

**JOINT STOCK COMPANY  
CENTRAL ASIAN FUEL  
ENERGY COMPANY  
AND ITS SUBSIDIARIES**

**Preliminary Consolidated Financial Statements**  
For the year ended 31 December 2005

**and Special Purpose  
Independent Auditors' Report**

# JOINT STOCK COMPANY CENTRAL ASIAN FUEL ENERGY COMPANY AND ITS SUBSIDIARIES

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005**

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the special purpose independent auditors' report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the preliminary consolidated financial statements of Central Asian Fuel Energy Company ("CAFEC") JSC (hereinafter the "Company") and its subsidiaries (hereinafter, jointly the "Group").

Management is responsible for the preparation of the preliminary consolidated financial statements that present fairly the consolidated financial position of the Group at 31 December 2005 and 1 January 2005, the results of its operations, cash flows and changes in equity for the year ended 31 December 2005, in accordance with the basis set out in Note 2 to the preliminary consolidated financial statements, which describes how International Financial Reporting Standards ("IFRS") have been applied in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards", including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS consolidated financial statements as at 31 December 2006.

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


- selecting suitable accounting principles and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the preliminary consolidated financial statements; and
- preparing the preliminary consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

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


The preliminary consolidated financial statements for the year ended 31 December 2005 were authorized for issue on 27 September 2006 by the Management Board.

On behalf of the Management of the Group:

  
Artambayeva G. D.  
President



27 September 2006

  
Fedko L. V.  
Chief Accountant

27 September 2006

## **SPECIAL PURPOSE INDEPENDENT AUDITORS' REPORT ON THE PRELIMINARY IFRS CONSOLIDATED FINANCIAL STATEMENTS**

To the shareholders of Central Asian Fuel Energy Company JSC:

We have audited the accompanying preliminary consolidated balance sheet of the Central Asian Fuel Energy Company ("CAFEC") JSC (hereinafter, the "Company") and its subsidiaries (hereinafter, jointly the "Group") as at 31 December 2005, the preliminary consolidated opening balance sheet as at 1 January 2005, and the related preliminary consolidated income statement and statements of changes in equity and cash flows for the year ended 31 December 2005 (hereinafter, the "preliminary consolidated financial statements"). These preliminary consolidated financial statements are the responsibility of the Group's management. They have been prepared as part of the Group's conversion to the International Financial Reporting Standards ("IFRS"). Our responsibility is to express an opinion on these preliminary consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the preliminary consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the preliminary consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the preliminary consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the preliminary consolidated financial statements of the Group have been prepared, in all material respects, in accordance with the basis set out in Note 2 to the preliminary consolidated financial statements, which describes how IFRS have been applied in accordance with IFRS 1 "First-time Adoption of IFRS", including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS consolidated financial statements as at 31 December 2006.

Without qualifying our opinion, we draw attention to the fact that Note 2 to the preliminary consolidated financial statements explains why there is a possibility that these preliminary consolidated financial statements may require adjustments before constituting the final IFRS consolidated financial statements. Moreover, we draw attention to the fact that, under IFRS, only a complete set of consolidated financial statements, together with comparative financial information and explanatory notes, can provide a fair presentation of the Group's consolidated financial position, results of operations, and cash flows in accordance with IFRS.

This report is intended solely for the information and use of the shareholders of the Group in connection with its conversion of the basis of the preparation of the preliminary consolidated financial statements to IFRS.

*Deloitte, LLP*

27 September 2006

**JOINT STOCK COMPANY CENTRAL ASIAN FUEL ENERGY COMPANY  
AND ITS SUBSIDIARIES**

**PRELIMINARY CONSOLIDATED BALANCE SHEETS  
AS AT 31 DECEMBER 2005 AND 1 JANUARY 2005  
(in thousands of Kazakhstani tenge)**

|   | Notes | 31 December<br>2005      | 1 January<br>2005        |
|---|-------|--------------------------|--------------------------|
| <b>ASSETS</b>                                       |       |                          |                          |
| <b>NON-CURRENT ASSETS:</b>                          |       |                          |                          |
| Property, plant and equipment, net                  | 4     | 11,759,326               | 12,913,467               |
| Goodwill, net                                       | 5     | 692,102                  | 728,031                  |
| Intangible assets, net                              | 6     | 28,868                   | 17,841                   |
| Investments   |       | 1,000                    | 90                       |
| Finance lease receivables                           | 7     | 6,219                    | 23,647                   |
| Loans to customers                                  | 8     | 3,687,312                | 2,227,233                |
| Advances paid for acquisition of non-current assets | 12    | 145,806                  | 1,665                    |
| Total non-current assets                            |       | <u>16,320,633</u>        | <u>15,911,974</u>        |
| <b>CURRENT ASSETS:</b>                              |       |                          |                          |
| Inventories, net                                    | 9     | 878,025                  | 1,000,361                |
| Investments   | 10    | 500,282                  | 279                      |
| Loans to customers                                  | 8     | 2,880,938                | 945,476                  |
| Trade accounts receivable, net                      | 11    | 907,627                  | 1,992,089                |
| Advances paid, net                                  | 12    | 932,071                  | 741,893                  |
| Taxes recoverable and prepaid                       |       | 6,239                    | 6,258                    |
| Finance lease receivables                           | 7     | 17,428                   | 15,771                   |
| Other accounts receivable, net                      | 13    | 2,292,237                | 1,523,234                |
| Cash and cash equivalents                           | 14    | 470,087                  | 183,198                  |
| Total current assets                                |       | <u>8,884,934</u>         | <u>6,408,559</u>         |
| <b>TOTAL ASSETS</b>                                 |       | <u><b>25,205,567</b></u> | <u><b>22,320,533</b></u> |
| <b>EQUITY AND LIABILITIES</b>                       |       |                          |                          |
| <b>EQUITY</b>                                       |       |                          |                          |
| Share capital                                       | 15    | 300,000                  | 300,000                  |
| Retained earnings                                   |       | <u>11,238,338</u>        | <u>11,061,780</u>        |
| Equity attributable to equity holders of the parent |       | 11,538,338               | 11,361,780               |
| Minority interest                                   | 16    | <u>4,504,062</u>         | <u>3,812,661</u>         |
| Total equity  |       | <u>16,042,400</u>        | <u>15,174,441</u>        |

**JOINT STOCK COMPANY CENTRAL ASIAN FUEL ENERGY COMPANY  
AND ITS SUBSIDIARIES**

**PRELIMINARY CONSOLIDATED BALANCE SHEETS (CONTINUED)  
AS AT 31 DECEMBER 2005 AND 1 JANUARY 2005  
(in thousands of Kazakhstani tenge)**


|  | Notes | 31 December<br>2005 | 1 January<br>2005 |
|--|-------|---------------------|-------------------|
| <b>NON-CURRENT LIABILITIES:</b>        |       |                     |                   |
| Bonds issued                           | 17    | 500,000             | -                 |
| Long-term debt                         | 18    | 1,070,631           | 1,477,448         |
| Finance lease obligations              | 19    | 4,660               | 17,408            |
| Deferred tax liability                 | 26    | 598,415             | 630,523           |
| Other non-current liabilities          |       | -                   | 1,286             |
| <b>Total non-current liabilities</b>   |       | <b>2,173,706</b>    | <b>2,126,665</b>  |
| <b>CURRENT LIABILITIES:</b>            |       |                     |                   |
| Trade accounts payable                 | 20    | 500,231             | 1,199,462         |
| Customer accounts                      | 21    | 1,922,964           | 101,658           |
| Short-term debt                        | 22    | 2,698,898           | 1,225,220         |
| Advances received                      | 23    | 768,045             | 679,422           |
| Taxes payable                          | 24    | 677,304             | 773,695           |
| Finance lease obligations              | 19    | 12,748              | 11,092            |
| Other liabilities and accrued expenses | 25    | 409,271             | 1,028,878         |
| <b>Total current liabilities</b>       |       | <b>6,989,461</b>    | <b>5,019,427</b>  |
| <b>TOTAL EQUITY AND LIABILITIES</b>    |       | <b>25,205,567</b>   | <b>22,320,533</b> |

On behalf of the Management of the Group:

  
Artambayeva G. D.  
President

27 September 2006



  
Fedko L.V.  
Chief Accountant

27 September 2006

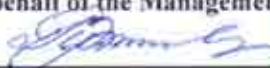
The notes on pages 9-44 form an integral part of these preliminary consolidated financial statements. Special Purpose Independent Auditors' Report on the preliminary IFRS consolidated financial statements is on pages 2.

**JOINT STOCK COMPANY CENTRAL ASIAN FUEL ENERGY COMPANY  
AND ITS SUBSIDIARIES**

**PRELIMINARY CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2005  
(in thousands of Kazakhstani tenge)**


|  | Notes | 2005               |
|--|-------|--------------------|
| <b>CONTINUING OPERATIONS</b>                               |       |                    |
| <b>REVENUE</b>   |       |                    |
| Power production and other                                 | 3, 27 | 7,385,009          |
| Finance services   | 3, 27 | 918,139            |
|  |       | <u>8,303,148</u>   |
| <b>COST OF SALES</b>                                       |       |                    |
| Power production and other                                 | 28    | (6,651,027)        |
| Finance services   | 28    | (152,200)          |
|  |       | <u>(6,803,227)</u> |
| <b>GROSS PROFIT</b>  |       |                    |
|  |       | 1,499,921          |
| General and administrative expenses                        | 29    | (1,213,688)        |
| Selling expenses   | 30    | (347,293)          |
| Allowance for loan losses                                  | 8     | (140,917)          |
| Other operating income                                     | 31    | 267,671            |
|  |       | <u>65,694</u>      |
| <b>OPERATING INCOME</b>                                    |       |                    |
| Other income, net  | 32    | 183,026            |
| Gain on disposal of an interest in a subsidiary            | 33    | 346,043            |
| Foreign exchange gain, net                                 |       | 23,751             |
| Interest expenses  | 34    | (190,746)          |
|  |       | <u>427,768</u>     |
| <b>PROFIT FROM CONTINUING OPERATIONS BEFORE INCOME TAX</b> |       |                    |
|  |       | 427,768            |
| INCOME TAX BENEFIT   | 26    | 8,673              |
|  |       | <u>436,441</u>     |
| <b>PROFIT FROM CONTINUING OPERATIONS</b>                   |       |                    |
| Loss from discontinued operation                           | 35    | (204,001)          |
|  |       | <u>232,440</u>     |
| <b>PROFIT FOR THE YEAR</b>                                 |       |                    |
|  |       | <u>232,440</u>     |
| Attributable to:   |       |                    |
| Equity holders of the parent                               |       | 176,558            |
| Minority interest  |       | 55,882             |
|  |       | <u>232,440</u>     |

On behalf of the Management of the Group:

  
Artambayeva G. D.  
President

27 September 2006



  
Fedko L.V.  
Chief Accountant

27 September 2006


The notes on pages 9-44 form an integral part of these preliminary consolidated financial statements. Special Purpose Independent Auditors' Report on the preliminary IFRS consolidated financial statements is on pages 2-3.

**JOINT STOCK COMPANY CENTRAL ASIAN FUEL ENERGY COMPANY  
AND ITS SUBSIDIARIES**

**PRELIMINARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2005  
(in thousands of Kazakhstani tenge)**


|                                | Share capital  | Retained earnings | Attributable to equity holders of the parent | Minority interest | Total equity      |
|--------------------------------|----------------|-------------------|--|-------------------|-------------------|
| Balance as at 1 January 2005   | 300,000        | 11,061,780        | 11,361,780                                   | 3,812,661         | 15,174,441        |
| Disposal of subsidiaries       | -              | -                 | -  | (1,613)           | (1,613)           |
| Disposal of shares             | -              | -                 | -  | 653,248           | 653,248           |
| Dividends declared             | -              | -                 | -  | (16,116)          | (16,116)          |
| Profit for the year            | -              | 176,558           | 176,558                                      | 55,882            | 232,440           |
| Balance as at 31 December 2005 | <u>300,000</u> | <u>11,238,338</u> | <u>11,538,338</u>                            | <u>4,504,062</u>  | <u>16,042,400</u> |

On behalf of the Management of the Group:

  
Artambayeva G. D.  
President

27 September 2006



  
Fedko L.V.  
Chief Accountant

27 September 2006

The notes on pages 9-44 form an integral part of these preliminary consolidated financial statements. Special Purpose Independent Auditors' Report on the preliminary IFRS consolidated financial statements is on pages 2-3.

**JOINT STOCK COMPANY CENTRAL ASIAN FUEL ENERGY COMPANY  
AND ITS SUBSIDIARIES**

**PRELIMINARY CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2005  
(in thousands of Kazakhstani tenge)**

|  | Notes      | 2005        |
|--|------------|-------------|
| <b>OPERATING ACTIVITIES:</b>                             |            |             |
| Profit before income tax                                 |            | 223,767     |
| Adjustments for:   |            |             |
| Depreciation and amortization                            | 4, 6       | 959,703     |
| Bad debt expense   | 11, 12, 29 | 207,259     |
| Recovery of allowance for other accounts receivable      | 13, 29     | (995,191)   |
| Provision for guarantees                                 | 29         | (6,943)     |
| Provision for loans to customers                         | 8          | 140,917     |
| Recovery of allowance for obsolete inventory             | 9          | (3,402)     |
| Gain on disposal of property, plant and equipment        | 32         | (24,686)    |
| Gain on disposal of investments                          | 33         | (346,043)   |
| Foreign exchange gain                                    |            | (23,751)    |
| Interest expenses  | 34         | 190,746     |
| Operating profit before working capital changes          |            | 322,376     |
| Decrease in inventories                                  |            | 102,483     |
| Decrease in trade accounts receivable                    |            | 852,563     |
| Increase in advances paid                                |            | (196,337)   |
| Decrease in taxes recoverable and prepaid                |            | 19          |
| Decrease in other accounts receivable                    |            | 276,342     |
| Decrease in trade accounts payable                       |            | (523,757)   |
| Increase in advances received                            |            | 88,623      |
| Decrease in taxes payable                                |            | (82,210)    |
| Decrease in other liabilities and accrued expenses       |            | (619,150)   |
| Cash from operating activities                           |            | 220,952     |
| Income tax paid  |            | (67,361)    |
| Interest paid  |            | (161,851)   |
| Net cash used in operating activities                    |            | (8,260)     |
| <b>INVESTING ACTIVITIES:</b>                             |            |             |
| Purchases of property, plant, and equipment              |            | (798,201)   |
| Purchases of intangible assets                           | 6          | (15,849)    |
| Purchases of investments                                 |            | (500,913)   |
| Advances paid for acquisition of non-current assets      |            | (144,141)   |
| Loans to customers                                       |            | (3,536,458) |
| Proceeds from disposal of subsidiary                     |            | (3,796)     |
| Proceeds from disposal of property, plant, and equipment |            | 1,350,588   |
| Proceeds from sale of investments                        |            | 457,696     |
| Proceeds from finance lease                              |            | 15,771      |
| Net cash used in investing activities                    |            | (3,175,303) |

**JOINT STOCK COMPANY CENTRAL ASIAN FUEL ENERGY COMPANY  
AND ITS SUBSIDIARIES**


**PRELIMINARY CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2005  
(in thousands of Kazakhstani tenge)**

|  | Notes | 2005                  |
|--|-------|-----------------------|
| <b>FINANCING ACTIVITIES:</b>                   |       |                       |
| Proceeds from issuance of bonds                | 17    | 500,000               |
| Proceeds from borrowings                       |       | 1,478,678             |
| Customer accounts                              |       | 1,821,306             |
| Borrowings repaid                              |       | (302,324)             |
| Dividends paid                                 |       | (16,116)              |
| Repayment of finance lease obligations         |       | (11,092)              |
|  |       | <u>3,470,452</u>      |
| Net cash from financing activities             |       | <u>3,470,452</u>      |
| NET INCREASE IN CASH AND CASH EQUIVALENTS      |       | 286,889               |
| CASH AND CASH EQUIVALENTS at beginning of year |       | <u>183,198</u>        |
| CASH AND CASH EQUIVALENTS at end of year       |       | <u><u>470,087</u></u> |

**Non-cash transactions:**

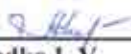
During 2005 the Group acquired property, plant and equipment using offsets with accounts receivable of 688,071 thousand tenge.

On behalf of the Management of the Group:

  
Artambayeva G. D.  
President

27 September 2006



  
Fedko L.V.  
Chief Accountant

27 September 2006

The notes on pages 9-44 form an integral part of these preliminary consolidated financial statements. Special Purpose Independent Auditors' Report on the preliminary IFRS consolidated financial statements is on pages 23.

# JOINT STOCK COMPANY CENTRAL ASIAN FUEL ENERGY COMPANY AND ITS SUBSIDIARIES

## NOTES TO THE PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (in thousands of Kazakhstani tenge)

### 1. NATURE OF THE BUSINESS

Central Asian Fuel Energy Company ("CAFEC") JSC (the "Company") and its subsidiaries (jointly the "Group") comprise companies as defined in the Civil Code of Kazakhstan. The Company was established on 1 September 1998. The Company's registered office is 42, Karatayeva Street, Almaty, Republic of Kazakhstan.

The Group's primary activity is production, transmission and allocation of electricity and financial services.

The Company had an interest in the following legal entities:

| Subsidiaries:                        | Location  | Principal activity                           | Ownership interest |                |
|--------------------------------------|-----------|--|--------------------|----------------|
|                                      |           |  | 31 December 2005   | 1 January 2005 |
| MacCentre Kazakhstan LLP             | Almaty    | Sale of computer equipment                   | 100.00%            | 100.00%        |
| EximBank Kazakhstan JSC (the "Bank") | Almaty    | Banking                                      | 72.77%             | 86.32%         |
| Pavlodarenergy JSC                   | Pavlodar  | Electric and heat energy production and sale | 72.00%             | 72.00%         |
| Kaustik JSC                          | Almaty    | Chemical products                            | 60.00%             | 100.00%        |
| Kokshe JSC                           | Kokshetau | Radio equipment resale                       | -                  | 99.76%         |

In Kazakhstan the statutory corporate income tax rate and property tax rate is equal to 30 per cent and 1 per cent, respectively. During 2005 and 2004 the corporate income tax rate and rate on property tax of Pavlodarenergyservice JSC, a subsidiary of Pavlodarenergy JSC, was 15 per cent and 0.5 per cent, respectively, due to tax preferences received by Pavlodarenergyservice JSC for the period starting from 1 January 2003 till 1 January 2006.

On 25 December 2003 the Pavlodarenergy JSC signed Agreement # 0396-12-2003 on investments with further provision of investment benefits (the "Agreement") with Committee on investments under the Ministry of industry and trade of the Republic of Kazakhstan. According to the Agreement Pavlodarenergy JSC was obliged to invest 750,000 thousand tenge into the construction of ash-disposal area in Pavlodar. Pavlodarenergy JSC made all investments in 2003 and was granted tax benefits for the corporate income tax. The benefits grant the right to deduct from taxable revenue the cost of new property, plant and equipment placed into operations in the framework of the investment project for the period starting from 1 January 2004 till 1 January 2009.

The total number of employees of the Group as at 31 December 2005 and 1 January 2005 was 4,365 and 4,513, respectively.

The preliminary IFRS consolidated financial statements were approved by the management of the Group and authorized for issue on 27 September 2006.

## 2. SIGNIFICANT ACCOUNTING POLICIES

*The purpose of the preliminary consolidated financial statements and application of International Financial Reporting Standards for the first time* – The preliminary consolidated balance sheet of the Group has been prepared in compliance with “International Financial Reporting Standards” (“IFRS”). The term “IFRS” includes standards and interpretations approved by the International Accounting Standards Board (“IASB”), including International Accounting Standards (“IAS”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) who replaced the Standing Interpretations Committee (“SIC”).

The Group applied IFRS 1 – “First Time Adoption of International Financial Reporting Standards” (“IFRS 1”) – in the preparation of its first consolidated balance sheet in accordance with IFRS as at 1 January 2005. The Group’s transition date for the first time adoption of IFRS is 1 January 2005 (hereafter “the date of transition to IFRS”), except for the Bank, which is the date of transition to IFRS was prior to the Group’s. Prior to this date, the Group prepared its consolidated financial statements in compliance with Kazakhstani Accounting Standards (“KAS”). The reconciliation of equity shown in the consolidated financial statements of the Group for the year ended 31 December 2004 and in the accompanying preliminary consolidated financial statements is presented below:

|  | 31 December<br>2004<br>Total equity |
|--|-------------------------------------|
| Per KAS  | 11,281,123                          |
| Adjustment for :   |                                     |
| Write-off of negative goodwill                                 | 3,265,729                           |
| Revaluation of property, plant and equipment                   | 2,756,356                           |
| Correction of allowance for obsolete inventory                 | 180,977                             |
| Correction of additional paid-in-capital                       | 25,348                              |
| Correction of property, plant and equipment depreciation       | 20,624                              |
| Correction of allowance for estimated irrecoverable amounts    | 3,184                               |
| Correction of purchase price allocation related to goodwill    | (1,747,924)                         |
| Correction of taxes  | 11,605                              |
| Deferred tax liability   | (622,581)                           |
|  | <hr/>                               |
| Per accompanying preliminary consolidated financial statements | 15,174,441                          |

IFRS 1 requires that the opening consolidated balance sheet as at the date of transition to IFRS be prepared in accordance with accounting policies that comply with each IFRS effective as at the date of preparation of the first complete set of IFRS consolidated financial statements. Based on these IFRS, management has made assumptions about the accounting policies expected to be adopted when the first IFRS annual consolidated financial statements are prepared for the year ending 31 December 2006. With this purpose the Group prepared opening consolidated balance sheet as at 1 January 2005 in accordance with the requirements of IFRS 1. This standard requires that the opening consolidated balance sheet as at the date of transition to IFRS be prepared in accordance with accounting policies that comply with each IFRS effective as at the date of preparation of the first complete set of IFRS consolidated financial statements. The first complete set of consolidated financial statements of the Group in accordance with IFRS comprising consolidated balance sheet, and respective profit and loss account and consolidated statements of cash flows and changes in equity, as well as comparative information for the previous year, will be prepared for the year ending 31 December 2006. The accompanying preliminary consolidated financial statements are prepared in accordance with the requirements of all IFRS, issued as at 1 January 2005 and which are effective as at 31 December 2005. Therefore, there is a possibility that the Group will have to adjust amounts stated in the accompanying preliminary consolidated financial statements in order to comply with requirements of all IFRS that will be issued and effective as at 31 December 2006, i.e. till the date of preparation of the first complete consolidated financial statements in accordance with IFRS.

The Group cannot be certain that the accounting policies applied in preparing the opening consolidated balance sheet will be the same policies that will be applied to the final opening consolidated balance sheet and the first complete IFRS consolidated financial statements prepared for the year ending 31 December 2006, due to:

- any changes in existing standards;
- changes in the interpretation of existing standards by the IASB;
- new standards may be issued by the IASB, which, although not mandatory for 2006 may be permitted for earlier adoption;
- further development in industry interpretation and application of existing standards; and
- management may decide to adopt alternative accounting policies which may differ from those originally selected.

The disclosures required by IFRS 1 concerning the transition from KAS to IFRS are presented in Note 37.

**Basis of presentation** – The accompanying preliminary consolidated financial statements have been prepared in accordance with IFRS for the first time.

The accompanying preliminary consolidated financial statements have been prepared on historical cost basis, except for the following:

- Valuation of property, plant and equipment in accordance with IAS 16 “Property, Plant and Equipment” elected by the Group as “Deemed cost” at the date of transition to the IFRS;
- Fair value of financial instruments (described in more detail below).

**Basis of consolidation** – The preliminary consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority’s proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the preliminary consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

**Goodwill** – Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous KAS amounts subject to being tested for impairment at that date.

**Functional and presentation currency** – The functional and presentation currency of these preliminary consolidated financial statements is Kazakhstani Tenge.

**Accounting estimates** – The preparation of the preliminary consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the preliminary consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Foreign currency transactions** – Transactions in currencies other than the functional currency of the Group are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the preliminary consolidated balance sheet date. Gains and losses arising on exchange are included in preliminary consolidated income statement.

**Revenue recognition** – Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and Value Added Tax.

Electricity and heat sale revenue is included into the preliminary consolidated income statement as delivered to customers.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income are recognized on an accrual basis calculated using the effective yield method. The recognition of interest income is suspended and reversed when loans become overdue by more than 30 days. Interest income also includes interest income earned on investment and trading securities. Commissions and other income are credited to income when the related transactions are completed.

Fee and commission income includes loan origination fees, loan commitment fees, loan servicing fees and loan syndication fees. Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit and loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit and loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognised in profit and loss when the syndication has been completed. All other commissions are recognized when services are provided.

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

**The Group as lessor** – Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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

**The Group as lessee** – Assets held under finance lease are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the preliminary consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs (see below).

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

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

**Property, plant and equipment** – Property, plant and equipment is stated in the preliminary consolidated balance sheet at deemed cost (hereafter "cost") at the date of transition to IFRS less accumulated depreciation and impairment.

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

Depreciation on revalued property, plant and equipment is charged to preliminary consolidated income statement. Depreciation of assets under construction commences when the assets are ready for their intended use. Depreciation is charged so as to write off the cost of assets, other than assets under construction, over the estimated useful lives of the assets, using the straight-line method, on the following basis:

|                                    |             |
|------------------------------------|-------------|
| Buildings and constructions        | 10-20 years |
| Machinery and production equipment | 5-20 years  |
| Vehicles                           | 5-15 years  |
| Other property                     | 2-20 years  |

Gains and losses on property, plant and equipment disposals are calculated as the difference between selling price and carrying amount of an asset, and included in other income/(expense) in the accompanying preliminary consolidated income statement.

**Intangible assets** – Intangible assets are stated at cost less accumulated amortization. Amortization is computed under the straight-line method over the estimated useful lives of assets.

**Impairment of long-term assets** – At each consolidated balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

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

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

**Financial instruments** – Financial assets and financial liabilities are recognized on the Group's consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

**Offset of financial assets and liabilities** – Financial assets and liabilities are offset and reported net on the preliminary consolidated balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

**Trade accounts receivable** – Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Such allowance reflects either specific cases or estimates based on evidence of recoverability.

**Other accounts receivable** – Other accounts receivable comprise assets with the expected maturity up to one year and are stated at their nominal value.

**Cash and cash equivalents** – Cash and cash equivalents include cash on hand and cash with banks. Cash equivalents include short-term investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

**Deposits from banks and customers** – Customer and bank deposits are initially recognized at fair value, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated profit and loss account over the period of the borrowings using the effective interest method.

**Bank loans and other non-bank borrowings** – All loans and borrowings are initially recorded at the proceeds received, net of direct issue costs. After initial recognition all loans and borrowings are subsequently measured at amortized cost, which is calculated by taking into account any discount or premium on settlement.

**Loans and advances to banks** – In the normal course of business, the Group maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for impairment losses.

**Repurchase and reverse repurchase agreements** – The Group enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements (“reverse repos”) in the normal course of its business. Repos and reverse repos are utilized by the Group as an element of its treasury management and trading business.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in the preliminary consolidated financial statements and consideration received under these agreements is recorded as collateralized deposit received.

Assets purchased under reverse repos are recorded in the preliminary consolidated financial statements as cash placed on deposit which is collateralized by securities and other assets.

In the event that assets purchased under reverse repo are sold to third parties, the results are recorded with the gain or loss included in net gains/ (losses) on respective assets. Any related income or expense arising from the pricing difference between purchase and sale of the underlying assets is recognized as interest income or expense.

**Loans to customers** – Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or by participating in a loan facility.

Loans granted by the Group with fixed maturities are initially recognized in accordance with the policy stated below. The difference between the nominal amount of consideration given and the amortized cost of loans issued at lower than market terms is recognized in the period the loan is issued as initial recognition adjustment discounting using market rates at inception and included in the profit and loss account as losses on origination of assets. Subsequently, the carrying amount of such loans is adjusted for amortization of the losses on origination and the related income is recorded as interest income within the profit and loss account using the effective interest method. Loans to customers that do not have fixed maturities are carried at cost. Loans to customers are carried net of any allowance for impairment losses.

**Write-off of loans** – When loans and borrowings are uncollectible, including through repossession of collateral, they are written off against the provision for impairment losses. If payment of accrued interest is delayed for more than 30 days, the Group terminates recording of accrued interest in the balance sheet. If payment of accrued interest is delayed for more than 60 days, accrued but uncollected interest are written off against the Group’s income, and the principal amount is transferred to the account of blocked amounts by the instruction of the Loan Department and legal regulations of the NBRK. Write-off of bad debts as the Group’s losses against created provisions is made within 180 days from the date when the principal amount was transferred to the overdue asset accounts by the instructions of the Loan Department. Written-off loans are recorded on corresponding off-balance sheet accounts.

**Non-accrual loans** – Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**Allowance for impairment losses** – The Group establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset or Bank of financial assets is impaired. The allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discontinued at the financial asset's original effective interest rate, for financial assets which are carried at amortised cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusted an allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment losses is charged/credited to profit and the total of the allowance for impairment losses is deducted in arriving at assets as shown in preliminary consolidated balance sheet. Factors that the Group considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or Group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Group may sustain losses, which are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

**Borrowing costs** – Borrowing costs are recognized as an expense in the period in which they are incurred.

**Trade accounts payable** – Trade accounts payable are not interest bearing and are stated at their nominal value.

**Taxation** – Income tax expense represents the sum of the tax currently payable and deferred 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 consolidated balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the preliminary 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 recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with 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.

During 2005 and 2004, in Pavlodarenergyservice JSC the corporate income tax rate and rate on property tax was 15 per cent and 0.5 per cent, respectively, due to tax preferences granted to Pavlodarenergyservice JSC for 3 years (see Note 1).

During 2005 and 2004, Pavlodarenergy JSC was granted investment tax preferences for corporate income tax for 5 years (see Note 1).

**Retirement benefit costs** – In 2005 in accordance with the legislative requirements of the Republic of Kazakhstan the Group pays into an employee pension fund the amount equivalent to 10 per cent of each employee's wage but not more than 52,500 tenge per month from 1 January 2005 till 30 June 2005 and 69,000 tenge per month from 1 July 2005 till 31 December 2005 (2004: 49,500 tenge) as contributions to accumulation pension fund. These amounts are expensed when they are incurred. Pension fund payments are withheld from employees' salaries and included with other salary costs in the preliminary consolidated income statement. The Group does not have other liabilities related to pension payments.

**Provisions** – Provisions are recognized when the Group has a present legal or constructive obligation (either based on legal regulations or implied) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

**Contingencies** – Contingent liabilities are possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent liabilities are not recognized in the preliminary consolidated financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the preliminary consolidated financial statements but disclosed when an inflow of economic benefits is probable.

### 3. SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segment information is presented in respect of the Group's business. The primary format, business segments is based on the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise income taxes payable, deferred taxes and dividends payable.

Principal activities by business segments presented below:

**Power production** – The main activity of JSC Pavlodarenergy is production, transmission and allocation of electricity and heat in Pavlodar oblast and Pavlodar city. JSC Pavlodarenergy holds 100% share participation in JSC Pavlodarenergyservice (transmission and distribution of electricity) and JSC Energycenter (purchase and sale of electricity and heat).

**Finance services** – The primary business of the Bank consists of giving loans to clients. The Bank has no rights to attract any deposits from individuals, and serve only settlements accounts from the clients. In addition the Bank conduct its business with securities and other instruments of interbank's monetary market.

**Other** – Business segments of the Group include chemical goods production, computer equipment wholesale, etc. Production of chemical goods is represented by Kaustik LLP. Computer equipment wholesale segment is represented by MacCenter Kazakhstan LLP.

Segmental information on profit and losses in respect of these three business segments for the year ended 31 December 2005 is presented below.

| 2005  | Finance services | Power production | Other     | Eliminations | Consolidated |
|---|------------------|------------------|-----------|--------------|--------------|
| REVENUE   |                  |                  |           |              |              |
| External sales                                      | 918,139          | 7,093,503        | 291,506   | -            | 8,303,148    |
| Inter-segment sales                                 | 51,895           | 28,271           | 104,248   | (184,414)    | -            |
| Total revenue from continuing operations            | 970,034          | 7,121,774        | 395,754   | (184,414)    | 8,303,148    |
| Operating income                                    |                  |                  |           |              |              |
| Segment result from continuing operations           | 1,132,635        | (905,236)        | (110,661) | (51,044)     | 65,694       |
| Other income, net                                   |                  |                  |           |              | 183,026      |
| Gain on disposals of investments, net               |                  |                  |           |              | 346,043      |
| Foreign exchange gain, net                          |                  |                  |           |              | 23,751       |
| Interest expenses                                   |                  |                  |           |              | (190,746)    |
| PROFIT FROM CONTINUING OPERATIONS BEFORE INCOME TAX |                  |                  |           |              | 427,768      |
| INCOME TAX BENEFIT                                  |                  |                  |           |              | 8,673        |
| PROFIT FROM CONTINUING OPERATIONS                   |                  |                  |           |              | 436,441      |
| Loss from discontinued operation                    |                  |                  |           |              | (204,001)    |
| PROFIT FOR THE YEAR                                 |                  |                  |           |              | 232,440      |

Segment preliminary consolidated balance sheet information on the segments as at 31 December 2005 and 1 January 2005 is presented below.

| <b>31 December 2005</b> | <b>Finance services</b> | <b>Power production</b> | <b>Other</b>     | <b>Consolidated</b> |
|-------------------------|-------------------------|-------------------------|------------------|---------------------|
| <b>Assets</b>           |                         |                         |                  |                     |
| Segment assets          | 9,454,057               | 13,982,007              | 1,751,075        | 25,187,139          |
| Interests in associates | -                       | -                       | 1,000            | 1,000               |
| Unallocated assets      | -                       | -                       | -                | 17,428              |
|                         | <u>9,454,057</u>        | <u>13,982,007</u>       | <u>1,752,075</u> | <u>25,205,567</u>   |
| <b>Liabilities</b>      |                         |                         |                  |                     |
| Segment liabilities     | 3,912,595               | 3,627,154               | 946,114          | 8,485,863           |
| Unallocated liabilities | -                       | -                       | -                | 677,304             |
|                         | <u>3,912,595</u>        | <u>3,627,154</u>        | <u>946,114</u>   | <u>9,163,167</u>    |
| <b>1 January 2005</b>   |                         |                         |                  |                     |
| <b>Assets</b>           |                         |                         |                  |                     |
| Segment assets          | 5,658,135               | 14,219,427              | 2,436,623        | 22,314,185          |
| Investments             | -                       | -                       | -                | 90                  |
| Unallocated assets      | -                       | -                       | -                | 6,258               |
|                         | <u>5,658,135</u>        | <u>14,219,427</u>       | <u>2,436,623</u> | <u>22,320,533</u>   |
| <b>Liabilities</b>      |                         |                         |                  |                     |
| Segment liabilities     | 1,043,983               | 3,726,283               | 1,602,131        | 6,372,397           |
| Unallocated liabilities | -                       | -                       | -                | 773,695             |
|                         | <u>1,043,983</u>        | <u>3,726,283</u>        | <u>1,602,131</u> | <u>7,146,092</u>    |

#### 4. PROPERTY, PLANT AND EQUIPMENT, NET

|                                 | <b>Land, buildings and constructions</b> | <b>Machinery and production equipment</b> | <b>Vehicles</b> | <b>Other</b>   | <b>Construction in progress</b> | <b>Total</b>      |
|---------------------------------|--|---|-----------------|----------------|---------------------------------|-------------------|
| <b>Cost</b>                     |  |   |                 |                |                                 |                   |
| At 1 January 2005               | 5,653,423                                | 6,928,179                                 | 280,588         | 207,112        | 707,571                         | 13,776,873        |
| Additions                       | 83,998                                   | 818,376                                   | 168,122         | 53,049         | 362,727                         | 1,486,272         |
| Disposals                       | (1,375,477)                              | (115,438)                                 | (36,488)        | (24,624)       | (32,224)                        | (1,584,251)       |
| Disposal of a subsidiary        | (41,826)                                 | (10,760)                                  | (966)           | (375)          | (315,789)                       | (369,716)         |
| Transfers                       | 115,405                                  | 88,716                                    | 56              | 40,659         | (244,836)                       | -                 |
| At 31 December 2005             | <u>4,435,523</u>                         | <u>7,709,073</u>                          | <u>411,312</u>  | <u>275,821</u> | <u>477,449</u>                  | <u>13,309,178</u> |
| <b>Accumulated depreciation</b> |  |   |                 |                |                                 |                   |
| At 1 January 2005               | 447,703                                  | 332,664                                   | 33,259          | 49,780         | -                               | 863,406           |
| Charge for the period           | 242,521                                  | 658,203                                   | 31,550          | 22,607         | -                               | 954,881           |
| Disposals                       | (226,511)                                | (19,507)                                  | (7,674)         | (14,743)       | -                               | (268,435)         |
| Transfers                       | -  | -   | 14              | (14)           | -                               | -                 |
| At 31 December 2005             | <u>463,713</u>                           | <u>971,360</u>                            | <u>57,149</u>   | <u>57,630</u>  | <u>-</u>                        | <u>1,549,852</u>  |
| <b>Net book value</b>           |  |   |                 |                |                                 |                   |
| At 31 December 2005             | <u>3,971,810</u>                         | <u>6,737,713</u>                          | <u>354,163</u>  | <u>218,191</u> | <u>477,449</u>                  | <u>11,759,326</u> |
| At 1 January 2005               | <u>5,205,720</u>                         | <u>6,595,515</u>                          | <u>247,329</u>  | <u>157,332</u> | <u>707,571</u>                  | <u>12,913,467</u> |

In accordance with the loan agreement #30 dated 20 November 2002, which was concluded between CAFEC JSC and Eurasian Bank JSC, the Group pledged property, plant and equipment of Pavlodarenergy JSC for 2,026,769 thousand tenge (see Note 18).

As at 31 December 2005 the property, plant and equipment of Pavlodarenergy JSC for 4,689,636 thousand tenge (1 January 2005: 4,755,777 thousand tenge) was pledged under the mortgage agreement #491 dated 7 February 2004, which was concluded with Eurasian Bank JSC under the loan agreement to Pavlodarenergy JSC (see Note 18).

As at 31 December 2005 and 1 January 2005, fully depreciated property, plant and equipment amounted to 585,599 thousand tenge and 1,065,119 thousand tenge, respectively.

## 5. GOODWILL, NET

|                       |                 |
|-----------------------|-----------------|
| <b>Cost</b>           |                 |
| At 1 January 2005     | 728,031         |
| Disposed              | <u>(35,929)</u> |
| <b>Net book value</b> |                 |
| At 31 December 2005   | <u>692,102</u>  |
| At 1 January 2005     | <u>728,031</u>  |

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

|   | Pavlodar-<br>energyservice<br>JSC | Energycenter<br>JSC | Pavlodarskie<br>Teplovye Seti<br>JSC | Total            |
|---|-----------------------------------|---------------------|--------------------------------------|------------------|
| Identifiable assets and liabilities at the acquisition date | 3,416,988                         | (233,139)           | 78,000                               | 3,261,849        |
| Cost of business combination                                | <u>3,863,080</u>                  | <u>48,800</u>       | <u>78,000</u>                        | <u>3,989,880</u> |
| Goodwill recognised at the acquisition date                 | 446,092                           | 281,939             | -                                    | 728,031          |
| Goodwill disposed   | <u>(35,929)</u>                   | <u>-</u>            | <u>-</u>                             | <u>(35,929)</u>  |
| Goodwill recognised at 31 December 2005                     | <u>410,163</u>                    | <u>281,939</u>      | <u>-</u>                             | <u>692,102</u>   |

Pavlodarenergyservice JSC, Energycenter JSC and Pavlodarskie Teplovye Seti JSC are subsidiaries of Pavlodarenergy JSC.

## 6. INTANGIBLE ASSETS, NET

|                                 | Software      | Other      | Total         |
|---------------------------------|---------------|------------|---------------|
| <b>Cost</b>                     |               |            |               |
| At 1 January 2005               | 26,542        | 601        | 27,143        |
| Additions                       | <u>15,693</u> | <u>156</u> | <u>15,849</u> |
| At 31 December 2005             | <u>42,235</u> | <u>757</u> | <u>42,992</u> |
| <b>Accumulated amortisation</b> |               |            |               |
| At 1 January 2005               | 9,122         | 180        | 9,302         |
| Charge for the period           | <u>4,726</u>  | <u>96</u>  | <u>4,822</u>  |
| At 31 December 2005             | <u>13,848</u> | <u>276</u> | <u>14,124</u> |
| <b>Net book value</b>           |               |            |               |
| At 31 December 2005             | <u>28,387</u> | <u>481</u> | <u>28,868</u> |
| At 1 January 2005               | <u>17,420</u> | <u>421</u> | <u>17,841</u> |

## 7. FINANCE LEASE RECEIVABLES

On 12 October 2004, the Group entered into finance sub-leasing arrangement with its associated company ATP Energetic LLP for vehicles obtained under finance lease agreement from Astana-Finance JSC (see Note 19). The term of finance lease entered into is 3 years. The interest rate inherent in the leases is fixed at the contract date for all of the lease term and equal to 14 per cent.

|   | Minimum lease payments |                | Present value of minimum lease payments |                |
|---|------------------------|----------------|---|----------------|
|   | 31 December 2005       | 1 January 2005 | 31 December 2005                        | 1 January 2005 |
| Amounts receivable under finance lease:                             |                        |                |   |                |
| Within one year   | 19,067                 | 19,067         | 17,428                                  | 15,771         |
| In the second to fifth years inclusive                              | <u>6,356</u>           | <u>25,423</u>  | <u>6,219</u>                            | <u>23,647</u>  |
|   | 25,423                 | 44,490         | 23,647                                  | 39,418         |
| Less: unearned finance income                                       | <u>(1,776)</u>         | <u>(5,072)</u> | N/A                                     | N/A            |
| Present value of minimum lease payments receivable                  | <u>23,647</u>          | <u>39,418</u>  | <u>23,647</u>                           | <u>39,418</u>  |
| Analyzed as:  |                        |                |   |                |
| Non-current finance lease receivables (recoverable after 12 months) |                        |                | 6,219                                   | 23,647         |
| Current finance lease receivables (recoverable within 12 months)    |                        |                | <u>17,428</u>                           | <u>15,771</u>  |
|   |                        |                | <u>23,647</u>                           | <u>39,418</u>  |

## 8. LOANS TO CUSTOMERS

|                                 | 31 December<br>2005 | 1 January<br>2005  |
|---------------------------------|---------------------|--------------------|
| Loans to customers              | 8,458,909           | 4,434,229          |
| Loans and advances to banks     | 157,480             | 712,008            |
| Allowance for impairment losses | <u>(2,048,139)</u>  | <u>(1,973,528)</u> |
| Total                           | <u>6,568,250</u>    | <u>3,172,709</u>   |
| Long-term loans                 | 3,687,312           | 2,227,233          |
| Short-term loans                | <u>2,880,938</u>    | <u>945,476</u>     |
| Total                           | <u>6,568,250</u>    | <u>3,172,709</u>   |

The movements in allowance for impairment losses were as follows:

|   | Loans and<br>advances to<br>banks | Loans to<br>customers | Total            |
|---|-----------------------------------|-----------------------|------------------|
| At 1 January 2005                         | 151,450                           | 1,822,078             | 1,973,528        |
| Recovery of provisions                    | 4,637                             | 136,280               | 140,917          |
| Recovery of assets previously written-off | -                                 | 160,152               | 160,152          |
| Write-off of assets                       | <u>-</u>                          | <u>(226,458)</u>      | <u>(226,458)</u> |
| At 31 December 2005                       | <u>156,087</u>                    | <u>1,892,052</u>      | <u>2,048,139</u> |

## 9. INVENTORIES, NET

As at 31 December 2005 and 1 January 2005 inventories, net of allowance for obsolete inventory, consisted of the following:

|                                  | 31 December<br>2005 | 1 January<br>2005 |
|----------------------------------|---------------------|-------------------|
| Spare parts                      | 338,294             | 291,744           |
| Raw materials                    | 226,005             | 267,635           |
| Tubing                           | 65,195              | 82,599            |
| Goods                            | 49,389              | 29,110            |
| Metal-roll and production        | 48,238              | 68,246            |
| Instruments                      | 28,243              | 53,120            |
| Insulating materials             | 26,856              | 16,246            |
| Construction materials           | 22,866              | 35,340            |
| Semi-finished goods              | 14,817              | 67,369            |
| Fuel                             | 14,426              | 13,252            |
| Other                            | <u>91,434</u>       | <u>126,840</u>    |
|                                  | 925,763             | 1,051,501         |
| Allowance for obsolete inventory | <u>(47,738)</u>     | <u>(51,140)</u>   |
| Total                            | <u>878,025</u>      | <u>1,000,361</u>  |

The movements in allowance for obsolete inventory were as follows:

|                      | 2005          | 2004          |
|----------------------|---------------|---------------|
| At 1 January         | 51,140        | 232,117       |
| (Recovery)/provision | (3,402)       | (166,775)     |
| Write-off            | -             | (14,202)      |
|                      | <u>47,738</u> | <u>51,140</u> |
| At 31 December       | <u>47,738</u> | <u>51,140</u> |

## 10. INVESTMENTS

As at 31 December 2005 and 1 January 2005 investments consisted of the following:

|  | 31 December<br>2005 | 1 January<br>2005 |
|--|---------------------|-------------------|
| Securities purchased under repurchase agreements | 500,001             | -                 |
| Investments available for sale                   | <u>281</u>          | <u>279</u>        |
| Total  | <u>500,282</u>      | <u>279</u>        |

Securities purchased under repurchase agreements presented by bonds, which were issued by the Ministry of Finance of the Republic of Kazakhstan.

## 11. TRADE ACCOUNTS RECEIVABLE, NET

As at 31 December 2005 and 1 January 2005 trade accounts receivable, net of allowance for estimated irrecoverable amounts, consisted of the following:

|   | 31 December<br>2005 | 1 January<br>2005 |
|---|---------------------|-------------------|
| Energy and heat supply                        | 1,139,587           | 1,581,036         |
| Rent  | 45,402              | 125,254           |
| Goods   | 28,049              | 48,798            |
| Water   | 4,576               | -                 |
| Services rendered                             | 2,978               | 177,120           |
| Other   | <u>38,554</u>       | <u>206,811</u>    |
|   | 1,259,146           | 2,139,019         |
| Allowance for estimated irrecoverable amounts | <u>(351,519)</u>    | <u>(146,930)</u>  |
| Total   | <u>907,627</u>      | <u>1,992,089</u>  |

The movements in allowance for estimated irrecoverable amounts were as follows:

|                | 2005           | 2004           |
|----------------|----------------|----------------|
| At 1 January   | 146,930        | 114,097        |
| Provision      | <u>204,589</u> | <u>32,833</u>  |
| At 31 December | <u>351,519</u> | <u>146,930</u> |

## 12. ADVANCES PAID, NET

As at 31 December 2005 and 1 January 2005 advances paid, net of allowance for estimated irrecoverable amounts, consisted of the following:

|   | 31 December<br>2005 | 1 January<br>2005 |
|---|---------------------|-------------------|
| For goods                                     | 558,804             | 523,512           |
| For services                                  | 375,937             | 218,381           |
| For construction works                        | 145,806             | 1,665             |
|   | <u>1,080,547</u>    | <u>743,558</u>    |
| Allowance for estimated irrecoverable amounts | <u>(2,670)</u>      | <u>-</u>          |
| Total   | <u>1,077,877</u>    | <u>743,558</u>    |
| Long-term                                     | 145,806             | 1,665             |
| Short-term                                    | 932,071             | 741,893           |
| Total   | <u>1,077,877</u>    | <u>743,558</u>    |

## 13. OTHER ACCOUNTS RECEIVABLE, NET

As at 31 December 2005 and 1 January 2005 other accounts receivable, net of allowance for estimated irrecoverable amounts consisted of the following:

|   | 31 December<br>2005 | 1 January<br>2005  |
|---|---------------------|--------------------|
| Sale of property, plant and equipment         | 1,200,381           | 24,380             |
| Sale of shares                                | 745,386             | 681,185            |
| Guarantees                                    | 669,900             | 1,774,139          |
| Prepaid expenses                              | 466,784             | 551,220            |
| Fines accrued                                 | 60,929              | 96,406             |
| Financial aid                                 | 27,220              | 21,239             |
| Receivables from employees                    | 22,782              | 131,408            |
| Other   | 15,443              | 157,310            |
|   | <u>3,208,825</u>    | <u>3,437,287</u>   |
| Allowance for estimated irrecoverable amounts | <u>(916,588)</u>    | <u>(1,914,053)</u> |
| Total   | <u>2,292,237</u>    | <u>1,523,234</u>   |

The other accounts receivable for sale of property plant and equipment mainly represents receivable for the sale of Bank's building and land at Pushkin str., Almaty, to Battal LTD for 1,179,500 thousand tenge, which was fully repaid on 9 February 2006.

In 2005-2004 the Group sold shares of Pavlodarenergy JSC, the Bank, Kokshe JSC, and Kaustik JSC.

Prepaid expenses represent assignments and mainly consist of accounts to be received by the Bank from Zhana Dala LLP and Eurasian Finance Industrial Company JSC.

Allowance for estimated irrecoverable amounts mainly relate to allowance on guarantees, which were issued by the Bank to Mynbulak LLP and Lotus LLP, and allowance on prepaid expenses.

The movements in allowance for estimated irrecoverable amounts were as follows:

|                | 2005           | 2004             |
|----------------|----------------|------------------|
| At 1 January   | 1,914,053      | 3,274,191        |
| Recovery       | (995,191)      | (435,135)        |
| Write-off      | (2,274)        | (925,003)        |
|                | <u>916,588</u> | <u>1,914,053</u> |
| At 31 December | <u>916,588</u> | <u>1,914,053</u> |

#### 14. CASH AND CASH EQUIVALENTS

As at 31 December 2005 and 1 January 2005, cash and cash equivalents consisted of the following:

|   | 31 December<br>2005 | 1 January<br>2005 |
|---|---------------------|-------------------|
| Balances with the National Bank of the Republic of Kazakhstan | 324,791             | 167,899           |
| Current accounts in banks, Tenge                              | 83,609              | 3,656             |
| Current accounts in banks, foreign currency                   | -                   | 97                |
| Petty cash  | 61,687              | 11,546            |
|   | <u>470,087</u>      | <u>183,198</u>    |
| Total   | <u>470,087</u>      | <u>183,198</u>    |

#### 15. SHARE CAPITAL

As at 31 December 2005 and 1 January 2005, share capital consists of authorized, issued and fully paid shares of 300,000 thousand tenge, which consist of 300,000 shares at par value of 1,000 tenge each.

#### 16. MINORITY INTEREST

As at 31 December 2005 and 1 January 2005, minority interest presented as follows:

|                         | 31 December<br>2005 | 1 January<br>2005 |
|-------------------------|---------------------|-------------------|
| Pavlodarenergy JSC      | 2,767,605           | 2,739,192         |
| Eximbank Kazakhstan JSC | 1,693,607           | 1,071,856         |
| Kaustik JSC             | 42,850              | -                 |
| Kokshe JSC              | -                   | 1,613             |
|                         | <u>4,504,062</u>    | <u>3,812,661</u>  |
| Total                   | <u>4,504,062</u>    | <u>3,812,661</u>  |

#### 17. BONDS ISSUED

In December 2005, Pavlodarenergyservice JSC, a subsidiary of Pavlodarenergy JSC, registered 20,000,000 outstanding coupon bonds for total amount of 2,000,000 thousand tenge with nominal value at 100 tenge, 9 per cent interest rate, semiannual coupon payments, and maturity of 5 years. As at 31 December 2005 the quantity of coupon bonds issued and placed was 5,000,000 for the total amount of 500,000 thousand tenge. Accrued expenses related to issuance of the bonds were 750 thousand tenge.

## 18. LONG-TERM DEBT

|                                 | Interest rate<br>% | Currency | 31 December<br>2005 | Interest rate<br>% | Currency | 1 January<br>2005 |
|---------------------------------|--------------------|----------|---------------------|--------------------|----------|-------------------|
| Eurasian Bank JSC               | 10.5%-12%          | USD      | 1,411,140           | 10.5%-12%          | USD      | 1,691,085         |
| Kreditanstalt Fur Wiederaufbau  | 2%                 | DM       | 73,741              | 2%                 | DM       | 52,770            |
| Small Business Development Fund | 5%                 | -        | 29,773              | 5%                 | USD      | 57,778            |
| World Bank                      | 4.59%              | USD      | 27,421              | 4.11%              | USD      | 32,029            |
| Astana Holding Corporation      | -                  | KZT      | 4,028               | -                  | KZT      | 4,028             |
| Credit Suisse First Boston Bank | -                  | -        | -                   | -                  | USD      | 487               |
| <b>Total</b>                    |                    |          | <b>1,546,103</b>    |                    |          | <b>1,838,177</b>  |

On 20 November 2002, CAFEC JSC has concluded agreement on credit line with Eurasian Bank JSC for 6,500,000 US Dollars for 5 years with initial interest rate of 12 per cent per annum and monthly repayment of principal amount. In November 2003 interest rate was decreased to 10.5%. In accordance with mortgage agreement #402 dated 20 November 2002 CAFEC JSC has pledged property, plant and equipment of Pavlodarenergy JSC for 2,026,769 thousand tenge.

In June 2004, Pavlodarenergy JSC attracted loan from Eurasian Bank JSC for 15,000,000 US Dollars with a maturity date at 7 June 2009. Initially interest rate was 10 per cent and as at 31 December 2005 interest rate was 12 per cent. The loan was taken for the purpose of upgrading property, plant and equipment of Pavlodarenergy JSC, increase of working capital and for refunding other debt obligations. According to the loan agreement principal amount is paid during the period from January till April and from October till December (in the period from May till September the principal amount is not paid), and interest is repaid on a quarterly basis. As at 31 December 2005 the loan was collateralized by property, plant and equipment of Pavlodarenergy JSC of 4,689,636 thousand tenge (1 January 2005: 4,755,777 thousand tenge).

On 26 April 1996, the Bank concluded a loan agreement with the Ministry of Finance of the Republic of Kazakhstan ("MFRK") under the credit line of the World Bank in the amount of 500,000 US Dollars. The loan was issued for purchasing computers, equipment, software tools and consulting services relating to the integration of computer technologies to be used in the Bank's operations. The loan is due for repayment on 1 September 2010. As at 31 December 2005 the outstanding balance was 27,421 thousand tenge (1 January 2005: 32,029 thousand tenge).

In 1995, the Bank signed a loan agreement with Kreditanstalt Fur Wiederaufbau (Frankfurt am Main, Germany) totaling 29,500,000 Deutsche Mark with an annual interest rate of 2 per cent for financing individual export contracts for the supply of goods and related services in Kazakhstan, to be concluded between buyers and exporters domiciled in the Federal Republic of Germany. This loan agreement is based on the resolutions of the Government of the Republic of Kazakhstan dated 14 July 1994 and 6 May 1996 on "Loans from German lending institutions". The Bank serves these projects within the framework of the agent agreement with MFRK dated 8 December 1998. The loan is due for repayment on 30 December 2026.

On 8 October 1999, the Bank entered into a loan agreement with the Small Business Development Fund for 1,000,000 US Dollars with an interest rate of 5% per annum. The loan was issued for further financing of OJSC Kazakhstan Tractor's project "Tractor production and its transfer to rural commodity producer on leasing conditions". The loan is due for repayment on 15 September 2006. In accordance with an addendum dated 17 March 2000 the interest rate was changed to 1 per cent. The amount of the principal outstanding from the Small Business Development Fund as at 31 December 2005 and 1 January 2005 is 29,773 thousand tenge and 57,778 thousand tenge, respectively (see Note 22).

The amount of non-interest financial leasing with maturity on 1 July 2007 received from Astana Holding Corporation as at 31 December 2005 and 1 January 2005 is 4,028 thousand tenge. Due to the fact that Astana Holding Corporation was bankrupt the Bank has not made any leasing payments since 2004. Moreover the Bank sold leasing property in 2004 according to Sale Agreements dated 14 May 2004.

The borrowings are repayable as follows:

|   | 31 December<br>2005 | 1 January<br>2005 |
|---|---------------------|-------------------|
| Within one year                         | 475,472             | 360,897           |
| In the second and fifth years inclusive | <u>1,070,631</u>    | <u>1,477,448</u>  |
| Total                                   | <u>1,546,103</u>    | <u>1,838,345</u>  |

## 19. FINANCE LEASE OBLIGATIONS

The Group has finance lease obligations in accordance with Finance Lease Agreement #18/1497.05 dated 2 April 2004 concluded with Astana-Finance JSC.

The lease term is 3 years with the borrowing rate of 14 per cent. Interest rate is fixed at the contract date. Lease payments are on a fixed basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Group's lease obligations approximates their carrying amount.

|   | Minimum lease<br>payments |                   | Present value of minimum<br>lease payments |                   |
|---|---------------------------|-------------------|--|-------------------|
|   | 31 December<br>2005       | 1 January<br>2005 | 31 December<br>2005                        | 1 January<br>2005 |
| Amounts payable under finance lease                 |                           |                   |  |                   |
| Within one year                                     | 14,388                    | 14,388            | 12,748                                     | 11,092            |
| In the second to fifth years inclusive              | <u>4,796</u>              | <u>19,184</u>     | <u>4,660</u>                               | <u>17,408</u>     |
|   | 19,184                    | 33,572            | 17,408                                     | 28,500            |
| Less: future finance charges                        | <u>(1,776)</u>            | <u>(5,072)</u>    | N/A  | N/A               |
| Present value of lease obligations                  | <u>17,408</u>             | <u>28,500</u>     | 17,408                                     | 28,500            |
| Less: Amount due for settlement<br>within 12 months |                           |                   | <u>(12,748)</u>                            | <u>(11,092)</u>   |
| Amount due for settlement after<br>12 months        |                           |                   | <u>4,660</u>                               | <u>17,408</u>     |

## 20. TRADE ACCOUNTS PAYABLE

As at 31 December 2005 and 1 January 2005, trade accounts payable consisted of the following:

|                           | 31 December<br>2005 | 1 January<br>2005 |
|---------------------------|---------------------|-------------------|
| For works and services    | 303,689             | 490,858           |
| For goods                 | 140,689             | 418,525           |
| For construction services | 44,826              | 270,686           |
| For maintenance           | 11,027              | 19,393            |
| Total                     | <u>500,231</u>      | <u>1,199,462</u>  |

## 21. CUSTOMER ACCOUNTS

As at 31 December 2005 and 1 January 2005, customer accounts consisted of the following:

|   | 31 December<br>2005 | 1 January<br>2005 |
|---|---------------------|-------------------|
| Short-term deposits                     | 1,722,973           | -                 |
| Repayable on demand                     | 175,566             | 100,372           |
| Deposit-guarantee                       | 1,319               | 1,286             |
| Accrued interest on short-term deposits | 23,106              | -                 |
| Total                                   | <u>1,922,964</u>    | <u>101,658</u>    |

## 22. SHORT-TERM DEBT

As at 31 December 2005 and 1 January 2005, short-term debt consisted of the following:

|  | Interest<br>rate<br>% | Cur-<br>rency | 31 December<br>2005 | Interest<br>rate<br>% | Cur-<br>rency | 1 January<br>2005 |
|--|-----------------------|---------------|---------------------|-----------------------|---------------|-------------------|
| Halyk Bank Kazakhstan JSC  | 14%                   | KZT           | 1,241,687           | -                     | -             | -                 |
| Texaka Bank Kazakhstan JSC   | 15%                   | KZT           | 621,257             | -                     | -             | -                 |
| Eurasian Bank JSC – current portion<br>(see Note 18)               | 10%                   | KZT           | 442,904             | 10%                   | USD           | 358,715           |
| Alliance Bank JSC  | 10%                   | USD           | 200,970             | -                     | -             | -                 |
| Halyk Bank Kazakhstan JSC  | 13%                   | KZT           | 78,000              | 14%                   | KZT           | 69,990            |
| Neftebank JSC  | 4%                    | KZT           | 38,250              | -                     | -             | -                 |
| Small Business Development Fund –<br>current portion (see Note 18) | 5%                    | USD           | 29,773              | 5%                    | USD           | 168               |
| Kreditanstalt Fur Wiederaufbau –<br>current portion (see Note 18)  | 2%                    | DM            | 2,795               | -                     | -             | -                 |
| Eurasian Bank JSC  | 11%                   | KZT           | 155                 | 11%                   | KZT           | 140               |
| Correspondent accounts   | -                     | KZT           | 20                  | -                     | -             | -                 |
| Eurasian Bank JSC  | -                     | KZT           | -                   | 10%                   | KZT           | 780,000           |
| Astana Holding Corporation – current<br>portion (see Note 18)      | -                     | KZT           | -                   | -                     | KZT           | 2,014             |
| Union Bank of Switzerland  | -                     | -             | -                   | -                     | KZT           | 1                 |
| Interest payable   | -                     | KZT           | 43,087              | -                     | KZT           | 14,192            |
| Total  |                       |               | <u>2,698,898</u>    |                       |               | <u>1,225,220</u>  |

The short term loan with Halyk Bank Kazakhstan JSC has been concluded by the Bank under a loan agreement dated 31 August 2005 of 1,241,687 thousand tenge with maturity date on 1 March 2006.

Energycenter JSC, which is subsidiary of Pavlodarenergy JSC, concluded with Texaka Bank Kazakhstan JSC short term loan agreement #29/09 dated 29 September 2005 and #17/10 dated 17 October 2005 with maturity date at 29 September 2006 and 17 October 2006, respectively. Repayment of principal made at the end of the loan term and repayment of interest on 29 date of each month.

On 5 July 2005, the Bank signed a Loan Agreement with Alliance Bank JSC (Kazakhstan) of 1,500,000 US Dollars with maturity date 5 July 2006.

### 23. ADVANCES RECEIVED

As at 31 December 2005 and 1 January 2005, advances received consisted mainly of advances received for electricity and heat, and other services.

### 24. TAXES PAYABLE

As at 31 December 2005 and 1 January 2005, taxes payable consisted of the following:

|                       | 31 December<br>2005 | 1 January<br>2005 |
|-----------------------|---------------------|-------------------|
| VAT                   | 263,073             | 386,282           |
| Penalty               | 207,853             | 137,987           |
| Social tax            | 49,816              | 38,434            |
| Corporate income tax  | 53,926              | 95,992            |
| Pension contributions | 28,654              | 40,227            |
| Personal income tax   | 32,471              | 21,418            |
| Environment tax       | 30,587              | 32,741            |
| Other                 | 10,924              | 20,614            |
|                       | <u>677,304</u>      | <u>773,695</u>    |
| Total                 |                     |                   |

### 25. OTHER LIABILITIES AND ACCRUED EXPENSES

As at 31 December 2005 and 1 January 2005, other liabilities and accrued expenses consisted of the following:

|  | 31 December<br>2005 | 1 January<br>2005 |
|--|---------------------|-------------------|
| Payable to employees                   | 157,112             | 150,766           |
| Payable for shares                     | 65,712              | 458,520           |
| Unused vacation reserves               | 64,436              | 56,622            |
| Financial support received             | 46,376              | 292,467           |
| Penalty                                | 17,001              | -                 |
| Accrued expenses                       | 15,618              | -                 |
| Provision for impairment contingencies | 6,943               | -                 |
| Insurance payable                      | 3,093               | -                 |
| Other                                  | 32,980              | 70,503            |
|  | <u>409,271</u>      | <u>1,028,878</u>  |
| Total                                  |                     |                   |

## 26. TAXES

The Group's income tax benefit for the year ended 31 December 2005 is presented below:

|                             | 2005            |
|-----------------------------|-----------------|
| Current income tax expense  | 23,435          |
| Deferred income tax benefit | <u>(32,108)</u> |
| Total income tax benefit    | <u>(8,673)</u>  |

The movements in deferred taxes during the year ended 31 December 2005 were as follows:

|  | 31 December<br>2005 | 1 January<br>2005  |
|--|---------------------|--------------------|
| <b>Deferred tax assets arising from:</b>         |                     |                    |
| Allowance for estimated irrecoverable amounts    | 238,551             | 555,157            |
| Loss carry forward                               | 128,347             | 137,834            |
| Taxes accrued, not paid                          | 58,994              | 10,344             |
| Unused vacation reserve                          | 16,929              | 13,606             |
| Other  | 5,366               | -                  |
|  | <u>448,187</u>      | <u>716,941</u>     |
| Valuation allowance                              | <u>(195,681)</u>    | <u>(332,275)</u>   |
| Total deferred tax assets                        | <u>252,506</u>      | <u>384,666</u>     |
| <b>Deferred tax liabilities arising from:</b>    |                     |                    |
| Carrying values of property, plant and equipment | (850,377)           | (1,015,189)        |
| Inventories                                      | (544)               | -                  |
| Total deferred tax liabilities                   | <u>(850,921)</u>    | <u>(1,015,189)</u> |
| Net deferred tax liability                       | <u>(598,415)</u>    | <u>(630,523)</u>   |
| Balance as at 1 January 2005                     |                     | (630,523)          |
| Decrease in deferred tax liability               |                     | <u>32,108</u>      |
| Balance as at 31 December 2005                   |                     | <u>(598,415)</u>   |

The income tax benefit for the year ended 31 December 2005 can be reconciled to the loss per the preliminary consolidated income statement as follows:

|  | 2005             |
|--|------------------|
| Profit before income tax:  |                  |
| Continuing operations  | 427,768          |
| Discontinued operations  | <u>(204,001)</u> |
|  | 223,767          |
| Tax at statutory tax rate of 30%                                 | 67,130           |
| Effect of lower tax rate (see Note 1)                            | (39,539)         |
| Change in allowance  | (136,594)        |
| Tax effect of permanent differences                              | <u>100,330</u>   |
| Income tax benefit   | <u>(8,673)</u>   |
| Income tax benefit reported in the consolidated income statement | (8,673)          |
| Income tax benefit attributable to a discontinued operation      | <u>-</u>         |
|  | <u>(8,673)</u>   |

## 27. REVENUE

Revenue for the year ended 31 December 2005 consisted of the following:

|  | 2005             |
|--|------------------|
| <b>Power production and other</b>          |                  |
| Sales of electricity                       | 4,533,006        |
| Sales of heat                              | 2,134,271        |
| Transmission of electricity                | 359,236          |
| Sale of chemical products                  | 175,380          |
| Sale of computer equipment                 | 72,013           |
| Income from rent services                  | 44,113           |
| Other                                      | <u>66,990</u>    |
|  | <u>7,385,009</u> |
| <b>Finance services</b>                    |                  |
| Interest on loans to customers             | 822,734          |
| Fee and commission income                  | 74,493           |
| Interest on loans and advances to banks    | 20,792           |
| Interest on investments available for sale | <u>120</u>       |
|  | <u>918,139</u>   |
| Total                                      | <u>8,303,148</u> |

## 28. COST OF SALES

Cost of sales for the year ended 31 December 2005 consisted of the following:

|   | 2005             |
|---|------------------|
| <b>Power production and other</b>               |                  |
| Fuel  | 1,739,874        |
| Payroll expenses and related taxes              | 1,316,728        |
| Inventories                                     | 918,394          |
| Services purchased                              | 903,821          |
| Depreciation and amortization                   | 828,377          |
| Electricity and heat purchased for own purposes | 696,856          |
| Electricity transmission                        | 11,764           |
| Other   | 235,213          |
|   | <u>6,651,027</u> |
| <b>Finance services</b>                         |                  |
| Interest on loans and advances from banks       | 110,274          |
| Interest on short-term deposits                 | 26,071           |
| Fee and commission expense                      | 14,066           |
| Interest on loans from the Government of the RK | 1,358            |
| Interest on loans from other organizations      | 431              |
|   | <u>152,200</u>   |
| Total   | <u>6,803,227</u> |

## 29. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended 31 December 2005 consisted of the following:

|   | 2005             |
|---|------------------|
| Payroll expenses and related taxes                                | 607,376          |
| Heat shortages  | 340,871          |
| Bad debt provision  | 207,259          |
| Taxes other than income tax                                       | 208,624          |
| Penalty and fines   | 131,406          |
| Depreciation and amortization                                     | 118,769          |
| Security  | 89,291           |
| Transportation  | 73,946           |
| Sponsorship and charity   | 60,093           |
| Professional fees   | 49,871           |
| Electricity shortages   | 40,935           |
| Telecommunications  | 30,106           |
| Inventories   | 23,692           |
| Bank charges  | 32,541           |
| VAT for heat and electricity shortages                            | 18,572           |
| Rent and maintenance  | 13,811           |
| Utilities   | 11,061           |
| Business trip expenses  | 4,560            |
| Unused vacation reserve   | 3,900            |
| Recovery of allowance for obsolete inventory                      | (3,402)          |
| Provision for guarantees  | (6,943)          |
| Recovery of allowance for other accounts receivable (see Note 13) | (995,191)        |
| Other   | 152,540          |
| Total   | <u>1,213,688</u> |

Heat and electricity shortages represent the cost of produced heat and electricity, which were lost during heat and electricity transmission through power networks due to technical reasons, theft or other reasons.

Recovery of allowance for other accounts receivable mainly relates to prepaid expenses, which represent assignments and mainly consist of notes payable given to the Bank by Adlet LLP and previously written off loans issued by the Bank to Turan LLP and Eurasian Finance Industrial Company JSC.

### 30. SELLING EXPENSES

Selling expenses for the year ended 31 December 2005 consisted of the following:

|                                    | 2005           |
|------------------------------------|----------------|
| Payroll expenses and related taxes | 227,092        |
| Transportation                     | 47,308         |
| Depreciation and amortization      | 12,557         |
| Inventories                        | 11,264         |
| Advertising and marketing          | 10,975         |
| Security expenses                  | 10,547         |
| Rent expenses                      | 8,910          |
| Communication expenses             | 7,266          |
| Business trip expenses             | 5,204          |
| Advertising and marketing expenses | 3,256          |
| Other                              | 2,914          |
| Total                              | <u>347,293</u> |

### 31. OTHER OPERATING INCOME

Other operating income for the year ended 31 December 2005 consisted of income from fines for noncompliance with contracts terms related to excess electricity and heat use, which was accrued by the Group on the basis of decisions of courts.

### 32. OTHER INCOME, NET

Other income, net for the year ended 31 December 2005 consisted of the following:

|   | 2005           |
|---|----------------|
| Gain on sales of inventories, net                       | 92,109         |
| Gain on property, plant and equipment disposal          | 24,686         |
| Income from construction-and-assembling operations      | 20,329         |
| Income from subsidiary                                  | 11,319         |
| Income from storage services                            | 8,959          |
| Income from accounts payable write off                  | 4,465          |
| Income from sublease agreement                          | 3,296          |
| Surplus from property, plant and equipment verification | 1,333          |
| Other income, net                                       | 16,530         |
| Total   | <u>183,026</u> |

### 33. GAIN ON DISPOSAL OF AN INTEREST IN A SUBSIDIARY

Gain on disposal of an interest in a subsidiary for the year ended 31 December 2005 consisted of the following:

|                          | 2005             |
|--------------------------|------------------|
| Sale of investments      | 674,884          |
| Cost of investments sold | <u>(328,841)</u> |
| Total                    | <u>346,043</u>   |

In October 2005 the Group decided to sell 40 per cent of shares in Kaustik JSC. As at 31 December 2005 the Group sold 46,154 shares of the total number of authorized, issued and fully paid shares Kaustik JSC.

In December 2005 the Group decided to sell 40 per cent of shares in Pavlodarenergyservice JSC through placement at Kazakhstan Stock Exchange. As at 31 December 2005 the Group sold 76,260 shares that is 7.5 per cent of the total number of authorized, issued and fully paid shares Pavlodarenergyservice JSC.

### 34. INTEREST EXPENSES

Interest expenses for the year ended 31 December 2005 consisted of interest expenses charged by banks as follows:

|                            | 2005           |
|----------------------------|----------------|
| Eurasian Bank JSC          | 154,046        |
| Texaka Bank Kazakhstan JSC | 23,958         |
| Halyk Bank Kazakhstan JSC  | 8,418          |
| Other                      | <u>4,324</u>   |
| Total                      | <u>190,746</u> |

### 35. LOSS FROM DISCONTINUED OPERATIONS

On 31 October 2005 the Group's Board of Directors approved a decision to dispose of 99.41% interest in the share capital of Kokshe JSC. The company is engaged in radio equipment resale business.

The loss from discontinued operations of Kokshe JSC for the year ended 31 December 2005 is analyzed as follows:

|                            | 2005           |
|----------------------------|----------------|
| Net loss of the subsidiary | 5,673          |
| Loss on disposal           | <u>198,328</u> |
| Total                      | <u>204,001</u> |

The results of Kokshe JSC operations for the period from 1 January 2005 till the date of their disposal on 31 October 2005 were as follows:

|                                     | Period ended<br>31 October<br>2005 |
|-------------------------------------|------------------------------------|
| Sales                               | 47,347                             |
| Cost of sales                       | <u>(34,879)</u>                    |
| Gross margin                        | 12,468                             |
| General and administrative expenses | <u>(18,577)</u>                    |
| Operating loss                      | (6,109)                            |
| Other income                        | <u>436</u>                         |
| Net loss before taxation            | (5,673)                            |
| Income tax expense                  | <u>-</u>                           |
| Net loss                            | <u>(5,673)</u>                     |

Net assets disposed of Kokshe JSC as at 31 October 2005 and 1 January 2005 are as follows:

|  | 31 October<br>2005 | 1 January<br>2005 |
|--|--------------------|-------------------|
| <b>ASSETS:</b>   |                    |                   |
| Property, plant and equipment and intangible assets, net | 369,716            | 404,944           |
| Inventories  | 23,255             | 16,729            |
| Trade debtors of subsidiaries                            | 27,310             | 32,238            |
| Advances paid  | 3,489              | 3,902             |
| Other assets   | 132                | 328               |
| Cash and cash equivalents                                | 3,796              | 1,018             |
| <b>LIABILITIES:</b>                                      |                    |                   |
| Loans from banks   | (5,000)            | (10,010)          |
| Trade creditors of subsidiaries                          | (175,474)          | (175,155)         |
| Taxes payable  | (2,363)            | (130)             |
| Other liabilities  | <u>(1,743)</u>     | <u>(478)</u>      |
| Net assets   | 243,118            | <u>273,386</u>    |
| Minority interest  | (1,613)            |                   |
| Cash received  | -                  |                   |
| Total consideration deferred                             | <u>(43,177)</u>    |                   |
| Loss on disposal of a subsidiary                         | <u>(198,328)</u>   |                   |
| Total consideration satisfied by:                        |                    |                   |
| Receivable on disposal                                   | 43,177             |                   |
| Cash received  | <u>-</u>           |                   |
| Total consideration deferred                             | <u>43,177</u>      |                   |

### 36. RELATED PARTIES BALANCES AND TRANSACTIONS

The related parties of the Group include shareholders of the Group and their subsidiaries, associated companies by means of common control of the shareholders or entities over which the Group or its shareholders have significant control, and the key management personnel.

Transactions between the Company and its subsidiaries are excluded upon consolidation and not presented in this Note.

During 2005 the Group has significant operations with the following related parties:

| Name of the related party | Relationship       |
|---------------------------|--------------------|
| CapitalImportCorp LLP     | Associated company |
| ATP Energetic LLP         | Associated company |
| Energyinvest-PV LLP       | Associated company |
| MacCentre Kazakhstan LLP  | Associated company |
| JSC Kokshe                | Associated company |
| Enter-Unit LLP            | Associated company |

As at 31 December 2005 and 1 January 2005 and for the year ended 31 December 2005, the Group had the following significant balances and transactions outstanding with related parties:

#### *Trade accounts receivable*

|                   | 31 December<br>2005 | 1 January<br>2005 |
|-------------------|---------------------|-------------------|
| ATP Energetic LLP | 111,172             | 135,616           |
| JSC Kokshe        | 5,827               | 173,486           |
| Enter-Unit LLP    | 233                 | 622               |
| Total             | <u>117,232</u>      | <u>309,724</u>    |

#### *Advances paid*

|                   | 31 December<br>2005 | 1 January<br>2005 |
|-------------------|---------------------|-------------------|
| ATP Energetic LLP | 59,880              | 30,176            |
| Total             | <u>59,880</u>       | <u>30,176</u>     |

#### *Finance lease receivables*

|   | 31 December<br>2005 | 1 January<br>2005 |
|---|---------------------|-------------------|
| ATP Energetic LLP:  |                     |                   |
| Finance lease receivable within one year                        | 17,428              | 15,771            |
| Finance lease receivable in the second to fifth years inclusive | 6,219               | 23,647            |
| Total   | <u>23,647</u>       | <u>39,418</u>     |

#### *Trade accounts payable*

|                   | 31 December<br>2005 | 1 January<br>2005 |
|-------------------|---------------------|-------------------|
| ATP Energetic LLP | 440                 | -                 |
| Total             | <u>440</u>          | <u>-</u>          |

***Purchases of inventories***

|                   | 2005                |
|-------------------|---------------------|
| Energyinvest LLP  | 1,562               |
| ATP Energetic LLP | <u>62</u>           |
| Total             | <u><u>1,624</u></u> |

***Purchases of property, plant and equipment***

|   | 2005                  |
|---|-----------------------|
| Tank-truck                                      | 109,520               |
| Passenger cars                                  | 13,760                |
| Metal room-doors                                | 1,809                 |
| Property, plant and equipment: lap top computer | 429                   |
| Vehicles  | <u>8,726</u>          |
| Total   | <u><u>134,244</u></u> |

Included in the preliminary consolidated income statement for the year ended 31 December 2005 are the following amounts which arose due to transactions with related parties:

***Other income***

|                              | 2005                 |
|------------------------------|----------------------|
| Sale of shares of JSC Kokshe | 43,343               |
| ATP Energetic LLP            | <u>9,276</u>         |
| Total                        | <u><u>52,619</u></u> |

***Cost of sales***

|                                | 2005                 |
|--------------------------------|----------------------|
| Cost of JSC Kokshe shares sold | <u>36,639</u>        |
| Total                          | <u><u>36,639</u></u> |

***Key personnel of the Group***

During 2005 the compensation to the members of the Board of directors and other members of key management of the Group, which consisted of 8 people, was 102,176 thousand tenge (2004: 62,369 thousand tenge).

**37. TRANSITION TO IFRS**

The Group's transition date for the first time adoption of IFRS is 1 January 2005, except for the Bank, which is the date of transition to IFRS was prior to the Group's. Below is the reconciliation of the latest KAS consolidated balance sheet to the IFRS opening preliminary consolidated balance sheet.

**Reconciliation of preliminary consolidated balance sheet as at 1 January 2005:**

|  | Notes | KAS               | Effect of transfer to IFRS | IFRS              |
|--|-------|-------------------|----------------------------|-------------------|
| <b>ASSETS</b>  |       |                   |                            |                   |
| <b>NON-CURRENT ASSETS:</b>                                 |       |                   |                            |                   |
| Property, plant and equipment, net                         | 4     | 10,198,208        | 2,715,259                  | 12,913,467        |
| Goodwill, net  | 5     | 2,475,955         | (1,747,924)                | 728,031           |
| Intangible assets, net                                     | 6     | 17,841            | -                          | 17,841            |
| Investments  |       | 90                | -                          | 90                |
| Finance lease receivables                                  | 7     | -                 | 23,647                     | 23,647            |
| Loans to customers   | 8     | 2,227,233         | -                          | 2,227,233         |
| Advances paid for acquisition of non-current assets        | 12    | -                 | 1,665                      | 1,665             |
| <b>Total non-current assets</b>                            |       | <b>14,919,327</b> | <b>992,647</b>             | <b>15,911,974</b> |
| <b>CURRENT ASSETS:</b>                                     |       |                   |                            |                   |
| Inventories, net   | 9     | 819,384           | 180,977                    | 1,000,361         |
| Investments  | 10    | 279               | -                          | 279               |
| Loans to customers   | 8     | 945,476           | -                          | 945,476           |
| Trade accounts receivable, net                             | 11    | 2,093,648         | (101,559)                  | 1,992,089         |
| Advances paid, net   | 12    | 8,635             | 733,258                    | 741,893           |
| Taxes recoverable and prepaid                              |       | 2,490             | 3,768                      | 6,258             |
| Finance lease receivables                                  | 7     | -                 | 15,771                     | 15,771            |
| Other accounts receivable, net                             | 13    | 2,196,600         | (673,366)                  | 1,523,234         |
| Cash and cash equivalents                                  | 14    | 183,198           | -                          | 183,198           |
| <b>Total current assets</b>                                |       | <b>6,249,710</b>  | <b>158,849</b>             | <b>6,408,559</b>  |
| <b>TOTAL ASSETS</b>  |       | <b>21,169,037</b> | <b>1,151,496</b>           | <b>22,320,533</b> |
| <b>EQUITY AND LIABILITIES</b>                              |       |                   |                            |                   |
| <b>EQUITY</b>  |       |                   |                            |                   |
| Share capital  | 15    | 300,000           | -                          | 300,000           |
| Retained earnings  |       | 7,168,462         | 3,893,318                  | 11,061,780        |
| <b>Equity attributable to equity holders of the parent</b> |       | <b>7,468,462</b>  | <b>3,893,318</b>           | <b>11,361,780</b> |
| Minority interest  | 16    | 3,812,661         | -                          | 3,812,661         |
| <b>Total equity</b>  |       | <b>11,281,123</b> | <b>3,893,318</b>           | <b>15,174,441</b> |
| <b>NON-CURRENT LIABILITIES:</b>                            |       |                   |                            |                   |
| Long-term debt   | 18    | 1,477,448         | -                          | 1,477,448         |
| Finance lease obligations                                  | 19    | -                 | 17,408                     | 17,408            |
| Deferred tax liability, net                                | 26    | 7,942             | 622,581                    | 630,523           |
| Negative goodwill  |       | 3,265,729         | (3,265,729)                | -                 |
| Other non-current assets                                   |       | 1,286             | -                          | 1,286             |
| <b>Total non-current liabilities</b>                       |       | <b>4,752,405</b>  | <b>(2,625,740)</b>         | <b>2,126,665</b>  |
| <b>CURRENT LIABILITIES:</b>                                |       |                   |                            |                   |
| Trade accounts payable                                     | 20    | 1,174,851         | 24,611                     | 1,199,462         |
| Customer accounts  | 21    | 101,658           | -                          | 101,658           |
| Short-term debt  | 22    | 1,211,028         | 14,192                     | 1,225,220         |
| Advances received  | 23    | 490,116           | 189,306                    | 679,422           |
| Taxes payable  | 24    | 22,141            | 751,554                    | 773,695           |
| Finance lease obligations                                  | 19    | -                 | 11,092                     | 11,092            |
| Other liabilities and accrued expenses                     | 25    | 2,135,715         | (1,106,837)                | 1,028,878         |
| <b>Total current liabilities</b>                           |       | <b>5,135,509</b>  | <b>(116,082)</b>           | <b>5,019,427</b>  |
| <b>TOTAL EQUITY AND LIABILITIES</b>                        |       | <b>21,169,037</b> | <b>1,151,496</b>           | <b>22,320,533</b> |

Substantially all IFRS transition adjustments relate to revaluation of property, plant and equipment, valuation of goodwill and reclassifications in presentation of preliminary consolidated financial statements in accordance with IFRS.

### 38. FAIR VALUE OF FINANCIAL INSTRUMENTS

Disclosure of estimated fair values of financial instruments is made in accordance with the requirements of IAS 32 "Financial instruments: Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount for which the instrument can be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available market exists for a part of the Group financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

As at 31 December 2005 and 1 January 2005 the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

*Cash and cash equivalents* – carrying amount of cash and cash equivalent balances represents their fair value.

*Trade and other accounts receivable* – The carrying amount of trade and other accounts receivable is considered a reasonable estimate of their fair value as the allowance for estimated irrecoverable amounts is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

*Long-term debt* – The carrying amount of long-term debt is considered a reasonable estimate of their fair value as the nominal interest rate on long-term debt is considered to be a reasonable approximation of the fair market rate with reference to loans with similar credit risk level and maturity period at the reporting date.

*Cash and balances with the NBRK* – For these short-term instruments the carrying amount is a reasonable estimate of fair value.

*Loans and advances to banks* – For these assets, the carrying amount is a reasonable estimate of fair value.

*Loans to customers* – The fair value of the loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The estimation of the provision for impairment losses includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates the economic situation of each borrower and guarantees obtained. Accordingly, the provision for impairment losses is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

### 39. RISK MANAGEMENT POLICIES

Management of risk is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to credit risk exposures, market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows.

**Credit risk** – The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one customer, or groups of customers. Limits on the level of credit risk by customer are approved monthly by the management of the Group.

**Liquidity risk** – Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

**Interest rate risk** – Interest rate risk of the Group relates to issued bonds and is the risk that the value of bonds will fluctuate due to changes in market interest rates. The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Budget-Economy Department conducts monitoring of the Group's current consolidated financial performance, estimates the Group's sensitivity to changes in fair value interest rates and its influence on the Group's profitability.

**Currency risk** – Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group does not hedge its currency risks.

#### 40. COMMITMENTS AND CONTINGENCIES

In the normal course of business the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove value less, is represented by the contractual amounts of those instruments.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance sheet lending.

The risk-weighted amount is obtained by applying credit conversion factors and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

As at 31 December 2005 and 1 January 2005 the nominal or contractual amounts and the risk weighted credit equivalents of instruments with off-balance sheet risks were:

|                   | 31 December 2005 |                      | 1 January 2005 |                      |
|-------------------|------------------|----------------------|----------------|----------------------|
|                   | Nominal amount   | Risk weighted amount | Nominal amount | Risk weighted amount |
| Guarantees issued | 235,722          | 235,722              | 6,685          | 6,685                |

**Agency agreements** – The Group served the credit lines received by Government of the Republic of Kazakhstan from international financial institutions within intergovernmental credit agreements. The Group may incur losses as a result of untimely official notification by the MFRK about the borrower's failure to undertake its liabilities. Upon the Group's acquisition in 2004 by private enterprises the Group's management started the process of transferring some bad debts and related liabilities to a newly-established State Rehabilitation Fund.

**Legal issues** – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

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

In particular, taxes are subject to review and investigation by a number of authorities enabled by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create tax risks for the Group.

**Pensions and retirement plans** - In accordance with the Law of the Republic of Kazakhstan "On Pension provisioning in the Republic of Kazakhstan" dated 20 June 1997, the Group transfers pension contributions of employees to the accumulating pension funds in prescribed size of employees salaries in the appropriate terms. As at 31 December 2005 and 1 January 2005 the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

**Environment protection matters** – The Group believes it is currently in compliance with all existing Republic of Kazakhstan environmental laws and regulations. However, Kazakhstan environmental laws and regulations may change in the future. The Group is unable to predict the timing or extent to which these environmental laws and regulations may change. Such change, if it occurs, may require the Group to modernize technology to meet more stringent standards.

#### 41. EVENTS AFTER THE BALANCE SHEET DATE

##### *Shareholders of Pavlodarenergyservice JSC*

On 30 March 2006, shareholders of Pavlodarenergyservice JSC made a decision on increase of the number of authorized shares by splitting off 1/10 and on additional emission of 2,016,400 shares. The split increased number of authorized shares from 1,008,200 shares to 10,082,000 shares; however the value of share capital was not increased. The split and additional emission of shares require state registration.

The structure of shareholders of Pavlodarenergyservice JSC as at 31 August 2006 was as follows:

|  | 31 August<br>2006 | 31 December<br>2005 |
|--|-------------------|---------------------|
| Pavlodarenergy JSC                     | 81.02%            | 100.00%             |
| Accumulated pension fund Korgau JSC    | 6.75%             | -                   |
| Accumulated pension fund Kazakhmys JSC | 6.17%             | -                   |
| Others                                 | 6.06%             | -                   |
|  | <hr/>             | <hr/>               |
| Total                                  | 100.00%           | 100.00%             |

##### *Contribution to the share capital of Pavlodarskie Teplovye Seti JSC*

In accordance with Option Agreement #4311.04 dated 31 August 2006 Pavlodarenergy JSC contributed heat network to the share capital of Pavlodarskie Teplovye Seti JSC. Net book value of contributed assets is 529,561 thousand tenge.

### *Assets under trust management*

In accordance with Agreement on trust management of state property #76 dated 27 September 2006 concluded between Finance Department of Pavlodar oblast, Finance Department of Pavlodar city and Pavlodarskie Teplovye Seti JSC, the right of trust management of heat and hot water supply utilities with carrying value of 2,107,817 thousand tenge was transmitted from Pavlodarenergy JSC to Pavlodarskie Teplovye Seti JSC. Agreement was concluded for the period of 5 years with the option of further prolongation. Ownership for assets under trust management will remain at Pavlodar city administration.

The Agreements on trust management of state property, which were concluded in 2001, 2002 and 2003 between Pavlodarenergy JSC and Pavlodar city administration were dissolved.

### *Registration by the Agency on regulation of natural monopolies*

By the resolution of the Agency on regulation of natural monopolies #44-OD "On amendments to the resolution of Chairman of the Agency on regulation of natural monopolies #16-OD "On the state register of natural monopolies" as at 15 February 2006 and in accordance with amendments to the law of the Republic of Kazakhstan "On natural monopolies" Energycenter JSC is included into the state register of natural monopolies for supply of heat.

### *Changes in tariffs*

In 2006, tariffs for services provided by the Group increased in average as follows: electricity – 7-19 per cent, steam – 13-27 per cent, hot water – 5-40 per cent, transportation of heat – 3-9 per cent, transportation of electricity – 14-100 per cent.

### *Bonds issued*

In 2006 Pavlodarenergyservice JSC placed another 145,200,000 coupon bonds (see Note 17) for total amount of 1,452,000 thousand tenge with nominal value at 100 tenge, interest rate 9 per cent, semiannual coupon payments, and maturity of 5 years. Accrued expenses for 8 months of 2006 totaled to 119,298 thousand tenge.

### *Bank loans*

#### *Pavlodarenergy JSC*

In April 2006 Pavlodarenergy JSC refinanced a part of loan of 649,193 thousand tenge under the Bank loan agreement #26/1753.10 dated 7 June 2004 which were concluded with Eurasian Bank JSC by obtaining a loan of 650,000 thousand tenge under 11 per cent interest rate from Eximbank Kazakhstan JSC. According to the loan agreement with Eximbank Kazakhstan JSC principal amount is paid during the period from January till April and from October till December (in the period from May till September the principal amount is not paid), and interest is repaid on a monthly basis. The loan is secured with cash of 650,000 thousand tenge under the Cash Collateral Agreement #01Dog/96 dated 7 April 2006, which was concluded between Pavlodarenergy JSC, Pavlodarenergyservice JSC, and Eximbank Kazakhstan JSC.

#### *Energycenter JSC*

In March 2006 Energycentre JSC repaid short-term loans of 540,607 thousand tenge under the Bank Loan Agreements #29/09 dated 29 September 2005 and #17/10 dated 17 October 2005, which were concluded with Texaka Bank Kazakhstan JSC (see Note 22).

In accordance with Bank Loan Agreement #01/81 dated 29 March 2006 concluded with Eximbank Kazakhstan JSC Energycenter JSC obtained long-term loan of 500,000 thousand tenge. Maturity date is 29 March 2009 and interest rate is 11 per cent. The loan is secured with cash of 650,000 thousand tenge under the Cash Collateral Agreement #01Dog/82 dated 29 March 2006 which was concluded between Energycenter JSC, Pavlodarenergyservice JSC, and Eximbank Kazakhstan JSC.

#### **42. CONCENTRATION OF BUSINESS RISK**

The Group's business activities are within the Republic of Kazakhstan. Laws and regulations affecting businesses operating in the Republic of Kazakhstan are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.