets are not a component of capitalization but are included here for convenience in showing the effect of the Offering on the Company's cash position.

(4) Excludes the issuance of 19,508,061 shares to the Fund in consideration for the contribution of certain assets which took place on September 29, 2014.

(5) Total capitalization is calculated as the sum of shareholders' equity and total borrowings.

SELECTED CONSOLIDATED FINANCIAL STATEMENTS

The following tables represent historical consolidated financial statements, extracted from the audited consolidated financial statements of the Company as of December 31, 2011, 2012, 2013 and interim financial statements as of June 30, 2014. Financial information, presented below, has been derived from and should be read in conjunction with the Consolidated Financial Statements, included in any part of the Investment Memorandum. Ernst and Young LLP conducted the external audit of Financial Statements as of the end of the period and for the year ended December 31, 2012 and 2013, as well as the review of financial statements as of the end of the period and for the six months ended June 30, 2014. The Company's consolidated financial statements as of the end of the period and for the year ended December 31, 2011 were audited by Deloitte LLP. Review of financial information should be read in conjunction with the sections "*Presentation of Financial and Other Information*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Financial Statements (including Notes) (see "*Financial Statements*"), which are included elsewhere in this Investment Memorandum.

(in KZT thousands)	**As of December 31,**			**As of June 30,**
	2011 Audited	**2012 Audited**	**2013 Audited**	**2014 Reviewed**
Consolidated Statement of financial position				
Non-current assets	176,699,251	189,344,946	319,615,755	473,445,342
Current assets	40,869,277	43,059,890	47,705,971	55,809,639
Total assets	**217,568,528**	**232,404,836**	**367,321,726**	**529,254,981**
Equity	**120,965,687**	**126,560,042**	**221,181,463**	**332,197,751**
Long-term liabilities	78,121,436	84,403,326	118,413,645	168,981,623
Current liabilities	18,481,405	21,441,468	27,726,618	28,075,607
Total liabilities	**96,602,841**	**105,844,794**	**146,140,263**	**197,057,230**
Total equity and liabilities	**217,568,528**	**232,404,836**	**367,321,726**	**529,254,981**

(in KZT thousands)	For the years ended December 31, 2011 Audited	2012 Audited	2013 Audited	For six months ended June 30, 2013 Reviewed	2014 Reviewed
Consolidated Statement of comprehensive income[1]					
Revenue	57,249,517	65,855,173	73,811,723	34,976,552	42,685,668
Cost of sales	(41,451,948)	(49,268,483)	(55,574,322)	(26,152,847)	(34,650,783)
Gross profit	**15,797,569**	**16,586,690**	**18,237,401**	**8,823,705**	**8,034,885**
General and administrative expenses	(5,976,393)	(5,829,446)	(6,422,878)	(2,837,073)	(6,332,064)
Selling expenses	(156,142)	(168,612)	(154,408)	(87,131)	(74,386)
Revaluation (loss)/gain on property, plant and equipment	-	-	(26,807,757)	-	14,194,012
Operating profit/(loss)	**9,665,034**	**10,588,632**	**(15,147,642)**	**5,899,501**	**15,822,447**
Interest income from deposits, current accounts, and bonds	1,699,050	1,604,788	1,797,051	862,971	822,647
Finance costs	(2,457,956)	(1,991,132)	(2,021,023)	(967,831)	(1,693,881)
Foreign exchange gain/(loss), net	1,306,839	(1,806,822)	(2,680,967)	(100,897)	(13,367,026)
Other income	736,475	138,783	381,865	74,102	115,677
Other expenses	(249,108)	(49,423)	(17,631)	(120,388)	(35,932)
Profit/(loss) before tax	**10,700,334**	**8,484,826**	**(17,688,347)**	**5,647,458**	**1,663,932**
Income tax (expense)/ benefit	(2,878,089)	(1,543,797)	3,188,073	(1,337,303)	(1,076,012)
Profit/(loss) for the period	**7,822,245**	**6,941,029**	**(14,500,274)**	**4,310,155**	**587,920**
Other comprehensive (loss)/ income for the period, net of tax	(167)	-	110,801,004	(115,578)	111,109,831
Total comprehensive income for the period, net of tax	**7,822,078**	**6,941,029**	**96,300,730**	**4,194,577**	**111,697,751**

In order to make information comparable for all periods, the accounts were reclassified for the year ended December 31, 2011. Reclassifications had no impact on the total comprehensive income or equity for the year ended December 31, 2011.

(in KZT thousands)	Last report	Reclassifications	**Amount after reclassifications**
Revenue	54,793,163	2,456,354	**57,249,517**
Other income	3,192,829	(2,456,354)	**736,475**
Cost of sales	(39,581,302)	(1,870,646)	**(41,451,948)**
Other expenses	(2,119,754)	1,870,646	**(249,108)**
General and administrative expenses	(6,332,179)	355,786	**(5,976,393)**
Finance costs	(2,102,170)	(355,786)	**(2,457,956)**

[1] Accounts of Consolidated statements of comprehensive income of the Company, the revenue, other income, cost of sales, other expenses, general and administrative expenses and finance costs, cannot be compared between the year ended December 31, 2011 and the years ended December 31, 2012 and 2013, as well as the six months ended June 30, 2014, due to a change in the method of presentation of revenue, cost of sales and other expenses.

Revenue from the sale of purchased electricity in the amount of KZT 1,794,017 thousand, revenue from electric power reserving services in the amount of KZT 528,197 thousand, and revenue from servicing power network assets in the amount of KZT 134,140 thousand were reclassified from Other Income to Revenue

Cost of sale of purchased electricity in the amount of KZT 1,781,250 thousand and cost of servicing power network assets in the amount of KZT 89,396 thousand were reclassified from Other Expenses to Cost of Sales.

Commission on bank guarantees in the amount of KZT 355,786 thousand was reclassified from General and Administrative Expenses to Finance Costs.

(in KZT thousands)	**For the years ended December 31,**			**For six months ended June 30,**	
	2011	**2012**	**2013**	**2013**	**2014**
Consolidated Statement of cash flows					
Net cash flows from operating activities	17,536,699	14,664,826	14,458,324	9,849,809	5,839,389
Net cash flows used in investing activities	(35,010,726)	(19,276,465)	(17,999,863)	(7,358,328)	(7,034,090)
Net cash flows from financing activities	21,595,473	3,127,659	6,988,560	1,000,888	6,915,157
Net change in cash and cash equivalents	4,121,446	(1,483,980)	3,447,021	3,492,369	5,720,456
Net foreign exchange gain/loss	46,551	(15,155)	236,032	47,001	765,190
Cash and cash equivalents at the beginning of the period	**5,375,640**	**9,543,637**	**8,044,502**	**8,044,502**	**11,727,555**
Cash and cash equivalents at the end of the period	**9,543,637**	**8,044,502**	**11,727,555**	**11,583,872**	**18,213,201**

(in KZT thousands)	**For the years ended December 31,**			**For six months ended June 30,**	
	2011	**2012**	**2013**	**2013**	**2014**
EBITDA[2]					
EBITDA	17,225,413	17,871,308	20,209,138	9,516,058	9,534,572
EBITDA margin, %	30.1%	27.1%	27.4%	27.2%	22.3%

[2] EBITDA is calculated as operating profit less cost of sales, excluding depreciation and amortization, general administrative expenses, excluding depreciation and amortization, and selling expenses, excluding depreciation and amortization. EBITDA margin is calculated as EBITDA divided by operating profit. Even the amounts included in the EBITDA margin and EBITDA were derived from the Consolidated Financial Statements of the Company, they are not financial measures calculated in accordance with IFRS and therefore should not be considered as an alternative to revenue or total comprehensive (loss)/income to indicate the Company's liquidity. Company's Management uses EBITDA and EBITDA margin in order to estimate the results of Company's operations, develop budgets and monitor the performance in comparison with those budgets. The Management of the Company considers EBITDA and EBITDA margin as useful tools to assist in monitoring the performance, as EBITDA and EBITDA margin do not take into account depreciation and amortization, interest expense, taxes and other non-cash accruals. In addition, the Company believes that EBITDA and EBITDA margin are indicators which are often used by investors.

Since EBITDA and EBITDA margin are not financial performance indicators under IFRS, the table below provides a reconciliation of EBITDA and EBITDA margin with accounts of Income Statement under IFRS:

(in KZT thousands)	**For the years ended December 31,**			**For six months ended June 30,**	
	2011	**2012**	**2013**	**2013**	**2014**
Revenue	57,249,517	65,855,173	73,811,723	34,976,552	42,685,668
Cost of sales	(41,451,948)	(49,268,483)	(55,574,322)	(26,152,847)	(34,650,783)
General and administrative expenses	(5,976,393)	(5,829,446)	(6,422,878)	(2,837,073)	(6,332,064)
Selling expenses	(156,142)	(168,612)	(154,408)	(87,131)	(74,386)
Depreciation and amortization	7,560,379	7,282,676	8,549,023	3,616,557	7,906,137
EBITDA	17,225,413	17,871,308	20,209,138	9,516,058	9,534,572
EBITDA margin, %	30.1%	27.1%	27.4%	27.2%	22.3%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements, which are included elsewhere in this Investment Memorandum. The Company's Consolidated Financial Statements have been prepared in accordance with IFRS.

This discussion includes forward-looking statements that involve risks and uncertainties. For more information on forward-looking statements, see "Forward-Looking Statements". Actual results could differ materially from those anticipated in the forward-looking statements as a result of numerous factors, including the risks discussed in the "Risk Factors" section and elsewhere in this Investment Memorandum. Accordingly, the following discussion should be read in conjunction with the "Risk Factors" section of this Investment Memorandum.

Overview

The Company is a national company functioning as a system operator of the Unified Power System (the "**UPS**"). The Company provides the following key services: services of electricity transmission, technical dispatching and the balancing of electricity production and consumption in Kazakhstan. The Company operates the UPS and owns, operates and maintains the National Power Grid (the "**NPG**").

As of January 1, 2014 the UPS included:

- The NPG consisting of substations, dispatching devices and transformers as well as high-voltage power lines (35-110 kV) with a length of 24,533.033 km and 76 substations with installed capacity of 35,875.05 MVA;
- 8 power plants of national importance, connected directly to the NPG;
- 68 power plants, integrated with areas that are connected to the NPG, either directly or through a network of distribution companies and a network of other legal entities;
- 21 regional electricity transmission companies ("**RECs**") that are directly connected to the NPG; and
- 129 wholesale customers with substations that directly connected to the NPG.

The Company provides electricity transmission via interstate and interregional electric power transmission lines and links between electric stations and regional power grid companies and bulk customers. See "*Business*" for more information.

The Company's Consolidated Financial Statements for the year ended December 31, 2013 include the financial statements of Energoinform JSC and Settlement and Financial Center to Support Renewable Energy LLP, which was established August 27, 2013.

The Company's principal sources of revenue are regulated revenues that it receives from transmitting electricity via its electric power transmission lines, technical dispatching of supply to, and consumption in, the network and and balancing electricity production and consumption.

Principal Factors Affecting the Company's Results of Operations

The Company's results of operations have been affected and will continue to be affected by a variety of factors, including the factors described below.

Tariff Policy

KEGOC operates in accordance with the Natural Monopolies Law.

The following services provided by KEGOC are considered natural monopolies under the Natural Monopolies Law:

- electricity transmission across Kazakhstan's NPG;
- technical dispatching of supply to, and consumption in, the network; and
- balancing of electricity production and consumption.

On January 1, 2008 a balancing electricity market was introduced in Kazakhstan pursuant to the Power Industry Law. The Company is responsible for administering the balancing function within the electricity market in accordance with this law. Since 2008, this activity has been carried out in simulation mode without actual financial settlement for the electricity purchased and sold when balancing the electricity market. Since 2009, balancing of electicity production and consumption has been included within the scope of natural monopoly services. In 2009, the ARNM developed and approved a tariff methodology for the balancing of electricity production and consumption. The tariff for this service was set at 0.018 KZT/kWh on May 18, 2009. This tariff methodology was amended in 2010 to include the difference between costs and revenues from the purchase and sale of electricity to compensate for production and consumption imbalance between Russia and Kazakhstan. The methodology approved by Order No. 372-OD of the ARNM on December 3, 2013 is currently effective.

On November 20, 2009, the Government of Kazakhstan and the Government of the Russia signed an agreement concerning the parallel operation of the energy systems of Kazakhstan and Russia. Within the framework of the inter-governmental agreement, in 2010 the Company and INTER RAO UES JSC (Russian Federation) entered into electricity sale and purchase agreements to compensate for the hourly volumes of variances between the actual and planned interstate balance of power flow between Kazakhstan and Russia through purchase and sale of electricity. The agreements between the Company and INTER RAO UES JSC (Russian Federation) have one year terms and are extended annually by mutual agreement between the parties.

Under the electricity sale and purchase agreement, the Company from time to time, purchases electricity from Russia during periods of peak electricity usage to offset the imbalance in the energy system of Kazakhstan. During non-peak periods, the Company sells surplus electricity to Russia. Due to the fact that the fees for electricity are relatively higher during peak use periods than the fees for electricity during non-peak periods, the Company incurs certain expenses which the Company is generally able to include as justifiable costs through the balancing services tariff.

The intergovernmental agreement concerning the parallel operation of the energy systems of Kazakhstan and Russia provides that the difference between purchasing and selling electricity to compensate for the hourly volumes of variances is a fair charge for physical regulation of variances between actual and planned interstate balances of electricity flows made by Russia's UPS.

The Company's tariffs are set pursuant to a cost-plus model for which the Company provides its estimates of operational and financial costs and a fair return of its equity as the basis for setting tariffs in the relevant tariff control period. This allows the Company to obtain approval for tariffs at levels that enable the Company to cover justifiable costs, plus an acceptable level of "profit" which must be set out in a tariff estimate as approved by the MNE.

Any such approved tariffs remain in effect for the duration of the relevant tariff control period. The Natural Monopolies Law previously allowed the Company to elect one year tariff periods or multi-year tariff periods. The Company had previously sought tariff approvals on an annual basis. Beginning in 2013, the Company sought and obtained the approval for a bi-annual (two-year) period. The Natural Monopolies Law was amended in 2013 and 2014 and, as a result, in 2015 the Company will only apply for multi-year tariff levels for a minimum period of five years.

In 2010 the ARNM changed the transmission tariff methodology for its electricity transmission services in order to establish a uniform procedure for calculating a single network-wide tariff for electricity transmission services over the Company's network NPG. A single network-wide tariff for electricity transmission services is independent of a specific geographical area and the ARNM subsequently abolished the then applicable zonal tariffs as of August 1, 2010. The introduction of a single tariff improved the Company's operations, provided equal access to the NPG to all of its consumers and created transparency in pricing.

The currently applicable tariffs for KEGOC's regulated services for the period from November 1, 2013 to October 31, 2015, are as follows:

- Transmission Services:
    - from November 1, 2013 to October 31, 2014 in the amount of 1.305 KZT/kWh (excluding VAT); and
    - from November 1, 2014 to October 31, 2015 in the amount of 1.469 KZT/kWh (excluding VAT).
- Technical Dispatching Services:
    - from November 1, 2013 to October 31, 2014 in the amount of 0.134 KZT/kWh (excluding VAT); and
    - from November 1, 2014 to October 31, 2015 in the amount of 0.148 KZT/kWh (excluding VAT).
- Balancing Services:
    - from November 1, 2013 to October 31, 2014 in the amount of 0.060 KZT/kWh (excluding VAT); and

- from November 1, 2014 to October 31, 2015 in the amount of 0.068 KZT/kWh (excluding VAT).

The Company has historically applied fixed tariffs within a tariff control period. In 2013, in anticipation of the People's IPO Program, the management of KEGOC decided to change its practice of applying for annual tariffs and instead begin operating according to the "maximum tariff levels", which is now also required under the amended Natural Monopolies Law. The calculation of the maximum tariff levels is similar to the calculation of the annual tariffs, except that the maximum tariff levels are approved for the several subsequent years. The maximum tariffs enable the Company to plan its capabilities for longer periods and shareholders to receive more comprehensive information about the Company.

In contemplation of the Offering, KEGOC had been working on increasing the approved tariff cap rates for a middle-term period. Pursuant to Decree No. 105-OD dated May 16, 2014, the increased tariffs will become effective upon the approval of the Offering by the Government of Kazakhstan. This measure is aimed at improving the profitability of KEGOC's main activities and allowing for the payment of dividends to shareholders.

Once the decision on the Offering has been made, the following tariffs for the provision of regulated services will be in effect until October 31, 2015:

- transmission services at a rate of 1.954 KZT/kWh (excluding VAT) with a growth of 50% to the current (1.305 KZT/kWh);
- technical dispatching services at a rate of 0.182 KZT/kWh (excluding VAT) with a growth of 36% to the current (0.134 KZT/kWh);
- balancing services at a rate of 0.083 KZT/kWh (excluding VAT) with a growth of 38% to the current (0.060 KZT/kWh);

In order to increase volumes of production, consumption of electricity, economic effectiveness of power generating companies and electricity consumers, as well as export-oriented consumers of own products, a temporary reduction coefficient to tariffs for electricity transmission services and/ or technical dispatching was established pursuant to Regulations on establishment and cancellation of temporary reduction coefficients to tariffs for prices and rates of electricity transmission services and/ or technical dispatching.

For the period 2011-2013, individual enterprises provided services for electricity transmission using temporary reduction coefficient.

Consumer	The period of the reduction factor	Reduction coefficient	The magnitude of reduction, (KZT thousands)
Kazfosfat LLP	05.03.2011-07.08.2011	0.92	**62,132**
	08.08.2011-31.08.2011	0.93	**7,872**
	01.09.2011-31.12.2011	0.99	**5,868**
	01.03.2012-31.08.2012	0.95	**44,734**
	01.03.2013-30.09.2013	0.89	**148,764**
	25.10.2013-31.12.2013	0.94	**26,813**
Ekibastuz GRES-1 LLP	2011	tariff for the electricity transmission at a rate of 10% from the current tariff rate of KEGOC	**1,069,440**
	2012		**715,816**
	2013		**2,518,863**

The effect of the regulations for the cancellation and temporary reduction factors will be applied to KEGOC's activities even after the Offering.

Investment Program

A significant percentage of the Company's assets are highly depreciated and the Company is currently implementing a large scale capital investment program designed to rehabilitate, upgrade and expand the NPG. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital Expenditures*" below. The costs of the investment program are primarily satisfied through cash in-hand and debt financing, including loans guaranteed by the Government.

Revaluation of Fixed Assets

As of November 1, 2013, the Company altered its valuation method for fixed assets from the "historical cost" method to the "revalued asset amount" method because the previously employed method based on historical costs significantly underestimated the fair value of the facilities of the Kazakhstan NPG and expenses of their maintenance.

In 2014 the Company engaged in a subsequent revaluation as part of the above mentioned change of asset valuation policy from the "historical cost" method to the "revalued asset amount" method for IFRS reporting purposes and in connection with the depreciation of the Tenge against foreign currencies. As a result, the value of the Company's assets on its balance sheet is now higher than the asset values used for tariff setting purposes. The Company expects to seek inclusion of the revalued assets in future tariff control periods but there is no assurance that new 2014 revaluation will be approved by the regulator and, if so, what amounts or what time frame for phasing in any such approved increase in the regulated asset base ("**RAB**") will be decided for tariff setting purposes.

The following table shows an impact of the revaluation of fixed assets on the net book value of fixed assets as of December 31, 2013 and June 30, 2014.

KZT thousands	
Net book value as of December 31, 2012	163,444,227
Additions	42,471,798
Disposals	(558,334)
Amortization and depreciation charge for the period	(8,376,498)
Revaluation surplus, net	111,837,971
Net book value as of December 31, 2013	308,819,164
Additions	7,040,592
Disposals	(49,521)
Amortization and depreciation charge for the period	(7,794,626)
Revaluation surplus, net	153,081,301
Net book value as of June 30, 2014	461,096,910

Based on accounting records, the total increase in the net book value of fixed assets resulting from the revaluations that occurred on November 1, 2013 and June 1, 2014 amounts to KZT 265 billion.

The management board of the ARNM approved the revaluation of KEGOC's assets and its implementation schedule over five years (2013-2017) in its resolution No. 15 of April 16, 2013. As a result of the revaluation of the Company's assets in 2013, its RAB increased by KZT 199 billion.

In addition, the Company expects to conduct revaluations from time to time as it reviews and considers the value of its assets and use of such assets in its business.

Revaluation of Fixed Assets in the RAB

The cost plus method is based on permitting the Company to earn a rate of return on its RAB. The determination of the RAB is, therefore, a critical step in tariff setting process. As a result, revaluation of fixed assets can significantly influence the Company's equity and profit.

As a result of revaluation, the management board of the ARNM approved the RAB increase by KZT 199 billion in its resolution No. 15 of April 16, 2013 according to the following transitory schedule:

Year	**2013**	**2014**	**2015**	**2016**	**2017**
Percentage of gradual increase in assets as a result of the revaluation of fixed assets incorporated in the RAB	20%	40%	60%	80%	100%

Schedule for incorporating the 2013 revaluation of fixed assets with KZT 199 billion in the tariffs for the regulated services of KEGOC as part of the People's IPO Program

Currency

The Company's revenue and assets are primarily denominated in KZT and a substantial portion of its indebtedness is nominated in US dollars and Euros. As a result, appreciation of the US dollar or Euro against the KZT will result in an increase of consolidated indebtedness of the Company and corresponding foreign exchange loss.

Inflation

In recent years, the average inflation rate in Kazakhstan has remained below 10%, apart from an increase to 17% at the peak of the global economic downturn in 2008 (*CIA World Factbook data*). In 2013, 2012 and 2011, inflation amounted to 4.8%, 6.0% and 7.4%, respectively, and in the first half of 2014 and 2013 4.8% and 2.7%, respectively, according to the Kazakhstan State Agency for Statistics.

The Company's costs have been significantly affected by inflation; however, the Company's revenue has increased primarily as a result of increases in the tariff. Such tariff increases may not be in line with the increase in inflation nor will they be increased at the same time as inflation increases occur. Therefore, there may be a delay between the Company's cost increases resulting from inflation and the Company's increases in revenue. For more information on the effects of inflation on the Company's results of operations, see "*Risk Factors*".

Cost of Electricity

A significant percentage of the Company's costs consists of the cost of electricity relating to technological losses associated with transmission. Technological losses are primarily attributable to: (i) load losses in power lines/transformers (i.e., variable losses) and (ii) losses in overhead power lines, stand-by losses and etc. (i.e., relatively permanent losses). In the first half of 2014 the Company spent KZT 10,394,356 thousand to purchase electricity to account for technological losses, which amounted to 24.4% of its revenue. The purchase price of electricity has been growing faster than the rate of inflation, meaning a significant portion of the Company's costs has been increasing at a rate higher than the inflation rate.

Critical Accounting Policies

The Company's consolidated financial statements have been prepared in accordance with IFRS. In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions regarding any 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 recognized for 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 Company's accounting policies are more fully described in the notes to the Company's Audited Financial Statements, particularly Note 3. Management believes that the following are some of the most critical judgment areas in the application of the Company's accounting policies that currently affect the Company's financial condition and results of operations. See Note 3 to the Company's Audited Financial Statements for a description of the Company's significant accounting policies.

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 impairments 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 Company's ability to recover or sell these assets. As a result of changes to the general economic environment or other circumstances after the reporting date, management may draw conclusions which could be different to those made in preparing the Company's 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 assets to be utilized. The estimation of that probability includes judgments based on expected performance.

Useful Lives of Property, Plant and Equipment

The Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. The estimates of the useful lives of assets are 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 of the date of the Company's consolidated financial statements.

Impairment of Property, Plant and Equipment

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

Capitalization of Borrowing Costs

The Company capitalizes 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 a substantial amount of time to prepare for their intended use or sale.

Results of Operations

The following table sets forth historical selected financial data for the periods presented. The information below is presented in KZT, the Company's functional currency.

	Years ended December 31,			Six months ended June 30	
	2011	2012	2013	2013	2014
	(KZT thousands)	(KZT thousands)	(KZT thousands)	(KZT thousands)	(KZT thousands)
Revenue	57,249,517	65,855,173	73,811,723	34,976,552	42,685,668
Cost of sales	(41,451,948)	(49,268,483)	(55,574,322)	(26,152,847)	(34,650,783)
Gross profit	**15,797,569**	**16,586,690**	**18,237,401**	**8,823,705**	**8,034,885**
General and administrative expenses	(5,976,393)	(5,829,446)	(6,422,878)	(2,837,073)	(6,332,064)
Selling expenses	(156,142)	(168,612)	(154,408)	(87,131)	(74,386)
Revaluation (loss)/gain on property, plant and equipment	-	-	(26,807,757)	-	14,194,012
Operating profit/(loss)	**9,665,034**	**10,588,632**	**(15,147,642)**	**5,899,501**	**15,822,447**
Interest income from deposits, current accounts, and bonds	1,699,050	1,604,788	1,797,051	862,971	822,647
Finance costs	(2,457,956)	(1,991,132)	(2,021,023)	(967,831)	(1,693,881)
Foreign exchange gain/(loss), net	1,306,839	(1,806,822)	(2,680,967)	(100,897)	(13,367,026)
Share in loss of an associate	-	-	(3,659)	-	(6,323)
Other income	736,475	138,783	381,865	74,102	115,677
Other expenses	(249,108)	(49,423)	(13,972)	(120,388)	(29,609)
Profit/(loss) before income tax expense	**10,700,334**	**8,484,826**	**(17,688,347)**	**5,647,458**	**1,663,932**
Income tax (expense)/ benefit	(2,878,089)	(1,543,797)	3,188,073	(1,337,303)	(1,076,012)
Profit/(loss) for the period	**7,822,245**	**6,941,029**	**(14,500,274)**	**4,310,155**	**587,920**
Other comprehensive (loss)/income for the period, net of tax	(167)	-	110,801,004	(115,578)	111,109,831
Total comprehensive income for the period, net of tax	**7,822,078**	**6,941,029**	**96,300,730**	**4,194,577**	**111,697,751**

Six months ended June 30, 2014 compared to the six months ended June 30, 2013

Revenue

	Six months ended June 30,				
	2013		2014		
	(KZT thousands)	% of revenue	(KZT thousands)	% of revenue	% change
Electricity transmission:					
Electricity transmission (before discounts)	23,912,320	68.4	24,342,742	57.0	1.8
Discounts	(1,321,308)	(3.8)	(1,249,298)	(2.9)	(5.4)
Electricity transmission (after discounts)	22,591,012	64.6	23,093,444	54.1	2.2
Technical dispatch	5,389,880	15.4	5,662,140	13.3	5.1

Revenue from sales of purchased electricity	1,114,610	3.2	4,877,166	11.4	337.6
Balancing of electricity production and consumption	3,149,408	9.0	4,762,995	11.2	51.2
Revenue from electricity sales for compensation of the interstate balances of electricity flows	2,300,578	6.6	1,958,141	4.6	(14.9)
Other	431,064	1.2	2,331,782	5.5	440.9
Total revenue from core activities	**34,976,552**	**100.0**	**42,685,668**	**100.0**	**22.0**

The Company's revenue from core activities increased by 22.0% to KZT 42,685,668 thousand for the six months ended June 30, 2014 from KZT 34,976,552 thousand for the six months ended June 30, 2013, primarily due to a 2.2% (or KZT 502,432 thousand including discounts) growth in revenue from electricity transmission; a 5.1% (or KZT 272,260 thousand) increase in revenue from revenue from technical dispatch; a 51.2% (or KZT 1,613,587 thousand) increase in revenue related to balancing of electricity production and consumption; a 337.6% (or KZT 3,762,556 thousand) increase in revenue from sale of purchased electricity and a 440.9% (or KZT 1,900,718 thousand) growth in revenue from other services. The increase in revenue was partially offset by a 14.9% (or KZT 342,437 thousand) decrease in revenue from electricity sales for compensation of the interstate balances of electricity flows.

The table below represents a tariff/volume analysis of the Company's revenue:

		Six months ended June 30,		
		2013	**2014**	**% change**
Electricity transmission				
Revenue from electricity transmission	KZT thousands	22,591,012	23,093,444	2.2
Volume of transmission	kWh thousands	21,495,857	18,657,253	(13.2)
Approved tariff	KZT/kWh	1.113[1]	1.305[2]	17.3
Average tariff (including discounts)	KZT/kWh	1.113[3]	1.305[4]	17.3
Technical dispatch				
Revenue from technical dispatch	KZT thousands	5,389,880	5,662,140	5.1
Volume of technical dispatch	kWh thousands	42,108,436	42,254,783	0.3
Approved tariff	KZT/kWh	0.128[1]	0.134[2]	4.7
Average tariff (including discounts)	KZT/kWh	0.128[3]	0.134[4]	4.7
Electricity balancing				
Revenue from balancing of electricity production and consumption	KZT thousands	3,149,408	4,762,995	51.2
Revenue from electricity sales for compensation of the interstate balances of electricity flows	KZT thousands	2,300,578	1,958,141	(14.9)
Volume of balancing	kWh thousands	76,814,837	79,383,258	3.4
Volume of cross-boundary balancing	kWh thousands	742,671	564,428	(24.0)
Approved tariff	KZT/kWh	0.041[1]	0.060[2]	46.3
Average tariff (including discounts)	KZT/kWh	0.041[3]	0.060[4]	46.3

Footnote 1: Based on approved tariff effective from October 1, 2012.
Footnote 2: Based on approved tariff effective from November 1, 2013.
Footnote 3: Average tariff received in respect of all transmissions made from January 1 to June 30, 2013, including discounts.
Footnote 4: Average tariff received in respect of all transmissions made from January 1 to June 30, 2014, including discounts.

Electricity Transmission

The increase in revenue from electricity transmission from KZT 22,591,012 thousand for the six months ended June 30, 2013 to KZT 23,093,444 thousand for the six months ended June 30, 2014 was primarily driven by increase in average tariff from 1.113 KZT/kWh to 1.305 KZT/kWh. The increase in average tariff was partially offset by a decrease in volume of services provided from 21,495.9 million kWh to 18,657.3 million kWh.

The 13.2% decrease in volume of services provided during the six months ended June 30, 2014 was due to a 68.9% decrease in inter-country transit and a general decrease in volume of electricity transmission to wholesale market participants in Kazakhstan.

Technical Dispatch

The increase in revenue from technical dispatch from KZT 5,389,880 thousand for the six months ended June 30, 2013 to KZT 5,662,140 thousand for the six months ended June 30, 2014 was primarily due to increase in average tariff from 0.128 KZT/kWh to 0.134 KZT/kWh as well as increase in volume of services provided from 42,108.4 million kWh to 42,254.8 million kWh.

The 0.3% increase in volume of services in the first six months of 2014 was primarily driven by growth in the production of electricity by energy producing companies.

Sales of Purchased Electricity

Revenue from sale of purchased electricity increased by 337.6% from KZT 1,114,610 thousand for the six months ended June 30, 2013 to KZT 4,877,166 thousand for the six months ended June 30, 2014 due to (i) an increase in the average tariff from 8.44 KZT/kWh to 11.1 KZT/kWh and (ii) an increase in the volume of services by 307.2 million kWh.

Balancing of Electricity Production and Consumption

A 51.2% increase in revenue from electricity balancing from KZT 3,149,408 thousand for the six months ended June 30, 2013 to KZT 4,762,995 thousand for the six months ended June 30, 2014 was primarily driven by an increase in the average tariff for balancing services from 0.041 KZT/kWh to 0.060 KZT/kWh, as well as an increase in volume of services provided from 76,814.8 million kWh to 79,383.3 million kWh.

Revenue from Electricity Sales for Compensation of the Interstate Balances of Electricity Flows

The decrease in revenue from electricity sales for compensation of the interstate balances of electricity flows from KZT 2,300,578 thousand for the six months ended June 30, 2014 to KZT 1,958,141 thousand for the six months ended June 30, 2013 was primarily due to a 24.0% decrease in the actual volume of electricity supplied from 742.7 million kWh to 564.4 million kWh in 2014.

Other

Revenue from other services increased by 440.9% from KZT 431,064 thousand for the six months ended June 30, 2013 to KZT 2,331,782 thousand for the six months ended June 30, 2014 mainly due to an increase in revenue from power regulation to non-residents to KZT 1,711,551 thousand. This is attributable to the fact that services provided to Uzbekenergo SJSC in the first half of 2013 were paid in November 2013.

Cost of Sales

	Six months ended June 30,				
	2013		2014		
	(KZT thousands)	% of revenue	(KZT thousands)	% of revenue	% change
Technical losses of electric energy	9,263,121	26.5	10,394,356	24.4	12.2
Depreciation and amortization	3,483,452	10.0	7,744,376	18.1	122.3
Cost of purchased electricity for compensation of interstate balances of electricity flows	4,651,858	13.3	4,889,010	11.5	5.1
Payroll expenses and related taxes	4,337,970	12.4	4,741,366	11.1	9.3
Cost of purchased electricity	964,778	2.8	3,444,221	8.1	257.0
Repair and maintenance expenses	1,763,463	5.0	1,882,790	4.4	6.8
Security services	455,042	1.3	455,214	1.1	0.0
Inventories	350,410	1.0	365,198	0.9	4.2
Other	882,753	2.5	734,252	1.7	(16.8)
Total cost of sales	**26,152,847**	**74.8**	**34,650,783**	**81.2**	**32.5**

The Company's cost of sales increased by 32.5% to KZT 34,650,783 thousand for the six months ended June 30, 2014 from KZT 26,152,847 thousand for the six months ended June 30, 2013 primarily due to: (i) a 12.2% increase in the cost of technological losses of electric energy, mainly caused by an increase in the price of electricity transmitted (average price increased by 8.9%); (ii) a 122.3% increase in the depreciation and amortization expenses caused by an increase in the Company's fixed assets base due to revaluation of NPG assets and additions; (iii) a 257% increase in the cost of purchased electricity mainly due to an increase in the volume of services provided by 307.2 million kWh and (iv) an increase in the average tariff from 7.3 KZT/kWh to 7.8 KZT/kWh.

The Company began purchasing electricity in order to compensate for hourly volumes of variances between the actual and planned inter-state balance of power flows in May, 2010. KEGOC considers net cost from this inter-state hourly balancing activity to be a necessary cost in order to ensure its ability to provide stable supplies of electricity to its customers and satisfy their demands.

General and Administrative Expenses

	Six months ended June 30,				
	2013		2014		
	(KZT thousands)	% of revenue	(KZT thousands)	% of revenue	% change
Provision for doubtful receivables and impairment of advances	273,658	0.8	2,284,397	5.4	734.8
Taxes other than income tax	806,768	2.3	2,047,617	4.8	153.8
Payroll expenses and related taxes	1,008,944	2.9	1,208,821	2.8	19.8
Depreciation and amortization	131,111	0.4	160,188	0.4	22.2
Consulting services	101,689	0.3	80,368	0.2	(21)
Rent expenses	82,099	0.2	71,359	0.2	(13.1)
Insurance	69,171	0.2	57,804	0.1	(16.4)
Business trip expenses	56,245	0.2	49,851	0.1	(11.4)

Provision / (reversal of provision) for obsolete inventory	(190,118)	(0.5)	39,730	0.1	(120.9)
Materials	42,100	0.1	35,662	0.1	(15.3)
Trainings	30,997	0.1	28,008	0.1	(9.6)
Utilities	21,682	0.1	24,341	0.1	12.3
Security services	15,756	0.0	16,893	0.0	7.2
Bank services	15,211	0.0	16,466	0.0	8.3
Communication services	12,072	0.0	10,293	0.0	(14.7)
Corporate events	15,059	0.0	9,615	0.0	(36.2)
Repair expenses	1,707	0.0	4,209	0.0	146.6
Sponsorship and charitable donations	206,303	0.6	15	0.0	(100.0)
Other	136,619	0.4	186,427	0.4	36.5
Total	**2,837,073**	**8.1**	**6,332,064**	**14.8**	**123.2**

The Company’s general and administrative expenses increased by 123.2% to KZT 6,332,064 thousand for the six months ended June 30, 2014 from KZT 2,837,073 thousand for the six months ended June 30, 2013, primarily due to: (i) a 734.8% increase in provision for doubtful receivables and impairment of advances from KZT 273,658 thousand to KZT 2,284,397 thousand, mainly due to overdue payment from Uzbekenergo SJSC (see “Legal Proceedings”) and (ii) a 153.8% increase in taxes, other than income tax, which was mainly due to an increase in property taxes resulting from an increase in the Company’s fixed asset base.

Selling Expenses

	Six months ended June 30,				
	2013		**2014**		
	(KZT thousands)	**% of revenue**	**(KZT thousands)**	**% of revenue**	**% change**
Payroll expenses and related taxes	83,058	0.2	72,984	0.2	(12.1)
Travel costs	4,059	0.0	1,204	0.0	(70.3)
Depreciation and amortization	14	0.0	8	0.0	(42.9)
Other	-	0.0	190	0.0	n/a
Total selling costs	**87,131**	**0.2**	**74,386**	**0.2**	**(14.6)**

The Company’s selling expenses decreased by 14.6% to KZT 74,386 thousand for the six months ended June 30, 2014 from KZT 87,131 thousand for the six months ended June 30, 2013 primarily due to a decrease of KZT 10,074 thousand in payroll expenses and related taxes in 2014 as compared to 2013, resulting from reallocation of selling staff to production staff.

Revaluation Gain on Property, Plant and Equipment

Effective as of November 1, 2013 the Company changed its accounting policy for NPG assets from the historical cost method to the revalued asset amount method. The historical cost method significantly underestimated the fair value of NPG assets and their relative maintenance costs. Application of the revalued asset amount method is expected to assess depreciation and amortization expenses more accurately and include such expenses in tariff estimates. For more information on results of the revaluation of fixed assets in 2013, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Year ended December 31, 2013 compared to the year ended December 31, 2012*”.

In May 2014, after adoption of new market oriented tariffs, the Company's management performed a subsequent revaluation of its fixed assets. Implications of the new tariff on the discounted cash flow method led to full exception of economic depreciation. As a result, the Company offset losses incurred during the previous revaluation in the amount of KZT 14,194,012 thousand, as well as recognized gain on revaluation of fixed assets in the amount of KZT 138,887,289 thousand included in other comprehensive income.

Interest Income from Deposits, Current Accounts and Bonds

The Company's interest income from deposits, current accounts and bonds decreased by 4.7% to KZT 822,647 thousand for the six months ended June 30, 2014 from KZT 862,971 thousand for the six months ended June 30, 2013, primarily due to a decrease of deposit base.

Finance Costs

The Company's finance costs increased by 75% to KZT 1,693,881 thousand for the six months ended June 30, 2014 from KZT 967,831 thousand for the six months ended June 30, 2013 primarily due to a decrease in capitalized interest expense from KZT 529,241 thousand for the six months ended June 30, 2013 compared to KZT 260,509 thousand for the six months ended June 30, 2014. A 50.8% decrease in capitalized interest expense was mainly attributable to less CAPEX incurred in first half of 2014 compared to first half of 2013. In the first half of 2014, capitalized borrowing costs mainly related to the following major investment projects: Phase 2 NPG Modernization and Construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines and Reconstruction of the CSDS-Osakarovka 220kV power line. The Company applied capitalization rate of 1.5-4.2% and 1.7-4.3% during the six months ended June 30, 2014 and June 30, 2013, respectively. Additionally, the increase of finance costs for the six months ended June 30, 2014 was caused by increases (totaling KZT 397,423 thousand) in interest expenses on EBRD and IBRD loans.

	Six months ended June 30,		
	2013	**2014**	
	(KZT thousands)	**(KZT thousands)**	**% change**
Other Income			
Fines and penalties	53,072	40,878	(23.0)
Gain on disposal of fixed assets, net	-	12,816	n/a
Other	21,030	61,983	194.7
Total other income	**74,102**	**115,677**	**56.1**
Other expenses			
Cost of property, plant and equipment sold	(298)	-	(100.0)
Other	(120,090)	(29,609)	(75.3)
Total other expenses	**(120,388)**	**(29,609)**	**(75.4)**

Other Income

The Company's other income increased by 56.1% to KZT 115,677 thousand for the six months ended June 30, 2014 from KZT 74,102 thousand for the six months ended June 30, 2013. There was an exceptionally high impairment recorded in the first six months of 2013 associated with construction in progress.

Other Expenses

The Company's other expenses decreased by 75.4% to KZT 29,609 thousand for the six months ended June 30, 2014 from KZT 120,388 thousand for the six months ended June 30, 2013. The decrease was primarily due to a decrease in impairment loss on construction-in-progress.

Foreign Exchange Loss, Net

The Company's net foreign exchange loss increased to KZT 13,367,026 thousand for the six months ended June 30, 2014 from KZT 100,897 thousand for the six months ended June 30, 2013. The increase was primarily due to the devaluation of KZT against main foreign currencies in February 2014, which resulted in a loss of KZT 18,427,644 thousand and a gain on deposits in foreign currency and trade accounts receivable of KZT 6,126,670 thousand.

Seeking to minimize currency risks management of KEGOC has set a maximum net foreign exchange position within EUR 220 mln and USD 293 mln.

	US dollar		Euro	
	2013	**2014**	**2013**	**2014**
As of June 30	151.7	183.5	197.9	249.9
Average for the period	150.9	176.2	198.2	241.7

Income Tax Expense

The Company's income tax expense decreased by 19.5% to KZT 1,076,012 thousand for the six months ended June 30, 2014 from KZT 1,337,303 thousand for the six months ended June 30, 2013. The decrease was mainly due to: (i) foreign exchange loss mainly attributable to negative revaluation of loans denominated in foreign currency; (ii) tax effects of the revaluation of fixed assets and (iii) accrual of the provision for doubtful accounts of non-residents.

Profit for the Period

The Company's profit was KZT 587,920 thousand for the six months ended June 30, 2014 from KZT 4,310,155 thousand for the six months ended June 30, 2013. The decrease was primarily related to the devaluation of the national currency in February 2014 which resulted in net foreign exchange loss of KZT 13,367,026 thousand.

Total Comprehensive Income for the Period, Net of Tax

The Company's total comprehensive income increased by 2562.9% to KZT 111,697,751 thousand for the six months ended June 30, 2014 from KZT 4,194,577 thousand for the six months ended June 30, 2013. The Company incurred gain on revaluation of fixed assets amounting to KZT 138,887,289 thousand as a result of revaluation of fixed assets of the company.

EBITDA

The following table compares EBITDA for the six months ended June 30, 2013 and June 30, 2014.

	Six months ended June 30,			
	2013	**2014**	**change**	
	(KZT thousands)	**(KZT thousands)**	**(KZT thousands)**	**%**
EBITDA	9,516,058	9,534,572	18,514	0.2
EBITDA margin, %	27.2%	22.3%	n/a	(4.9)

The Company's EBITDA for the six months ended June 30, 2014 was KZT 9,534,572 thousand, which is KZT 18,514 thousand higher than for the six months ended June 30, 2013 and represents about 0.2% increase. The change was the result of the factors described above. As EBITDA is a non-IFRS measure, the following table provides a reconciliation of EBITDA to IFRS line items of the income statement:

	Six months ended June 30,			
	2013	**2014**	**change**	
	(KZT thousands)	**(KZT thousands)**	**(KZT thousands)**	**%**
Revenue	34,976,552	42,685,668	7,709,116	22.0
Cost of sales	(26,152,847)	(34,650,783)	(8,497,936)	32.5
General and administrative expenses	(2,837,073)	(6,332,064)	(3,494,991)	123.2
Selling expenses	(87,131)	(74,386)	12,745	(14.6)
less depreciation and amortization	3,616,557	7,906,137	4,289,580	118.6
EBITDA	**9,516,058**	**9,534,572**	**18,514**	**0.2**
EBITDA margin, %	27.2%	22.3%	n/a	(4.9)
Other income	74,102	115,677	41,575	56.1
Other expenses	(120,388)	(29,609)	90,779	(75.4)
Revaluation gain on property, plant and equipment	-	14,194,012	14,194,012	n/a
Interest income from deposits, current accounts, and bonds	862,971	822,647	(40,324)	(4.7)
Finance costs	(967,831)	(1,693,881)	(726,050)	75.0
Foreign exchange loss, net	(100,897)	(13,367,026)	(13,266,129)	13 148.2
Share in loss of associate	-	(6,323)	(6,323)	n/a
Income tax expense	(1,337,303)	(1,076,012)	261,291	(19.5)
plus depreciation and amortization	(3,616,557)	(7,906,137)	(4,289,580)	118.6
Profit for the period	**4,310,155**	**587,920**	**(3,722,235)**	**(86.4)**

Year ended December 31, 2013 compared to year ended December 31, 2012

Revenue

	Year ended December 31,				
	2012		2013		
	(KZT thousands)	% of revenue	(KZT thousands)	% of revenue	% change
Electricity transmission:					
Electricity transmission (before discounts)	43,378,750	65.9	47,046,175	63.7	8.5
Discounts	(760,550)	(1.2)	(2,694,440)	(3.7)	254.3
Electricity transmission (after discounts)	42,618,200	64.7	44,351,735	60.1	4.1
Technical dispatch	10,081,550	15.3	10,827,210	14.7	7.4
Balancing of electricity production and consumption (after discounts)	5,269,657	8.0	6,843,284	9.3	29.9
Revenue from electricity sales for compensation of the interstate balances of electricity flows	3,575,129	5.4	3,995,050	5.4	11.7
Revenue from sales of purchased electricity	2,685,490	4.1	3,470,894	4.7	29.2
Other	1,625,147	2.5	4,323,550	5.9	166.0
Total revenue from core activities	**65,855,173**	**100.0**	**73,811,723**	**100.0**	**12.1**

The Company's revenue increased by 12.1% to KZT 73,811,723 thousand for the year ended December 31, 2013 from KZT 65,855,173 thousand for the year ended December 31, 2012, primarily due to: (i) a 4.1% (or KZT 1,733,535 thousand including discounts) increase in revenue from electricity transmission; (ii) a 7.4% (or KZT 745,660 thousand) increase in revenue from technical dispatch; (iii) a 29.9% (or KZT 1,573,627 thousand) increase in revenue related to balancing the production and consumption of electricity in Kazakhstan; (iv) an 11.7% (or KZT 419,921 thousand) increase in revenue from electricity sales for compensation of the interstate balances of electricity flows; (v) an increase by 29.2% (or KZT 785,404 thousand) in revenue from sale of purchased electricity and (vi) a 166.0% increase (or KZT 2,698,403 thousand) in revenue from other services.

The table below represents a tariff/volume analysis of the Company's revenue:

		Year ended December 31,		
		2012	**2013**	**% change**
Electricity transmission				
Revenue from electricity transmission	KZT thousands	42,618,200	44,351,735	4.1
Volume of transmission	kWh thousands	43,487,097	41,055,346	(5.6)
Approved tariff	KZT/kWh	0.953[1]	1.113[2]	16.7
Average tariff (including discounts)	KZT/kWh	0.998[3]	1.147[4]	14.9
Technical dispatch				
Revenue from technical dispatch	KZT thousands	10,081,550	10,827,210	7.4
Volume of technical dispatch	kWh thousands	83,511,655	83,863,377	0.4
Approved tariff	KZT/kWh	0.118[1]	0.128[2]	4.7
Average tariff (including discounts)	KZT/kWh	0.121[3]	0.129[4]	6.9
Electricity balancing				
Revenue from balancing of electricity production and consumption	KZT thousands	5,269,657	6,843,284	29.9
Revenue from electricity sales for compensation of the interstate balances of electricity flows	KZT thousands	3,575,129	3,995,050	11.7
Volume of balancing	kWh thousands	152,908,895	153,521,394	0.4
Volume of cross-boundary balancing	kWh thousands	1,201,141	1,263,691	5.2
Approved tariff	KZT/kWh	0.032[1]	0.041[2]	28.1
Average tariff (including discounts)	KZT/kWh	0.034[3]	0.045[4]	29.3

Footnote 1: Based on approved tariff effective from September 1, 2011.
Footnote 2: Based on approved tariff effective from October 1, 2012.
Footnote 3: Average tariff received in respect of all transmissions made in 2012, including discounts.
Footnote 4: Average tariff received in respect of all transmissions made in 2013, including discounts.

Electricity Transmission

A 4.1% increase in revenue from electricity transmission from KZT 42,618,200 thousand for the year ended December 31, 2012 to KZT 44,351,735 thousand for the year ended December 31, 2013 was primarily driven by an increase in the average tariff from 0.998 KZT/kWh to 1.147 KZT/kWh. The increase in revenue associated with the average tariff was partially offset by decrease in the volume of services provided from 43,487.1 million kWh to 41,055.3 million kWh.

A 5.6% decrease in volume of services provided was primarily caused by a 5.6 % decrease in volume of electricity transmission to wholesale market participants in Kazakhstan and a 31.1% decrease in volume of interstate transit. This decrease was partially offset by a 317.6% increase in volume of electricity transmission exported to Russia.

Technical Dispatch

A 7.4% increase in revenue from electricity dispatch from KZT 10,081,550 thousand for the year ended December 31, 2012 to KZT 10,827,210 thousand for the year ended December 31, 2013 was primarily due to an increase in the average tariff for technical dispatch services from 0.121 KZT/kWh to 0.129 KZT/kWh and increase in volume of supplies from 83,511.7 million kWh to 83,863.4 million kWh.

The increase in volume of technical dispatching by 0.4% was primarily driven by growth in the production of electricity by energy producing companies.

Balancing of Electricity Production and Consumption

Revenue related to balancing of electricity production and consumption increased by 29.9% from KZT 5,269,657 thousand for the year ended December 31, 2012 to KZT 6,843,284 thousand for the year ended December 31, 2013 primarily due to an increase in the annual average tariff from 0.034 KZT/kWh to 0.045 KZT/kWh.

Revenue from Electricity Sales for Compensation of the Interstate Balances of Electricity Flows

An 11.7% increase in revenue from electricity sales for compensation of the interstate balances of electricity flows from KZT 3,575,129 thousand for the year ended December 31, 2012 to KZT 3,995,050 thousand for the year ended December 31, 2013 was primarily due to a 5.2% increase in the actual volume of electricity supplied from 1,201.1 million kWh to 1,263.7 million kWh.

Sales of Purchase Electricity

Revenue from sales of purchased electricity increased from KZT 2,685,490 thousand for the year ended December 31, 2012 to KZT 3,470,894 thousand for the year ended December 31, 2013 was primarily due to an increase in the average tariff from 5.87 KZT/kWh to 8.56 KZT/kWh. This was partially offset by a decrease in volume of services provided by 53.9 million kWh.

Other

An increase in other services from KZT 1,625,147 thousand for the year ended December 31, 2012 to KZT 4,323,550 thousand for the year ended December 31, 2013 was primarily due to increase in revenue from power regulation for non-residents resulting from (i) an increase in the average tariff from 186 KZT/kWh to 608 KZT/KWh and (ii) an increase in the volume of services provided by 178 megawatt.

Cost of Sales

	Year ended December 31,				
	2012		2013		
	(KZT thousands)	% of revenue	(KZT thousands)	% of revenue	% change
Technological losses of electric energy	16,799,998	25.5	17,715,238	24.0	5.4
Payroll expenses and related taxes	7,856,799	11.9	8,888,182	12.0	13.1
Cost of purchased electricity for compensation of interstate balances of electricity flows	8,438,372	12.8	8,424,124	11.4	(0.2)
Depreciation and amortization	6,987,329	10.6	8,266,091	11.2	18.3
Repair and maintenance expenses	3,311,764	5.0	5,499,698	7.5	66.1
Cost of purchased electricity	2,611,281	4.0	2,962,063	4.0	13.4
Inventories	990,561	1.5	1,171,032	1.6	18.2
Security services	863,366	1.3	890,566	1.2	3.2
Other	1,409,013	2.1	1,757,328	2.4	24.7
Total cost of sales	**49,268,483**	**74.8**	**55,574,322**	**75.3**	**12.8**

The Company's cost of sales increased by 12.8% to KZT 55,574,322 thousand for the year ended December 31, 2013 from KZT 49,268,483 thousand for the year ended December 31, 2012, primarily due to: (i) a 5.4% increase in the cost of technological losses for transmission of electricity, mainly resulting from the increase in the purchase price of electricity (average price increased by 16.8%); (ii) a 13.1% (or KZT 1,031,383 thousand) increase in payroll expenses for production staff, which was caused by a 10%-15% increase in payroll of employees of KEGOC's branches from January 1, 2013 and by an increase in the number of Almatinskiye MES branch's staff; (iii) a 18.3% (or KZT 1,278,762 thousand) increase in depreciation and amortization expenses due to additions to fixed assets under the project for the construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines in the amount of KZT 38,411,326 thousand; (iv) an increase in repair and maintenance expenses by 66.1% (or KZT 2,187,934 thousand), which resulted from provision for emergency services attributable to emergency situations in Zhambyl and South Kazakhstan regions in 2013 and (v) the examination of technical conditions of electrical grid facilities by external experts in 2013.

General and Administrative Expenses

	Year ended December 31,				
	2012		2013		
	(KZT thousands)	% of revenue	(KZT thousands)	% of revenue	% change
Payroll expenses and related taxes	2,510,533	3.8	2,573,322	3.5	2.5
Taxes other than income tax	1,285,472	2.0	2,007,031	2.7	56.1
Depreciation and amortization	290,272	0.4	278,973	0.4	(3.9)
Sponsorship and charitable donations	177,695	0.3	243,342	0.3	36.9
Consulting services	223,765	0.3	196,221	0.3	(12.3)
Provision for doubtful receivables and impairment of advances	26,062	0.0	195,153	0.3	648.8
Rent expenses	142,933	0.2	162,712	0.2	13.8
Insurance	139,852	0.2	142,206	0.2	1.7
Business trip expenses	117,655	0.2	128,203	0.2	9.0
Corporate events	85,737	0.1	89,330	0.1	4.2
Inventories	87,349	0.1	81,859	0.1	(6.3)
Trainings	41,044	0.1	61,408	0.1	49.6
Utilities	38,758	0.1	41,750	0.1	7.7
Bank services	29,658	0.0	33,225	0.0	12.0
Security services	31,193	0.0	31,757	0.0	1.8
Communication services	39,955	0.1	23,745	0.0	(40.6)
Current repair expenses	21,347	0.0	8,303	0.0	(61.1)
Provision / (reversal of provision) for obsolete inventory	146,702	0.2	(217,628)	(0.3)	(248.3)
Other	393,464	0.6	341,966	0.5	(13.1)
Total	**5,829,446**	**8.9**	**6,422,878**	**8.7**	**10.2**

The Company's general and administrative expenses increased by 10.2% to KZT 6,422,878 thousand for the year ended December 31, 2013 from KZT 5,829,446 thousand for the year ended December 31, 2012, primarily due to: (i) a 56.1% increase in taxes, other than income tax, caused by increase of property tax due to increase in the Company's fixed asset base and (ii) a 648.8% increase in provision for doubtful receivables and impairment of advances from KZT 26,062 thousand to KZT 195,153 thousand as a result of overdue payment from Uzbekenergo SJSC. The increase was partially offset by a decrease of KZT 217,628 thousand in reversal of provision for obsolete inventory due to (i) usage of the part of obsolete items as the payment for the shares of Energoinform JSC and (ii) usage of the part of items for servicing of office equipment.

Selling Expenses

	Year ended December 31,				
	2012		2013		
	(KZT thousands)	% of revenue	(KZT thousands)	% of revenue	% change
Payroll expenses and related taxes	161,148	0.2	147,277	0.2	(8.6)
Travel costs	7,437	0.0	7,095	0.0	(4.6)
Depreciation and amortization	27	0.0	36	0.0	33.3
Total selling costs	**168,612**	**0.3**	**154,408**	**0.2**	**(8.4)**

The Company's selling expenses decreased by 8.4% to KZT 154,408 thousand for the year ended December 31, 2013 from KZT 168,612 thousand for the year ended December 31, 2012, primarily due to a decrease of KZT 13,871 thousand in payroll expenses and related taxes in 2013 compared to 2012, resulting from reallocation of selling staff to production staff.

Revaluation Loss on Property, Plant and Equipment

Effective November 1, 2013, the Company changed its accounting policy on NPG assets to the "revalued asset amount" method. The historical cost method that was formerly used significantly underestimated the fair value of NPG assets and its maintenance costs. To ascertain the fair value of its fixed assets, the Company engaged Deloitte TCF LLP as the accredited independent appraiser. As result of applying certain cost and comparison methods, the value of fixed assets increased. However due to KEGOC's restriction on switching to a fully economically justified tariff, which assumes market return on investments to similar assets, economical depreciation occurred and was allocated to cost of fixed assets.

As a result of revaluation of its assets, the Company recognized a gain in other comprehensive income on revaluation of certain assets on KZT 138,645,728 thousand and related tax liability on KZT 27,729,146 thousand. Additionally, there was a loss on revaluation of certain assets on the consolidated statement of comprehensive income in the amount of KZT 26,807,757 thousand.

Interest Income from Deposits, Current Accounts and Bonds

The Company's interest income from deposits, current accounts and bonds increased by 12% to KZT 1,797,051 thousand for the year ended December 31, 2013 from KZT 1,604,788 thousand for the year ended December 31, 2012, primarily due to increase of deposit base associated with temporary free funds. Additionally, there was an increase in coupon payments received from bonds issued by Batys Tranzit JSC due to coupon rate increase to 7.1% in 2013 for the period from March 31, 2013 to March 30, 2014 compared with 6.4% for the period from March 31, 2012 to March 30, 2013.

Finance Costs

The Company's finance costs increased by 1.5% to KZT 2,021,023 thousand for the year ended December 31, 2013 from KZT 1,991,132 thousand for the year ended December 31, 2012, primarily due to a KZT 101,701 thousand decrease in capitalized interest. The Company applied a weighted average capitalization rate of 3.6% and 4.42% in 2013 and 2012, respectively. In 2013 capitalized borrowing costs mainly related to the following major investment projects: Phase 2 NPG Modernization and Construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines and Reconstruction of the CSDS-Osakarovka 220kV power line. The increase was partially compensated by: (i) a decrease in interest expenses on EBRD and IBRD loans (by KZT 30,654 thousand) and (ii) a decrease in commission payable on the undrawn portion of the EBRD loans by KZT 50,184 thousand. The Company is obliged to pay EBRD a commission on the undrawn portion of any loans at a rate of either 0.5% or 1%, pursuant to the respective loan documents, on a semiannual basis.

	Year ended December 31,		
	2012	2013	
	(KZT thousands)	(KZT thousands)	% change
Other Income			
Fines and penalties	58,094	323,953	457.6
Gain on disposal of fixed assets, net	-	9,841	n/a
Other	80,689	48,071	(40.4)
Total other income	138,783	381,865	175.2
Other expenses			
Cost of property, plant and equipment sold	(28,177)	-	(100.0)
Other	(21,246)	(13,972)	(34.2)
Total other expenses	(49,423)	(13,972)	(71.7)

Other Income

The Company's other income increased by 175.2% to KZT 381,865 thousand for the year ended December 31, 2013 from KZT 138,783 thousand for the year ended December 31, 2012. The increase was caused by the accrual of income on penalties from UzbekEnergo GAK, resulting from failure to fulfill contractual obligations.

Other Expenses

The Company's other expenses decreased by 71.7% to KZT 13,972 thousand for the year ended December 31, 2013 from KZT 49,423 thousand for the year ended December 31, 2012. In 2013 the Company incurred no cost of realized property, plant and equipment, while in 2012 such cost amounted to KZT 28,177 thousand.

The decrease was attributable to the decrease in the cost of realized inventory due to less inventory realized in 2013, as compared to 2012.

Foreign Exchange Loss, Net

The Company's foreign exchange loss increased by 48.4% to KZT 2,680,967 thousand for the year ended December 31, 2013 from KZT 1,806,822 thousand for the year ended December 31, 2012, primarily due to a depreciation of KZT against USD and Euro, resulting in a loss attributable to the revaluation of long-term loans denominated in USD and Euro.

	US dollar		Euro	
	2012	2013	2012	2013
As of December 31	150.7	153.6	199.2	211.2
Average for the period	149.1	152.1	191.7	202.1

Income Tax Expense/ Benefit

The Company's income tax expense decreased by 306.5% to KZT 3,188,073 thousand for the year ended December 31, 2013 from KZT 1,543,797 thousand for the year ended December 31, 2012, primarily due to the tax effect resulting from the change in the fixed assets accounting methodology. As a result of such revaluation, the Company recognized a gain on revaluation of certain assets in the amount of KZT 138,645,728 thousand and related tax liability on KZT 27,729,146 thousand. Additionally, there was a loss on revaluation of certain assets, on the consolidated statement of comprehensive income in the amount of KZT 26,807,757 thousand.

Loss/ Profit for the Period

The Company's loss for the year ended December 31, 2013 was KZT 14,500,274 thousand compared with profit of KZT 6,941,029 thousand for the year ended December 31, 2012. Recognized loss on revaluation, as shown on the statement of comprehensive income in the amount of KZT 26,807,757 thousand, negatively affected profits for 2013, but such negative effect was non-cash in character.

Total Comprehensive Income for the Period, Net of Tax

The Company's total comprehensive income increased by 1,287.4% from KZT 6,941,029 thousand for the year ended December 31, 2012 to KZT 96,300,730 thousand for the year ended December 31, 2013, which was primarily due to a gain on revaluation which amounted to KZT 138,645,728 thousand as a result of revaluation of fixed assets.

EBITDA

The following table compares EBITDA for the years 2013 and 2012.

	Year ended December 31,			
	2012	**2013**	**change**	
	(KZT thousands)	**(KZT thousands)**	**(KZT thousands)**	**%**
EBITDA	17,871,308	20,209,138	2,337,830	13.1
EBITDA margin, %	27.1%	27.4%	n/a	0.6

The Company's EBITDA increased by 13.1% to KZT 20,209,138 thousand for the year ended December 31, 2013, which is KZT 2,337,830 thousand higher than for the same period in 2012. The change was the result of the factors described above. As EBITDA is a non-IFRS measure, the following table provides a reconciliation of EBITDA to IFRS for line items on the income statement.

	Year ended December 31,			
	2012	2013	change	
	(KZT thousands)	(KZT thousands)	(KZT thousands)	%
Revenue	65,855,173	73,811,723	7,956,550	12.1
Cost of sales	(49,268,483)	(55,574,322)	(6,305,839)	12.8
General and administrative expenses	(5,829,446)	(6,422,878)	(593,432)	10.2
Selling expenses	(168,612)	(154,408)	14,204	(8.4)
less depreciation and amortization	7,282,676	8,549,023	1,266,347	17.4
EBITDA	**17,871,308**	**20,209,138**	**2,337,830**	**13.1**
EBITDA margin, %	27.1%	27.4%	n/a	0.6
Other income	138,783	381,865	243,082	175.2
Other expenses	(49,423)	(13,972)	35,451	(71.7)
Revaluation loss on property, plant and equipment	-	(26,807,757)	(26,807,757)	n/a
Interest income from deposits, current accounts, and bonds	1,604,788	1,797,051	192,263	12.0
Finance costs	(1,991,132)	(2,021,023)	(29,891)	1.5
Foreign exchange loss, net	(1,806,822)	(2,680,967)	(874,145)	48.4
Share in loss of associate	-	(3,659)	(3,659)	n/a
Income tax (expense)/benefit	(1,543,797)	3,188,073	4,731,870	(306.5)
plus depreciation and amortization	(7,282,676)	(8,549,023)	(1,266,347)	17.4
Profit/(loss) for the period	**6,941,029**	**(14,500,274)**	**(21,441,303)**	**(308.9)**

Year ended December 31, 2012 compared to the year ended December 31, 2011

Revenue

	Year ended December 31,				
	2011		2012		
	(KZT thousands)	% of revenue	(KZT thousands)	% of revenue	% change
Electricity transmission:					
Electricity transmission (before discounts)	38,765,735	67.7	43,378,750	65.9	11.9
Discounts	(1,145,311)	(2.0)	(760,550)	(1.2)	(33.6)
Electricity transmission (after discounts)	37,620,424	65.7	42,618,200	64.7	13.3
Technical dispatch	9,272,079	16.2	10,081,550	15.3	8.7
Balancing of electricity production and consumption	4,668,378	8.2	5,269,657	8.0	12.9
Revenue from electricity sales for compensation of the interstate balances of electricity flows	2,660,677	4.6	3,575,129	5.4	34.4
Revenue from sales of purchased electricity	1,792,182	3.1	2,685,490	4.1	49.8
Other	1,235,777	2.2	1,625,147	2.5	31.5
Total revenue from core activities	**57,249,517**	**100.0**	**65,855,173**	**100.0**	**15.0**

The Company’s revenue increased by 15.0% to KZT 65,855,173 thousand for the year ended December 31, 2012 from KZT 57,249,517 thousand for the year ended December 31, 2011, primarily due to: (i) a 13.3% (or KZT 4,997,776 thousand including discounts) growth in revenue from electricity transmission; (ii) a 8.7% (or KZT 809,471 thousand) increase in revenue from technical dispatch; (iii) a 12.9% (or KZT 601,279 thousand) increase in revenue related to balancing of electricity production and consumption; (iv) a 34.4% (or KZT 914,452 thousand) increase in revenue from electricity sales for compensation of the interstate balances of electricity flows; (v) a 49.8% (or KZT 893,308 thousand) growth in revenue from sales of purchased electricity and (vi) a 31.5% (or KZT 389,370 thousand) increase in revenue from other services.

The table below represents a tariff/volume analysis of the Company's revenue:

		Year ended December 31,		
		2011	**2012**	**% change**
Electricity transmission				
Revenue from electricity transmission	KZT thousands	37,620,424	42,618,200	13.3
Volume of transmission	kWh thousands	41,042,197	43,487,097	6.0
Approved tariff	KZT/kWh	0.940[1]	0.953[2]	1.4
Average tariff (including discounts)	KZT/kWh	0.945[3]	0.998[4]	5.6
Technical dispatch				
Revenue from technical dispatch	KZT thousands	9,272,079	10,081,550	8.7
Volume of technical dispatch	kWh thousands	80,812,246	83,511,655	3.3
Approved tariff	KZT/kWh	0.113[1]	0.118[2]	4.4
Average tariff (including discounts)	KZT/kWh	0.115[3]	0.121[4]	5.2
Electricity balancing				
Revenue from balancing of electricity production and consumption	KZT thousands	4,668,378	5,269,657	12.9
Revenue from electricity sales for compensation of the interstate balances of electricity flows	KZT thousands	2,660,677	3,575,129	34.4
Volume of balancing	kWh thousands	145,886,823	152,908,895	4.8
Volume of cross-boundary balancing	kWh thousands	983,464	1,201,141	22.1
Approved tariff	KZT/kWh	0.032[1]	0.032[2]	0.0
Average tariff (including discounts)	KZT/kWh	0.032[3]	0.034[4]	7.7

Footnote 1: Based on approved tariff effective from August 1, 2010.
Footnote 2: Based on approved tariff effective from September 1, 2011.
Footnote 3: Average tariff received in respect of all transmissions made in 2011, including discounts.
Footnote 4: Average tariff received in respect of all transmissions made in 2012, including discounts.

Electricity Transmission

A 13.3% increase in revenue from electricity transmission from KZT 37,620,424 thousand for the year ended December 31, 2011 to KZT 42,618,200 thousand for the year ended December 31, 2012 was primarily due to a 6.0% increase in the actual volume of services provided from 41,042.2 million kWh of electricity transmitted in 2011 to 43,487.1 million kWh of electricity transmitted in 2012 and an increase in average tariff from 0.945 KZT/kWh to 0.998 KZT/kWh.

Technical Dispatch

Revenue from technical dispatch increased from KZT 9,272,079 thousand for the year ended December 31, 2011 to KZT 10,081,550 thousand for the year ended December 31, 2012, primarily due to a 3.3% (2,699.4 million kWh) increase in the volume of technical dispatch services rendered and an increase in the average tariff from KZT 0.115 KZT/kWh to 0.121 KZT/kWh.

The increase in volume of services provided was primarily driven by increase in the production and supply of electricity by energy producing companies together with an increase in electricity consumption by wholesale market participants in Kazakhstan.

Balancing of Electricity Production and Consumption

A 12.9% increase in revenue from electricity balancing from KZT 4,668,378 thousand for the year ended December 31, 2011 to KZT 5,269,657 thousand for the year ended December 31, 2012 was primarily due to: (i) a 4.8% increase in the actual volume of balancing services rendered from 145,886.8 million kWh to 152,908.9 million kWh, resulting from a general increase in electricity production and consumption in the wholesale market in Kazakhstan and (ii) an increase in the average tariff from 0.032 KZT/kWh to 0.034 KZT/kWh.

Revenue from Electricity Sales for Compensation of the Interstate Balances of Electricity Flows

A 34.4% increase in revenue from electricity sales for compensation of the interstate balances of electricity flows from KZT 2,660,677 thousand for the year ended December 31, 2011to KZT 3,575,129 thousand for the year ended December 31, 2012 was primarily due to a 22.1% increase in the actual volume of electricity supplied from 983.5 million kWh to 1,201.1 million kWh.

Sales of Purchased Electricity

Revenue from sales of purchased electricity increased from KZT 1,792,182 thousand for the year ended December 31, 2011 to KZT 2,685,490 thousand for the year ended December 31, 2012, primarily due to an increase in the volume of services provided, from 318 million kWh to 459.6 million kWh.

Cost of Sales

	Year ended December 31,				
	2011		2012		
	(KZT thousands)	% of revenue	(KZT thousands)	% of revenue	% change
Technological losses of electric energy	14,180,057	24.8	16,799,998	25.5	18.5
Cost of purchased electricity for compensation of interstate balances of electricity flows	5,683,975	9.9	8,438,372	12.8	48.5
Payroll expenses and related taxes	7,136,713	12.5	7,856,799	11.9	10.1
Depreciation and amortization	7,231,004	12.6	6,987,329	10.6	(3.4)
Repair and maintenance expenses	2,738,120	4.8	3,311,764	5.0	21.0
Cost of purchased electricity	1,780,096	3.1	2,611,281	4.0	46.7
Inventories	854,298	1.5	990,561	1.5	16.0
Security services	802,415	1.4	863,366	1.3	7.6
Other	1,045,270	1.8	1,409,013	2.1	34.8
Total cost of sales	**41,451,948**	**72.4**	**49,268,483**	**74.8**	**18.9**

The Company's cost of sales increased by 18.9% to KZT 49,268,483 thousand for the year ended December 31, 2012 from KZT 41,451,948 thousand for the year ended December 31, 2011, primarily due to: (i) a 18.5% increase in the cost of technological losses of electric energy, mainly resulting from a 5.8% growth in the volume of electricity transmitted and an increase in purchase price from Ekibastuz GRES-1 LLP and Station Ekibastuz GRES-2 JSC (from 5.6 KZT/kWh to 6.5 KZT/kWh) and MAEK Kazatomprom LLP (from 7.23 KZT/kWh to 9.54 KZT/kWh); (ii) KZT 2,754,397 thousand increase in the cost of purchased electricity for compensation of interstate balances of electricity flows between Kazakhstan and Russia from KZT 5,683,975 thousand for the year ended December 31, 2011 to KZT 8,438,372 thousand for the year ended December 31, 2012 primarily caused by an increase of 231.3 million kWh in the volumes of purchases and an increase in the annual average price from 5.86 KZT/kWh to 7.03 KZT/kWh.

General and Administrative Expenses

	Year ended December 31,				
	2011		2012		
	(KZT thousands)	% of revenue	(KZT thousands)	% of revenue	% change
Payroll expenses and related taxes	2,340,920	4.1	2,510,533	3.8	7.2
Taxes other than income tax	1,739,148	3.0	1,285,472	2.0	(26.1)
Depreciation and amortization	319,031	0.6	290,272	0.4	(9.0)
Consulting services	242,507	0.4	223,765	0.3	(7.7)
Sponsorship and charitable donations	309,145	0.5	177,695	0.3	(42.5)
Provision for obsolete inventory	-	-	146,702	0.2	n/a
Rent expenses	134,842	0.2	142,933	0.2	6.0
Insurance	106,416	0.2	139,852	0.2	31.4
Business trip expenses	84,518	0.1	117,655	0.2	39.2
Inventories	101,775	0.2	87,349	0.1	(14.2)
Corporate events	76,288	0.1	85,737	0.1	12.4

Trainings	29,737	0.1	41,044	0.1	38.0
Communication services	39,098	0.1	39,955	0.1	2.2
Utilities	38,246	0.1	38,758	0.1	1.3
Security services	28,430	0.0	31,193	0.0	9.7
Bank services	52,817	0.1	29,658	0.0	(43.8)
Provision for doubtful receivables and impairment of advances	(68,726)	(0.1)	26,062	0.0	(137.9)
Current repair expenses	27,515	0.0	21,347	0.0	(22.4)
Other	374,686	0.7	393,464	0.6	5.1
Total	**5,976,393**	**10.4**	**5,829,446**	**8.9**	**(2.5)**

The Company's general and administrative expenses decreased by 2.5% to KZT 5,829,446 thousand for the year ended December 31, 2012 from KZT 5,976,393 thousand for the year ended December 31, 2011, primarily due to: (i) a 26.1% decrease in taxes, other than income tax, which was mainly due to the absence of VAT accrual for technical losses on the above limits (KZT 248,366 thousands) and a decrease in fines and penalties for corporate income tax by KZT 209,227 thousand and (ii) a 42.5% decrease in sponsorship and charitable donations as a result of a reduction (KZT 131,450 thousand) of sponsor support in 2012 compared to 2011. These overall decreases were partially offset by: (i) an increase in payroll expenses for administrative staff followed by a salary increase effective as of January 1, 2012 (for personnel of the Zapadnye MES branch amounting to 15% of base salary, for personnel of branches in Astana and Almaty amounting to 10% of base salary and for other personnel amounting to 7% of base salary), an increase in bonus payments from 170% of monthly salary in 2011 to 200% of monthly salary in 2012 and bonus payment to management based on results of 2011 and (ii) an accrual of provisions for obsolete inventory which amounted to KZT 146,702 thousand as a result of a change in how provisions for obsolete items were created. Prior to 2012 the Company would set aside an obsolescence reserve for all items with a storage period of more than 1 year but only after inspection by the supervisory commission, which defined which items could be recovered. As these procedures were complex and time consuming, the Company decided to set aside an obsolescence reserve for all items with a storage period of more than 1 year.

Selling Expenses

	Year ended December 31,				
	2011		**2012**		
	(KZT thousands)	**% of revenue**	**(KZT thousands)**	**% of revenue**	**% change**
Payroll expenses and related taxes	151,282	0.3	161,148	0.2	6.5
Travel costs	3,971	0.0	7,437	0.0	87.3
Depreciation and amortization	76	0.0	27	0.0	(64.5)
Other	813	0.0	-	-	(100.0)
Total selling costs	**156,142**	**0.3**	**168,612**	**0.3**	**8.0**

The Company’s selling expenses increased by 8.0% to KZT 168,612 thousand for the year ended December 31, 2012 from KZT 156,142 thousand for the year ended December 31, 2011, primarily due to an increase (by KZT 9,866 thousand) in payroll expenses followed by a base salary increase since January 1, 2012 (for personnel of the Zapadnye MES branch amounting to 15%, for personnel of branches in Astana and Almaty amounting to 10% and for other personnel amounting to 7%), an increase in bonus payments from 170% of monthly salary for the year ended December 31, 2011 to 200% of monthly salary for the year ended December 31, 2012.

Interest Income from Deposits, Current Accounts and Bonds

The Company’s interest income from deposits, current accounts and bonds decreased by 5.5% to KZT 1,604,788 thousand for the year ended December 31, 2012 from KZT 1,699,050 thousand for the year ended December 31, 2011, primarily due to a decrease in coupon payments received from bonds issued by Batys Tranzit JSC that, in turn, primarily resulted from a decrease in the coupon rate from 8.6% for the period of March 31, 2011 to March 30, 2012 to 6.4% for the period of March 31, 2012 to March 30, 2013.

Finance Costs

The Company’s finance costs decreased by 19% to KZT 1,991,132 thousand for the year ended December 31, 2012 from KZT 2,457,956 thousand for the year ended December 31, 2011, primarily due to a 102.8% increase in capitalized interest expense from KZT 566,835 thousand for the year ended December 31, 2011 compared to KZT 1,149,583 thousand for the year ended December 31, 2012. The Company applied a capitalization rate of 4.84% and 4.42% in 2011 and 2012, respectively. In 2012 capitalized borrowing costs mainly related to the following major investment projects: Phase 2 NPG Modernization and Construction of the 500 kV Alma substation, its connection to the Kazakhstan NPG by 500 kV, 220 kV lines and Moinak HPP Electricity Transmission project.

	Years ended December 31,		
	2011	**2012**	
	(KZT thousands)	**(KZT thousands)**	**% change**
Other Income			
Fines and penalties	123,720	58,094	(53.0)
Other	612,755	80,689	(86.8)
Total other income	**736,475**	**138,783**	**(81.2)**
Other expenses			
Cost of property, plant and equipment sold	(40,819)	(28,177)	(31.0)
Other	(208,289)	(21,246)	(89.8)
Total other expenses	**(249,108)**	**(49,423)**	**(80.2)**

Other Income

The Company’s other income decreased by 81.2% to KZT 138,783 thousand for the year ended December 31, 2012 from KZT 736,475 thousand for the year ended December 31, 2011, primarily due to the absence of revenue from gratuitously received property, plant and equipment (KZT 380,845 thousand in 2011), reclassification of gain from use of two different exchange rates on the same date in the amount of KZT 5,052 thousand to foreign exchange gain/(loss) in 2012 (there was no transfer of gain from use of two different exchange rates on the same date in the amount of KZT 77,355 thousand in 2011 due to immateriality) and reclassification of revenue from realization and disposal of property, plant and equipment (construction in progress) in the amount of KZT 37,615 thousand to cost of property, plant and equipment sold.

Other Expenses

The Company's other expenses decreased by 80.2% to KZT 49,423 thousand for the year ended December 31, 2012 from KZT 249,108 thousand for the year ended December 31, 2011, primarily due to reclassification of loss from use of two different exchange rates on the same date in the amount of KZT 63,033 thousand to foreign exchange gain/(loss) in 2012. There was no transfer of loss from use of two different exchange rates on the same date in the amount of KZT 173,049 thousand for the year ended December 31, 2011 due to immateriality.

Foreign Exchange Gain/(Loss), Net

The Company's foreign exchange gain/(loss) decreased by KZT 3,113,661 thousand for the year ended December 31, 2012 from KZT 1,306,839 thousand for the year ended December 31, 2011, primarily due to KZT depreciation against the US dollar and Euro and subsequent negative revaluation of the Company's loans denominated in USD and Euro.

	US dollar		**Euro**	
	2011	**2012**	**2011**	**2012**
As of December 31	148.4	150.7	191.7	199.2
Average for the year	146.6	149.1	204.2	191.7

Income Tax Expense

The Company's income tax expense decreased by 46.4% to KZT 1,543,797 thousand for the year ended December 31, 2012 from KZT 2,878,089 thousand for the year ended December 31, 2011. This decrease was primarily due to: (i) a decrease in profit before income tax expense from KZT 10,700,334 thousand for the year ended December 31, 2011 to KZT 8,484,826 thousand for the year ended December 31, 2012; (ii) an offset basing on submission of additional tax declaration for the year ended December 31, 2008 in 2012 and (iii) the absence of non-deductible technical losses on above limits.

Profit for the Period

As a result of the factors discussed above, the Company's profit decreased by 11.3% to KZT 6,941,029 thousand for the year ended December 31, 2012, compared to KZT 7,822,245 thousand for the year ended December 31, 2011.

Total Comprehensive Income for the Period, Net of Tax

The Company's total comprehensive income for the year ended December 31, 2012 decreased by 11.3% to KZT 6,941,029 thousand, compared to KZT 7,822,078 thousand for the year ended December 31, 2011.

EBITDA

The following table compares EBITDA for the years 2011 and 2012.

	Years ended December 31,			
	2011	2012	change	
	(KZT thousands)	(KZT thousands)	(KZT thousands)	%
EBITDA	17,225,413	17,871,308	645,895	3.7
EBITDA margin, %	30.1%	27.1%	n/a	(3.0)

The Company's EBITDA for the 2012 was KZT 17,871,308 thousand, which is KZT 645,895 thousand higher than for the same period in 2011 and represents a 3.7% increase. The change was the result of the factors described above. As EBITDA is a non-IFRS measure, the following table provides a reconciliation of EBITDA to IFRS line items of the income statement:

	Years ended December 31,			
	2011	2012	change	
	(KZT thousands)	(KZT thousands)	(KZT thousands)	%
Revenue	57,249,517	65,855,173	8,605,656	15.0
Cost of sales	(41,451,948)	(49,268,483)	(7,816,535)	18.9
General and administrative expenses	(5,976,393)	(5,829,446)	146,947	(2.5)
Selling expenses	(156,142)	(168,612)	(12,470)	8.0
less depreciation and amortization	7,560,379	7,282,676	(277,703)	(3.7)
EBITDA	**17,225,413**	**17,871,308**	**645,895**	**3.7**
EBITDA margin, %	30.1%	27.1%	n/a	(3.0)
Other income	736,475	138,783	(597,692)	(81.2)
Other expenses	(249,108)	(49,423)	199,685	(80.2)
Interest income from deposits, current accounts, and bonds	1,699,050	1,604,788	(94,262)	(5.5)
Finance costs	(2,457,956)	(1,991,132)	466,824	(19.0)
Foreign exchange gain/(loss), net	1,306,839	(1,806,822)	(3,113,661)	(238.3)
Income tax expense	(2,878,089)	(1,543,797)	1,334,292	(46.4)
plus depreciation and amortization	(7,560,379)	(7,282,676)	277,703	(3.7)
Profit for the year	**7,822,245**	**6,941,029**	**(881,216)**	**(11.3)**

Liquidity and Capital Resources

The Company depends on both internal and external sources of liquidity to provide working capital and to fund capital requirements. The Company has historically funded its capital expenditure with internally generated funds, equity contributions by the Government and debt financing. As of June 30, 2014 the Company had cash and cash equivalents of KZT 18,213,201 thousand. As of June 30, 2014 the Company also had committed and undrawn credit facilities for capital requirements of approximately KZT 3,024,032 thousand.

The Company anticipates that it has sufficient cash and cash credit to fund its ongoing operations and capital investment program for the next 18 months. In the future, the Company may need to raise debt and/or equity financing to finance its capital investment program. Whether such financing will be available depends on a number of factors, including market conditions and government regulations. In the event it does raise such financing through the issuance of additional Shares, your equity interest in the Company may be diluted. For more information see "*Risk Factors – Risk Factors Relating to the Offering and the Shares – Future offerings of debt or equity securities by the Company may adversely affect the market price of the Shares and dilute existing shareholders*".

Consolidated Statement of Cash Flows

	Years ended December 31,			**Six months ended June 30,**	
	2011	**2012**	**2013**	**2013**	**2014**
	(KZT thousands)	**(KZT thousands)**	**(KZT thousands)**	**(KZT thousands)**	**(KZT thousands)**
Net cash flows from operating activities	17,536,699	14,664,826	14,458,324	9,849,809	5,839,389
Net cash flows used in investing activities	(35,010,726)	(19,276,465)	(17,999,863)	(7,358,328)	(7,034,090)
Net cash flows from financing activities	21,595,473	3,127,659	6,988,560	1,000,888	6,915,157
Cash and cash equivalents at the end of the period	9,543,637	8,044,502	11,727,555	11,583,872	18,213,201

Net Cash Flows from Operating Activities

Net cash from operating activities decreased by 40.7% to KZT 5,839,389 thousand for the six months ended June 30, 2014 from KZT 9,849,809 thousand for the six months ended June 30, 2013 primarily due to a decrease in trade accounts payable. In the first half of the year, the volume of electricity transmission compared to the same period in 2013 decreased by 13.2% (or 2.8 billion KWh), which is attributable to a decrease in the transit of Russian electricity by 2.3 billion kWh (or 70%), as well as a decrease in electricity consumption by wholesale market participants in Kazakhstan by 0.5 billion kWh (or 3%), including:

- KazZinc LLP – by 309.67 million kWh (26.8%);
- ArcelorMittal Temirtau JSC - by 268.42 million kWh (40.4 %);
- Ust-Kamenogorsk Titanium Magnesium Plant JSC - for 179.92 million kWh (56.1 %);
- Kazakhmys Corporation LLP - by 93.76 million kWh (36.3 %).

Trade and other accounts payable decreased by 0.13% or KZT 13,743 thousand from KZT 10,549,954 thousand as of June 30, 2013 to KZT 10,536,211 thousand as of June 30, 2014, primarily due to a decrease in trade and other accounts payable to Kerneu Limited LLP for work done and services performed through co-financing. As of June 30, 2013 and 2014 the Company had trade and other accounts payable due to the following companies:

Company	Nature	30 June 2013	Share	30 June 2014	Share	Change
		(KZT thousands)	**%**	**(KZT thousands)**	**%**	**%**
KEC International Ltd	For work and services related to property, plant and equipment	3,154,341	29.9	2,845,193	27.0	(9.8)
Korea Electric Power Corporation	For work and services related to property, plant and equipment	128,897	1.2	1,715,896	16.3	1,231.2
INTER RAO UES OJSC	For electricity purchased	512,279	4.9	1,473,096	14.0	187.6
Station Ekibastuz GRES-2 JSC	For electricity purchased	926,852	8.8	1,260,860	12.0	36.0
Satti Zhol LLP	For work and services related to property, plant and equipment	1,651,319	15.7	108,533	1.0	(93.4)
Kerneu Limited LLP	For work and services related to property, plant and equipment	538,059	5.1	-	-	(100.0)
Other	n/a	3,638,207	34.5	3,132,633	29.7	13.9
		10,549,954	**100.0**	**10,536,211**	**100.0**	**(0.1)**

Decrease in net cash flow from operating activities was primarily driven by the increase in trade accounts receivable. This was primarily due to an increase in trade receivables from Uzbekenergo SJSC by KZT 11,046,485 thousand for purchased electricity and power regulation. As of June 30, 2013 and 2014 the Company had trade accounts receivable from the following companies:

Company	Nature	30 June 2013	Share	30 June 2014	Share	Change
		(KZT thousands)	**%**	**(KZT thousands)**	**%**	**%**
Uzbekenergo SJSC	Purchased electricity and power regulation	1,666,063	45.1	12,712,548	78.3	663.0
INTER RAO UES OJSC	Electricity transmission	657,068	17.8	791,738	4.9	20.5
FGC UES OJSC	Electricity transmission	432,076	11.7	393,843	2.4	(8.8)
Shygysenergotrade LLP	Electricity transmission	177	0.0	35,519	0.2	19,967.2
Other	n/a	939,424	25.4	2,293,787	14.1	144.2
		3,694,808	**100.0**	**16,227,435**	**100.0**	**339.2**

*Totals are given without reserve

Net cash from operating activities decreased by 1.4% to KZT 14,458,324 thousand for the year ended December 31, 2013 from KZT 14,664,826 thousand for the year ended December 31, 2012, primarily due to decrease in trade sales.

Trade and other accounts payable increased by 29.7% from KZT 11,348,499 thousand for the year ended December 31, 2012 to KZT 14,713,802 thousand for the year ended December 31, 2013, primarily due to a substantial increase in trade accounts payable due to: (i) KEC International Ltd for supply of equipment and installation works and (ii) Korea Electric Power Corporation JCS (KEPCO) for works and services attributable to the following capital projects: Phase 2 NPG Modernization, Construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines and Reconstruction of the CSDS-Osakarovka 220kV power line. This was partially offset by a 77% decrease in trade accounts payable due to Satti Zhol LLP for work done and services associated with the project Construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines. The increase was also offset by a 99% decrease in trade accounts payable due to Kerneu Limited LLP for work done and services performed through co-financing. As of December 31, 2012 and 2013 the Company had trade and other accounts payable due to the following companies:

Company	**Nature**	**31 December 2012**	**Share**	**31 December 2013**	**Share**	**Change**
		(KZT thousands)	**%**	**(KZT thousands)**	**%**	**%**
KEC International Ltd	For work and services related to property, plant and equipment	3,681,786	32.4	4,750,036	32.3	29.0
Korea Electric Power Corporation	For work and services related to property, plant and equipment	593,358	5.2	3,239,577	22.0	446.0
Station Ekibastuz GRES-2 JSC	For electricity purchased	638,048	5.6	771,080	5.2	20.8
INTER RAO UES OJSC	For electricity purchased	1,060,755	9.3	650,230	4.4	(38.7)
Satti Zhol LLP	For work and services related to property, plant and equipment	2,166,972	19.1	508,630	3.5	(76.5)
Kerneu Limited LLP	For work and services related to property, plant and equipment	613,886	5.4	8,069	0.1	(98.7)
Other	n/a	2,593,694	22.9	4,786,180	32.5	84.5
		11,348,499	**100.0**	**14,713,802**	**100.0**	**29.7**

The decrease in net cash flow from operating activities has also been associated with an increase in trade accounts receivables. This was mainly due to a 410.5% increase in receivables from Uzbekenergo SJSC for purchased electricity and power regulation. As of December 31, 2012 and 2013, the Company had trade accounts receivable from the following companies:

Company	Nature	31 December 2012	Share	31 December 2013	Share	Change
		(KZT thousands)	%	(KZT thousands)	%	%
Uzbekenergo SJSC	Purchased electricity and power regulation	1,144,155	24.8	5,823,498	62.0	409.5
FGS UES OJSC	Electricity transmission	1,426,683	30.9	565,873	6.0	(60.3)
INTER RAO UES OJSC	Purchased electricity	517,456	11.2	527,532	5.6	1.9
Shygysenergotrade LLP	Electricity transmission	155,110	3.4	38,205	0.4	(75.4)
Other	n/a	1,367,053	29.7	2,439,604	26.0	78.5
		4,610,457	**100.0**	**9,394,712**	**100.0**	**103.8**

*Totals are given without reserve

Net cash flows from operating activities decreased by 16.4% to KZT 14,664,826 thousand for the year ended December 31, 2012 from KZT 17,536,699 thousand for the year ended December 31, 2011, primarily due to an increase in trade accounts payable. Trade and other accounts payable increased by 11% from KZT 10,220,047 thousand for the year ended December 31, 2011 to KZT 11,348,499 thousand for the year ended December 31, 2012, primarily due to a substantial increase in trade accounts payable due to KEC International Ltd for the supply of equipment and installation works associated with the following capital projects: Phase 2 NPG Modernization, Construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines and Reconstruction of the CSDS-Osakarovka 220kV power line. This was partially offset by a 65.6% decrease in trade and other accounts payable due to Inter RAO UES OJSC for electricity purchased. As of December 31, 2012 and 2011 the Company had trade and other accounts payable due to the following companies:

Company	Nature	31 December 2011	Share	31 December 2012	Share	Change
		(KZT thousands)	%	(KZT thousands)	%	%
KEC International Ltd	For work and services related to property, plant and equipment	499,840	4.9	3,681,786	32.4	636.6
Satti Zhol LLP	For work and services related to property, plant and equipment	1,488,848	14.6	2,166,972	19.1	45.5
INTER RAO UES OJSC	For electricity purchased	3,087,734	30.2	1,060,755	9.3	(65.6)
Station Ekibastuz GRES-2 JSC	For electricity purchased	1,318,773	12.9	638,048	5.6	(51.6)
Kerneu Limited LLP	For work and services related to property, plant and equipment	992,774	9.7	613,886	5.4	(38.2)
Korea Electric Power Corporation	For work and services related to property, plant and equipment	1,579,178	15.5	593,358	5.2	(62.4)
Other	n/a	1,252,900	12.3	2,593,694	22.9	107.0
		10,220,047	**100.0**	**11,348,499**	**100.0**	**11.0**

Decrease in net cash flow from operating activities was partially offset by the decrease in trade accounts receivable mainly due to 59.5% drop in receivables from Uzbekenergo SJSC for purchased electricity and power regulation. As of December 31, 2012 and 2011 the Company had trade accounts receivable from the following companies:

Company	Nature	31 December 2011	Share	31 December 2012	Share	Change
		(KZT thousands)	%	(KZT thousands)	%	%
FGC UES OJSC	Electricity transmission	524,347	10.4	1,426,683	30.9	172.1
Uzbekenergo SJSC	Purchased electricity and power regulation	2,824,835	56.2	1,144,155	24.8	(59.5)
INTER RAO UES OJSC	Electricity transmission	65,700	1.3	517,456	11.2	687.6
Shygysenergotrade LLP	Electricity transmission	392,546	7.8	155,110	3.4	(60.5)
Other	n/a	1,219,231	24.3	1,367,053	29.7	12.1
		5,026,659	**100.0**	**4,610,457**	**100.0**	**(8.3)**

*Totals are given without reserve

As of June 30, 2014 receivables outstanding represented 70.3% (KZT 9,202,790 thousand) of the Company's total trade accounts receivable, whilst as of December 31, 2013, December 31, 2012 and December 31, 2011 they represented 5.5% (KZT 463,404 thousand), 9.2% (KZT 362,515 thousand) and 7.0% (KZT 302,878 thousand).

in KZT thousand			Past due but not impaired		
	Total	**Neither past due nor impaired**	**30-90 days**	**91-180 days**	**more than 180 days**
30-Jun-14	13,093,000	3,890,210	5,298,114	2,665,974	1,238,702
31-Dec-13	8,501,318	8,037,914	160,121	2,731	300,552
31-Dec-12	3,944,197	3,581,682	300,398	8,720	53,397
31-Dec-11	4,357,098	4,054,220	244,514	16,363	42,001

Net Cash Flows Used in Investing Activities

Net cash flows used in investing activities decreased by 4.4% to KZT 7,034,090 thousand for the six months ended June 30, 2014 from KZT 7,358,328 thousand for the six months ended June 30, 2013, primarily due to an increase in cash withdrawn from the Company's deposit accounts from the amount of KZT 7,752,311 thousand to KZT 10,610,008 thousand. This increase in cash was offset by an increase of 93.6% (or KZT 5,354,792 thousand) in the cost of acquisition of property, plant and equipment and KZT 202,522 thousand related to the construction of a kindergarten.

Net cash flows used in investing activities decreased by 6.6% to KZT 17,999,863 thousand for the year ended December 31, 2013 from KZT 19,276,465 thousand for the year ended December 31, 2012, primarily due to an increase in cash withdrawal from the Company's deposit accounts in 2013 compared to 2012.

Net cash flows used in investing activities decreased by 44.9% to KZT 19,276,465 thousand for the year ended December 31, 2012 from KZT 35,010,626 thousand for the year ended December 31, 2011, primarily due to fewer purchases of property, plant and equipment in 2012 compared to 2011.

Net Cash Flows from Financing Activities

Net cash flows from financing activities increased seven-fold to KZT 6,915,157 thousand for the six months ended June 30, 2014 from KZT 1,000,888 thousand for the six months ended June 30, 2013, primarily due to a large amount of loans received. The Company received KZT 5,519,192 thousand more in loans during the first half of 2014 than for the same period in 2013.

Net cash flows from financing activities increased by 123.4% to KZT 6,998,560 thousand for the year ended December 31, 2013 from KZT 3,127,659 thousand for the year ended December 31, 2012, primarily due to a large amount of loans received. The Company received KZT 6,362,465 thousand more in loans during 2013 than in 2012.

Net cash flows from financing activities decreased by 85.5% to KZT 3,127,629 thousand for the year ended December 31, 2012 from KZT 21,595,473 thousand for the year ended December 31, 2011, primarily due to fewer loans received. The Company received KZT 37,542,974 thousand less in loans during 2012 than in 2011.

Cash and Cash Equivalents

Cash and cash equivalents include cash in bank accounts, cash in hand and short-term deposits with original maturity of less than three months and represent the cash readily available for the Company's operations.

Cash and cash equivalents increased by KZT 6,485,646 thousand from KZT 11,727,555 thousand as of December 31, 2013 to KZT 18,213,201 thousand as of June 30, 2014, primarily due to: (i) an increase in cash in foreign currency bank accounts and (ii) the agreement to repay deposits received from Bank Center Credit JSC and RBK Bank in the amounts of KZT 3,000,000 thousand and KZT 500,000 thousand, respectively.

Cash and cash equivalents increased by KZT 3,683,053 thousand from KZT 8,044,502 thousand as of December 31, 2012 to KZT 11,727,555 thousand as of December 31, 2013, primarily due to an increase of KZT 3,000,000 thousand in cash in short-term bank deposits during the year ended December 31, 2012.

Cash and cash equivalents decreased by KZT 1,499,135 thousand from KZT 9,543,637 thousand as of December 31, 2011 to KZT 8,044,502 thousand as of December 31, 2012, primarily due to a decrease of KZT 4,820,792 thousand in cash in local currency bank accounts during the year ended December 31, 2012. This was partially offset by an increase of KZT 2,321,435 thousand in cash in foreign currency bank accounts.

The distribution of the cash and cash equivalents by banks is described below:

	Years ended December 31			**Six months ended June 30**
	2011	**2012**	**2013**	**2014**
	(KZT thousands)	**(KZT thousands)**	**(KZT thousands)**	**(KZT thousands)**
ATF Bank JSC	2,848,243	3,746,329	5,265,906	14,160,663
Bank CenterCredit JSC	582,301	4,930	102,249	3,196,548
Halyk Bank JSC	2,823,377	449,520	654,684	542,662
Kazinvestbank JSC	1,246,475	521,684	142,388	100,722
Kazkommertsbank JSC	127,748	75,038	956,071	86,733
Department of Treasury of Astana	-	929,385	80,383	80,383
AsiaCredit Bank JSC	4,744	114,943	17,917	17,319
Development Bank of Kazakhstan JSC	27,942	54,553	35,534	16,813
Eurasian bank JSC	481,980	615,494	4,428,424	4,022
Citibank Kazakhstan JSC	1,396,452	529,049	35,148	1,470
Total	**9,539,261**	**8,040,924**	**11,723,006**	**18,207,336**

As of June 30, 2014 and as of December 31, 2013, 2012 and 2011 the Company had cash and cash equivalents in the following currencies:

	Years ended December 31,			Six months ended June 30
	2011	**2012**	**2013**	**2014**
	(KZT thousands)	**(KZT thousands)**	**(KZT thousands)**	**(KZT thousands)**
US Dollars	152,967	2,644,898	3,082,412	6,554,270
Tenge	9,095,273	5,274,703	6,871,741	6,049,653
Euro	188.7	106,055	1,658,253	5,112,722
Russian Rouble	105.96	18,066	114,821	496,161
Other	737	780	328	395
Total	**9,543,637**	**8,044,502**	**11,727,555**	**18,213,201**

Although not classified as a cash equivalent, the Company holds restricted cash related to reserve and debt service accounts in the amount of KZT 2,024,648 thousand, KZT 1,688,834 thousand, KZT 1,629,862 thousand and KZT 4,459,658 thousand as of June 30, 2014 and December 31, 2013, 2012 and 2011, respectively. This cash is held for the purpose of servicing loan agreements with the IBRD, EBRD and DBK.

The Company also holds cash in deposits with banks (classified as financial assets) with an original maturity of more than 3 months of KZT 18,263,407 thousand, KZT 18,937,123 thousand, KZT 24,794,585 thousand and KZT 20,201,244 thousand as of June 30, 2014 and December 31, 2013, 2012 and 2011, respectively. The majority of these deposits are short-term (i.e., mature within 1 year).

The distribution of cash in deposits by maturities is described below:

	Years ended December 31			Six months ended June 30
	2011	**2012**	**2013**	**2014**
	(KZT thousands)	**(KZT thousands)**	**(KZT thousands)**	**(KZT thousands)**
From 3 to 12 months	17,875,637	24,794,585	18,937,123	15,459,987
More than 12 months	2,325,607	-	-	2,803,420
Total	**20,201,244**	**24,794,585**	**18,937,123**	**18,263,407**

The Company's held its cash in deposits in the following banks:

	Deposits Rating	Rating agency	Year ended December 31			Six months ended June 30
			2011	2012	2013	2014
			(KZT thousands)	(KZT thousands)	(KZT thousands)	(KZT thousands)
Eurasian bank JSC	B+B	Standard and Poor's	7,020,081	7,298,308	3,019,267	7,953,955
ATF Bank JSC	B-B	Fitch Ratings	5,834,369	7,353,093	5,045,330	2,803,420
Tsesnabank JSC	B+B	Standard and Poor's	3,066,154	2,013,454	1,819,446	2,219,614
Temirbank JSC	B-B	Standard and Poor's	-	-	1,932,094	2,354,969
Kazinvestbank JSC	B3,	Moody's	2,010,743	2,010,743	-	-
AsiaCredit Bank JSC	B	Standard and Poor's	1,513,812	3,032,874	2,188,343	2,675,213
Kassa Nova JSC	BC	Standard and Poor's	-	-	247,514	256,184
Nurbank JSC	B	Standard and Poor's	-	-	1,078,866	-
RBK JSC	B-C	Standard and Poor's	-	-	500,000	-
Halyk Bank JSC	Ba2	Moody's	756,042	-	-	-
Bank CenterCredit JSC	B2	Moody's	-	3,086,071	3,106,122	-
Kazkommertsbank JSC	BC	Standard and Poor's	-	-	141	53
Total			**20,201,201**	**24,794,543**	**18,937,123**	**18,263,407**

Loans

As of June 30, 2014 and December 31, 2013, 2012 and 2011 loans received consisted of the following:

	Years ended December 31			Six months ended June 30
	2011	2012	2013	2014
	(KZT thousands)	(KZT thousands)	(KZT thousands)	(KZT thousands)
International Bank for Reconstruction and Development (**IBRD**)	29,680,092	34,609,407	37,906,593	45,748,490
European Bank for Reconstruction and Development (**EBRD**)	44,750,456	46,199,407	54,634,680	71,734,259
	74,430,548	**80,808,814**	**92,541,273**	**117,482,749**
Less: current portion of loans from IBRD, EBRD and DBK repayable within 12 months	(6,407,716)	(8,134,316)	(10,218,204)	(13,402,909)
	68,022,832	**72,674,498**	**82,323,069**	**104,079,840**

As of June 30, 2014 and December 31, 2013, the accrued and unpaid interest amounted to KZT 966,944 thousand and KZT 712,253 thousand, respectively.

As of June 30, 2014 and December 31, 2013, the unamortized portion of loan origination fees amounted to KZT 936,018 thousand and KZT 976,825 thousand, respectively.

As of December 31, 2012 and December 31, 2011, the accrued and unpaid interest amounted to KZT 618,088 thousand and KZT 508,518 thousand, respectively.

As of December 31, 2012 and December 31, 2011, the unamortized portion of loan origination fees amounted to KZT 1,038,190 thousand and KZT 1,115,941 thousand, respectively.

As of June 30, 2014, bank loans had the following maturities:

	IBRD	**EBRD**	**Total**
	(KZT thousands)	**(KZT thousands)**	**(KZT thousands)**
Short-term portion of loans	**3,737,535**	**9,665,374**	**13,402,909**
1 to 2 years	4,290,834	8,753,539	13,044,373
2 to 3 years	4,766,125	8,396,796	13,162,921
3 to 4 years	4,889,994	8,082,174	12,972,168
Over 4 years	28,064,002	36,836,376	64,900,378
Long-term portion of loans	**42,010,955**	**62,068,885**	**104,079,840**
Total	**45,748,490**	**71,734,259**	**117,482,749**

As of June 30, 2014 and December 31, 2013, 2012 and 2011, loans were denominated in the following currencies:

	Years ended December 31,			**Six months ended June 30**
	2011	**2012**	**2013**	**2014**
	(KZT thousands)	**(KZT thousands)**	**(KZT thousands)**	**(KZT thousands)**
Loans in US dollars	52,148,023	55,384,024	57,725,280	69,507,714
Loans in Euro	22,282,525	25,424,790	34,815,993	47,975,035
	74,430,548	**80,808,814**	**92,541,273**	**117,482,749**

As of June 30, 2014 and December 31, 2013, 2012 and 2011, the Company had no overdue principal and interest payments.

			Years ended December 31,			Six months ended June 30
			2011	**2012**	**2013**	**2014**
			(KZT thousands)	**(KZT thousands)**	**(KZT thousands)**	**(KZT thousands)**
KC 4526 dated Dec 21, 1999	IBRD	NPG Modernization	13,223,057	12,063,585	10,819,513	12,007,401
KC 794 dated Dec 3, 1999	EBRD	NPG Modernization	2,340,116	1,784,464	1,209,581	1,082,657
KC 4805 dated Nov 22, 2005	IBRD	North-South Transit	13,308,610	12,290,014	11,266,929	12,716,760
KC 38647 dated Jun 5, 2008	EBRD	NPG Modernization Stage 2	22,282,525	25,424,789	34,815,993	47,975,035
KC 7738-KZ dated Nov 12, 2009	IBRD	Moinak	3,102,508	6,507,699	6,870,543	8,212,163
7965-KZ dated Dec 25, 2010	IBRD	Alma	45,917	3,748,110	8,949,608	12,812,166
KC 42039 dated May 21,2011	EBRD	Osakarovka	20,127,815	18,990,153	18,609,106	22,676,567
Total			**74,430,548**	**80,808,814**	**92,541,273**	**117,482,749**

Existing Credit Agreements

In 1999, the Company entered into two credit agreements, which are described below, in connection with the implementation of the NPG Modernization Project:

- a credit agreement in the amount of USD 140,000 thousand with IBRD (Washington, USA) for 20 years and guaranteed by the Government (as of December 21, 1999). The loan is repayable in annual installments, beginning 2005. The term loans bear interest at a rate per six-month LIBOR plus a LIBOR spread, redeemable on June 15 and December 15 of each year;
- a credit agreement in the amount of USD 45,000 thousand with EBRD (London, United Kingdom) for 15 years and guaranteed by the Government (as of December 3, 1999). The loan is repayable in annual installments, beginning 2004. The term loans bear interest at a rate of six-month LIBOR plus a margin rate of 1%, redeemable on January 27 and July 27 of each year.

Construction of the second 500 kV transmission line of the Kazakhstan North-South Transit project was implemented in 2005. In connection with Phase 2 of this project, the Company entered into an additional credit agreement with IBRD (Washington, USA) in the amount of USD 100,000 thousand for 17 years (with a 5 year grace period) and guaranteed by the Government (as of November 22, 2005). The term loan bears interest at a dollar rate of six-month LIBOR plus a LIBOR spread, as set by the bank and redeemable on April 15 and October 15 of each year. In 2011, the undrawn loan amount from IBRD (Washington, USA) in the amount of USD 1,918 thousand was nullified because the expenses incurred during the course of the project were less than expected.

In 2008, the Company entered into two credit agreements, which are described below, in connection with the implementation of Phase 2 of the NPG Modernization Project:

- two credit agreements in the amount of EUR 127,500 thousand and EUR 75,000 thousand with EBRD (London, United Kingdom) for 15 years (with a four-year grace period). The term loans bear interest at the interbank offered rate of six-month of EUROBOR plus a margin rate of 3.85%, redeemable on February 12 and August 12 of each year;
- a credit agreement in the amount of EUR 47,500 thousand with EBRD (London, United Kingdom) for 12 years (with a four-year grace period). The term loans bear interest at interbank offered rate of six-month of EUROBOR plus a margin rate of 3.55%, redeemable on February 12 and August 12 of each year; and
- a credit agreement in the amount of EUR 5,000 thousand with EBRD (London, United Kingdom) for 9 years (with a four-year grace period). The term loans bear interest at interbank offered rate of six-month of EUROBOR plus a margin rate of 2.75%, redeemable on February 12 and August 12 of each year.

In accordance with an amendment entered in November 2013, the amount of the second credit agreement with EBRD listed above was reduced from EUR 75,000 thousand to EUR 53,443 thousand.

In 2009 the Company entered into a credit agreement in connection with the Moinak HPP Electricity Transmission project in the amount of USD 48,000 thousand with IBRD (Washington, USA) for 25 years (with a five-year grace period) and guaranteed by the Government (as of November 12, 2009). The term loan bears interest at a dollar rate of six-month of LIBOR plus a fixed spread, set by IBRD and redeemable on March 15 and September 15 of each year.

In May 2013 the undrawn loan amount of USD 3,274 thousand from the above credit agreement with IBRD was nullified because the expenses incurred during the course of the project were less than expected.

In 2010 the Company entered into a credit agreement, dated December 25, 2010, in connection with Construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines project in the amount of USD 78,000 thousand with IBRD (Washington, USA) for 25 years (with a five-year grace period) and guaranteed by the Government. The term loans bear interest at a dollar rate of six-month of LIBOR plus fixed spread, set by the IBRD and redeemable on January 15 and July 15 of each year;

Additionally, the Company entered the following credit agreements with EBRD in May 2011 to refinance loans received from EBRD (London, United Kingdom) and DBK (Astana, Kazakhstan) in 2004-2005 and in connection with the Reconstruction of the CSDS-Osakarovka 220kV power line project:

- two credit agreements in the amount of USD 77,293 thousand and USD 44,942 thousand for 15 years. The term loans bear interest at an interbank offered rate of six-month of LIBOR plus a margin rate of 3.95%, redeemable on May 12 and November 12 of each year;

- a credit agreement in the amount of USD 17,973 thousand for 12 years. The term loans bear interest at an interbank offered rate of six-month of LIBOR plus a margin rate of 3.70%, redeemable on May 12 and November 12 of each year;

- two credit agreements in the amount of USD 8,160 thousand and USD 4,740 thousand for 15 years (with a three year grace period). The term loans bear interest at an interbank offered rate of six-month of LIBOR plus a margin rate of 3.95%, redeemable on May 12 and November 12 of each year. In May 2014, the undrawn loan amounts under the credit agreements were reduced from USD 8,160,000 and USD 4,470,000 to USD 6,446,000 and USD 3,744,000, respectively; and

- a credit agreement in the amount of USD 1,900 thousand for 12 years (with a three year grace period). The Term loans bear interest at an interbank offered rate of six-month of LIBOR plus a margin rate of 3.70%, redeemable on May 12 and November 12 of each year. In May 2014, the undrawn loan amount under the credit agreement was reduced from USD 1,900,000 to USD 1,501,000.

The credit agreements above are not backed by collateral.

Capital Expenditures

For the six months ended June 30, 2014 the Company's total investments amounted to KZT 6,931,381 thousand. For the years ended December 31, 2013, 2012 and 2011 the Company's total investments were KZT 42,824,125 thousand, KZT 24,627,746 thousand and KZT 18,283,145 thousand, respectively.

KZT thousands **Project**	**Start date**	**Estimated completion date**	**Total budget**	**1st half 2014**	**1st half 2013**	**2013**	**2012**	**2011**
Phase 2 NPG Modernization	2010	2016	41,904,672	2,722,987	3,407,802	21,375,956	12,885,620	1,779,439
Construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines	2010	2014	25,534,429	2,358,232	810,625	8,934,986	5,874,432	6,299,747
Reconstruction of the Osakarovka 220 kV	2010	2014	3,657,914	667,203	56,252	462,695	152,601	1,193,269
Moinak HEPS Power Distribution Scheme	2010	2012	8,803,410	12,654	4,048	61,323	2,521,219	5,931,788
Balkhash HEPS Power Distribution Scheme (Stage 1)	2011	2017	3,343,300	-	-	-	-	8,730
Construction of the 500 kV Ekibastuz-SGES (Semei)	2011	2017	38,693,307	393	-	289,953	145,497	216,000

- Ust-Kamenogorsk									
Construction of the 500 kV SHGES (Semei) - Aktogai - Taldykorgan - Alma	2012	2018	68,569,984	-	-	277,661	146,286	-
Enhancement of connection of Pavlodar load center to UPS of Kazakhstan	2011	2016	4,941,930	-	-	-	5,600	-
Rehabilitation VL 220-500 kV	2013	2023	75,696,429	119,000	-	71,400	-	-
Combining the power system of the Western Kazakhstan with UPS Kazakhstan	2021	2025	462,302,181	14,400	-	57,600	-	-
Construction of 500 kV YuKGRES - Zhambyl	2013	2018	27,035,962	7,000	-	63,000	-	-
Energoinform investment program				46,729	6,467	177,457	96,825	50,270
Construction of the administrative office building	2012	2014	9,439,651	582,439	2,448,804	8,182,933	655,637	-
Maintenance the current level of production	annually	annually	-	400,344	571,013	2,869,160	2,127,373	2,567,912
Completed projects			-	-	-	-	16,656	235,990
Total			**369,923,169**	**6,931,381**	**7,305,011**	**42,824,124**	**24,627,746**	**18,283,145**

In the first half of 2014, the Company had two major investment projects:

- Phase 2 NPG Modernization (KZT 2,722,987 thousand);
- Construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines (KZT 2,358,232 thousand);

In 2013, the Company realized investments on three major projects:

- Phase 2 NPG Modernization (KZT 21,375,956 thousand);
- Construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines (KZT 8,934,986 thousand);
- Construction of the administrative office building (KZT 8,182,933 thousand);

In 2012, the Company had three major capital investment projects:

- Phase 2 NPG Modernization (KZT 12,885,620 thousand);
- Construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines (KZT 5,874,432 thousand);
- Moinak HPP Electricity Transmission (KZT 2,521,219 thousand).

In 2011, the Company's capital expenditures were primarily in connection with:

- Construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines (KZT 6,299,747 thousand);
- Moinak HPP Electricity Transmission (KZT 5,931,788 thousand);
- Phase 2 NPG Modernization (KZT 1,779,439 thousand).

The Company incurred maintenance capital expenditures of KZT 400,344 and KZT 571,013 thousand for the first six months of 2014 and 2013, respectively. In 2013, 2012 and 2011, such expenditures amounted to KZT 2,869,160 thousand, KZT 2,127,373 and KZT 2,567,912, respectively.

In 2014, the Company expects to invest approximately KZT 21,444,788 thousand primarily towards the completion of its current investment projects and KZT 3,379,512 to support electricity transmission levels (i.e., maintenance capital expenditures). No assurance can be made that these investments will be made. For more information see the "*Risk Factors*" section.

Net Debt

The Company had the following net debt position as of:

	Year ended December 31,			**Six months ended June 30**
	2011	**2012**	**2013**	**2014**
	(KZT thousands)	**(KZT thousands)**	**(KZT thousands)**	**(KZT thousands)**
Borrowings	74,430,548	80,808,814	92,541,273	117,482,749
Cash and cash equivalents	9,543,637	8,044,502	11,727,555	18,213,201
Cash restricted in use	4,459,658	1,629,862	1,688,834	2,024,648
Financial assets* (Deposits)	20,201,244	24,794,585	18,937,123	18,263,407
Net Debt	**40,226,009**	**46,339,865**	**60,187,761**	**78,981,493**

* Financial assets do not include bonds of the Company's associated entity Batys Tranzit JCS purchased during 2007-2009 and interest income accrued on bank accounts.

The Company's net debt as of June 30, 2014 increased by 31.2% (KZT 18,793,732 thousand) in comparison to December 31, 2013 primarily due to disbursements by EBRD of KZT 13,159,042 thousand for the Phase 2 NPG Moderization project and KZT 4,067,460 thousand for the Reconstruction of the CSDS-Osakarovka 220kV power line project. The Company also increased the disbursed amount under the IBRD loan by KZT 3,862,557 thousand for the Construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines.

The Company's net debt as of December 31, 2013 increased by 29.9% (KZT 13,847,896 thousand) in comparison to December 31, 2012 primarily due to disbursement by EBRD of KZT 9,391,204 thousand for Phase 2 NPG Modernization project and a disbursement by IBRD of KZT 5,201,499 thousand for the Construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines.

The Company's net debt as of December 31, 2012 increased by 15.2% (KZT 6,113,856 thousand) in comparison to December 31, 2011 primarily due to disbursement by EBRD of KZT 3,142,264 thousand for the Phase 2 NPG Modernization project and disbursement by IBRD of KZT 3,702,193 thousand and KZT 3,405,191 thousand for the Construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines and Moinak HPP Electricity Transmission, respectively.

Contractual Obligations

The following table summarizes the estimated maturity of the Company's non-derivative financial liabilities as of June 30, 2014, including both loans and financing obligations, as well as other relevant contractual commitments.

	Payments Due by Period			
	Less than 1 year	**1 to 5 years**	**More than 5 years**	**Total**
Floating interest rate loans	13,402,909	52,283,756	51,796,084	117,482,749
Trade accounts payable	10,536,211	-	-	10,536,211
Other account payable and accrued liabilities	4,136,487	-	-	4,136,487
CAPEX commitments	20,094,886	107,393,907	-	127,488,793
	48,170,493	**159,677,663**	**51,796,084**	**259,644,240**

* CAPEX commitments were based on the estimated amounts of investments in the Company's current and planned investment projects

As of June 30, 2014 the Company had KZT 259,644,240 thousand of consolidated current commercial debt and other obligations outstanding (which include trade accounts payable, advances received, taxes payable, salaries due to employees and commission payable on the non-withdrawn portion of EBRD loans, etc.). The Company has satisfied its commercial obligations out of its current cash flow in KZT and the Company expects to be able to continue to do so. The Company's ability to meet these obligations will depend on the generation of sufficient cash flow, the Company's ability to transfer funds outside Kazakhstan in the case of non-KZT commercial obligations, a stable exchange rate between any applicable currencies and the KZT and the availability of foreign exchange.

Property Plant and Equipment (PPE)

KZT thousands	**Land**	**Buildings**	**NPG constructions**	**Vehicles and other PPE**	**Construction in progress**	**Total**
Cost						
As of January 1, 2011	**973,627**	**6,143,706**	**93,971,153**	**85,073,264**	**5,333,599**	**191,495,349**
Additions	12,080	721	620,960	512,285	17,137,045	18,283,091
Transfer from construction in progress to intangible assets	5,702	186,896	558,993	317,182	(1,249,671)	(180,898)
Internal movements	-	13,097	62,570,531	(62,583,628)	-	-
Disposals	(793)	(22,351)	(98,971)	(182,807)	(4,937)	(309,859)
As of December 31, 2011	**990,616**	**6,322,069**	**157,622,666**	**23,136,296**	**21,216,036**	**209,287,683**
Additions	168,756	3,399	8,210	845,526	23,420,037	24,445,928
Internal movements	4,192	227,886	8,636,602	1,317,071	(10,185,751)	-
Disposals	(1,566)	(3,501)	(165,002)	(193,522)	(2,936)	(366,527)
As of December 31, 2012	**1,161,998**	**6,549,853**	**166,102,476**	**25,105,371**	**34,447,386**	**233,367,084**
Additions	157,755	228	23,725	956,691	41,333,399	42,471,798
Internal movements	17,348	652,664	36,539,756	1,218,906	(38,428,674)	-
Transfer to intangible assets	-	-	-	-	(254,026)	(254,026)
Disposals	(12,866)	(218,375)	(129,492)	(302,408)	(61,112)	(724,253)
Revaluation Surplus	-	-	327,943,843	-	-	327,943,843
Revaluation Deficit	-	-	(34,145,727)	-	(99,212)	(34,244,939)
As of December 31, 2013	**1,324,235**	**6,984,370**	**496,334,581**	**26,978,560**	**36,937,761**	**568,559,507**
Additions	418	-	46,168	296,532	6,697,474	7,040,592
Internal movements	72,079	6,603,236	15,253,026	1,876,800	(23,805,141)	-
Revaluation Surplus	-	-	241,801,480	-	-	241,801,480
Revaluation Deficit	-	-	16,767,840	-	(56,150)	16,711,690
Disposals	-	-	(52,943)	(163,441)	(33,855)	(250,239)
As of June 30, 2014	**1,396,732**	**13,587,606**	**770,150,152**	**28,988,451**	**19,740,089**	**833,863,030**
Accumulated depreciation and impairment provision						
As of January 1, 2011	**-**	**(1,030,623)**	**(44,587,033)**	**(10,534,907)**	**-**	**(56,152,563)**
Charge for the period	-	(140,262)	(5,159,369)	(1,942,885)	-	(7,242,516)
Internal movements	-	1,258	14,080	(15,338)	-	-
Disposals	-	1,878	79,903	169,151	-	250,932
As of December 31, 2011	**-**	**(1,167,749)**	**(49,652,419)**	**(12,323,979)**	**-**	**(63,144,147)**
Charge for the period		(144,499)	(5,062,040)	(1,897,658)	-	(7,104,197)
Disposals		825	161,133	163,529	-	325,487
As of December 31, 2012	**-**	**(1,311,423)**	**(54,553,326)**	**(14,058,108)**	**-**	**(69,922,857)**
Charge for the period	-	(145,059)	(6,458,729)	(1,772,710)	-	(8,376,498)
Disposals	-	50,546	67,904	301,495	-	419,945
Revaluation Surplus	-	-	(189,298,115)	-	-	(189,298,115)
Revaluation Deficit	-	-	7,437,182	-	-	7,437,182
As of December 31, 2013	**-**	**(1,405,936)**	**(242,805,084)**	**(15,529,323)**	**-**	**(259,740,343)**
Charge for the period	-	(78,639)	(6,753,153)	(962,834)	-	(7,794,626)
Revaluation Surplus	-	-	(102,914,191)	-	-	(102,914,191

						)
Revaluation Deficit	-	-	(2,517,678)	-	-	(2,517,678)
Disposals	-	-	52,343	148,375	-	200,718
As of June 30, 2014	**-**	**(1,484,575)**	**(354,937,763)**	**(16,343,782)**	**-**	**(372,766,120)**
Net book value:						
As of December 31, 2011	**990,616**	**5,154,320**	**107,970,247**	**10,812,317**	**21,216,036**	**146,143,536**
As of December 31, 2012	**1,161,998**	**5,238,430**	**111,549,150**	**11,047,263**	**34,447,386**	**163,444,227**
As of December 31, 2013	**1,324,235**	**5,578,434**	**253,529,497**	**11,449,237**	**36,937,761**	**308,819,164**
As of June 30, 2014	**1,396,732**	**12,103,031**	**415,212,389**	**12,644,669**	**19,740,089**	**461,096,910**

The Company's PPE is largely represented by electricity transmission lines, substations and construction in progress ("**CIP**") related to the implementation of the following projects: Phase 2 NPG Modernization, two phases of the Construction of the Second North-East-South 500 kV Transit Line, Construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines and Reconstruction of the Osakarovka 220 kV power line.

The increase in the net book value ("**NBV**") of PPE in the first half of 2014 was primarily due to an increase in the NBV of NPG machinery and transmission equipment in the amount of KZT 153,137,451 thousand as a result of the revaluation of fixed assets as of June 1, 2014.

The increase in the NBV of PPE as of December 31, 2013 was mostly related to an increase in the NBV of NPG machinery and transmission equipment in the amount of KZT 111,837,951 thousand as a result of the revaluation of fixed assets held in 2013.

The increases in the NBV of PPE as of December 31, 2012 and 2011 were mainly due to additions of CIP in the amount of KZT 23,420,037 thousand and KZT 17,137,045 thousand, respectively. The Company's disposals of PPE were KZT 309,859 thousand in 2011 and KZT 366,527 thousand in 2012. Disposals refer to the sale and/or write off of machinery, equipment and buildings.

In the first half of 2014 the Company's infrastructure projects amounted to KZT 5,901,869 thousand, including two major projects: Phase 2 NPG Modernization (KZT 2,722,987 thousand) and Construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines (KZT 2,358,232 thousand). As of June 30, 2014 the results of the Phase 2 NPG Modernization were as follows: (i) 35 of the total planned 55 substations were put into operation and (ii) design estimate documentation for the construction of 220 kV Tulkubas-Burnoe was in progress. Under the project for the Construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines, the following assets were put into operation: HV line 500 kV substation Almaty – 500 kV substation Alma, HV line 220 kV ATETS-3 - Robot and ATETS3-Shelek on 500 kV Alma substation, 500/220/10 kV Alma substation, 500 kV YUKGRES substation, HV line 500 kV 500 kV YUKGRES substation – 500 kV Alma substation. The construction of a new administration office building was also completed as of June, 2014.

The high voltage equipment was partially replaced under the Phase 1 NPG Modernization project in 2000-2011. The replacement of existing substations with high-voltage equipment with a lifetime of over 20 years within the scope of the Phase 2 NPG Modernizations will increase the power consumption in the Republic of Kazakhstan and will ensure the reliability and quality of the electricity supply. As a result, in 2011-2013, 4 groups of 500 kV line autotransformers were replaced at 3 substations, including 220kV transformers and autotransformers of 10 kV; more than 1,202 installed switching equipment units were replaced. As of December 31, 2013 under Phase 1 of the NPG Modernization project, design and estimate documentation for 17 substations was developed with respect to 32 substations out of 55 substations. The Company proceeded with the implementation of completed projects, approved by the state acceptance commission. Construction and installation works at 18 substations are still in progress.

In 2014, the second stage of the construction of HV line 500 kV YUKGRES substation – Alma substation was completed by KEC International Ltd (India) pursuant to an international contract, and the HV line was put into operation.

Pursuant to the Reconstruction of the CSDS-Osakarovka 220kV power line project, two 220 kV transformers (125 MVA) were replaced by new ones of higher capacity (250 MVA). The transformers were commissioned and put into operation on July 15, 2013 by a resolution of the state acceptance commission. Also in connection with this project, design and estimate documentation were prepared, the equipment was delivered and construction work was performed under the terms and conditions of an international agreement with KEC International Ltd.

In 2013, the Company's total cost of infrastructure projects amounted to KZT 38,956,570 thousand, including the following projects: Phase 2 NPG Modernization (KZT 21,375,956 thousand) and Construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines (KZT 8,934,986), Reconstruction of the CSDS-Osakarovka 220kV power line (KZT 462,695 thousand) and construction of an administrative office building (KZT 8,182,933 thousand).

In 2012, the Company's total cost of infrastructure projects amounted to KZT 21,747,911 thousand, including two major projects: Phase 2 NPG Modernization (KZT 12,885,620 thousand) and Construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines (KZT 5,874,432 thousand).

In 2012, the Company completed construction for the Moinak HPP Electricity Transmission Project which amounted to KZT 8,729,433 thousand.

During the project implementation period for the Moinak HPP Electricity Transmission Project and Construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines, the construction of 220 kV transmission lines were built with the total length of 326.5 km and 25.9 km and 388 km at 500 kV..

Additionally, the Company began the following new investment projects: the construction of HV line 500 kV from Ekibastuz to Ust-Kamenogorsk through Shulbinsk HPP (Semey) and the construction of HV line 500 kV Shulbinsk HPP (Semey) – Aktogay – Taldykorgan – Alma, which amounted to KZT 43,336,504 thousand and KZT 76,798,382 thousand, respectively.

In 2012, equipment for the Phase 2 NPG Modernization project was mainly supplied from: Siemens, TBEA Co. Ltd. (China), Trench (Italy, Austria, France, China), AREVA TD (China), Hyundai Heavy Ind. (Bulgaria), ALSTOM (France/Italy), ABB (Sweden/India), Trideita (German), Salin (Korea), ARTECHE (Spain), Dalian Lapp Insulator Co. (China), Infraenergo LLP (Kazakhstan), Almatinskiy ENZ LLP (Kazakhstan). Equipment for Construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines was primarily supplied by TBEA Co., Ltd. (China), AREVA TD (China), ARTECHE (Spain), Dalian Lapp Insulator Co. (China), KEMONT JSC (Kazakhstan), Fenix-88 CJSC (Russia), KTZ JSC (Kazakhstan), Yuzhnouralsky Insulators and Fittings plan JSC (Russia), Prysmian Cables & Systems (Spain), RMA InterInvestIsolator LLP (Russia) and SVEL CJCS (Russia).

In 2011, equipment for Construction of the 500 kV Alma substation and its connection to the Kazakhstan NPG by 500 kV, 220 kV lines were primarily supplied by Siemens, TBEA Co., Ltd. (China), AREVA TD (China), ARTECHE (Spain), Sangdong Industries Co. (Korea), Beijing PLP Conductor Line Products Co. (China), Xiangfan Guowang Composite Insulators Co. (China), Nanjing Electric (Group) Co., Ltd (China).

The Company's level of maintenance capital expenditure remained at KZT 2,100,000-2,900,000 thousand in 2011-2013. For the six months ended June 30, 2013 and 2014, the Company's maintenance capital expenditure amounted to KZT 571,013 thousand and KZT 400,344 thousand, respectively. Current production capacity has been supported by repairs of substations, transmission lines and other fixed assets. Maintenance works are carried out by the Company itself with involvement of third party contractors, such as Kazakhstan Technical Development Research Institute LLP, Electroservice LLP, Dakar Group LLP, EnergoStroiProekt LLP, EnergoPromStroiservice LLP, Daniyar Invest LLP, Tamyr LLP, Komek-1 LLP, Kazspecremont LLP, Intersjoft KZ LLP, Energoinform JSC and BiSproekt LLP.

In accordance with the Company's accounting policy, it capitalized borrowing costs attributable to the investment projects in the amount of KZT 566,835 thousand, KZT 1,149,583 thousand and KZT 1,047,882 thousand in 2011, 2012 and 2013, respectively, and KZT 260,509 thousand for the six months ended in June 30, 2014.

Transactions with Related Parties

The Company's controlling shareholder is the Fund, which was established on October 13, 2008 by the President of Kazakhstan. The Company from time to time enters into sale and purchase agreements and other agreements in connection with its operational activities with related parties that are under common control with, jointly controlled by and/ or associated with the Fund. See "Principal Shareholder and Related Party Transactions".

As of December 31, 2011 and 2012, KEGOC was the parent company of a subsidiary, Energoinform JSC. As of June 30, 2014 the Company was the parent company of two subsidiaries: Energoinform JSC and Settlement and Financial Center to Support Renewable Energy LLP.

Energoinform JSC is engaged in maintenance of the Company's IT system.

Settlement and Financial Center to Support Renewable Energy LLP was established by KEGOC on August 27, 2013 in order to stimulate investments in the renewable energy sector ("**RES**") and to increase the share of usage of RES in the energy balance of Kazakhstan by ensuring the centralized purchase of electricity generated using renewable energy sources at fixed rates from generators who have applied for such centralized purchase.

The Company expects to continue entering into such transactions with its sole shareholder, the Fund, and its subsidiaries in the future in the ordinary course of business.

The Company paid dividends amounting to KZT 869,403 thousand, KZT 2,346,674 thousand and KZT 2,082,309 thousand to its sole shareholder for the years-ended December 31, 2011, 2012 and 2013 respectively. The Company did not declare and did not pay any dividends during the six months ended June 30, 2014.

Quantitative and Qualitative Disclosures about Market Risk

Market Risk

Market risk represents the potential for loss when the fair value or future cash flows of a financial instrument fluctuates because of changes in market prices. The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. These exposures may change over time as business practices evolve and could have a material adverse impact on the Company's financial results.

Derivative Instruments

At present, the Company is not party to any derivative financial instrument agreements to manage its exposure to interest rate and foreign currency risks, as management believes the Company's existing mitigation measures are sufficient to minimize such risks and the costs to the Company of entering into such derivative financial instruments to hedge against interest rate and foreign currency risks would not be fully captured by the applicable tariff formula.

Foreign Currency Risk

Foreign currency risk is the risk that the Company will incur economic losses due to adverse changes in foreign currency exchange rates. The Company's consolidated financial statements are presented in KZT, which is the Company's functional currency and the presentation currency of its consolidated financial statements.

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

Exchange differences are recognized in the consolidated statement of comprehensive income for the period during which they arose, except for exchange differences relating 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.

The Company performs operations denominated in foreign currencies and, as a result, it is exposed to risks relating to exchange rate fluctuations. At the same time, the Company has assets and liabilities denominated in foreign currencies. In particular, the Company's non-KZT borrowings are primarily denominated in US Dollars and the Company's cash balances are partially denominated in US Dollars, which serve to partially offset any foreign currency gain or loss arising from US Dollar-denominated borrowings. Thus, the Company decreases the dependence on exchange rate fluctuations.

As of June 30, 2014, 59.2% of the Company's financial debt was denominated in US Dollars and 40.8% was denominated in Euro. The Company estimates that, based on the balance sheet as of June 30, 2014:

- every decrease of KZT 1 against the US Dollar would result in an increase of approximately KZT 378,768 thousand of the Company's consolidated indebtedness denominated in US Dollars;

- every decrease of KZT 1 against the Euro would result in an increase of approximately KZT 191,962 thousand of the Company's consolidated indebtedness denominated in Euro.

Interest Rate Risk Management

Because the Company borrows funds based on fixed and floating interest rates, it is exposed to interest rate risk. The Company limits its interest rate risk by monitoring changes in interest rates in the currencies in which the Company's cash and cash equivalents, short-term investments and borrowings are denominated, and by maintaining a balance between the Company's loans with fixed and floating interest rates.

Other Price Risks

The Company is exposed to price risk due to the Company's equity investments. Equity investments are classified as available for sale and held for strategic rather than trading purposes. The Company does not actively trade these investments.

Off Balance Sheet Arrangements

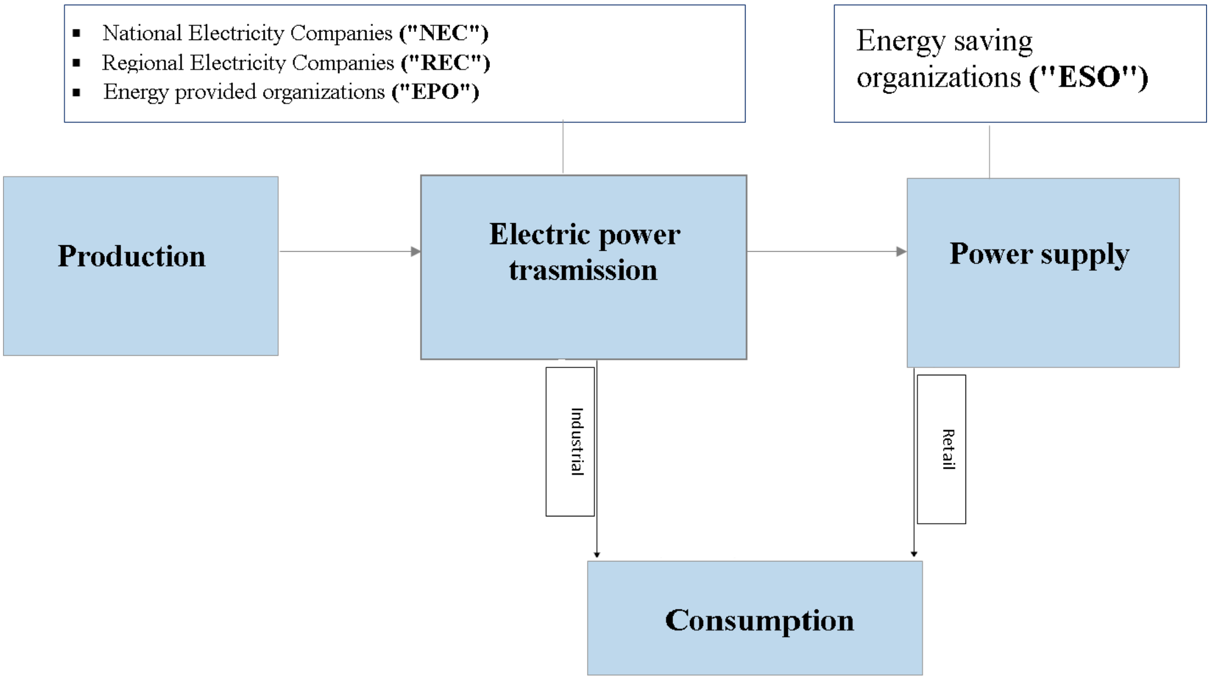
The Company has no material off-balance sheet arrangements as of the date of this Investment Memorandum.

SURVEY OF THE INDUSTRY

Overview

The unified electric power system of the Republic of Kazakhstan (the "**UPS**") is a set of power plants, power transmission lines and substations that provide reliable and high quality electric power supply to the consumers in Kazakhstan.

The structure of the electric power industry of Kazakhstan is shown in the scheme below.

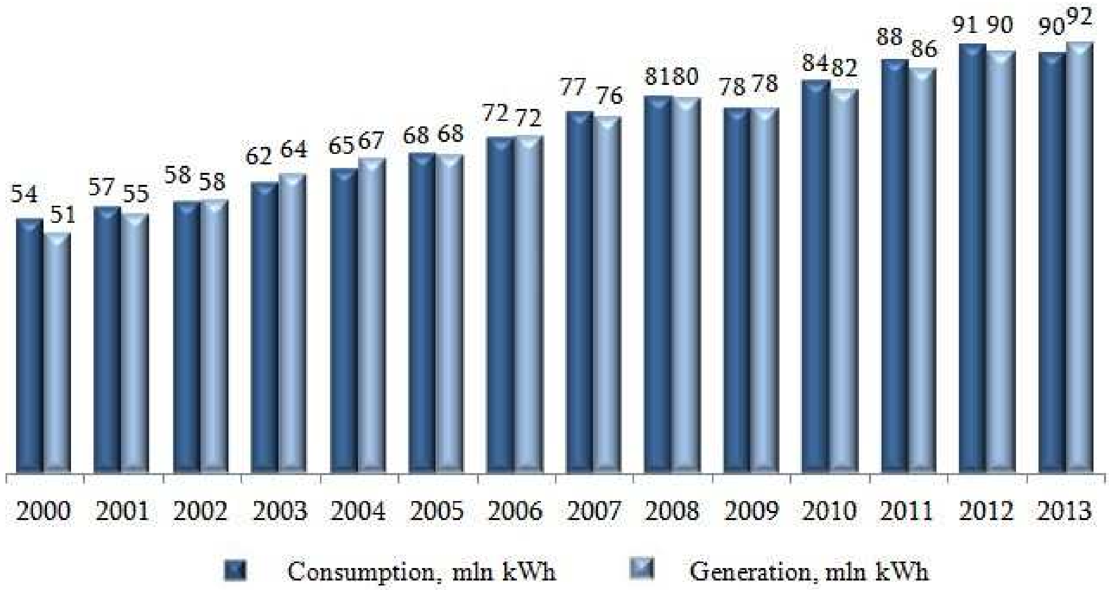


According to information provided by the CIS Electric Power Council in its report "Electric Power Industry of the Commonwealth of Independent States 2001-2011" and the Executive Committee of the CIS Electric Power Council's 2013 fourth quarter report "Electric Power Industry of the Commonwealth of Independent States", Kazakhstan ranks third among the CIS countries by volume of electricity generation and electricity consumption.

The electric power industry of Kazakhstan includes four main sectors:

- electricity generation;
- electricity transmission;
- electricity distribution; and
- electricity consumption.

Set out below is a chart reflecting domestic electricity consumption and generation from 2000 – 2013, in millions of kWh.



Electric Power Generation

As of September 1, 2014, electric power in Kazakhstan is produced by 76 electric power stations, the significant majority of which are privately operated, although the Government often retains partial or indirect equity stakes. As of January 1, 2013, the total installed capacity of the power plants in Kazakhstan was 20,442 MW and the total available capacity was at 16,425 MW.

Kazakhstan has sufficient production capacity to meet the demands of the domestic market. However the discrepancy in the historical configuration of power transmission lines and the places where demand is the highest has led to a shortage of capacity in the southern and western regions of the country. At the same time, there is a surplus of capacity in the northern region because the population is relatively sparse. There are few primary energy sources in the south which has caused a shortage of electricity production. According to KEGOC's data, approximately 80% of installed capacity (i.e., power plants) operate on coal and are located in the northern coal-mining regions. Kazakhstan's hydropower plants are located in the northeast, primarily along the Irtysh River, which flows from China through northeast Kazakhstan. There is also substantial demand for electricity in the north by industrial enterprises, particularly those working in the metallurgical sector.

The western part of the country has large hydrocarbon reserves. However, this region has historically been, and remains, an importer of electricity.

	As of December 31,					
	2011		2012		2013	
	(billion kWh)	*(share, %)*	*(billion kWh)*	*(share, %)*	*(billion. kWh)*	*(share, %)*
Thermal power plants	73,031.3	84.7	76,663.6	85.0	77,622	84.4
Hydro- power plants	7,849.0	9.1	7,607.5	8.4	7,701	8.4
Gas-turbine power plants	5,322.7	6.2	5,976.4	6.6	6,645.8	7.2
Total	86,203.0	100.0	90,247.5	100.0	91,972.7	100

Source: Company's data.

Electric power stations are divided into national power stations, power stations within industrial complexes and regional power stations.

The following thermal ("**TPP**") and hydro ("**HPP**") power plants provide electric power generation and distribution to the consumers in the wholesale electric power market of the Republic of Kazakhstan:

- Ekibastuz GRES-1 LLP;
- Ekibastuz GRES-2 Station JSC;
- Aksu GRES of Eurasian Energy Corporation JSC;
- Karaganda GRES-2 of Kazakhmys Corporation LLP;
- Zhambyl GRES named after T.I. Baturov JSC;
- Buhtarminskaya HPP JSC;
- Ust-Kamenogorskaya HPP LLP; and
- Shulbinskaya HPP LLP.

Industrial power stations include TPP's with combined electric and thermal power generation capacity in order to serve the electricity and heat needs of large industrial enterprises and nearby communities.

Regional power stations are TPP's which sell electric power via networks of regional grid companies and power transmitting organizations, as well as supply heat to nearby cities.

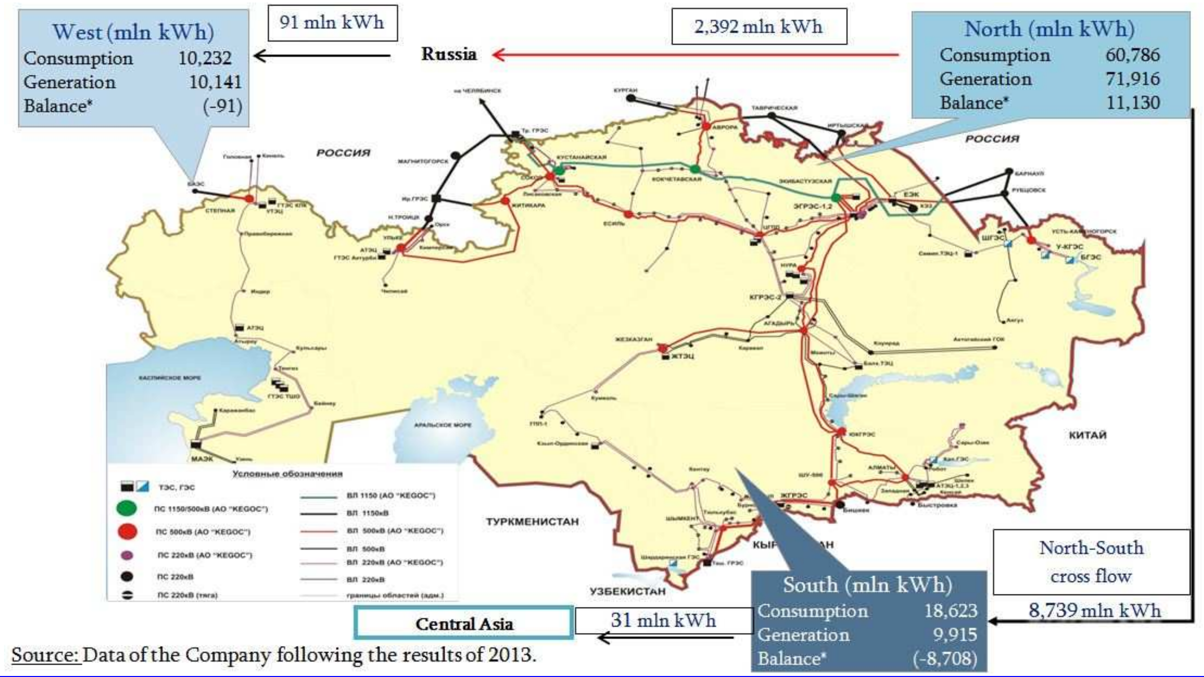
The largest TPP's in Kazakhstan are:

- TPP-3 of Karaganda Energocenter LLP;
- TPP-2 of ArcelorMittal Temirtau JSC;
- TPP of SSGPO JSC (Rudnenskaya TPP);
- Zhezkazganskaya TPP of Kazakhmys Corporation LLP;
- TPP of Aluminum of Kazakhstan JSC (Pavlodarskaya TPP-1);
- TPP-3 of Pavlodarenergo JSC (Pavlodarskaya TPP-3);
- TPP-2 Astana Energy;
- Almatinskaya TPP-2 of JSC AlES;
- Atyrauskaya TPP JSC;
- AES Ust-Kamenogorskaya TPP LLP;

- TPP-2 of MAEK Kazatomprom LLP; and
- Petropavlovskaya TPP-2 of SevKazEnergo Petropavlovsk LLP.

Electric Power Transmission

NPG Configuration



Source: Data of the Company following the results of 2013.

* The balance is calculated as generation volume excluding consumption volume.

The existing configuration of the Kazakhstan NPG was formed historically as a part of the electricity system of the Soviet Union. See "*Business – System Configuration*."

The northern grid is connected to Russia's grid via a 1,150-kV high-voltage power transmission line built during Soviet times that runs from Altay in Siberia to Ekibastuz, Kokshetau and Kostanay in Kazakhstan and then returns to Russia. The power line is only used for 500 kV voltage. There are also a number of other power lines with 500–220 kV voltage connecting the northern grid to Russia's grid. Power is supplied to the northern grid from power plants in the regions.

The Aktobe grid is connected with the other grids of the Northern Zone via a 500-km line with 500 kV voltage that was built by Batys Transit JSC in which KEGOC owns 20% of its voting shares. See "*Business – Information about the Company – Related Entities – Batys Transit JSC*."

The southern grid was historically built such that it receives hydropower from the Kyrgyz Republic and Tajikistan via the Central Asian Energy System. It is connected with the northern grid via two power transmission lines with a 220 kV and two 500-kV voltage lines. The south receives electricity from the northern grid and electricity imported from the CAES. In 2009, KEGOC completed construction on 1,100 km of a second North-South transit line with 500 kV voltage to provide the south with electricity generated within the country. The estimated cost of this facility is approximately USD 300 million.

The western grid has no power grids that connect it with the Northern and Southern Zones via the country's territory. Historically, demand for electricity in the western part of the country has been partially met by supplies from the neighboring regions of Russia. At present, the western grid is only connected with the northern part of Kazakhstan via the Russian power grid.

Regional electricity transmission companies serve regional transmission needs and are responsible for delivering electricity to retail consumers. They are connected to the NPG through low voltage lines. Regional electricity transmission companies ("**REC**") customarily operate in regions approximately reflecting their respective geographic borders. Most of the RECs are privately owned.

In the retail market, energy transmission organizations ("**ETOs**") provide transmission of electricity services on a contractual basis through the power grids and determine the consumption of such electricity by retail consumers connected to the grid. The ETOs then submit this information to the electric power supply companies and the regional grid companies.

Electric Power Supply

The electricity supply sector of the electricity market of the Republic of Kazakhstan consists of energy supply organizations ("**ESOs**"), which purchase electric power from ETOs or at a centralized trading platform, and its subsequent sale to end retail customers. The ESOs also function as "last resort providers" of electric power.

Following the adoption of the Government's policy objective in early 2004 to further develop market relations in the electricity sector and the adoption of the Power Industry Law on July 9, 2004, distribution companies began separating their electric power transmission business from their supply functions in order to set competitive retail prices.

Kazakhstan's electric power distribution sector includes ESOs, which purchase electric power either directly from the energy producers or through centralized auctions, then reselling the electricity to the industry and household end consumers. The largest ESOs include: Shygysenergotrade LLP, Ontustik Zharyk LLP, Almatyenergosbyt LLP, Energopotok LLP, ZhambylZharykSauda-2030 LLP, Zhezkazganenergosbyt LLP, Kostanai Energy Center LLP, AlatauZharykCompaniyasy LLP, Astanaenergosbyt LLP, Pavlodarenergosbyt LLP, Karaganda Zhyly Sbyt LLP, Aktobeenergosnab LLP, Batysenergoresources LLP, Atyrau Energosatu LLP, Zhetysuenergotrade LLP, SevKazEnergoSbyt JSC, KokshetauEnergoCenter LLP, and AREK-Energosbyt LLP, which together account for 30% of the total market.

Electric Power Consumption

The annual growth rate of electric power consumption in Kazakhstan from 2000 to 2013 was 4.7%, primarily backed by the continuing growth of Kazakhstan's economy. In 2013, the total electric power consumption in Kazakhstan amounted to 89.6 billion kWh (a 2.0% decrease compared to 2012).

The table below sets out electric power consumption dynamics for the period from 2000 to 2013:

For year ending December 31,	GDP	Electricity consumption	Electricity consumption	Electricity consumption elasticity to GDP growth(1)
	% change from previous year	(GWh)	% change from previous year	
2000	9.8	54,380.1	7.2	0.7
2001	13.5	56,657.4	4.2	0.3
2002	9.8	58,047.5	2.4	0.2
2003	9.3	61,982.0	6.8	0.7
2004	9.6	64,807.2	4.6	0.5
2005	9.7	68,129.0	5.1	0.5
2006	10.7	71,771.4	5.3	0.5
2007	8.9	76,439.6	6.5	0.7
2008	3.3	80,619.6	5.5	1.7
2009	1.2	77,959.6	(3.3)	(2.7)
2010	7.3	83,767.1	7.4	1.0
2011	7.50	88,136.0	5.2	0.7
2012	5	91,444.2	3.8	0.8
2013	6	89,640.8	(2.0)	-0.3

Source: GDP –The Agency of Statistics of the Republic of Kazakhstan, Consumption is Company data.

(1) Calculated by dividing the percentage change in electricity consumption by the percentage change in GDP over the same period.

The degree of correlation between electric power demand and GDP growth depends, to a large extent, on the composition of the market.

The table below sets out a breakdown of electric power consumption by region over the last three years.

	As of December 31,					
	2011		2012		2013	
	(Volume, GWh)	*(Share, %)*	*(Volume, GWh)*	*(Share, %)*	*(Volume, GWh)*	*(Share, %)*
Akmola region	7,058	8	7,491	8.2	7,508	8.4
Aktobe region	3,805	4	3,934	4.3	3,964	4.4
Almaty region	9,339	11	9,849	10.8	9,609	10.7
Atyrau region	3,705	4	3,874	4.2	4,090	4.6
Western Kazakhstan region	1,635	2	1,675	1.8	1,701	1.9
Zhambyl region	3,629	4	3,809	4.2	3,661	4.1
Karaganda region	15,685	18	16,162	17.7	15,509	17.3
Kostanai region	5,753	7	5,790	6.3	5,581	6.2
Kyzylorda region	1,384	2	1,495	1.6	1,510	1.7
Mangistau region	4,241	5	4,336	4.7	4,441	5.0
Southern Kazakhstan region	3,614	4	3,852	4.2	3,841	4.3
Pavlodar region	17,871	20	18,420	20.1	17,904	20.0
Northern Kazakhstan region	1,668	2	1,708	1.9	1,669	1.9
Eastern Kazakhstan region	8,749	10	9,049	9.9	8,649	9.6
Total	**88,136**		**91,444.2**	100	**89,640.8**	

Source: The Company

The electric power consumption in Kazakhstan for 2013 decreased by 1,803.4 million kWh (2.0%) to 89,640.8 million kWh from 2012. The decrease of this index in the northern and southern zones of the Kazakhstan UPS equaled 1,768.2 million kWh (2.8%) and 382.4 million kWh (2.0%), respectively. The consumption in the western zone of Kazakhstan increased by 347.2 million kWh (3.5%).

The following companies were the biggest contributors to the growth in electric power consumption in 2013:

	Million kWh	**%**
Aksu Ferroalloy Plant	5,763.8	103.8
ArcelorMittal Temirtau JSC	4,125.6	97.9
KPF JSC	3,637.6	100.4
Kazzinc JSC	2,885.7	102.0
Sokolov Sarbai Mining Production Association JSC	2,517.3	96.9

Tariffs

Pursuant to the Natural Monopolies Law, the following services provided by KEGOC are considered natural monopoly services and fees for which customers are charged are based on tariffs as approved by the regulator:

- transmission of electric power through the NPG;
- technical dispatching; and
- balancing the generation and consumption of electric power.

Tariffs are an important part of the regulation and are of central importance to the Company's revenues and profitability. The Company calculates tariffs based on the technical regulations and guidance adopted by the regulator which sets forth the various components to be included in such calculation of tariffs. Tariffs calculated by the Company are subject to approval by the regulator.

The Company's tariffs are set according to a cost-plus model pursuant to which the Company's estimates of operational and financial costs and fair return of its equity serve as the basis for setting tariffs for the relevant period of time. The amount set forth in the tariff estimation, which must be approved by the regulator, allows the Company to establish tariffs at levels that enable it to cover justifiable costs, plus an acceptable level of profit.

In the context of the Natural Monopolies Law, the regulator which approves the tariffs was the Agency for Regulation of the Natural Monopolies ("**ARNM**") until it was abolished in 2014. The current regulator is the Ministry of the National Economy ("**MNE**").

The Natural Monopolies Law previously allowed the Company to elect one year tariff periods or multi-year tariff periods. The Company has historically sought tariff approvals on a one year basis. Beginning in 2013, the Company sought and obtained approval for a bi-annual (two-year) period, which was then permitted under applicable law. The Natural Monopolies Law was amended in 2013 and 2014 and, as a result, when the Company's current two year tariff period expires in 2015, any application for multi-year tariff periods the Company submits must be for a minimum five year period.

The tariffs or maximum levels of tariffs approved by the regulator will generally remain in force throughout the relevant tariff control period.

In certain exceptional circumstances the regulator may adjust the approved tariff in response to certain events which are beyond the Company's control. See "*Business – KEGOC Tariffs*".

Regulatory Overview and Challenges

The electricity sector in Kazakhstan has undergone substantial reform, but certain issues remain. Government regulations make it difficult for generators to compete in the market and local distribution is still largely organized as a monopoly.

According to the Power Industry Law of the Republic of Kazakhstan, the principal goal of regulating the energy market in Kazakhstan is to satisfy the demands of the electric power consumers in Kazakhstan and protect the rights of electricity and thermal power markets by establishing competitive market conditions that will guarantee consumers' right to choose electricity and thermal power suppliers. Formally, the tariffs for production of electricity are determined on the open market. In practice, however, tariffs for producers must be approved by MNE and can be raised to provide their electric power stations with the ability to develop and modernize production capacities.

As Kazakhstan develops, its generation of excessive electric power will end. Therefore, the country needs substantial investments in the electric power generation industry and development of the power grid in order to support the economic growth and supply of electric power. The rapid growth of tariffs provides investment opportunities into economically feasible fields. Raising the tariffs becomes difficult due to the pricing for electricity in social and macroeconomic policy. This is the main financial impediment for private investments in the industry.

On May 29, 2014 the leaders of Kazakhstan, Russia and Belarus signed the treaty establishing of the Eurasian Economic Union ("**EEU**"). The EEU will officially come into effect on January 1, 2015, provided that the treaty is approved by the parliaments of the three respective countries. The member states agreed, among other things, to form a common electric power market based on the parallel operation of power systems of the respective member states. As of the date of this Investment Memorandum, no amendments have been introduced into the laws of Kazakhstan in connection with this. The members states agreed to develop the concept of a common electric power market by July 2015. It is possible that the existing power industry regulatory framework may need to be significantly revised to address the new developments associated with formation of the common electric power market. See also "*Risk Factors*".

Kazakhstan Energy Strategy and Infrastructure Development

Resolution No. 724 of the Government of the Republic of Kazakhstan dated June 28, 2014 approved the Concept for the Development of the Fuel and Energy Industry of the Republic of Kazakhstan for the Period until 2030.

The Concept for the Development of the Fuel and Energy Industry of the Republic of Kazakhstan for the Period until 2030 unites the development of the oil, gas, coal, nuclear and electricity industries under one umbrella, taking into account global best practices and the latest development trends in global energy.

The following objectives were taken into consideration when preparing the Concept for the Development of the Fuel and Energy Industry of the Republic of Kazakhstan for the period until 2030:

- ensuring the country's energy security by strengthening its ability to provide fuel and energy resources and products for itself;
- strengthening the country's geopolitical influence in the region by satisfying the growth in energy consumption by the neighboring economies;
- developing the country's economic potential:
- developing the country's scientific potential;
- improving the safety and reliability of electrical equipment and energy facilities;
- developing the country's fuel and energy sectors by using 21st century technologies;
- actively including renewable and alternative energy sources in the country's energy balance; and
- conserving energy and resources and improving energy efficiency.

REGULATORY FRAMEWORK

The following description is a summary of various sector-specific laws and regulations of the Republic of Kazakhstan, as well as international treaties to which Kazakhstan is a party, which are applicable to the Company. The summary set out below may not be exhaustive, and is only intended to provide general information to the investors and is neither designed, nor intended to be a substitute for professional legal advice.

Introduction

The Company operates in a highly regulated industry. It performs the functions of the state-appointed system operator and operates Kazakhstan's unified power system (the "**UPS**"). In addition to the Company's status as the system operator, the Company carries out natural monopoly operations and was included in the state register of natural monopoly entities. It is therefore in a unique position and its regulatory regime is more complex than as applicable to most Kazakhstan companies.

Power Industry Law

System Operator

The primary law governing the electricity sector is the Power Industry Law, which was enacted and came into effect in 2004. This law addresses the generation, transmission and consumption of electricity and heat. Set forth below are the general provisions of the law applicable to the Company.

The Power Industry Law establishes the legal status of a "*system operator*" as follows: it is a national company carrying out centralized operation-dispatch supervision, ensuring parallel operation with power systems of other states, maintaining balance in the power system, providing system services to, and acquiring ancillary services from, electricity wholesale market participants, transmitting electric power through the National Power Grid ("**NPG**"), and servicing and maintaining the NPG. The Power Industry Law empowers the Ministry of Energy ("**ME**") to appoint the system operator. The ME appointed the Company as the system operator pursuant to Order No. 61 dated October 17, 2014.

The Company, being the system operator appointed by the ME, is solely entitled to render the system operator's services which include (i) transmission of electric power through the NPG including cross-border flows with energy systems of neighboring countries and interregional power transmission from power plants to wholesale electricity market participants; (ii) technical dispatching; (iii) balancing of the electric power generation and consumption in the UPS; and (iv) organizing the functioning of the power capacity market. Being the system operator appointed by the ME, the Company has the sole right to operate the NPG.

Provisions Affecting Privatization

The Power Industry Law defines the NPG as a network of substations, switchgears, interregional and/or inter-state transmission power lines and transmission power lines transmitting the electric energy of electric power stations with a voltage of 220 kV and greater. The Power Industry Law further provides that the NPG itself cannot be privatized and that it shall be transferred to a national company in accordance with the procedure and on terms which are defined by the Government. The Offering of the Shares to private investors does not formally constitute privatization of the NPG as that term is defined under Kazakhstan law, because neither the NPG nor its elements are being sold, and the Company remains the owner of the NPG following the Offering.

In addition, in contemplation of the Offering by the Company under the People's IPO Program, the Power Industry Law was amended in July 2014 to provide that the national management holding (i.e., the Fund) may not transfer any shares of KEGOC if as a result of such transfer the national management holding will own less than 90% plus one voting share. The Offered Shares constitute less than ten per cent of the outstanding shares of KEGOC.

In addition to the Power Industry Law, the Edict of the President of the Republic of Kazakhstan No. 422 "On a list of public property items whose privatization is prohibited" of July 28, 2000 also prohibited privatization of certain components of the NPG, namely interregional power grids with a voltage of 220, 500 and 1150 kv. In contemplation of the Offering, on August 12, 2014 Edict No. 422 was abolished by the Edict of the President of the Republic of Kazakhstan No. 894. Edict No. 894 sets out the list of assets which cannot be alienated and does not include the NPG or any of its components. See also "*Risk Factors*".

Power Industry Regulations

For the purposes of implementation of the Power Industry Law, various regulations applicable to the Company's activities were enacted, including:

- The Rules for System Operator Services (the Rules for System Operator Services, Organization and Operation of the System and Ancillary Services Market approved by Resolution No. 300 of the Government dated March 29, 2013). The Rules for System Operator Services specify the manner in which the system operator: (a) provides system services (i.e., transmission of electricity, technical dispatch control, regulation and reservation of capacity, procurement of balancing of production and consumption of electricity); and (b) acquires ancillary services from market participants.

- The Balancing Market Regulations (Regulations on Operation of the Electricity Balancing Market, approved by Resolution No. 1508 of the Government of the Republic of Kazakhstan November 29, 2012). The Balancing Market Regulations set out the procedure in which the operation of the balancing market must be organized. The balancing market is the system operator's tool for maintaining a balance of electricity and capacity in the UPS. The system operator arranges balancing of production and consumption of electricity on the basis of agreements with wholesale market participants.

- The Wholesale Market Regulations (the Regulations on Organization and Operation of the Wholesale Market for Electricity in the Republic of Kazakhstan, approved by Resolution No. 740 of the Government of the Republic of Kazakhstan dated June 4, 2012). The Wholesale Market Regulations determine the procedure for the organization and operation of the wholesale electric power market and the terms for rendering services in this market.

- The Retail Market Regulations (the Rules for System Operator Services, Organization and Operation of the System and Ancillary Services Market approved by Resolution No. 932 of the Government of the Republic of Kazakhstan dated July 12, 2012).

These Regulations determine the procedure for the organization and operation of the retail electric power market and the terms for rendering services in this market.

- The Electricity Grid Rules (the Electricity Grid Rules approved by Resolution No. 625 of the Government dated June 19, 2013). The Electricity Grip Rules determine the procedure for the use of the grid and the organization of the management of the UPS.

Natural Monopolies Law

Overview

The Law on Natural Monopolies, which is the primary law governing activities of natural monopoly entities, provides that the services of transmission of electricity via the Company's networks, technical dispatching of the grid output and electric power consumption and organization of balancing of the production and consumption of electricity are natural monopoly activities.

The Company is included in the State Register of Natural Monopolies approved by Order of AREM Chairman No. 16-OD of January 24, 2005. As a natural monopoly entity, the Company must comply with the requirements of the Natural Monopolies Law and regulations adopted within the framework of this law.

The Regulator

In August 2014, the President of Kazakhstan reorganized the Government and reallocated, among other things, functions for regulating the activities of natural monopoly entities. Prior to the reorganization, the Agency for the Regulation of Natural Monopolies ("**ARNM**") was responsible for regulating the activities of natural monopoly entities, and approving tariffs and tariff estimates for regulated services. Following the reorganization, the ARNM was abolished and its functions were transferred to the Ministry of National Economy ("**MNE**"). All regulations, orders and other decisions adopted by the ARNM during the time of its existence are still valid in accordance with their terms unless otherwise amended or rescinded by the MNE.

The MNE approves tariffs on, and tariff estimates for, regulated services as well as temporary reductions to the tariffs. Within the parameters specified by law, the MNE approves technical and technological levels of consumption of raw materials, fuel, energy, standard technical losses and standard personnel numbers. The MNE coordinates the cost estimates submitted for minor and major repairs and other repair and recovery works (not resulting in an increase in the cost of fixed assets), staffing lists and salary levels for executives of the administrative staff, accounting policies, and methods of separate accounting of revenue, expenses and operating assets of the Company by the types of regulated services and other activities.

The Natural Monopolies Law provides that:

- the conduct of any activities by a natural monopoly entity (other than those which are defined by law as natural monopoly activities and activities technologically related) require the MNE's prior consent;

- any person acquiring more than 10% of the voting shares (participatory interest) in a natural monopoly entity must notify the MNE in advance of such acquisition;

- the MNE's prior consent is required for the disposal of and/or other transactions with assets of a natural monopoly entity intended for production and provision of the relevant regulated services (goods and works), if the value of such assets exceeds 0.05% of the book value of the assets of the relevant regulated entity in its balance sheet as of the beginning of the current financial year, provided that they do not entail an increase of tariffs or tariff ceilings for the regulated services of a natural monopoly, breach of customer contracts, violation of the continuous technological system or the interruption or significant reduction of the volume of provided regulated services;

- a natural monopoly entity may acquire shares or participatory interests in, or participate in other forms in, commercial entities carrying out activities permitted by the Natural Monopolies Law with the MNE's prior consent; and

- reorganization and liquidation of a natural monopoly entity requires the MNE's prior consent.

In addition, the Parliament is currently considering amendments to the Natural Monopolies Law. As of the date of this Investment Memorandum no amendments to the existing Natural Monopolies Law have been adopted.

The Company's Activities

The list of activities that the Company is entitled to carry out is limited to the natural monopoly activities and other technologically related activities provided that the MNE has given its prior consent to such related activities. The Company may also carry out other activities provided that the income from such other activities does not exceed 5% of the Company's income and that the Company has obtained the MNE's prior consent with respect to such activities.

The Company enters into agreements with its customers. It uses model agreements approved by Resolution No. 1194 of the Government of the Republic of Kazakhstan, dated November 28, 2003, subject to minor adjustments where necessary.

Equal Access

The Natural Monopolies Law requires that natural monopoly entities provide equal access to natural monopoly services. The Power Industry Law provides that the system operator must ensure equal access of its consumers to the NPG. The Rules for Provision of Equal Access to the Regulated Services (Goods, Works) in the Area of Natural Monopolies, approved by the Resolution of the Kazakhstan Republic Government of January 19, 2012, sets forth the general conditions under which customers of various natural monopolies may enjoy equal access to natural monopolies works and services as well as establishing specific conditions under which a customer must: (i) be connected to the NPG or other electricity transmission lines, (ii) be given access to services on transmission or distribution of electricity on the electricity wholesale market; and (iii) be given access to dispatching services and services on balancing of production and consumption of electricity.

Amendments to the Natural Monopolies Law

As of the date of this Investment Memorandum, the Mazhilis (the lower house of the Parliament in Kazakhstan) is considering amendments to the Natural Monopolies Law. The proposed amendments have not yet been adopted. The Company regards the current proposals as generally positive and beneficial for KEGOC and does not believe that any of the current proposals will have a material negative effect on the Company or its business. The current proposals are in draft form and may be subject to significant changes during their consideration and finalisation by the Mazhilis and the Parliament committees. There is no guarantee that any of the proposals will be adopted as currently drafted.

As of the date of this Investment Memorandum, the key amendments which may affect the Company or its business are as follows:

- Lifting the ban on natural monopolies engaging in other business. The Company believes that abolishing the current ban may require significant amendments to the Natural Monopolies Law and other associated regulatory and legal acts concerning the basic principles, methods and approaches to regulating natural monopolies and their activities, separation of the monopoly business of natural monopolies and their other activities, introduction of stricter requirements on separate accounting and the introduction of rules restricting the impact of other activities on monopoly business.

- Permission for natural monopolies to exceed the limits on certain components that comprise the tariff estimate approved by the regulator, on the condition that the tariff estimate is not exceeded in total.

- Redistribution of functions between the MNE and industry ministries (in the case of electric power, the Ministry of Energy). In particular, it is proposed that standard technical losses, technical and technological standards for consumption of raw and other materials, fuel, energy and the standard staff numbers would be approved by industry ministries and not the MNE, because the industry ministries regulate the relevant industry and should have a better understanding of the specifics of the industry under their control.

- Changes to the restrictions on natural monopoly entities acquiring an interest in other legal entities. By way of example, the law currently requires a natural monopoly to seek the regulator's consent to increase the authorized capital of a wholly owned subsidiary company.

Procedure for Procuring Goods and Services Applicable to KEGOC

Kazakhstan law sets special rules for the procurement of goods and services by companies in which the state holds, either directly or indirectly, 50% or more of the shares of the relevant company. There are two sets of procurement rules: the first set is based on the Law of the Republic of Kazakhstan on State Procurements No. 303 III ZRK dated July 21, 2007 (the "**State Procurement Law**"), and the second set of procurement rules is based on the Law of the Republic of Kazakhstan "On the National Wealth Fund" dated February 1, 2012 (the "**NWF Law**"). As a Fund Group company, KEGOC is not subject to the general procurement rules envisaged by the State Procurement Law and carries out its procurements in accordance with the procurement rules of Samruk-Kazyna (the "**Samruk-Kazyna Procurement Rules**"), which are largely analogous to the general rules.

In accordance with the NWF Law, the Fund and Fund subsidiaries, including KEGOC, KEGOC's subsidiaries and KEGOC's joint venture entities, are required to observe the Samruk-Kazyna Procurement Rules. Samruk-Kazyna exercises general supervision over the Samruk-Kazyna Procurement Rules. The main procurement method consists of a tender, by which KEGOC purchases most of its goods, works and services. In certain cases specified by the Samruk-Kazyna Procurement Rules, KEGOC may purchase goods, works and services by other methods, namely: closed tender, two-stage open or closed tender; request for price proposals; on organised electronic trading platforms; through commodity exchanges; from a single source; on centralised electric power trading platforms; or without applying the Samruk-Kazyna Procurement Rules.

Purchases of individually limited categories of goods and services, as well as goods and services from a state monopoly, a natural monopoly or an entity occupying a dominant (monopoly) position of over 35% on a specific market, fall outside the tender rules and may be made by direct negotiations.

The Samruk-Kazyna Procurement Rules require that, when making purchases, the Fund's Group companies give preferential consideration to works and services from (i) organizations for the disabled on the Fund's register of organizations for the disabled; (ii) from other Fund subsidiaries and (iii) goods manufacturers in Kazakhstan.

KEGOC conducts its procurements in accordance with the annual and long-term procurement plans. The majority of all agreements are entered into for a one year period. Longer-term contracts may be concluded only in individual cases specified by the Samruk-Kazyna Procurement Rules. KEGOC should also prepare detailed tender documentation and set up tender commissions for each tender to determine the prevailing bidder.

Strategic assets

Overview

The concept of "*strategic assets"* was introduced into the legislation of Kazakhstan in 2007, when the Civil Code of Kazakhstan was supplemented with article 193-1, which classified certain assets as "strategic assets" by virtue of their special significance for the stable development of Kazakhstan society and the potential impact of such assets on the national security of the Republic of Kazakhstan.

Both state-owned and private entities may own strategic assets. Irrespective of whether a strategic asset is in state or private hands, any transaction that entails or might entail the disposal of such strategic assets, such as pledge, mortgage or other encumbrance of the strategic asset, requires a relevant Government decision. An initial share offering by the owner of the strategic asset on a stock exchange, such as the Kazakhstan stock exchange, also requires a Government decision. In addition, the state also has a right of first refusal to purchase the strategic asset if it is for sale.

The key regulatory acts governing the legal status of strategic assets are the Civil Code and Law No. 413-IV "On State Property" dated March 1, 2011 (the "**State Property Law**"**).** The State Property Law also provides for the possibility of the state nationalising strategic assets.

Status of the NPG and KEGOC Shares

Article 193-1 of the Civil Code envisages, among other things, the possibility of granting the NPG the status of a strategic asset. Decision of the Government of the Republic of Kazakhstan No. 651 dated June 30, 2008 classified both the NPG and KEGOC Shares as strategic assets.

In preparing for the Offering, KEGOC has obtained a Government decision approving the Offering and the number of shares being sold to investors pursuant to the Offering. In addition, KEGOC has also obtained a further decision excluding from the list of "strategic assets" such number of shares equal to 10% less one share of the share capital of KEGOC.

Nature Protection Regulation

Even though KEGOC's main business does not exert any material impact on the environment, its activities still fall within the scope of a number of regulatory acts relating to discharges into the environment, location of industrial and domestic waste and harmful physical impacts. The key regulatory acts governing aspects of the environment are the Environmental Code of the Republic of Kazakhstan No. 212-III dated January 9, 2007 (the "**Environmental Code**"), "Water Code" No. 481-II dated July 9, 2003 and "Land Code" No. 442-II dated June 20, 2003

Emission Permits

The Environmental Code requires any entity discharging pollutants into the environment to obtain a permit. An emission permit is a document entitling the owner to emit a specific quantity of the pollutants specified in the permit into the atmosphere and to release a specified quantity of waste and/or waste water. The emission permit also establishes additional conditions for use of natural resources by its holder.

The main sources of impact on the environment in KEGOC's operations are:

- Discharges into the atmosphere caused by operation of KEGOC equipment; and
- Disposal of waste from repair and modernisation of substation equipment.

Expert Analysis and Assessment of the Environmental Impact of Investment Projects

According to the legislation of Kazakhstan, development and implementation of any projects involving an environmental impact, including construction of new facilities or modernisation of existing ones, require a whole series of expert opinions, including, among other things, an environmental impact assessment. All KEGOC's investment projects undergo expert review and an environmental impact assessment.

KEGOC implements the majority of its major new projects on the basis of turn-key contracts. So KEGOC's contractors are responsible for obtaining all the environmental and other requisite expert reviews and approvals and for having an environmental impact assessment performed.

Water Use Permits

The water supply of five KEGOC branches consists of artesian waters. For this purpose, the branches get permission for special water use from territorial subdivisions of the Water Resource Committee of the Ministry of Agriculture of the Republic of Kazakhstan.

Buffer Zones

The safety rules for use of electric facilities adopted by the Government of the Republic of Kazakhstan on November 29, 2012 No.1509 require the designation of buffer zones along the whole length of overhead transmission lines. The buffer zone comprises lands directly under overhead transmission lines as well as lands on both sides of overhead transmission lines and the air space above them. The size of the buffer zone varies depending on the voltage class of overhead transmission line. The laws of Kazakhstan prohibit performing any activity or placing or building any objects in the buzzer zone of overhead transmission lines.

Declaration of Industrial Safety

In accordance with Law of the Republic of Kazakhstan No.188-V "On Civil Defence" dated April 11, 2014 (the "**Law on Civil Defence**"), KEGOC is the owner of hazardous production facilities that are subject to inspection by experts and require that KEGOC obtain a declaration by such experts that the facilities are safe. The experts may be licensed experts appointed by KEGOC, the State or third party firms.

The Law on Civil Defence stipulates additional, more stringent requirements on owners of hazardous production facilities requiring safety declarations by experts. In particular, KEGOC, as an owner of hazardous production facilities, should, among other things: (i) exercise control over observance of the industrial safety rules; (ii) investigate and diagnose production buildings and structures; (iii) perform an expert examination of technical means that have outlived their service life in order to determine the possible term for their continued safe operation; (iv) allocate funds to ensure industrial safety when drawing up the financial and economic plans for the hazardous production facility and (v) have material and financial reserves for performing works in accordance with the accident elimination plan.

International Treaties

The Kazakhstan unified electricity system works in parallel with the power system of the Russian Federation and the integrated power system of Central Asia. The terms of the parallel operation with the abovementioned systems are governed by international treaties, including the following:

- Agreement on securing the parallel operation of the power systems of the CIS states, dated November 25, 1998;
- Agreement between the Government of the Republic of Kazakhstan, the Government of the Kyrgyz Republic, the Government of the Republic of Tajikistan and the Government of the Republic of Uzbekistan on the parallel operation of the power systems of the Central Asia states, dated June 17, 1999; and
- Agreement between the Governments of the Republic of Kazakhstan and the Russian Federation on the measures securing the parallel operation of the unified power systems of the Republic of Kazakhstan and the Russian Federation, dated November 20, 2009.

For the purposes of implementation of the latter agreement, the following agreements were also entered into by the Company:

- with OJSC Unified Energy System Federal Grid Company – the Agreement on the provision of services on transmission (transit) of electric power, dated December 29, 2009;

- with OJSC Unified Energy System Federal Grid Company, OJSC Unified Power System Operator – the Agreement on the parallel operation of the power systems of the Republic of Kazakhstan and the Russian Federation, dated April 23, 2010; and

- with OJSC Inter RAO UES – the Agreements on the purchase and sale of electricity to compensate the hourly volumes of deviations of actual interstate net power flow from the planned one. These agreements were entered into for one year periods and are extended for successive periods by mutual agreement of the parties.

The Eurasian Economic Union

On May 29, 2014 the leaders of Kazakhstan, Russia and Belarus signed the treaty on the establishment of the Eurasian Economic Union ("**EEU**"). The EEU will officially come into effect on January 1, 2015 assuming the treaty on its establishment is approved by the parliaments of the three countries. The EEU would create a single economic market of approximately 171 million people and a gross domestic product of approximately U.S. $3 trillion. The President of Kazakhstan has stated the EEU should be and is purely an economic union and that Kazakhstan seeks to keep its independence and sovereignty.

The member states agreed to form, among other things, a common electricity market based on the parallel operation of power systems of the member states. The sequence of key steps aimed at forming the common electricity market would be as follows:

- development of the concept of a common electricity market by July 2015;

- adoption of the program of the formation of the common electricity market by July 1, 2016. The program will include the timeline setting forth the key milestones; and

- entering into of an international treaty on the formation of the common electricity market which should become effective by July 1, 2019.

The member states agreed that during the transitional period starting from the date when the EEU treaty becomes effective and throughout to July 1, 2019, tariffs for services of natural monopolies will be governed by domestic law. The terms of the EEU treaty do not specify whether following the formation of the common electricity market tariffs for natural monopoly services rendered domestically will be governed by a common EEU legal framework and/or approved by a supranational body or by another arrangement.

Regulators

The main regulatory bodies that are relevant to the Company's operations in Kazakhstan are set forth below.

The Ministry of Energy (ME)

The ME is the authorized body in the electric power industry responsible for appointment of the system operator. It implements state policy in this respect, develops relevant technical regulations, develops and approves (within its authority) laws and regulations in the sphere of the production, transmission and use of electricity. It also develops and approves statutory technical documents in the sphere of design, construction, technical operation and operational safety of electric power industry facilities.

State Committee for Nuclear Power and Energy Supervision

The State Committee for Nuclear Power and Energy Supervision of the Ministry of Energy performs supervision and control over the compliance with technical requirements of Kazakhstan laws in the sphere of electric power industry and, among other things, the operation and technical condition of power grids.

The Ministry of the National Economy

The MNE is the state body that regulates and controls the activities of natural monopoly entities in Kazakhstan. All tariffs for the Company's services are approved by the MNE.

For more information, please refer to the paragraphs on Tariff Policy in the section called "*Business – Tariff Policy*".

BUSINESS

Overview

KEGOC is the national company which is the System Operator of the Unified Power System ("**UPS**") of Kazakhstan. KEGOC renders the following key services: (i) electricity transmission including cross-border flows with energy systems of neighboring countries and interregional power transmission from power plants to the wholesale electricity market participants over the national power grid (the "**NPG**"), (ii) technical dispatch of electric supply and electricity consumption, and (iii) electricity production-consumption balancing services in Kazakhstan.

The Company was established in 1997 as part of an initiative by the Government to restructure the management of the power system in Kazakhstan. It currently employs 4,729 people. As of the date of this Investment Memorandum, the Company is a wholly-owned subsidiary of Samruk-Kazyna National Welfare Fund JSC (the "**Fund**"), and upon completion of the Offering, the Fund will own at least 90% plus one of the Company's shares.

The Company operates the UPS which consists of (i) the NPG, (ii) 76 power plants with total installed capacity of 20,592MW and available capacity of 17,108MW, including eight power plants of national importance; (iii) 21 regional electricity transmission companies (REC); and (iv) 129 bulk consumers. The Company owns, operates and maintains the NPG, which is a network of substations, switchgears, transformers and high voltage transmission lines. As of June 30, 2014, the NPG included, among other things, 24,533.033 kilometers of high voltage 35-1150 kV transmission lines and 76 substations with installed transformer capacity of 35,875.05 MVA. On September 19, 2014, the Fund contributed the "Akzhar" 220 kV substation and equipment needed for the extension of the "Tsentralnaya" 220 kV substation to the Company. As of the date of this Investment Memorandum the NPG includes 24,564.733 kilometers of high voltage 35-1150 kV transmission lines and 77 substations with installed transformer capacity of 36,355.05MVA. The Company provides the electricity transmission via interstate and interregional electric power transmission lines, the links between electric stations and regional power grid companies and bulk consumers. The remaining UPS assets are owned by third parties.

The primary strategic objective of KEGOC's management is to establish KEGOC as an independent, competitive, commercial organisation that operates successfully in Kazakhstan and the global environment. The Company's management intends to achieve this goal by:

- ensuring the reliable functioning of the Kazakhstan NPG in accordance with the needs of Kazakhstan;
- expanding the NPG to promote the growth of the Company's business and to accommodate the needs of Kazakhstan;
- enhancing the effectiveness of the Company's operations;
- providing share value;
- improving and increasing the efficiency of the electric power market in Kazakhstan;

- developing practices of corporate governance and stable development; and
- maintaining a stable partnership relationship with electric power companies of neighboring countries.

In 2013, the Company generated total revenue of KZT 73,811,723 thousand from its core activities. Of its revenue, KZT 44,351,735 thousand, or 60.1%, was generated from the Company's electricity transmission activities, with the remainder being generated from technical dispatching, supply to the grid and consumption of electric power, balancing of production and consumption of electric powers as well as from the:

- sale of electric power for compensation of hourly deviations of the actual interstate balance of electric power exchange from the planned schedule;
- sale of purchased electric power to compensate for unscheduled crossflows;
- sale of capacity reservation services; and
- power balancing services.

Key Strengths

KEGOC has the following key strengths, which management believes will enable it to retain and strengthen its position as the leading electricity transmitter in Kazakhstan:

As the owner and operator of the NPG, the Company is Kazakhstan's leading electric power transmitter

Under Kazakhstan law, KEGOC is the system operator appointed by the Ministry of Energy and is the owner and operator of the NPG. Therefore, it has the exclusive right to transmit electricity through the NPG, which includes substations, distribution units and interregional and/or interstate electricity transmission lines. As the system operator, the Company also provides services relating to dispatching and balancing the production and consumption of electric power. Each of transmission, dispatching and balancing services are included in the list of natural monopoly activities provided by the Natural Monopolies Law. KEGOC is included in the State Register of Natural Monopolies and is regulated by the Natural Monopolies Law. The Company has limited competition in the Kazakhstan market from the operators of private transmission lines.

In 2013 the Company provided (a) electricity transmission services of 41,055 million kWt/hour which comprised 40.13% of total electricity consumption in Kazakhstan, (b) technical dispatching services in the amount of 83,863 million kWt/hour, and (c) balancing of electric power generation and consumption in the amount of 153,521 million kWt/hour. Management believes that the Company will continue to maintain its right to own and operate the NPG under the laws and regulations of Kazakhstan, thus enabling KEGOC's continued position as the country's leading transmitter of electricity and the entity primarily responsible for the provision of dispatching and balancing services.

The Company has a significant asset base and an established track record in capital investments

Through the enactment of Government regulations following the independence of Kazakhstan, the Company was granted the right to own and operate the NPG, which currently consists of approximately 24,564.733 kilometers of 35-1150 kV high voltage transmission lines and related infrastructure. The Company has been implementing an investment program to maintain and update the electric substations' equipment and increase the capacity of electricity transmission between regions of the country in order to more efficiently manage the transmission of electricity. Between 2000 and 2010, KEGOC successfully completed Phase I of the NPG Modernization Project at a cost of KZT43.8 billion, which was, among other things, designed to enhance the reliability of supply and quality standards through modernization of substations, dispatch and control systems, ensure sustainable operation of the wholesale electricity market, provide better access to the NPG through improving access to 29 transmission networks, cut operating costs and expand the range of services provided by the Company. Between 2004 and 2009, the Company also successfully completed the Construction of 500 kV second transmission line of Kazakhstan North-South transit, at a cost of KZT 43.7 billion, which was designed to more fully fulfill the electric power demands in South Kazakhstan. The Company has gained experience in its large-scale investment projects and believes it will be able to successfully implement the next phases of its investment program.

Stable macroeconomic environment in Kazakhstan with a growing demand for electricity

According to the published statistical data Kazakhstan's gross domestic product grew by 5% in 2012, 6% in 2013 and is anticipated to grow by 5% in 2014. The substantial growth in the Kazakhstan economy has led to an increasing demand for electricity. Between 2010 and 2013, the electricity transmission services of the Company increased from 30.3 billion kWh to 41.1 billion kWt/hour, representing an annualized increase of 8.3%. Kazakhstan also has low levels of sovereign debt. The stable macroeconomic environment in Kazakhstan, including the stable growth of the domestic economy is expected to result in an increase in retail and industrial demand for the transmission of electricity.

The following table sets forth the volume of electricity transmitted by KEGOC in 2006 – 2013, including a comparable breakdown of the volume of electricity transmitted to Russia:

Year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Total Volume of Electricity transmitted (million kWt/hour)	31,584	32,543	34,385	30,338	34,697	41,042	43,487	**41,055**
Volume of Electricity transmitted to Russia (million kWt/hour)	0	0	0	0	2,865	5,296	7,373	**5,080**

Strong shareholder and governmental support

The Company is currently wholly owned by the Fund. Upon completion of the Offering, the Fund will continue to own 90% plus one share of KEGOC. The Fund's stated mission is to increase the national welfare of the Republic of Kazakhstan through maximizing the value of its holdings and efficient management of the Fund's Group assets. As a result, management believes that the Fund will continue to play a significant role in the Company's operations and the development of the Company following the Offering. The Fund's significant role in the economic development of Kazakhstan is expected to assist the Company in pursuing the Company's investment program, improving its operating efficiency and maintaining relationships with leading industrial consumers, as well as in creating new relationships with industrial consumers in Kazakhstan and in the export-market.

Competent management team with extensive experience and highly qualified workforce

KEGOC benefits from a strong management team whose members possess a broad range of experience. Members of senior management have previously held a number of senior positions in Kazakhstan's electric power companies and state administration bodies. The management team has played a central role in the Company's growth. Management believes its experience will be of vital importance to the successful implementation of Company strategy and business expansion. In addition, the Company has been successful in attracting highly skilled, professional and committed personnel with many years of experience in operating and maintaining the transmission networks. Management believes that the Company's position as the country's leading electricity transmitter aids in recruiting high caliber candidates. The Company provides extensive training opportunities, including an apprenticeship program, to support and develop the skills and broad experience of its employees.- KEGOC's employees report high levels of satisfaction, which aid in the efficient operations of the Company.

Attractive dividend policy

The Company may propose dividends on an annual and semi-annual basis reflecting six monthly and year end results. The payment of dividends is governed by the laws of Kazakhstan, the Company's charter and its dividend policy. In accordance with the dividend policy, the Company intends to pay dividends of no less than 40% of its net income for the relevant financial period. However, the ability to pay dividends and the actual amount of any dividend payment will be subject to the laws of Kazakhstan which restrict and may prohibit the payment of dividends. In addition, the Board of Directors must take into account the contractual and other obligations of the Company and any other relevant factors, including the financial position of the Company, forecasts regarding the financial position, and the Company's needs for funds (e.g. for capital expenditures and investment plans).

Strategy

KEGOC's mission is to provide for the reliable functioning and effective development of the Kazakhstan UPS in accordance with the latest technical, economic, environmental, labor safety and health protection standards. The main strategic objective of KEGOC's management is for the Company to become an independent, competitive commercial organization that can work successfully in Kazakhstan and in the global economic environment. As part of the process of achieving this core strategic objective, KEGOC will focus on the following strategies:

Maintaining the reliable functioning of the Kazakhstan NPG in accordance with the needs of Kazakhstan

To enable it to maintain the reliability of the NPG, in 2000 KEGOC commenced an investment program focused on the reconstruction and upgrading of its substations and transmission system's equipment. The Company's current investment program covers the period from 2015 through to 2025 and includes the reconstruction and upgrading of existing assets with a total expected investment cost of KZT 142.1 billion, including KZT 84.8 billion allocated for rehabilitation of the electric power lines. In Phase II of the Kazakhstan NPG Modernization Project, the Company plans to replace 10% of its transformers (autotransformers), 62% of breakers, 43% of disconnect switchers, 49% of voltage transformers, 61% of current transformers of the total volume of equipment which was not replaced during Phase I of the NPG Modernization Project. Generally, the replacement of substation equipment with the latest available technology is expected to optimize the operating cost by reducing the cost of repair and maintenance of substation equipment and the cost of emergency repair works. In addition, KEGOC plans to replace and upgrade a portion of its overhead lines and towers as part of the NPG Rehabilitation project. Management believes that KEGOC's focus on upgrading and maintaining its electric power transmission infrastructure will increase its reliability, efficiency and useful economic life as well as improve the operating performance of the NPG by reducing the volume of technological electric power that the Company requires in order to transmit the electric power throughout the NPG, along with reducing maintenance and repair costs.

Expanding the NPG to promote the growth of the Company's business and to accommodate the needs of Kazakhstan

The NPG is being improved through the construction of new electric power lines and substations which should cover the increasing demand for electric power in Kazakhstan. Therefore, at present, in accordance with the strategic plans of the Company, the investment portfolio of the Company includes sixteen priority projects relating to development of the NPG. The Company's current investment program covers the period from 2015 through to 2025 and includes projected capital expenses in the amount of KZT 429.3 billion for construction of new infrastructure and upgrading of the existing electric power transmission lines and substations. The investment program provides for the construction of additional electric power transmission lines with the network length of 4,571 km. Management believes that construction of new power lines and substations will enable the Company to enhance the reliability of the electric power supply to consumers, increase the capacity, increase the volume of transmitted electric power and create additional export and transit options, all of which would in turn improve efficiency and accommodate the growth of the Company's business. In particular, the Company is currently in the process of implementing the "Transit 500 kV North-East-South" project. Implementation of this project will increase the reliability of electrical supply to customers in East Kazakhstan and increase capacity of the North-South transmission supply, which in turn will enable the Company to ensure the South's electric power demands are more efficiently fulfilled. The Company expects to invest an aggregate of KZT 120.1 billion in this project and this project is expected to be completed by 2018.

Enhancing the effectiveness of the Company's operations

In order to make its operations more effective, the Company uses innovative technologies, has invested in new equipment, intends to further invest in new equipment and has set the goal of optimizing the levels of transmission losses. In addition, the Company has introduced an advanced asset management system and a balanced scorecard system to monitor the Company's operations.

Providing shareholder value

KEGOC seeks to increase profitability and provide shareholder value through obtaining tariffs based on components that are reflective of actual costs, operational efficiency, increasing the volume of services, improving the quality of servicing clients based on the studies of clients' satisfaction, and participating in the process of improving tariff policy and power energy laws.

Improving and increasing the efficiency of the electric power market in Kazakhstan

As a system operator, KEGOC is actively involved in improving and increasing the effectiveness of the electric power market in Kazakhstan. KEGOC provides balancing services as one of its three core services. The launch of a short-term balancing market in 2016 seeks to enable the creation of market mechanisms to encourage consumers to reduce electricity consumption during the period of peak loads and power generating organizations to cover the power shortage by maintaining power reserves in a state of readiness to generate additional volumes of electricity in the event such additional volumes are needed.

The Company believes that the launch of the power capacity market will provide a basis for the long-term reliability of the Kazakhstan UPS through providing a platform for the rapid development of generating capacity. The Company believes this will improve the industry's investment appeal.

In addition, KEGOC is involved in the centralized purchase and sale of electricity generated using renewable energy sources (RES) through its subsidiary organization Settlement and Financial Center to Support Renewable Energy LLP.

Developing practices of corporate governance and stable development

KEGOC continues to pursue a policy of improving corporate governance and seeking to introduce best practices in this area. As a member of the UN Global Compact, KEGOC reaffirms its commitment to the principles of the Global Compact in matters of human rights, labor, environment and the fight against corruption.

Maintaining a stable partnership relationship with electric power companies of neighboring countries

The Company aims to maintain and develop cooperative relationships with electric power companies in neighboring countries through parallel operation of their respective power systems. Being the system operator, the Company also aims to promote the interests of the UPS in relations with the power systems of Central Asia, Russia and other neighboring countries and to cooperate with its counterparts from the other CIS countries in the creation of a CIS electric power market. Most notably, the Company aims to promote the interests of the UPS in a common electric power market with Russia and Belarus, in accordance with the on-going integration in the Customs Union and establishment of the Eurasian Economic Union.

The Company seeks to increase and improve its cross border activities. On May 29, 2014 the leaders of Kazakhstan, Russia and Belarus signed the treaty on the establishment of the Eurasian Economic Union, which contemplates, among other things, the establishment of a unified energy market between member-states. KEGOC in its capacity as the system operator acts as a member of the Electric Power Committee of the Eurasia Economic Committee and in the Committee on Establishment of Unified Energy Market of the Eurasian Economic Union.

In addition, the availability of large coal basins, natural gas and uranium fuel reserves in Kazakhstan, which substantially exceed its own needs, creates the potential for the production and further export of electric power. The availability of interstate electric power transmission lines of 220 – 500 kV allows KEGOC to supply electric power to neighboring countries.

The Company's History

The Company was founded by the State Committee of the Republic of Kazakhstan for State Assets Management in 1996 pursuant to Resolution of the Government of Kazakhstan No. 1188, dated September 28, 1996 and was registered as a legal entity on July 11, 1997. The state's shareholding in KEGOC was transferred to Kazakhstan Holding for the Management of State Assets SAMRUK JSC ("**Samruk**") in 2006. In 2008, by Presidential and Governmental decree Samruk was merged with the KAZYNA Sustainable Development Fund to create the Fund, the current sole shareholder of KEGOC. For a description of the Company's sole shareholder, see "*Principal Shareholder*" and "*Related Party Transactions*".

The charter capital of KEGOC was based on the assets of Republican State Enterprise KazakhstanEnergo National Energy Company, which were transferred to KEGOC on September 29, 1997.

Operations

System Services

As the state systems operator, owner and operator of the NPG, KEGOC transmits electric power through the NPG including cross-border flows with energy systems of neighboring countries and interregional power transmission from power plants to wholesale electricity market participants over the national power grid, and provides technical dispatching and arrangement of balancing of the electric power generation and consumption in the UPS.

Transmission

The Company's core business consists of the transmission of electric power via interregional high voltage transmission lines and infrastructure. KEGOC controls the transmission of electric power throughout the NPG from power plants to regional distribution companies and bulk consumers. The Company also coordinates cross-border transmission in coordination with the operators of SO UES Russia and also Energiya Coordination Dispatch Center that coordinates the work of Central Asia Energy Systems. Transmission services are accounted for as per the actual amount of energy transmitted over the Company network (interregional transmission) and are billed to energy consumers.

Given the large size of Kazakhstan, the nation's transmission system is characterized by long transmission distances. The NPG is essentially divided into three regions for the planning and operation of electricity generation, transmission and distribution: the north, south and west. Historically, the mismatches between the historical configuration of the transmission networks and the location of demand result in shortages of electric power in the south and west. However, given its relatively sparse population, the north has excess capacity. The south is short on primary energy sources and thus experiences shortages of electricity generating capacity. The western grid is not directly connected to the NPG.

The nine regional branches of the Company control transmission through the sectors of the NPG within their respective regions.

Dispatching

Dispatching services entail two core operations: (i) scheduling of generation and consumption and (ii) dispatching. Scheduling seeks to ensure that generation of electricity meets anticipated electricity demand which is essential for reliability reasons as power flows can influence the voltage levels and can also lead to unreliable congestion levels arising on transmission lines. Dispatching relates to giving instruction in real-time to all participants of the wholesale electricity market, namely to electric power generating companies, regional grid companies, power supply companies and wholesale consumers (i.e. consumers buying electricity directly from generators). Scheduling and dispatching are thus complex interrelated processes that are essential to the operation of the power system.

As the system operator, daily scheduling of electric power generation and consumption and ongoing centralized dispatching services of electric power generating companies (generators) on the wholesale market are carried out by the Company according to the Power Industry Law. These services are charged to the generators and consumers of imported electric power through the approved dispatching tariff.

The Company carries out the technical dispatching services in its dispatch centers by using sophisticated energy modeling and equipment, including dispatch operating devices, telemechanics and communications systems, software.

Balancing

As the system operator, the Company carries out services to balance the electric power generating amount (supply) and the consumed amount (demand) on the wholesale market of electricity in Kazakhstan. The balancing seeks to physically and financially settle daily mismatches between the contracted volumes of electric power and the actually generated or consumed volumes of electric power. The Company must therefore ensure that sufficient generation is held in automatic readiness. Balancing includes procurement of balancing services (extra power) and activation of this extra power by the Company in order to settle mismatches. Balancing imposes costs, and electric power generating companies and wholesale consumers pay for the rendered balancing services through the approved tariff.

If the system operator uncovers mismatches between the contracted volumes set forth in daily load schedules with the hourly metered volumes during an operational day, the following applies:

- where a participant of the wholesale market of electricity has used more electricity than it had contracted for, such participant must pay for the additionally used electricity at the price for electric power paid on the balancing electric power market. Where a participant has contracted for more electricity than it used, the participant must sell that additional electricity to the balancing electric power market;

- where a generator has generated less than it contracted to, the generator must buy additional electricity from the balancing electric power market at the price for electric power paid on that market to meet its contracted level. Where a Generator has generated more electric power than it contracted for, then the generator must sell that additional electricity to the balancing electric power market.

These differences are referred to as imbalances, and balancing services include uncovering imbalances, physical settlement of uncovered imbalances as well as calculation of prices to be paid for these imbalances (i.e., financial settlement). The physical settlement of imbalances is carried out by the Company by calling in reserve capacity or unloading working power-generating units, as well as using capacity of load-controlled consumers.

The balancing electric power market in Kazakhstan is currently operating in “simulation mode” and no financial settlements for mismatches from contracted amounts are currently paid. It was previously anticipated that the balancing market would commence working on a real-time basis in 2012. However, the Government has delayed implementation due to concerns about the availability of standardized equipment for participants in the market. Actual settlements are now expected to commence in 2016.

The Capacity Market

The principal purpose of creating a capacity market is to ensure the reliability and stability of Kazakhstan’s energy system. In particular it should improve the Company’s ability to satisfy consumer demand for electric power which varies in levels of consumption at different points throughout the day and the year. In order to ensure a reliable power supply, the aggregate working capacity of the electricity generators must, at any specific time, be equal to demand plus a specified reserve margin. The reserve margin is calculated to take into account normal maintenance problems, extreme acts of nature (such as hurricanes or ice storms), unanticipated losses of fuel (e.g., natural gas or coal delivery limitations), and other variables that may prevent generation assets from being fully available during peak demand periods. Under the applicable laws in Kazakhstan, the reserve is 11% of the estimated consumption.

Analysis of the growth in energy consumption, the levels of daily and annual variation in consumption, and estimates of new generating capacity under construction show that Kazakhstan’s power capacity deficit is growing. The quantity of electric power generating capacity under construction will not currently satisfy the estimated growth in energy consumption and the peak load demand in Kazakhstan. Based on current actual consumption and estimated future consumption, it is expected that the energy generating capacity deficit in the winter period, or during extreme weather conditions, will require either the import of electric power from Russia, which is relatively expensive in comparison to the cost in Kazakhstan, or the introduction of restrictions on consumption (demand side measures).

To address the generation inadequacy and ensure system stability and reliability, the Government has decided to establish a power capacity market. The Company being the System Operator will administer the power capacity market. In the power capacity market, the System Operator will be able to buy capacity services from electricity generators in order that they are in a state of readiness to be able to generate additional energy to meet system demand.

The power capacity market will consist of a short term and long term power capacity markets.

The short term power capacity market will consist of power capacity services to be rendered to the Company by existing generators and is expected to be launched in 2016. A methodology for calculation of the payment (tariff) for power capacity services will be approved under Kazakhstan laws.

The long term capacity market requires construction of new electricity generating facilities and in order to underpin a respective investment project, the Government, acting through the Company, undertakes to purchase power capacity services from such new electricity generating facilities once they are constructed and certified by the Company. The Company does not directly engage in the construction or operation of these new electricity generating facilities.

Upon launch of the capacity market, it is expected that KEGOC will start providing a new type of service, namely maintaining the electric power capacity in the state of readiness. It is expected that this new service will be included on the list of natural monopoly activities and the Company will be compensated for the new service based on the new tariff approved under Kazakhstan laws.

The long term capacity market is expected to consist initially of the Balkhash Thermal Power Plant ("**Balkhash TPP**") which is currently being constructed. Other new electricity generation facilities may also be added from to time to time to the long term capacity market.

Balkhash TPP is owned by Balkhash TPP JSC and its shareholders consist of Samruk-Energo JSC (fully owned by the Fund), Korea Electric Power Corporation (KEPCO) and Samsung C&T Corporation. Balkhash TPP's installed capacity is expected to be 1,320 MW and will be located in Almaty oblast.

In compliance with the requirements of Kazakhstan law, the Government has adopted Resolution No. 667 dated June 17, 2014 ("**Resolution No. 667**"), which lays down the key terms and conditions of the power capacity services agreement between KEGOC and Balkhash TPP JSC. In particular, Resolution No. 667 sets forth the following terms and conditions of the agreement: (i) KEGOC must purchase power capacity services from Balkhash TPP JSC pursuant to a long term power capacity services agreement for a term of 20 years and six months period commencing upon certification of Balkhash TPP; (ii) the maximum total capacity which may be purchased from Balkhash TPP must not exceed 1,221 MW and the actual capacity must be determined based on results of certification of electric power generating facilities by KEGOC. Resolution No. 667 approves the following price to be paid by KEGOC to Balkhash TPP JSC for the capacity services rendered by the latter:

In USD

Year	Monthly price per 1 MW	Year	Monthly price per 1 MW
2018	59,714	2029	61,731
2019	59,895	2030	61,918
2020	60,076	2031	62,105
2021	60,258	2032	62,293
2022	60,440	2033	62,482
2023	60,623	2034	62,671
2024	60,806	2035	62,860
2025	60,990	2036	63,050
2026	61,174	2037	63,241
2027	61,360	2038	63,432
2028	61,545	2039	63,624

The above prices have not yet been incorporated into the Company's tariff regime and are expected to be included in future tariff application as part of the Company's justified cost.

Based on Resolution No. 667, KEGOC and Balkhash TPP have entered into the power capacity services agreement (the "**Balkhash Capacity Agreement**"). The Balkhash TPP is currently under construction and is expected to become operational in 2018 to 2019. Hence no payments by the Company are currently being made under the Balkhash Capacity Agreement. Once the electricity generating facilities of Balkhash TPP are completed and operational, the payments to be made under the Balkhash Capacity Agreement are expected to be material given the size of the capacity contracted for.

Transmission, Dispatch and Balancing Volumes and Revenues

The total volumes of transmission, dispatch and balancing services provided by the Company for the past three calendar years and the first six months of 2013 and 2014 are set out in the table below:

	2011	**2012**	**2013**	**6 months 2013**	**6 months 2014**

	2011	2012	2013	6 months 2013	6 months 2014
	Thousand kWh				
Transmission	41,042,196.7	43,487,096.9	41,055,346.1	21,495,857.1	18,657,253.3
Dispatch	80,812,246.4	83,511,655.4	83,863,376.9	21,495,857.1	42,254,783.2
Balancing(1)	145,886,823.4	152,908,894.6	153,521,393.8	76,814,837.4	79,383,257.8

(1): Includes both domestic and international balancing

Revenue generated by the Company in respect of its transmission, dispatch and balancing services provided for the past three calendar years and the first six months of 2013 and 2014 are set out in the table below:

	2011	2012	2013	6 months 2013	6 months 2014
KZT thousands					
Transmission	37,620,424	42,618,200	44,351,735	22,591,012	23,093,443
Dispatch	9,272,079	10,081,550	10,827,210	5,389,880	5,662,141
Balancing(1)	4,668,378	5,269,657	6,843,284	3,149,408	4,762,995

(1): Includes both domestic and international balancing

System Configuration

The UPS is divided into three zones:

- The North Zone consists of the following oblasts: Akmola, Aktyubinsk, Kostanay, Pavlodar, North Kazakhstan, East Kazakhstan, Karaganda and Astana city. Majority of generating capacities i.e., approximately 70% and electric networks connecting the NPG with network power grid of Russia are concentrated here. The zone is power excessive, the power plant generation covers deficits of the south regions of the Republic of Kazakhstan and provides electricity transmission to Russia.

  In 2013 the electric power generation in the North Zone amounted to 71,916.4 million kWh, while the demand for power amounted to 60,785.9 million kWh. As compared to 2012, there has been an increase of 1.3% in the power generation and a decrease of 2.8% in power consumption. As of June 1, 2014, the power generation was 30,809.2 million kWh and power demand 25,875.0 million kWh. As compared to the time period of equal length in 2013, there has been a decrease of 0.7% in power generation and of 1.6% in power consumption.

- The South Zone consists of the following oblasts: Almaty, Zhambyl, Kyzylorda, South Kazakhstan Regions, Almaty city and Baikonur region. This zone is interconnected with Kyrgyzstan and Uzbekistan through the common network, with the transmission capacity of up to 8-9 billion kWh. Due to a lack of own available fuel and power resources and, accordingly, generating capacities, the power balance of the South Zone incurs a deficit. Thus, in 2013 the demand for power in the South Zone amounted to 18,622.6 million kWh, while the generation amounted to 9,915.3 million kWh. As compared to 2012, there has been an increase of 4.5% in the power generation and a decrease of 2% in power consumption. The shortage was covered by energy transmission from the North of Kazakhstan. The net energy transfer to the power systems of the Central Asia amounted to 31.3 million kWh.

As of June 1, 2014, the power generation was 4,502.2 million kWh and power demand 8,353.8 million kWh. As compared to the time period of equal length in 2013, there has been a decrease of 0.7% in power generation and an increase of 4.2% in power consumption.

- The West Zone consists of the following oblasts: Atyrau, West Kazakhstan and Mangystau. This zone has no connections with the South and North Zones within the territory of the Republic of Kazakhstan. West-Kazakhstan, Atyrau and Mangistau Oblasts are connected with each other by extended single-circuit transit (approximately 1,400 km) of 220 kV. Atyrau substation is connected to Astrakhan substation in Russia via 110 kV transmission line. West-Kazakhstan Oblast has connections with the power system of Mid-Volga region (Russia) via three 220 kV transmission lines.

  In 2013, power generation in the West Zone was 10,141 million kWh, while consumption amounted to 10,232.3 million kWh. As compared to 2012, there has been an increase of 3.6% in the power generation and an increase of 3.5% in power consumption. The shortage was covered by import from the power system of Russia. As of June 1, 2014, the power generation amounted to 4,563.7 million kWh and power demand amounted to 4,607.4 million kWh. As compared to the time period of equal length in 2013, there has been an increase of 7.9% in power generation and an increase of 8% in power consumption.

Most of the NPG facilities were constructed during the period when Kazakhstan was part of the former Soviet Union, before 1991. The principal high voltage transmission line of 1,150 kV runs by the route of Ural-Kazakhstan-Siberia. This transmission line is currently under voltage 500kV. There are now two transits connecting the North Zone and the South Zone and KEGOC's investment program includes construction of a third (see "*Constructing and Expanding the Grid*", below). The Aktiubinsk Oblast is connected to the UPS through a 486.664 km 500 kV transmission line constructed by JSC Batys Transit. Currently, the West Zone has no connection with the UPS.

KEGOC participates actively in the shaping of a common electricity market in the CIS region and among the members of the EurAsEC, including developing tariff policies, within the framework of intergovernmental agreements (see "*Regulatory Framework*").

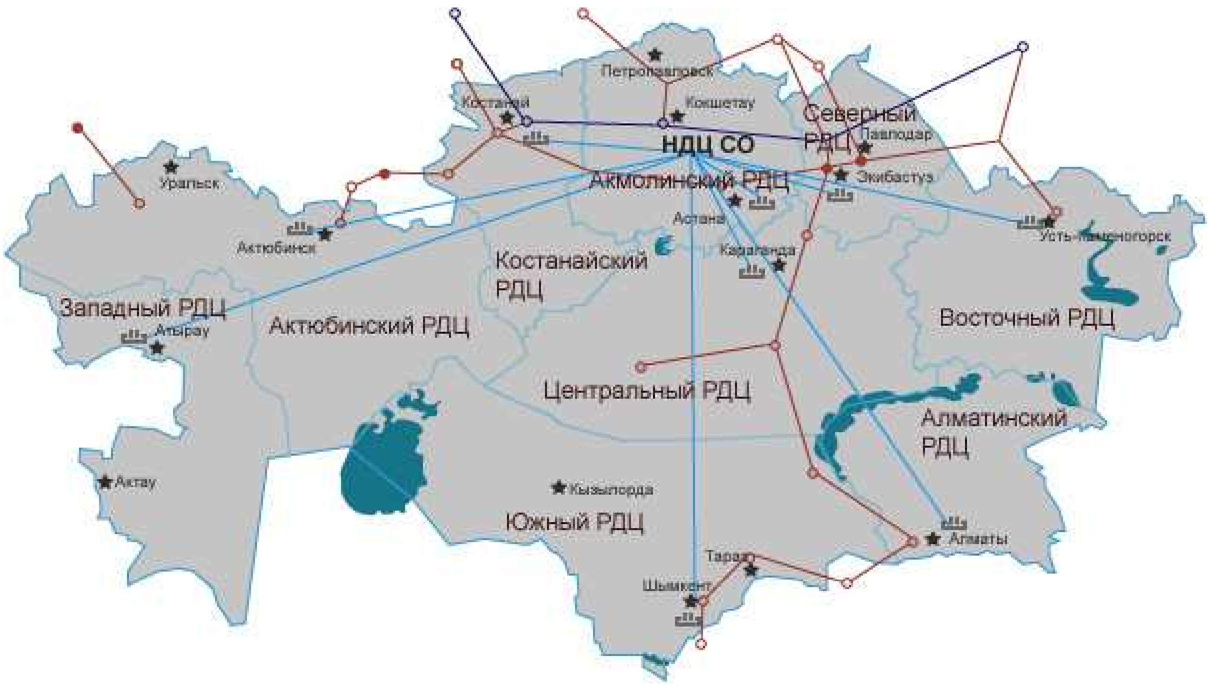
On June 17, 1999 the Governments of the Republic of Kazakhstan, Kyrgyz Republic, Republic of Tajikistan and Republic of Uzbekistan entered into an agreement on synchronized operation of the Central Asian grid. This agreement regulates the terms of the synchronized operation of power systems, including the principle of self-balancing based on the electricity capacity and electric power of each power system subject to signed contracts.

As part of the synchronized operation of the NPG and integrated power system of Central Asia, KEGOC, being the Kazakhstan System Operator:

- purchases power capacity services from National Power Grid Kyrgyzstan JSC to settle imbalances in electric power generation and consumption in the Southern zone of Kazakhstan by calling in reserve capacity or unloading working power-generating units in Kyrgyzstan; and
- sells unscheduled electricity called by Uzbekenergo SJSC and regulates capacity of the Uzbekistan electric power system to decrease the risks of unsanctioned offtakes of electricity and capacity by Uzbekenergo SJSC from the UPS of Kazakhstan.

National Dispatch Center

Operational control over the NPG and the unified power grid, as a whole, is exercised by the National Dispatch Center ("**NDC**") and nine Regional Dispatch Centers ("**RDC's**"). In addition, Almaty has a reserve dispatch center capable of fulfilling the same functions as the chief dispatch center in Astana. The NDC performs round-the-clock operational dispatch management of the agreed operation of electric power plant and grids of the unified power grid of Kazakhstan. The NDC also regulates the operating regime of the electricity networks of the unified power grid of Kazakhstan and cross-border links with dispatch centers of neighboring states. The NDC is located at the KEGOC head office in Astana. Through the communications systems, the KEGOC NDC controls and manages the operations of each RDC.



On completion of the new KEGOC head office in Astana, KEGOC moved the NDC into the new building. At the end of May 2014, testing began of the NDC dispatch point in the new head office. Personnel were also duplicated at the new dispatch point.

The new control panel established at the new NDC consists of 36 video-projection cubes made by the Japanese firm Mitsubishi. The previous control panel consisted of only 18 cubes. Since the move to Astana in 2005, Kazakhstan's energy system has expanded substantially.

In light of existing projects for constructing new power facilities, the previous control panel required an increase in the number of cubes in order to satisfy current and future needs.

In addition, to enable complete visualization by the dispatcher of the generation-consumption regimes within Kazakhstan's unified power system and for control over permissible overflows of capacity and other necessary information for managing the Kazakhstan UPS, a regime control wall was installed, which will maximize the functionality of duty personnel once the balancing market is launched, since financial calculations will then be made in real time with respect to departures from the agreed energy supplies.

Branches of the Company

The Company has ten branches, including NDC (which is considered a branch of the Company) that provide transmission, dispatch management and balancing of consumption and generation within their respective geographic control areas. Each branch consists of three to four territorial power grids which are the branch's organization units.

Branches

Each branch consists of financial and operational units and is managed by a director, a chief engineer, and deputy directors for financial and general matters. The branches are responsible for the operations, maintenance and repair of their sections of the NPG. Where new facilities are to be constructed, some powers may be delegated to the branch by the head office in order to efficiently manage the works.

Any works to be undertaken are planned and budgeted at the branch level at first instance and then submitted to the head office for approval as part of the Company's annual budgeting process.

Akmolinsky MES Branch was founded in September 1997. Its property includes 4,230.874 km of 10-1,150 kV overhead transmission lines. The branch includes 10 substations with the voltage 220-1,150 kV with a total capacity of 8,196.6 MVA. It is the largest of the RDCs, employing approximately 590 people.

Aktyubinsky MES Branch was founded in October 1997. Its property includes 967,39 km of 10-500 kV overhead transmission lines. The branch includes 7 substations with the voltage 220-1150 kV with total capacity of 2,425.5 MVA.

Almatinsky MES Branch was founded in October 1997. Its property includes 3,220.516 km of 0.4-500 kV overhead transmission lines. The branch includes 11 substations with the voltage 35-500 kV with total capacity of 4,229.35 MVA.

Vostochny MES Branch was founded in January 1998. Its property includes 1,045.06 km of 0.4-500kV overhead transmission lines. The branch includes 5 substations with the voltage 220-500 kV with total capacity of 3,026.5 MVA.

Zapadny MES Branch was founded in July 1998. Its property includes 1,681.5 km of 6-220kV overhead transmission lines. The branch includes 5 substations with the voltage 220kV with total capacity of 950 MVA.

Sarbaisky MES Branch was founded in December 1997. Its property includes 2,443.525 km of 6-1150kV overhead transmission lines. The branch includes 8 substations with the voltage 220-1150kV with total capacity of 6,813.6 MVA.

Severnye MES Branch was founded in January 1998. Its property includes 3,377.831 km of 0.4-1150kV overhead transmission lines. The branch structure consists of 8 substations with the voltage 110-1150kV with total capacity of 3,520.6 MVA.

Tsentralny MES Branch was founded in October 1997. Its property includes 3,482.19 km of 10-500 kV overhead transmission lines. The branch includes 10 substations with the voltage 220-500 kV with total capacity of 3,733.1 MVA.

Yuzhny Branch was founded in February 2001. Its property includes 4,201.303 km of 220-500 kV overhead transmission lines. The branch includes 13 substations with the voltage 220-500 kV with total capacity of 3,459.8 MVA.

The Company also maintains a representative office in Almaty. For information about the management of the branches and representative office, see "*Directors and Management*".

Regional Dispatch Centers

RDC's are structural subdivisions of the Company's branches and exercise round-the-clock operational dispatch control of electricity generation, transmission and consumption regimes within the area of operational liability of a respective branch of the Company. A RDC is a regional operational dispatch center of the System Operator.

The primary goals of RDCs' activities are:

- managing electricity generation, transmission and consumption regimes in a region in accordance with the allocation of equipment based on a dispatch control method, agreements on sale and purchase, dispatching and transmission of electricity;

- ensuring the operation of the power grid and maintaining a regime for procuring the necessary quality of electricity in accordance with standard requirements;

- minimizing losses of electricity in the power grid managed and maintained by an RDC;

- the prevention, localization and liquidation of faults in electric power generation, transmission and distribution;

- procuring operational dispatch management in normal, emergency and post-emergency conditions; and

- planning and preparation of conditions for repair work on the primary equipment of power plants and power grids, systems of technology management, relay protection and automatic equipment.

KEGOC Tariffs

General Principles

The Government regulates the Company's activity, as well as the activity of other natural monopoly entities through:

- approval of a tariff or its threshold;
- approval of tariff estimates;
- approval of temporary reduction ratios;
- approval of specific procedures for generation of expenses;
- approval of procedures for separate accounting of income, expenses and assets involved in the provision of each type of regulated services (as well as goods and works), and in carrying out other permitted activities;
- conforming of accounting policy; and
- approval of temporary compensation tariffs.

Pursuant to the Natural Monopolies Law, the following services provided by KEGOC are considered natural monopoly services and fees for these services must be charged to customers based on tariffs as approved by the regulator:

- transmission of electric power through the NPG;
- technical dispatching; and
- balancing the generation and consumption of electric power.

The MNE is the state authority currently responsible for the regulation of natural monopoly entities including, among other things, approval of tariffs of natural monopoly entities. In August 2014, the ARNM was abolished and its functions were transferred to the MNE. With respect to applicable laws and regulations which were adopted prior to the transfer of authority to the MNE, the relevant regulator, in the context of the Natural Monopolies Law and other laws and regulations, shall mean the ARNM. All rules and decisions adopted by the ARNM remain fully applicable and enforceable unless abolished or discontinued in accordance with normal procedures.

Tariffs are an important part of the regulation and are of central importance to the Company's revenues and profitability. The Company calculates tariffs for the three regulated services listed above based on the technical regulations and guidance adopted by the ARNM and the MNE, as set out below, which determine the various components of the tariffs and then the Company proposes the tariffs to the regulator for approval. As part of the tariff approval procedure, the regulator must arrange for an experts' review of the tariffs and cost elements proposed by KEGOC. The experts and the regulator may disagree with the Company's projections; the regulator then has the authority to disallow those of the Company's costs which it and/or experts considered unreasonable based on the technical regulations and the guidance set out below which determine the various components of the tariff.

The Company's tariffs are set on the basis of a cost-plus model pursuant to which the Company uses its estimates of operational and financial costs and a fair return of its equity as the basis for setting tariffs in the relevant period of time. This allows the Company to establish tariffs at levels that enable the Company to cover justifiable costs, plus an acceptable level of "profit", in the amount set forth in tariff estimates, which must be approved by the regulator.

Tariff Calculation Methodology

Mechanism of Tariff Setting

Tariff Proposal Submission

The Company calculates the tariffs for use within the relevant tariff control period and applies to the regulator for approval of the tariffs and underlying tariff estimates and computations which support the tariff proposal (the "**Application**"). The Application must contain information on the various components of calculation of tariff and all other supporting information in accordance with the guidelines and orders by the ARNM and the MNE. The submitted Application is then reviewed by the regulator with input from experts (who can be independent experts or representatives of Government authorities or other natural monopolies or consumer groups) and consultations of the Company, as well as any input from consumers and other persons affected by the tariff. The regulator also conducts public hearings which can be attended by all interested parties. After consultation with experts and representatives of consumers, the regulator will determine the tariffs for the relevant tariff period. The Natural Monopolies Law also requires the regulator to inform KEGOC of its decision not less than 35 calendar days before the new tariffs become effective. Thus, in the event KEGOC disagrees with the established tariff, it may challenge the decision of the regulator in the appropriate court of competent jurisdiction in Kazakhstan. During any such dispute the prior tariff shall remain in effect unless otherwise determined by the MNE. When submitting an Application for tariff approval in connection with a regulated service, the Company must also provide the following to the MNE for its approval:

- calculation of the specified technical losses in volume and norms for consumption of raw materials, pursuant to the Rules on Approval of Specified Technical Losses, Technical and Technology Norms for Consumption of Raw Materials, Fuel and Energy by Natural Monopolies (ARNM Order No. 283-OD dated September 17, 2013);

- the Company's investment programs for the relevant tariff setting period, pursuant to the Rules for Approval of Investment Programs (Projects) of Natural Monopolies and its Adjustment, adopted by the Government of the Republic of Kazakhstan on April 24, 2013 No.394.;

- specific personnel number level, pursuant to the Rules on Approval of the Standard Number of Personnel of Natural Monopolies, except for Regional Electric Grid Company (approved by order of the Chairman of the ARNM dated March 3, 2014, No. 49-OD); and

- staff schedules for the forthcoming period and the maximum salaries of management pursuant to the Rules on Approval of Staff Schedules and Maximum Salaries of Administrative Management of Natural Monopolies with State Participation (approved by order of ARNM No. 226-OD dated August 27, 2007).

In addition, the following expenses of natural monopolies such as KEGOC must be approved by the MNE as well:

- annual expenses for maintenance and capital repairs, and other rehabilitation work that will not increase the asset costs of the natural monopoly entity; and
- expenses for career development training for administrative personnel relating to the entity's operational needs, pursuant to the Rules for Determining Permitted Expenses for Approval of Tariffs (Prices, Levy Rates) and Tariff Rates for Regulated Services (Goods, Works) of Natural Monopolies (ARNM Order No. 130-OD dated April 25, 2013).

Tariff Control Period

The Natural Monopolies Law used to allow the Company the option of electing one year tariff periods or multi-year tariff periods. The Company had previously sought tariff approvals on a one year basis. Beginning in 2013, the Company sought and obtained approval for a bi-annual (two-year) period, as then permitted under applicable law. The Natural Monopolies Law was amended in 2013 and 2014 and subsequently the Company will now be required to apply for multi-year tariff levels which may only be sought for a minimum five year period. When its current two year tariff period ends in 2015, the Company must apply for a five year tariff period in order to increase the predictability of its revenue.

Tariff Types

Historically, the Company has always applied for fixed tariffs within a tariff control period (usually an annual tariff period, though the Company is currently on a two-year tariff period which began in 2013 and ends in 2015).

In 2013, in anticipation of the People's IPO Program, the management of KEGOC decided to, instead of applying for annual tariffs, begin operating under "maximum tariff levels" which is now also required under the amended Natural Monopolies Law. The principles for calculation of the maximum tariff levels are similar to the calculation of the annual tariffs except that the maximum tariff levels are approved for several subsequent years.

The maximum tariffs enable the Company to plan its capabilities for longer periods and shareholders to receive more comprehensive information about the Company.

Under the existing rules concerning setting the maximum tariffs on the regulated services of natural monopolies, there is:

- a risk that the MNE refuses to adjust the approved tariff estimates due to the absence of clear procedure; and
- a risk of changes to the tariff at the initiative of the MNE.

Thus, the Company may not be able to increase its tariffs expeditiously in response to events that may require an increase of the tariffs, unless these are events or circumstances which merit an interim adjustment, such as a force majeure event. See section Risk Factors "*The long-term tariff structure may not provide the Company with a sufficient return if the actual volume of services and their cost significantly deviate from the projected volume and cost*."

Tariff Adjustment

The tariffs or maximum levels of tariffs approved by the MNE will generally remain in force throughout the relevant tariff control period.

In certain exceptional circumstances the regulator may adjust the approved tariff within an ongoing tariff control period and such adjustment would constitute a so-called "exceptional measure" taken by the regulator in response to certain events which are beyond the Company's control.

The first ground for interim tariff adjustment is an increase in the costs associated with:

- any increase in the consumption of raw materials, energy and fuel attributable to one of the following three events:
    - force majeure events including natural or industrial disasters (aside from natural or industrial disasters it is unclear under relevant laws and regulations which other events or circumstances may constitute a force majeure event);
    - deviation from the actual volumes of rendered services from those set forth in the approved tariff determination (it is unclear what the threshold of deviation must be); or
    - measures taken to prevent accidents or a breach of technical standards or to comply with mandatory provisions from Government authorities' orders).
- an increase in electric power prices; and/or
- natural or industrial disasters.

A second set of circumstances beyond the control of the Company which may merit a tariff adjustment are a need to (i) safeguard human life or health, property, or the environment or (ii) compensate the Company for any increase in taxation.

The relevant legislation does not provide further details regarding the above grounds which may merit a tariff adjustment, and consequently, the regulator has a certain level of discretion in construing the extent, criteria and parameters of the ground(s), as well as the practical application of such tariff adjustments.

On the basis of one or more of the above grounds only, the Company can file an application for interim adjustment of the tariff or maximum levels of tariffs to the MNE. The application must be backed-up with supporting evidence. Any modified tariff or maximum levels of tariffs, if so approved by the MNE, comes into effect once approved by the MNE and does not have any retroactive effect.

Determination of Tariffs

Legal Framework

Tariffs for the regulated services shall be determined on the basis of Kazakhstan laws and regulations, as well as methodologies for the calculation of tariffs and other rules adopted by the ARNM, in particular:

- Methodology for calculation of tariffs and maximum tariff levels for the services of electric power transmission through the NPG (ARNM Order No. 372-OD dated December 3, 2013);

- Methodology for calculation of tariffs for dispatching services (ARNM Order No. 372-OD dated 26 August 2005);

- Methodology for calculation of tariffs for the balancing services (ARNM Order No. 372-OD dated December 3, 2013);

- Special Procedure for Approval of Costs Used In Approval of Tariffs for the Regulated Services (Goods, Work) of Natural Monopoly Entities approved by ARNM Order No. 130-OD dated 25 April 2013; and

- Instruction on Calculation of the Profit Rate (Net Income) on Regulated Assets of Natural Monopolies in the Water, Sewage and Energy Sectors (ARNM Order No. 17-OD dated January 27, 2003.

General Formula for Tariff Determination

Tariff = (Justified costs + Permissible profit):Volume

The volume is determined based on the anticipated volume for each of the three regulated services provided by KEGOC in accordance with the methodological instructions established by the regulator.

Justified costs

Justified costs are deemed to be those necessary for the performance of the Company's operations and are to be recovered via the tariffs for the regulated services (i.e., transmission, dispatching, balancing). The following costs have been approved by the MNE as "justified costs" for inclusion in the tariffs: outlays on payroll, technical maintenance, IT, compliance with nature protection legislation (not including fines for failing to observe it), loan interest, overhauls and other repair work that does not increase the value of KEGOC's assets, fixed asset depreciation (such as buildings, structures, power lines, substations and vehicles), intangible assets used in providing regulated services and on any further training (provided these are justified and documented). Capital investments (i.e., capital outlays that increase the base value of the respective KEGOC assets) are included by the MNE among justified outlays only upon completion of the relevant investment project. With respect to any portion of capital costs financed out of borrowed funds, the relevant loan commission will also be considered as justified costs.

The Company has the ability to introduce and provide new services as part of its regulated services during the relevant tariff control period and may seek a new tariff to recover costs related to these new services. As a result, the Company must submit an application to the MNE in accordance with the relevant procedures and methodologies described below. Any costs incurred in developing or preparing new services can only be recovered if they are included in an application for a new tariff, and such costs cannot be recovered retro-actively.

Under the Special Procedure for Approval of Costs Used In Approval of Tariffs, the following costs do not constitute "justified costs":

- employee costs not approved by the MNE;
- excessive technical and commercial losses, damage and shortage of inventory and stocks in warehouses, other overhead expenses and losses;
- depreciation charges on fixed assets that are not used when rendering and providing regulated services;
- rent payments for the use of fixed assets (except general business fixed assets) received for trust management, property rent or lease;
- payments for excessive emissions (discharges) of pollutants;
- legal costs;
- bad debts;
- fines, penalties, forfeitures and other types of sanctions for the breach of business contracts;
- fines and penalties for concealing (underreporting) income;
- losses from stealing and defects;
- bonuses and other types of remuneration for work; and
- payments to unions for purposes defined by the collective bargaining agreement.

In a multi-year tariff scheme, the Company will need to seek approval of justified costs upfront (i.e., at the beginning of the relevant tariff control period) which will cover the entire relevant tariff control period. The Company is expected to manage new costs and/or costs variations which may occur during this period. This may lead to a level of uncertainty for the Company, especially since the circumstances under which tariffs may be reviewed in relation to cost changes as a result of force majeure events or other exceptional circumstances as described above are limited. As the Company has only recently sought multi-year tariffs, there is not an established practice in its working relationship with the MNE concerning the application and management of such multi-annual tariffs.

Permissible profit

The permissible profit level is determined in accordance with the Instructions on Calculation of the Profit Rate (Net Income) on Regulated Assets of Natural Monopolies in the Water, Sewage and Energy Sectors Order No. 17-OD dated January 27, 2003, as amended February 27, 2013.

The permissible profit level (i.e., net income) is determined by multiplying the profit rate by the size of the regulated asset base using the following formula:

$$\mathbf{PPL = RAB \times PR}$$

Where:

PPL – permissible profit level (Tenge),

RAB – regulated asset base (Tenge),

PR – profit rate (%).

Each component for determining the permissible profit level ("**PPL**") must be approved by the MNE.

The regulated asset base ("**RAB**") for a transmission system owned, controlled or operated by the Company is the value of those assets that are used by the Company to provide prescribed transmission, balancing and dispatching services, but only to the extent that they are used to provide such services. The regulated asset base is determined by multiplying the value of the Company's assets by a so-called asset utilization ratio.

Value of assets

The value of assets is determined based on the book value of fixed assets (excluding working capital and construction in progress) and subject to any revaluation by an independent appraiser which can be carried out, at the discretion of the Company, subject to the approval of the MNE. The appraiser may value the assets based on one or more of the following methodologies: (i) replacement cost; (ii) economic value (based on the revenue generating capacity of the relevant asset) and (iii) fair market value (based on comparison of similar assets in the market).

Furthermore, in September 2012 amendments were made to the foregoing general tariff regime in connection with the non-specific method of determining RAB for companies whose offerings have been approved by the Government under the People's IPO program. Under these amendments, the RAB of the companies which are part of the People's IPO Program shall be determined based on the cost of acquisition of the respective assets, plus any actual annual investments, as well as repair costs and other types of work for the entire period the relevant assets are held (which increased the original cost of such assets), minus the actual depreciation charges accrued over the period of holding these assets. In 2013, the Management Board of the ARNM approved Resolution No. 15 of April 16, 2013 "On approval of re-evaluation of fixed assets and the time schedule for allocation of the fixed asset re-evaluation results in tariffs for the regulated services of joint stock company Kazakhstan electricity grid operating company KEGOC" as part of People's IPO Program by which the ARNM approved the revaluation of KEGOC's assets and its implementation schedule over five years, as proposed by the Company. As a result of the revaluation of the Company's assets in 2013, its RAB increased by KZT 199 billion.

The revalued assets will be incorporated in the tariffs according to the following transitory schedule:

Year	*2013*	*2014*	*2015*	*2016*	*2017*
Percentage of gradual increase in assets as a result of the revaluation of fixed assets incorporated in the RAB	*20%*	*40%*	*60%*	*80%*	*100%*

Schedule for incorporating the 2013 revaluation of fixed assets with KZT 199 billion in the tariffs for the regulated services of KEGOC as part of the People's IPO Program

Furthermore, as of November 1, 2013, the Company altered its valuation method for fixed assets under the "historical cost" method to the "revalued asset amount" method, as the previously employed valuation method based on historical cost significantly underestimated the fair value of the facilities of the Kazakhstan National Power Grid and expenses related to their maintenance.

In 2014, the Company carried out a subsequent additional revaluation due to the depreciation of Tenge against foreign currencies as also required under the International Financial Reporting Standards ("**IFRS**"). Consequently, the value of the Company's assets on its balance sheet are higher than the asset values currently used for tariff setting purposes. The Company expects to include the results of that revaluation in its RAB for future tariff control periods.

Finally, the Company expects to conduct revaluations from time to time as it reviews and considers the value and use of such assets in its business (e.g., when providing new services in relation to energy capacity or balancing markets).

RAB utilization coefficient

The RAB utilisation coefficient is determined as the ratio of the actual volume of services (in consideration of losses during normal regime operation) to technological capacity. Historically, the RAB utilization coefficient applied by the regulator has been 0.69. In accordance with the aforementioned application of a special method for calculating the RAB for companies whose shares are placed under the People's IPO Program, application of this coefficient is not envisaged and is applied as 1.

Profit rate

The profit rate ("**PR**") is determined based on a weighted average cost of capital. The formula for its calculation includes an equity risk premium which is based on the industry-specific Beta ratio reflecting the systemic risk. At the present Beta ratio generally applicable for the energy companies is 0.89. However, the companies which are part of the People's IPO Program can apply a Beta ratio of 1.3. As a result of such permissible increase in the applicable Beta ratio, the Company's permissible profits will increase from 12.2% to 14.98% post-tax once the Government approves the Offering under the People's IPO Program.

The regulations also establish that the cost of capital return on equity shall never be less than the rate of return on borrowed funds.

Following the ARNM's amendment to the regulations establishing RAB and PR, the ARNM approved two sets of new tariffs of the Company for transmission, dispatch and balancing services. The first set of tariffs was approved for the period from November 1, 2014 until the date when the Offering under the People's IPO Program is approved by the Government and reflects the increase of RAB (i.e., when calculating RAB the result of revaluation of fixed assets and the ratio of assets utilization equal to 0.69 is used). The second set of tariffs will become effective from the date the Offering is approved by the Government through October 31, 2015 and will reflect the increase of RAB (due to the cancellation of assets utilization ratio) and the increase of the PR (due to the increase of Beta ratio).

Specific Tariff Calculation Method for the Regulated Services of Transmission, Dispatching and Balancing

The basic formula for the calculation of tariffs is described above. However, in order to establish the tariff for each of its regulated services, the Company must allocate its overall costs and assets among the three types of services. For this purpose, and in accordance with the requirements of Kazakhstan law, the Company has developed and approved methodology for separate accounting for income, expenses and committed assets for each type of the regulated services and other activities. The methodology was approved by the Management Board of the Company (minutes of the meeting No. 8 dated 1 July 2009) and approved by the ARNM.

Transmission tariffs

Prior to 2010, the Company charged its consumers for electricity transmission services based on multiple zonal tariffs. In 2010, the ARNM changed the methodology for calculation of the zonal tariffs for electricity transmission through the NPG to a single network-wide tariff. Following the introduction of the single tariff for electricity transmission services through the NPG, zonal tariffs were canceled as of August 1, 2010. The introduction of the single tariff improved the Company's operations, provided equal access to the NPG to all of Company's consumers and created transparency in pricing. The current transmission tariff does not cover energy capacity services contemplated by the energy capacity market. The Company expects to seek tariffs for this service as part of its next application in connection with setting tariffs.

The current methodology for the calculation of tariffs or the maximum levels of tariffs permissible for the Company's transmission services through the NPG was approved by ARNM Order No. 372-OD dated December 3, 2013 and uses the following formula:

$$T = \frac{Z + P}{W_{sum}} \quad \text{KZT per kW/hour}$$

Where:

T – the tariff or maximum tariff

Z – economically feasible or justifiable costs of the system operator; and

P – the permissible level of return

W_{sum} is the planned annual volume of transmission services supported by the agreements entered by the monopoly entity with the consumers, letters of intent and calculations based on the need to provide services to all consumers and avoidance of the reduction of the volumes of services in order to maintain higher tariffs.

The economically justifiable costs of the System Operator shall be determined based on the Special Procedure adopted by ARNM Order No. 130-OD dated April 25, 2013.

Technical dispatching tariff

Scheduling and dispatching are complex interrelated processes that are essential to the operation of the power system. Scheduling is the assignment of generation to meet anticipated demand, while dispatching relates to the real-time control of all generation and transmission resources used and/or available to meet demand.

In 2005 the ARNM adopted a methodology for calculating tariffs for technical dispatching.

According to such methodology, the tariff for the services of technical dispatching (Тд) is determined according to the following formula:

$$T_{\text{тд}} = \frac{Z_{\text{тд}} + P}{W_{\text{отп.}} + W_{\text{имп}}}, \qquad \text{тенге/кВт.ч} \qquad (1)$$

where:

Z тд. – economically feasible or justifiable costs of the System Operator for the rendering of technical dispatching;

P — acceptable (i.e., permissible) profit level for regulated base of operational assets necessary for the effective rendering of technical dispatching service;

Wотп – total annual volume of electric energy (kWh) released into the power line grid by energy producing organizations of Kazakhstan through all classes of voltage lines (regardless of who the grid lines belong to), as required under Kazakhstan law;

Wимп - total volume of electric energy (kWh) obtained at the border of the Republic of Kazakhstan confirmed by contracts, protocols or the actual volume for four preceding quarters or for preceding calendar year.

Balancing services tariff

Balancing refers to the procurement of balancing services (i.e., capacity) and activation of balancing energy by the Company to balance supply and demand through the balancing market (see below). This is related to all actions and processes, through which the Company continuously ensures the maintenance of the system integrity and frequency within a predefined stability range. Balancing imposes costs, and those relying on the balancing services must pay these costs through tariffs.

The tariff for rendering balancing services in connection with production and consumption of electric power includes all costs related to rendering this service in accordance with the method of separate calculation of income, costs and used assets. In addition, the tariff for this service includes costs for the purchase of services for regulating the capacity as well as net losses on operations of sale and purchase of electricity to compensate the imbalances.

In 2009 the ARNM developed and approved the methodology for calculating tariffs for the balancing of electric power production and consumption, which provides for the determination of the tariff in the simulation mode of operation of the balancing market. At present the Company continues to operate its balancing market in such a simulation regime. As a result the balancing market does not function in real time between wholesale market participants as part of a market clearing process to balance demand and supply, but instead physical demand and supply of electricity is balanced by the Company on the basis of bilateral transactions it has with producers (e.g., load assets) and consumers. The simulation regime also means that there is no financial settlement of payables and receivables arising from participation in the balancing mechanism and settlement. Any imbalance in costs and related balancing services provided for by the Company are recouped through charging balancing tariffs to the market participant responsible for the imbalance between total physical injections, import and purchases on the one hand and total offtake, export and sales on the other hand.

In November 2009 the Governments of Kazakhstan and the Russian Federation signed an agreement establishing measures to ensure the parallel operation of the unified energy systems of Kazakhstan and the Russian Federation beginning January 1, 2010. As a result of these agreements, KEGOC, as part of its balancing services, purchases and sells electricity to compensate for the hourly volume of inter-state net power flow deviations. In conjunction with this process of integration and adjustment, the methodology for calculating balancing tariffs was amended to include the following in the calculation of tariffs: (i) the costs of purchasing electric power to cover imbalance and (ii) the revenues from the sale of such electric power.

According to the current methodology, the tariff for consumers is determined by the following formula:

$$T_{БАЛ} = \frac{Z_{БАЛ} + P - Д_{ПР}}{W_{ПГ} + W_{ПП}} \quad \text{(Tenge per kWh)}$$

where:

$T_{БАЛ}$ – a tariff for the balancing of electric power generation and consumption (tenge per kWh);

$Z_{БАЛ}$ - economically feasible or justifiable costs of the System Operator for provision of services relating to the balancing of generation and consumption of electric power (tenge).

In the simulation mode of the balancing market, instead of expenses for maintaining the reserves of capacity KEGOC uses expenses for regulation of capacity and expenses for power purchases of electric power in order to compensate the actual hourly deviations of interstate net power flow from the planned one.

P – acceptable (i.e. permissible) profit level for the regulated base of operational assets necessary for the effective rendering of balancing services calculated in accordance with Kazakhstan law, (Tenge);

$W_{ПГ}$ – predictable total volume of electric power released from lines of energy generation companies into electric power wholesale and retail markets (kWh);

$W_{ПП}$ - predictable total volume of electric power consumed on electric power wholesale and retail markets, kWh;

$Д_{ПР}$ – electric power revenues from the sale of power to compensate for deviation of the actual hourly interstate net power flows from the planned ones.

Currently Approved Tariffs

Based on its application for approval of tariffs and tariff estimates for the regulated services of the Company filed in 2013, by order No. 285-OD dated September 17, 2013 and order No.105-OD dated May 16, 2014, the ARNM approved the following tariffs for KEGOC:

For transmission

- from November 1, 2013 through October 31, 2014 - KZT 1.305 kV/h (exclusive of VAT);
- from November 1, 2014 through October 31, 2015 – KZT 1.469 kV/h (exclusive of VAT); and
- from the date when the Offering is approved through October 31, 2015 - 1.954 KZT/kW/h (exclusive of VAT).

For technical dispatching services:

- from November 1, 2013 through October 31, 2014 - 0.134 kV/h (exclusive of VAT);
- from November 1, 2014 through October 31, 2015 - 0.148 kV/h (exclusive of VAT); and
- from the date when the Offering is approved through October 31, 2015 - 0.182 KZT/kW/h (exclusive of VAT) for technical dispatching services.

For balancing services

- from November 1, 2013 through October 31, 2014 - 0.060 kV/h (exclusive of VAT);
- from November 1, 2014 through October 31, 2015 - 0.068 kV/h (exclusive of VAT); and
- from the date when the Offering is approved through October 31 2015 - 0,083KZT/kW/h (exclusive of VAT) for balancing services.

Contracts, Customers and Suppliers

Contracts

The Company's relations with consumers of system services are governed by the following standard form contracts approved by the Government (Resolution No. 1194 dated November 28, 2003):

- model contract for Electricity Transmission Services via Inter-regional Networks; and
- model contract for Electricity Supply Technical Dispatch and Consumption Services.

In 2011, there were 513 contracts to which the Company was a party for the provision of system services to consumers and for the purchase of electricity to compensate for technical losses incurred during the transmission of electricity through the NPG. In 2012 there were 524 such contracts and in 2013, there were 494 such contracts.

The Company's branches contract directly with local distribution companies and consumers up to a specified capacity value.

Customers

The consumers of the services the Company provides are the electric power generating companies of Kazakhstan, electric power suppliers, regional network companies, large electricity consumers, and other participants in the wholesale electricity market.

For the year ended December 31, 2013, the Company's top ten customers accounted for 54.7% of the Company's total revenue. In 2013, INTER RAO UES JSC (Russian Federation) accounted for 12.2% of the Company's revenue. Aside from INTER RAO UES JSC, no other customer of the Company accounted for more than 10% of the Company's total revenue.

Suppliers

The main item that the Company purchases is electricity. The Company purchases electricity to compensate for technical losses in transmission and for the Company's own use. In 2013 the Company purchased 4,086,646,48 thousand kWh which amounted to KZT 29,317,508,29 thousand. Key suppliers of electricity for compensation of technical losses in transmission and economic needs of branches of the Company are: JSC Ekibastuzskaya GRES-2 Station, Ekibastuzskaya GRES-1 LLP, MAEK-Kazatomprom LLP, and JSC Elektricheskiye Stantsii.

KEGOC also purchases electricity from INTER RAO UES JSC to compensate for technological losses in case of electricity shortages in the UPS.

Volumes of electricity for compensation of losses and own use are the following:

	2010	2011	2012	2013	2014 (6 months)
	Volumes of electricity on losses, in thousands of kWh				
JSC Ekibastuz GRES-2	1,234,023.33	1,538,279.91	1,712,941.06	2,098,771.59	752,797.67
Ekibastuz GRES-1 LLP	75,877.36	91,969.28	264,000.00	0	320,479.76
MAEK-KazAtomProm LLP	76,163.07	88,928.70	79,939.90	88,214.28	36,674.15
Electricheshiye Stansii OSSC	540,000.00	300,000.00	0	0	0
INTER RAO UES JSC	25,272.46	544,792.30	601,726.67	187,141.60	162,682.73
INTER RAO Central Asia	6862.82	14,463.10	17,584.57	0	0

For the year ended December 31, 2013, the Company's top ten suppliers (except for electricity suppliers) accounted for 46.81% of the Company's total amount spent for procurement of goods and services. TPEP LLP (services on strengthening of the intersystem link between Pavlodar power region and the UPS) accounted for 19.54% of the Company's total amount spent on the procurement of goods and services. No other customer of the Company accounted for more than 10% of the Company's total amount spent for procurement of goods and services.

Assets

National Power Grid

The Company's principal asset is the NPG, which consists of 24,533.033 kilometers of 35-1,150 kV high voltage transmission lines and 77 electrical substations with an installed transformer capacity of 36,355.05 MVA. The 1,150 kV transmission lines are operated with 500 kV and the 330 kV lines are operated with 220 kV (99%) and 110 kV. These provide cross-border power flows, deliver electric power from power plants, and provide the links between regional power grid companies and bulk consumers.

Formation of the NPG began in 1969 by linking generators and transmission lines in northern and southern Kazakhstan. Prior to this, the southern part of Kazakhstan's grid had been managed from Tashkent. In the 1980s Kazakhstan was linked into a single network which created the NPG in a precursor to its present form.

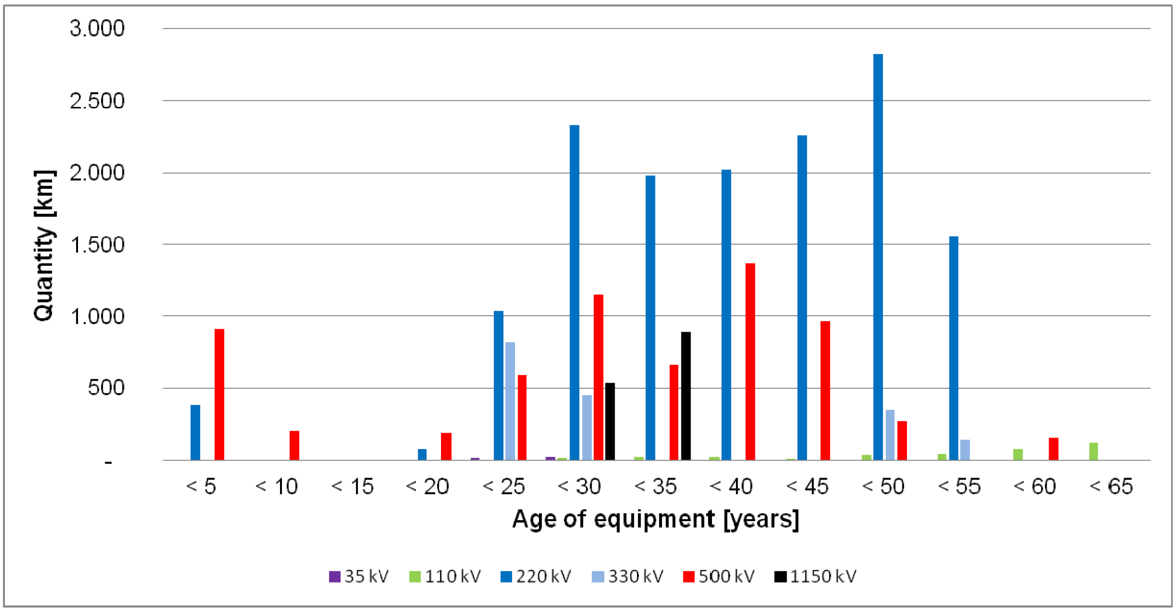
Information about the deterioration of the NPG's equipment is shown in the table set forth below:

Type of equipment	Average level of wear and tear in % as of January 1, 2014								
	Akmolinskiye MES	Aktyubinskiye MES	Almatinskiye MES	Vostochnye MES	Zapadnye MES	Sarbaiskiye MES	Severnye MES	Tsentralnye MES	Yuzhnye MES
Power transformers	66,12	56,42	76,00	87,76	98,46	78,38	89,52	78,20	87,08
Shunt reactors	87,00	28,00	52,14		89,23	77,50	81,23	70,00	60,40
Circuit breakers	42,49	48,42	36,10	37,27	84,59	38,50	27,35	47,46	67,80
Disconnectors	52,84	53,54	49,75	52,16	84,67	49,57	39,30	59,83	73,81
Current transformers	47,13	47,60	38,15	17,54	83,35	31,88	26,86	51,84	61,26
Voltage transformers	39,08	40,04	37,47	32,04	85,36	27,96	26,82	42,10	69,94
Overvoltage limiters	38,81	35,44	33,45	46,12	34,30	31,44	38,65	34,58	60,54

On September 19, 2014, the Fund contributed the “Akzhar” 220 kV substation and the equipment needed for the extension of the “Tsentralnaya” 220 kV substation to the Company. As the equipment installed is new and the substation was built in accordance with the technical requirements provided by KEGOC, the addition of these assets to the Company’s portfolio will likely have a positive effect on the average levels of wear and tear of the Company's equipment.

Overhead Transmission Lines

The structure and age of the Company's overhead transmission lines as per June 1, 2014 is shown in the table below. The lines of 0.4 kV, 6 kV and 10 kV have not been taken into account.



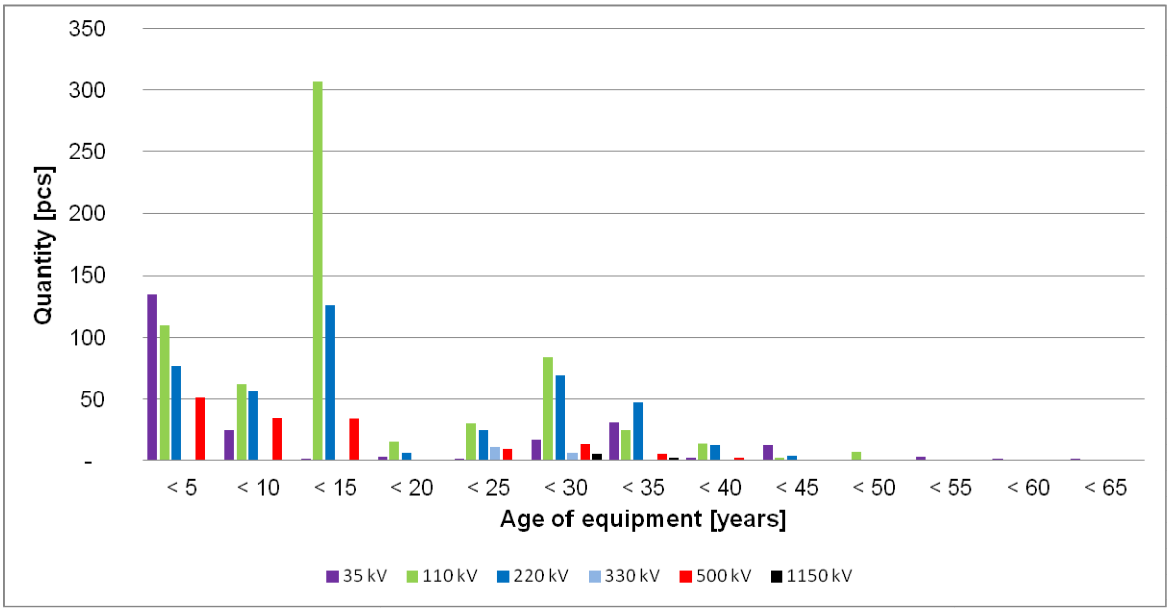
Overhead transmission structure and age (June 1, 2014)

Substations and Switchgear

As of June 1, 2014, KEGOC owned 76 electricity substations (35–1,150 kV) with an aggregate capacity of installed transformers equal to 35,875.05 MVA.

The switchgears used are primarily an outdoor type. The schemes for the outdoor switchgears of the KEGOC substations conform to the model ones and provide for the required operating reliability, flexibility, clarity and convenience of operation, the possibility and safety of conducting repairs on and operating individual elements of the system.

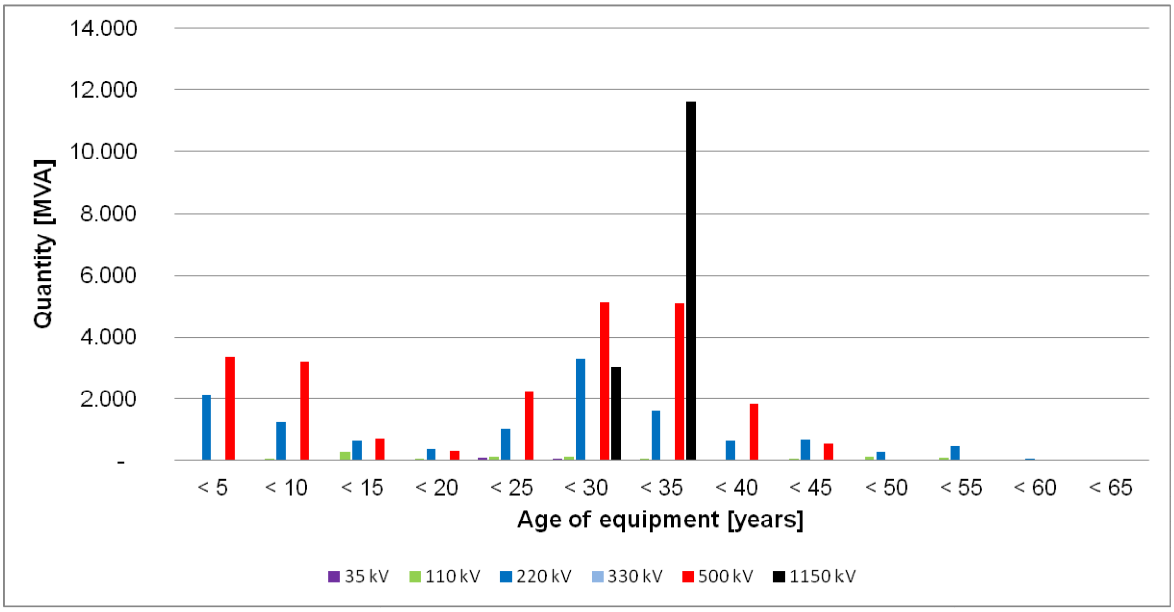
The structure and age of the switchgear as of June 1, 2014 are presented below. The age of the equipment is calculated from the year of manufacture.



Switchgear structure and age (June 1, 2014)

Transformers and Reactors

The structure and age of the transformers and reactors as of June 1, 2014 are presented below. The age of the equipment is calculated from the year of manufacture.



Structure and age of transformers and reactors (June 1, 2014)

Analysis of existing power lines, switchgear, power transformers and reactors testifies to the need for extensive modernization of KEGOC's fixed assets from the near future up to 2025. For the purpose of improving the state of its assets, KEGOC launched implementation of a stage-by-stage modernization program. Phase 1 of the "Modernization of the NPG" project was geared to reconstruction and replacement of high-voltage equipment at substations, protection relay and automation devices, as well as communications systems, and was completed in 2010. In addition, within the scope of Phase 1 of the "Modernization of the NPG" project, KEGOC installed a new SCADA/EMS hardware and software system for operational dispatch control. The second project is currently being implemented and will be completed in 2016. Once complete, a significant proportion of the substation equipment will have been modernized. The third project is planned for 2013–2023 and is intended for reconstruction of existing overhead power lines.

Investment Program

The KEGOC investment program includes 16 projects, comprised of three projects which the Company completed prior to the date of this Investment Memorandum, five projects which are in progress and eight future projects, all of which are described below in more detail.

Major new projects are, in the main, implemented under turnkey contracts for a fixed price, meaning that KEGOC transfers all the risks associated with a change in unit prices for steel and a change in exchange rates on to its contractors. KEGOC has approved a detailed procedure for monitoring observance of time schedules and payments by contractors. Construction works are supervised on a weekly basis by the staff of the relevant branch and by the Department for Capital Construction (DCC) at the head office in Astana.

The Government has charged KEGOC with connecting a number of new generating capacities. Other facilities are connected by the owner of the generating capacity in accordance with KEGOC's technical conditions. KEGOC's outlays on construction and strengthening of networks are compensated for through the tariff.

Recently Completed Projects

The Company is continually investing in and upgrading the NPG in order to maintain the reliable functioning of the UPS and accommodate the electricity needs of Kazakhstan. In recent years the Company has completed three key strategic projects. These are described briefly below.

National Power Grid Modernization Project, Phase I (2000-2010)

The purpose of this project was to enhance the reliability of supply and quality standards by upgrading substations, dispatch offices and control systems, promote competition by creating an environment ensuring sustainable operation of the wholesale electricity market, provide better access to 29 regional transmission networks, cut operating costs and expand the range of services provided by the Company.

The project consisted of:

- modernization of high voltage equipment at 43 substations;
- replacement of relay protection and automation of substations;
- modernization of dispatch control – software and hardware system for operation and dispatch control SCADA/EMS was installed in all nine RDCs;
- major telecommunications upgrade;
- introduction of commercial accounting for electricity;
- introduction of an electricity trade system;
- appointment of international advisors to improve procurement and project management processes and develop an electricity grid code and spot market rules and regulations.

All components of this KZT 43.8 billion project were successfully completed by the end of 2010. Testing and startup of relay protection and automation equipment on 42 of 67 substations was completed in 2009. The remaining 25 substations were tested and put into operation in 2010.

The project was financed by credit lines of U.S. $185 million from International Bank for Reconstruction and Development (IBRD) (Washington, USA) and the European Bank for Reconstruction and Development (EBRD) (London, UK), as well as the Company's own funds.

Construction of 500 kV Second Transmission Line of Kazakhstan North–South Transit (2004-2009)

The goal of the project is to provide electricity to the energy deficient southern regions of Kazakhstan by increasing electricity transmission capacity of the North-South transit to 7-7.5 billion kWh per year, to improve operational reliability and security of the NPG and to ensure parallel operation of the integrated power systems of Russia, Kazakhstan and Central Asia.

The length of the total extension of the North-South electricity transmission lines is 1,097 km. The following high voltage transmission lines of 500 kW were constructed in connection with the Project: UKGRES – Shu, Ekibastuz – Agadyr, Agadyr – UKGRES. In addition the 500 kW Almaty, 500kW Shu, 500kW UKGRES, 500 kW Agadyr and 1150 kW Ekibastuzskaya substations were constructed, extended and/or reconstructed. Works on construction and commissioning of each overhead transmission line were completed in 2008-2009. Works on construction, extension and reconstruction of each substation were completed in 2008-2009.

The cost of the project was KZT 43.7 billion. The project was financed by loans from the IBRD, the EBRD, and the DBK, as well as the Company's own funds.

Moinak HPP Electricity Transmission Project (2010 – 2012)

The purpose of this project is to secure electric power distribution from the 300 MW Moinak HPP being constructed at the Sharyn River in the Raimbek Region of the Almaty Oblast. The Moinak HPP was constructed to reduce electric power and electricity shortages, cover peak loads, and secure electric power supply reliability of the consumers located in Almaty Oblast and Southern Kazakhstan generally. The cost of the project was KZT 9.8 billion, and was funded by a loan of the IBRD in the amount of U.S. $48 million and the Company's own funds including 3 billion contributed by the Government from the Republican Budget**.**

Projects in Progress

The Company has also commenced work on a further three key strategic projects, which are provided by the State Program of Intensive Industrial and Innovation Development of Kazakhstan for 2010-2014 and are briefly described below.

National Power Grid Modernization Project, Phase II (2010-2016)

The aim of the project is to maintain the reliable and safe operation of the NPG, increase its efficiency, improve the technical and environmental safety of high-voltage equipment and reduce the costs associated with maintenance and repair of the equipment. Phase II envisages replacement of 10% of transformers (autotransformers), 62% of breakers, 43% of disconnect switches, 49% of voltage transformers and 51% of current transformers of the equipment volume which was not replaced under Phase I of the NPG Modernization Project. The scope of the Phase II of the NPG Modernization Project also includes construction of 61.8 km of 220kV overhead electric power transmission line from Tyulkubas to Burnoye.

The cost of the project is estimated at KZT 47 billion, consisting of a loan of EUR 233 million from the EBRD and the Company's own funds.

The State Acceptance Committee commissioned 45 out of 55 substations in 2013-2014. The remaining 10 substations are still at the stage of construction and assembly and landscaping the territory. The Company has commenced the work on the second part of Phase II and is in the process of identifying and obtaining consents for the route and preparing the design and cost estimate documents of the new high voltage 220 kV power line between Tyulkubas and Burnoye.

Construction of 500 kV Alma Substation with Connection to the NPG of Kazakhstan by 500, 220 kV lines (2010-2014)

The purpose of this project is to secure electric power supply to the Almaty Region, securing delivery of capacity amounting to 1,320 megawatt to be generated by Balkhash TPP at the first stage and which is expected to become operational in 2018-2019, and will provide for the potential electricity needs of the development of the satellite cities of Almaty, construction of the Almaty industrial park and the development of a tourism center in the Almaty Oblast. The project cost is KZT 28.6 billion, and will be funded by a loan of the IBRD in the amount of $71.4 million and the Company's own funds including the funds allocated from the Republican budget in the amount of KZT 16.7 billion.

The project is nearing completion. Virtually all stages of the project, apart from expansion and reconstruction of the Almaty 500 kV substation, are complete, including:

- construction of the Alma 500 kV substation;
- expansion and reconstruction of the YuKGRES 500 kV substation;
- expansion and reconstruction of the Almaty 500kV substation;
- construction of a 500 kV Alma-Almaty;
- construction of 220 kV Almaty TPP 3 – Robot high-voltage power line and 220 kV Almaty TPP 3 – Shelek high-voltage power line connections to the Alma 500 kV substation; and
- construction of the 500 kV power line YuKGRES substation – Alma substation.

500 kV Transmission Line North-East-South Transit

The project includes construction of 500 kV power lines running for 1,500 km and three new 500 kV substations (Semei, Aktogai and Taldykorgan). Once the facilities are completed a power line will run from the North of Kazakhstan to Taldykorgan and will supply electric power to the Almaty Oblast.

Once the Transit 500 kV North-East-South is commissioned, the increase in the transit capacity of the NPG and the creation of new conditions for transmitting additional volumes of electric power from electric power sources of Northern Kazakhstan will meet the expected increase of electric power consumption in the southern region of Kazakhstan and the deficit in the East-Kazakhstan oblast and eliminate the need to transmit electric power through Russian grids. Further, construction of the 500 kV power line will facilitate the implementation of the following projects (i) the electrification of railway sections between Aktogai and Almaty, Aktogai and Dostyk, Aktogai and Moiynty, (ii) the supply of electric power to energy-intensive mining facilities such as Aktogai mining and concentration complex, and (iii) the development of the border territories. The 500 kV power line will encourage the use of a huge potential of renewable electric power, for example in Dzhungar gates.

The project is expected to consist of two phases.

- <u>Phase I: Construction of 500 kV high voltage transmission lines from Ekibastuz-Shulba hydro power plant to (Semey)-Ust-Kamenogorsk (2011-2017)</u>

The objectives of this project are to increase the capacity of North-East lines, cover the deficits of East Kazakhstan oblast without dependence on the transit of electric power through Russian grids and ensure the transmission of all electric power generated by Shulba hydro power plant upon the commissioning of the counter regulator of Bulak hydro power plant. The estimated cost is KZT 43.3 billion and the project will be financed from the funds of the Company.

In order to implement the project a number of long-term turn-key construction contracts have been entered into by the Company. In 2014 research and engineering work was completed in respect of the routes of the 220 kV power lines and the 500 kV power lines and substation sites.

- Phase II: Construction of 500 kV high voltage transmission lines from Shulba hydro power plant to (Semey)-Aktogai-Taldykorgan-Alma (2012-2018)

The construction of this 500 kV power grid in the south-eastern part of Kazakhstan will in the future strengthen the transit potential of the North-South route of the NPG and improve electric power supply reliability of the East Kazakhstan Region in order to cover electricity needs for the electrification of railways and energy intensive mining sites. The project is socially significant because it will give stable supply of electric power to the population of East Kazakhstan and Almaty oblasts and will create additional conditions for development of small and medium businesses. The cost of the project is estimated to be KZT 76.8 billion and will be financed by the Company in the amount of KZT 8.5 billion and through a loan in the amount of U.S. $369.1 million.

In order to implement this project one long-term turn-key construction contract was concluded for all the above-mentioned facilities**.**

In addition to the above and in pursuance of the Program for Development of Kazakhstan Electric Power Industry for 2010-2014, KEGOC is currently implementing two investment projects which are briefly described below.

Transmission Reconstruction Project ZGPP – Ossakarovka 220 kV (2010 – 2014)

The purpose of this project is to enhance reliability of electricity supply to, and to meet the electric power demands of, the residents and industrial zone of Astana. The cost of the project is KZT 4.1 billion, and it is to be funded with a loan from the EBRD in the amount of U.S. $12 million and the Company's own funds including the funds provided to the Company out of the Republican budget in the amount of KZT 2,003 million.

Within the framework of Phase I of this project two autotype transformers with the capacity of 125 MVA and 250 MVA were replaced at ZGPP substation and the facility was commissions by the State Acceptance Committee on July 15, 2013.

With respect to construction of the 220 kV high-voltage power line TsGPP - Osakarovka (Phase II of the project), within the scope of an international contract with the contractor KEC International Ltd. (India), all of the necessary materials and equipment have been delivered to the facility site and construction and installation work is complete. Work is under way for the working commission to accept the facility and issue a decision on the power line's readiness in preparation for the start-up of the facility.

Strengthening of the Intersystem Link between Pavlodar Power Region and Kazakhstan UPS (2011-2016)

The goal of this project is to improve the reliability of the Pavlodar Power region by connecting the electric power center with the UPS at 220 kV. KEGOC estimates that the total investment required will be KZT 5.5 billion and will be financed by the Company's own funds.

The Company has already concluded a turn-key contract for construction of the above-mentioned facilities and is identifying and obtaining approvals for the routes of high voltage power lines and substation sites as well as developing design and cost estimate documents.

Future Projects

As part of its role of a System Operator, the Company plans to carry-out a large-scale investment program relating to the further development of the NPG. The long-term program has been developed until 2025 and includes the following infrastructure projects.

Construction of 500 kV YuKRES - Zhambyl (2013-2018)

The purpose of this project is to improve the reliability of the electric power supply to three oblasts in South Kazakhstan, improve parallel work of the energy systems of Kazakhstan and Kyrgyzstan, improve certain hydro-energy issues, and provide additional export/import and transit options of Kazakhstan. Implementation of the project may create a new electric power circle which would provide alternatives for transfer of the power flow in the Central Asian Region. The investments are expected to amount KZT 30.3 billion over the period from 2013 to 2018. The project will be financed through a loan and the Company's own funds. The Company has already developed a feasibility study for the project.

Securing Delivery from Balkhash TPP (Phase I of BTPP-1320 MW) (2011-2017)

The objective is to ensure securing delivery from Phase I of Balkhash TPP (1320 MW) on the south-western shore of Lake Balkhash, in order to meet growing electricity demand in the southern region of Kazakhstan. The project envisages construction of two 500 kV high voltage transmission lines between BTPP and UKGRES each being three km long and expansion of a 500 kV substation at UKGRES. The project is scheduled to be completed by 2017. An investment of KZT 3.7 billion is estimated to be needed. A feasibility study is being prepared by Kazakhstan Energy Scientific and Research Institute named after Chokin.

National Power Grid Rehabilitation Project - Reconstruction of 220-500 kV Power Lines (2013–2023)

The project provides for restoration of the technical properties of the power lines in order to extend their service life, preserve and improve the transmission in the following 30 to 50 year period as well as an increase in the acceptable levels of transmitted capacity and a decrease of the electric power loss in transmission. The reconstruction works are expected to take place between 2019 and 2023. Since 2013 the Company has been developing the feasibility studies for "NPG Rehabilitation" for the following branches: Aktyubinskiye MES, Zapadnye MES and Sarbayskiye MES. 26 overhead lines held by these branches have been inspected as part of this project.

Long Term Development Strategy

By 2025, KEGOC plans to launch another five projects to further develop the NPG, which are described below. The Company's new network expansion projects are intended to connect the Western region to the NPG and focus on the connection of the new generation facilities. These projects are dependent upon construction of power plants and other industry developments which are beyond the Company's control. It is expected that these projects, if completed, will further increase the transit and export potential of the NPG and strengthen its interconnections.

Construction of 220 kV Uralsk – Atyrau and Kulsary – Tengiz OHL Project

It is intended for the strengthening of the electrical connections between the different areas of the Western Zone of Kazakhstan. The estimated implementation period is from 2021 to 2025 and the estimated investment is KZT 28.8 billion.

Construction of 500 kV Nura – Zhezkazgan OHL Project

The objective is to ensure reliability of the electricity supply of the Zhezkazgan electric power center. The estimated implementation period is from 2021 to 2025 and the estimated investment is KZT 32.3 billion.

Torgai TPP Electricity Transmission Project

The objective is to ensure capacity output planned by the Torgai thermal power plant, construction of which is anticipated on the basis of Torgai coal deposits in Kostanay Region. The estimated implementation period is from 2021 to 2025 and the estimated investment is KZT 15.6 billion.

"Unification of the power system of Western Kazakhstan with the Unified Power Grid of Kazakhstan" Project

The aim is to provide a more reliable energy supply to consumers in the western zone of Kazakhstan's UPS and to unify the western zone with the Unified Power System throughout the republic. The estimated implementation period is from 2021 to 2025 (depending on when the new generating capacities of the western region of Kazakhstan are brought on line) and the estimated cost is KZT 41 billion.

"Construction of the Astana 500 kV Substation and its Connection to the Kazakhstan NPG by 500 kV Lines" (250 km) Project

Objective: ensure reliability of the power supply to Astana and the Akmolinskoy Region. The estimated implementation period is from 2021 to 2025 and the estimated cost is KZT 28.4 billion.

Operating and Maintaining the NPG

One of the Company's main tasks is to provide reliable and uninterruptable electricity supply which is achieved by qualitative repairing and maintenance of substations equipment and transmission lines that are the part of the NPG. The Company has a regular and on-going program of predictive, preventive and corrective maintenance. The help of diagnostics modern methods with the use of advanced technologies and work of highly-trained professionals allow the timely detection and repair of system errors.

In 2013, the Company's branches had network availability between 93.1 – 99.6%. Compared with other systems operators, as set-out in the table below, certain of the Company's branches had good availability, whereas there is opportunity for improvement with others.

Company	**KEGOC**	**Eirgrid**	**National Grid**	**REE**	**SAOC**	**Transgrid**
Year	2013	2013	2013-2014	2013	2008	2013
Country	Kazakhstan	Ireland	UK	Spain	Oman	Australia
Voltage levels (kV)	35 - 1150	110 - 400	132 - 400	132 - 400	132 -220	132 - 500
OHL length (km)	24,533	6,458 (1)	7,200	42,008(1)	3,324	12,600
Substations no.	76	>100	335	5,216(2)	38	91
Installed transformer capacity (MVA)	35,875.05	10,764	not available	72,432	10,746	not available
Annual	**93.1 – 99.6(3)**	**94.80 - 96.78(4)**	**99.9**	**98.13**	**98.49**	**98.99**

Legend: (1) circuit lengths, (2) circuit bays, (3) min/max of all branches, (4) range refers to different voltage levels

Other than the strategic investment activity described above, the Company's expenditure is aimed at supporting the adequate technical condition of transmission lines and substations equipment.

The Company spent KZT 2,299,439 thousand in 2011 and KZT 2,735,124 thousand in 2012 on NPG maintenance and repairs. The Company carries out day-to-day operation and maintenance of the NPG, taking continuous actions to seek to ensure compliance with prescribed standards as well as maximizing availability of the system for uninterrupted electric power supply to the Company's customers.

Branches of the Company have evolved from a system of preventive maintenance and servicing of electric equipment to servicing fixed assets based on the results of technical state evaluations. A schedule of required repairs is prepared on the basis of reports on technological violations, blackouts, inspections, diagnostics and monitoring. At the end of 2013 the Company introduced an asset management system, the main goal of which is to ensure the reliable operation of the NPG through the preparation of medium-term and long-term programs on repair and replacement of equipment. Following the introduction of the new Oracle based software, it became possible to plan maintenance work and the necessary replacement of equipment on a five year forward looking basis. The key principle of this system is a formalized planning of equipment repairs and replacement based on evaluation of actual equipment status and failure risks. Implementation of this project is expected to allow the Company to reduce its maintenance expenses and investments and still operate in a reliable and safe manner.

Losses

Kazakhstan is currently experiencing a growth in power generation resulting in an increase in power transmission over the NPG. In 2013, power transmission losses during transmission in KEGOC networks were 2,387 million kWh (from January to May of 2014 power transmission losses amounted to 1,132 million kWh). This volume includes the following losses:

- load losses – 63 %;

- corona losses – 21 %;
- losses in reactors – 8 %;
- losses from transformer no load operation – 5%; and
- use of power for the substations' own needs – 3%.

In percentage terms, losses in 2013 amounted to between 1.5% and 8.8% (over the first five months of 2014, the respective figures were between 1.2% and 10.7%), depending on the branch. The variations in losses between branches are a consequence of the different classes of the grid voltage, the transit length and quantity of power transmitted.

Over the past few years, the average percentage of losses in the NPG for the 35 - 1,150 kV transmission lines remained stable or decreased. In 2013, losses amounted to 5.49%. In 2012 the losses were 5.72% and in 2011 - 5.90%. The following table shows samples of international technical losses.

Country	**Losses, %**
Germany	**0.8 - 1.9**
Finland	**1.6**
Australia	**4.0**
UK	**1.8**
KEGOC branches	**1.5 - 8.8**

Losses Benchmark for 110 kV - 500 kV

The loss indicators for the best KEGOC branches are at European levels. According to data from ENTSO-E (the European Network of Transmission System Operators for Electricity), the average statistical losses from electricity transmission in the EU amount to less than 3% of the power transmitted, and often much less. At the same time, when considering loss indicators, account should be taken of the considerable distances over which electricity is transmitted through the KEGOC networks and, accordingly, the substantial load losses.

There are no non-technical losses in the NPG thanks to the availability in the NPG of the automatic energy control and record system.

Measures to Reduce Losses

Electricity transmission from where it is generated to where it is consumer results, as a consequence of physical processes, in technical losses of electricity both in the overhead lines and substation equipment.

Electricity losses in the KEGOC networks include variable and conventional fixed losses. Variable losses include load losses in power lines, power transformers and autotransformers.

Load loss results from the resistance in the electricity lines, causing the electric power to be transformed into heat during transmission.

The main factor here is the amount of the electricity transmitted and the length of transit. The greater the amount of the electricity transmitted and the length of transit, the greater the load loss. Conventional fixed losses do not, in the main, depend on the energy flow but include the following components:

- losses in the corona in overhead power lines;
- transformer and autotransformer no-load losses;
- losses in reactors; and
- energy used for substations' own needs.

Corona losses are caused by the corona discharge in high-voltage power lines (220 kV and above), and they are directly dependent on the voltage class. In bad weather conditions (humidity, icing), corona loss sharply increases.

Transformer no-load losses and losses in reactors depend on the efficiency of the equipment and the working voltage, as well as how long the equipment works. One possible way of cutting losses of this type is to switch off unloaded transformers and keep them in reserve. This is possible on the condition that the required readiness of the network and acceptable voltage levels are guaranteed. Another possibility consists in installing transformers with optimized loss levels.

Own needs include consumption of electricity for normal operation of the equipment and personnel: heating, cooling of equipment and operating premises, lighting ventilation, power supply to auxiliary chains and motors. Consumption for own needs may be reduced by modernizing the substations and introducing energy-saving equipment.

As a result of implementation of technical measures to cut losses during transmission of electricity within the KEGOC network in 2013, losses were reduced by 6.3 million kWh, including:

- 6.2 million kWh as a result of switching off power transformers under low-load conditions; and
- 0.1 million kWh as a result of switching off lines under low-load conditions.

Spare Parts

The percentage of modern equipment stands at 67% for switches, 62% for circuit breakers, 54% for current transformers and 71% for voltage transformers. Over time, it usually becomes increasingly difficult to obtain spare parts for old equipment from the manufacturers. At KEGOC, availability of spare parts is not considered to be a problem because the old equipment is of the same type as the transmission capacity in the countries of the former USSR. Consequently, there is quite a big market for manufacturers on the specialization and maintenance plane. According to KEGOC, therefore, all the necessary parts are available. In addition, branches use equipment uninstalled during modernization as a source of spare parts. In general, the current situation is seen more as an interim period, since all the big equipment is being replaced with new.

Information Systems

Since 2005, KEGOC has been using the Siemens SCADA/EMS hardware and software system for operation and dispatch control.

Within the scope of Phase 1 of the "Modernization of the NPG" project, the SCADA/EMS "National Dispatch Center of the System Operator" (NDC) and Regional Dispatch Centers (RDC) was modernized.

In connection with the obsolete hardware and software provision and the functional imperfections of the SCADA/EMS system, KEGOC is considering the possibility of acquiring a new system.

On completion of the new KEGOC head office in Astana, KEGOC moved the NDC into the new building. The new NDC is equipped with an increased control panel and, for complete visualization of the generation-consumption regimes of participants in the Unified Grid System of Kazakhstan, a regime control was installed.

Regulation

Regulatory Requirements

The main state bodies regulating the operation of the Company's business include the Ministry for National Economy and the Ministry for Energy. For information about these regulators and the regulatory framework to which the Company is subject, please see "*Regulatory Framework*".

Other regulatory requirements to which the Company is subject, which may include reporting, applications for permits and regular audits as well as compliance, include:

- customs, for the import and export of goods and equipment;
- land use and construction related issues; and
- activities associated with operating hazardous facilities.

In addition, the Company is subject to requirements pertaining to members of the Fund group, including procurement rules and rules for approval of related party transactions. For more information about these requirements, please *see "Sole Shareholder and Related Party Transactions*".

Licenses

KEGOC holds the following licenses in connection with its activities:

- State License No. 0001816 dated September 7, 2006 granted by the Administration for performance of works (services) in the sphere of architectural, urban planning and construction activity. There is no expiry date for this license.

- General License No. 000495 dated July 13, 2009 granted by ARNM for procurement of electricity for electric power supply purposes. The Company previously held General License No. 003383 dated November 19, 2004 for the purchase of electricity for resale which was reissued in 2009 due to the change to the type of licensable activity. There is no expiry date for this license.

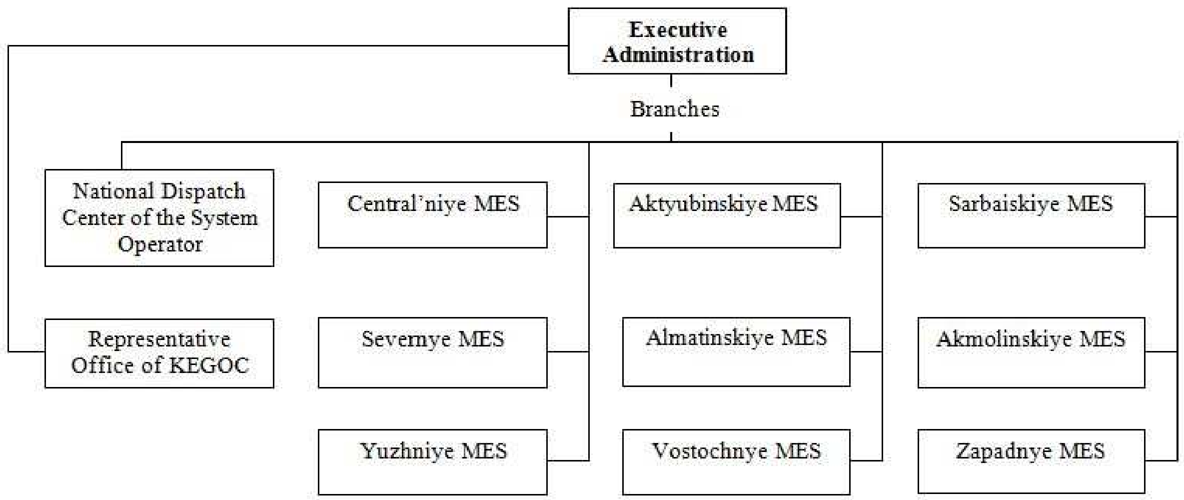
- License series R No. 576/11 dated October 2, 2011 granted by the Committee on Counterdrug and Control of Drug Trafficking of the Republic of Kazakhstan Ministry of Foreign Affairs for activity connected with circulation of precursors. This license is valid until October 2, 2016.

Information about the Company

Particulars

The Company's head office is located in Astana at 59 Tauelsizdik Str., Astana 010010, Republic of Kazakhstan. The National Dispatch Center is located in the Company's head office. It also has an office in Almaty and nine regional branches, described below under Regional Dispatch Centers.

Chart showing executive, branches and representative office is provided below.



Ratings

The history of the Company's credit ratings is as follows.

	Standard & Poor's	**Moody's**	**Fitch Ratings**
2003	BB / positive	B1 / positive	-
2004	BB+ / stable	Baa3 / positive	-
2005	BB+ / stable	BaBaa3 / positive	-
2006	BB+ / stable	Baa1 / stable	-
2007	BB+ / stable	Baa1 / stable	BBB / negative

2008	BB+ / negative	Baa1 / stable	BBB- / negative
2009	BB+ / stable	Baa3 / negative	BBB- / negative stable
2010	BB+ / stable	Baa3 / negative	BBB- / positive
2011	BB+ / stable	Baa3 / stable	BBB / positive
2012	BB+ / stable	Baa3 / stable	BB+ / stable
2013	BB+ / stable	Baa3 / stable	BB+ / stable

Related Entities

The following information is provided pursuant to the requirements of Clause 6 of Section 3 of Annex 2 to the Listing Rules of KASE dated November 2009.

KEGOC has two subsidiaries and a minority stake in another entity, which are described below.

Energoinform JSC

Energoinform JSC was established in 2002 as a non-profit organization with the status of a legal entity in order to perform support functions associated with providing information for KEGOC's activities and servicing KEGOC's telecommunications facilities. In November 2010 Energoinform was converted into a joint stock company in which KEGOC owns 100% of the voting shares. The charter capital of Energoinform JSC equals KZT 2,179,700,000. Its main activities are:

- maintaining and servicing electricity network equipment;
- consulting services in the sphere of information – telecommunication area and IT;
- providing IT, system integration and information management services;
- providing communications services; and
- managing inventory.

The chief executive officer of Energoinform JSC is Abdugaliyev Anuar Moldagaliyevich.

The legal and actual address is Republic of Kazakhstan, 010000, Astana, Sary-Arka district, Sary-Arka Ave., 15.

The key financial indicators of Energoinform JSC are as follows:

In thousands KZT

	December 31		
	2011	**2012**	**2013**
Income from services rendering	1,479,117	1,944,635	**3,667,214**
Net profit / loss	32,302	70,244	**235,896**

Fixed Assets

In thousands KZT

	December 31		
	2011	2012	2013
Balance Cost of Basic Assets	1,184,833	1,213,688	**1,982,421**
Land	53,527	53,904	661,987
Buildings and structures	960,518	939,747	918,963
Machines and transmission equipment	95,165	126,059	279,053
Transport and other basic assets	75,623	93,978	120,975
Intangible Assets	1,776	7,616	**35,943**

Settlement and Financial Center to Support Renewable Energy LLP

Settlement and Financial Center to Support Renewable Energy LLP (the "**Renewable Energy Center**") was established by KEGOC on August 27, 2013 in order to stimulate investments in the renewable energy sector ("**RES**") and to increase the share of usage of the RES in the energy balance of Kazakhstan by ensuring the centralized purchase of electricity from all RES at fixed tariffs.

The main activity of the Renewable Energy Center is centralized sale and purchase of electric energy produced from renewable energy sources.

The chief executive officer of the Renewable Energy Center is Nurmanganbetov Zhandos Demesinovich.

The legal and actual address is Republic of Kazakhstan, 010000, Astana, Sary Arka district, ul. Beybitshilik, 37.

The key financial indicators of Settlement and Financial Center to Support Renewable Energy LLP are as follows:

In thousands KZT

	2013
Income from services rendering	
Net profit / loss	**-3,722**

In thousands KZT

	2013
Balance Cost of Basic Assets	**1,443**
Land	
Buildings and	

structures	
Machines and transmission equipment	
Transport and other basic assets	**1,443**
Intangible Assets	**200**

Batys Transit JSC

KEGOC owns 20% of the shares in Batys Transit JSC, a joint stock company established in November 2005 pursuant to a decision of the Government in order to construct an inter-regional transmission line connecting North Kazakhstan and the Aktobe Region. The aim of the project is to achieve greater energy security for western Kazakhstan and to improve the electricity deficit in the Aktobe Region. Batys Transit JSC is a concessionaire under a concession agreement with the Government acting through the Ministry of Energy and Mineral Resources (currently the Ministry for Energy). Pursuant to the concession agreement, the Government is the legal owner of the transmission line and Batys Transit will operate the line until December 31, 2022. The Company anticipates that once this period expires, the Government will contribute the transmission lines to the Company (although this has not been specifically set out in Kazakhstan laws and regulations.)

80% of shares in Batys Transit JSC are owned by Mehenergostroy LLP.

The chief executive officer of Batys Transit JSC is the Chairman of the Board, Ibragimov Kurmangazy Beysembayevich.

Batys Transit JSC legal and actual address is Republic of Kazakhstan, 050008, Almaty, ul. Shevchenko, 162zh, 4th floor.

KazEnergoProvod LLP

In November 2012, Energoinform JSC together with East Industry Company Ltd. LLP (Semipalatinsk) established a new company KazEnergoProvod LLP in order to implement a project covering the production and sale of non-insulated cable.

Energoinform JSC owns a 49.9% interest in KazEnergoProvod LLP and East Industry Company Ltd. LLP owns the remaining 50.1% interest in KazEnergoProvod LLP.

The production of non-insulated cable was launched in May 2013. The Company anticipates selling its 49.9% interest in KazEnergoProvod LLP because production of non-insulated cable does not fall within the scope of the Company's core activities.

Intangible Assets

Intangible Assets of the Company generally comprise the software and licenses for software which support the operations of KEGOC and, in particular, the work of computers and IT systems of the Company. Each piece of software is a commercial product and in accordance with Kazakhstan law all companies using such products must have the relevant license. Such licenses constitute intangible assets.

Initiate cost – KZT 2,816,724 thousand;

Wear and Tear – KZT 1,931,016 thousand; and

Remaining Value – KZT 885,708 thousand.

Electronic digital signatures constitute 0.0 % of the book value of intangible assets or KZT 0 (representing 20 items of total 4,658 items) of Intangible Assets.

Research and Development

Scientific and Technical Council

The Company's Scientific and Technical Council (the "**STC**") is a working body of the Company created to take decisions in relation to: a number of key strategic and technical issues arising in the Company's operations, which are aimed at improving reliability and effective operation of the NPG transmission lines, reduction of costs associated with operation of the NPG and development of domestic scientific and industrial potential. These include development of the Company, implementation of innovative and technological strategy, development and implementation of new equipment and technologies for use in construction projects, rehabilitation and technical upgrading of transmission lines facilities, improvement of the operating mode of the NPG, and increasing items which are produced within Kazakhstan in the Company's procurements.

The STC consists of the Company's management and the heads of the principal operational departments. The Chairman of the Management Board of KEGOC is the Chairman of the STC. Employees from the head office as well as from the regional branches and subsidiaries also participate in the STC's deliberations and representatives from educational, research and design institutions, electric power suppliers and other organizations are invited from time to time.

The Council meets at least once each quarter. The chairman of the STC determines whether the STC needs to hold unscheduled meetings at any other time. There were five meetings of the STC in 2013.

International Cooperation

KEGOC cooperates with international organizations in the electricity sector and participates in the work done by international bodies to formulate a coordinated development strategy for the electricity industry, and increase the effectiveness of the international power system as a whole by improving cooperation and establishing a common electricity market in the CIS and in Eurasia. These organizations include the CIS Energy Council, the Coordination Energy Council of Central Asia, the Council for Energy Policy at the Integration Committee of the Eurasian Economic Community (EurAsEc), the World Energy Council, and working groups on the creation of the Common Economic Space and the Customs Union between Kazakhstan, Russia and Belarus.

In 2010 KEGOC entered into agreements with the U.S. Trade and Development Agency and received a grant to provide technical assistance in monitoring transmission lines and diagnostics. In 2014 the transmission lines monitoring and diagnostics were completed.

Social Responsibility

KEGOC is committed to principles of sustainable development and a system of successive economic, environmental and social measures has been implemented on the basis of continuous interactions with stakeholders with the aim of effectively implementing strategy, risk management and maintenance of the Company's business reputation. KEGOC is aware of and understands the need to maintain a balance between achieving its economic goals and its objectives in the social and environmental spheres. The Company has a feedback process which involves all interested parties and since 2009 has prepared and released Annual Sustainability Reports showing how KEGOC rates against worldwide standards.

Personnel Management

Employees

As of June 30, 2014, the Company employed 4,729 people, including 690 office and management personnel and 4,039 industrial personnel.

For the first eight months of 2014, the average monthly salary for all personnel was KZT 182,004. The average monthly salary for industrial personnel was KZT 157,544 thousand; for office and management personnel it was KZT 335,339.

Benefits and Unions

A trade union for Kazakhstan energy sector employees, Energoproftechsoyuz Public Association, was established by KEGOC employees in 2003. The trade union has committees in each of KEGOC's branches and approximately 85% of the Company's employees are members. The objective of the union is to ensure labor rights of its members and to regulate labor relationships. The branch committees consult on individual employment agreements between employees and the Company, participate in development and implementation of collective agreements and participate in the resolution of labor related disputes.

There is a collective agreement in place between the Company and all of its employees for the period from 2014 through 2018. The agreement is aimed at, amongst other things, lowering injury incident rates, improving occupational health and safety and providing personnel with personal protective equipment, as well as addressing issues related to working conditions, salary, work hours including personal leave, social security and benefits, specific measures of social support of the Company's employees, professional development, and preparing lists of professions and positions which receive additional paid vacations due to hazardous working conditions. Additionally, the agreement sets out the support measures provided by the Company to World War II veterans and persons with the same status and veterans of the electric power industry and, amongst other things, the organization of health services, cultural and recreation events for workers.

The collective agreement was revised to address all requirements of Kazakhstan law pertinent to the social and labor relations, protection of the rights of workers and improvement of the work conditions in order to prevent any social instability among employees. The collective agreement covers all employees of the Company.

KEGOC provides regular training for employees in accordance with an annual training plan. The Company provides annual professional training for personnel and organizes seminars, workshops, educational activities and other types of training through a training center which is part of Energoinform JSC. In 2013, 214 employees of the Company received training from the training center. In addition, the Company enters into annual agreements with leading Kazakhstan educational institutions to provide additional training to employees. In 2013, 1,862 employees participated in career development courses, training seminars and conferences. Industrial personnel's qualifications are also assessed regularly. In 2014, the Company plans to provide external training in Kazakhstan for 2,292 employees. Employees also have the opportunity to attend educational events in other CIS and western countries.

Occupational Health and Safety

The Company continually seeks to improve working conditions and create safe labor conditions to reduce the probability of work related injuries. In this regard the Company has taken the following steps:

- provides regular training and medical assessments to all employees of the Company;
- provides prescribed compensation and other benefits stipulated by law to employees who are exposed to potential hazards as part of their employment;
- takes preventive measures and provides additional training. From 2010 to 2013 the Company held seminars on safety during maintenance and repair works in all branches of the Company and certifies repair crews to check for proper staffing with protection means, tools, rigging and clothing.
- monitors its facilities and equipment to ensure their proper technical condition and levels of occupational and fire safety. During rehabilitation and construction works, the Company carries out additional assessments of, and provides additional training to, employees to ensure that the level of safety standards does not diminish.
- Occupational health and safety key indicators are presented in the following table:

Key indicators		**2011**	**2012**	**2013**
Number of fatal accidents at work		3	1	0
Number of accidents at work		5	1	0
Number of injured		7	2	0

In 2010 – 2012 accidents occurred due to breaches of KEGOC's safety standards and force majeure circumstances.

Due to the nature of the Company's activities, fire safety is a priority. To address fire risks the Company has implemented an annual program of comprehensive training for employees and conducts regular maintenance of its plant and equipment. In 2013, total spending on the Company's fire safety program amounted to KZT 11,989 million and there were no fires or ignitions at any of the Company's facilities.

The Company has also introduced an integrated management system to promote environmental protection and the provision of safe working conditions for its workers and employees. The policies developed and the corresponding system have formed the baseline for the environmental and HSE management systems implemented by the Company in the recent years.

Environmental Protection

The Company's principal activities do not have a significant impact on the environment. However, as part of its overall commitment to sustainable development, the Company undertakes to minimize adverse impacts and improve its environmental policies.

Each year, KEGOC's branches refer to regional environmental authorities to determine maximum permissible emissions and discharges of pollutants. The branches also contract with appropriate service providers for environmental monitoring of industrial activity, solid waste storage and disposal of other types of waste, including specialized landfill services. Each part of the Company undergoes regular inspections by regional environmental authorities and any issues which are identified are resolved promptly. The Company has not been penalized for any breaches of environmental legislation.

The main sources of environmental impacts in the Company's operations are listed below. The Company takes the following actions to mitigate risks:

- Electromagnetic field – the Company establishes buffer zones / sanitary protection zones, constructs stationary protective devices in substations, and provides personnel with appropriate protective equipment;

- Corona noise – the level of corona noise primarily depends on the weather conditions and voltage level of overhead transmission lines. Permissible level of audible noise for the Company's facilities is defined for residential areas during the night-time only. High-voltage 500 kV transmission lines do not intersect residential areas. High-voltage 220 kV transmission lines intersect residential areas to a small extent (405.67 km). Thus, noise protection measures taken by the Company are targeted at protecting the Company's personnel working at substations from noise exposure.

- Pollutant discharges into the atmosphere – KEGOC measures pollutant discharges into the atmosphere from stationary and mobile sources. According to the comprehensive action plan for implementing the "Long-term strategy of KEGOC up to 2025", obligations were undertaken to reduce emissions from stationary sources by 3% a year compared to the level of standard emissions.

- Ground water supply – five branches of the Company use artesian water supplies. The Company engages qualified contractors to continuously monitor the quality of groundwater at wells.

- Waste products resulting from repair and modernization of substation equipment – the Company removes and disposes of such waste products in accordance with applicable legislation and procedures.

The Company's Environmental Management System was implemented between 2007 and 2009, and its aim is to achieve improvements in all environmental indicators in future years.

KEGOC is certified by the TÜV NORD CERT GmbH (Germany) – an authority for certification of quality management systems compliance to quality, environment, occupational health and safety standards: ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007. In accordance with the requirements of the Company's Environmental Management System, the requirements of its environmental policy is communicated and submitted to all parties engaged in operations with the Company, including on investment projects.

All investment projects are subject to state environmental expert review in accordance with applicable legislation and the Company is also subject to quarterly reporting requirements to the multi-lateral institutions which provide it with funding, such as the EBRD.

Charitable Activities

The Company provides charitable and sponsorship assistance to arts and cultural activities, sporting activities, veterans and retirees, and training of specialized staff. The Company also contributes to natural disaster funds; for example, in 2010 the Company contributed KZT 80 million to a relief fund following severe flooding in the Almaty area.

In 2013, KEGOC provided sponsorship and charity aid totaling KZT 243,342,000, including sponsorship aid totaling KZT 97,242,800. The key priorities for sponsorship aid in 2013 were:

- events upon instructions of the President of the Republic of Kazakhstan, Prime Minister of the Republic of Kazakhstan, Head of the Presidential Executive Office of the Republic of Kazakhstan, management body of the Fund in accordance with the decisions of the executive body of the Fund;
- certain kinds of sports and sport events;
- socially significant projects;
- organizational and practical events related to the activity of KEGOC (international conferences, investment summits, round tables, etc.).

The Company also participates in non-profit professional organizations such as the Kazakhstan Energy Association.

Insurance

KEGOC insures some of its risks with Insurance Company Nomad Insurance JSC.

In 2014, the Company's expenses for insurance amounted to:

- KZT 65.6 million for property insurance;
- KZT 75,372 million for mandatory insurance of employees against employment-related accidents associated with the Company's core activities;
- KZT 851,000 for mandatory insurance of employees against employment-related accidents associated with the Company's non-core activities;

- KZT 1,013 million for civil liability of owners of facilities that may cause damage to third parties.

The Company also maintains mandatory and voluntary insurance to cover its civil liability as the owner of transport vehicles.

KEGOC does not maintain directors and officers liability, business interruption, key-man, terrorism or sabotage insurance.

KEGOC's insurance program complies with the requirements of Kazakhstan law and the Company considers the coverage to be adequate and sufficient for its industry and location.

Legal Proceedings

From time to time the Company may become involved in legal proceedings, including being named as a respondent on claims filed against the Company, in the ordinary course of its business. Since January 1, 2013 until the date of this Investment Memorandum other than the arbitration and related proceedings against Uzbekenergo SJSC ("**Uzbekenergo**") described below, neither the Company nor any of its assets were a party to or the subject of any legal proceedings that, if determined adversely against the Company, would individually or taken together, have a material adverse effect on the Company's business, results of operations, financial condition or cash flow. Regardless of the outcome, litigation can have adverse impact on the Company because of defense and settlement costs, division of management resources and other factors.

Arbitrations and Related Legal Proceedings involving Uzbekenergo

KEGOC has been involved in four arbitration proceedings against Uzbekenergo, the company in Uzbekistan responsible for the transmission and distribution of electric power. Each of the four arbitration proceedings generally relate to the failure of Uzbekenergo to pay on a timely basis for electric power purchased from KEGOC. The arbitration proceedings were filed with the International Commercial Arbitration Court under the Chamber of Commerce and Industry of the Russian Federation in Moscow as provided for under the applicable supply contracts. The first two arbitration proceedings were initiated by KEGOC on May 7, 2012 to recover debt for November and December 2011 and on February 15, 2013 to recover debt for electricity for December-January 2013. The amount of the first claim covered an outstanding purchase price of U.S. $9,483,320 and a penalty of U.S. $1,207,922. The amount of the second claim included an outstanding purchase price of U.S. $7,386,990 and a penalty of U.S. $208,168. In both cases, Uzbekenergo repaid the outstanding purchase price prior to the date of the arbitration tribunal award. The arbitral tribunal resolved the dispute in favour of the Company. The arbitration tribunal also awarded KEGOC the full amount of penalties and arbitration expenses which have not been paid by Uzbekenergo. KEGOC is taking steps to have both arbitration awards recognized by the courts of Uzbekistan in accordance with the New York Convention on Recognition and Enforcement of Foreign Arbitral Awards 1958.

The other two arbitration proceedings were initiated by KEGOC on February 15, 2013 and October 31, 2013 respectively. These related to the outstanding payments for the sale of electric power and for the regulating of capacity in 2013. The fist claim included the outstanding services fees of U.S. $17,122,560 and a penalty of U.S. $402,787 and the second claim included the outstanding purchase price for electric power of U.S. $10,320,311 and a penalty of U.S. $445,620. The outcome of these two proceedings is still pending. KEGOC believes it is fully entitled to full payment of these amounts under the contracts and intends to fully recover the relevant amounts.

Other Legal Proceedings

Under the applicable rules of the Kazakhstan Stock Exchange, a listed company such as KEGOC is required to disclose any court proceedings or similar legal actions involving the listed company and which may result in the termination of an activity of the listed company or any reduction in its operations or imposition or incurrence of any obligations, in each for where the relevant amount in dispute is KZT 1,852,000 or more. Set forth below is a list of such legal proceedings. KEGOC does not believe that any of these legal proceedings are material.

KEGOC's Claims against Taraz Metal Smelting Factory LLP

On August 28, 2013 KEGOC initiated two court disputes against Taraz Metal Smelting Factory LLP (TMS LLP) for the amounts of KZT 99,900,688 and KZT 4,037,995. The amounts stated above represent the outstanding debt for transmission and balancing services. Both claims of KEGOC were upheld by the courts. However, KEGOC was able to collect only KZT 1,080,060 under the first claim and is still in the process of enforcing the court decision under the second claim.

INTER RAO Central Asia LLP's Claims Against KEGOC

In December 2012 INTER RAO Central Asia LLP filed a claim against KEGOC for the amount of KZT 6,245,273. INTER RAO Central Asia claimed that part of the actual balance of production and consumption of electricity was invalid and sought compensation for the resulting damages. The court satisfied the claims of INTER RAO Central Asia on January 17, 2013. KEGOC has paid all sums awarded to INTER RAO Central Asia.

DIGITAL TV LLC's Claims against KEGOC

DIGITAL TV LLC filed a claim to the Specialized Interdistrict Commercial Court of Astana for the recovery from the Company of the debt and penalty under the procurement agreement for the internet provider services of WiMax 4G technology (speed 1024 Kbit/sec.) dated February 7, 2012 No. 27-D-161. The claim resulted from the fact that the contractor assigned its provider rights to a third party with which KEGOC had no contractual relations.

The Specialized Interdistrict Commercial Court of Astana by its decision dated January 1, 2013 No. 02-50-13 refused to satisfy the claims of DIGITAL TV LLC for the recovery of debt in the amount of KZT 1,760,000 and the penalty in the amount of KZT 176,000, however, the cassation instance overruled the decision and recovered from KEGOC the principal debt in the amount of KZT 1,760,000 and the penalty in the amount of KZT 88,000.

Administrative Fines

No administrative sanctions against KEGOC, and its executive members were imposed by the governmental bodies and/or a court from January 1, 2013 through to the date of this Investment Memorandum.

PRINCIPAL SHAREHOLDER

History

Joint Stock Company Kazakhstan Electricity Grid Operating Company ("**KEGOC**") was founded by the Government acting through the State Committee of the Republic of Kazakhstan for State Assets Management pursuant to the Resolution of the Government of Kazakhstan No. 1188, dated September 28, 1996.

The State Committee was later reorganized into the Department for State Property and State Assets Management of the Ministry of Finance, then the Department for State Property and Privatization of the Ministry of Finance and finally the Committee for State Property and Privatization of the Ministry of Finance.

In 2006, the Government's shareholding in KEGOC was transferred to Kazakhstan Holding for the Management of State Assets SAMRUK JSC ("**Samruk**"). Samruk was a joint-stock company wholly owned by the Government. Samruk was established to hold state owned shares in and ensure the effective management of the following companies: National Company KazMunaiGas, National Company Kazakhstan Temir Zholy, JSC Kazpochta, KEGOC and JSC Kazakhtelecom.

In 2008, by Presidential and Government decision, Samruk merged with the KAZYNA Sustainable Development Fund, which was also wholly owned by the Government, to create Joint Stock Company Sovereign Wealth Fund Samruk-Kazyna (the "**Fund**"), the current sole shareholder of KEGOC.

The Fund was established in order to enhance competitiveness and sustainability in Kazakhstan's economy and to prevent the potential negative impact from changes in global markets on the economic growth of the country. The key purpose of the Fund is to manage shares and interests in national development institutions, national companies and other legal entities it owns to maximize their long-term value and competitiveness in global markets.

The Fund holds shares, either in whole or in part, in significantly more companies than the list above of companies in which Samruk held shares. The Fund's holdings include interests in companies in the mining, finance, energy, transportation, pharmacy, property and construction industries. In 2013 the Fund controlled KZT 15,294 billion in assets.

Principal Shareholder

Immediately prior to the Offering, the Fund is the sole shareholder of the Company and immediately following the Offering, the Fund will hold 90% plus one of the Company's issued and placed ordinary shares.

The Company is not aware of any other person who, currently or immediately following the Offering, will or could exercise, directly or indirectly, jointly or severally, control over the Company. A description of the existing measures aimed at preventing abuse by the fund through its right of control over the Company can be found in "*Related Party Transactions – Relationship Agreement*". Except for limitations applicable to the Fund under the Relationship Agreement, there are no differences between the voting rights enjoyed by the controlling shareholder described above and those enjoyed by any other shareholders of the Company.

Affiliated Parties

See "*Additional Listing Information*" for additional information with regard to other affiliated parties.

RELATED PARTY TRANSACTIONS

Overview

In the ordinary course of business, the Company has engaged in, and continues to engage in, related party transactions with companies affiliated with its principal shareholder, the Fund. After the Offering, the Fund will continue to own 90% plus one voting share of the Company. See "*Principal Shareholder*".

The procedure for entering into transactions between the Fund's group companies is governed by the Sovereign Welfare Fund Law (Law No. 550-IV on the Sovereign Wealth Fund dated February 1, 2012). The Sovereign Welfare Fund Law grants to the Board of Directors of the Fund the right to adopt procedures for entry into transactions between companies of the Fund's Group as defined below (the "**Fund's Group**"). The Sovereign Welfare Fund Law defines the Fund's Group very broadly to include: (i) the Fund, (ii) companies in which the Fund holds more than 50% of voting shares or interest (the "**Fund Companies**"), (iii) subsidiaries of the Fund Companies in which the Fund Companies hold more than 50% of voting shares or interest (the "**Fund Subsidiaries**") and (iv) companies in which the Fund Subsidiaries hold more than 50% of voting shares or interest.

On April 27, 2009 the Board of Directors of the Fund adopted the Related Party Transactions Rules (i.e., rules related to transactions involving entities that are members of Samruk-Kazyna JSC group which transactions are subject to specific requirements set forth in the JSC Law). The Related Party Transactions Rules authorize the Management Board of the Company to approve transactions with other companies of the Fund's Group. A decision is adopted by an affirmative vote of at least 75% of all members of the Management Board. The Board of Directors may also, at its own discretion, approve any transaction with a company of the Fund's Group by a simple majority vote.

The Company receives a significant amount of its revenue from transactions with other companies of the Fund's Group (related party transactions), most of which involve the provision of regulated services to related parties, such as electric power transmission, services for technical dispatching and balancing of electricity consumption and production. The Company conducts related party transactions on terms agreed between the parties that may not necessarily be at market rates, except for the regulated services which are charged based on the tariffs approved by the regulator.

In addition, the Company also purchases goods and services from other companies included in the Fund's Group, mainly consisting of communication services, energy services and purchases of electricity. The Company conducts related party transactions on terms agreed between the parties that may not necessarily be at market rates, except for the regulated services which are charged based on the tariffs approved by the regulator. Communication services and the purchase of electricity are generally charged based on tariffs approved by the regulator.

The JSC Law defines "interested party transactions" as transactions entered into by the Company and its affiliates. In addition, International Financial Reporting Standards ("**IFRS**") 24 set out the criteria for "related parties". The definition of "related party transactions" under IFRS 24 is broader than the definition of "interested party transactions" set forth in the JSC Law and includes a wider list of entities (or persons) that are considered related parties. For the purposes of this Investment Memorandum, "related party transactions" include those that qualify as "interested party transactions", as provided in the JSC Law, as well as those that qualify as "related party transactions", as provided in IFRS 24.

The table below sets out certain financial information in connection with related party transactions entered into in 2011, 2012, 2013 and the first six months of 2014, as reported in the Financial Statements of the Company for the relevant period.

	For the years ended 31 December			**For the six months ended 30 June 2014**
	2011	**2012**	**2013**	**2014**
	(in thousands of Tenge)			
Trade account receivables from related parties	328,244	255,882	551,681	630,911
Trade accounts payable to related parties	2,331,101	799,991	1,408,234	3,044,434
Sales to related parties	12,353,651	13,461,880	19,879,498	10,981,585
Purchases from related parties	12,127,858	16,678,080	21,651,340	10,919,909

Conflict of Interest between the Company and the Fund

The Related Party Transactions Rules authorize the Management Board to approve any transactions between the Company and any members of the Fund's Group. The Board of Directors is also authorized in its sole discretion to approve any transactions with any member of the Fund's Group. The Fund is the sole shareholder of the Company as of the date of this Investment Memorandum and following the Offering, the Fund will own at least 90% plus one voting share of the Company. As the controlling shareholder of the Company, the Fund effectively controls the Board of Directors and, consequently, also controls the Management Board. Related party transactions pose a risk of the Company entering into transactions on terms less favorable than could be obtained in arm's length transactions with unrelated parties. See "*Risk Factors – Risks Relating to the Company – The Fund's interests as the Company's principal shareholder may differ from interests of the Company and from those of the holders of the shares*".

Relationship Agreement

On October 6, 2014, the Company and the Fund entered into a Relationship Agreement for the purpose of regulating certain aspects of the relationship between the Company and the Fund.

The Relationship Agreement sets forth the following key principles of the relationship between the Company and the Fund: (i) the Company must be managed according to the best interests of the Company and all shareholders of the Company must be treated fairly; (ii) the Fund shall not act or refrain from acting if such actions or failure to act could negatively affect the status and interests of the Company as a listed company; (iii) the Fund shall take reasonable efforts to procure votes from directors of the Fund in accordance with best corporate governance practice; (iv) the Fund and the Company must take reasonable efforts to distribute dividends pursuant to the requirements of the dividend policy and the Company's Charter; (v) the Company and the Fund must enter into any transactions and/or build relationships with any subsidiaries in accordance with customary market practice and only on commercially reasonable terms, including commercial terms customarily acceptable in the business practice of the Fund's Group and must enter into any related party transactions in accordance with any requirements under Kazakhstan law and KASE regulations. The Fund shall not act or refrain from acting if such actions or failure to act may prevent the Company or any of its subsidiaries from conducting its business as set forth above and (vi) the Fund shall not subject the Company or any of its subsidiaries to any internal regulations approved by the Fund if compliance with such regulations may prejudice any rights and interests of the shareholders, as set forth under Kazakhstan law. See "*Risk Factors – Risks Relating to the Company – The Company may be unable to enforce its rights under the Relationship Agreement with the sole Shareholder*".

Transactions with the Members of the Board of Directors, Members of the Management Board and Key Employees

The Company has not entered into transactions with any members of the Management Board, members of the Board of Directors or key employees listed in "*Management and Corporate Governance*" as of January 1, 2013 and the date of this Investment Memorandum.

Significant Transactions with Related Parties

Significant related party transactions that the Company has entered into with other subsidiaries and affiliates of the Fund Group between January 1, 2013 and the date of this Investment Memorandum are set out below.

Transactions with Related Power Producers

KEGOC purchases electric power from Ekibastuzskaya Station GRES-2 JSC and Ekibaztuzskaya GRES-1 LLP at tariffs approved by the state authorities in order to compensate for transmission losses of electric power.

Suppliers	**GRES-1 LLP**	**GRES-2 JSC**
	(in thousands of Tenge)	*(in thousands of Tenge)*
2011	515,027.97	8,405,011.61
2012	1,481,926.44	10,674,621.69
2013	0	15,114,863.81
2014 (6 months)	2,563,838.05	5,887,834.82
Total	**4,560,792.46**	**40,082,331.93**

Transaction with Balkhash Thermal Power and Electricity Plant

In September 2013, KEGOC entered into an asset sale agreement for certain land plots, unfinished building structures and various infrastructure assets with Balkhash Thermal Power and Electricity Plant JSC ("**Balkhash TPP**") for consideration of KZT 149,737,000 (approximately USD $826,363). The sale price was determined by an independent appraisal. Balkhash TPP was selected as the buyer according on an open tender organized by KEGOC.

The Company has also entered into a long term power capacity agreement with Balkhash TPP for the purchase of power capacity services from the Balkhash TPP. A subsidiary of the Fund is a shareholder of Balkhash TPP. See "*Business - Energy Capacity Market*". Balkhash TPP's facility is currently under construction and is not yet operational and, therefore, no payments are currently being made under this long term power capacity agreement. Once the Balkhash TPP facility is completed and operational, the payments to be made under this long term power capacity agreement are expected to be material given the size of the capacity approved by the Government.

Transactions with KazMunaiGas Onimderi JSC.

KEGOC purchases gasoline supplies from KazMunayGas Onymderi JSC. In 2013, the total value of the contract was KZT 390,785,050 (approximately U.S. $2,524,185). The price of the gasoline is within the range approved by the Government.

The Order of the Chairman of the ARNM dated March 6, 2013 No. 76-OD determined threshold prices for retail sale of oil products subject to the state regulation of prices. The Company entered into a contract for the supply of petroleum, oil and lubricants with KazMunayGas Onimderi JSC, a member of Fund's Group, based on these prices.

Transaction with KazEnergoProvod LLP

In 2013 the Company made a capital contribution in the amount of KZT 109,350 thousand to KazEnergoProvod LLP in accordance with the requirements of the KazEnergoProvod LLP's constituent documents.

Banking Transactions

As of December 31, 2013, there were bank accounts and deposits amounting to KZT 95,769 thousand with the Development Bank of Kazakhstan JSC, which is considered a related party of the Company. The Development Bank of Kazakhstan JSC is wholly owned by National Management Holding Bayterek JSC, which is wholly owned by the Government.

State Guarantees

As of December 31, 2013 the Company's debt, which is guaranteed by the Government totaled KZT 39,467,326 thousand.

Dividend Payments

On March 29, 2013 the Company declared dividends in the amount of KZT 2,082,309 thousand for 2012, which were paid on April 11, 2013. In July 2012, the Company declared and paid dividends in the amount of KZT 2,346,674 thousand for 2011. Due to the Company's lack of net income activities in 2013, the Management Board of the Fund, acting in its capacity as sole shareholder, decided against accruing and paying dividends on ordinary shares of the Company for 2013.

Other Transactions

The Company engages in transactions with KazPost JSC and Kazakhtelecom JSC; these transactions are conducted on the basis of regulated prices or tariffs approved by the state authorities.

KEGOC also enters into a number of transactions with certain entities within the Fund's Group which specialize in services such as training of personnel, organization of seminars, preparation for test questions from the Private Institution Corporate University Samuk-Kazyna, market research and preparation of opinions regarding market prices provided by Samruk-Kazyna Contract LLP.

KEGOC enters into contracts following the procedures established by the Samruk-Kazyna Procurement Rules (the "**Rules**"). Although the Rules generally require the companies within the Fund's Group to conduct open procurement tenders, the Rules also provide for a number of exceptions, some of which are aimed at stimulating cooperation inside the Fund's Group and promoting procurement contracts between the companies within the Fund's Group. As a result, the Rules allow the companies in the Fund's Group to purchase services relating to seminars, conferences, meetings, training and professional development by entering into contracts directly with certain educational institutions, without requiring any tenders or other special procedures.

Transactions with Batys Transit JSC

While Batys Transit JSC is not included in the Fund's Group, it is an affiliate of KEGOC because KEGOC owns 20% of its shares. Batys Transit JSC was established to construct the inter-regional transmission line connecting the northern region of Kazakhstan and the Aktobe oblast in which it now operates. Accordingly, KEGOC purchases electric power transmission services from BatysTtransit JSC. Batys Transit JSC, in turn, purchases balancing services from KEGOC. Since both KEGOC and Batys Transit JSC are included in the list of natural monopoly entities, the prices under their contracts are set in accordance with the tariffs approved by the regulator.

In addition to the provision of services, in February 2013 KEGOC and Batys Transit JSC entered into an agreement to develop a feasibility study in relation to the project of connecting certain industrial facilities in the Aktobe region to the NPG. The total value of the contract was KZT 96,935,000 (approximately U.S. $535,000).

The Company purchases Batys Transit JSC bonds denominated in Tenge. In 2007 the Company purchased KZT 699,821,472 of Batys Transit JSC bonds; in 2008 the Company purchased KZT 313,499,500 of Batys Transit JSC bonds and in 2009 the Company purchased KZT 66,344,066.5 of Batys Transit JSC bonds. The total amount of Batys Transit JSC bonds purchased by the Company is KZT 1,079,655,038.51. Interest income accrued on bonds issued by Batys Transit JSC amounted to KZT 71,717,896.88 for the for the year ended December 31, 2013 and KZT 71,796,806.25 for the year ended December 31, 2012.

DESCRIPTION OF CHARTER

Overview

The current Charter of the Company (the "**Charter**") was adopted by a decision of the Sole Shareholder on April 9, 2013 (Minutes No. 17/13) and was registered with the Ministry of Justice on April 22, 2013**.** A decision of the Sole Shareholder dated September 3, 2014 (Minutes 42/14) amended the Charter to reflect the Company's change of address: 010000, Republic of Kazakhstan, Astana, Almaty District, prospekt Tauelsizdik, 59.

The Charter includes a list of the Company's main activities, all of which arise from, or are related to, the Company's status as the system operator of the unified power system of the Republic of Kazakhstan. The Charter provides a non-exhaustive list of operations and activities which the Company is permitted to carry out. The Company is entitled to engage in any other types of activities which are not prohibited under the laws of Kazakhstan, subject to restrictions established for natural monopolies**.**

The Company operates in a highly regulated industry and, accordingly, the list of activities which the Company is permitted to engage in depends on the applicable regulatory framework. The Law on Natural Monopolies and Regulated Markets effectively narrows the list of activities that the Company can carry out by prohibiting natural monopolies from engaging in any other activities which are not natural monopoly activities except where the prior consent of the Ministry of the National Economy has been obtained to conduct the following activities:

- activities technologically related to natural monopoly activities; and
- other activities provided that the income from such other activities does not exceed 5% of the Company's income.

Shareholders' Rights

The Company may issue ordinary and preferred shares but cannot award a golden share (i.e., a share that entitles its holder to certain veto rights) to any person. The shares generally grant the following rights to their holders: (i) receive dividends, (ii) participate in the management of the Company, (iii) receive part of the assets remaining after satisfaction of the claims of creditors upon liquidation of the Company, (iv) receive information about operations of the Company, including a review of financial statements, (v) challenge in court any decisions approved by the Company's bodies, (vi) request the Company in writing to provide information about its activities and receive responses within 30 calendar days from the date of receipt by the Company of such request and (vii) make pre-emptive purchase of shares or other securities of the Company which are convertible into shares according to the laws of Kazakhstan.

The Charter permits the Company to exchange shares of one class for the shares of another class pursuant to the decisions of the general meeting of shareholders (a "**GMS**") and to convert any of its other securities into shares.

Transactions with Shares and Confirmation Rights to Shares

Transactions with the Shares are subject to registration in accordance with the laws of Kazakhstan. Ownership of the Shares is effective upon registration of the transaction.

Transactions involving Shares, except for Shares which are in a nominal holding, are registered with the Unified Securities Registrar JSC (the "**Registrar**"). Transactions involving hares which are in a nominal holding are registered in a record-keeping system of Central Securities Depository JSC ("**Central Depository**").

Rights to Shares are confirmed by a statement from a personal account of a shareholder in the register maintained by the Registrar. In the case of Shares which are nominally held, the rights to such Shares are confirmed by a statement from a personal account in a system of a nominal holding and/or the record-keeping system of the Central Depository.

Voting Rights

Each Share shall be entitled to one vote at the GMS.

Unpaid and Repurchased Shares

The JSC Law requires that until the Company's Shares are paid in full, such shares cannot be credited to the account of the purchaser. Instead, such shares are credited to the account of the Company as authorized but unplaced Shares. No dividends are distributed or payable on unplaced shares or shares that have been repurchased by the Company.

Dividends and Other Distributions

Dividends on ordinary shares can be paid in cash or with ordinary shares or bonds of the Company, provided that a shareholder has agreed to such payment of dividend with securities in writing.

Holders of preferred shares have priority to any dividends paid before the holders of common shares. As of the date of this Investment Memorandum, the Company has not issued any preferred shares.

The Company can declare dividends on ordinary shares on a quarterly, semi-annual or annual basis. The decision to pay dividends must be made by the GMS. The GMS can decide that the Company will not pay any dividend on ordinary shares. Information regarding such decision must be published in mass media and on the Company's corporate website within 10 business days of the decision.

The Company cannot pay any dividend on ordinary or preferred shares if: (i) as a result of the payment, the capital of the Company will become negative or (ii) the Company meets criteria for insolvency or may meet such as a result of payment of the dividend.

Pre-emption Rights

Both the JSC Law and the Charter grant to holders of the Company's ordinary shares a right to pre-emption with respect to any new ordinary shares issued by the Company from time to time or any ordinary shares which the Company has repurchased and has decided to re-sell. As such, the Company must deliver or publish a notice announcing to its shareholders an offer to buy the new ordinary shares or other securities convertible into ordinary shares on a pro rata basis to the number of shares held by the shareholders at the offer price established by the Board of Directors. The shareholders will have 30 days to submit their applications for the purchase of the ordinary shares or other securities convertible into ordinary shares.

Purchase of Own Shares

The Company can repurchase shares from any shareholder by entering into an agreement with such shareholder. The price for such shares shall be determined in accordance with the methodology for determining the price for shares repurchased by the Company approved by the GMS.

When the Company initiates a repurchase of more than 1% of the total number of issued shares, it must announce its decision in the mass media and on its website, prior to entering into the relevant transactions.

A shareholder can require the Company to repurchase its shares if:

- the GMS decides to re-organize the Company and the shareholder voted against such decision;
- the GMS adopts a decision concerning delisting of the Company shares and the shareholder did not participate in the relevant GMS or voted against the decision;
- the relevant stock exchange decides to delist the shares;
- the shareholder does not agree with the Company's decision to enter into a major transaction or a related-party transaction adopted in accordance with Kazakhstan law and the Charter; or
- the GMS adopts amendments to the Charter restricting the rights of shareholders and the shareholder did not participate in the relevant GMS or voted against such amendments.

Such shareholder can submit its demands for repurchase within 30 calendar days of the relevant decision. The Company will repurchase the relevant shares at the demand of the shareholder, at the repurchase price determined in accordance with the methodology approved by the GMS.

The Company cannot repurchase its own shares when the number of shares to be repurchased exceeds 25% of the total number of issued shares and the amount required for such repurchase would exceed 10% of the capital of the Company. If the shareholders require the Company to repurchase more shares than the permitted maximum, the Company must repurchase the shares on a pro rata basis.

The Company also cannot repurchase its shares if:

- as a result of the repurchase, the capital of the Company would fall below the minimum amount established by Kazakhstan law;
- if, at the time of repurchase, the Company may meet the criteria for insolvency; or
- if the court or the GMS has decided to liquidate the Company.

Bodies of the Company

The Company shall have the following governing bodies: (i) GMS, (ii) Board of Directors, (iii) Management Board and (iv) Internal Audit Service.

General Meetings of Shareholders

The GMS is the supreme governing body of the Company and has exclusive authority to decide on important and vital issues concerning the Company.

The Company shall have at least one annual GMS, which must be convened by the Board of Directors. At the annual GMS, shareholders shall consider the following key issues:

- Approval of annual financial statements of the Company;
- Determining the procedure for distributions of net income of the Company for the finished financial year and the amount of dividend per one ordinary share; and
- Issues regarding claims by shareholders against the actions of the Company and its officials and their outcome.

In addition to the above, the annual GMS may also consider any other issues pursuant to the agenda of the annual GMS.

The Chairman of the Board of Directors must:

- ensure that all members of the Board of Directors, the Management Board, the manger of the Internal Audit Service and all structural subdivisions attend the annual GMS;
- provide information about the amount of remuneration of the members of the Board of Directors and the Management Board to the GMS; and
- present to the shareholders the Company's annual report, including *inter alia* the report on activities of the Board of Directors.

Within 3 months following an audit of the Company's interim financials, the Company must convene a semi-annual GMS to vote on distributions of the Company’s net income following the 6 month period and the amount of dividends, if any, per one ordinary share.

The following major issues fall under the exclusive authority of the GMS pursuant to the current Charter of the Company:

- amendment of the Charter;
- voluntary reorganization or liquidation of the Company;
- increase of the number of declared shares of the Company or change of the type of unplaced declared shares of the Company;
- approval of the Code of Corporate Governance;
- establishing the number of members of the Board of Directors, their terms of office, their remuneration and early termination of their powers;
- approval of the annual financial statements of the Company;

- deciding on the procedure for distribution of the Company's net income for the relevant financial year and on the payment of dividends;

- deciding on the Company's participation in or withdrawal from the other legal entities by way of contributing or withdrawing assets which in the aggregate constitute 25% or more of the total value of the Company's assets;

- approval of any amendment to the methodology for determining the price of shares upon repurchase out by the Company;

- approval of the Dividend Policy;

- determining the procedure for providing information about the Company to the shareholders;

- adoption of resolutions on the voluntary delisting of the Company;

- approval of model agreement with the members of the Board of Directors of the Company; and

- adoption of resolutions on the issuance of securities of the Company, convertible into ordinary shares of the Company.

Board of Directors

The Board of Directors is responsible for the general management of the Company, except for any issues which are under the exclusive authority of the GMS.

The Board of Directors performs its functions in accordance with Kazakhstan law, the Charter, the Company's Corporate Governance Code, the internal regulations of the Board of Directors and other internal documents of the Company.

Only individuals can be members of the Board of Directors. A person cannot be a member of the Board of Directors of the Company if he/she (i) has an outstanding criminal conviction or a criminal conviction that was not subsequently overturned or (ii) has previously held a position as chairman or a member of the board of directors, chief executive (e.g., chairman of a management board), deputy chief executive (e.g., vice chairman of a management board), a member of the executive body (e.g., member of a management board) or chief accountant of another legal entity during a one year period preceding the date on which a decision was made on forced liquidation or forced redemption of shares, or on temporary suspension of another legal entity, which thereafter has been declared bankrupt.

The Company's Board of Directors shall have at least six members, at least one-third of whom shall be independent Directors.

The Board of Directors has exclusive authority to determine certain matters, including the following: outlining priority areas of the Company's development, as well as approval of the Company's development strategy; deciding on the repurchase of placed shares or other securities by the Company and the repurchase price; deciding on the issuance and terms of issue of the Company's bonds and derivatives; making recommendations to the GMS regarding the distribution of the net income for the past financial year and amount of dividend, if any, per share; deciding on the number of members and term of office of the Management Board, election of the Chairman of the Management Board and Management

Board members and early termination of their powers; approving the Rules for Salaries and Bonuses, chart of positions and salaries, as well as determining the amounts of salary and payment terms of salary of the Chairman of the Management Board, members of the Internal Audit Service and the corporate secretary; deciding major transactions and transactions that the Company is interested in, except for any such decisions which are made pursuant to the procedure established by the Board of Directors of the Fund in compliance with the National Welfare Fund Law; forming and determining the quantitative composition of committees of the Board of Directors and their term of office, electing the chairman and members of the committees and approving regulations for the committees; deciding on any increase of the Company's obligations that amount to 10% or more of its capital; and deciding on entering into one or several related transactions that would result in the Company acquiring or disposing of any assets with a value equal to or exceeding 10% of the total assets of the Company.

The Board of Directors must hold meetings at least six times per year.

For the consideration of certain issues and the preparation of recommendations to the Board of Directors of the Company, the following Committees of the Board of Directors have been established: (i) an internal audit committee, (ii) an appointments and remunerations committee, (iii) a strategic planning committee and (iv) a social issues committee.

For additional information, see *"Management – Board of Directors – Overview"*.

Management Board

The Management Board of the Company is the executive body of the Company which manages the Company's day to day business on matters that are not within the authority of the Company's other decision making bodies.

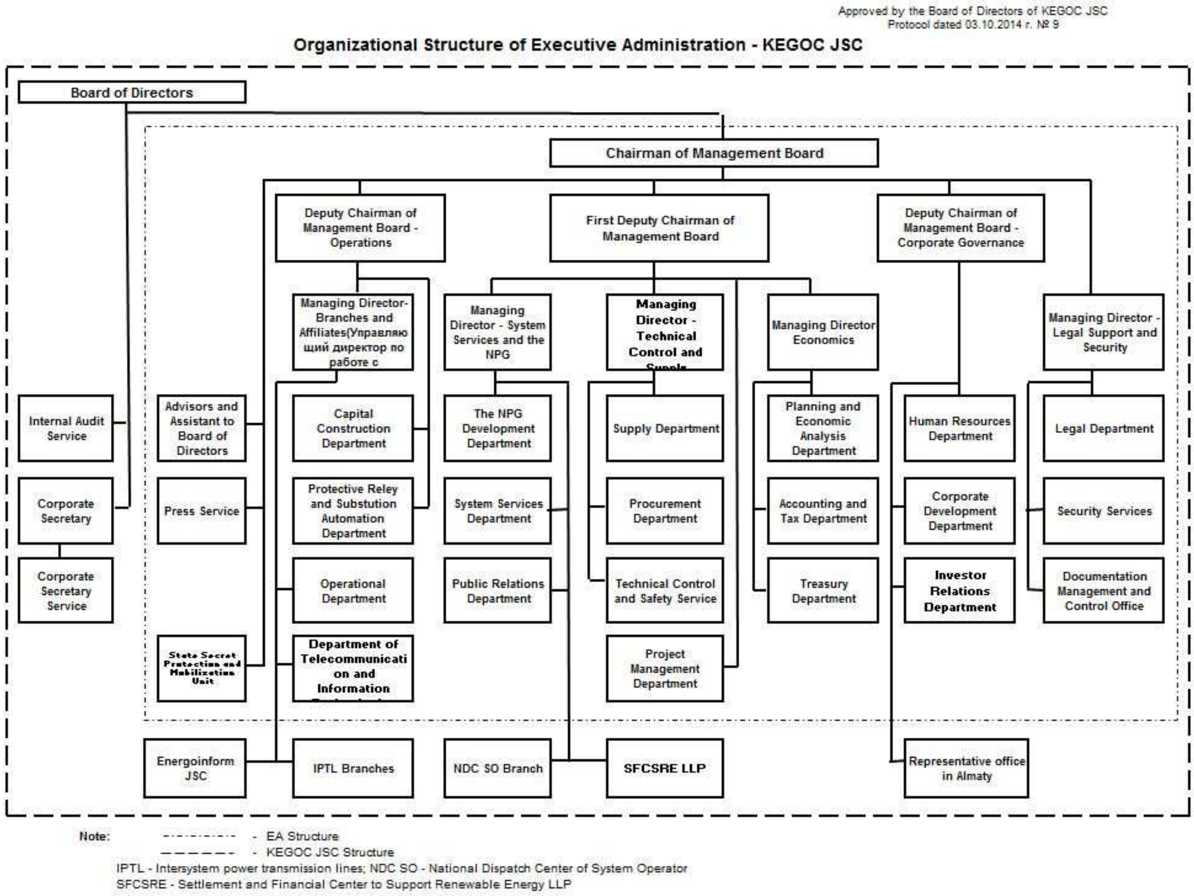
Election of the Management Board, the members' terms of office and early termination of members of the Management Board are determined by the Board of Directors.

Meetings of the Management Board may be held in person or in absentia (in exceptional cases provided for by the Management Board Regulations). The quorum requirement is satisfied if at least 50% of the members are present. Decisions are adopted by a simple majority of the votes present at the meeting and each member of the Management Board has one vote. If there is a tie, the Chairman of the Management Board casts the deciding vote.

The following matters are within the authority of the Management Board: implementing and executing the Company's development strategy, plans and budget; providing the Board of Directors with dividend forecasts; informing the Board of Directors of significant shortcomings in the Company's risk management system; approving the Company's internal documents in relation to the organization of the Company's activities, including the integrated management system; approving transactions with other members of the Fund's Group, in accordance with the special conditions established by JSC Law, procedures provided by the Board of Directors of the Fund and in accordance with the Law on Sovereign Wealth Fund; approving the location of the Company's headquarters; arranging for the Board of Directors to consider matters within its authority; approving the Company's itemized budget within the framework of the Company's development plan (if an itemized budget is available); adopting decisions on the opening and closing of branches and representative offices of the Company in Kazakhstan, and approving any relevant regulations that may be required; approving regulations on salaries and bonuses for administrative and managerial personnel of the Company (except for members of the Management Board, the Internal Audit Service and the corporate secretary of the Company); and adopting decisions on a transaction or a series of related transactions that would result in the Company acquiring or disposing of any assets with a value greater than 5% and less than 10% of the total value of the Company's assets, except for transactions determined by the Chairman of the Management Board.

For additional information, see *"Management – Management Board – Overview"*.

MANAGEMENT



Board of Directors

Overview

The Board of Directors is responsible for the general management of the Company, except for any matters which are under the exclusive authority of the GMS.

Only individuals can be members of the Board of Directors. An individual who is not a shareholder of the Company and is not proposed or recommended for election to the Board of Directors as a shareholder representative may be a member of the Board of Directors. The number of such persons may not exceed 50% of the members of the Board of Directors.

Members of the Management Board, other than the Chairman, cannot be members of the Board of Directors. The Chairman of the Management Board cannot be elected as the Chairman of the Board of Directors.

Candidates for Director positions and Directors themselves must have relevant work experience, knowledge, qualifications, positive achievements and untarnished reputations in the business and industry spheres required for the performance of his/her duties and effective functioning of the entire Board of Directors in the interests of shareholders and the Company.

A person cannot be a member of the Board of Directors of the Company if he/she (i) has an outstanding criminal conviction or a criminal conviction that was not subsequently overturned or (ii) has previously held a position of chairman or a member of the board of directors, chief executive (e.g., chairman of management board), deputy chief executive (e.g., vice chairman of management board), member of the executive body (e.g., member of the Management Board) or chief accountant of another legal entity during a one year period preceding the date on which a decision was made on forced liquidation or forced redemption of shares, or on temporary suspension of such another legal entity, which thereafter has been declared bankrupt.

The Company's Board of Directors shall have at least six members, at least one-third of whom must be independent Directors.

Members of the Board of Directors are elected for a term not longer than three years. Any term of a Director that is more than nine successive years must be subject to special consideration in light of the necessity of qualitative renewal of the structure of the Board of Directors every nine years. In exceptional cases, re-election for a term beyond nine successive years is permitted, but the re-election of such a person to the Board of Directors must take place on an annual basis.

The GMS determines the quantitative composition and term of the powers of the Board of Directors. The GMS elects the members of the Board of Directors and has the right to terminate the powers of any or all members of the Board of Directors prior to the end of the respective term or terms, as the case may be. The GMS determines the amount and terms of payment of remuneration to members of the Board of Directors.

The Chairman of the Board of Directors is selected by the GMS.

The Board of Directors has exclusive authority to determine certain matters, including the following:

- outlining priority areas of the Company's development, as well as approval of the Company's development strategy;

- deciding on the repurchase of placed shares or other securities by the Company and the repurchase price;

- deciding on the issuance and terms of issue of the Company's bonds and derivatives;

- making recommendations to the GMS regarding the distribution of the net income for the past financial year and amount of dividend, if any, per share;

- deciding on the number of members and term of office of the Management Board, election of the Chairman of the Management Board and Management Board members and early termination of their powers;

- approving the rules for salaries and bonuses, chart of positions and salaries, as well as determining the amounts of salary and payment terms of salary of the Chairman of the Management Board, members of the Internal Audit Service and the corporate secretary;

- determining the number of members and term of office of the Internal Audit Service, appointing its head and members, terminating their powers early and determining the operation procedure of the Internal Audit Service;

- appointing and determining the term of office, early termination of powers, salary, payment terms of remuneration and bonuses of the corporate secretary;

- approving documents governing internal operations of the Company (except for documents adopted by the Management Board for the purposes of organizing the Company's activities), including the internal document specifying terms and procedures of holding an auction and subscription for the Company's securities;

- deciding on major transactions and transactions that the Company is interested in, except for any such decisions which are made pursuant to the procedure established by the Board of Directors of the Fund in compliance with the National Welfare Fund Law;

- forming and determining the quantitative composition of committees of the Board of Directors and their term of office, electing the chairman and members of the committees and approving regulations for the committees;

- approving the Company's Development Plan and any amendments based thereto on the procedure established by the GMS;

- approving the annual audit plan of the Internal Audit Service;

- determining the terms and procedures for members of the Board of Directors to receive information on the Company's activities, including information regarding financial activity;

- approving the evaluation system and evaluating the activities of the Company, the Board of Directors, committees of the Board of Directors, certain members of the Management Board and the Internal Audit Service of the Company;

- deciding on any increase of the Company's obligations for an amount equal to or exceeding 10% of the Company's capital; and

- deciding on entering into one or several related transactions that would or may result in the Company acquiring or disposing of any assets with a value equal to or exceeding 10% of the total assets of the Company.

Meetings of the Board of Directors

Meetings of the Board of Directors can be called by its Chairman, the Management Board, or upon the request of:

- any member of the Board of Directors;

- the Company's Internal Audit Service;

- an audit firm performing the Company's audit; or

- a major shareholder.

The Board of Directors must hold meetings at least six times per year.

The quorum required for a duly convened meeting of the Board of Directors shall not be less than half of the number of elected members of the Board of Directors and at least half of the independent Directors. A quorum can be determined by taking into account absent members of the Board of Directors if their votes expressed in writing have been made available (i.e., mixed voting).

If the total number of members of the Board of Directors is not sufficient to constitute a quorum, the Board of Directors must raise the issue of electing new members to the Board of Directors to the GMS for consideration.

Each member of the Board of Directors is entitled to one vote. Decisions of the Board of Directors are made by a simple majority vote of the Board of Directors members present at the meeting. In case of a tie, the Chairman of the Board of Directors, or the person chairing the meeting of the Board of Directors, shall cast the deciding vote.

Decisions regarding interested transactions the Company may wish to enter may be made by a simple majority of votes of members of the Board of Directors who are not interested in the transaction.

Where all the members of the Board of Directors, except for independent Directors, are interested in a transaction, a decision may be made by a simple majority vote of the independent Directors. If a decision cannot be made by the independent Directors due to an insufficient number of independent Directors, or in case of a tie vote by independent Directors, the decision shall be made by a simple majority vote at the GMS.

Members of the Board of Directors

As of the date of the Investment Memorandum, the Board of Directors consists of the following individuals:

Name	**Position**	**Age**	**Born**
Bektemirov Kuanysh Abdugalievich	Chairman of the Board of Directors	44	1970
Daukeyev Gumarbek Zhusupbekovich	Independent Director	66	1948
Spitsyn Anatoliy Tikhonovich	Independent Director	75	1939
Luca Sutera	Independent Director	43	1971
Kazhiyev Bakytzhan Toleukazhiyevich	Member of the Board of Directors, Chairman of the Management Board	50	1964
Satkaliyev Almassadam Maidanovich	Member of the Board of Directors	44	1970

Kuanysh Bektemirov is the Chairman of the Board of Directors. He was appointed as Chairman of the Board of Directors by the Sole Shareholder on May 8, 2012 No.21/1. Mr. Bektemirov graduated from the Kazakh National University named after Al-Farabi in 1993. Mr. Bektemirov has broad experience in the energy sector. Mr. Bektemirov is also a Senior Director for Managing the Assets of the Fund.

Mr. Bektemirov does not receive any fees for his role as a member of the Board of Directors or as a representative of the Sole Shareholder.

Gumarbek Daukeyev was appointed as an independent Director of the Company by resolution of the Sole Shareholder No.21/12 dated May 8, 2012. Mr. Daukeyev. graduated from the Kazakh Polytechnic Institute named after V.I. Lenin in 1971. In 1981 he became a candidate of technical sciences. Mr.Daukeyev is a member of Board of Directors of the Company and of Samruk, a member of the MINT Advisory Committee and a member of the expert committee on tariffs in the electricity industry of the ARNM, Almaty akimat. Since 1997, Mr. Daukeyev has been the chancellor of the Almaty University of Power Engineering and Telecommunications.

Mr. Daukeyev receives a fee for his role as an independent Director of the Board of Directors, and is entitled to reimbursement of costs and expenses associated with his position. Conditions of remuneration and reimbursement are specified in contract No.07-D-581 between the independent Director Daukeyev and the Company dated June 5, 2012.

Anatoliy Spitsyn was appointed as an independent Director of the Company by resolution of the Sole Shareholder No.21/12 dated May 8, 2012. Mr. Spitsyn graduated from the Odessa Engineering and Construction Institute in 1962. Mr. Spitsyn is a doctor of economics a professor and member of the Presidium of the Russian Academy on Natural Sciences and first vice-president of the International Academy on Investments and Economy of Construction, and member of the Union of Architects of the USSR and the Russian Federation. Mr. Spitsyn was awarded three orders of the Red Banner for Labor, an order of the “Knight of Science and Labor” of RANS, an order of Professionals of Russia and a medal for achievements in science named after V.V. Leont’ev.

Mr. Spitsyn receives a fee for his role as an independent Director of the Board of Directors, and is entitled to reimbursement of costs and expenses associated with his position. Conditions for payment of remuneration and reimbursement are specified in service contract No.07-D-580 between the independent Director Spitsyn and the Company dated June 5, 2012.

Luca Sutera was appointed as an independent Director of the Company by resolution of the Sole Shareholder No.21/12 dated May 8, 2012. Mr. Sutera graduated from the London School of Economics and Political Science in England in 1995. In 1996 he received a bachelor degree in business administration, graduated from the Management School Enel S.p.A./S.S.A., Rome, Italy. Mr. Sutera is a Company Vice President and Chief Financial Officer (CFO Global Power & Water Division), as well as an independent Director.

Mr. Sutera receives a fee for his role as an independent Director of the Board of Directors, and is entitled to reimbursement of costs and expenses associated with his position. Conditions for payment of remuneration and reimbursement are specified in a service contract between the independent Director Sutera and the Company dated June 5, 2012 No.07-D-582.

Bakytzhan Kazhiyev was appointed as a member of the Board of Directors by resolution of the Sole Shareholder No.21/12 dated May 8, 2012. Mr. Kazhiyev is the Chairman of the Management Board of the Company. Mr. Kazhiyev graduated from the Alma-Ata Power Institute in 1986. He has broad experience in the electricity industry and has worked for the Company since 2000. In 2006 he received the honorary title of Honored Energy Specialist of the CIS.

Mr. Kazhiyev does not receive any fees for his role as a member of the Board of Directors.

Almassadam Satkaliyev was appointed as member of the Board of Directors of the Company by resolution of the Sole Shareholder No. 21/12 dated May 8, 2012. Mr. Satkaliyev graduated from the Kazakh National University named after Al-Farabi in 1992. He has broad experience in the oil and gas and electrical power industries. He has worked for KazTransOil JSC and has held the position of a Vice-Minister of Energy and Mineral Resources of the Republic of Kazakhstan. Mr. Satkaliyev is Chairman of the Management Board of Samruk-Energo JSC. He is a candidate of economic science (i.e. the equivalent of a Ph.D.) and was awarded the title of the Honored Energy Specialist of the CIS (2003).

Mr. Satkaliyev does not receive any fees for his role as a member of the Board of Directors nor as a representative of the Sole Shareholder.

Management Board

Overview

The Management Board of the Company is the executive body of the Company which manages the Company's day to day business on matters that are not within the authority of the Company's other decision making bodies.

Election of the Management Board, the members' terms of office and early termination of the Management Board members' authorities is under the purview of the Board of Directors.

Meetings of the Management Board may be held in person or in absentia (in exceptional cases provided for by the Management Board Regulations). The quorum requirement is satisfied if at least 50% of the members are present. Decisions are adopted by a simple majority of the votes present at the meeting and each member of the Management Board has one vote. If there is a tie, the Chairman of the Management Board shall cast the deciding vote.

The following matters, *inter alia*, are under the authority of the Management Board:

- preparing, approving and providing the Board of Directors with the Company's development strategies and plans, and any amendments thereto;
- implementing and executing the Company's development strategy, plans and budget;
- providing the Board of Directors with dividend forecasts;
- drafting the Company's internal control and risk management policies;
- informing the Board of Directors of significant shortcomings in the Company's risk management system;
- approving the Company's internal documents in relation to the organization of the Company's activities, including the integrated management system;
- approving transactions with other members of the Fund Group, in accordance with the special conditions established by JSC Law, procedures provided by the Board of Directors of the Fund and in accordance with the Law on Sovereign Wealth Fund;
- approving the staff schedule of the Company's headquarters;

- approving terms for valuing property to be transferred as a payment for the Company's shares or where property of the Company is the subject of a major transaction;
- adopting decisions on charitable and sponsor aid;
- arranging for the Board of Directors to consider matters within its authority;
- approving the Company's itemized budget within the framework of the Company's development plan (if an itemized budget is available);
- adopting decisions on the opening and closing of branches and representative offices of the Company in Kazakhstan, and approving any relevant regulations that may be required;
- approving regulations on salaries and bonuses for administrative and managerial personnel of the Company (except for members of the Management Board, the Internal Audit Service and the corporate secretary of the Company); and
- adopting decisions on a transaction or a series of related transactions that would or may result in the Company acquiring or disposing of any assets with a value greater than 5% and less than 10% of the total value of the Company's assets, except for transactions determined by the Chairman of the Management Board.

Members of the Management Board

As of the date of the Investment Memorandum, the Management Board consists of the following individuals:

Name	**Position**	**Age**	**Born**
Kazhiyev Bakytzhan Toleukazhiyevich	Chairman of the Management Board	50	1964
Zhazykbayev Bakytkhan	First Deputy Chairman of the Management Board	45	1968
Akmurzin Abat Amanovich	Deputy Chairman of the Management Board for Operations	56	1958
Beksary Zhanabai Muratbekuly	Deputy Chairman of the Management Board for Corporate Governance	49	1965
Kuanyshbayev Askerbek Dosayevich	Managing Director for Development of the NPG and ancillary services	59	1955
Bekenov Muktar Onarbayevich	Managing Director for working with branches and affiliates	56	1958
Temirbekov Bolat Zhalboldinovich	Managing Director for monitoring and technical support	49	1964

Name	Position	Age	Born
Zhakipbayev Kairat Tulegenovich	Managing Director for Legal Support and Security	50	1964
Botabekov Aibek Toleubekovich	Managing Director for Economics	37	1976

Bakytzhan Kazhiyev was appointed Chairman of the Management Board by resolution of the Board of Samruk-Kazyna National Welfare Fund JSC No.24/11 dated May 31, 2011. He graduated from Alma-Ata Power Institute and Karaganda State Technical University. He has worked in the electricity industry since 1986 and has held different job positions at JSC KEGOC, including (from February 2009 to May 2011) Vice-President and Deputy Chairman of the Management Board on Production. Mr. Kazhiyev was awarded with Honor Certificates from the Ministry of Energy and Mineral Resources of RK, Electricity Council of CIS, Kazakhstan Electricity Association, the honor of the Republic of Kazakhstan "Kurmet", commemorative for 10 years of Kazakhstan Constitution, honorable badge for Contributions to Development of Engineering in the Republic of Kazakhstan. He has been awarded with the title of honor "Honored Energy Specialist of CIS", the title "Energy Specialist", Kazakhstan Electricity Association" and was awarded with the medals 'Twentieth Anniversary of Kazakhstan Independence' and "Twentieth anniversary of the Tenge".

Bakytkhan Zhazykbayev was appointed First Deputy Chairman of the Management Board by resolution of the Board of Directors No. 1 dated February 17, 2012. Mr. Zhazkybayev is responsible for overseeing the Company's economic and financial departments. He graduated from Kazakh State Academy of Management, Toraigyrov Pavlodar State University. Since 2007, Mr. Zhazykbayev has been the head of the Taldykorgan Energy Company (TATEK). From 2001-2007, he held various positions at the Company, including director of the Company's subsidiary Aktobe Interregional Electricity Systems. He was awarded the titles 'Honored Energy Specialist of the Republic of Kazakhstan', 'Honored Energy Specialist of the Kazakhstan Electricity Association' 'Honored Energy Specialist of CIS' and 'Honorable Citizen of Karatalskiy Region of the Almaty Oblast'. In 2010, Mr. Zhazykbayev was awarded with the order of the Republic of Kazakhstan 'Kurmet'. A veteran of comat operations in Afganistan, he was then awarded with the medal "For Bravery".

Abat Akmurzin was appointed a member of the Management Board by a resolution of the Board of Directors No. 6 dated October 19, 2010. Mr. Akmurzin has been Managing Director on Development of Subsidiaries and Branches since July 2010 and Deputy Chairman of the Management Board for Operations since July 2011. Mr. Akmurzin graduated from Kazakh Agriculture Institute in 1980 and Rudniy Industrial Institute in 2006. He received the honorary title of Honored Energy Specialist of the CIS in 2002, the title 'Honored Energy Specialist of the Kazakhstan Electricity Association in 2009, and was awarded the Honorable Certificate of Electricity Council of CIS, medal 'KAZENERGY', the anniversary medal 'Twentieth Anniversary of Kazakhstan Independence' and the honorable certificate of the Republic of Kazakhstan.

Zhanabay Beksary was appointed a member of the Management Board by the resolution of the Board of Directors No. 1 dated February 24, 2010. Mr. Beksary is the Deputy Chairman of the Management Board on Corporate Governance. He graduated from the Voronyozh Politechnical University in 1989. Mr. Beksary has worked as a state official in numerous positions. In 2008, he was appointed as the State Inspector for the Administration of the President of the Republic of Kazakhstan. Mr. Beksary has been awarded the medal 'Ten Years of Astana', honorable certificate of the Akim of the Kyzylorda Oblast, anniversary medal ‘Twentieth Anniversary of Kazakhstan Independence’ and medal of the Republic of Kazakhstan “For Great Contribution”.

Askerbek Kuanyshbayev was appointed a member of the Management Board by resolution of the Board of Directors No. 2 dated April 7, 2011. Mr. Kuanyshbayev is Managing Director for Development of the NPG and ancillary services. He graduated from the Alma-Ata Power Institute in 1977 and is a candidate of economics. He has worked for a significant period of time at the Almaty Energy Institution (as assistant, tutor, associate professor, and associate dean). He has held the following positions from 2001 to the present: Director of Department of Planning and Economic Analysis, Managing Director on the Economics at KEGOC, Director of Management of Electricity Assets at JSC Kazakhstan Holding for Management of State Assets “Samruk”, Director of the Almaty branch of Intersystem Electricity Networks, director of the Department of Human Resources and Managing Director of Development of NES of KEGOC. Since June 2011, Mr. Kuanyshbayev has been the Counselor to the Russian Academy of Natural Sciences for the department “Integration Problems of CIS and Eurasian Economic Space”.

Mr. Kuanyshbayev has been awarded a Certificate of Honor by the Kazakhstan Ministry of Energy and Mineral Resources, an Honorable Certificate of Electricity Council of CIS and the order of the Republic of Kazakhstan “Kurmet”. He has also received the honorary title of Honored Energy Specialist of the CIS.

Muktar Bekenov was appointed a member of the Management Board by resolution of the Board of Directors No. 5 dated July 8, 2011. Mr. Bekenov is Managing Director for Working with Branches and Affiliates. He graduated from the Alma-Ata Power Institute in 1991. He was awarded the anniversary medals ‘Tenth Anniversary of Kazakhstan Independence’, ‘Twentieth Anniversary of Kazakhstan Independence’ and the medal ‘KAZENERGY’. He was also awarded the honorary distinction ‘Honorable Energy Specialist of CIS’, ‘Honored Energy Specialist of the Kazakhstan Electricity Association’. In 2010 he was awarded an Honorable Certificate of the Republic of Kazakhstan.

Bolat Temirbekov was appointed as a member of the Management Board by resolution of the Board of Directors No. 1 dated February 17, 2012. Mr. Temirbekov graduated from Alma-Ata Energy Institute. Mr. Temibekov’s previous positions at the Company included procurement advisor and head of the procurement department. He was awarded the commemorative badge ‘Ten Years of Kazakhstan Constitution’, anniversary medal ‘Twentieth Anniversary of Kazakhstan Independence’, honorable certificate of Samruk-Kazyna JSC and honorable distinction ‘Honorable Energy Specialist of the Kazakhstan Electricity Association’. In 2013 he was awarded a medal ‘For Great Contribution’.

Kairat Zhakipbayev was appointed as a member of the Management Board by resolution of the Board of Directors No. 5 dated May 29, 2008. Mr. Zhakipbayev is Managing Director for Legal Support and Security. In 1985 Mr. Zhakipbayev graduated with honors from the Faculty of Law of Kazakh State University. In 1990 he also took courses at the Moscow Institute of Professional Development of Managing Staff of the General Prosecutor's Office of the USSR, and has undertaken training during overseas experiences in the U.S., Hungary and Sweden. Mr. Zhakipbayev has significant experience in the field of lawmaking and law enforcement. He worked in the General Prosecutor’s Office, the State Investigation Committee and the Ministry of Internal Affairs. He has served the State as Deputy Chairman of the Committee on Financial Control of the Ministry of Finance of the Republic of Kazakhstan, Head of the Legislative Department of the Staff of the Mazhilis of the Parliament of the Republic of Kazakhstan, Director of the Center of Lawmaking and

Monitoring of the Parliament of the Republic of Kazakhstan and Advisor to the Chairman of the Mazhilis of the Parliament of the the Republic of Kazakhstan. He was awarded the anniversary medals, “100 years of Kazakhstan Railways”, “10 years of Kazakhstan Parliament”, “Twentieth Anniversary of Kazakhstan Independence”, a letter of thanks from the Prime-Minister of Kazakhstan, Mr. Masimov, honorable certificate from Samruk-kazyna JSC, and medal ‘KAZENERGY’.

Aibek Botabekov was appointed as Managing Director for Economics by resolution of the Board of Directors No. 8 in 2009. Mr. Botabekov received his degree from Karaganda State University named after E. Buketov in 1997. He has worked for the Company since 1997, starting as an accountant in one of the Company’s branches. He was awarded with a letter of thanks from the President of the Republic of Kazakhstan, Mr. Nazarbayev, and an honorable badge, anniversary medal ‘Twentieth Anniversary of Kazakhstan Independence”, honorable certificate of Samruk-Kazyna JSC, and medal of the Republic of Kazakhstan “For Great Contribution”. Mr. Botabekov has been awarded the honorary title of Honored Energy Specialist of the CIS.

Compensation

The total compensation payable to the Board of Directors, the Management Board and key employees in 2012 and 2013 was KZT 273,534 thousand and KZT 295,738 thousand, respectively.

Compensations Payable to the Members of the Board of Directors

The Charter of the Company provides that upon a decision of the GMS the members of the Board of Directors may be compensated and reimbursed for expenses incurred in connection with their capacity as members of the Board of Directors. The Company does not pay any compensation nor does it reimburse any expenses of members of the Board of Directors who are acting as representatives of the Fund. The Company pays compensations to and reimburses expenses only for independent directors.

The compensation for independent Directors is comprised of: (i) fixed annual compensation and (ii) additional compensation. The amount of the fixed annual compensation is determined by the General Meeting of Shareholders. The Company pays additional compensations to each independent director for each time he/she participates in a meeting of the Board of Directors held by joint attendance. The Company also reimburses each independent director for expenses incurred in connection with his/her participation in such Board of Directors meetings, except whether the meeting is held in the place of permanent residence of an independent director.

From 2011 through 2013 the total amounts of compensations paid, and expenses reimbursed, by the Company to independent directors amounted to:

in thousand KZT

	2011	**2012**	**2013**
Compensation	5,913	12,564	14,120
Reimbursed expenses	349	1,952	1,952

Compensations Payable to the Members of the Management Board

The Company compensates members of the Management Board pursuant to the rules for compensation of, and awarding bonuses to, management, members of the Internal Audit Service and the corporate secretary.

The Company pays salaries to members of the Management Board on a monthly basis. The amount of the monthly salary of each member of the Management Board is determined by the Board of Directors. The Company also pays to members of the Management Board (i) social allowances and (ii) achievement bonuses.

Social allowances are comprised of (i) a fixed amount payable by the Company once a year to all employees of the Company in observation of the Independence Day of the Republic of Kazakhstan that must not exceed 10 times the official minimum wage, or KZT 199,660 as of the date of this Investment Memorandum and (ii) an allowance for the improvement of health which the Company pays to all employees when they take annual vacations.

Achievement bonuses are payable by the Company to a member of the Management Board in the event that he/she has achieved the goals and/or targets specifically determined for him/her by the Board of Directors. The actual amount of the bonus of each member of the Management Board is determined by the Board of Directors depending on his/her achievements (attaining certain results or indicators).

The total amounts of salaries and other payments to members of the Management Board in 2011 – 2013 are set forth below:

In thousand KZT

	2011	**2012**	**2013**
Salaries	72,878	260,836	264,790
Other payments	180,966.6	186,615.2	164,940.8

Compensations Payable to Key Employees (Directors of Branches and Heads of Departments)

The Company compensates key employees pursuant to the rules for compensation of, and awarding bonuses to, employees of KEGOC.

The Company pays salaries to key employees on a monthly basis. The amount of such monthly salary payable to key employees is determined by the Chairman of the Management Board. The Company also pays key employees (i) social allowances which are similar to those payable to the members of the Management Board and (ii) performance-related bonuses.

Performance-related bonuses may be paid on a quarterly and/or annual basis. The actual amount of performance related bonus and the period for which such bonus is paid is determined by the Management Board, based on the performance of the relevant key employee. The amount of the performance-related bonus, however, cannot exceed a maximum threshold as determined by the Company.

Interests of the Members of the Board of Directors and the Management Board

Prior to the Offering, none of the members of the Board of Directors, or the members of the Management Board, holds shares of the Company or has applied to acquire the Shares. Prior to the Offering, no family members of any of the members of the Board of Directors or the members of the Management Board have any interest in the shares of the Company or have applied to acquire the Shares. There are no family or kin relationships between any of the members of the Board of Directors and any of the members of the Management Board.

Details on Past Directorships

None of the members of the Board of Directors or the Management Board have at any time in the last five years:

- been a partner in any partnership which, at the time of or within the twelve months preceding, has been subject to a compulsory liquidation, administration or partnership voluntary arrangement;
- had any convictions relating to offences involving fraud or dishonesty;
- been declared bankrupt or been subject to any individual voluntary arrangement;
- been a director or other officer of any company which at the time of or within twelve months following his directorship, has been subject to receivership, compulsory liquidation, administration, company voluntary arrangement or any composition or arrangement with creditors generally or any class of creditors of such company;
- been a partner of any partnership at the time of or within twelve months preceding a receivership of any assets of such partnership;
- had any of their assets subject to any receivership; or
- been the subject of any official public incriminations and/or sanctions by any statutory or regulatory authorities (including designated professional bodies) or been disqualified by a court from acting as a director or other officer of a company or from acting in the management or conduct of the affairs of a company.

Heads of Departments of the Company

As of the date of this Investment Memorandum, the heads of the departments of the Company are the following individuals:

Department	Head of department
System Services	Kuanyshbayev Zhanibek Bolatbekovich
Procurement	Demina Lyubov Mikhailovna
Services	Akhmettayev Daur Diasovich
Planning and Economic Analysis	Zheksembinov Serik Zhomartkaliyevich
Accounting and Tax Department	Mukanova Dinara Turashevna
Treasury	Moldybayeva Nika Akhmetovna
Project Management	Katyshev Sergei Irmanovich

Department	Head of department
Relay Protection and Automation of Electric Power Substations	Nurutdinov Adil Bulatovich
Development of NPG	Isenov Nurzhan Kakimzhanovich
Operations	Arystanov Baurzhan Primtaevich
Capital Construction	Atakulov Yermahanbet Tillabekovich
Legal	Safuani Tolegen Yesenkululy
Corporate Development	Akhmetov Yerbosyn Kimovich
Human Resources	Aimenov Khanay Armiyanovich
External and Public Relations	Shaikhanov Arman Zhanabayevich
Internal Audit Service	Yesetov Omirzhan Omirbekovich
Corporate Development Services	Ramazanov Yertay Baurzhanovich
Technical Supervision and Work Safety Services	Appakov Nurbol Tileukeyevich
Security Service	Zhakupbayev Alpysbai
Press Service	Karpishev Oral Khablovich
Telecommunications and Information Technology	Anesov Serik Ibaidullayevich
Document Maintenance and Control	Kezekeneva Kulyai Bakayevna

Heads of Branches/Representative Offices of the Company

As of the date of this Investment Memorandum, the heads of the branches and representative offices of the Company are the following individuals:

Branch/representative office	Head of branch/representative office
National Dispatch Center of the System Operator (Branch)	Nugmanov Serik Aibekovich
Akmolinskiye MES Branch	Alshynbekov Zhanabay
Aktyubinskiye MES Branch	Kaziyev Habibulla Asanovich
Almatinskiye MES Branch	Urazhanov Kayrat Manapovich
Vostochnye MES Branch	Alpysbayev Talgat Tursunovich

Branch/representative office	Head of branch/representative office
Zapadnye MES Branch	Daineko Alexandr Nikolayevich
Sarbaiskiye MES Branch	Karakesekov Kairat Izbasarovich
Severnye MES Branch	Tuyakov Tuleu Akanovich
Central’niye MES Branch	Beisenov Arman Kydyrbayevich
Yuzhniye MES Branch	Goldshtein Sergei Genrikhovich
Representative Office of KEGOC in Almaty city	Kalmenov Marat Ergaliyevich

Management of EnergoInform JSC

As of the date of this Investment Memorandum, the Chairman of the Management Board of EnergoInform JSC is Abdugaliyev Anuar Moldagaliyevich.

Management of Settlement and Financial Center to Support Renewable Energy LLP

As of the date of this Investment Memorandum, the General Director of Settlement and Financial Center to Support Renewable Energy LLP is Nurmaganbetov Zhandos Demesinovich.

Interested Members of the Management

In the ordinary course of business, the Company has engaged in and continues to engage in related party transactions with companies affiliated with its principal shareholder, the Fund. The relevant legislation governing the procedure for entering into transactions between the Fund’s Group companies is the Sovereign Welfare Fund Law and the Related Party Transactions Rules, i.e., rules related to transactions involving entities that are members of Samruk-Kazyna JSC group, as these transactions are subject to specific requirements set forth in the JSC law.

The Related Party Transactions Rules authorize the Management Board to approve any transactions between the Company and any other members of the Fund's Group by an affirmative vote of 75% of all members of the Management Board. The Board of Directors is also authorized in its sole discretion to approve any transactions with a member of the Fund's Group.

The Fund is the sole shareholder of the Company as of the date of this Investment Memorandum and, following the Offering, the Fund will own at least 90% plus one voting share of the Company. The Fund, as the controlling shareholder of the Company, also effectively controls the Board of Directors and the Management Board. Related party transactions pose a risk of the Company entering into transactions on terms less favorable than could be obtained in arm’s length transactions with unrelated parties. For more details please see the section “*Risk Factors – Risks Relating to the Company – Interests of the Fund as a Major Shareholder May Be Different from the Interests of the Holders of the Shares*”.

Transactions with the Members of the Board of Directors, Management Board and Key Employees

During the period from January 1, 2011 through December 31, 2013, the Company did not enter into any transactions with any members of the Board of Directors or any key employees identified in this section except for the transactions relating to their status as Directors or employees of the Company.

Corporate Governance

The Company maintains the policy of improving its corporate governance. Developing practices of corporate governance and stable development is one of the key strategic goals of the Company as set forth in "*Business – Long-Term Strategy of KEGOC until 2025*".

Independent Directors

The JSC Law provides that no less than 30% of all Directors must be independent. Currently, three of the six Directors are independent, in compliance with the JSC Law.

Both the JSC Law and the Charter of the Company provide that a Director qualifies as independent if he/she is not:

- an affiliate of the Company or its affiliates and has not been an affiliate of the Company within three years prior to his/her election to the Board of Directors (except where he/she held the position of independent Director of the Company),
- subordinated to officials of the Company or its affiliates, and has not been subordinated to these persons/entities within three years prior to his/her election to the Board of Directors,
- participating in the audit of the Company as an auditor working in an audit firm and has not participated in such audit within three years prior to his/her election to the Board of Directors,
- a representative of any shareholder in the meetings of the corporate bodies of the Company and has not been such a representative within three years prior to his/her election to the Board of Directors, or
- a Government official.

Committees of the Board of Directors

The JSC Law and the Charter of the Company require the Company to establish committees to advise the Board of Directors in the following areas:

- internal audit;
- nomination and remunerations;
- strategic planning; and
- social issues.

The Company has the following three committees: the internal audit committee, the appointments and remunerations committee and the strategic planning and corporate governance committee. Various social issues are addressed between the existing three committees.

The JSC Law provides that only independent Directors can chair the committees responsible for issues listed in items (1)-(4) above.

Internal Audit Committee

The Internal Audit Committee is a consulting committee of the Board of Directors. The Internal Audit Committee is responsible for giving recommendations to the Board of Directors in the following key areas: (i) effectiveness of the monitoring system in connection with the Company's financial and economic activities, (ii) effectiveness of the Company's risk management system and (iii) independence of external and internal auditors of the Company.

The JSC Law requires that the Internal Audit Committee be chaired by an independent Director. Internal policies of the Company require that the Internal Audit Committee be comprised of at least two Directors, at least one whom must be independent and chair the Internal Audit Committee. At least one member of the Internal Audit Committee must have a degree and strong background in accounting, finance, finance reporting or auditing. The members of the Internal Audit Committee are elected by the Board of Directors by a simple majority of votes.

Currently, the Internal Audit Committee is comprised of three independent Directors: Mr. Daukeyev, Mr. Spitsyn and Mr. Sutera. Mr. Sutera chairs the Internal Audit Committee. All members of the Internal Audit Committee have sufficient knowledge and qualifications on functional issues of the Internal Audit Committee to fulfill its function effectively.

The Internal Audit Committee develops an annual plan outlining how it will operate and convenes its meetings pursuant to the plan. The meetings of the Internal Audit Committee can be held by way of video or telephone conference. The Internal Audit Committee may also hold extraordinary meetings when required. The Internal Audit Committee appoints a secretary who is responsible for arranging the meetings.

The key functions of the Internal Audit Committee are as follows: (i) review of financial statements and reports of the Company, review and analysis of proposed amendments to the Accounting Policy and potential effects that such amendments may have, (ii) consideration of any major disagreements between the management of the Company and external auditors, (iii) preliminary approval of the Accounting Policy, (iv) preliminary approval of year-end financials, (v) review of reports prepared by external and internal auditors concerning the risk management system, (vi) analysis of the effectiveness of the Company's actions and measures aimed at improving systems of risk management and internal monitoring, (vii) consideration of appointment of an external auditor and recommendations concerning the same, (viii) review drafts of engagement agreements with an auditor, as well as any agreement for ancillary services, (ix) consideration of results of year-end and interim financials as reviewed by external auditor, and (x) supervise the internal audit service.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is a consulting committee of the Board of Directors. The JSC Law requires that the Nomination and Remuneration Committee be chaired by an independent Director. The internal policies of the Company require that the

Nomination and Remuneration Committee be comprised of at least three Directors, two of whom must be independent Directors and one of whom must chair the Nomination and Remuneration Committee. The members of Nomination and Remuneration Committee are elected by the Board of Directors by a simple majority of votes.

Currently the Nomination and Remuneration Committee is composed of three independent Directors: Mr. Daukeyev, Mr. Spitsyn and Mr. Sutera. Mr. Daukeyev chairs the Nomination and Remuneration Committee.

The Nomination and Remuneration Committee develops an annual plan outlining how it will operate and convenes its meetings pursuant to the plan. The Nomination and Remuneration Committee may also hold extraordinary meetings when required. The Corporate Secretary performs the functions of the secretary of the Nomination and Remuneration Committee and is responsible for arranging meetings of the Nomination and Remuneration Committee.

The key functions of the Nomination and Remuneration Committee are as follows: (i) development of qualification requirements and criteria to independent Directors and the Corporate Secretary, (ii) development of recommendations on remuneration of members of the Board of Directors, Management Board, the Corporate Secretary and other employees of the Company, (iii) development of recommendations on appointment of the Corporate Secretary, (v) development of recommendations on the number and the term of appointment of members of the Management Board, and (vi) consideration of internal policies governing compensation and remuneration issues and amendments thereto.

<u>Committee on Strategic Planning and Corporate Governance</u>

The Committee on Strategic Planning and Corporate Governance is a consulting committee of the Board of Directors. The JSC Law requires that the Committee on Strategic Planning and Corporate Governance be chaired by an independent Director. The internal policies of the Company require that the Committee on Strategic Planning and Corporate Governance to be comprised of at least three Directors. The members of Committee on Strategic Planning and Corporate Governance are elected by the Board of Directors by a simple majority of votes.

Currently, the Committee on Strategic Planning and Corporate Governance is comprised of three independent Directors: Mr. Daukeyev, Mr. Spitsyn and Mr. Sutera. Mr. Spitsyn chairs the Committee on Strategic Planning and Corporate Governance.

The Committee on Strategic Planning and Corporate Governance develops an annual plan outlining how it will operate and convenes its meetings pursuant to the plan. The Committee on Strategic Planning and Corporate Governance may also have extraordinary meetings when required. The Corporate Secretary also functions as the secretary of the Committee on Strategic Planning and Corporate Governance and is responsible for arranging the Committee meetings.

The key functions of the Committee on Strategic Planning and Corporate Governance are as follows: (i) preliminary review of the Company's long-term strategy and any amendments thereto, (ii) preliminary review of plans regarding implementation of the long-term strategy, and (iii) preliminary review of reports and other documents setting forth information regarding performance of the long-term strategy.

Corporate Secretary

The Board of Directors elects a Corporate Secretary by simple majority who is subordinated and reports to the Board of Directors. The key functions of the Corporate Secretary are as follows: (i) ensure compliance by the Company, its management and other bodies with corporate governance requirements set forth in the Kazakhstan law, the Company Charter and other internal policies of the Company, (ii) ensure efficiency of the meetings of the Board of Directors and its Committees, (iii) ensures efficient communications between various governing bodies and structural subdivisions of the Company.

Corporate Governance Code

The Corporate Governance Code (the "**Code**") was approved on May 17, 2011 by the Fund as the sole shareholder of the Company. As of the date of this Investment Memorandum, the Company is currently wholly owned by the Fund. Acoordingly, the Code provides that the Company will act in the interest of its sole shareholder, the Fund. The Company is in the process of amending the Code to provide that it will act in the interests of its shareholders as a whole. The Company anticipates that this amendment will have been completed prior to the closing of the Offering.

The key aims of the Code are to improve the transparency of the corporate governance of the Company and to demonstrate the readiness of the Company to follow good corporate governance standards.

The Code is a set of rules and recommendations for the Company to follow to ensure high ethical standards in relations within the Company and with other market participants.

The purpose of the Code is to formulate and introduce proper standards and traditions of corporate behavior based on strict compliance with legislative requirements and ethical standards of business behavior. The goal of implementing and complying with the Code is to create a positive image of the Company's daily practice in the eyes of its shareholders, customers and employees, as well as to control and mitigate risks, maintain sustainable financial results and successful operations in accordance with its charter.

According to the Code, the fundamental principles of the Company's corporate governance are the protection of shareholder rights and interests, efficient Company management by the Board of Directors and the Management Board, independent activities of the Company, transparency and objective disclosure of information regarding the Company's activities, legality and ethics, efficient dividend policies, efficient human resources policies, environmental protection, settlement of corporate disputes and conflicts of interest, and responsibility.

Investor Relations

To maintain good relations with its shareholders, the Company is in the process of established an Investor Relations department which will coordinate investor relations functions with the Company and will be a key Company contact for its shareholders.

Risk Management

The Company has developed and approved a risk management framework consisting of several internal policies of the Company approved by its Board of Directors.

The Company has also established a Risk Management Committee which is a consulting body of the Management Board. The Committee is comprised of the following members:

- Chairman of the Committee and Chairman of the Management Board of KEGOC – Kazhiyev B.T.;
- Deputy Chairman of the Committee and Deputy Chairman of the Management Board for Corporate Governance – Beksary Zh.M.;
- First Deputy Chairman of the Management Board of KEGOC – Zhazykbayev B.M.;
- Deputy Chairman of the Management Board for Operations – Akmurzin A.A.;
- Managing Director for Monitoring and Technical Support – Temirbekov B.Zh.;
- Managing Director for Economics – Botabekov A.T.;
- Managing Director for Legal Support and Security – Zhakipbayev K.T.;
- Managing Director for Development of the NPG and Ancillary Services – Kuanyshbayev A.D.;
- Managing Director for Working with Branches and Affiliates – Bekenov M.O.;
- Director of the Legal Department – Safuani T.Ye.;
- Director of the Branch of KEGOC "National Dispatch Center of the System Operator" – Nugmanov S.A.;
- Head of the Internal Audit Service (as an observer without the voting right) – Yesetov O.O.; and
- Director of the Corporate Development Department – Akhmetov Ye.K.

The key objectives of the Risk Management Committee are the following: (i) providing assistance to the Management Board on any decisions concerning risk management, (ii) giving recommendations on enhancing the risk management system, (iii) developing measures for risk discovery, analysis, assessment and management, and (iv) giving recommendations on risk management to the Company's subsidiaries.

Internal Audit Service

The Company has an Internal Audit Service which is subordinated and reports to the Board of Directors. The establishment of an Internal Audit Service is optional under the JSC Law.

The members of the Internal Audit Service are appointed by the Board of Directors. The Company's internal policies require that the Internal Audit Service be independent in order to impartially perform its function, and members of the Internal Audit Service cannot (i) be engaged in any activities of the Company which, at a later stage, could be subject to internal audit nor (ii) conduct audit over any activities which were performed by him/her. The Company's internal policies set forth qualification requirements for the head of the Internal Audit Service and members of the Service. The qualification requirements vary depending on level of seniority of the particular member of the Internal Audit Service.

The key objectives of the Internal Audit Service are as follows:(i) assessment of reliability and efficiency of internal oversight system, (ii) assessment of the Company's compliance with Kazakhstan law requirements, assessment of compliance system, (iii) assessment of rationality and efficiency of the Company's use of assets, (iv) assessment of development of the corporate governance system, and (v) assistance to internal audit services of the Company's subsidiaries.

The Internal Audit Service performs the following key functions: (i) assessment of the adequacy and efficiency of risk management and internal oversight system, (ii) monitoring the Company's compliance with Kazakhstan law requirements, international treaties, internal policies of the Company, orders given by state bodies, resolution of the Company's bodies, as well as assessment of systems to monitoring the above, (iii) monitoring the Company's compliance with recommendations of an external audit, and (iv) participation in external audits of the Company.

DESCRIPTION OF SHARE CAPITAL

The Company's share capital is divided into ordinary shares which entitle its shareholders to voting rights.

The Company's major shareholder is the Fund which, prior to the Offering, holds ordinary shares comprising 100% of the Company's voting shares. Following the Offering, the Fund will own at least 90% of the Company's voting shares. See also "*Principal Shareholder*" and "*Related Party Transactions*".

Initial Share Capital

In 1998 the Company issued 7,406,963 ordinary shares with par value of KZT 10,000. The shares were registered with the National Securities Committee on August 27, 1998. The Government represented by the State Property and Privatization Department of the Ministry of Finance acquired all 7,406,963 ordinary shares for in-kind consideration, comprising of state owned assets, which were contributed to the share capital of the Company pursuant to (i) Resolution No. 1188 of the Government dated September 28, 1996, (ii) Resolution No. 1193 of the Government dated July 31, 1997 and (iii) Resolution No. 1210 of the Government dated August 4, 1997.

The Company acquired ownership title to these assets, which currently constitute a significant part of the NPG. The share capital of the Company was equal to KZT 74,069.63 million.

Increase of share capital

The Company increased its share capital several times by issuing new shares as described below.

Issuance 1

Structure of the Issuance

- issuer – KEGOC JSC;
- total amount – 7,406,963 shares;
- type – ordinary shares;
- par value of one ordinary share – KZT10,000,
- form of issuance – uncertified;
- share issuance registration authority – National Securities Commission of the Republic of Kazakhstan;
- state registration number – 02-2-19/4177,
- date of state registration of share issuance – August 27, 1998,
- termination of share issuance – no;
- period of placement of securities:
  - August 27, 1998
  - November 2, 1998,

Issuance 2

Structure of the Issuance

- issuer – KEGOC JSC;
- total amount – 155,625 shares;
- type – ordinary shares;
- par value of one ordinary share – KZT10,000,
- form of issuance – uncertified;
- share issuance registration authority – Agency of the Republic of Kazakhstan on Supervision and Control of Financial Market and Financial Organizations;
- state registration number – A3493,
- date of state registration of share issuance – June 9, 2005,
- termination of share issuance – no;
- period of placement of securities:
  - June 9, 2005 – March 21, 2006 (155,624 ordinary shares);
  - September 22, 2007 – December 24, 2007 (1 ordinary share);

Issuance 3

Structure of the Issuance

- issuer – KEGOC JSC;
- total amount – 935,000 shares;
- type – ordinary shares;
- par value of one ordinary share – KZT10,000,
- form of issuance – uncertified;
- share issuance registration authority – Agency of the Republic of Kazakhstan on Supervision and Control of Financial Market and Financial Organizations;
- state registration number – A3493,
- date of state registration of share issuance – July 18, 2008,
- termination of share issuance – no;
- number of unplaced shares – 83,000 shares;
- period of placement of securities:
  - July 18, 2008 – January 27, 2009 (423,000 ordinary shares);
  - January 28, 2009 – July 27, 2009 (269,000 ordinary share);
  - January 28, 2011– July 27, 2011 (60,000 ordinary share);
  - July 28, 2012 - January 27, 2013 (100,000 ordinary shares);
  - January 28, 2013 - July 27, 2013 (806,000 ordinary shares);

Issuance 4

Structure of the Issuance

- issuer – KEGOC JSC;
- total amount – 300,000 shares;
- type – ordinary shares;
- par value of one ordinary share – KZT10,000,
- form of issuance – uncertified;
- share issuance registration authority – Agency of the Republic of Kazakhstan on Supervision and Control of Financial Market and Financial Organizations;

- state registration number – A3493,
- date of state registration of share issuance – November 24, 2008,
- termination of share issuance – no;
- period of placement of securities: July 18, 2008 – January 27, 2009

Issuance 5

Structure of the Issuance

- issuer – KEGOC JSC;
- total amount –1,969,709 shares;
- type – ordinary shares;
- par value of one ordinary share – KZT10,000,
- form of issuance – uncertified;
- share issuance registration authority – Agency of the Republic of Kazakhstan on Supervision and Control of Financial Market and Financial Organizations;
- state registration number – A3493,
- date of state registration of share issuance – November 25, 2008,
- termination of share issuance – no;
- period of placement of securities: July 28, 2009 – January 27, 2010,

On March 18, 2013, the Company increased the number of its ordinary shares through a 1:20 stock split.

Issuance 6

Structure of the Issuance

- issuer – KEGOC JSC;
- total amount – 22,978,437 shares;
- type – ordinary shares;
- par value of one ordinary share – KZT 500,
- form of issuance – uncertified;
- share issuance registration authority –Committee for Control and Supervision of Financial Market and Financial Organizations of the National Bank of the Republic of Kazakhstan;
- state registration number – A3493,
- date of state registration of share issuance –March 18, 2013,
- termination of share issuance – no;
- period of placement of securities: shares are not placed.

Issuance 7

Structure of the Issuance

- issuer – KEGOC JSC;
- total amount – 21,675,623 shares;
- type – ordinary shares;
- par value of one ordinary share – KZT 364.78,
- form of issuance – uncertified;

- share issuance registration authority – National Bank of the Republic of Kazakhstan;
- state registration number – A3493,
- date of state registration of share issuance – September 10, 2014,
- termination of share issuance – no;
- period of placement of securities: July 28, 2014

The Company's Registrar

Unified Securities Registrar JSC (the "**Registrar**"), provides services to the Company in connection with its maintenance of the Company's shareholders register under an agreement entered into by the Company and the Registrar in 2013. The Registrar was established by decision No. 1 dated December 1, 2011 of the National Bank of the Republic of Kazakhstan by the resolution of the Board of the National Bank of the Republic of Kazakhstan No. 171 dated October 28, 2011 and, at present, is the only entity which is permitted to maintain the registers of the holders of shares in Kazakhstan companies. Ownership of shares in the Company is evidenced by an extract from the share register of the Company.

The Registrar is located at: 141 Abylai Khana, Almaty, 050000, tel: 8 (727) 272 47 60, fax: (727) 272-47-66, email info@tisr.kz. The Chairperson of the Management Board is Bekbolat Sabitovich Khamitov.

TAXATION

The following summary of certain Kazakhstan taxation matters is based on the Kazakhstan laws and Kazakhstan Tax Authority practices in effect as of the date of this document and is subject to any changes in law and the interpretation and application thereof, which changes could be made with retroactive effect. The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of the Shares, and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities, financial institutions, insurance companies, collective investment schemes, tax-exempt organizations, persons connected with the Company or shareholders who have (or are deemed to have) acquired Shares by virtue of an office or employment) may be subject to special rules. Save as otherwise indicated, this summary only addresses the position of investors who are Kazakhstan nationals.

The statements below do not constitute advice to any shareholder on his or her personal tax position. Investors who are in doubt as to their Kazakhstan tax position, and shareholders resident outside Kazakhstan or subject to tax in a jurisdiction other than Kazakhstan, should consult their own professional advisor.

This summary discusses the Kazakhstan tax consequences of acquisition, ownership and disposal of Shares. In general, Kazakhstan tax legislation with respect to the taxation of securities and financial instruments is not well developed, and in many cases the exact scope of Kazakhstan tax, compliance rules and enforcement mechanism is unclear or open to different interpretations.

The only tax that may, under certain circumstances, apply in Kazakhstan to the above transactions is income tax. No other taxes or duties should be levied in Kazakhstan with respect to the above transactions. For all relevant purposes of this summary, except as noted below (e.g., dividend treaty relief), legal entities and individuals are subject to similar income tax treatment.

Tax Residence

Kazakhstan nationals are considered residents of Kazakhstan if their center of vital interests is located in Kazakhstan. The center of vital interests is deemed to be located in Kazakhstan if all of the following conditions are fulfilled:

- the individual is a citizen of Kazakhstan or has permission to live in Kazakhstan;
- the family or close relatives of the individual reside in Kazakhstan; and
- the individual or members of the family of the individual own, or otherwise have at their disposal, immovable property in Kazakhstan permanently available for residence.

Double tax treaties may provide different rules to determine residency.

Kazakhstan tax residents are taxed on their worldwide income. This summary assumes that all Shareholders and the issuer of Shares are resident in Kazakhstan for tax purposes.

Exempt Disposals of Shares

Any income from open sales of Shares on the KASE, provided that such shares are admitted to the official list of the KASE at the time of sale, is exempt from any tax payments.

Taxation of Dividends

Dividends on Shares that are on the official list of KASE on the date on which dividends are accrued are exempt from any tax payments.

The above description is not intended to constitute a complete analysis of all tax consequences relating to acquisition, ownership and disposition of Shares. Investors should consult their own tax advisors concerning the tax consequences of their particular situation.

SUBSCRIPTION AND SETTLEMENT

Procedure for the Subscription

The procedure for subscription for the Company's Shares is governed by the Republic of Kazakhstan Law On Joint Stock Companies, the Republic of Kazakhstan Law "On the Securities Market" (the "**Securities Market Law**"), the internal regulations of the KASE and the Rules for Subscription for Shares approved by the resolution of the KASE Counsel on March 29, 2012.

Once the Shares have been admitted to the official list of the KASE, Halyk Finance, being the seller authorised by the Company and a member of the KASE (the "**Seller**"), will initiate the opening of the order book by submitting an application to the KASE. The application must contain the date of opening of the order book as well as the main subscription parameters, defined by the Company, including the form of distribution of the Shares. The subscription parameters and other details contained in the Seller's application to the KASE shall be based on the Company's specific instructions to the Seller, as set out in the Government Resolution No. 1156 dated October 30, 2014.

Upon receipt of the Seller's application, the KASE will publish a notice on its website (www.kase.kz) regarding the offer of the Shares and the subscription parameters. The order book is deemed to be opened within the period defined by the Seller with its starting and ending dates, to be specified in the application (the "**Subscription Period**").

During the Subscription Period, a person wishing to acquire the Shares (see "*The Offering Restrictions*" below to see who is authorised to purchase the Shares in the Offering") (a "**Prospective Investor**") must place an order for the Shares. Retail Prospective Investors should place orders through a licensed broker (a "**Broker**") and institutional Prospective Investors should place orders directly to the KASE. The order must specify the number of the Shares which such Prospective Investor would like to acquire.

The Brokers collect orders from their retail customers and submit them to the KASE.

Orders from Prospective Investors are collected only during the Subscription Period. The overall period for collecting orders from Prospective Investors cannot exceed 40 (forty) calendar days from the first day of the Subscription Period.

A consolidated order book will be made by the KASE.

The KASE will carry out the following actions in relation to the subscription for the Offered Shares:

- collection and formation of a consolidated order book;
- providing the register of accepted orders to the Seller; and
- arrangement of settlement on the basis of the register of the satisfied orders received from the Seller.

Upon receipt of all orders from Brokers and institutional Prospective Investors, the KASE, together with the Central Securities Depositary, will verify the orders to ensure that the Kazakhstan citizenship requirement has been complied with for retail Prospective Investors, as well as to verify compliance with the other requirements and the subscription parameters of the Offering.

If the order complies with the subscription parameters and other requirements set out in the Seller's application, the Central Securities Depositary will submit a compliance report to the KASE, and the Subscription Trading System will reflect that this order has been admitted into the order book. If an order does not comply with the subscription parameters and other requirements, the Central Securities Depositary will send a report to the KASE that such order is noncompliant, and it will be deemed cancelled. The Subscription Trading System will show the status of such order as cancelled. To be admitted to the order book, each order must comply with all the subscription parameters and other requirements set out in the Seller's application.

Prior to the closing of Subscription Period, any Prospective Investor who has placed an order for Shares may revoke its order. In such case, the KASE will notify the Central Securities Depositary of the cancellation of the relevant orders.

Closing of the Subscription Period

Upon the expiry of the Subscription Period, the KASE shall form the register of collected orders received from Brokers and institutional Prospective Investors, and, together with the Central Securities Depositary, the KASE will verify whether the orders comply within the subscription parameters. Not later than the business day following the last date of the Subscription Period, the KASE will send the register of accepted orders to the Seller for the Company to use as the basis for its decisions regarding allocation of the Offered Shares.

The Company shall satisfy the orders in the KASE's register of accepted orders in whole or in part in accordance with the Government Resolution No. 1156 dated October 30, 2014 regarding the procedure for the offering of the Shares. For this purpose, the register of the satisfied orders will specify the number of orders for settlement.

No later than the date specified in the application for subscription to Shares and in any event no later than five (5) business days following receipt of the register of accepted orders from the KASE, the Seller shall send to the KASE the register of orders satisfied by the Company. The KASE will send the register of orders satisfied by the Company to the Central Securities Depositary for settlement.

Settlement Procedure

Prior to the settlement date, the Seller must ensure that the required number of Shares are available in the Company's relevant sub-account with the Central Securities Depositary and provide the KASE, as a confirmation, with an extract of the Company's sub-account with the Central Securities Depositary.

Based on the register of the satisfied orders received from the Seller, the KASE will form a register of orders for settlement, which is submitted to the Central Securities Depositary for settlement. When submitting their orders, Prospective Investors must ensure that adequate funds are deposited in their accounts with Brokers or in their accounts with the Central Securities Depositary.

In the event that a Prospective Investor does not fulfil his/her/its obligations, such unsettled transactions are deemed to be unsettled and such Prospective Investor shall be subject to a penalty of 0.1% of the total amount of the transaction which must be paid through the account of the KASE in favour of the Company within 3 (three) business days.

Procedures Subsequent to Settlement

No later than the business day following completion of all settlements, the KASE will prepare the exchange certificates and deliver them to the Company and the investors. On the date the exchange certificates are delivered, the KASE will publish a notice of the results of the subscription for the Shares on its official website.

Grounds to determine that the Subscription has failed

The KASE may recognise the subscription as not having taken place in following circumstances:

- if no orders were placed for the Shares; or
- if the KASE determines that there were errors in or damage to the register of satisfied orders and does not receive a corrected file from the Seller within the prescribed time period.

The Company may recognise the subscription as not having taken place if there is low demand for the Shares. If the subscription is recognised by the Company as not having taken place, the Company will notify the KASE through the Seller.

If the subscription is recognised as not having taken place by the KASE or the Seller, the KASE will publish a relevant notice on its website.

Offering Restrictions

The Offering is being made only in the Republic of Kazakhstan. No offering of the Shares is being made outside Kazakhstan. Neither this Investment Memorandum nor any subscription form may be sent to any person outside Kazakhstan.

The Shares have not been and will not be registered under the U.S. Securities Act or under any securities laws of any state of other U.S. regulatory authority. The Shares will not be offered or sold in the U.S.

In accordance with Government Decree # 1027 dated 08 September 2011 (About approval of the Program for realization of part of shares of JSC Sovereign Wealth Fund Samruk-Kazyna's affiliated companies in securities market) citizens of the Republic of Kazakhstan and accumulative pension funds may participate in the Offering. In addition, in accordance with Government Resolution No. 1156 dated October 30, 2014 a market-maker, being a member of the KASE who is accredited by the KASE and has undertaken to the Company to announce and maintain quotations for the sale and purchase of the Shares in accordance with the KASE's internal regulations and the existing legislation of the Republic of Kazakhstan and who performs all obligations following from such status on the basis of an agreement concluded with the Company, may also participate in the Offering.

ALLOCATION

The following provisions are based directly on the wording of the Decision of Samruk Board of Directors approved by the Government Decree No.1156 dated October 30, 2014

Definitions

For the purposes of this Chapter the following meanings are assigned to the following terms:

The term "*Shares*" means the ordinary shares of the Company.

The term "*market-maker for the Shares*" means a member of the KASE who is accredited by the KASE and has undertaken to the Company to announce and maintain quotations for the sale and purchase of the Shares in accordance with the KASE's internal regulations and the existing legislation of the Republic of Kazakhstan and who performs all obligations following from such status on the basis of an agreement concluded with the Company.

The term "*retail investors*" means citizens of the Republic of Kazakhstan.

The term "*institutional investor*" means the Integrated Accumulative Pension Fund who purchases the shares for the account of pension assets.

Limits on the Amount of Investment

The following limitations on investment amounts shall apply in the admission of orders into the order book:

- *For market-makers for the Shares* - not less than 200,000 (two hundred thousand) Shares but no more than 400,000 (four hundred thousands) Shares.

- *For retail investors* - orders will be accepted without limitations, subject to the terms described under "Allocation Procedures" below.

- *For the institutional investor* - orders will be accepted without limitations, subject to the terms described under "Allocation Procedures" below.

Allocation Procedures

The procedure for allocation of the Offered Shares among various groups of investors in the Offering shall be as follows. The date on which an order was admitted into the order book is not taken into account in the allocation process**.**

1. The market-maker's order for the Offered Shares is satisfied on the first priority basis.

2. Retail investors orders are fully satisfied up to the limit of 14,000 (fourteen thousand) shares per each retail investor

If the aggregate amount of orders from retail investors described above exceeds the total amount of Offered Shares (less the market-maker's order for the Shares), the fulfilment of orders will be reduced as follows:

- the reduction will start from the maximum number of Shares per each retail investor of 14,000 (fourteen thousand) Shares;
- the reduction step is one Share;
- the reduction is made until the demand (total number of the Shares in the orders from retail investors) and the remaining balance of the Offered Shares (number of the Offered Shares less the market-maker's order for the Shares) are balanced.

3. The Shares remaining after satisfaction of the market maker and retail orders described above are to be allocated to retail investors who submitted orders exceeding 14,000 (fourteen thousand) Shares as follows:

   a) if the aggregate demand does not exceed the remaining amount of Shares, all orders will be satisfied in full;

   b) if the aggregate demand does exceed the remaining amount of Shares, then the maximum number of Shares per each such retail investor will be increased as follows:

      - the increase will start from the minimum allocation of 14,001 (fourteen thousand and one) Shares;
      - the increase step is one Share;
      - the increase is made until the demand of retail investors (unsatisfied demand of retail investors after the application described in paragraphs 1. and 2. above) and the remaining balance of the Offered Shares (after application described in paragraphs 1. and 2. above) are balanced.

4. The Offered Shares not allocated pursuant to the above procedures will be allocated to the institutional investor according to its submitted order.

5. The Offered Shares that remain unsubscribed after the application of paragraphs 1 to 4 above are to be offered in the organised securities market not earlier than six months after the date of the Offering under the "People's IPO" Program in accordance with the Republic of Kazakhstan Law.

ADDITIONAL LISTING INFORMATION

Related Entities

The following information is provided pursuant to the requirements of Clause 5.2 of Section 4 of Annex 3 to the Listing Rules of KASE dated November 2009.

Full name	**Legal and actual address (location)**	**Type of business**	**Information about chief executive officer**	**Basis of affiliation**
JSC “Energoinform”	Republic of Kazakhstan, 010000, Astana city, Sary-Arka avenue, 15	Providing information for KEGOC’s activities and servicing KEGOC’s telecommunications facilities	Abdugaliyev Anuar Moldagaliyevich	Article 65.5 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”
Kazenergoprovod LLP	Republic of Kazakhstan,071400, East Kazakhstan region, Semey city, Ryskulov, 4-B	Production and distribution of cable and conductors	Kuzekbayev Akan Galymzhanovich	Article 64.1.6 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”
JSC “Batys-Transit”	Republic of Kazakhstan, 050008 Almaty, 162 zh , Shevchenko str.	Construction of inter-regional transmission line connecting the North Kazakhstan and Aktobe Region	Iskakov Askar Kezhekovich	Article 65.5 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”
Mekhenergostroy LLP	Republic of Kazakhstan, 050057, Almaty, Markov str, 13	Construction, reconstruction and repair of electric power transmission lines and electric substations	Mukashev Azat Samatovich	Article 64.1.6 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”
Paritet Company LLP	Republic of Kazakhstan, 050057, Almaty, Tole bi str, 302	Accounting and reporting services.	Bershimbekov Ilyas Kairatbekovich	Article 64.1.6 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”
Public Fund "Center of the economic analysis "Rakurs"	Republic of Kazakhstan, 050057, Almaty, Dostyk avenue, 97 B, office 7/2	The non-governmental not-for-profit institute which researching social and economic development of Kazakhstan		Article 64.1.6 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”
Settlement Financial Center on Support of Renewables LLP	The Republic of Kazakhstan, 010000, Astana, Beibitshilik, 37	Centralized purchase and the sale of the electric power generated using generated using renewable energy sources.	Nurmaganbetov Zhandos Demesinovich	Article 64.1.6 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”
JSC “Fund of National Welfare “Samruk-Kazyna”	Legal address: Republic of Kazakhstan, 010000, Astana Block: B8, Kunaeva street	Enhancing the national welfare of the Republic of Kazakhstan by maximizing long-term value of entities and efficient management of assets in Fund’s group.	Shukeyev Umirzak Yestayevich	Article 65.5 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”

Full name	Legal and actual address (location)	Type of business	Information about chief executive officer	Basis of affiliation
JSC “National company KazMunaiGaz”	The Republic of Kazakhstan, 010000, Astana, 19, Kabanbay Batyr ave	Provides oil and gas transportation, tanker transportation, carried out on the territory of Kazakhstan. The company runs main refineries in Kazakhstan. Sells oil and products of oil and gas refining, protects interests of the state in the export policy in trading these products	Kiinov Lyazzat Ketebayevich	Article 65.5 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”
JSC “National company Kazakhstan Temir Zholy”	The Republic of Kazakhstan, 010000, Astana city, 6, Konaev street.	Carries out such activities as performing the function of the operator of the main railway network, passenger and cargo transportation.	Mamin Askar Uzakpayevich	Article 65.5 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”
JSC “Kazpochta”	The Republic of Kazakhstan, 010000, Astana, Sary-Arka District, Str. Auezov, Building 13	Delivers to all clients the full spectrum of modern high quality postal and financial and logistics services which mostly meet their needs all over the territory of the Republic	Arystanov Arken Kenesbekovich	Article 65.5 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”
JSC “Kazakhtelecom”	The Republic of Kazakhstan, 010000, Astana, 12, Sauran Str., Yessil district, (temporary postal address) The Republic of Kazakhstan, 050059, Almaty, Furmanov Str. 240 B,	Provides high quality digital communication to Republic of Kazakhstan users with wide spectrum of telecommunication services.	Yessekeyev Kuanyshbek Bakhytbekovich	Article 65.5 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”
JSC “KazNII of Energy after Chokin”	The Republic of Kazakhstan, 050000, Almaty city, 85, Baitursynov Street	Researches in the field of electric power nonconventional and renewables, studying of new types of nanotechnologies, and also an energy efficiency and energy saving problem.	Abdullayev Kalyk Abdullayevich	Article 65.5 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”
JSC “KOREM”	The Republic of Kazakhstan, 010000, Astana city, 18, Tura nave., building A	Organization and carrying out spot auctions of electricity	Tiyesov Suinshilyk Amirkhamziyevich	Article 65.5 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”
JSC “Air Astana”	The Republic of Kazakhstan, Almaty 0500394A Zakarpatskaya street The Republic of Kazakhstan, 010000, Astana city, 12th floor Astana Tower, Samal 12	Provides domestic and international air services.	Peter Foster	Article 65.5 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”

Full name	Legal and actual address (location)	Type of business	Information about chief executive officer	Basis of affiliation
JSC “National Atomic Company “Kazatomprom”	The Republic of Kazakhstan, 010000, Astana city, 10, Kunaev Street	Operates in the field of Uranium and nuclear fuel cycle services, production of Beryllium, Tantalum and Nionium, and electric power production.	Vladimir Shkolnik	Article 65.5 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”
JSC “National company “Kazakhstan Engineering”	The Republic of Kazakhstan, 010000, Astana city, 10 Kunayev Street	Participation in a state program of technological modernization of armed forces, other armies and military units of the Republic of Kazakhstan and program of development of production of weapons and military equipment	Gromov Sergei Nikolayevich	Article 65.5 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”
JSC “Maikainzoloto”	The Republic of Kazakhstan, Pavlodar region, 140308, Maikain village, Bayanaul district, 13, Chkalov Street	Production and processing of gold sulphide-polymetallic ores.		Article 65.5 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”
JSC “Airport Pavlodar”	The Republic of Kazakhstan, 140001, Pavlodar city	Provides regular, safe and effective service of aircrafts, passengers, baggage, post and cargo in accordance with the legislation of the Republic of Kazakhstan and international standards	Yudin Vladimir Ivanovich	Article 65.5 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”
JSC “International airport Atyrau”	The Republic of Kazakhstan, 060011, Atyrau	Provides V service of aircrafts, passengers, baggage, post and cargo.	Kerey Yesbol	Article 65.5 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”
JSC “International airport Aktobe”	The Republic of Kazakhstan, 030003, Aktobe city	Provides all the range of airport services: of passenger transport, transport of baggage and cargo by air, regardless of ownership, for scheduled and single (charter) flights to Kazakhstan, CIS and overseas. The Airport also provides aircraft with fuel and lubricants and other additional types of services.		Article 65.5 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”
JSC “Samruk - Energo”	The Republic of Kazakhstan, 010000, Astana city, Kabanbay knight, 17, Block E, Business Center “Lukoil	Production of electricity, heat production, transmission and distribution of electricity, extraction of coal, reconstruction, expansion and construction of electric power facilities	Bektimirov Kuanysh Abdugaliyevich (Chairman of the BD), Satkaliyev Almasadam (CEO)	Article 65.5 of the Law of the Republic of Kazakhstan “On Joint Stock Companies”

Full name	**Legal and actual address (location)**	**Type of business**	**Information about chief executive officer**	**Basis of affiliation**
LLP "Samruk-Kazyna Contract"	The Republic of Kazakhstan, 010000, Astana city, 8 Kunayev Street, Building B, 36 floor	Monitoring of a share of the Kazakhstan contents in purchases of the companies of JSC Samruk-Kazyna group, marketing of the prices bought by the companies of JSC Samruk-Kazyna group of goods, works and services, control of purchases of the companies of JSC Samruk-Kazyna group.	Yelshibekov Serikbek Kenesbekovich	Article 65.5 of the Law of the Republic of Kazakhstan "On Joint Stock Companies"
LLP "Samruk-Kazyna Invest"	The Republic of Kazakhstan, 010000, Astana city, 10 Orynbor Street, Kazyna Tower building, 102 floor	Participates in investment activities of Samruk-Kazyna through expertise, participation and management of certain investment projects of Fund.	Dias Iskakov	Article 65.5 of the Law of the Republic of Kazakhstan "On Joint Stock Companies"
LLP "Joint Chemical Company"	The Republic of Kazakhstan, 010000 Astana city, D.Kunaev str., 12/1 Office 5 "B"	Obtaining net income in the process of independent business activities and to promote chemical industry in the Republic of Kazakhstan. Organization and execution of research, examinations and other works essential for implementation of investment projects, participation in the establishment and/or acquisition of shares in legal entities, implementation of the best international practices of corporate governance.	Bishimbayev Kuandyk Valikhanovich (Chairman of the Supervisory Board), Yerdybayev Dauren Imanzhanovich (CEO)	Article 65.5 of the Law of the Republic of Kazakhstan "On Joint Stock Companies"
KGF Management	The Republic of Kazakhstan, 050059, Almaty, 19 Al Farabi Street, "Nurly Tau" Business Center, 1 B Building, 502 office	Investments	John Word (Executive Chairman), Bespayev Dosym (Managing Partner)	Article 65.5 of the Law of the Republic of Kazakhstan "On Joint Stock Companies"
KGF SLP	15.12.2008г. WK-221029			Article 65.5 of the Law of the Republic of Kazakhstan "On Joint Stock Companies"
KGF IM	15.12.2008г. WK - 221054			Article 65.5 of the Law of the Republic of Kazakhstan "On Joint Stock Companies"
JSC "National mining company "TauKen Samruk""	The Republic of Kazakhstan, 010000, Astana, 12/1 D. Kunayev Street,	Exploration, development, production, processing and realization of solid minerals, mining industry , the development and introduction of new technologies in the mining industry, reproduction of the mineral resources	Turmagambetov Majit Abdykalikovich	Article 65.5 of the Law of the Republic of Kazakhstan "On Joint Stock Companies"

Full name	Legal and actual address (location)	Type of business	Information about chief executive officer	Basis of affiliation
JSC "Real estate fund Samruk-Kazyna "	The Republic of Kazakhstan, 010000, Astana Orynbor street, 10 Building "Kazyna Tower" The Republic of Kazakhstan, 050040, Almaty Bayzakov street, 280 Business-Center "Almaty Towers" The South Tower, the 7th floor	Investing in the housing construction and performing effective management of real estate, development of building industry, promotion of domestic suppliers of works, goods and services.	Munzhassarov Zhumagali Akhmetgaliyevich	Article 65.5 of the Law of the Republic of Kazakhstan "On Joint Stock Companies"
Karagandagiproshakht and K LLP	The Republic of Kazakhstan, Karaganda city, Lobody str, 15	Project works for capital construction: industrial design of coal mines, cuts, mines and pits, architectural and construction design, design of engineering networks and systems, planning of construction works and process, preparing construction estimates.	Mirnyi Ivan Yakovlevich	Article 64.1.5 of the Law of the Republic of Kazakhstan "On Joint Stock Companies"
LLP «Samruk-Kazyna Finance»	The Republic of Kazakhstan, Almaty 050000, 50 Furmanov Street	Consulting to JSC FNW Samruk-Kazyna on management of shares in the financial organizations which directly or indirectly belong to JSC FNW Samruk-Kazyna.	Shukeyev Umirzak Yestayevich	Article 65.5 of the Law of the Republic of Kazakhstan "On Joint Stock Companies"

	Full name	Reasons for referring to an affil	City and country of residence	Remarks
1	Kuanysh Bektemirov	Subitem 3) of Item 1 of Article 64 of the Law of RK on Joint Stock Companies	Astana, Kazakhstan	Managing Director
2	Almasadam Satkaliyev	Subitem 3 of Item 1 of Article 64 of the Law of RK on Joint Stock Companies	Astana, Kazakhstan	Member of Board of Directors, KEGOC JSC
3	Bakhytzhan Kazhiyev	Subitem 3) of Item 1 of Article 64 of the Law of RK on Joint Stock Companies	Astana, Kazakhstan	Chairman of Management Board, KEGOC JSC, Member of Board of Directors, KEGOC JSC
4	Bakhytkhan Zhazykbayev	Subitem 3) of Item 1 of Article 64 of the Law of RK on Joint Stock Companies	Astana, Kazakhstan	Member of Management Board of

	Full name	Reasons for referring to an affil	City and country of residence	Remarks
				KEGOC JSC
5	Zhanabai Beksary	Subitem 3) of Item 1 of Article 64 of the Law of RK on Joint Stock Companies	Astana, Kazakhstan	Member of Management Board of KEGOC JSC
6	Bolat Temirbekov	Subitem 3) of Item 1 of Article 64 of the Law of RK on Joint Stock Companies	Astana, Kazakhstan	Member of Management Board of KEGOC JSC
7	Kairat Zhaipbayev	Subitem 3) of Item 1 of Article 64 of the Law of RK on Joint Stock Companies	Astana, Kazakhstan	Member of Management Board of KEGOC JSC
8	Aibek Botabekov	Subitem 3) of Item 1 of Article 64 of the Law of RK on Joint Stock Companies	Astana, Kazakhstan	Member of Management Board of KEGOC JSC
9	Abat Akmurzin	Subitem 3) of Item 1 of Article 64 of the Law of RK on Joint Stock Companies	г. Астана Казахстан	Member of Management Board of KEGOC JSC
10	Askerbek Kuanyshbayev	Subitem 3) of Item 1 of Article 64 of the Law of RK on Joint Stock Companies	Astana, Kazakhstan	Member of Management Board of KEGOC JSC
11	Muktar Bekenov	Subitem 3) of Item 1 of Article 64 of the Law of RK on Joint Stock Companies		Member of Management Board of KEGOC JSC

GLOSSARY OF CERTAIN TERMS

AECRS shall mean the automatic energy control and record system.

Application shall mean the application for approval of the tariffs and underlying tariff estimates and computations which support the tariff proposal.

AR shall mean the Availability Ratio = (operating time of overhead power line, hours) / (8760 hours).

ARNM shall mean the Agency of the Republic of Kazakhstan for the Regulation of Natural Monopolies, the relevant governmental agency that previously regulated the activities of natural monopolies in Kazakhstan, including setting tariffs and tariff estimate. It was abolished in 2014 and its powers and functions now belong to the MNE.

Audited Financial Statements shall mean the Company's audited financial statements as of and for the years ended December 31, 2011, 2012 and 2013.

CAES shall mean the Central Asian Energy System.

Central Securities Depository shall mean the Central Securities Depository JSC.

Charter shall mean the current Charter of the Company.

Civil Code shall mean the Civil Code of the Republic of Kazakhstan (General Part) dated December 27, 1994 and the Civil Code of the Republic of Kazakhstan (Special Part) dated July 1, 1999 No. 409-I.

Currency Control Law shall mean the Law of the Republic of Kazakhstan "On currency regulation and currency control" dated June 13, 2005 No. 57-III.

EEU shall mean the Eurasian Economic Union.

Environmental Code shall mean the Environmental Code of the Republic of Kazakhstan No. 212-III dated January 9, 2007.

ESO shall mean energy supply organizations.

ETO shall mean energy transmission organizations.

EUR or **Euro** shall mean the single currency of the European Economic and Monetary Union.

Financial Advisor and Underwriter shall mean JSC "Subsidiary of Halyk Bank of Kazakhstan "Halyk Finance"".

Financial Statements shall mean the Unaudited Interim Financial Statements together with the Audited Financial Statements.

Fund shall mean the Joint Stock Company Sovereign Wealth Fund Samruk-Kazyna.

Fund's Group shall mean (i) the Fund, (ii) companies in which the Fund holds more than 50% of voting shares or interest (the "Fund Companies"), (iii) subsidiaries of the Fund Companies in which the Fund Companies hold more than 50% of voting shares or interest (the "Fund Subsidiaries") and (iv) companies in which the Fund Subsidiaries hold more than 50% of voting shares or interest.

GMS shall mean the general meeting of shareholders.

Government shall mean the Government of the Republic of Kazakhstan.

Group shall mean the Company and its subsidiaries.

IFRS shall mean the International Financial Reporting Standards.

IMF shall mean the International Monetary Fund.

Investment Memorandum shall mean the present investment memorandum of the Company.

JSC Law shall mean the Law of the Republic of Kazakhstan "On joint stock companies" dated May 13, 2003 No. 415-II.

KASE shall mean the Kazakhstan Stock Exchange Joint Stock Company.

KOREM shall mean Kazakhstan operator of the wholesale electricity and power market.

Law on Civil Defence shall mean the Law of the Republic of Kazakhstan No.188-V "On Civil Defence" dated April 11, 2014.

Law on State Property shall mean the Law of the Republic of Kazakhstan "On state property" dated March 1, 2011 No. 413-IV.

MCI shall mean the monthly calculation index established by the laws on the state budget for the relevant years.

ME shall mean the Ministry of Energy.

MINT shall mean the Ministry of Industry and New Technologies of the Republic of Kazakhstan.

MNE shall mean the Ministry of National Economy.

National Fund shall mean the National Fund of Kazakhstan.

Natural Monopolies Law shall mean the Law of the Republic of Kazakhstan "On Natural Monopolies and Regulated Markets" dated July 9, 1998 No. 272-I.

NBK shall mean the National Bank of the Republic of Kazakhstan.

NDC shall mean the National Dispatch Center.

NPG shall mean the National Power Grid as defined in the Power Industry Law, consisting of a number of substations, distribution devices, interregional and/ or interstate electric power transmission lines and electric power transmission lines of 220 kV and higher transmitting the electric power from electric power stations.

Overhead power lines is a device for transmission by wires, located outdoors and attached to the supports or brackets and piles on the engineering structures (including bridges and viaducts) using insulators and fittings.

Power Industry Law shall mean the Law of the Republic of Kazakhstan "On Power Industry" dated July 9, 2004 No. 588-II.

PPL shall mean the permissible profit level.

PR shall mean the profit rate.

Prospectus shall mean the Prospectus registered by the National Bank of the Republic of Kazakhstan on September 10, 2014.

RAB shall mean the regulated asset base.

RDC shall mean a regional dispatch center.

REC shall mean a regional electricity transmission company.

Registrar shall mean the Unified Securities Registrar JSC.

Related Party Transactions Rules shall mean the rules related to transactions involving entities that are members of Samruk-Kazyna JSC group and are therefore subject to specific requirements set forth in the JSC Law.

Relevant Implementation Date shall mean the date on which that Relevant Member State implements the Prospectus Directive.

Relevant Member State shall mean the Member State of the European Economic Area that has implemented the Prospectus Directive.

Renewable Energy Center shall mean the Settlement and Financial Center to Support Renewable Energy LLP.

Resolution No 667 shall mean Resolution of the Government of the Republic of Kazakhstan No. 667 dated June 17, 2014 "On certain issues of implementation of the Balkhash Thermal Power Plant Project".

Samruk shall mean the Kazakhstan Holding for the Management of State Assets SAMRUK JSC.

Samruk-Kazyna Procurement Rules shall mean the rules governing the procurement of goods, works and services imposed on the Fund and entities in which the Fund directly or indirectly holds 50% or more of the voting shares (i.e., participatory interests), as approved by the board of the Fund on May 26, 2012.

SEC shall mean the U.S. Securities and Exchange Commission.

Securities Act shall mean the U.S. Securities Act of 1933, as amended, including the rules and regulations promulgated thereunder.

Securities Market Law shall mean the Law of the Republic of Kazakhstan "On the Securities Market" dated July 2, 2003 No. 461.

SME shall mean small and medium sized enterprises.

Sovereign Welfare Fund Law shall mean the Law of the Republic of Kazakhstan "On the Sovereign Wealth Fund" dated February 1, 2012 No. 550-IV.

State Procurement Law shall mean the Law of the Republic of Kazakhstan "On state procurement" dated July 21, 2007 No. 303-III ZRK.

Substation is an electrical installation, which serves for the conversion and distribution of electric power and consisting of transformers or other energy transformers, switchgears, controls and auxiliary facilities.

Tenge shall mean the lawful currency of Kazakhstan.

The Company or KEGOC is Kazakhstan Electricity Grid Operating Company Joint Stock Company.

U.S.$ or **U.S. Dollars** or **USD** shall mean the lawful currency of the United States of America.

Unaudited Interim Financial Statements shall mean the Company's unaudited financial statements as of and for the six months ended June 30, 2014.

UPF shall mean the Joint Stock Company "Unified Accumulative Pension Fund".

UPS shall mean the unified electric power system of the Republic of Kazakhstan.

USA shall mean the United States of America.

Uzbekenergo shall mean the Uzbekenergo SJSC.

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Audited consolidated financial statements of JSC Kazakhstan Electricity Grid Operating Company for the year ended December 31, 2012

Audited consolidated financial statements of JSC Kazakhstan Electricity Grid Operating Company for the year ended December 31, 2011

FINANCIAL STATEMENTS

"Kazakhstan Electricity Grid Operating Company" JSC

Unaudited interim consolidated financial statements

As at and for the six months ended 30 June 2014

CONTENTS

Building a better working world

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Report on review of interim consolidated financial statements

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

Introduction

We have reviewed the accompanying interim consolidated financial statements of JSC "Kazakhstan Electricity Grid Operating Company" and its subsidiaries ("the Group"), which comprise the interim consolidated statement of financial position as at 30 June 2014 and the related interim consolidated statements of comprehensive income for the three and six months then ended, interim consolidated statements of changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory information. Management is responsible for the preparation of these interim consolidated financial statements in accordance with International Financial Reporting Standards. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim consolidated financial statements consist of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not present fairly, in all material respects, the financial position of the Group as at 30 June 2014, and its financial performance and cash flows for the six months period then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Paul Cohn
Audit partner

Adil Syzdykov
Auditor

Auditor Qualification Certificate
No. МФ - 0000172 dated 23 December 2013

Evgeny Zhemaletdinov
General Director
Ernst & Young LLP

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

20 August 2014

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

In thousands of Tenge	Notes	30 June 2014 (unaudited)	31 December 2013 (audited)
Assets			
Non-current assets			
Property, plant and equipment	6	**461,096,910**	308,819,164
Intangible assets		**822,259**	885,708
Advances paid for non-current assets	6	**7,487,279**	8,765,506
Investments in associates	7	**169,413**	220,446
Other financial assets	10	**3,671,689**	868,269
Other non-current assets		**197,792**	56,662
		473,445,342	319,615,755
Current assets			
Inventories	8	**2,451,096**	1,916,887
Trade accounts receivable	9	**13,093,000**	8,501,318
VAT recoverable and other prepaid taxes		**2,156,193**	2,817,752
Income tax prepaid		**1,259,371**	1,141,931
Other financial assets	10	**15,473,092**	18,992,431
Restricted cash	11	**2,024,648**	1,688,834
Other current assets	12	**1,139,038**	919,263
Cash and cash equivalents	13	**18,213,201**	11,727,555
		55,809,639	47,705,971
Total assets		**529,254,981**	367,321,726
Equity and liabilities			
Equity			
Share capital	14	**107,245,972**	107,245,972
Asset revaluation reserve	14	**221,986,464**	110,878,954
Other reserves	14	**(170,701)**	(170,701)
Retained earnings		**3,136,016**	3,227,238
		332,197,751	221,181,463
Non-current liabilities			
Borrowings	15	**104,079,840**	82,323,069
Deferred tax liability	24	**64,901,783**	36,090,576
		168,981,623	118,413,645
Current liabilities			
Trade and other accounts payable	17	**10,536,211**	14,713,802
Borrowings	15	**13,402,909**	10,218,204
Advances received		**1,530,029**	789,884
Provision for construction	16	**681,463**	–
Taxes payable other than income tax		**479,085**	713,332
Other current liabilities	18	**1,445,910**	1,291,396
		28,075,607	27,726,618
Total liabilities		**197,057,230**	146,140,263
Total equity and liabilities		**529,254,981**	367,321,726
Book value per ordinary share (in Tenge)	14	**1,545**	1,027

Chairman of the Management Board

Kazhiyev B.T.

Chief Accountant

Mukanova D.T.

The accounting policies and explanatory notes on pages 6 to 39 are an integral part of these interim consolidated financial statements.

5.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

		For the three months ended 30 June		For the six months ended 30 June	
In thousands of Tenge	**Notes**	**2014 (unaudited)**	2013 (audited)	**2014 (unaudited)**	2013 (audited)
Revenue	19	**17,746,469**	15,325,856	**42,685,668**	34,976,552
Cost of sales	20	**(16,336,066)**	(11,811,113)	**(34,650,783)**	(26,152,847)
Gross profit		**1,410,403**	3,514,743	**8,034,885**	8,823,705
General and administrative expenses	21	**(4,409,411)**	(1,483,358)	**(6,332,064)**	(2,837,073)
Selling expenses		**(38,562)**	(46,800)	**(74,386)**	(87,131)
Revaluation gain on property, plant and equipment		**14,194,012**	–	**14,194,012**	–
Operating profit		**11,156,442**	1,984,585	**15,822,447**	5,899,501
Interest income from deposits, current accounts, and bonds		**394,978**	437,547	**822,647**	862,971
Finance costs	22	**(935,815)**	(570,813)	**(1,693,881)**	(967,831)
Foreign exchange loss, net	23	**(326,900)**	(878,469)	**(13,367,026)**	(100,897)
Share of loss of an associate		**(2,976)**	–	**(6,323)**	–
Other income		**64,388**	41,689	**115,677**	74,102
Other expenses		**(24,809)**	(117,869)	**(29,609)**	(120,388)
Profit before tax		**10,325,308**	896,670	**1,663,932**	5,647,458
Income tax expense	24	**(2,770,435)**	(332,300)	**(1,076,012)**	(1,337,303)
Profit for the period		**7,554,873**	564,370	**587,920**	4,310,155
Earnings per share					
Basic and diluted profit for the period attributable to ordinary equity holders (in Tenge)	14	**35.22**	2.64	**2.74**	20.15

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of Tenge	Notes	For the three months ended 30 June 2014 (unaudited)	For the three months ended 30 June 2013 (audited)	For the six months ended 30 June 2014 (unaudited)	For the six months ended 30 June 2013 (audited)
Profit for the period		**7,554,873**	564,370	**587,920**	4,310,155
Other comprehensive (loss) / income					
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:					
Net loss on available for sale financial assets		–	(115,578)	–	(115,578)
Income tax effect		–	–	–	–
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		–	(115,578)	–	(115,578)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:					
Gain on revaluation of property, plant and equipment		**138,887,289**	–	**138,887,289**	–
Income tax effect		**(27,777,458)**	–	**(27,777,458)**	–
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**111,109,831**	–	**111,109,831**	–
Other comprehensive income / (loss) for the period, net of tax		**111,109,831**	(115,578)	**111,109,831**	(115,578)
Total comprehensive income for the period, net of tax		**118,664,704**	448,792	**111,697,751**	4,194,577

Chairman of the Management Board *Kazhiyev B.T.*

Chief Accountant *Mukanova D.T.*

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

In thousands of Tenge	Notes	2014 (unaudited)	2013 (audited)
Operating activities			
Profit before tax		**1,663,932**	5,647,458
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortisation		**7,906,137**	3,616,557
Finance costs	22	**1,693,881**	967,831
Foreign exchange loss		**13,477,770**	147,648
Provision for doubtful accounts receivable and impairment of advances	21	**2,284,397**	273,658
Provision / (reversal of provision) for obsolete inventory	21	**39,730**	(190,118)
Revaluation gain of property, plant and equipment		**(14,194,012)**	–
Loss from disposal of property, plant and equipment and intangible assets		**20,090**	112,581
Interest income		**(822,647)**	(862,971)
Share of loss of an associate		**6,323**	–
Working capital adjustments:			
Change in inventories		**(573,939)**	(783,049)
Change in trade accounts receivable		**(6,841,147)**	948,228
Change in VAT recoverable and other prepaid taxes		**661,559**	748,863
Change in other current assets		**(254,707)**	(321,754)
Change in trade and other accounts payable		**1,334,801**	(196,300)
Change in advances received		**740,145**	188,108
Change in taxes payable other than income tax		**(234,249)**	73,445
Change in other current liabilities		**(239,076)**	207,240
Cash flows from operating activities		**6,668,988**	10,577,425
Interest paid		**(1,404,775)**	(1,484,074)
Income tax paid		**(159,703)**	(3,513)
Interest received		**734,879**	759,971
Net cash flows from operating activities		**5,839,389**	9,849,809
Investing activities			
Withdrawal of bank deposits		**10,610,008**	7,752,311
Placement of bank deposits		**(6,327,444)**	(9,384,020)
Change in restricted cash		**(119,606)**	88,820
Proceeds from sale of property, plant and equipment and intangible assets		**43,160**	25,507
Purchase of property, plant, equipment		**(11,074,737)**	(5,719,945)
Purchase of intangible assets		**(18,631)**	(20,471)
Payment for construction of kinder garden		**(202,522)**	
Repayment of loans given to employees		**10,972**	–
Investments in an associate		**–**	(100,530)
Distribution from an associate		**44,710**	–
Net cash flows used in investing activities		**(7,034,090)**	(7,358,328)
Financing activities			
Proceeds from shares issuance		**–**	403,000
Payment of dividends		**–**	(2,082,309)
Repayment of borrowings		**(5,009,901)**	(3,725,669)
Proceeds from borrowings		**11,925,058**	6,405,866
Net cash flows from financing activities		**6,915,157**	1,000,888
Net change in cash and cash equivalents		**5,720,456**	3,492,369
Net foreign exchange difference		**765,190**	47,001
Cash and cash equivalents at the beginning of the period	13	**11,727,555**	8,044,502
Cash and cash equivalents at the end of the period	13	**18,213,201**	11,583,872

Chairman of the Management Board ____________ *Kazhiyev B.T.*

Chief Accountant ____________ *Mukanova D.T.*

The accounting policies and explanatory notes on pages 6 to 39 are an integral part of these interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

In thousands of Tenge	Share capital *(Note 14)*	Asset revaluation reserve	Reserves *(Note 14)*	Retained earnings	Total
As at 1 January 2013 (audited)	106,842,972	–	(55,123)	19,772,193	126,560,042
Profit for the period	–	–	–	4,310,155	4,310,155
Net loss on available for sale financial assets, net of tax (*Note 14*)	–	–	(115,578)	–	(115,578)
Total comprehensive income	–	–	(115,578)	4,310,155	4,194,577
Issue of share capital (*Note 14*)	403,000	–	–	–	403,000
Dividends *(Note 14)*	–	–	–	(2,082,309)	(2,082,309)
As at 30 June 2013 (audited)	107,245,972	–	(170,701)	22,000,039	129,075,310
As at 1 January 2014 (audited)	**107,245,972**	**110,878,954**	**(170,701)**	**3,227,238**	**221,181,463**
Profit for the period	**–**	**–**	**–**	**587,920**	**587,920**
Gain on revaluation of property, plant and equipment, net of tax (*Note 14*)	**–**	**111,109,831**	**–**	**–**	**111,109,831**
Total comprehensive income	**–**	**111,109,831**	**–**	**587,920**	**111,697,751**
Transfer of asset revaluation reserve (*Note 14*)	**–**	**(2,321)**	**–**	**2,321**	**–**
Distribution to shareholder (*Note 16*)	**–**	**–**	**–**	**(681,463)**	**(681,463)**
As at 30 June 2014 (unaudited)	**107,245,972**	**221,986,464**	**(170,701)**	**3,136,016**	**332,197,751**

Chairman of the Management Board _______________ *Kazhiyev B.T.*

Chief Accountant _______________ *Mukanova D.T.*

5.

The accounting policies and explanatory notes on pages 6 to 39 are an integral part of these interim consolidated financial statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. GENERAL INFORMATION

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

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

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

The Company has stakes in the following companies as of 30 June 2014 and 31 December 2013:

		Percentage of ownership	
Companies	**Activities**	**30 June 2014**	31 December 2013
Energoinform JSC	Maintenance of the KEGOC's IT system	**100%**	100%
Accounting and Finance Center for the support of renewable energy resources LLP	Centralised sales and purchase of electricity produced by energy producers using renewable energy sources and delivery into the electricity grid of the Republic of Kazakhstan	**100%**	100%

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

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

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

These interim consolidated financial statements were authorised for issue by the Company's Chairman of the Management Board and Chief Accountant on 20 August 2014.

2. BASIS OF PREPARATION

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

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

Basis of consolidation

The interim consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

- The Group’s voting rights and potential voting rights.

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policy

Revaluation of UPS constructions

In 2013 the Group reassessed its accounting for property, plant and equipment with respect to measurement of certain classes of property, plant and equipment after initial recognition. The Group has previously measured all property, plant and equipment using the cost model as set out in IAS 16.30, whereby after initial recognition of the assets classified as property, plant and equipment, the asset was carried at cost less accumulated depreciation and accumulated impairment losses.

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

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

New and amended standards and interpretations

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2013, except for the adoption of following new standards and interpretations effective as of 1 January 2014:

- IAS 32 *Offsetting Financial Assets and Financial Liabilities*;
- IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*;
- IFRIC 21 *Levies*;
- IFRS 10 *Investment Entities*;
- Amendments to IAS 36 *Assets Impairment – Disclosures on Recoverable Amount for Non-financial Assets.*

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

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

IAS 32 Offsetting Financial Assets and Financial Liabilities

These amendments clarify the meaning of "currently has a legally enforceable right to set off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments did not have any impact on the Group's financial position or performance.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

In June 2013 IASB issued *Novation of Derivatives and Continuation of Hedge Accounting – Amendments* to IAS 39. This amendment to IAS 39 *Financial Instruments: Recognition and Measurement* provides an exception to the requirement to discontinue hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly, novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. The amendment is effective from 1 January 2014 with early application permitted. These amendments did not have any impact on the Group's financial position or performance.

IFRIC 21 Levies

In May 2013, the IASB issued IFRIC Interpretation 21 *Levies*. The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. The interpretation is effective for annual periods beginning on or after 1 January 2014, with early application permitted. The interpretation did not have any impact on the Group's financial position or performance.

IFRS 10 Investment Entities

Amendment to IFRS 10 *Consolidated Financial Statements* provides an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*. The amendment applies for annual periods beginning on or after 1 January 2014. These amendments did not have any impact on the Group's financial position or performance.

Amendments to IAS 36 Assets Impairment – Disclosures on Recoverable Amount for Non-financial Assets

These amendments remove unintended consequences for disclosures in accordance with IAS 36, associated with IFRS 13 coming into effect. In addition, these amendments require disclosure of information on asset's or CGU recoverable amount on which impairment loss was recognized or reimbursed during the reporting period. These amendments are applied retrospectively for annual periods beginning on or after 1 January 2014. In accordance with these amendments the Group provided additional disclosure for impairment of non-financial assets in *Note 6*.

Standards issued, but not yet effective

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

IFRS 9 Financial Instruments: Classification and Measurement.

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures,* issued in December 2011, moved the mandatory effective date 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued, but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 was issued in May 2014 and applies to an annual reporting period beginning on or after 1 January 2017.

Current versus non-current classification

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

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

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

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

The Group classifies all other liabilities as non-current.

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

Fair value measurement

The Group measures financial instruments, such as, available for sale (“AFS”) financial assets at fair value at each balance sheet date, and non-financial assets (UPS constructions) at fair value when fair value differs materially from their carrying value. Also, fair values of financial instruments measured at amortized cost are disclosed in *Note 26.*

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

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

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

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

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

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

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

- Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

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

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

The finance management and external valuers discusses the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Foreign currencies

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

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

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

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

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

Exchange rate as at the end of the period (to KZT)	**30 June 2014**	31 December 2013
USD 1	**183.51**	153.61
EUR 1	**249.92**	211.17
RUR 1	**5.45**	4.69

Average exchange rate for the six months ended 30 June (to KZT)	**2014**	2013
USD 1	**176.23**	151.01
EUR 1	**241.69**	197.61
RUR 1	**5.03**	4.84

Property, plant and equipment

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

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

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

A revaluation surplus is recorded in OCI and credited to the asset revaluation reserve in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognized in profit or loss, the increase is recognized in profit and loss. A revaluation deficit is recognized in statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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

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

Land is not depreciated.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

Intangible assets

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

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

Research and development costs

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

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

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

Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

Investments in associate

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

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

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

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

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

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

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

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

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

Financial instruments – initial recognition and subsequent measurement

Financial assets

Initial recognition and measurement

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

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Initial recognition and measurement (continued)

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

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

Subsequent measurement

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

Loans and receivables

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

Held-to-maturity investments

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

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

Available-for-sale financial investments

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

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for sale reserve to the profit or loss in finance costs. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held to maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Derecognition

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

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Available-for-sale financial investments

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Trade and other payables

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Derecognition

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

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

Offsetting of financial instruments

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

Inventory

Inventories are accounted for on a first in, first out basis.

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

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

Cash and short-term deposits

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

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

Restricted cash

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

Provisions

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

Revenue recognition

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Rendering of services

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

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

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

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

Interest income

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

Borrowing costs

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

Lease

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

Group as a lessee

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

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

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

Pension obligations

In accordance with the legislation of the Republic of Kazakhstan, the Group deducted 10% of employees' salaries, but no more than KZT 149,745 per month (2013: KZT 139,950) to accumulative pension funds. Pension fund payments are withheld from employees' salaries and included with payroll expenses in the consolidated statement of comprehensive income when they are incurred. The Group has no other retirement benefit obligations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current income tax

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

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

Deferred tax

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

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

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

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

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

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

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

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

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

Dividends

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

Contingencies

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

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

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Estimates and assumptions

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

Revaluation of property, plant and equipment

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

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

In May 2014 the Agency approved increase of tariffs for electricity transmission, technical dispatch and balancing of electricity production and consumption services effective from the date of the KEGOC's IPO planned by the end of 2014. Accordingly, the Group performed revaluation of UPS constructions as at 1 June 2014. Higher tariffs resulted in the revaluation surplus on certain assets credited to OCI in the amount of 138,887,289 thousand Tenge, and respective deferred tax liability in the amount of 27,777,458 thousand Tenge and revaluation gain on certain previously impaired assets credited to profit and loss in the amount of 14,194,012 thousand Tenge,

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

The appraised current replacement cost of UPS constructions amounts 487,254,886 thousand Tenge as of 1 June 2014.

The appraised current replacement cost has been further tested for impairment using the recoverable amount estimated as assets value in use. As a result of the assessment, the value in use amounts 415,708,160 thousand Tenge as of 1 June 2014. Consequently, the Group recognized impairment on the appraised current replacement costs.

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

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

Discount rate (WACC)	11.61%
Long term growth rate	2.88%
Remaining useful life of the primary asset	40 years

An increase in the discount rate by 0.5% or a reduction in long term growth rate by 0.5% would result in a decrease in the fair value of Group's property, plant and equipment for approximately KZT 9,089,485 thousand or KZT 9,602,177 thousand, respectively.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Allowances on doubtful accounts receivable

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the interim consolidated financial statements. The Group’s estimate of uncollectible overdue amounts is as follows: 31-90 days – 5%, 91-180 days – 20%, 181-360 days – 50% and above 361 days – 100%. Further details are contained in *Note 9*.

Taxes

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

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

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

Fair value of financial instruments

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

5. OPERATING SEGMENTS INFORMATION

Operating segments

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

Geographic information

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

	For the six months ended 30 June	
In thousands of Tenge	**2014**	2013
Revenue from Kazakhstan customers	**32,779,444**	27,829,552
Revenue from Russian customers	**3,317,506**	6,034,221
Revenue from Uzbekistan customers	**6,588,718**	1,112,779
Total revenue per interim consolidated statement of comprehensive income	**42,685,668**	34,976,552

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

For the six months ended 30 June 2014 the revenue from one customer amounted to KZT 6,588,718 thousand, arising from power regulation and sales of purchased electricity.

For the six months ended 30 June 2013 the revenue from one customer amounted to KZT 3,730,898 thousand, arising from electricity transmission.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT AND ADVANCES PAID FOR NON-CURRENT ASSETS

In thousands of Tenge	Land	Buildings	UPS constructions	Vehicles and other property, plant and equipment	Construction-in-progress	Total
Cost						
At 1 January 2013*	1,161,998	6,549,853	166,102,477	25,105,370	34,447,386	233,367,084
Additions	7,584	155	273	305,045	7,390,030	7,703,087
Transfers	2,392	8,661	4,419,111	(537,929)	(3,892,235)	–
Disposals	(146)	(63,878)	(15,166)	(69,958)	(114,897)	(264,045)
At 30 June 2013*	1,171,828	6,494,791	170,506,695	24,802,528	37,830,284	240,806,126
At 1 January 2014	**1,324,235**	**6,984,370**	**496,334,581**	**26,978,560**	**36,937,761**	**568,559,507**
Additions	**418**	**–**	**46,168**	**296,532**	**6,697,474**	**7,040,592**
Transfers	**72,079**	**6,603,236**	**15,253,026**	**1,876,800**	**(23,805,141)**	**–**
Revaluation surplus (OCI)	**–**	**–**	**241,801,480**	**–**	**–**	**241,801,480**
Revaluation gain / (deficit) (profit and loss)	**–**	**–**	**16,767,840**	**–**	**(56,150)**	**16,711,690**
Disposals	**–**	**–**	**(52,943)**	**(163,441)**	**(33,855)**	**(250,239)**
At 30 June 2014	**1,396,732**	**13,587,606**	**770,150,152**	**28,988,451**	**19,740,089**	**833,863,030**
Accumulated depreciation						
At 1 January 2013*	–	(1,311,423)	(54,553,326)	(14,058,108)	–	(69,922,857)
Charge for the period	–	(70,773)	(2,686,876)	(776,251)	–	(3,533,900)
Disposals	–	5,650	11,904	69,512	–	87,066
At 30 June 2013*	–	(1,376,546)	(57,228,298)	(14,764,847)	–	(73,369,691)
At 1 January 2014	**–**	**(1,405,936)**	**(242,805,084)**	**(15,529,323)**	**–**	**(259,740,343)**
Charge for the period	**–**	**(78,639)**	**(6,753,153)**	**(962,834)**	**–**	**(7,794,626)**
Revaluation surplus (OCI)	**–**	**–**	**(102,914,191)**	**–**	**–**	**(102,914,191)**
Revaluation gain (profit and loss)	**–**	**–**	**(2,517,678)**	**–**	**–**	**(2,517,678)**
Disposals	**–**	**–**	**52,343**	**148,375**	**–**	**200,718**
At 30 June 2014	**–**	**(1,484,575)**	**(354,937,763)**	**(16,343,782)**	**–**	**(372,766,120)**
Net book value						
At 1 January 2013	1,161,998	5,238,430	111,549,151	11,047,262	34,447,386	163,444,227
At 30 June 2013	1,171,828	5,118,245	113,278,397	10,037,681	37,830,284	167,436,435
At 1 January 2014	**1,324,235**	**5,578,434**	**253,529,497**	**11,449,237**	**36,937,761**	**308,819,164**
At 30 June 2014	**1,396,732**	**12,103,031**	**415,212,389**	**12,644,669**	**19,740,089**	**461,096,910**

* In 2013 the Group changed classification of its property, plant and equipment (“PPE”) between classes of PPE. Such reclassifications have no effect on total cost of PPE as of 1 January 2013 and 30 June 2013 and total accumulated depreciation as of 1 January 2013 and 30 June 2013.

Revaluation of property, plant and equipment

As stated in *Notes 3* and *4*, from 1 November 2013 the Group has changed its accounting policy for the measurement of UPS constructions to the revaluation model. The Group performed revaluation of UPS constructions as at 1 June 2014. Previous revaluation was performed as at 1 November 2013. The Group engaged Deloitte LLP, an accredited independent appraiser, to assess the fair value of its constructions.

The revalued UPS constructions constitute one class of asset under IFRS 13, based on the nature, characteristics and risks of the property. Input data for determining the fair value of UPS constructions refer to Level 3 in the fair value hierarchy (unobservable inputs). The appraisal approach, key assumptions applied are disclosed in *Note 4*.

As a result of the revaluation the Group recognized revaluation surplus on certain assets credited to OCI in the amount of 138,887,289 thousand Tenge, and respective deferred tax liability in the amount of 27,777,458 thousand Tenge. Excess of the fair value over the carrying amount was recognised in profit and loss as revaluation gain for the total amount of 14,194,012 thousand Tenge to the extent that revaluation deficit was previously recognized on these assets, while the remaining amount was accounted as increase in respective revaluation reserve.

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

In thousands of Tenge	**30 June 2014**	31 December 2013
At costs	**217,121,742**	201,961,515
Accumulated depreciation	**(62,741,603)**	(59,478,037)
Net carrying amount	**154,380,139**	142,483,478

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT, AND ADVANCES PAID FOR NON-CURRENT ASSETS (continued)

As at 30 June 2014 and 31 December 2013 information on property, plant and equipment included the following:

In thousands of Tenge	**30 June 2014**	31 December 2013
Fully amortised property, plant and equipment (at cost), which are still in use	**6,849,708**	5,270,606

Capitalized borrowing costs

During six month ended 30 June 2014 the Group capitalized borrowing costs at the capitalization rate of 1.5% - 4.2% in the amount of KZT 260,509 thousand (six month ended 30 June 2013: KZT 529,241 thousand at the capitalization rate of 1.7% - 4.3%).

Construction in progress

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

Advances paid for non-current assets

As at 30 June 2014, advances paid for non-current assets mainly represent prepayments made to suppliers for construction work related to the following projects:

- "Construction of 500 kW line Ekibastuz – Shulbinskaya GES (Semey) – Ust-Kamenogorsk";
- "Construction of the Alma 500 kW substation with connection to UPS of Kazakhstan with the voltage of 500 kW, 200 kW";
- "Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2";
- "Reconstruction of the Ossakarovka 220 kW power line".

7. INVESTMENTS IN ASSOCIATES

Investments in associates comprised the following as at:

In thousands of Tenge	**30 June 2014**	31 December 2013
KazEnergoProvod LLP	**169,413**	220,446
Batys Transit JSC	**–**	–
	169,413	220,446

Group's ownership in associates is as follows:

	30 June 2014	31 December 2013
KazEnergoProvod LLP	**49.9%**	49.9%
Batys Transit JSC	**20.0%**	20.0%

KazEnergoProvod LLP

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

On 30 January 2014 the Group and East Industry Company Ltd LLP signed an additional agreement to the Charter agreement on decrease of the charter capital of KazEnergoProvod to KZT 360,000 thousand. As a result the Group withdrew KZT 44,710 thousand in cash.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates the summarised financial information of KazEnergoProvod:

In thousands of Tenge	**30 June 2014**	31 December 2013
Statement of financial position		
Current assets	**172,330**	214,167
Non-current assets	**167,431**	153,012
Current liabilities	**(256)**	(652)
Net assets	**339,505**	366,527

	For the six months ended	
In thousands of Tenge	**30 June 2014**	30 June 2013
Statement of comprehensive income		
Revenue	**–**	18,865
Net loss	**(12,672)**	(5,865)

Share in loss of an associate is included in the statement of comprehensive loss for the six month ended 30 June 2014 amounted to KZT 6,323 thousand.

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

In thousands of Tenge	**30 June 2014**	31 December 2013
Group's share in net assets	**169,413**	182,897
Unpaid capital contribution of other partners	**–**	37,549
Carrying amount of the investment	**169,413**	220,446

Batys Transit JSC

As at 30 June 2014 and 31 December 2013 the Group has a 20% interest in Batys Transit JSC (Batys Transit). Batys Transit's principal place of operations and country of incorporation is the Republic of Kazakhstan. The main activity of Batys Transit is realization of a project on construction and exploitation of interregional power line, which connects the North Kazakhstan region with Aktobe region. Batys Transit has bonds traded on the Kazakhstan Stock Exchange. The investment in Batys Transit is measured under the equity method.

As at 30 June 2014 and 31 December 2013, carrying value of investments in Batys Transit was written off to zero, due to accumulated losses that resulted in equity pick-up to zero balance. The cumulative amount of unrecognized share of losses of Batys Transit is KZT 37,641 thousand as at 30 June 2014 (31 December 2013: KZT 49,520 thousand).

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

In thousands of Tenge	**30 June 2014**	31 December 2013
Statement of financial position		
Current assets	**377,915**	1,709,039
Non-current assets	**22,399,027**	22,548,744
Current liabilities	**(2,255,867)**	(3,568,396)
Non-current liabilities	**(20,709,282)**	(20,936,989)
Net liability	**(188,207)**	(247,602)

	For the six months ended	
In thousands of Tenge	**30 June 2014**	30 June 2013
Statement of comprehensive income		
Revenue	**2,056,146**	1,923,467
Net profit	**59,395**	198,906

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

In thousands of Tenge	**30 June 2014**	31 December 2013
Group's share in net liability	**(37,641)**	(49,520)
Unrecognized share of loss	**37,641**	49,520
Carrying amount of the investment	**–**	–

8. INVENTORIES

In thousands of Tenge	**30 June 2014**	31 December 2013
Spare parts	**1,271,008**	1,064,197
Raw and other materials	**985,976**	841,503
Fuel and lubricants	**325,613**	118,636
Other inventory	**72,178**	56,523
Less: allowance for obsolete inventories	**(203,679)**	(163,972)
	2,451,096	1,916,887

Movement in the allowance for obsolete inventories was as follows:

In thousands of Tenge	**2014**	2013
At 1 January	**163,972**	565,505
Charge for the period	**39,730**	–
Reversal	**–**	(190,118)
Written-off	**(23)**	(39,654)
At 30 June	**203,679**	335,733

9. TRADE ACCOUNTS RECEIVABLE

In thousands of Tenge	**30 June 2014**	31 December 2013
Trade receivables	**16,227,435**	9,394,712
Less: allowance for doubtful receivables	**(3,134,435)**	(893,394)
	13,093,000	8,501,318

Movement in the allowance for doubtful receivables was as follows:

In thousands of Tenge	**2014**	2013
At 1 January	**893,394**	666,260
Charge for the period	**2,407,705**	304,077
Reversal	**(158,240)**	(27,767)
Utilised	**(8,424)**	(6,312)
At 30 June	**3,134,435**	936,258

During six months ended 30 June 2014 the Group recognised provision for overdue trade accounts receivable from Uzbek Energo GAK in the amount of KZT 2,158,816 thousand for the power regulation services and sales of purchased electricity (6 months ended 30 June 2013: KZT 227,323 thousand). Under sales agreements with Uzbek Energo GAK during 6 months ended 30 June 2014 the repayment terms of trade accounts receivable has been increased from 30 to 60 days from the date of receipt of the invoice.

The ageing analysis of trade receivables is as follows:

			Past due but not impaired			
In thousands of Tenge	**Total**	**Neither past due nor impaired**	**30-90 days**	**91-180 days**	**181-270 days**	**Above 271 days**
30 June 2014	**13,093,000**	**3,890,210**	**5,298,114**	**2,665,974**	**1,238,702**	**–**
31 December 2013	8,501,318	8,037,914	160,121	2,731	300,552	–

Trade receivables were denominated in the following currencies:

In thousands of Tenge	**30 June 2014**	31 December 2013
United States dollar	**9,673,556**	4,388,875
Tenge	**3,023,706**	3,830,074
Russian rouble	**395,738**	282,369
	13,093,000	8,501,318

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. OTHER FINANCIAL ASSETS

In thousands of Tenge	**30 June 2014**	31 December 2013
Long-term other financial assets		
Deposits	**2,803,420**	–
Bonds of Batys Transit JSC	**868,269**	868,269
	3,671,689	868,269
Short-term other financial assets		
Bank deposits	**15,459,987**	18,937,123
Interest accrued on bonds of Batys Transit JSC	**13,105**	55,308
	15,473,092	18,992,431
Total other financial assets	**19,144,781**	19,860,700

In 2007-2009 the Group acquired bonds of Batys Transit JSC, an entity listed on the Kazakhstan Stock Exchange. The interest rate on the bonds is 5%. The bonds are classified as available for sale investments. Fair value is the price to sell an asset or transfer a liability, and therefore an exit price, not an entry price. The Group also has investments into Batys Transit JSC which have been written off to zero due to accumulated losses of Batys Transit JSC (*Note 7*). The Group do not offset the unrecognised share of loss in Batys Transit JSC with the investment in bonds, since the bonds are secured with Guarantee of the Government of Republic of Kazakhstan in accordance with guarantee agreement dated 9 January 2006.

In January 2014 the Group placed long-term deposit with ATF Bank amounting to USD 15,000 thousand (equivalent of KZT 2,752,650 thousand) with fixed interest rate of 4.5% per annum. The balance as at 30 June 2014 also includes the accrued interest income in the amount of KZT 50,770 thousand.

Short-term deposits as at 30 June 2014 and 31 December 2013 represent deposits placed in Kazakhstan banks with the fixed interest rate of 5%-8.5% per annum; and also include the accrued interest income in the amount of KZT 420,242 thousand and KZT 322,929 thousand, respectively.

Other financial assets were denominated in the following currencies:

In thousands of Tenge	**30 June 2014**	31 December 2013
United States dollar	**14,879,580**	12,064,220
Tenge	**4,265,201**	7,796,480
	19,144,781	19,860,700

11. RESTRICTED CASH

In thousands of Tenge	**30 June 2014**	31 December 2013
Cash on reserve accounts	**1,481,376**	1,240,009
Cash on debt service accounts	**465,463**	369,953
Cash restricted on current account	**77,809**	78,872
	2,024,648	1,688,834

As at 30 June 2014 and 31 December 2013 restricted cash represents cash held on a debt service account and reserve account.

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

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

At 30 June 2014 and 31 December 2013, restricted cash was denominated in the following currencies:

In thousands of Tenge	**30 June 2014**	31 December 2013
United States dollar	**1,946,839**	1,609,962
Tenge	**77,809**	78,872
	2,024,648	1,688,834

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. OTHER CURRENT ASSETS

In thousands of Tenge	**30 June 2014**	31 December 2013
Deferred expenses	**585,210**	410,330
Advances paid for goods and services	**460,135**	427,372
Loans to employees	**28,810**	30,082
Other receivables	**126,483**	81,053
Less: provision for impairment of other current assets	**(61,600)**	(29,574)
	1,139,038	919,263

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

In thousands of Tenge	**2014**	2013
At 1 January	**29,574**	65,366
Charge for the period	**36,044**	12,399
Reversal	**(1,112)**	(15,051)
Utilised	**(2,906)**	(3,447)
At 30 June	**61,600**	59,267

13. CASH AND CASH EQUIVALENTS

In thousands of Tenge	**30 June 2014**	31 December 2013
Current accounts with banks, in foreign currencies	**12,163,548**	4,855,815
Current accounts with banks, in Tenge	**6,042,542**	2,862,774
Short-term deposits	**–**	4,000,000
Cash on hand	**5,865**	4,550
Cash at special accounts	**1,246**	4,416
	18,213,201	11,727,555

At 30 June 2014 and 31 December 2013, cash and cash equivalents were stated in the following currencies:

In thousands of Tenge	**30 June 2014**	31 December 2013
United States dollar	**6,554,270**	3,082,412
Tenge	**6,049,653**	6,871,741
Euro	**5,112,722**	1,658,253
Russian rouble	**496,161**	114,821
Others	**395**	328
	18,213,201	11,727,555

14. EQUITY

As at 30 June 2014 and 31 December 2013 share capital of the Company comprised of 238,324,377 ordinary shares with par value of 500 Tenge each, including 214,491,940 shares that were issued and fully paid.

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

Dividends

On 29 March 2013 the Group declared dividends for 2012, in the amount of KZT 2,082,309 thousand. The dividend amounted to 9.74 Tenge per common share according to the total number of shares equalling to 213,685,940. On 11 April 2013 the declared dividends were paid. No dividends were neither declared nor paid during six months ended 30 June 2014.

Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the period by the weighted average number of ordinary shares outstanding during the period. The Group had 214,491,940 weighted average number of ordinary shares for the six month ended 30 June 2014 (for the six months ended 30 June 2013: 213,865,656). The Group does not have potential diluted ordinary shares. For the six month ended 30 June 2014 and 30 June 2013 basic earnings per share amounted to 2.74 Tenge and 20.15 Tenge, respectively.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. EQUITY (continued)

Book value of ordinary shares

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

In thousand Tenge	**30 June 2014**	31 December 2013
Total assets	**529,254,981**	367,321,726
Less: intangible assets	**(822,259)**	(885,708)
Less: total liabilities	**(197,057,230)**	(146,140,263)
Net assets per ordinary share	**331,375,492**	220,295,755
Number of ordinary shares	**214,491,940**	214,491,940
Book value per ordinary share, Tenge	**1,545**	1,027

Asset revaluation reserve

At 30 June 2014 and 31 December 2013 the revaluation reserve represents revaluation surplus recognized as a result of revaluation of Group's UPS constructions on 1 June 2014 (previous revaluation was made on 1 November 2013) *(Note 6)*. Transfer of asset revaluation reserve into retained earnings, upon disposal of PPE, for the six months ended 30 June 2014 amounted to KZT 2,321 thousand (for the six months ended 30 June 2013: nil).

Other reserves

Other reserves represent accumulated reserve on available for sale investments. After initial measurement, available for sale investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the other reserves until the investment is derecognised. Fair value is the price to sell an asset or transfer a liability, and therefore an exit price, not an entry price.

15. BORROWINGS

In thousands of Tenge	**30 June 2014**	31 December 2013
International Bank of Reconstruction and Development (IBRD)	**45,748,490**	37,906,593
European Bank of Reconstruction and Development (EBRD)	**71,734,259**	54,634,680
	117,482,749	92,541,273
Less: current portion of loans repayable within 12 months	**(13,402,909)**	(10,218,204)
	104,079,840	82,323,069

At 30 June 2014 and 31 December 2013 the accrued and unpaid interest amounts to KZT 966,944 thousand and KZT 712,253 thousand, respectively.

At 30 June 2014 and 31 December 2013 the unamortized portion of loan origination fees amounts to KZT 936,018 thousand and KZT 976,862 thousand, respectively.

Loans were denominated in the following currencies:

In thousands of Tenge	**30 June 2014**	31 December 2013
In United Stated dollars	**69,507,714**	57,725,280
In euro	**47,975,035**	34,815,993
	117,482,749	92,541,273

"Kazakhstan National Electricity Transmission Rehabilitation Project"

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

(a) USD 140,000 thousand from IBRD for the 20 years period, secured by a guarantee of the Government of the Republic of Kazakhstan. The loan is repayable by annual instalments commencing 2005. An interest at LIBOR base rate plus general spread is payable semi-annually. The outstanding balances as at 30 June 2014 and 31 December 2013 are USD 65,415 thousand (equivalent to KZT 12,004,307 thousand) and USD 70,415 thousand (equivalent to KZT 10,816,448 thousand), respectively;

(b) USD 45,000 thousand from EBRD for the 15 years period, secured by a guarantee of the Government of the Republic of Kazakhstan. The loan is repayable by annual instalments commencing 2004. An interest at LIBOR base rate plus 1% margin is payable semi-annually. The outstanding balances as at 30 June 2014 and 31 December 2013 are USD 5,866 thousand (equivalent to KZT 1,076,470 thousand) and USD 7,827 thousand (equivalent to KZT 1,202,305 thousand), respectively.

15. BORROWINGS (continued)

“North-South Electricity Transmission Project”

In 2005, for the purpose of implementation of the Phase 2 of the “North-South Electricity Transmission Project”, the Group received from IBRD a credit line facility of USD 100,000 thousand provided by IBRD for a period of 17 years of which first five years are a grace period. This credit line facility is secured by a guarantee of the Government of the Republic of Kazakhstan. An interest at LIBOR dollar rate plus general spread is payable semi-annually. In 2011 the non-disbursed part of this IBRD credit line in the amount of USD 1,918 thousand was cancelled due to the fact that actual costs incurred within this project were less than expected. The outstanding balances as at 30 June 2014 and 31 December 2013 are USD 69,363 thousand (equivalent to KZT 12,728,751 thousand) and USD 73,411 thousand (equivalent to KZT 11,281,206 thousand), respectively.

“Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2”

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

(a) two credit-line facilities of euro 127,500 thousand and euro 75,000 thousand from EBRD for 15 years, of which the first four years are a grace period. An interest at the interbank six months EURIBOR rate plus a 3.85% margin is payable semi-annually. The outstanding balances as at 30 June 2014 and 31 December 2013 are euro 149,795 thousand (equivalent to KZT 37,436,651 thousand) and euro 130,252 thousand (equivalent to KZT 27,505,277 thousand), respectively;

(b) a credit line facility of euro 47,500 thousand from EBRD for 12 years, of which the first four years are a grace period. An interest at the interbank six months EURIBOR rate plus a 3.55% margin is payable semi-annually. The outstanding balances as at 30 June 2014 and 31 December 2013 are euro 37,118 thousand (equivalent to KZT 9,276,631 thousand) and euro 30,743 thousand (equivalent to KZT 6,492,013 thousand), respectively;

(c) a credit line facility of euro 5,000 thousand from EBRD for 9 years, of which the first four years are a grace period. An interest at the interbank six months EURIBOR rate plus a 2.75% margin is repayable semi-annually. The outstanding balances as at 30 June 2014 and 31 December 2013 are euro 3,405 thousand (equivalent to KZT 850,898 thousand) and euro 2,918 thousand (equivalent to KZT 616,299 thousand), respectively.

In November 2013 the Group concluded supplementary agreement, according to which the second credit line was decreased from euro 75,000 thousand to euro 53,443 thousand.

“Moinak Electricity Transmission Project”

In 2009, for the realization of the “Moinak Electricity Transmission Project” a credit line facility from IBRD of USD 48,000 thousand was opened for 25 years, of which the first five years are a grace period. The credit line facility is secured by the guarantee of the Government of the Republic of Kazakhstan. An interest rate is USD LIBOR rate plus fixed spread is payable semi-annually. In May 2013 unused portion of the credit line from the IBRD in the amount of USD 3,274 thousand was cancelled due to the fact that the amount of actual expenses incurred in the course of the project was less than expected. The outstanding balances as at 30 June 2014 and 31 December 2013 are USD 44,726 thousand (equivalent to KZT 8,207,688 thousand) and USD 44,726 thousand (equivalent to KZT 6,870,377 thousand), respectively.

“Construction of the Alma 500 kW substation”

In 2010 for the realization of the project “Construction of the Alma 500 kW substation with connection to UPS of Kazakhstan with the voltage of 500, 200 kW” the Group received a credit line facility of USD 78,000 thousand from IBRD for 25 years, of which the first five years are a grace period. The credit line facility is secured by a guarantee of the Government of the Republic of Kazakhstan. An interest at LIBOR dollar rate plus fixed spread is repayable semi-annually. The outstanding balances as at 30 June 2014 and 31 December 2013 are USD 70,901 thousand (equivalent to KZT 13,011,083 thousand) and USD 59,869 thousand (equivalent to KZT 9,196,545 thousand), respectively.

15. BORROWINGS (continued)

“Ossakarovka Transmission Rehabilitation Project”

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

(a) two credit-line facilities of USD 77,293 thousand and USD 44,942 thousand, from EBRD for a 15 years. An interest at the interbank six months LIBOR rate plus a 3.95% margin is payable semi-annually. The outstanding balances as at 30 June 2014 and 31 December 2013 are USD 99,158 thousand (equivalent to KZT 18,196,500 thousand) and USD 103,290 thousand (equivalent to KZT 15,866,327 thousand), respectively;

(b) a credit-line facility of USD 17,973 thousand, from EBRD for 12 years. An interest at the interbank six months LIBOR rate plus a 3.70% margin is payable semi-annually. The outstanding balances as at 30 June 2014 and 31 December 2013 are USD 13,718 thousand (equivalent to KZT 2,517,339 thousand) and USD 14,480 thousand (equivalent to KZT 2,224,245 thousand) respectively.

In 2011, for execution of “Reconstruction of the Ossakarovka 220 kW power line” the Group received from EBRD credit lines for the amounts of USD 12,900 thousand (A2, B1b) and USD 1,900 thousand (B2b). The credit lines were provided for 12 years, of which the first three years is a grace period. An interest at the interbank six months LIBOR rate plus 3.95% (A2, B1b) and 3.70% (B2b) margin is payable semi-annually. The outstanding balances as at 30 June 2014 and 31 December 2013 are USD 11,691 thousand (equivalent to KZT 2,145,505 thousand) and USD 4,783 thousand (equivalent of KZT 734,803), respectively.

16. PROVISION FOR CONSTRUCTION

In accordance with the decision of the Management Board of Samruk-Kazyna dated 28 November 2013, the Group shall construct a kinder garden in Astana city. During six months ended 30 June 2014 the Group estimated cost of construction and engaged a construction company. Accordingly, the Group recognised provision for construction for the whole amount of KZT 681,463 thousand and respective distribution to the Shareholder.

17. TRADE AND OTHER ACCOUNTS PAYABLE

In thousands of Tenge	**30 June 2014**	31 December 2013
Accounts payable for property, plant and equipment and construction works	**5,466,313**	10,978,705
Accounts payable for electricity purchased	**4,062,619**	2,005,930
Accounts payable for inventories, works and services	**1,007,279**	1,729,167
	10,536,211	14,713,802

Accounts payable as at 30 June 2014 and 31 December 2013 are stated in the following currencies:

In thousands of Tenge	**30 June 2014**	31 December 2013
Tenge	**5,999,057**	7,530,783
Euro	**2,024,589**	4,951,818
United States dollar	**1,767,736**	1,579,960
Russian rouble	**744,829**	650,229
British pound	**–**	1,012
	10,536,211	14,713,802

18. OTHER CURRENT LIABILITIES

In thousands of Tenge	**30 June 2014**	31 December 2013
Due to employees	**1,186,261**	1,000,599
Commission payable on the non-withdrawn portion of EBRD loans*	**30,156**	84,620
Other	**229,493**	206,177
	1,445,910	1,291,396

* The Group is obliged to pay EBRD an annual commission charge on the non-withdrawn portion of the borrowings at the rate of 0.5% and 1%. For the six months ended 30 June 2014 the commission on the non-withdrawn portion of the borrowings amounted to KZT 43,752 thousand (six months ended 30 June 2013: KZT 87,088 thousand) (*Note 22*).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. REVENUE

	Three months ended 30 June		Six months ended 30 June	
In thousands of Tenge	**2014**	2013	**2014**	2013
Electricity transmission	**11,382,461**	10,740,380	**24,342,742**	23,912,320
Technical dispatch	**2,567,359**	2,479,710	**5,662,140**	5,389,880
Revenue from sales of purchased electricity	**132,489**	1,159	**4,877,166**	1,114,610
Balancing of electricity production and consumption	**2,164,982**	1,446,259	**4,762,995**	3,149,408
Revenue from electricity sales for compensation of the interstate balances of electricity flows	**1,247,410**	1,155,026	**1,958,141**	2,300,578
Revenue from power regulation services	**661,818**	–	**1,711,551**	–
Other	**253,437**	218,306	**620,231**	431,064
	18,409,956	16,040,840	**43,934,966**	36,297,860
Discounts to customers	**(663,487)**	(714,984)	**(1,249,298)**	(1,321,308)
	17,746,469	15,325,856	**42,685,668**	34,976,552

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

On 6 January 2014 the Group entered into sales agreement with Uzbek Energo GAK for rendering of power regulation services.

20. COST OF SALES

	Three months ended 30 June		Six months ended 30 June	
In thousands of Tenge	**2014**	2013	**2014**	2013
Technical losses of electric energy	**4,128,841**	3,526,193	**10,394,356**	9,263,121
Depreciation and amortization	**4,218,618**	1,711,190	**7,744,376**	3,483,452
Cost of purchased electricity for compensation of interstate balances of electricity flows	**1,538,532**	2,131,648	**4,889,010**	4,651,858
Payroll expenses and related taxes	**2,609,960**	2,357,094	**4,741,366**	4,337,970
Cost of purchased electricity	**1,911,278**	1,159	**3,444,221**	964,778
Repair and maintenance expenses	**1,049,681**	1,055,473	**1,882,790**	1,763,463
Security services	**229,784**	226,434	**455,214**	455,042
Inventories	**220,715**	228,634	**365,198**	350,410
Other	**428,657**	573,288	**734,252**	882,753
	16,336,066	11,811,113	**34,650,783**	26,152,847

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 30 June		Six months ended 30 June	
In thousands of Tenge	**2014**	2013	**2014**	2013
Provision for doubtful receivables and impairment of advances *(Notes 9 and 12)*	**2,205,018**	242,226	**2,284,397**	273,658
Taxes other than income tax	**1,090,380**	419,729	**2,047,617**	806,768
Payroll expenses and related taxes	**637,911**	508,805	**1,208,821**	1,008,944
Depreciation and amortization	**80,047**	66,754	**160,188**	131,111
Consulting services	**37,413**	40,408	**80,368**	101,689
Rent expenses	**53,089**	69,814	**71,359**	82,099
Insurance	**37,831**	35,041	**57,804**	69,171
Business trip expenses	**29,226**	25,825	**49,851**	56,245
Provision / (reversal of provision) for obsolete inventory *(Note 8)*	**33,360**	(162,421)	**39,730**	(190,118)
Materials	**17,574**	18,857	**35,662**	42,100
Trainings	**25,993**	24,273	**28,008**	30,997
Utilities	**8,541**	8,353	**24,341**	21,682
Security services	**9,149**	7,918	**16,893**	15,756
Bank services	**9,238**	8,401	**16,466**	15,211
Communication services	**5,277**	5,745	**10,293**	12,072
Corporate events	**7,235**	11,807	**9,615**	15,059
Repair expenses	**4,209**	783	**4,209**	1,707
Sponsorship and charitable donations	**15**	97,195	**15**	206,303
Other	**117,905**	53,845	**186,427**	136,619
	4,409,411	1,483,358	**6,332,064**	2,837,073

22. FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
In thousands of Tenge	**2014**	2013	**2014**	2013
Interest expense	**818,570**	583,619	**1,567,355**	1,169,932
Commission on bank guarantees	**205,094**	171,552	**223,705**	198,072
Loss on discounting	**–**	–	**75,384**	–
Commission on the non-withdrawn portion of EBRD loans *(Note 18)*	**18,735**	41,848	**43,752**	87,088
Amortization of loan origination fees	**21,791**	20,994	**43,505**	41,980
Others	**1**	–	**689**	–
Less interest capitalized into the cost of qualifying assets *(Note 6)*	**(128,376)**	(247,200)	**(260,509)**	(529,241)
	935,815	570,813	**1,693,881**	967,831

23. FOREIGN EXCHANGE LOSS, NET

On 11 February 2014 National Bank of the Republic of Kazakhstan made a decision to cease supporting exchange rate of Tenge against US dollar and other major currencies on the same level, reduce volume of currency interventions and reduce interventions in process of exchange rate formation. As a result of devaluation of Tenge the Group incurred significant foreign exchange loss, net during the six months ended 30 June 2014.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. INCOME TAX EXPENSE

	Three months ended 30 June		Six months ended 30 June	
In thousands of Tenge	**2014**	2013	**2014**	2013
Current income tax				
Current income tax expense / (benefit)	**24,001**	(31,385)	**42,263**	654,098
Deferred tax				
Deferred income tax expense	**2,746,434**	363,685	**1,033,749**	683,205
Total income tax expense reported in the statement of profit or loss	**2,770,435**	332,300	**1,076,012**	1,337,303
Deferred tax related to items recognised in OCI during the period				
Tax expense on revaluation of UPS constructions	**27,777,458**	–	**27,777,458**	–
Tax expense during the period recognized in OCI	**27,777,458**	–	**27,777,458**	–

The income tax rate in the Republic of Kazakhstan is 20% in 2014 and 2013.

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

	Three months ended 30 June		Six months ended 30 June	
In thousands of Tenge	**2014**	2013	**2014**	2013
Profit before income tax expense	**10,325,308**	896,670	**1,663,932**	5,647,458
Tax at statutory income tax rate of 20%	**2,065,062**	179,334	**332,786**	1,129,492
Accrual of provision for non-residents	**433,622**	37,430	**439,191**	45,465
Interest expense	**163,262**	19,234	**163,262**	67,792
Other non-deductible expenses	**108,489**	96,302	**140,773**	94,554
Income tax expense reported in the statement of comprehensive loss	**2,770,435**	332,300	**1,076,012**	1,337,303

Tax effect on temporary differences leading to deferred income tax assets and liabilities at 30 June 2014 and 31 December 2013 is provided below:

	Interim consolidated statement of financial position				Interim consolidated statement of comprehensive income	
					For the six months ended	
In thousands of Tenge	**30 June 2014**	31 December 2013	30 June 2013	1 January 2013	**30 June 2014**	30 June 2013
Tax losses carried forward	**2,543,409**	–	–	–	**2,543,409**	–
Allowance for doubtful receivables	**37,631**	24,460	20,483	10,479	**13,171**	10,004
Accrued liabilities	**216,316**	309,246	205,963	217,117	**(92,930)**	(11,154)
Property, plant and equipment	**(67,699,139)**	(36,424,282)	(12,638,479)	(11,956,424)	**(3,497,399)**	(682,055)
Deferred tax expense					**(1,033,749)**	(683,205)
Net deferred tax liabilities	**(64,901,783)**	(36,090,576)	(12,412,033)	(11,728,828)		

Reconciliation of deferred tax liabilities, net:

In thousands of Tenge	**2014**	2013
Opening balance as of 1 January	**(36,090,576)**	(11,728,828)
Tax expense during the period recognized in profit or loss	**(1,033,749)**	(683,205)
Tax expense during the period recognized in OCI (*Note 6*)	**(27,777,458)**	–
Closing balance as of 30 June	**(64,901,783)**	(12,412,033)

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

25. TRANSACTIONS WITH RELATED PARTIES

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

The following table provides the balances of Trade accounts payable to/receivable from related parties as at 30 June 2014 and 31 December 2013:

In thousands of Tenge		Trade accounts receivable from related parties	Trade accounts payable to related parties
Subsidiaries of Samruk-Kazyna Group	**2014**	**166,301**	**1,546,153**
	2013	436,939	308,585
Associated entities of Samruk-Kazyna	**2014**	**287,025**	**232,708**
	2013	8,726	214,072
Entities under joint control of Samruk-Kazyna	**2014**	**144,566**	**1,265,573**
	2013	93,532	872,269
Associates of the Group	**2014**	**33,019**	**–**
	2013	12,484	13,308

The Group had the following transactions with related parties for the six months period ended 30 June 2014 and 2013:

In thousands of Tenge		Sales to related parties	Purchases from related parties
Subsidiaries of Samruk-Kazyna Group	**2014**	**8,281,204**	**4,127,328**
	2013	6,073,933	753,693
Associated entities of Samruk-Kazyna	**2014**	**1,675,595**	**578,130**
	2013	772,700	402,441
Entities under joint control of Samruk-Kazyna	**2014**	**919,550**	**6,214,451**
	2013	2,160,292	9,362,783
Associates of the Group	**2014**	**105,236**	**–**
	2013	58,629	34,998

Samruk-Kazyna is the sole shareholder of the Group.

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

As of 31 December 2013 there were deposits placed amounting to USD 12,500 thousand (equivalent of KZT 1,932,094 thousand) with Temir bank JSC, a 79.9% subsidiary of Samruk-Kazyna, a related party of the Group till 15 May 2014. On 15 May 2014 based on the decision of Samruk-Kazyna 79.9% share in Temir bank JSC has been sold out.

As at 30 June 2014 the Group's borrowings of KZT 47,173,221 thousand were guaranteed by the Government of the Republic of Kazakhstan (31 December 2013: KZT 39,467,326 thousand).

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

In 2007-2009 the Group acquired bonds of an associate, Batys Transit JSC, an entity listed on the Kazakhstan Stock Exchange. The interest rate on the bonds is 5%. The bonds are classified as available for sale investments. Fair value is the price to sell an asset or transfer a liability, and therefore an exit price, not an entry price. The carrying value of Batys Transit bonds comprised KZT 868,269 thousand as of 30 June 2014 (31 December 2013: KZT 868,269 thousand).

Interest income accrued on bonds of Batys Transit JSC, the associate, amounted to KZT 31,328 thousand for the six months ended 30 June 2014 (six months ended 30 June 2013: KZT 34,953 thousand).

As of 30 June 2014 the Group had outstanding accounts receivable from Balkhash TES JSC for the sale of property, plant and equipment in the amount of KZT 147,682 thousand presented within other non-current assets. In accordance with sales agreement Balkhash TES JSC will repay the outstanding balance in December 2018. During six months ended 30 June 2014 the Group recognized loss from discounting of accounts receivable from Balkhash TES JSC in the amount of KZT 75,384 thousand (*Note 22*).

25. TRANSACTIONS WITH RELATED PARTIES (continued)

Total compensation to key management personnel included in personnel costs in the interim consolidated statement of comprehensive income was KZT 218,081 thousand for the six months ended 30 June 2014 (30 June 2013: KZT 275,309 thousand). Compensation to key management personnel mainly consists of contractual salary and performance bonus based on operating results.

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

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

In thousands of Tenge	**Increase/(decrease) in basis points***	**Effect on profit before tax**
For the six months ended 30 June 2014		
Libor	**3/(3)**	**(20,966) / 20,966**
Euribor	**12/(12)**	**(57,077) / 57,077**
For the six months ended 30 June 2013		
Libor	5/(5)	(27,141) / 27,141
Euribor	16/(16)	(47,795) / 47,795

* 1 basis point = 0.01%.

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

Foreign currency risk

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

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

In thousands of Tenge	**Increase in exchange rate**	**Effect on profit before tax**
At 30 June 2014		
US dollar	**30%/10%**	**(11,466,362) / (3,822,121)**
Euro	**30%/10%**	**(13,466,071) / (4,488,690)**
At 31 December 2013		
US dollar	30%/10%	(11,447,961) / (3,815,987)
Euro	30%/10%	(11,432,867) / (3,810,956)

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

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

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

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

Liquidity risk

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

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

In thousands of Tenge	On demand	Due later than 1 month but not later than 3 months	Due later than 3 month but not later than 1 year	Due later than 1 year but not later than 5 years	Due after 5 years	Total
At 30 June 2014						
Borrowings	**–**	**4,198,749**	**11,595,912**	**61,422,166**	**57,454,543**	**134,671,370**
Trade and other accounts payable	**–**	**10,536,211**	**–**	**–**	**–**	**10,536,211**
	–	**14,734,960**	**11,595,912**	**61,422,166**	**57,454,543**	**145,207,581**
At 31 December 2013						
Borrowings	–	3,008,118	9,111,297	51,220,352	42,982,662	106,322,429
Trade and other accounts payable	–	14,713,802	–	–	–	14,713,802
	–	17,721,920	9,111,297	51,220,352	42,982,662	121,036,231

Capital management

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

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

No changes were made in the objectives, policies or processes for managing capital during the six months ended 30 June 2014.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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

	30 June 2014	31 December 2013
Debt/capital	**0.22**	0.25

In thousands of Tenge		
Long-term borrowings	**104,079,840**	82,323,069
Short-term borrowings	**13,402,909**	10,218,204
Debt	**117,482,749**	92,541,273
Total liabilities	**197,057,230**	146,140,263
Equity	**332,197,751**	221,181,463
Capital	**529,254,981**	367,321,726

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

Fair value hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

As at 30 June 2014, the Group held the following financial instruments carried at fair value in the statement of financial position:

Assets measured at fair value

In thousands of Tenge	**30 June 2014**	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Available-for-sale financial assets *(Note 10)*	**868,269**	**–**	**868,269**	**–**
Non-financial assets				
UPS constructions (*Note 6*)	**415,212,389**	**–**	**–**	**415,212,389**

Liabilities measured at fair value

In thousands of Tenge	**30 June 2014**	**Level 1**	**Level 2**	**Level 3**
Financial liabilities				
Borrowings (*Note 15*)	**117,482,749**	**–**	**117,482,749**	**–**

Assets measured at fair value

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value

In thousands of Tenge	31 December 2013	Level 1	Level 2	Level 3
Financial liabilities				
Borrowings (*Note 15*)	92,541,273	–	92,541,273	–

There have been no transfers between Level 1 and Level 2 during the period.

As of 30 June 2014 and 31 December 2013 the fair value of Batys Transit bonds was settled at recent transaction price.

Fair values of financial instruments

As of 30 June 2014 and 31 December 2013 the management assessed that the fair value of financial instruments of the Group, such as trade accounts receivable and payable, other financial assets, cash and cash equivalents, cash restricted in use, approximates their carrying amounts largely due to the short-term maturities of these instruments. Borrowings are stated at amortized costs which approximate their fair values.

The methods and assumptions used to estimate the fair value of UPS constructions are disclosed in *Note 4.*

27. COMMITMENTS AND CONTINGENCIES

Taxation

Kazakhstan’s tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan’s tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for 5 calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan’s tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 30 June 2014.

As at 30 June 2014, Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group’s tax positions will be sustained, except as provided for or otherwise disclosed in these interim consolidated financial statements.

Compliance with loan covenants

From 1999 till 2011 the Group concluded loan facility agreements with European Bank for Reconstruction and Development (EBRD) and International Bank for Reconstruction and Development (IBRD) (the “Creditors”) for the amounts of 558 million US Dollars and 233 million Euro (*Note 15*), According to the Loan facility Agreements concluded between the Group and the Creditors, the Group has to comply with the following covenants:

- Current ratio of not less than 1:1;
- Total debt to total capital of not more than 50%;
- Earnings before interest, income tax, depreciation and amortization (“EBITDA”) to interest expense of not less than 3:1;
- Net debt to EBITDA of not more than 4:1;
- Self-financing ratio of not less than 20%;
- Debt service ratio of not less than 1.2.

Management believes that the Group complied with all existing loan covenants with EBRD and IBRD as at 30 June 2014 and 31 December 2013. The Group excludes from EBITDA the foreign exchange loss, as management believes that foreign exchange loss meets definition of non-cash impairment and as such shall be excluded from the calculation of EBITDA as provided in the loan agreement. As of 30 June 2014 the Group excluded from EBITDA the foreign exchange loss of KZT 13,367,026 thousand incurred during the six months ended 30 June 2014.

27. COMMITMENTS AND CONTINGENCIES (continued)

Insurance

As at 30 June 2014, the Group insured property and equipment with the carrying value of KZT 134,361,065 thousand. The insurance payment is limited to the carrying value of property and equipment. The Group does not insure its other property. Since absence of any insurance does not imply a reduction of the cost of assets or occurrence of any liabilities, no provision has been made in these interim consolidated financial statements for unexpected expenses associated with damage or loss of these assets.

Capital commitments

To ensure the stable and reliable performance of the national electricity grid, the Group developed a capital investment plan. As at 30 June 2014, the Group's outstanding contractual commitments within the frameworks of this plan amount to KZT 68,951,486 thousand (31 December 2013: KZT 68,611,801 thousand), including co-financing commitments:

In accordance with the Project Implementation Plan of "Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2", agreed with EBRD, the Group has outstanding co-financing commitments in the amount of KZT 489,843 thousand.

In accordance with the Project Implementation Plan of "Construction of the Alma 500 kW substation with connection to UPS of Kazakhstan with the voltage of 500, 200 kW", agreed with IBRD, the Group has outstanding co-financing commitments in the amount of KZT 15,867,548 thousand.

In accordance with the Project Implementation Plan of "Reconstruction of the Ossakarovka 220 kW power line" the Group has outstanding co-financing commitments in the amount of KZT 1,924,561 thousand.

2.04.2014

11 listik

"Kazakhstan Electricity Grid Operating Company" JSC

Consolidated Financial Statements

31 December 2013

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Building a better working world

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Independent auditors' report

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

We have audited the accompanying consolidated financial statements of JSC "Kazakhstan Electricity Grid Operating Company" and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Ernst & Young LLP

Aisulu Narbayeva Auditor	Evgeny Zhemaletdinov General Director Ernst & Young LLP
Auditor Qualification Certificate No. 0000137 dated 21 October 1994	State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2, No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

4 March 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

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

Chairman of the Management Board ________ *Kazhiyev B.T.*

Chief Accountant ________ *Mukanova D.T.*

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

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

Chairman of the Management Board

Kazhiyev B.T.

Chief Accountant

Mukanova D.T.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

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

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

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

Non-cash transactions:

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

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

Chairman of the Management Board

Kazhiyev B.T.

Chief Accountant

Mukanova D.T.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

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

Chairman of the Management Board _Kazhiyev B.T._

Chief Accountant _Mukanova D.T._

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. GENERAL INFORMATION

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

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

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

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

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

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

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

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

These accompanying consolidated financial statements were authorised for issue by the Company's Chairman of the Management Board and Chief Accountant on 3 March 2014.

2. BASIS OF PREPARATION

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

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

Basis of consolidation

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

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

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

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

2. BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policy

Revaluation of UPS constructions

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

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

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

New and amended standards and interpretations

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

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

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

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

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

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

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

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

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

IFRS 12 Disclosure of Interests in Other Entities

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

IFRS 13 Fair Value Measurement

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IAS 1 Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

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

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

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

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

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

Amendments to IAS 19 Employee Benefits

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

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

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

Standards issued, but not yet effective

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued, but not yet effective (continued)

IFRS 9 Financial Instruments: Classification and Measurement

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

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

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

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

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

IFRIC 21 Levies

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

IFRS 10 Investment Entities (Amendment)

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

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

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

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

Current versus non-current classification

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued, but not yet effective (continued)

Current versus non-current classification (continued)

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

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

The Group classifies all other liabilities as non-current.

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

Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued, but not yet effective (continued)

Fair value measurement

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

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

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

Foreign currencies

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

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

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

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

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

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

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

Exchange rate as at the end of the period (to KZT)	**31 December 2013**	**31 December 2012**
USD 1	153.61	150.74
EUR 1	211.17	199.22
RUS 1	4.69	4.96

Average exchange rate for 12 months (to KZT)	**2013**	**2012**
USD 1	152.14	149.11
EUR 1	202.08	191.71
RUS 1	4.78	4.80

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

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

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

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

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

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

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

Land is not depreciated.

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

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

Intangible assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

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

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

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

Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

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

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

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

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

Investments in an associate

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in an associate (continued)

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

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

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

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

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

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

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

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

Financial instruments – initial recognition and subsequent measurement

Financial assets

Initial recognition and measurement

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

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

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

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

Subsequent measurement

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Loans and receivables

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

Held-to-maturity investments

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

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

Available-for-sale financial investments

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

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

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

Derecognition

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Derecognition (continued)

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Available-for-sale financial investments

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

Trade and other payables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Derecognition

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

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

Offsetting of financial instruments

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

Inventory

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

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

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

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

Cash and short-term deposits

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

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

Cash restricted in use

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

Provisions

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

Revenue recognition

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Rendering of services

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

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

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

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

Interest income

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

Borrowing costs

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

Lease

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

Group as a lessee

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

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

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

Retirement benefit costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current income tax

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

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

Deferred tax

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

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

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

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

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

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

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

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

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

Dividends

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

Contingencies

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Estimates and assumptions

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

Revaluation of property, plant and equipment

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

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

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Allowances on doubtful accounts receivable

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

Taxes

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

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

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

Fair value of financial instruments

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

5. OPERATING SEGMENTS INFORMATION

Operating segments

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

Geographic information

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT

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

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

Revaluation of property, plant and equipment

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

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

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

Capitalized borrowing costs

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

Construction in progress

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

Advances paid for non-current assets

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

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

7. INVESTMENTS IN ASSOCIATES

Investments in associates comprised the following as at:

In thousands of Tenge	**31 December 2013**	31 December 2012
KazEnergoProvod LLP	**220,446**	114,756
Batys Transit JSC	**–**	–
	220,446	114,756

Group's ownership in associates is as follows:

	31 December 2013	31 December 2012
KazEnergoProvod LLP	**49.9%**	49.9%
Batys Transit JSC	**20.0%**	20.0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INVESTMENTS IN ASSOCIATES (continued)

KazEnergoProvod LLP

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

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

The following table illustrates the summarised financial information of KazEnergoProvod:

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

In thousands of Tenge	**31 December 2013**	31 December 2012
Statement of comprehensive income:		
Revenue	**221,533**	–
Net profit	**(7,334)**	489

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

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

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

Batys Transit JSC

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INVESTMENTS IN ASSOCIATES (continued)

Batys Transit JSC (continued)

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

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

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

8. INVENTORIES

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

Movement in the allowance for obsolete inventories was as follows:

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

9. TRADE ACCOUNTS RECEIVABLE

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

Movement in the allowance for doubtful receivables was as follows:

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

9. TRADE ACCOUNTS RECEIVABLE (continued)

The ageing analysis of trade receivables is as follows:

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

Trade receivables were denominated in the following currencies:

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

10. OTHER FINANCIAL ASSETS

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

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

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

Other financial assets were denominated in the following currencies:

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

11. CASH RESTRICTED IN USE

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. CASH RESTRICTED IN USE (continued)

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

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

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

12. OTHER CURRENT ASSETS

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

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

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

13. CASH AND CASH EQUIVALENTS

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

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

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

14. EQUITY

	31 December 2013	31 December 2012
Authorized shares:	**Shares**	Shares
Ordinary shares of 500 Tenge each (2012: 10,000 Tenge)	**238,324,377**	10,767,297

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

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

An increase in number of shares

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

Dividends

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

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

(Loss) / earnings per share

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

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

Book value of ordinary shares

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. EQUITY (continued)

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

Asset revaluation reserve

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

Other reserves

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

15. BORROWINGS

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

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

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

Loans were denominated in the following currencies:

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. BORROWINGS (continued)

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

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

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

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

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

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

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

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

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

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

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

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

16. TRADE AND OTHER ACCOUNTS PAYABLE

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

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

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

17. OTHER CURRENT LIABILITIES

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

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

18. REVENUE

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

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

19. COST OF SALES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. GENERAL AND ADMINISTRATIVE EXPENSES

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

21. FINANCE COSTS

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

22. INCOME TAX EXPENSE

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

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

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

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

22. INCOME TAX EXPENSE (continued)

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

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

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

Reconciliation of deferred tax liabilities, net:

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

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

23. TRANSACTIONS WITH RELATED PARTIES

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. TRANSACTIONS WITH RELATED PARTIES (continued)

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

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

Samruk-Kazyna is the sole shareholder of the Group.

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

As of 31 December 2013 there were current bank accounts and deposits in the amount of KZT 95.769 thousand with “Development Bank of Kazakhstan” JSC, which is considered to be related party of the Group (31 December 2012: KZT 104,474 thousand). The “Development Bank of Kazakhstan” JSC is a 100% subsidiary of Samruk-Kazyna Group.

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

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

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

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

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

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

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

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

* 1 basis point = 0.01%

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

Foreign currency risk

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

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

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

Credit risk

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

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

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

Liquidity risk

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

Capital management

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

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

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

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

	31 December 2013	31 December 2012
Debt / Capital	**0.25**	0.35

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

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

Fair value hierarchy

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Assets measured at fair value

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

In thousands of Tenge	31 December 2012	Level 1	Level 2	Level 3
Financial assets				
Available-for-sale financial assets (*Note 10*)	983,847	983,847	–	–

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

Fair values of financial instruments

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

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

25. COMMITMENTS AND CONTINGENCIES

Taxation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. COMMITMENTS AND CONTINGENCIES (continued)

Compliance with loan covenants

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

Insurance

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

Capital commitments

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

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

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

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

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

26. EVENTS AFTER REPORTING PERIOD

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

"Kazakhstan Electricity Grid Operating Company" JSC

Consolidated Financial Statements

31 December 2012

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Independent auditors' report

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

We have audited the accompanying consolidated financial statements of JSC "Kazakhstan Electricity Grid Operating Company" and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

ERNST & YOUNG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Aisulu Narbayeva
Auditor

Auditor Qualification Certificate
No. 0000137 dated 21 October 1994

Evgeny Zhemaletdinov
General Director
Ernst & Young LLP

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

28 February 2013

"Kazakhstan Electricity Grid Operating Company" JSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December, 2012

In thousands of Tenge

	Notes	2012	2011
ASSETS			
Non-current assets			
Property, plant and equipment	8	**163,444,227**	146,143,536
Intangible assets		**752,000**	583,382
Advances paid for non-current assets	8	**23,967,873**	26,547,321
Investments in associates	9	**114,756**	–
Other financial assets	13	**983,847**	3,309,454
Other non-current assets		**82,243**	115,558
		189,344,946	176,699,251
Current assets			
Inventories	10	**1,646,174**	1,441,768
Trade accounts receivable	11	**3,944,197**	4,357,098
VAT recoverable and other prepaid taxes		**1,190,546**	1,045,399
Income tax prepaid		**1,437,851**	1,006,803
Other financial assets	13	**24,844,456**	17,942,595
Cash restricted in use	14	**1,629,862**	4,459,658
Other current assets	12	**322,302**	1,072,319
Cash and cash equivalents	15	**8,044,502**	9,543,637
		43,059,890	40,869,277
TOTAL ASSETS		**232,404,836**	217,568,528
EQUITY AND LIABILITIES			
Equity			
Share capital	16	**106,842,972**	105,842,972
Reserves		**(55,123)**	(55,123)
Retained earnings		**19,772,193**	15,177,838
		126,560,042	120,965,687
Non-current liabilities			
Borrowings	17	**72,674,498**	68,022,832
Deferred tax liability	24	**11,728,828**	10,098,604
		84,403,326	78,121,436
Current liabilities			
Trade and other accounts payable	18	**11,348,499**	10,220,047
Borrowings	17	**8,134,316**	6,407,716
Advances received		**574,972**	475,023
Taxes payable other than income tax		**185,861**	185,717
Other current liabilities	19	**1,197,820**	1,192,902
		21,441,468	18,481,405
Total liabilities		**105,844,794**	96,602,841
TOTAL EQUITY AND LIABILITIES		**232,404,836**	217,568,528

The accounting policies and explanatory notes on pages 6 to 38 are an integral part of these consolidated financial statements.

Chairman of the Board ____________ Kazhiyev B.T.

Chief Accountant ____________ Mukanova D.T.

"Kazakhstan Electricity Grid Operating Company" JSC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December, 2012

In thousands of Tenge

	Notes	2012	2011 (Reclassified*)
Revenue	20	**65,855,173**	57,249,517
Cost of sales	21	**(49,268,483)**	(41,451,948)
Gross profit		**16,586,690**	15,797,569
General and administrative expenses	22	**(5,829,446)**	(5,976,393)
Selling expenses		**(168,612)**	(156,142)
Operating profit		**10,588,632**	9,665,034
Interest income from deposits, current accounts, and bonds		**1,604,788**	1,699,050
Finance costs	23	**(1,991,132)**	(2,457,956)
Foreign exchange (loss) / gain, net		**(1,806,822)**	1,306,839
Other income		**138,783**	736,475
Other expenses		**(49,423)**	(249,108)
Profit before tax		**8,484,826**	10,700,334
Income tax expense	24	**(1,543,797)**	(2,878,089)
Profit for the period		**6,941,029**	7,822,245
Other comprehensive loss, net of tax		**–**	(167)
Total comprehensive income for the period, net of tax		**6,941,029**	7,822,078
EARNINGS PER SHARE			
Basic, profit for the year attributable to ordinary equity holders of the parent (in tenge)	16	**654**	740

**Certain numbers shown here do not correspond to the 2011 consolidated financial statements and reflect reclassifications made as detailed in Note 6.*

The accounting policies and explanatory notes on pages 6 to 38 are an integral part of these consolidated financial statements.

Chairman of the Board ______________ *Kazhiyev B.T.*

Chief Accountant ______________ *Mukanova D.T.*

"Kazakhstan Electricity Grid Operating Company" JSC

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December, 2012

In thousands of Tenge

	Notes	2012	2011
Operating activities			
Profit before tax		**8,484,826**	10,700,334
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortisation		**7,282,676**	7,560,379
Finance costs	23	**1,991,132**	2,457,956
Foreign exchange loss / (gain)		**1,585,679**	(1,306,839)
Movement in provisions for doubtful trade and other accounts receivable and other current assets	11, 12	**26,065**	(68,726)
Movement in provision for slow-moving inventories	10	**146,702**	(240)
Loss / (gain) from disposal of property, plant and equipment and intangible assets		**3,285**	(7,664)
Interest income		**(1,604,788)**	(1,699,050)
Working capital adjustments:			
Change in inventories		**(351,108)**	(12,779)
Change in trade accounts receivable		**407,202**	(2,610,943)
Change in VAT recoverable and other prepaid taxes		**(145,147)**	1,203,896
Change in other current assets		**745,528**	(1,264,959)
Change in trade and other accounts payable		**(1,832,731)**	3,835,627
Change in advances received		**99,949**	2,903
Change in taxes payable other than income tax		**326,859**	(259,458)
Change in other current liabilities		**80,859**	(444,055)
Cash flows from operating activities		**17,246,988**	18,086,382
Interest paid		**(3,032,611)**	(2,046,204)
Income tax paid		**(445,903)**	(17,044)
Interest received		**896,352**	1,513,565
Net cash flows from operating activities		**14,664,826**	17,536,699
Investing activities			
(Withdrawal from) / placement of bank deposits, net		**(3,981,216)**	1,745,536
Change in cash restricted in use		**2,854,448**	806,458
Proceeds from sale of property, plant and equipment and intangible assets		**68,114**	53,281
Purchase of property, plant, equipment		**(17,925,504)**	(37,509,363)
Purchase of intangible assets		**(177,307)**	(106,538)
Investments in associate		**(115,000)**	–
Net cash flows used in investing activities		**(19,276,465)**	(35,010,626)
Financing activities			
Contribution to share capital	16	**1,000,000**	600,000
Dividends paid	16	**(2,346,674)**	(869,403)
Repayment of borrowings		**(5,689,903)**	(25,842,334)
Proceeds from borrowings		**10,164,236**	47,707,210
Net cash flows from financing activities		**3,127,659**	21,595,473

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of Tenge

	Notes	2012	2011
Net change in cash and cash equivalents		**(1,483,980)**	4,121,446
Net foreign exchange (loss) / gain		**(15,155)**	46,551
Cash and cash equivalents, at 1 January	15	**9,543,637**	5,375,640
Cash and cash equivalents at 31 December	15	**8,044,502**	9,543,637

The accounting policies and explanatory notes on pages 6 to 38 are an integral part of these consolidated financial statements.

Non-cash transactions:

During the year ended 31 December 2012 the Group off-set its taxes payable other than income tax by prepaid income tax in the amount of KZT 326,715 thousand Tenge.

Chairman of the Board ______ *Kazhiyev B.T.*

Chief Accountant ______ *Mukanova D.T.*

"Kazakhstan Electricity Grid Operating Company" JSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December, 2012

In thousands of Tenge	**Share capital *(Note 16)***	**Reserves *(Note 16)***	**Retained earnings**	**Total**
As at 1 January 2011	105,242,972	(54,956)	8,224,996	113,413,012
Profit for the period	–	–	7,822,245	7,822,245
Other comprehensive income	–	(167)	–	(167)
Total comprehensive income	–	(167)	7,822,245	7,822,078
Issue of share capital *(Note 16)*	600,000	–	–	600,000
Dividends	–	–	(869,403)	(869,403)
As at 31 December 2011	105,842,972	(55,123)	15,177,838	120,965,687
Profit for the period	–	–	6,941,029	**6,941,029**
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	6,941,029	**6,941,029**
Issue of share capital (*Note 16*)	1,000,000	–	–	**1,000,000**
Dividends *(Note 16)*	–	–	(2,346,674)	**(2,346,674)**
As at 31 December 2012	**106,842,972**	**(55,123)**	**19,772,193**	**126,560,042**

The accounting policies and explanatory notes on pages 6 to 38 are an integral part of these consolidated financial statements.

Chairman of the Board — *Kazhiyev B.T.*

Chief Accountant — *Mukanova D.T.*

1. GENERAL INFORMATION

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

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

KEGOC is the national provider of electricity transmission, technical dispatch and electricity production-consumption balancing services in Kazakhstan. As the state-appointed system operator, the Company owns, operates and maintains the Kazakhstan's unified power system (the "UPS"). The UPS consists of (a) the national power grid (the "NPG"); (b) power plants directly connected to the NPG or connected via other networks; (c) distribution network companies connected directly to the NPG; and (d) bulk consumers with substations connected directly to the NPG. The NPG consists of high voltage transmission lines and substations which provide cross-border power flows, deliver power from power plants, and provide the links between regional power grid companies and bulk consumers.

As at 31 December 2012 and 2011, KEGOC is the parent company of a subsidiary, Energoinform JSC (hereafter referred to collectively as the "Group"). Energoinform JSC is engaged in maintenance of the Company's IT system.

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

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

These accompanying consolidated financial statements were authorised for issue by the Company's Chairman of the Board and Chief Accountant on 28 February 2013.

2. BASIS OF PREPARATION

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

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and notes to these consolidated financial statements. The consolidated financial statements are presented in Kazakhstan Tenge ("Tenge" or "KZT") and all values are rounded to the nearest thousand, except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as of 31 December 2012.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies for all companies of the Group. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within the subsidiary is attributed to the non-controlling interests even if that results in a deficit balance.

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

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except for the adoption of new Standards and Interpretations as at 1 January 2012, noted below:

- IAS 12 *Income taxes (Amendment) – Deferred taxes: Recovery of Underlying Assets*

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has been no effect on the Group's financial position, performance or its disclosures as the Group does not have both investment property and property, plant and equipment measured using the revaluation model.

- IFRS 7 *Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements*

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

- IFRS 1 - *First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to the Group.

Foreign currencies

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

Exchange rate as at the end of the period (to KZT)	31 December 2012	31 December 2011
USD 1	150.74	148.40
EUR 1	199.22	191.72
RUS 1	4.96	4.61

Average exchange rate for 12 months (to KZT)	2012	2011
USD 1	149.11	146.62
EUR 1	191.71	204.11
RUS 1	4.80	5.00

Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets 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

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

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

Intangible assets of the Group consist primarily of licenses and software. Intangible assets are amortized on a straight-line basis over their estimated useful lives, generally from 5 to 15 years.

Research and development costs

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

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

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

Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

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

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of comprehensive income in expense categories consistent with the function of the impaired asset.

For assets, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in an associate

The Group's investment in its associate, an entity in which the Group has significant influence, is accounted for using the equity method.

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

The profit or loss reflects the Group's share of the results of operations of the associate. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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

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

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

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

Financial instruments – initial recognition and subsequent measurement

Financial assets

Initial recognition and measurement

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Subsequent measurement

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

Loans and receivables

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

Held-to-maturity investments

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance income in the profit or loss. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs. The Group did not have any held-to-maturity investments during the years ended 31 December 2012 and 2011.

Available-for-sale financial investments

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

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-forsale reserve to the profit or loss in finance costs. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management’s intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held to maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Derecognition

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

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Financial assets carried at amortised cost (continued)

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

Available-for-sale financial investments

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Loans and borrowings

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

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

Trade and other payables

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

Derecognition

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm’s length market transactions;
- Reference to the current fair value of another instrument that is substantially the same;
- A discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in *Note 26*.

Inventory

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

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

Raw and materials: Purchase cost on a first in, first out basis;

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and short-term deposits

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

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

Cash restricted in use

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

Provisions

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

Revenue recognition

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

Rendering of services

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

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

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

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

Interest income

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

Lease

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

Group as a lessee

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

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

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

Retirement benefit costs

In accordance with the legislation of the Republic of Kazakhstan, the Group deducted 10% of employees salaries, but no more than KZT 130,793 per month (2011: KZT 119,992) to accumulative pension funds. Pension fund payments are withheld from employees' salaries and included with payroll expenses in the profit and loss when they are incurred. The Group has no other retirement benefit obligations.

Current income tax

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax

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

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

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

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

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

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

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

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

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

Dividends

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

Contingencies

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

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

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Estimates and assumptions

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

Allowances on doubtful accounts receivable

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. Further details are contained in *Note 11*.

Taxes

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

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

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

Useful lives of property, plant and equipment

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

Fair value of financial instruments

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

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or ‘recycled’) to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group’s financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group’s first annual report after becoming effective.

IAS 19 Employee Benefits (Revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013. The amendment has no impact on the Group’s financial position or performance.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013. The amendment has no impact on the Group’s financial position or performance.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group’s financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group.

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

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation.*

The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group’s financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

IFRS 9 Financial Instruments: Classification and Measurement

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

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The standard will not impact the Group's financial position.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will not impact the financial position of the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities.

A number of new disclosures are also required, but has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Group.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

Annual Improvements May 2012

These improvements will not have an impact on the Group, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes.*

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

6. RECLASSIFICATIONS

The following reclassifications of comparative information had been made in the statement of comprehensive income for the year ended 31 December 2011 to conform to the current year presentation:

In thousands of Tenge		As previously reported	Reclassifications	**As reclassified**
Revenue	(1)	54,793,163	2,456,354	**57,249,517**
Other income	(1)	3,192,829	(2,456,354)	**736,475**
Cost of sales	(2)	(39,581,302)	(1,870,646)	**(41,451,948)**
Other expenses	(2)	(2,119,754)	1,870,646	**(249,108)**
General and administrative expenses	(3)	(6,332,179)	355,786	**(5,976,393)**
Finance costs	(3)	(2,102,170)	(355,786)	**(2,457,956)**

(1) Revenue from sale of purchased electricity in the amount of KZT 1,794,017 thousand, Revenue from electric power reserving services in the amount of 528,197 thousand, and Revenue from servicing power network assets in the amount of KZT 134,140 thousand were reclassified from Other income to Revenue;

(2) Cost of sale of purchased electricity in the amount of KZT 1,781,250 thousand and Cost of servicing power network assets in the amount of KZT 89,396 thousand were reclassified from Other expenses to Cost of sales;

(3) Commission on bank guarantees in the amount of KZT 355,786 thousand was reclassified from General and Administrative expenses to Finance costs;

The reclassifications had no impact on net profit, comprehensive income or equity.

7. OPERATING SEGMENTS INFORMATION

Operating segments

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

Geographic information

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

In thousands of Tenge	**2012**	2011
Revenue from Kazakhstan customers	**51,536,040**	47,334,942
Revenue from Russian customers	**10,955,099**	7,662,167
Revenue from Uzbekistan customers	**3,364,034**	2,252,408
Total revenue per consolidated statement of comprehensive income	**65,855,173**	57,249,517

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

For the year ended 31 December 2012 the revenue from one customer amounted to KZT 7,379,970 thousand (2011: KZT 5,001,490 thousand), arising from electricity transmission.

8. PROPERTY, PLANT AND EQUIPMENT

In thousands of Tenge	Land	Buildings and construc-tions	Machinery and transmission equipment	Vehicles and other property, plant and equipment	Construc-tion-in-progress	Total
Cost:						
At 1 January 2011	**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
Transfers, including transfer from construction-in-progress to intangible assets	5,702	359,554	623,846	79,671	(1,249,671)	(180,898)
Disposals	(793)	(24,629)	(202,660)	(76,840)	(4,937)	(309,859)
At 31 December 2011	**990,616**	**12,704,124**	**168,546,298**	**5,830,609**	**21,216,036**	**209,287,683**
Additions	168,756	3,963	366,840	486,332	23,420,037	24,445,928
Transfers	4,192	353,019	9,805,607	22,933	(10,185,751)	–
Disposals	(1,566)	(15,886)	(255,876)	(90,263)	(2,936)	(366,527)
At 31 December 2012	**1,161,998**	**13,045,220**	**178,462,869**	**6,249,611**	**34,447,386**	**233,367,084**
Accumulated depreciation:						
At 1 January 2011	–	**(2,284,620)**	**(50,954,025)**	**(2,913,918)**	–	**(56,152,563)**
Charge for the year	–	(391,792)	(6,396,572)	(454,152)	–	(7,242,516)
Disposals	–	4,136	171,820	74,976	–	250,932
At 31 December 2011	–	**(2,672,276)**	**(57,178,777)**	**(3,293,094)**	–	**(63,144,147)**
Charge for the period	–	(362,276)	(6,292,963)	(448,958)	–	(7,104,197)
Disposals	–	9,705	227,572	88,210	–	325,487
At 31 December 2012	–	**(3,024,847)**	**(63,244,168)**	**(3,653,842)**	–	**(69,922,857)**
Net book value:						
At 1 January 2011	973,627	10,020,010	116,639,880	2,375,670	5,333,599	135,342,786
At 31 December 2011	990,616	10,031,848	111,367,521	2,537,515	21,216,036	146,143,536
At 31 December 2012	**1,161,998**	**10,020,373**	**115,218,701**	**2,595,769**	**34,447,386**	**163,444,227**

Information on property, plant and equipment included the following at December 31:

In thousands of Tenge	**2012**	2011
Fully amortised property, plant and equipment at cost (at cost), which are still in use	**10,682,289**	9,570,613

In 2012 the Group capitalized borrowing costs at the average capitalization rate of 4.42% in the amount of KZT 1,149,583 thousand (2011: KZT 566,835 thousand at the average capitalization rate of 4.84%).

Construction in progress in mainly represented by equipment and construction works as part of the implementation of the "Alma Electricity Transmission Project", "Ossakarovka Transmission Rehabilitation Project", "Moinak Electricity Transmission Project", and "Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2".

8. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2012, advances paid for non-current assets mainly represent prepayments made to suppliers for construction work related to the following projects:

- "Alma Electricity Transmission Project";
- "Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2";
- "Ossakarovka Transmission Rehabilitation Project";
- Construction of an administrative building.

9. INVESTMENTS IN ASSOCIATES

Investments in associates comprised the following as at December 31:

In thousands of Tenge	**2012**	2011
KazEnergoProvod LLP	**114,756**	–
Batys Transit JSC	**–**	–
	114,756	–

Group's ownership in associates as at December 31 is as follows:

	2012	2011
KazEnergoProvod LLP	**49.9%**	–
Batys Transit JSC	**20.0%**	20.0%

KazEnergoProvod LLP

In October 2012 the Group and "East Industry Company Ltd" LLP, a third party entity, established "KazEnergoProvod" LLP ("KazEnergoProvod"). The Group's interest in KazEnergoProvod is 49.9%. The main activity of KazEnergoProvod is production and sale of cable and wire products.

Batys Transit JSC

As at 31 December 2012 and 2011 the Group has a 20% interest in "Batys-Transit" JSC. The main activity of "Batys-Transit" JSC is realization of a project on construction and exploitation of interregional power line, which connects the North Kazakhstan region with Aktobe region. "Batys Transit" JSC is a private entity with bonds traded on the Kazakhstan Stock Exchange.

As at 31 December 2012 and 2011, investments in Batys Transit JSC are fully impaired. The cumulative amount of unrecognized share of losses of Batys Transit JSC is KZT 134,853 thousand as of 31 December 2012 (2011: KZT 305,224 thousand).

The following table illustrates the summarised financial information of the Group's investments in associates:

In thousands of Tenge	**2012**	2011
Share of the associates' statement of financial position:		
Current assets	**462,559**	205,437
Non-current assets	**4,467,247**	4,111,006
Current liabilities	**(585,393)**	(560,482)
Non-current liabilities	**(4,412,145)**	(4,061,185)
Equity	**(67,732)**	(305,224)

In thousands of Tenge	**2012**	**2011**
Share of the associates' revenue and profit:		
Revenue	**848,278**	**520,515**
Gain/ (Loss)	**170,128**	**(173,372)**
Carrying amount of the investment	**114,756**	–

10. INVENTORIES

In thousands of Tenge	**2012**	2011
Spare parts	**1,250,351**	1,023,040
Raw and other materials	**766,000**	640,104
Fuel and lubricants	**139,722**	122,667
Other inventory	**55,606**	74,760
Less: allowance for obsolete inventories	**(565,505)**	(418,803)
	1,646,174	1,441,768

Movement in the allowance for obsolete inventories was as follows:

In thousands of Tenge	**Individually impaired**
At January 1, 2011	419,043
Reversed	(240)
At 31 December 2011	**418,803**
Charge for the year *(Note 22)*	**146,702**
At 31 December 2012	**565,505**

11. TRADE ACCOUNTS RECEIVABLE

In thousands of Tenge	**2012**	2011
Trade receivables	**4,610,457**	5,017,659
Less: allowance for doubtful receivables	**(666,260)**	(660,561)
	3,944,197	4,357,098

Movement in the allowance for doubtful receivables was as follows:

In thousands of Tenge	**Individually impaired**
At January 1, 2011	737,387
Charge for the year	148,001
Reversed	(216,808)
Utilised	(8,019)
At 31 December 2011	**660,561**
Charge for the year	**65,665**
Reversed	**(59,969)**
Utilised	**3**
At 31 December 2012	**666,260**

The ageing analysis of trade receivables is as follows:

			Past due but not impaired		
In thousands of Tenge	**Total**	**Neither past due nor impaired**	**30 - 90 days**	**91 - 180 days**	**>181**
31 December 2012	**3,944,197**	**3,581,682**	**300,398**	**8,720**	**53,397**
31 December 2011	4,357,098	4,054,220	244,514	16,363	42,001

11. TRADE ACCOUNTS RECEIVABLE (continued)

As at December 31 trade receivables were denominated in the following currencies:

	2012	2011
Tenge	**2,815,020**	1,983,389
United States Dollar	**611,721**	2,308,009
Russian Rouble	**517,456**	65,700
	3,944,197	4,357,098

12. OTHER CURRENT ASSETS

In thousands of Tenge	2012	2011
Deferred expenses	**160,040**	21,507
Advances paid for goods and services	**71,976**	957,683
Loans to employees	**36,564**	35,641
Other receivables	**119,088**	102,488
Less: provision for impairment of other current assets	**(65,366)**	(45,000)
	322,302	1,072,319

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

In thousands of Tenge	Individually impaired
At January 1, 2011	46,093
Charge for the year	29,128
Reversed	(29,047)
Utilized	(1,174)
At 31 December 2011	**45,000**
Charge for the year ended 31 December 2012	**25,592**
Reversed	**(5,226)**
Utilized	–
At 31 December 2012	**65,366**

13. OTHER FINANCIAL ASSETS

In thousands of Tenge	2012	2011
Long-term other financial assets		
Bank deposits	–	2,325,607
Bonds of Batys-Transit JSC	**983,847**	983,847
	983,847	3,309,454
Short-term other financial assets		
Bank deposits	**24,794,585**	17,875,637
Interest accrued on bonds of Batys-Transit JSC	**49,871**	66,958
	24,844,456	17,942,595
Total other financial assets	**25,828,303**	21,252,049

As at 31 December 2011 long-term bank deposits represent a deposit placed in a Kazakhstan bank in the amount of USD 15,671 thousand (equivalent in Tenge of KZT 2,325,607 thousand) with the fixed interest rate of 5.25% per annum. In 2012 this bank deposit was reclassified to short-term bank deposits. Cash on this deposit may be released or used only upon agreement with the Ministry of Finance of the Republic of Kazakhstan, as in accordance with the agreement dated November 18, 2005 this deposit represents a state guarantee for the IBRD loans *(Note 17)*.

13. OTHER FINANCIAL ASSETS (continued)

The remaining balance of short-term deposits as of 31 December 2012 and 2011 represents deposits placed in Kazakhstan banks with the fixed interest rate of 5%-8.2% per annum; and also includes the accrued and uncollected interest in the amount of KZT 807,881 thousand and KZT 320,001 thousand, respectively.

In 2007-2009 the Group acquired bonds of Batys Transit JSC, an entity listed on the Kazakhstan Stock Exchange. The interest rate on the bonds is 6.4%. The bonds are classified as available for sale investments. Fair value of bonds is based on published price quotations at the reporting date. There were no any changes in the fair value of the bonds during 2012.

As at 31 December 2012 and 2011, other financial assets were denominated in the following currencies:

In thousands of Tenge	**2012**	2011
Tenge	**16,993,009**	14,661,638
United States Dollar	**8,835,294**	6,590,411
	25,828,303	21,252,049

14. CASH RESTRICTED IN USE

In thousands of Tenge	**2012**	2011
Cash on debt service accounts	**421,032**	1,386,477
Cash on reserve accounts	**1,208,830**	3,073,181
	1,629,862	4,459,658

As at 31 December 2012 and 2011 cash restricted in use represents cash held on a debt service account and reserve account.

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

In accordance with the terms of the guarantee agreements with the Government of the Republic of Kazakhstan, the guarantor of Group's loans *(Note 17)*, the Group is obliged to hold cash on a special reserve account opened in a Kazakhstan bank. The Group is obliged to reserve cash for at least 110% of the upcoming semi-annual payment of principal, interest and commission fees of the IBRD and EBRD loans.

At 31 December 2012 and 31 December 2011, cash restricted in use was denominated in the following currencies:

In thousands of Tenge	**2012**	2011
Tenge	–	2,975,402
United States Dollar	**1,570,609**	1,484,256
Euro	**59,253**	–
	1,629,862	4,459,658

15. CASH AND CASH EQUIVALENTS

In thousands of Tenge	**2012**	2011
Current accounts with banks, in Tenge	**4,265,384**	9,086,173
Current accounts with banks, in foreign currencies	**2,769,799**	448,364
Short-term deposits	**1,000,000**	–
Cash at special accounts	**5,745**	4,724
Cash on hand	**3,574**	4,376
	8,044,502	9,543,637

15. CASH AND CASH EQUIVALENTS (continued)

Short-term deposits are placed for varying periods of between one day and three months, depending on the immediate cash requirements of the Group. At 31 December 2012 the weighted average interest rate for time deposits with banks was 6.58% (2011: 6.99%). At 31 December 2012 and 31 December 2011, cash and cash equivalents were stated in the following currencies:

In thousands of Tenge	**2012**	2011
Tenge	**5,274,703**	9,095,273
Euro	**106,055**	188,700
United States Dollar	**2,644,898**	152,967
Russian Rouble	**18,066**	105,960
Others	**780**	737
	8,044,502	9,543,637

16. EQUITY

	2012	2011
Authorized shares:	**Shares**	Shares
Ordinary shares of 10,000 Tenge each	**10,767,297**	10,767,297

Ordinary shares issued and fully paid	**Shares**	***In thousand of Tenge***
At 1 January 2011	10,524,297	105,242,972
Issued on 5 May 2011	60,000	600,000
At 31 December 2011	10,584,297	105,842,972
Issued on 5 October 2012	100,000	1,000,000
At 31 December 2012	**10,684,297**	**106,842,972**

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

	2012	2011
Dividends on ordinary shares, declared and paid during the year		
Dividend for 2011: 222 Tenge per share (2010: 83 Tenge per share)	**2,346,674**	869,403
	2,346,674	869,403

Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year. The Group had 10,608,067 weighted average number of ordinary shares for the year ended 31 December 2012 (2011: 10,563,749). The Group does not have potential diluted ordinary shares. For the year ended 31 December 2012 and 2011 basic earnings per share amount 654 tenge and 740 tenge, respectively.

Book value of ordinary shares

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

In thousand Tenge	**2012**	2011
Total assets	**232,404,836**	217,568,528
Less: Intangible assets	**(752,000)**	(583,382)
Less: Total liabilities	**(105,844,794)**	(96,602,841)
Net assets of ordinary share	**125,808,042**	120,382,305
Number of ordinary shares as of 31 December	**10,684,297**	10,584,297
Book value per ordinary share, Tenge	**11,775**	11,374

16. EQUITY (continued)

Reserves

Reserves represent accumulated reserve on available for sale investments. After initial measurement, available for sale investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the Reserves until the investment is derecognised. Fair value is based on published price quotations at the reporting date. In 2012 there were no changes in fair value of the bonds.

17. BORROWINGS

In thousands of Tenge	Interest rate	**2012**	2011
International Bank of Reconstruction and Development (IBRD)	1.02%- 1.88%	**34,609,407**	29,680,092
European Bank of Reconstruction and Development (EBRD)	1.42%- 5.59%	**46,199,407**	44,750,456
		80,808,814	74,430,548
Less: current portion of loans repayable within 12 months		**(8,134,316)**	(6,407,716)
		72,674,498	68,022,832

At 31 December 2012 and 2011 the accrued and unpaid interest amounts to KZT 618,088 thousand and KZT 508,518 thousand, respectively.

At 31 December 2012 and 2011 the unamortized portion of loan origination fees amounts to KZT 1,038,190 thousand and KZT 1,115,941 thousand, respectively.

At 31 December 2012 and 2011 loans were denominated in the following currencies:

In thousands of Tenge	**2012**	2011
In US dollars	**55,384,024**	52,148,023
In Euro	**25,424,790**	22,282,525
	80,808,814	74,430,548

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

(a) USD 140,000 thousand from IBRD for the 20 years period, secured by a guarantee of the Government of the Republic of Kazakhstan. The loan is repayable by annual instalments commencing 2005. An interest at LIBOR base rate plus LIBOR general spread is payable semi-annually. The outstanding balances as at 31 December 2012 and 2011 are USD 80,000 thousand (equivalent to KZT 12,059,200 thousand) and USD 89,060 thousand (equivalent to KZT 13,216,504 thousand), respectively.

(b) USD 45,000 thousand from EBRD for the 15 years period, secured by a guarantee of the Government of the Republic of Kazakhstan. The loan is repayable by annual instalments commencing 2004. An interest at LIBOR base rate plus 1% margin is payable semi-annually. The outstanding balances as at 31 December 2012 and 2011 are USD 11,749 thousand (equivalent to KZT 1,771,044 thousand) and USD 15,671 thousand (equivalent to KZT 2,325,576 thousand), respectively.

In 2005, for the purpose of implementation of the Phase 2 of the "North-South Electricity Transmission Project", the Group received from IBRD a credit line facility of USD 100,000 thousand provided by IBRD for a period of 17 years of which first five years are a grace period. This credit line facility is secured by a guarantee of the Government of the Republic of Kazakhstan. An interest at LIBOR dollar rate plus general spread is payable semi-annually. In 2011 the non-disbursed part of this IBRD credit line in the amount of USD 1,918 thousand was cancelled due to the fact that actual costs incurred within this project were less than expected. The outstanding balances as at 31 December 2012 and 2011 are USD 81,596 thousand (equivalent to KZT 12,299,823 thousand) and USD 89,752 thousand (equivalent to KZT 13,319,196 thousand), respectively.

17. BORROWINGS (continued)

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

(a) two credit-line facilities of Euro 127,500 thousand and Euro 75,000 thousand from EBRD for 15 years, of which the first four years are a grace period. An interest at the interbank six months EURIBOR rate plus a 3.85% margin is payable semi-annually. The outstanding balances as at 31 December 2012 and 2011 are Euro 101,453 thousand (equivalent to KZT 20,211,442 thousand) and Euro 92,391 thousand (equivalent to KZT 17,713,142 thousand), respectively.

(b) a credit line facility of Euro 47,500 thousand from EBRD for 12 years, of which the first four years are a grace period. An interest at the interbank six months EURIBOR rate plus a 3.55% margin is payable semi-annually. The outstanding balances as at 31 December 2012 and 2011 are Euro 23,428 thousand (equivalent to KZT 4,667,362 thousand) and Euro 21,672 thousand (equivalent to KZT 4,154,935 thousand), respectively.

(c) a credit line facility of Euro 5,000 thousand from EBRD for 9 years, of which the first four years are a grace period. An interest at the interbank six months EURIBOR rate plus a 2.75% margin is repayable semi-annually. The outstanding balances as at 31December 2012 and 2011 are Euro 2,381 thousand (equivalent to KZT 474,259 thousand) and Euro 2,281 thousand (equivalent to KZT 437,362 thousand), respectively.

In 2009, for the realization of the "Moinak Electricity Transmission Project" a credit line facility from IBRD of USD 48,000 thousand was opened for 25 years, of which the first five years are a grace period. The credit line facility is secured by the guarantee of the Government of the Republic of Kazakhstan. An interest rate is USD LIBOR rate plus fixed spread is payable semi-annually. The outstanding balances as at 31 December 2012 and 2011 are USD 43,151 thousand (equivalent to KZT 6,504,509 thousand) and USD 23,206 thousand (equivalent to KZT 3,443,793 thousand), respectively.

In 2010 for the realization of the project "Alma Electricity Transmission Project" the Group received a credit line facility of USD 78,000 thousand from IBRD for 25 years, of which the first five years are a grace period. The credit line facility is secured by a guarantee of the Government of the Republic of Kazakhstan. An interest at LIBOR dollar rate plus fixed spread is repayable semi-annually. The outstanding balances as at 31 December 2012 and 2011 are USD 26,624 thousand (equivalent to KZT 4,013,357 thousand) and USD 307 thousand (equivalent to KZT 45,581 thousand), respectively.

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

(a) two credit-line facilities of USD 77,840 thousand and USD 45,260 thousand, from EBRD for a 15 years. An interest at the interbank six months LIBOR rate plus a 3.95% margin is payable semi-annually. The outstanding balances as at 31 December 2012 and 2011 are USD 111,553 thousand (equivalent to KZT 16,815,476 thousand) and USD 119,816 thousand (equivalent to KZT 17,780,697 thousand), respectively.

(b) a credit-line facility of USD 18,100 thousand, from EBRD for 12 years. An interest at the interbank six months LIBOR rate plus a 3.70% margin is payable semi-annually. The outstanding balances as at 31 December 2012 and 2011 are USD 16,004 thousand (equivalent to 2,412,444 thousand) and USD 17,528 thousand (equivalent to KZT 2,601,185 thousand) respectively.

In 2011 the non-disbursed part of credit lines received for refinancing of EBRD and BRK loans within the Phase 2 of the "North-South Electricity Transmission Project" in the amount of USD 992 thousand was cancelled due to the fact that actual amount of principal early repayment was less than expected.

In 2011, for execution of "Ossakarovka Transmission Rehabilitation Project" the Group received from EBRD credit lines for the amounts of USD 12,900 thousand (A2, B1b) and USD 1,900 thousand (B2b). The credit lines were provided for 12 years, of which the first three years is a grace period. An interest at the interbank six months LIBOR rate plus 3.95% (A2, B1b) and 3.70% (B2b) margin is payable semi-annually. Disbursements from the credit lines have not been made by 31 December 2012.

18. TRADE AND OTHER ACCOUNTS PAYABLE

In thousands of Tenge	**2012**	2011
Accounts payable for property, plant and equipment and construction works	**8,463,239**	5,099,428
Accounts payable for electricity purchased	**1,898,068**	4,620,245
Accounts payable for inventories, works and services	**987,192**	500,374
	11,348,499	10,220,047

Accounts payable as at 31 December 2012 and 2011 are stated in the following currencies:

In thousands of Tenge	**2012**	2011
Tenge	**7,162,691**	4,620,245
Russian Rouble	**50,888**	414,775
United States Dollar	**298,733**	5,099,428
Euro	**3,836,187**	85,599
	11,348,499	10,220,047

19. OTHER CURRENT LIABILITIES

In thousands of Tenge	**2012**	2011
Due to employees	**1,011,672**	898,127
Commission payable on the non-withdrawn portion of EBRD loans	**81,529**	157,470
Other	**104,619**	137,305
	1,197,820	1,192,902

The Group is obliged to pay EBRD an annual commission charge on the non-withdrawn portion of the borrowings at the rate of 0.5% and 0.75%. For the year ended December 31, 2012 the amount of commission on the non-withdrawn portion of the borrowings was KZT 213,903 thousand (2011: KZT 356,684 thousand) (*Note 23*).

20. REVENUE

In thousands of Tenge	**2012**	2011
Electricity transmission	**43,378,750**	38,765,735
Technical dispatch	**10,081,550**	9,272,079
Balancing of electricity production and consumption	**5,269,657**	4,668,378
Revenue from electricity sales for compensation of the interstate balances of electricity flows	**3,575,129**	2,660,677
Revenue from sales of purchased electricity	**2,685,490**	1,792,182
Other	**1,625,147**	1,235,777
	66,615,723	58,394,828
Discounts to customers	**(760,550)**	(1,145,311)
	65,855,173	57,249,517

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

21. COST OF SALES

In thousands of Tenge	**2012**	2011
Technical losses of electric energy	**16,799,998**	14,180,057
Cost of purchased electricity for compensation of interstate balances of electricity flows	**8,438,372**	5,683,975
Payroll expenses and related taxes	**7,856,799**	7,136,713
Depreciation and amortization	**6,987,329**	7,231,004
Repair and maintenance expenses	**3,311,764**	2,738,120
Cost of purchased electricity	**2,611,281**	1,780,096
Inventories	**990,561**	854,298
Security costs	**863,366**	802,415
Other	**1,409,013**	1,045,270
	49,268,483	41,451,948

22. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of Tenge	**2012**	2011
Payroll expenses and related taxes	**2,510,533**	2,340,920
Taxes other than income tax	**1,285,472**	1,739,148
Depreciation and amortization	**290,272**	319,031
Consulting services	**223,765**	242,507
Sponsorship and charitable donations	**177,695**	309,145
Provision for obsolete inventory (*Note 10*)	**146,702**	240
Rent expenses	**142,933**	134,842
Insurance	**139,852**	106,416
Business trip expenses	**117,655**	84,518
Materials	**87,349**	101,775
Corporate events	**85,737**	76,288
Trainings	**41,044**	29,737
Communication services	**39,955**	39,098
Utilities	**38,758**	38,246
Security services	**31,193**	28,430
Bank services	**29,658**	52,817
Provision for doubtful receivables and impairment of advances (*Notes 11 and 12*)	**26,062**	(68,726)
Repair expenses	**21,347**	27,515
Other	**393,464**	374,446
	5,829,446	5,976,393

23. FINANCE COSTS

In thousands of Tenge	**2012**	2011
Interest expense	**2,446,965**	1,987,432
Commission on bank guarantees	**395,739**	359,554
Commission on the non-withdrawn portion of EBRD loans *(Note 19)*	**213,903**	356,684
Amortization of loan origination fees	**84,108**	321,121
Less interest capitalized into the cost of qualifying assets *(Note 8)*	**(1,149,583)**	(566,835)
	1,991,132	2,457,956

24. INCOME TAX EXPENSE

In thousands of Tenge	**2012**	2011
Current income tax expense	**113,237**	–
Adjustments in respect of current income tax of previous year	**(199,664)**	6,948
Deferred income tax expense	**1,630,224**	2,871,141
Total income tax expense	**1,543,797**	2,878,089

The income tax rate in the Republic of Kazakhstan was 20% in 2012 and 2011.

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

In thousands of Tenge	**2012**	2011
Profit before income tax expense	**8,484,826**	10,700,334
Tax at statutory income tax rate of 20%	**1,696,965**	2,140,067
Adjustments in respect of current income tax of previous year	**(199,664)**	–
Non-deductable technical losses above limits	–	279,485
Other non-deductable expenses	**46,496**	458,537
Income tax expense	**1,543,797**	2,878,089

24. INCOME TAX EXPENSE (continued)

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

	Consolidated statement of financial position			Consolidated income statement	
In thousands of Tenge	**2012**	2011	As at January 1, 2011	**2012**	2011
Tax losses carried forward	–	84,172	1,335,355	**(84,172)**	(1,251,183)
Allowance for doubtful receivables	**10,479**	18,797	34,630	**(8,318)**	(15,833)
Accrued liabilities	**217,117**	190,675	129,977	**26,441**	60,698
Property, plant and equipment	**(11,956,424)**	(10,392,248)	(8,727,425)	**(1,564,175)**	(1,664,823)
Deferred tax expense				**1,630,224**	2,871,141
Net deferred tax liabilities	**(11,728,828)**	(10,098,604)	(7,227,463)		

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

25. TRANSACTIONS WITH RELATED PARTIES

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

The following table provides the total amount of transactions, which have been entered into with related parties as at December 31:

In thousands of Tenge		Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Subsidiaries of Samruk-Kazyna Group	**2012**	**9,019,568**	**943,483**	**150,010**	**119,743**
	2011	8,203,378	861,795	159,119	130,616
Associated entities of Samruk-Kazyna	**2012**	**76,471**	–	**4,079**	–
	2011	73,513	1,574	5,642	–
Entities under joint control of Samruk-Kazyna	**2012**	**4,223,958**	**15,609,441**	**93,424**	**666,573**
	2011	4,076,760	11,264,489	163,483	2,200,485

Samruk-Kazyna is the sole shareholder of the Group.

25. TRANSACTIONS WITH RELATED PARTIES (continued)

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

As of 31 December, 2012 there were current bank accounts and deposits in the amount of KZT 104,474 thousand with "Development Bank of Kazakhstan" JSC, which is considered to be related party of the Group (2011: KZT 30,298 thousand).

As at December 31, 2012 the Group's borrowings of KZT 36,762,907 thousand were guaranteed by the Government of the Republic of Kazakhstan (31 December 2011: KZT 32,406,884 thousand).

In 2011 the Group declared and paid dividends for 2010 in the amount of KZT 869,403 thousand. On June 12, 2012 the Group declared dividends for 2011 year in the amount of KZT 2,346,674 thousand. The Group paid these dividends in July 2012.

In 2012 the Group acquired 49.9% interest in KazEnergoProvod LLP, the associate for KZT 115,000 thousand.

Interest income accrued on bonds of Batys Transit JSC, the associate, amounted to KZT 49,871 thousand (2011: KZT 66,958 thousand) for the year ended 31 December 2012.

Total compensation to key management personnel included in personnel costs in the accompanying consolidated statement of comprehensive income was KZT 315,644 thousand for the year ended 31 December 2012 (2011: KZT 80,501 thousand). Compensation to key management personnel mainly consists of contractual salary and performance bonus based on operating results.

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term and short-term borrowings with floating interest rates *(Note 17)*. The Group limits its interest rate risk by monitoring changes in interest rates in the currencies in which the borrowings are denominated.

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

In thousands of Tenge	Increase / (decrease) in basis points*	Effect on profit before tax
2012		
Libor	5/(5)	(27,938) / 27,938
Euribor	16/(16)	(40,565) / 40,565
2011		
Libor	15/(15)	(79,099) / 79,099
Euribor	15/(15)	(33,458) / 33,458

* 1 basis point = 0.01%

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

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

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

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

In thousands of Tenge	Increase / (decrease) in exchange rate	Effect on profit before tax
As at 31 December 2012		
US Dollar	1.57%/(1.57%)	(659,718) / 659,718
Euro	10.77%/(10.77%)	(3,133,604) / 3,133,604
As at 31 December 2011		
US Dollar	10.72%/(10.72%)	(4,541,643) / 4,541,643
Euro	16.33%/(16.33%)	(3,706,587) / 3,706,587

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities, primarily trade receivables *(Note 11)* and from its financing activities, including deposits with banks *(Notes 13, 14 and 15)*. The Group's exposure and the creditworthiness of its counterparties are controlled constantly. It is the Group's policy to enter into financial instruments with a diversity of creditworthy parties. The maximum exposure to the credit risk is represented by the carrying value of each financial asset *(Notes 11, 13, 14, 15)*.

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

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

Liquidity risk

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

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

In thousands of Tenge	On demand	Due later than 1 month but not later than 3 months	Due later than 3 month but not later than 1 year	Due later than 1 year but not later than 5 years	Due after 5 years	Total
At 31 December 2012						
Borrowings	–	2,218,805	7,708,021	47,028,953	36,717,598	93,673,377
Accounts payable	–	11,348,499	–	–	–	11,348,499
	–	13,567,304	7,708,021	47,028,953	36,717,598	105,021,876
At 31 December 2011						
Borrowings	–	916,200	7,659,869	44,100,729	35,976,642	88,653,440
Accounts payable	–	10,220,047	–	–	–	10,220,047
	–	11,136,247	7,659,869	44,100,729	35,976,642	98,873,487

Capital management

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

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

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 2011.

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

	2012	2011
Debt / Capital	**0.35**	0.34

In thousands of Tenge	**2011**	2010
Long-term borrowings	**72,674,498**	68,022,832
Short-term borrowings	**8,134,316**	6,407,716
Debt	**80,808,814**	74,430,548
Total liabilities	**105,844,794**	96,602,841
Equity	**126,560,042**	120,965,687
Capital	**232,404,836**	217,568,528

The structure of the Group capital includes the share capital as disclosed in *Note 16*, reserves and retained earnings.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

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

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value hierarchy (continued)

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

As at 31 December 2012, the Group held the following financial instruments carried at fair value in the statement of financial position:

Assets measured at fair value

In thousands of Tenge	**31 December 2012**	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Available-for-sale financial assets *(Note 13)*	983,847	983,847	–	–

Assets measured at fair value

In thousands of Tenge	**31 December 2011**	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Available-for-sale financial assets *(Note 13)*	983,847	983,847	–	–

Fair values of financial instruments

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

In thousands of Tenge	***Carrying value***		***Fair value***	
	31 December 2012	31 December 2011	**31 December 2012**	31 December 2011
Financial assets				
Trade accounts receivable	3,944,197	4,357,098	3,944,197	4,357,098
Other financial assets	25,828,303	21,252,049	25,828,303	21,252,049
Cash restricted in use	1,629,862	4,459,658	1,629,862	4,459,658
Cash and cash equivalents	8,044,502	9,543,637	8,044,502	9,543,637
Financial liabilities				
Borrowings	80,808,814	74,430,548	80,808,814	74,430,548
Accounts payable	11,348,499	10,220,047	11,348,499	10,220,047
Loans to employees	36,564	35,641	36,564	35,641

27. COMMITMENTS AND CONTINGENCIES

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not usual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe.

Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2012.

27. COMMITMENTS AND CONTINGENCIES (continued)

Compliance with loan covenants

The Group is required to comply with loan covenants stipulated by the loan agreements with the European Bank for Reconstruction and Development (EBRD) and International Bank for Reconstruction and Development (IBRD). The Group complied with all existing loan covenants with EBRD and IBRD as at 31 December 2012 and 31 December 2011.

Insurance

As at 31 December 2012, the Group insured property and equipment with the carrying value of KZT 41,635,406 thousand. The Group does not insure its other property. Since absence of any insurance does not imply a reduction of the cost of assets or occurrence of any liabilities, no provision has been made in these consolidated financial statements for unexpected expenses associated with damage or loss of these assets.

Capital commitments

To ensure the stable and reliable performance of the national electricity grid, the Group developed a capital investment plan. As at 31 December 2012, the Group's outstanding contractual commitments within the frameworks of this plan amount to KZT 31,678,342 thousand (31 December 2011: KZT 19,346,900 thousand).

Co-financing

In accordance with the Project Implementation Plan of "Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2", agreed with EBRD, the Group has outstanding co-financing commitments in the amount of 1,830,000 Euro (equivalent of KZT 364,573 thousand) as of 31 December 2012. The Group's co-financing of this project amounted to Euro 1,486,233 (equivalent of KZT 296,087,338 thousand) as of 31 December 2012.

In accordance with the Project Implementation Plan of "Moinak Electricity Transmission Project" agreed with IBRD, the Group has outstanding co-financing commitments in the amount of USD 20,100,000 (equivalent of KZT 3,029,874 thousand). The Group's co-financing of this project amounted to USD 18,435,256 (equivalent of KZT 2,778,930 thousand) as of 31 December 2012.

In accordance with the Project Implementation Plan of "Alma Electricity Transmission Project" the Group has outstanding co-financing commitments in the amount of KZT 17,350,016 thousand as 31 December 2012.

In accordance with the Project Implementation Plan of "Ossakarovka Transmission Rehabilitation Project" the Group has outstanding co-financing commitments in the amount of KZT 1,565,826 thousand as of 31 December 2012.

28. EVENTS AFTER REPORTING PERIOD

Between January 1, 2013 and February 28, 2013 the Group obtained additional borrowings of USD 10,340 thousand (equivalent to KZT 2,073,584 thousand) within the credit line facility provided by EBRD for the purpose of realization of "Kazakhstan National Electricity Transmission Rehabilitation Project, Phase 2".

Between January 1, 2013 and February 28, 2013 the Group repaid its obligations to EBRD in the amount of USD 1,961 thousand (equivalent to KZT 1,358,924 thousand).

KEGOC

JOINT STOCK COMPANY KAZAKHSTAN ELECTRICITY GRID OPERATING COMPANY

Consolidated financial statements
for the year ended December 31, 2011

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

Deloitte.

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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
		176,699,251	147,606,856
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
		40,869,277	32,761,629
TOTAL ASSETS		217,568,528	180,368,485
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
		120,965,687	113,413,012
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
		78,121,436	54,083,451
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
		18,481,405	12,872,022
TOTAL EQUITY AND LIABILITIES		217,568,528	180,368,485

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	(39,581,302)	(31,447,356)
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	(2,102,170)	(2,124,818)
OPERATING PROFIT		8,320,420	7,904,568
Other income	19	3,192,829	2,295,977
Other expenses	20	(2,119,754)	(1,353,869)
Foreign exchange gain		1,306,839	368,557
NON-OPERATING PROFIT		2,379,914	1,310,665
PROFIT BEFORE INCOME TAX EXPENSE		10,700,334	9,215,233
INCOME TAX EXPENSE	21	(2,878,089)	(3,419,211)
PROFIT FOR THE YEAR		7,822,245	5,796,022
Other comprehensive loss less income tax		(167)	(417)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		7,822,078	5,795,605
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

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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		(1,699,050)	(2,162,572)
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		(246,508)	(361,177)
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		(17,044)	(1,338,730)
Net cash generated by operating activities		17,536,699	17,198,094
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		(106,638)	(62,868)
Net cash used in investing activities		(35,010,726)	(16,125,795)

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
Net cash generated by/(used in) financing activities		21,595,473	(2,902,804)
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	5,375,640	7,213,933
CASH AND CASH EQUIVALENTS, at the end of the year	11	9,543,637	5,375,640

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.

(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

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);

- 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.

(in thousands of Kazakhstan tenge, unless otherwise stated)

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

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.

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.

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.

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.

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.

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.

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.

(in thousands of Kazakhstan tenge, unless otherwise stated)

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	790,0	10,25	151,75	4,64	16,82	184,26
Additions	67,5	54,0	356,5	600,1	6,82	7,89
Transfer from construction in progress to property, plant and equipment, intangible assets	116,9	2,03	15,75	88,0	(18,260	(272,8
Internal movements	-	1,3	(1,4	118	-	-
Disposals	(1,0	(34,3	(268,7	(47,3	(49,0	(400,5
At December 31, 2010	973,6	12,30	167,59	5,28	5,33	191,49
Additions	12,0	64,5	531,2	538,1	17,13	18,28
Transfer from construction in progress to property, plant and equipment, intangible assets	5,7	374,3	610,0	78,7	(1,249	(180,8
Internal movements	-	(14,7	13,8	937	-	-
Disposals	(793)	(24,6	(202,6	(76,8	(4,9	(309,8
At December 31, 2011	990,6	12,70	168,54	5,83	21,21	209,28
Accumulated depreciation:						
At January 1, 2010	-	(1,946	(45,182	(2,543	-	(49,671
Charge for the year	-	(342,9	(5,976	(413,9	-	(6,733
Internal movements	-	(30)	38	(8)	-	-
Disposals	-	4,6	205,2	43,1	-	253,0
At December 31, 2010	-	(2,284	(50,954	(2,913	-	(56,152
Charge for the year	-	(383,7	(6,404	(454,2	-	(7,242
Internal movements	-	(7,9	7,8	105	-	-
Disposals	-	4,1	171,8	74,9	-	250,9
At December 31, 2011	-	(2,672	(57,178	(3,293	-	(63,144
Net book value:						
At December 31, 2011	990,6	10,03	111,36	2,53	21,21	146,14
At December 31, 2010	973,6	10,02	116,63	2,37	5,33	135,34

(in thousands of Kazakhstan tenge, unless otherwise stated)

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	9,570,6	7,860,3
Idle property, plant and equipment	60,3	60,3

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	1,079
Raw materials	640,1	580,5
Fuel and lubricants	122,6	122,9
Other inventories	74,7	64,5
	1,860	1,847
Less provision for obsolete inventories	(418,8	(419,0
	1,441	1,428

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).

(in thousands of Kazakhstan tenge, unless otherwise stated)

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	1,792,55	-
Electricity transmission	1,348,94	1,093,61
Power regulation	1,118,53	599,01
Technical dispatching	321,85	287,46
Organization of power balancing of production-consumption of electricity	201,59	311,07
Reservation of electricity power	51,44	51,59
Other	182,72	171,40
	5,017,65	2,514,18
Less provision for doubtful debts	(660,56	(737,78
	4,357,09	1,776,39

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
	302,878	270,059
Average age (days)	69	84

(in thousands of Kazakhstan tenge, unless otherwise stated)

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	627,703	707,004
	660,561	737,787
Average age (days)	1,832	1,597

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

	December 31, 2011	December 31, 2010
US Dollar	2,308,0(	-
Tenge	1,983,3ε	1,646,39
Russian rouble	65,700	130,000
	4,357,0ς	1,776,39

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	27,501,6(	5,542,0
Advances paid for inventories and other assets	3,3	3,5(
Prepaid expenses	21,5(	177
Other receivables	138,1	81,3
	27,664,6	5,627,1
Less provision for impairment of advances paid and other doubtful debts	(45,00	(46,09
	27,619,6	5,581,0
Less advances paid for long-term assets	(26,547,32	(5,453,05
	1,072,3	127,9(

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.

(in thousands of Kazakhstan tenge, unless otherwise stated)

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%	21,984,2
Bonds of JSC Batys-Transit	7.8%-8.6%	1,050,805	7.8%-9.2%	1,044,7
Accrued interest income on bank accounts of projects	0.1%-1%	43	1%-5.5%	1,2
		21,252,049		23,030,2

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	17,87	17,05
Deposits in banks with original maturity date more than 12 months	2,32	4,93
	20,20	21,98
Less long-term portion	(2,32	(2,211
	17,87	19,77

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

		December 31, 2011	December 31, 2010
	% rate	Amount	Amount
JSC Eurasian Bank	8.1%-8.2%	7,020,081	7,020,081
JSC Almaty Trade-Financial Bank	5.25%	5,834,36	2,969,46
JSC Tsesna Bank	6.2%-7.7%	3,066,15	3,014,99
JSC Kazinvest Bank	6.5%	2,010,74	3,014,79
JSC AsiaCredit Bank	7.5%	1,513,81	-
JSC Halyk Bank	3.5%	756,04	3,817,74
JSC Bank CentreCredit	-	-	2,147,13
		20,201,201	21,984,21

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).

(in thousands of Kazakhstan tenge, unless otherwise stated)

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	6,590,411	6,215,165
	20,201,201	21,984,217

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	1,386,477	1,254,972
	4,459,658	5,253,211
Less long-term portion	-	(2,844,820
	4,459,658	2,408,391

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.

(in thousands of Kazakhstan tenge, unless otherwise stated)

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
	4,459,658	5,253,211

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	9,086,1	4,896,9
Cash in bank accounts, foreign currency	448,3	460,3
Cash in special accounts	4,7	8,7
Petty cash	4,3	9,5
	9,543,6	5,375,6

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
	9,543,637	5,375,640

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.

(in thousands of Kazakhstan tenge, unless otherwise stated)

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	28,824
European Bank for Reconstruction and Development ("EBRD")	45,012	17,115
JSC Development Bank of Kazakhstan ("DBK")	-	8,362
Accrued interest	508,5	221,6
	75,546	54,524
Less: current portion of loans from IBRD, EBRD and DBK repayable within 12 months	(6,407,	(6,750,
Less: unamortized portion of front-end commission	(1,115,	(917,8
	68,022	46,855

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

December 31, 2011	IBRD	EBRD	DBK	Total
Current portion of loans	2,596,506	3,811,210	-	6,407,716
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	18,962,916	23,200,838	-	42,163,754
Long-term portion of loans	27,470,264	41,668,509	-	69,138,773
Total	30,066,770	45,479,719	-	75,546,489

(in thousands of Kazakhstan tenge, unless otherwise stated)

December 31, 2010	IBRD	EBRD	DBK	Total
Current portion of loans	2,518,354	3,370,000	862,180	6,750,534
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	18,407,046	4,878,813	5,141,432	28,427,291
Long-term portion of loans	26,334,218	13,882,432	7,557,161	47,773,811
Total	28,852,572	17,252,432	8,419,341	54,524,345

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	December31, 2010
Loans in USD	52,913,021	48,099,643
Loans in Euro	22,633,468	254,177
Loans in tenge	-	6,170,525
	75,546,489	54,524,345

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) 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.

(b) 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) 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.

(b) 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.

(c) 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.

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 form 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.

(in thousands of Kazakhstan tenge, unless otherwise stated)

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
	10,220,047	4,105,707

(in thousands of Kazakhstan tenge, unless otherwise stated)

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
	10,220,047	4,105,707

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	-
	55,938,474	45,202,792
Discounts to customers	(1,145,311)	(794,747)
	54,793,163	44,408,045

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
	39,581,302	31,447,356

(in thousands of Kazakhstan tenge, unless otherwise stated)

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
	6,332,179	4,870,035

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	1,223,93	672,52
Interest accrued on DBK loan	538,64	827,69
Interest accrued on IBRD loan	224,84	216,71
Commission on unused loan principal (see Note 13)	356,68	370,27
Other	324,88	72,80
	2,669,00	2,160,01
Less capitalised borrowing costs (see Note 5)	(566,835	(35,201
	2,102,17	2,124,81

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
	3,192,829	2,295,977

(in thousands of Kazakhstan tenge, unless otherwise stated)

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
	2,119,754	1,353,869

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
Total income tax expense	2,878,089	3,419,211

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	10,700,33	9,215,23
Income tax expense at 20% statutory rate	2,140,06	1,843,04
Effect of changes in tax rate and tax legislation	-	1,277,17
Effect of finance costs not deducted in tax return	74,27	7,04
Effect of tax losses not recognized as deferred tax asset	279,48	-
Other permanent differences	384,26	291,95
Income tax expense	2,878,08	3,419,21

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.

(in thousands of Kazakhstan tenge, unless otherwise stated)

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	-
	293,644	1,499,962
Deferred tax liabilities		
Property, plant and equipment and intangible assets	(10,392,248)	(8,727,425)
Deferred tax liabilities, net	(10,098,604)	(7,227,463)

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 Samruk-Kazyna	Dividends paid	(869,403)	-	-	-

(in thousands of Kazakhstan tenge, unless otherwise stated)

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	(4,67	(5,64	825	325
JSC Kazakhtelekom	Telecommunication services	(149,05	(160,95	(14,	(23,2
JSC Kazakhstan Research Institute of energy named after Chokin	Procurement of tender documents	(7,10	-	-	-
JSC Kazakhstan Operator of Electric Power and Capacity Market	Preparation of system to conduct centralised auctions	(6,85	(5,58	(791	(2,9
JSC Kazpost	Postal services	(11,17	(14,32	558	468
JSC NC Kazakhstan Temir Zholy	Communication services and cargo services	3,14	(8,91	(7,	(1,7
LLP Repair Corporation Kamkor	Power transmission, dispatching and regulation	-	2,92	-	(1,3
JSC Samruk-Energo	Power transmission, dispatching and regulation	4,46	4,54	85,	(4,6
JSC Development Bank of Kazakhstan	Bank services	(1,91	(3,36	-	-
JSC NC Kazatomprom	Power dispatching and regulation	(78,21	(65,57	36,	(5,8
JSC NC Kazakhstan Engineering	Purchasing of goods	(3,36	16	-	-
LLP Samruk-Kazyna Contract	Design of monitoring map, technical support of monitoring map	(1,80	(2,70	-	-
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	6,9	5,1	1,6	1,03
LLP SP KATKO	Power grid facilities maintaining	65,0	51,4	(5,3	(4,440
Significant entities under joint control of the Group:					
LLP JV TengizChevroil	Sale of electricity, energy supply and reservation, technical dispatching	731,9	691,0	72,6	46,14
LLP JV Kazgermunai	Energy transmission and power balancing, equipment maintenance	133,4	109,9	(34,5	(10,231
LLP Kazakhstan-Chinese Pipeline	Operation and maintenance of bay equipment	2,2	1,8	205	205
LLP Bogatyr Komir	Energy transmission	344,6	288,2	(16,1	(12,231
JSC Ekibastuz GRES-2	Energy transmission, technical dispatching, energy balancing, energy purchase	(9,804,	(5,817,	(443,4	(533,674
LLP Ekibastuz GRES-1 named after Bulat Nurzhanov	Energy transmission, technical dispatching, energy balancing, energy purchase	1,404	844,9	(10,2	(18,502

(in thousands of Kazakhstan tenge, unless otherwise stated)

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)	2,823,37	2,278,93
Deposits with placement term more than 3 months (see Note 9)	742,00	3,653,20
Interest accrued	14,04	164,54

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	80,501	73,059

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.

(in thousands of Kazakhstan tenge, unless otherwise stated)

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	10,535,6	7,926,4	53,666,7	48,134,1
Russian roubles	171,6	165,6	1,117,7	6,6
Euro	188,7	52,4	23,237,6	359,0
Pound sterling	629	674	-	-
Tajik somoni	108	116	-	-

(in thousands of Kazakhstan tenge, unless otherwise stated)

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	(1,053,56	(792,64	(18,87	(5,24
Financial liabilities	5,366,6	4,813,4	2,323,7	35,9

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.

(in thousands of Kazakhstan tenge, unless otherwise stated)

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%	35,6	126,2	32,7	194,6
Trade accounts receivable (see Note 7)	-	4,3	-	-	4,3
Other accounts receivable (see Note 8)	-	138,1	-	-	138,1
Other financial assets (see Note 9)	3.5%-8.2%	18,7	2,8	1,3	22,9
Cash restricted in use (see Note 10)	-	4,4	-	-	4,4
Cash and cash equivalents (see Note 11)	-	9,5	-	-	9,5
		37,2	3,0	1,3	41,6
Financial liabilities					
Floating interest rate loans (see Note 13)	1%-4.68%	8,5	44,1	35,9	88,6
Fixed interest rate loans (see Note 13)	7.93%-9.82%	-	-	-	-
Trade accounts payable (see Note 14)	-	10,2	-	-	10,2
Other account payable and accrued liabilities	-	1,1	-	-	1,1
		19,9	44,1	35,9	100,0
		17,3	(41,09	(34,61	(58,40

(in thousands of Kazakhstan tenge, unless otherwise stated)

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%	34,8	136,2	49,4	220,6
Trade accounts receivable (see Note 7)	-	1,7	-	-	1,7
Other accounts receivable (see Note 8)	-	81,3	-	-	81,3
Other financial assets (see Note 9)	5%-11%	20,8	2,8	1,2	24,9
Cash restricted in use (see Note 10)	-	2,4	884,4	1,9	5,2
Cash and cash equivalents (see Note 11)	-	5,3	-	-	5,3
		30,48	3,85	3,30	37,64
Financial liabilities					
Floating interest rate loans (see Note 13)	1%-4.68%	6,8	24,4	18,8	50,1
Fixed interest rate loans (see Note 13)	7.93%-9.82%	1,6	5,5	5,5	12,7
Trade accounts payable (see Note 14)	-	4,1	-	-	4,1
Other account payable and accrued liabilities	-	1,0	-	-	1,0
		13,68	30,06	24,38	68,13
		16,80	(26,21	(21,08	(30,48

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
	91,698,186	91,401,012

	December 31, 2011	December 31, 2010
Not secured loans, with maturity dates till 2026 year		
Amount used	43,112,376	249,330
Amount unused	28,779,481	49,534,320
	71,891,857	49,783,650

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.

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.

Property, plant and equipment

In accordance with an Agreement on Mutual Recognition of Rights and Requlation 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).

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.

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