Translation from the original in Russian

JOINT STOCK COMPANY CENTRAL ASIAN FUEL ENERGY COMPANY AND ITS SUBSIDIARIES

Consolidated
Financial Statements
For the year ended December 31, 2006

and 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 CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Joint Stock Company Central Asian Fuel Energy Company ("CAFEC") (hereafter – the "Company") and its subsidiaries (hereafter – jointly the "Group").

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of the Group as of December 31, 2006, the consolidated results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

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

- 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 consolidated financial statements; and
- Preparing the 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 consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation 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, errors and other irregularities.

The consolidated financial statements for the year ended December 31, 2006 were authorized for issue on July 5, 2007 by the Management of the Group.

On behalf of the Management of the Group:

Artambayeva G. D.	**Kabdrakhmanova P. O.**
President	**Chief Accountant**
July 5, 2007	July 5, 2007

Translation from the original in Russian

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of Joint Stock Company Central Asian Fuel Energy Company:

We have audited the accompanying consolidated financial statements of Joint Stock Company Central Asian Fuel Energy Company (hereafter – the "Company") and its subsidiaries (hereafter – jointly the "Group"), which comprise the consolidated balance sheet as of December 31, 2006, the consolidated income statement, and the statements of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (the "consolidated financial statements").

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated financial position of the Group as of December 31, 2006, and its consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matters

Without qualifying our opinion, we draw attention to Note 44 to the consolidated financial statements which discloses the Group's significant operations with related parties on terms that might not be necessarily available to third parties.

Tatyana Gutova
Engagement Partner
Qualified auditor
Qualification certificate #0000314,
Republic of Kazakhstan

Deloitte, LLP
Audit license for Republic of Kazakhstan #0000015,
type MFU - 2, issued by the Ministry of Finance of the
Republic of Kazakhstan dated September 13, 2006.

Nurlan Bekenov
General Director
Deloitte, LLP

July 5, 2007
Almaty, Republic of Kazakhstan

Translation from the original in Russian

JOINT STOCK COMPANY CENTRAL ASIAN FUEL ENERGY COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2006
(in thousands of tenge)

	Notes	2006	2005
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	6	12,370,080	11,759,326
Goodwill	7	706,208	692,102
Intangible assets	8	36,003	28,868
Investments		37,557	1,281
Finance lease receivables	9	-	6,219
Loans to customers	10	10,007,335	3,687,312
Advances paid for acquisition of non-current assets	14	1,619,150	145,806
Other non-current assets	11	203,623	173,987
Total non-current assets		24,979,956	16,494,901
CURRENT ASSETS:			
Inventories	12	805,770	878,025
Current portion of loans to customers	10	5,360,210	2,880,938
Trade accounts receivable	13	834,241	907,627
Advances paid	14	919,841	932,071
Taxes recoverable and prepaid	15	103,870	52,737
Current portion of finance lease receivables	9	6,219	17,428
Other accounts receivable	16	632,080	2,118,250
Investments	17	1,788,338	500,001
Cash and cash equivalents	18	1,310,988	470,087
Assets held for sale	19	337,208	-
Total current assets		12,098,765	8,757,164
TOTAL ASSETS		37,078,721	25,252,065
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	20	300,000	300,000
Revaluation reserve		39,907	-
Retained earnings		13,453,712	11,238,338
Equity attributable to equity holders of the Parent		13,793,619	11,538,338
Minority interest	21	5,856,833	4,504,062
Total equity		19,650,452	16,042,400

JOINT STOCK COMPANY CENTRAL ASIAN FUEL ENERGY COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (CONTINUED) AS OF DECEMBER 31, 2006

(in thousands of tenge)

	Notes	2006	2005
NON-CURRENT LIABILITIES:			
Bonds issued	22	6,268,385	500,000
Long-term loans	23	575,055	1,070,631
Finance lease obligations	24	7,861	4,660
Deferred tax liabilities	25	1,037,289	598,415
Customer accounts	26	1,857,174	-
Subordinated debt	27	1,818,128	-
Other non-current liabilities	28	48,730	-
Total non-current liabilities		11,612,622	2,173,706
CURRENT LIABILITIES:			
Trade accounts payable	29	983,429	500,231
Current portion of customer accounts	26	2,067,978	1,922,964
Short-term loans and current portion of long-term loans	30	865,954	2,698,898
Advances received	31	485,473	768,045
Taxes and non-budget payable	32	898,350	723,802
Current portion of finance lease obligations	24	10,647	12,748
Other liabilities and accrued expenses	33	342,409	409,271
Liabilities directly associated with assets held for sale	19	161,407	-
Total current liabilities		5,815,647	7,035,959
TOTAL EQUITY AND LIABILITIES		37,078,721	25,252,065

On behalf of Group Management

Artambayeva G. D.
President

July 5, 2007

Kabdrakhmanova P. O.
Chief Accountant

July 5, 2007

The notes on pages 10-68 form an integral part of these consolidated financial statements. Independent Auditors' Report is on pages 2-3.

Translation from the original in Russian

JOINT STOCK COMPANY CENTRAL ASIAN FUEL ENERGY COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2006

(in thousands of tenge)

	Notes	2006	2005
CONTINUING OPERATIONS			
REVENUE			
Electricity and heat production and other	34	8,541,091	7,385,009
Finance services	34	1,782,688	918,139
		10,323,779	8,303,148
COST OF SALES			
Electricity and heat production and other	35	(8,215,640)	(6,947,845)
Finance services	35	(314,871)	(152,200)
		(8,530,511)	(7,100,045)
GROSS PROFIT		1,793,268	1,203,103
General and administrative expenses	36	(1,649,042)	(916,870)
Selling expenses	37	(316,623)	(347,293)
Recovery of provision/(provision) for losses on loans to customers	10	1,177,076	(140,917)
Other operating income	38	116,522	267,671
OPERATING INCOME		1,121,201	65,694
Other income, net	39	1,799,066	183,026
Gain on disposal of an interest in a subsidiary	40	775,258	346,043
Foreign exchange (loss)/gain, net		(32,292)	23,751
Finance costs	41	(295,847)	(190,746)
Net gain on recognition of financial assets at fair value through profit or loss	42	551,216	-
PROFIT FROM OPERATIONS BEFORE INCOME TAX		3,918,602	427,768
INCOME TAX (EXPENSE)/BENEFIT	25	(991,841)	8,673
PROFIT FROM CONTINUING OPERATIONS		2,926,761	436,441
Profit/(loss) for the year from discontinued operations	43	12,623	(204,001)
PROFIT FOR THE YEAR		2,939,384	232,440
Attributable to:			
Equity holders of the Parent		2,215,374	176,558
Minority interest		724,010	55,882
		2,939,384	232,440

On behalf of Group Management:

Artambayeva G. D.
President

July 5, 2007

Kabdrakhmanova P. O.
Chief Accountant

July 5, 2007

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JOINT STOCK COMPANY CENTRAL ASIAN FUEL ENERGY COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2006

(in thousands of tenge)

	Share capital	Revaluation reserve	Retained earnings	Equity attributable to equity holders of the Parent	Minority interest	Total equity
Balance as of January 1, 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 (see Note 20)	-	-	-	-	(16,116)	(16,116)
Profit for the year	-	-	176,558	176,558	55,882	232,440
Balance as of December 31, 2005	300,000	-	11,238,338	11,538,338	4,504,062	16,042,400
Revaluation of property, plant and equipment taking into account tax effect of 23,489 thousand tenge (see Note 6)	-	39,907	-	39,907	14,933	54,840
Disposal of subsidiaries	-	-	-	-	(42,621)	(42,621)
Disposal of shares	-	-	-	-	689,499	689,499
Dividends declared	-	-	-	-	(33,050)	(33,050)
Profit for the year	-	-	2,215,374	2,215,374	724,010	2,939,384
Balance as of December 31, 2006	300,000	39,907	13,453,712	13,793,619	5,856,833	19,650,452

On behalf of Group Management:

Artambayeva G. D.
President

July 5, 2007

Kabdrakhmanova P. O.
Chief Accountant

July 5, 2007

The notes on pages 10-68 form an integral part of these consolidated financial statements. Independent Auditors' Report is on pages 2-3.

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JOINT STOCK COMPANY CENTRAL ASIAN FUEL ENERGY COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2006

(in thousands of tenge)

	Notes	2006	2005
OPERATING ACTIVITIES:			
Profit before income tax		3,931,225	223,767
Adjustments for:			
Depreciation and amortization	6, 8	1,014,263	959,703
Finance costs	41	295,847	190,746
Disposal of subsidiaries		83,777	-
Accrual of provision for doubtful debts	36	71,385	207,259
Foreign exchange loss/(gain)		32,292	(23,751)
Loss/(gain) on disposal of property, plant and equipment	39	8,271	(24,686)
Recovery of provision for guarantees	36	-	(6,943)
(Recovery of provision)/provision for loans to customers	10	(1,177,076)	140,917
Gain on disposal of investments	40	(775,258)	(346,043)
Net gain on recognition of financial assets at fair value though profit or loss	42	(551,216)	-
Recovery of provision for other non-current assets	36	(455,736)	(995,191)
Revaluation		(78,329)	-
Recovery of provision for obsolete inventory	36	(10,472)	(3,402)
Cash flows from operating activities before changes in operating assets and liabilities		2,388,973	322,376
(Increase)/decrease in inventories		(120,758)	102,483
Decrease in trade accounts receivable		51,345	852,563
Decrease/(increase) in advances paid		14,537	(196,337)
(Increase)/decrease in taxes recoverable and prepaid		(93,117)	19
Decrease in other accounts receivable		1,859,796	276,342
Increase/(decrease) in trade accounts payable		591,395	(523,757)
(Decrease)/increase in advances received		(282,572)	88,623
Increase/(decrease) in taxes and non-budget payable		243,285	(82,210)
Decrease in other liabilities and accrued expenses		(1,617)	(619,150)
Cash from operating activities		4,651,267	220,952
Income tax paid		(621,726)	(67,361)
Interest paid		(215,686)	(161,851)
Net cash generated by/(used in) operating activities		3,813,855	(8,260)
INVESTING ACTIVITIES:			
Proceeds from sale of investments		1,845,667	457,696
Proceeds from disposal of subsidiary		69,000	(3,796)
Proceeds from disposal of property, plant, and equipment		56,682	1,350,588
Proceeds from investments		31,542	-
Interest received		26,967	-
Proceeds from finance lease		17,428	15,771
Proceeds from disposal of intangible assets		11,209	-
Loans to customers		(7,622,219)	(3,536,458)
Purchases of non-current assets		(1,687,254)	(798,201)
Advances paid for acquisition of non-current assets		(1,473,344)	(144,141)
Purchases of investments		(1,311,576)	(500,913)
Purchases of intangible assets		(25,700)	(15,849)
Assets available for sale		(167)	-
Net cash used in investing activities		(10,061,765)	(3,175,303)

JOINT STOCK COMPANY CENTRAL ASIAN FUEL ENERGY COMPANY AND ITS SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2006

(in thousands of tenge)

	Notes	2006	2005
FINANCING ACTIVITIES:			
Proceeds from issuance of bonds		5,691,965	500,000
Customer accounts		2,002,188	1,821,306
Subordinated debt		1,818,128	-
Proceeds from borrowings		1,236,579	1,478,678
Repayment of finance lease obligations		1,100	(11,092)
Borrowings repaid		(3,597,391)	(302,324)
Dividends paid		(33,050)	(16,116)
Payment of bonds		(20,869)	-
Other non-current assets		(9,839)	-
Net cash generated by financing activities		7,088,811	3,470,452
NET INCREASE IN CASH AND CASH EQUIVALENTS		840,901	286,889
CASH AND CASH EQUIVALENTS at the beginning of year	18	470,087	183,198
CASH AND CASH EQUIVALENTS at the end of year	18	1,310,988	470,087

Non-cash transactions:

- In 2006 the Group conducted an overhaul of property, plant and equipment and capitalized payroll expenses and expenses on materials of 7,205 thousand tenge and 25,475 thousand tenge, respectively (2005: nil).
- In 2006 the Group settled withholding tax liability by an offset against other accounts receivable and interest accrued of 13,800 thousand tenge and 149 thousand tenge, respectively (2005: nil).
- In 2006 the Group settled interest on bonds by an offset against other accounts receivable of 278 thousand tenge (2005: nil).
- In 2006 the Group amortized a discount on issued bonds of 1,773 thousand tenge (2005: nil).
- During 2006 the Group received construction work in progress of 74,107 thousand tenge against the repayment of accounts payable.
- During 2005 the Group purchased property, plant and equipment by offsetting accounts receivable of 688,071 thousand tenge.

On behalf of Group Management:

Artambayeva G. D.
President

July 5, 2007

Kabdrakhmanova P. O.
Chief Accountant

July 5, 2007

The notes on pages 10-68 form an integral part of these consolidated financial statements. Independent Auditors' Report is on pages 2-3.

(in thousands of tenge)

1. NATURE OF THE BUSINESS

Central Asian Fuel Energy Company ("CAFEC") JSC (hereafter – the "Company" or the "Parent") was established on September 1, 1998. The Company's registered office is 42, Karatayev Street, Almaty, Republic of Kazakhstan.

The Company had an interest in the following legal entities:

Subsidiaries:	Location	Principal activity	Ownership interest December 31, 2006	Ownership interest December 31, 2005
Exim Leasing Kazakhstan LLP	Almaty	Leasing operations, general commercial, trade purchase and intermediary activity	100.00%	-
Bazaltovye Tehnologii LLP	Almaty	Production and sale of thermal insulators and non-metal mineral products	100.00%	-
Eximbank Kazakhstan JSC (the "Bank")	Almaty	Banking	73.014%	72.77%
Pavlodarenergy JSC	Pavlodar	Electricity and heat energy production and sale	72.00%	72.00%
KTP Invest LLP	Almaty	Commercial, intermediary, procurement, metal works	50.00%	-
MacCenter Kazakhstan LLP	Almaty	Sale of computer equipment	-	100.00%
Kaustik JSC	Almaty	Chemical products	-	60.00%

The primary activity of the Company and its subsidiaries (jointly the "Group") is the production, transmission and allocation of electricity and heat and financial services.

- IFRIC 11 *"IFRS 2 – Group and Treasury Share Transactions" – effective for accounting periods beginning on or after March 1, 2007*;
- IFRIC 12 *"Service Concession Agreements" – effective for accounting periods beginning on or after January 1, 2008.*

The Group will adopt all of the relevant new, revised and amended standards, and the new IFRIC interpretations from their respective effective dates. Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the Group's consolidated financial position, consolidated income statement and cash flows.

Basis of presentation – The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The accompanying consolidated financial statements have been presented in thousands of Kazakhstan tenge ("KZT" or "Tenge"), if otherwise is not stated.

The Group's accompanying consolidated financial statements were prepared on the historical cost basis, except for the following:

- Revaluation of property, plant and equipment in accordance with IAS 16 "Property, Plant and Equipment".
- Valuation of certain financial instruments in accordance with IAS 39 "Financial Instruments: recognition and measurement" ("IAS 39").

Key assumptions – The preparation of the consolidated financial statements in conformity with IFRS requires the Group's management to make estimates and assumptions that affect the reported amount of assets and liabilities of revenues and expenses and the disclosure of contingent assets and liabilities. Due to the inherent uncertainty of such assumptions, actual results reported in future reporting periods could differ from those estimates.

Functional and presentation currency – The functional and presentation currency of these consolidated financial statements is the Kazakhstan tenge.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation – The consolidated financial statements incorporate the financial statements of the Company and other entities controlled by the Group. 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. Where the cost of acquisition exceeds the fair values of identifiable net assets is recognized as goodwill. Where the cost of acquisition is less than the fair values of 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 share in the fair values of the assets and liabilities recognized. 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 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 subsidiaries' financial statements to bring 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 amount the cost of acquisition exceeds 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 recognized as an asset and reviewed for impairment at least annually. Any impairment is recognized 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 used to determine profit or loss on disposal.

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

Property, plant and equipment – Property, plant and equipment is initially recognized in consolidated balance sheet at deemed cost (hereafter "cost") as at the date of adoption of IFRS, less any accumulated depreciation and impairment loss. For the IFRS transition purposes the Group appointed an independent appraiser to determine the fair value of property, plant and equipment as of January 1, 2005 which was determined primarily with reference to depreciated replacement cost. Management believes that the valuation result appropriately reflects the economic condition of the Group's property, plant and equipment at that time.

The cost of purchased property, plant and equipment represents the value of funds paid to acquire the respective assets and other directly related costs incurred in bringing of assets to the object and preparing them for their planned use.

The cost of the Group's self-constructed facilities includes the cost of all construction materials, direct labor used in the project and directly related project financing costs, variable and fixed overheads in a certain ratio. The facility is not capitalized once it is ready for planned use.

After initial recognition property, plant and equipment are stated at revalued cost, which represents the fair value of an item of property, plant and equipment as at the date of revaluation, less accumulated depreciation and other subsequent impairment. Property, plant and equipment is revalued sufficiently regularly in order that the possible difference between the carrying value of property, plant and equipment and its estimated fair value at the reporting date is immaterial. Accumulated depreciation at revaluation date is eliminated against the asset's total carrying value, after which the net book value is considered the revalued value of the asset.

Any increase in the carrying value arising from revaluation is stated in the credit of the revaluation provision which is stated in equity, except when revaluation recovers the decrease in the asset's carrying value, which was previously recorded as income or expense. In this case the increase in carrying value is included in income within the previously recognized expense. A decrease in carrying value is recognized as income or expense, except when the decrease in carrying value directly decreases the previous carrying value increase on this asset. In such cases the decrease in carrying value decreases the provision relating to this asset, which is recorded in the revaluation reserve.

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

Depreciation on property, plant and equipment is charged to 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 disposal of property, plant and equipment are calculated as the difference between an asset's selling price and carrying amount, and are included in other income/(expense) in the consolidated income statement.

Intangible assets – Intangible assets are stated at cost less accumulated amortization. Amortization is computed according to straight-line method over the estimated useful lives of assets, which amount to 7-10 years.

Impairment of non-current 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.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, 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.

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

Group as a lessee – Amounts payable by lessees under financial lease are recorded as accounts receivable in the amount of Group's net investments in lease. Income from finance lease is allocated to accounting periods to reflect the permanent rate of income from the Group's net investments received from lease.

Income from operating lease is recognized according to the straight line basis during the respective lease period.

Group as a lessor – Assets held under finance leases are recognized as the Group's assets at their fair value at the date of acquisition, or if it's lower, at the current minimum rent determined at the beginning of the lease. The corresponding liability to the lessor is included in consolidated balance sheet as a finance lease obligation. The rent is allocated to finance costs and decreases in the lease liability to achieve the fixed interest rate on the remaining balance of liabilities. Finance costs are charged to income if they are not directly qualifying assets. In this case they are capitalized in accordance with the Group's general policy on borrowing costs (see below).

Rent paid under operating leases are charged to expenses using the straight line basis during the respective lease period.

Benefits received or receivable as an incentive to enter into an operating lease are also allocated on the straight line basis during the respective lease period.

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 the weighted average method. Net realizable value represents the estimated selling price less all estimated marketing, selling and distribution costs.

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. The 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 the 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.

Cash and cash equivalents – Cash and cash equivalents include cash on hand, free balances on correspondent and deposit accounts in the National Bank of the Republic of Kazakhstan ("NBRK") with maturity up to 90 days, funds in Organization of Economic Cooperation and Development ("OECD") countries banks. Deposits with initial maturity of over three months are recorded in consolidated balance sheet as short-term investments. Deposits with initial maturity of over one year are recorded in consolidated balance sheet as other financial assets. In preparation of the consolidated cash flow statement, the amount of obligatory provisions deposited in the NBRK was not included in cash equivalents due to existing limitations in their use.

Trade and other accounts receivable – Trade and other receivables are recognized and stated at the amounts of issued invoices less provision for doubtful debts. Provision for doubtful debts is determined in cases when it is probable that debts will not be repaid in full. The Group accrues provision for doubtful debts when accounts receivable are not repaid within contractual terms. Provision for doubtful debts is regularly reviewed and if there is a need for adjustments the relevant amounts are reflected in the consolidated income statement of the reporting period in which such a need was revealed. Doubtful debts are written off as discovered against a previously created provision.

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 provision for impairment losses, if any.

Financial assets and liabilities at fair value through profit or loss – Financial assets and liabilities at fair value through profit or loss represent derivative instruments or securities acquired principally for the purpose of selling them in the near future, or are the part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent and actual pattern of short-term profit taking or securities that upon initial recognition are designated by the Group at fair value through profit or loss or as a derivative. Financial assets at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses quoted market prices to determine fair value for financial assets and liabilities at fair value through profit or loss. A fair value adjustment on financial assets and liabilities at fair value through profit or loss is recognized in the consolidated income statement for the period. The Group does not reclassify financial instruments in or out of this category while they are being held.

The Group enters into derivative financial instruments to manage currency and liquidity risks. The Group enters into derivative financial instruments principally for trading purposes and include forwards on foreign currency, precious metals and securities. The Group uses no derivatives for hedging purposes.

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 used by the Group as an element of its treasury management and in its trading business.

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 consolidated financial statements and consideration received under these agreements is recorded as collaterized deposit received.

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

In the event 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 the respective assets. Any related income or expense arising from pricing difference between the purchase and sale of underlying assets is recognized as interest income or an expense.

Loans to customers – Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market other than those classified in other categories of financial assets.

Loans granted by the Group with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at a rate lower than the market one, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the consolidated income statement according to the nature of these losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any provision for impairment losses.

Write off of loans and advances – Loans and advances are written off against an provision for impairment losses if the loans and advances are not deemed collectible, including through collateral repossession. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. The decision on writing off bad debt against the impairment loss provision or all major, preferential, unsecured and insider loans should be confirmed with a procedural document from the judicial or notary bodies certifying that at the time of the decision the debt could not be repaid (partially repaid) with the debtor's funds.

Provision for impairment losses – The Group establishes an provision for impairment losses with respect to financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The provision 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, discounted at the financial asset's original effective interest rate, for financial assets which are carried at amortized cost. If in a subsequent period the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting an provision account. For financial assets carried at cost the provision 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.

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

A change in the provision for impairment losses is charged to the consolidated income statement and the total provision for impairment losses is deducted in arriving at assets as shown in the 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 debtor' or issuer' 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 substantial losses relative to the provision for impairment losses, it is the judgment of management that the provision for impairment losses is adequate to absorb losses incurred on the risk assets.

Impairment of financial assets – Financial assets, other than those at fair value through a consolidated income statement, are assessed for indicators of impairment at each consolidated balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of an impairment is the difference between the asset's carrying amount and the current value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of financial asset is reduced by the impairment loss for all financial assets, with the exception of trade accounts receivable where the carrying amount is reduced through the use of a provision on doubtful debts. When trade accounts receivable are not collectible, they are written off against provision on doubtful debts. Subsequent recoveries of amounts previously written off are credited against provision for doubtful debts. Changes in the carrying amount of the provision account are recognized in the consolidated income statement.

Except for equity instruments available for sale, if in subsequent period an impairment loss is decreased and the decrease can be objectively related to an event occurring after recognition of impairment, then the previously recognized impairment loss is reversed in the consolidated income statement to the extent to which the carrying value of the investment at the date of reverse does not exceed the amortized value, if impairment had not been recognized.

Gains and losses arising from changes in the fair value of available-for-sale investment securities are recognized directly in equity, through consolidated statement of changes in equity.

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

Bank loans – Interest bearing bank loans, overdrafts and issued promissory notes are initially measured at fair value plus transaction costs, and are subsequently measured at amortized value using the effective interest method. Any difference between gains (less transaction costs) and the estimate or repayment of loans is recognized during the borrowing terms using the Group's accounting policy on borrowing costs (see below).

Debt securities – Debt securities represent bonds issued by the Group. Bonds are carried according to the same principles used for bank loans.

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

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

Deposits from banks and customers – Customer and bank deposits are initially recognized at fair value, which amounts proceeds from issuance less transaction costs incurred. Amounts due are subsequently stated at amortized cost, while any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the borrowings period using the effective interest method.

Subordinated debt – Subordinated debt is initially recognized at its fair value. Subsequently, subordinated debt is stated at amortized cost using the effective interest method.

Financial guarantee contracts issued and letters of credit – Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, the cumulative amortization of initial premium revenue received under the financial guarantee contracts or letter of credit issued.

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

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

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

Revenue from sales of electricity and heat is recognized in consolidated income statement at the moment of delivery to consumers. The basis for accrual of revenue from sales of electricity and transfer of heat is tariffs approved by the Agency of the Republic of Kazakhstan on the Regulation of Natural Monopolies.

Sales of goods are recognized in consolidated income statement when goods are delivered and title has passed to the buyer.

Recognition of revenue and expenses on financial services – Interest income and expenses are recognized on an accrual basis calculated using the effective yield method. The effective yield method is the method of calculating the amortized value of a financial asset or financial liability (or a group of financial assets/group of financial liabilities) and allocating the interest income and expense to a respective period. The effective interest rate is the interest rate by which expected future payments or cash proceeds are brought to net carrying value of the financial asset or financial liability. The discounting is made for the estimated life of the financial asset or, if applicable, for a shorter period.

If a financial asset or a group of similar financial assets has been written off (partially written off) as a result of impairment, interest income is determined taking into account the interest rate used for discounting future cash flows for the purpose of accruing impairment losses.

Interest income also includes that earned on investment and trading securities. Commission and other income are credited to income when the related transactions are completed.

Fees 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 loan interest rate. Where it is probable that a loan commitment will lead to a specific lending arrangement, 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, 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 upon expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in profit and loss when the syndication has been completed. All other types of commission are recognized when services are provided.

Taxation – Income tax expense represents tax currently payable and deferred tax.

Tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before income tax 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 current tax liability is calculated using tax rates that have been enacted or substantively enacted by the consolidated balance sheet date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be used. Such assets and liabilities are not recognized if a 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 taxable profit nor accounting profit.

Deferred tax is calculated at the tax rates that are expected to be applicable in the period when the liability is settled or the asset is realized. 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 deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset 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, income tax and property tax rates for Pavlodarenergyservice JSC were 15% and 0.5%, respectively, due to tax preferences granted to Pavlodarenergyservice JSC for 3 years (see Note 1).

During 2006 and 2005, Pavlodarenergy JSC was granted corporate income tax investment preferences for 5 years (see Note 1).

Retirement benefit costs – In accordance with the legislative requirements of the Republic of Kazakhstan the Group pays amount equivalent to 10% of each employee's salary into an employee pension fund but not more than 69,000 tenge per month in 2006 (52,500 tenge per month from January 1, 2005 to June 30, 2005 and 69,000 tenge per month from July 1, 2005 to December 31, 2005) as contributions to accumulative pension funds. These amounts are expensed when they are incurred. Pension fund payments are withheld from employees' salaries and included with other salary costs in the consolidated income statement. The Group does not have other liabilities related to pension payments.

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

Where the effect of time value of money is material, a provision is calculated as the carrying value of expenses that are expected to be able to repay liabilities.

(in thousands of tenge)

Where discounting is used, any increase in the provision reflecting a past period is recognized as interest income.

Contingencies – Contingent liabilities are not recognized in the consolidated financial statements unless it is probable that an outflow of resources will be required to settle an obligation and a reliable estimate can be made. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Reclassifications – Certain reclassifications have been made to the consolidated financial statements as of December 31, 2005 and for the year then ended to conform to presentation requirements as of December 31, 2006. These changes did not affect consolidated financial position, consolidated results of operations and equity. The result of reclassification is as follows:

Nature of reclassification	Amount as previously reported	Amount currently reported	Difference
Consolidated balance sheet			
Non-current investments	1,000	1,281	(281)
Current investments	500,282	500,001	281
Other non-current assets	-	173,987	(173,987)
Other accounts receivable	2,292,237	2,118,250	173,987
Taxes receivable and prepaid	6,239	52,737	(46,498)
Taxes and non-budget payable	677,304	723,802	46,498
Consolidated income statement			
Cost of sales	(6,803,227)	(7,100,045)	296,818
General and administrative expenses	(1,213,688)	(916,870)	(296,818)

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATES AND UNCERTAINTY

The preparation of the consolidated financial statements in conformity with IFRS requires Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Due to the inherent uncertainty in making those estimates, actual results reported in future periods could differ from such estimates.

The following are the key assumptions regarding future and other key sources of uncertainty at the consolidated balance sheet date, which bear a significant risk of having to make a material adjustment in the carrying value of assets and liabilities in the next fiscal year.

Goodwill impairment – Definition of goodwill impairment requires an evaluation of value in the use of cash generating units to which goodwill is allocated. Calculating value in use requires the Group to evaluate future cash flows expected from cash generating units and the respective effective discount rate for calculating the current value. The Group applied an effective interest rate of 11% to calculate value in use, which represented the Group's market financing rate. As of December 31, 2006 and 2005 the carrying value of goodwill was 706,208 thousand tenge and 692,102 thousand tenge, respectively. Goodwill impairment was not recognized during the years ended December 31, 2006 and 2005 (see Note 7).

Remediation liability – For production purposes the Group uses two ash dumps of TETS -3 and TETS-2. The ash dumps should be reclaimed once their useful lives have passed. In order to determine the remediation liability of these ash dumps the Group's management is required to evaluate the future remediation value of the ash dumps. As of December 31, 2006 the Group evaluated the total remediation liability of the ash dumps of 88,745 thousand tenge (see Note 28), which was discounted at the effective interest rate of 11%, and which is the Group's market financing rate.

Impairment of non-current assets – At each balance sheet date, the Group reviews non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists or annual testing is required for impairment, the Group evaluates the recoverable amount. The recoverable amount of an asset is the greater of the fair value of the asset or cash generating unit less selling costs or value in use, and is determined for a separate asset except for cases when the asset does not generate cash flows that are mainly independent of cash flows generated by other assets or groups of assets. If the carrying value of an asset exceeds the recoverable amount, the asset is considered to be impaired and its value is decreased to the recoverable amount. In evaluating the value in use, estimated future cash flows are discounted to their current value using an 11% effective interest rate before taxes, which reflects the current market evaluation of the time value of money and risks inherent in assets. As of December 31, 2006 and 2005 no impairment of non-current assets was discovered.

5. SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing services (business segment) or in providing services within a particular economic environment (geographical segment), and which is subject to risks and rewards that are different from those of other segments. Information on segments is reported separately for the Group's activity. A business segment is initially based on the Group's management and internal reporting structure.

The results of segments, assets and liabilities include items directly related to the segment as well as those that can be allocated based on a reasonable estimate. Unallocated items represent income tax, deferred tax and dividends payable.

The main activity of the business segments is as follows:

Electricity production – The main activity of Pavlodarenergy JSC is the production, transmission and distribution of electricity and heat in the Pavlodar region and city. As of December 31, 2006 and 2005 Pavlodarenergy JSC owned 84.81% and 92.5% of the shares of Pavlodarenergyservice JSC (transmission and distribution of electricity), respectively, and 100% of the shares of Energycenter JSC (purchase and sales of electricity and heat).

Financial services – The main activity of Eximbank Kazakhstan JSC is to provide financial services. The Bank also works with securities and other instruments of interbank money market.

Other – The Group's business segments include leasing operations, the production and sales of goods, etc. Leasing operations, general commercial, trading purchases, trading intermediary activities, consulting services are conducted by Exim Leasing Kazakhstan LLP. The segment dealing with the production and sale of heat-insulating materials and non-metal mineral products is represented by Bazaltovye Tehnologii LLP.

JOINT STOCK COMPANY CENTRAL ASIAN FUEL ENERGY COMPANY ANDITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2006
(in thousands of tenge)

Segmental information on profit and losses in respect of the three business segments for the year ended December 31, 2006 is presented below:

2006	Finance services	Power production	Other	Eliminations	Consolidated
REVENUE					
External sales	1,782,688	8,402,812	138,279	-	10,323,779
Inter-segment sales	120,430	-	3,059	(123,489)	-
Total revenue from continuing operations	1,903,118	8,402,812	141,338	(123,489)	10,323,779
OPERATING INCOME					
Segment result from continuing operations	2,382,415	(1,247,908)	(113,954)	100,648	1,121,201
Other income, net					1,799,066
Gain on disposals of an interest in a subsidiary					775,258
Foreign exchange loss, net					(32,292)
Finance costs					(295,847)
Net gain on recognition of financial assets at fair value through profit or loss					551,216
PROFIT FROM OPERATIONS BEFORE INCOME TAX					3,918,602
INCOME TAX EXPENSE					(991,841)
PROFIT FROM CONTINUING OPERATIONS					2,926,761
Profit from discontinued operations					12,623
PROFIT FOR THE YEAR					2,939,384

JOINT STOCK COMPANY CENTRAL ASIAN FUEL ENERGY COMPANY ANDITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2006

(in thousands of tenge)

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 an interest in a subsidiary					346,043
Foreign exchange gain, net					23,751
Finance costs					(190,746)
PROFIT FROM OPERATIONS BEFORE INCOME TAX					427,768
INCOME TAX BENEFIT					8,673
PROFIT FROM CONTINUING OPERATIONS					436,441
Loss from discontinued operations					(204,001)
PROFIT FOR THE YEAR					232,440

(in thousands of tenge)

Segment consolidated balance sheet information on the segments as of December 31 is presented below.

2006	Finance services	Power production	Other	Consolidated
Assets				
Segment assets	20,356,529	14,878,040	1,804,764	37,039,333
Interests in associates	-	-	1,000	1,000
Unallocated assets	-	-	-	38,388
Total assets	20,356,529	14,878,040	1,805,764	37,078,721
Liabilities				
Segment liabilities	10,999,792	4,529,644	861,544	16,390,980
Unallocated liabilities	-	-	-	1,037,289
Total liabilities	10,999,792	4,529,644	861,544	17,428,269

2005	Finance services	Power production	Other	Consolidated
Assets				
Segment assets	9,459,272	14,009,044	1,768,032	25,236,348
Interests in associates	-	-	1,000	1,000
Unallocated assets	-	-	-	14,717
Total assets	9,459,272	14,009,044	1,769,032	25,252,065
Liabilities				
Segment liabilities	3,917,810	3,654,191	970,606	8,542,607
Unallocated liabilities	-	-	-	667,058
Total liabilities	3,917,810	3,654,191	970,606	9,209,665

(in thousands of tenge)

6. PROPERTY, PLANT AND EQUIPMENT

For the years ended December 31 changes in property, plant and equipment consisted of the following:

	Land, buildings and constructions	Machinery and production equipment	Vehicles	Other	Construction in progress	Total
Cost						
As of January 1, 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 subsidiaries	(41,826)	(10,760)	(966)	(375)	(315,789)	(369,716)
Transfers	115,405	88,716	56	40,659	(244,836)	-
As of December 31, 2005	4,435,523	7,709,073	411,312	275,821	477,449	13,309,178
Additions	180,067	136,942	114,475	40,879	1,330,119	1,802,482
Transfers from inventories	-	4,292	-	11	192,667	196,970
Transfers	349,774	261,849	-	32,597	(644,220)	-
Disposals	(7,872)	(25,418)	(13,218)	(17,276)	(23,688)	(87,472)
Revaluation	80,009	-	-	-	-	80,009
Purchase of subsidiaries	23,253	3,469	1,966	659	50,709	80,056
Disposal of a subsidiary (see Note 43)	(106,870)	(44,177)	(31,548)	(3,205)	-	(185,800)
Assets classified as assets held for sale (see Note 19)	(126,164)	(10,999)	-	(12,518)	(164,925)	(314,606)
As of December 31, 2006	4,827,720	8,035,031	482,987	316,968	1,218,111	14,880,817

(in thousands of tenge)

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land, buildings and construc-tions	Machinery and production equipment	Vehicles	Other	Construction in progress	Total
Accumulated depreciation						
As of January 1, 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	-	-
As of December 31, 2005	(463,713)	(971,360)	(57,149)	(57,630)	-	(1,549,852)
Charge for the period	(223,958)	(706,118)	(48,268)	(28,563)	-	(1,006,907)
Disposals	912	9,741	2,828	9,038	-	22,519
Revaluation	(1,680)	-	-	-	-	(1,680)
Purchase of subsidiaries	(2,293)	(566)	(109)	(72)	-	(3,040)
Disposal of subsidiaries (see Note 43)	7,825	9,440	7,472	270	-	25,007
Assets classified as assets held for sale (see Note 19)	660	1,392	-	1,164	-	3,216
As of December 31, 2006	(682,247)	(1,657,471)	(95,226)	(75,793)	-	(2,510,737)
Net book value						
As of December 31, 2006	4,145,473	6,377,560	387,761	241,175	1,218,111	12,370,080
As of December 31, 2005	3,971,810	6,737,713	354,163	218,191	477,449	11,759,326

(in thousands of tenge)

As of December 31, 2006 and 2005 property, plant and equipment of Pavlodarenergy JSC valued at 4,987,714 thousand tenge and 4,689,636 thousand tenge, respectively, was pledged under mortgage agreement #491 dated February 7, 2004 concluded with Eurasian Bank JSC under the loan agreement with Pavlodarenergy JSC (see Note 23).

Property, plant and equipment of Pavlodarenergy JSC valued at 286,073 thousand tenge as of December 31, 2006 (2005: 310,944 thousand tenge) was pledged under mortgage agreement #63 dated February 14, 2003, which was concluded with Eurasian Bank JSC under a loan agreement, bank guarantees and letters of credit with Investment Technologies JSC and Centrkazenergomontazh JSC. In February 2006 Investment Technologies JSC made an early repayment of the loan and terminated the loan agreement with Eurasian Bank JSC.

Property, plant and equipment of Energycenter JSC of 22,945 thousand tenge was pledged under a loan received from Halyk Bank of Kazakhstan JSC (see Note 23) (2005: nil).

The property, plant and equipment of Kaztrubprom LLP, a subsidiary of KTP Invest LLP, of 377,993 thousand tenge was pledged under a loan received from Halyk Bank of Kazakhstan JSC (see Note 23) (2005: nil).

As of December 31, 2006 and 2005 fully depreciated property, plant and equipment was 115,897 thousand tenge and 585,599 thousand tenge, respectively.

During the years ended December 31, 2006 and 2005 property, plant and equipment purchased from related parties amounted to 40,377 thousand tenge and 134,244 thousand tenge, respectively (see Note 44).

7. GOODWILL

For the years ended December 31 changes in goodwill were as follows:

	2006	2005
Cost		
As of January 1	692,102	728,031
Purchase of interest in KTP Invest LLP	45,648	-
Goodwill on disposed investments	(31,542)	(35,929)
Net book value		
As of December 31	706,208	692,102

(in thousands of tenge)

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

	Pavlodar-energy-service JSC	Energy-center JSC	Pavlodarskie Teplovye Seti JSC	KTP Invest LLP	Total
Identifiable assets and liabilities at the acquisition date	3,416,988	(233,139)	78,000		3,261,849
Cost of business combination	3,863,080	48,800	78,000		3,989,880
Goodwill at the acquisition date	446,092	281,939			728,031
Goodwill disposed with investments	(35,929)				(35,929)
Goodwill as of December 31, 2005	410,163	281,939			692,102
Identifiable assets and liabilities at the acquisition date				(42,110)	(42,110)
Cost of business combination				3,538	3,538
Goodwill at the acquisition date				45,648	45,648
Goodwill disposed with investments	(31,542)				(31,542)
Goodwill as of December 31, 2006	378,621	281,939		45,648	706,208

Pavlodarenergyservice JSC, Energycenter JSC and Pavlodarskie Teplovye Seti JSC are subsidiaries of Pavlodarenergy JSC. KTP Invest LLP is a subsidiary of the Company.

(in thousands of tenge)

8. INTANGIBLE ASSETS

For the years ended December 31 changes in intangible assets were as follows:

	Software	Other	Total
Cost			
As of January 1, 2005	26,542	601	27,143
Additions	15,693	156	15,849
As of December 31, 2005	42,235	757	42,992
Additions	14,658	11,042	25,700
Disposals	(11,462)	(6,408)	(17,870)
As of December 31, 2006	45,431	5,391	50,822
Accumulated amortization			
As of January 1, 2005	(9,122)	(180)	(9,302)
Charge for the period	(4,726)	(96)	(4,822)
As of December 31, 2005	(13,848)	(276)	(14,124)
Charge for the period	(6,956)	(400)	(7,356)
Disposal	6,162	499	6,661
As of December 31, 2006	(14,642)	(177)	(14,819)
Net book value			
As of December 31, 2006	30,789	5,214	36,003
As of December 31, 2005	28,387	481	28,868

(in thousands of tenge)

9. FINANCE LEASE RECEIVABLES

On October 12, 2004, the Group entered into a finance sub-leasing arrangement with its associated company ATP Energetic LLP for vehicles obtained under a finance lease agreement from Astana-Finance JSC (see Note 24). The finance lease term is 3 years. The interest rate inherent in the leases is fixed at the contract date for the entire lease term and equals 14%.

	Minimum lease payments		Present value of minimum lease payments	
	2006	**2005**	**2006**	**2005**
Amounts receivable under finance lease:				
Within one year	6,356	19,067	6,219	17,428
In the second to fifth years inclusive	-	6,356	-	6,219
	6,356	25,423	6,219	23,647
Less: unearned finance income	(137)	(1,776)	N/A	N/A
Present value of minimum lease payments receivable	6,219	23,647	6,219	23,647
Presented as:				
Non-current finance lease receivables (recoverable after 12 months)			-	6,219
Current finance lease receivables (recoverable within 12 months)			6,219	17,428
Total			6,219	23,647

As of December 31, 2006 and 2005 finance lease receivables from related parties amounted to 6,219 thousand tenge and 23,647 thousand tenge, respectively (see Note 44).

10. LOANS TO CUSTOMERS

As of December 31 loans to customers were as follows:

	2006	**2005**
Loans to customers	15,720,970	8,458,909
Loans and advances to banks	1,381,798	157,480
	17,102,768	8,616,389
Provision for impairment losses	(1,735,223)	(2,048,139)
Total	15,367,545	6,568,250
Long-term loans	10,007,335	3,687,312
Short-term loans	5,360,210	2,880,938
Total	15,367,545	6,568,250

(in thousands of tenge)

For the years ended December 31 the movements in the provision for impairment losses were as follows:

	Loans and advances to banks	Loans to customers	Total
As of January 1, 2005	151,450	1,822,078	1,973,528
Accrual of provision	4,637	136,280	140,917
Recovery of assets previously written-off	-	160,152	160,152
Write off of assets	-	(226,458)	(226,458)
As of December 31, 2005	156,087	1,892,052	2,048,139
Provisions/(Recovery of provisions)	23,618	(1,200,694)	(1,177,076)
Recovery of assets previously written-off	-	864,160	864,160
As of December 31, 2006	179,705	1,555,518	1,735,223

Analysis of loans to customers by currency:

	2006	2005
KZT	12,979,176	6,065,076
USD	2,268,210	502,709
Euro	117,775	99
Other	2,384	366
	15,367,545	6,568,250

As of December 31, 2006 and 2005 loans to customers provided to related parties amounted to 59,051 thousand tenge and nil, respectively. The provision for impairment losses on those loans for the years ended December 31, 2006 and 2005 and as at those dates amounted to 2,011 thousand tenge and nil, respectively (see Note 44).

11. OTHER NON-CURRENT ASSETS

As of December 31 other non-current assets were as follows:

	2006	2005
Debtors on guarantees	635,000	669,900
Accounts receivable from factoring operations	214,341	284,809
Other	-	112,112
	849,341	1,066,821
Provision for impairment losses	(645,718)	(892,834)
Total	203,623	173,987

(in thousands of tenge)

For the years ended December 31 the movements in the provision for impairment losses were as follows:

	2006	2005
As of January 1	892,834	1,888,025
Recovery of provision for impairment losses	(455,736)	(995,191)
Recovery of assets previously written-off	208,620	-
As of December 31	645,718	892,834

As of December 31, 2006 and 2005 other non-current assets are expressed in tenge.

12. INVENTORIES

As of December 31 inventories consisted of the following:

	2006	2005
Raw materials	230,424	226,005
Spare parts	175,587	338,294
Metal-roll and production	134,684	48,238
Tubing	123,534	65,195
Instruments	22,600	28,243
Fuel	16,748	14,426
Overalls	15,620	15,548
Construction materials	14,904	22,866
Semi-finished goods	9,388	14,817
Insulating materials	3,992	26,856
Goods	1,504	49,389
Other	94,051	75,886
	843,036	925,763
Provision for obsolete inventory	(37,266)	(47,738)
Total	805,770	878,025

For the years ended December 31 the movements in the provision for obsolete inventory were as follows:

	2006	2005
As of January 1	47,738	51,140
Recovery	(10,472)	(3,402)
As of December 31	37,266	47,738

During the years ended December 31, 2006 and 2005 the purchase of inventories from related parties amounted to 198,124 thousand tenge and 1,624 thousand tenge, respectively (see Note 44).

(in thousands of tenge)

13. TRADE ACCOUNTS RECEIVABLE

As of December 31 trade accounts receivable, net of provision for doubtful debts, consisted of the following:

	2006	2005
Energy and heat supply	1,012,836	1,139,587
Sales of inventories and the provision of other services	82,536	351
Rent	45,795	45,402
Other	63,217	73,806
	1,204,384	1,259,146
Provision for doubtful debts	(370,143)	(351,519)
Total	834,241	907,627

For the years ended December 31 the movements in the provision for doubtful debts were as follows:

	2006	2005
As of January 1	351,519	146,930
Accrual of provision	21,294	204,589
Write off	(2,670)	-
As of December 31	370,143	351,519

As of December 31, 2006 and 2005 trade accounts receivable were expressed in tenge.

As of December 31, 2006 and 2005 trade accounts receivable from related parties amounted to 11,668 thousand tenge and 117,232 thousand tenge, respectively (see Note 44).

14. ADVANCES PAID

As of December 31 advances paid, net of the provision for doubtful debts, consisted of the following:

	2006	2005
For acquisition of non-current assets	1,619,150	145,806
For goods	468,240	558,804
For services	300,479	375,937
For other	151,427	-
	2,539,296	1,080,547
Provisions for doubtful debts	(305)	(2,670)
Total	2,538,991	1,077,877
Long-term	1,619,150	145,806
Short-term	919,841	932,071
Total	2,538,991	1,077,877

(in thousands of tenge)

For the years ended December 31 the movements in the provision for doubtful debts were as follows:

	2006	2005
As of January 1	2,670	-
(Recovery)/accrual of provision	(2,365)	2,670
As of December 31	305	2,670

Analysis of advances paid, by currency:

	2006	2005
KZT	2,520,845	1,077,869
Euro	9,221	6
USD	8,925	2
	2,538,991	1,077,877

As of December 31, 2006 and 2005 advances paid to related parties amounted to 66,939 thousand tenge and 59,880 thousand tenge, respectively (see Note 44).

15. TAXES RECEIVABLE AND PREPAID

As of December 31 taxes receivable and prepaid consisted of the following:

	2006	2005
VAT receivable	46,522	25,930
Income tax	38,388	14,717
Withholding tax	13,800	-
Property tax	3,799	6,658
Other	1,361	5,432
Total	103,870	52,737

As of December 31, 2006 and 2005 taxes receivable and prepaid are expressed in tenge.

(in thousands of tenge)

16. OTHER ACCOUNTS RECEIVABLE

As of December 31 other accounts receivable, net of the provision for doubtful debts, consisted of the following:

	2006	2005
Receivables from factoring operations	235,234	-
Receivables from employees	156,519	22,782
Shares sales	83,092	745,386
Accrued penalties	56,888	60,929
Accrued commission income	50,380	-
Receivables from court proceedings	23,005	-
Short-term financial aid	6,330	27,220
Deferred expenses	3,125	69,863
Sale of property, plant and equipment	-	1,200,381
Other	93,726	15,443
	708,299	2,142,004
Provision for doubtful debts	(76,219)	(23,754)
Total	632,080	2,118,250

For the years ended December 31 the movements in the provision for doubtful debts were as follows:

	2006	2005
As of January 1	23,754	26,028
Accrual of provision	52,465	-
Write off	-	(2,274)
As of December 31	76,219	23,754

As of December 31, 2006 and 2005 other accounts receivable from related parties amounted to 252,649 thousand tenge and nil, respectively (see Note 44).

As of December 31, 2006 and 2005 other accounts receivable are expressed in tenge.

17. INVESTMENTS

As of December 31 investments consisted of the following:

	2006	2005
Shares	923,409	-
State debt securities	864,929	-
Securities purchased under repurchase agreements	-	500,001
Total	1,788,338	500,001

(in thousands of tenge)

	Interest to nominal %	December 31, 2006	Interest to nominal %	December 31, 2005
State debt securities:				
Treasury bonds of the Ministry of Finance of the Republic of Kazakhstan	5.5-6.1	864,929	-	-
		864,929		-

	2006	2005
Equity investments:		
Temirbank JSC	586,433	-
ED KazMunaiGas JSC	271,831	-
Alliance Bank JSC	64,431	-
Kazkommertsbank JSC	714	-
	923,409	-

As of December 31, 2006 accrued interest income on debt securities of 24,234 thousand tenge was included in assets at its fair value in the consolidated income statement.

As of December 31, 2006 shares of Temirbank JSC, pledged as collateral for repurchase agreements with banks, were included in assets at their fair value of 500,002 thousand tenge in the consolidated income statement.

18. CASH AND CASH EQUIVALENTS

As of December 31 cash and cash equivalents consisted of the following:

	2006	2005
Balances with the NBRK	1,257,883	324,791
Petty cash	34,614	61,687
Current accounts in banks	18,491	83,609
Total	1,310,988	470,087

Analysis of cash and cash equivalents by currency:

	2006	2005
KZT	1,301,517	470,054
USD	8,925	33
Euro	546	-
Total	1,310,988	470,087

(in thousands of tenge)

19. ASSETS HELD FOR SALE

The Group intends to sell its interest in the subsidiaries Sanatorium Energetic LLP and Rest-house Energetic LLP by July 31, 2007. The Group also intends to sell land and constructions in Almaty by May 31, 2007.

The major classes of operating assets and liabilities are classified as held for sale in the consolidated balance sheet as follows:

	Sanatorium Energetic LLP	Rest-house Energetic LLP	Land and constructions	Total
Property, plant and equipment (see Note 6)	12,780	112,610	186,000	311,390
Inventories	2,367	4,148	-	6,515
Trade accounts receivable	8	739	-	747
Advances paid	-	58	-	58
Taxes receivable and prepaid	969	17,344	-	18,313
Other accounts receivable	3	15	-	18
Cash	141	26	-	167
Assets held for sale	16,268	134,940	186,000	337,208
Other accounts payable	2,869	105,328	-	108,197
Taxes payable	7	87	-	94
Other liabilities and accrued expenses	7,260	45,856	-	53,116
Liabilities directly associated with assets held for sale	10,136	151,271	-	161,407

20. SHARE CAPITAL

As of December 31, 2006 and 2005, share capital consisted of authorized, issued and fully paid shares of 300,000 thousand tenge, made up by 300,000 shares with a par value of 1,000 tenge each.

In 2006 and 2005, Eximbank Kazakhstan JSC declared and paid dividends to third parties of 33,050 thousand tenge and 16,116 thousand tenge, respectively.

21. MINORITY INTEREST

As of December 31 minority interest was as follows:

	2006	2005
Pavlodarenergy JSC	3,222,818	2,767,605
Eximbank Kazakhstan JSC	2,634,015	1,693,607
Kaustik JSC	-	42,850
Total	5,856,833	4,504,062

(in thousands of tenge)

22. BONDS ISSUED

As of December 31 bonds issued were as follows:

Bonds allocated at the price	Maturity date	Interest rate %	2006	2005
Bonds issued	November 2013	9%	3,955,000	-
Bonds issued	December 2010	9%	1,999,210	500,000
Premium			249,503	-
Accrued interest on bonds issued			95,926	-
Discount on bonds issued			(9,911)	-
Repurchase of bonds issued			(21,343)	-
Total			6,268,385	500,000

In December 2005, Pavlodarenergyservice JSC registered 20,000,000 outstanding coupon bonds for a total of 2,000,000 thousand tenge with nominal value each of 100 tenge, at 9% interest, with semiannual coupon payments, and maturity of 5 years.

On August 11, 2006 general meeting of the shareholders of Eximbank Kazakhstan JSC made a decision to register a bond issue program to create resource in order to improve bank activities in the area of trade and project funding.

On October 12, 2006, the Agency for Financial Control ("AFC") registered the Bank's first bond program (Certificate of state registration of securities #C29 dated October 12, 2006) and in November 2006 the Bank issued its first bonds (coupon bonds, without security). The scope of the bond program was 30,000,000 thousand tenge.

On October 12, 2006, the AFC registered the first bond issue within the Bank's first bond program. The total scope of the bond issue was 10,000,000 thousand tenge , and amounted to 100,000,000 shares with par value each of 100 tenge (Certificate of state registration of securities #C29-1 dated October 12, 2006). These bonds are included in the official KASE list as "A" category bonds (NIN – KZPC1Y07C299).

(in thousands of tenge)

23. LONG-TERM LOANS

As of December 31 long-term loans were as follows:

	Interest rate %	Currency	2006	Interest rate %	Currency	2005
Halyk Bank of Kazakhstan JSC	7.50%-12.00%	Euro	260,466	-	-	-
Halyk Bank of Kazakhstan JSC	12.00%	USD	157,202	-	-	-
Kreditanstalt Fur Wiederaufbau	2.00%	Euro	80,448	2.00%	Euro	73,741
Halyk Bank of Kazakhstan JSC	13.00%	KZT	77,321			-
World Bank	4.59%	USD	20,695	4.59%	USD	27,421
Astana Holding Corporation	-	KZT	4,028	-	KZT	4,028
Eurasian Bank JSC	10.50%-12.00%	USD	3,060	10.50%-12.00%	USD	1,411,140
Small Business Development Fund	-	-	-	5.00%	USD	29,773
Total			603,220			1,546,103

Kaztrubprom LLP, subsidiary of KTP Invest LLP, received loans from Halyk Bank of Kazakhstan JSC to finance the construction and purchase of equipment for the Uralsk pipe plan. As of December 31, 2006, the debt of Kaztrubprom LLP to Halyk Bank of Kazakhstan JSC amounted to 260,466 thousand tenge in Euro, 157,202 thousand tenge in USD, 76,188 thousand tenge in tenge, respectively. Kaztrubprom LLP used its property, plant and equipment of 377,993 thousand tenge as collateral (see Note 6).

On October 27, 2006 Energycenter JSC, a subsidiary of Pavlodarenergy JSC, received loans from Halyk Bank of Kazakhstan JSC with maturity on October 27, 2009. Interest is accrued on a monthly basis. The interest rate on the loan is 13% per annum. The debt of Energycenter JSC to Halyk Bank of Kazakhstan JSC as of December 31, 2006 was 77,321 thousand tenge. As of December 31, 2006 Energycenter JSC pledged land and buildings of 22,945 thousand tenge as loan collateral (2005: nil) (see Note 6).

In 1995 the Bank signed a loan agreement with Kreditanstalt Fur Wiederaufbau (Frankfurt-on-Main, Germany) for a total of 29,500,000 DM, with interest at 2% per annum to finance individual export contracts on goods' deliveries and related services in Kazakhstan, and which was concluded between buyers and an exporter in the Federate Republic of Germany. The loan agreement is based on resolutions of the Government of the Republic of Kazakhstan dated July 14, 1994 and May 6, 1996 "On Loans from German Credit Institutions". The Bank services these projects within the agency agreement with the Ministry of the Finance of Republic of Kazakhstan ("MFRK") dated December 8, 1998. The loan is due for repayment on December 30, 2026.

On April 26, 1996, the Bank concluded a loan agreement with the "MFRK" under the World Bank credit line for 500,000 US dollar. The loan was issued to purchase computers, equipment, software tools and consulting services for the integration of computer technologies to be used in the Bank's operations. The loan is due for repayment on September 1, 2010.

(in thousands of tenge)

In June 2004, Pavlodarenergy JSC raised a loan from Eurasian Bank JSC to mature on June 7, 2009. The initial interest rate was 10% and as of December 31, 2005 it was changed to 12%. Pavlodarenergy JSC took the loan to upgrade property, plant and equipment, increase working capital and refund other debt obligations. According to the loan agreement, the principal is paid between January and April and between October and December (the principal is not paid between May and September), while interest is repaid on a quarterly basis.

As of December 31, 2006 and 2005 Pavlodarenergy JSC secured the loan from Eurasian Bank JSC using its property, plant and equipment of 4,987,714 thousand tenge and 4,689,636 thousand tenge, respectively (see Note 6).

On October 8, 1999, the Bank entered into a loan agreement with the Small Business Development Fund for 1,000,000 US dollar with an interest rate of 5% per annum. The loan was issued to further finance the OJSC Kazakhstan Tractor project "Tractor production and its transfer to rural commodity producers on leasing conditions". The loan is due for repayment on September 15, 2006. In accordance with an addendum to the agreement dated March 17, 2000 the interest rate was changed to 1%. In 2006 the Bank fully repaid the loan.

Borrowings are repayable as follows:

	2006	2005
Within one year (see Note 30)	28,165	475,472
In the second and fifth years inclusive	554,360	1,043,210
After five years	20,695	27,421
Total	603,220	1,546,103

(in thousands of tenge)

24. FINANCE LEASE OBLIGATIONS

The Group has finance lease obligations in accordance with Finance Lease Agreement #18/1497.05 dated April 2, 2004 concluded with Astana-Finance JSC and agreements #757 dated November 1, 2005 and #976 dated October 4, 2006 concluded with BTA ORIX Leasing JSC.

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

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	2006	2005
Amounts payable under the finance lease				
Within one year	12,619	14,388	10,647	12,748
In the second to fifth years inclusive	8,921	4,796	7,861	4,660
	21,540	19,184	18,508	17,408
Less: future finance charges	(3,032)	(1,776)	N/A	N/A
Present value of lease obligations	18,508	17,408	18,508	17,408
Less: Amount due for settlement within 12 months			(10,647)	(12,748)
Amount due for settlement after 12 months			7,861	4,660

(in thousands of tenge)

25. TAXES

The Group's income tax expense/(benefit) for the years ended December 31 is presented below:

	2006	2005
Current income tax expense	576,456	23,435
Deferred income tax expense/(benefit)	415,385	(32,108)
Total income tax expense/(benefit)	991,841	(8,673)

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

	2006	2005
Deferred tax assets arising from:		
Provision for doubtful debts	111,044	238,551
Loss carry forward	58,688	128,347
Unused vacation reserve	20,819	16,929
Taxes payable	11,538	58,994
Other	15,579	5,366
	217,668	448,187
Valuation allowance	(129,442)	(195,681)
Total deferred tax assets	88,226	252,506
Deferred tax liabilities arising from:		
Carrying value of property, plant and equipment	(1,125,515)	(850,377)
Inventories	-	(544)
Total deferred tax liabilities	(1,125,515)	(850,921)
Net deferred tax liabilities	(1,037,289)	(598,415)

Movements in deferred taxes during the years ended December 31 were as follows:

	2006	2005
As of January 1	(598,415)	(630,523)
Effect of the decrease in revaluation reserve	(23,489)	-
(Decrease)/increase in deferred tax liability	(415,385)	32,108
As of December 31	(1,037,289)	(598,415)

(in thousands of tenge)

The income tax expense/(benefit) for the years ended December 31 is reconciled to profit from operations before income tax per the consolidated income statement as follows:

	2006	2005
Profit before income tax from:		
Continuing operations	3,918,602	427,768
Discontinued operations	13,988	(204,001)
	3,932,590	223,767
Tax at the 30% statutory rate	1,179,777	67,130
Effect of lower tax rate (see Note 1)	-	(39,539)
Change in the valuation provision	(66,239)	(136,594)
Tax effect of gains from the disposal of interest in subsidiaries	(232,577)	(103,813)
Tax effect of permanent differences	110,880	204,143
Income tax expense/(benefit)	991,841	(8,673)
Income tax expense/(benefit) - recorded in the consolidated income statement	990,476	(8,673)
Income tax expense charged to discontinued operations (see Note 43)	1,365	-
Income tax expense/(benefit)	991,841	(8,673)

26. CUSTOMER ACCOUNTS

As of December 31 customer accounts consisted of the following:

	2006	2005
Long-term deposits	1,842,665	-
Repayable on demand	1,181,647	175,566
Short-term deposits	899,590	1,746,079
Deposit-guarantees	1,250	1,319
Total	3,925,152	1,922,964
Within one year	2,067,978	1,922,964
In the second and fifth years inclusive	1,857,174	-
Total	3,925,152	1,922,964

As of December 31, 2006 and 2005, accrued interest included on customer accounts amounted to 22,839 thousand tenge and 23,106 thousand tenge, respectively.

(in thousands of tenge)

As of December 31, 2006 and 2005, 4 and 6 customers' accounts comprised 77% and 92% of the total balance, respectively, which is a significant concentration.

As of December 31, 2006 and 2005, the accounts of related parties were 68,214 thousand tenge and nil, respectively (see Note 44).

Analysis of customer accounts by currency:

	2006	2005
KZT	2,773,849	1,919,965
USD	1,150,668	2,999
Euro	442	-
Other	193	-
Total	3,925,152	1,922,964

27. SUBORDINATED DEBT

As of December 31 subordinated debt consisted of the following:

	2006	2005
Preferred shares (Note 20)	1,818,128	-
Total	1,818,128	-

In 2006, the Bank's share capital increased due to the issue of common and preferred shares. The issue was divided into 10,000,000 common and 2,000,000 preferred shares. AFC registered the Bank's declared shares (Certificate of state registration of securities #A3611 dated October 27, 2006). A decision of the exchange board of the Kazakhstan Stock Exchange ("KASE") dated December 8, 2006 included the Bank's common (KZ1C36110019) and preferred (KZ1P36110115) shares in the KASE list as "A" category shares, with codes EXBN and EXBNp, respectively.

The par value of preferred shares amounts to 1,000 tenge. Minimum annual dividends on these shares amount to 100 tenge per share.

IAS 32 "Financial instruments: Disclosure and Presentation" states that presentation requires preferred shares or their components to be classified as a financial liability or equity instruments according to the nature of a contractual agreement and definitions of the financial liability and equity instrument.

28. OTHER NON-CURRENT LIABILITIES

As of December 31 other non-current liabilities consisted of the following:

	2006	2005
Ash dump remediation liability	36,601	-
Accounts payable	12,129	-
Total	48,730	-

(in thousands of tenge)

The Group uses two ash dumps belonging to TETS-3 and TETS-2 for its products. At the end of their useful life the ash dumps should be reclaimed. As of December 31, 2006 the Group evaluated the total remediation liability of the ash dumps to be 88,745 thousand tenge, which was reflected in the consolidated balance sheet at the discounted amount of 26,762 thousand tenge, using an effective discount rate of 11%. In 2006 the Group recognized site restoration interest expenses of 9,839 thousand tenge (see Note 41). The movement in provision were as follows:

	2006
As of January 1	-
Arising during the year	26,762
Interest expense	9,839
As of December 31	36,601
Current portion	-
Non-current portion	36,601
Total	36,601

29. TRADE ACCOUNTS PAYABLE

As of December 31 trade accounts payable consisted of the following:

	2006	**2005**
For work and services rendered	447,898	303,689
For property, plant and equipment and construction services	304,019	44,826
For purchased goods	213,558	140,689
For maintenance	-	11,027
Other	17,954	-
Total	983,429	500,231

As of December 31, 2006 and 2005 trade accounts payable to related parties amounted to 199,456 thousand tenge and 440 thousand tenge, respectively (see Note 44).

As of December 31, 2006 and 2005 trade accounts payable were expressed in tenge.

(in thousands of tenge)

30. SHORT-TERM LOANS AND CURRENT PORTION OF LONG-TERM LOANS

As of December 31 short-term loans and current portion of long-term loans consisted of the following:

	Interest rate %	Currency	2006	Interest rate %	Currency	2005
Loans under repurchase agreements	-	-	506,330	-	-	-
Neftebank JSC	6.0%	KZT	230,383	4.0%	KZT	39,249
Temirbank JSC	9.5%	KZT	101,056	-	-	-
Halyk Bank of Kazakhstan JSC – current portion (see Note 23)	13.0%	KZT	28,165	-	-	-
Correspondent accounts	-	KZT	20	-	KZT	20
Halyk Bank of Kazakhstan JSC	-	-	-	13.0%	KZT	78,000
Halyk Bank of Kazakhstan JSC	-	-	-	14.0%	KZT	1,273,121
Texaka Bank Kazakhstan JSC	-	-	-	15.0%	KZT	621,775
Eurasian Bank JSC – current portion (see Note 23)	-	-	-	10.0%	KZT	442,904
Alliance Bank JSC	-	-	-	10.0%	USD	211,106
Small Business Development Fund – current portion (see Note 23)	-	-	-	5.0%	USD	29,773
Kreditanstalt Fur Wiederaufbau – current portion (see Note 23)	-	-	-	2.0%	Euro	2,795
Eurasian Bank JSC	-	-	-	11.0%	KZT	155
Total			865,954			2,698,898

As of December 31, 2006 and 2005 payable to banks included accrued interest of 28,284 thousand tenge and 43,087 thousand tenge, respectively.

As of December 31, 2006 loans under repurchase agreements included accrued interest of 6,328 thousand tenge, with maturity in February 2007 (see Note 17).

As of December 31, 2006 and 2005 fair value of assets pledged as collateral, and the carrying value of obligations under repurchase agreements comprised:

	December 31, 2006		December 31, 2005	
	Carrying value of loans	Fair value of collateral	Carrying value of loans	Fair value of collateral
Shares of Kazakhstan companies	506,330	586,433	-	-
Total	506,330	586,433	-	-

(in thousands of tenge)

31. ADVANCES RECEIVED

As of December 31, 2006 and 2005 advances received consisted mainly of advances received for electricity and heat, and other services. As of December 31, 2006 and 2005 advances received were expressed in tenge.

32. TAXES AND NON-BUDGET PAYABLE

As of December 31 taxes and non-budget payable were as follows:

	2006	2005
VAT	396,408	289,003
Fines	277,041	207,853
Social tax	73,540	49,816
Pension contributions	51,999	28,654
Personal income tax	42,557	32,471
Environment tax	32,269	30,587
Income tax	-	68,643
Other	24,536	16,775
Total	898,350	723,802

As of December 31, 2006 and 2005 taxes and non-budget payable were expressed in tenge.

33. OTHER LIABILITIES AND ACCRUED EXPENSES

As of December 31 other liabilities and accrued expenses consisted of the following:

	2006	2005
Payable to employees	167,138	157,112
Unused vacation reserves	80,679	64,436
Provision for impairment contingencies	17,218	6,943
Accrued expenses	13,050	15,618
Prepaid commission for issued guarantees	11,966	-
Insurance payable	6,379	3,093
Payable for shares	5,865	65,712
Accrued dividends on preferred shares (see Note 27)	1,667	-
Financial aid received	-	46,376
Fines	-	17,001
Other	38,447	32,980
Total	342,409	409,271

As of December 31, 2006 and 2005 other liabilities and accrued expenses were expressed in tenge.

(in thousands of tenge)

34. REVENUE

Revenue for the years ended December 31 consisted of the following:

	2006	2005
Electricity and heat production and other		
Sales of electricity	5,242,513	4,533,006
Sales of heating	2,969,053	2,134,271
Income from rent services	138,279	44,113
Transmission of electricity	95,632	359,236
Sale of chemical products	-	175,380
Sale of computer equipment	-	72,013
Other	95,614	66,990
	8,541,091	7,385,009
Finance services		
Interest on loans and advances to customers	1,488,714	822,734
Interest on loans and advances to banks	148,416	20,792
Fee and commission income	145,142	74,493
Income from the amortization of premium on issued debt securities	410	-
Interest on securities available-for-sale	-	120
Other	6	-
	1,782,688	918,139
Total	10,323,779	8,303,148

In 2006 and 2005 revenue from operations with related parties was 26,068 thousand tenge and nil, respectively (see Note 44).

(in thousands of tenge)

35. COST OF SALES

The cost of sales for the years ended December 31 consisted of the following:

	2006	2005
Electricity and heat production and other		
Fuel	2,178,110	1,868,248
Payroll expenses and related taxes	1,628,109	1,405,169
Services purchased	1,387,339	903,821
Inventories	1,173,627	980,076
Electricity and heat purchased for own purposes	862,193	696,856
Depreciation and amortization	830,184	828,377
Electricity supply	22,233	11,764
Other	133,845	253,534
	8,215,640	6,947,845
Finance services		
Interest on customer accounts	231,055	26,071
Interest on bank loans	69,725	110,274
Fee and commission expense	7,101	14,066
Interest on debt securities issued	3,955	-
Interest on preferred shares	1,667	-
Interest on loans from other organizations	1,368	1,789
	314,871	152,200
Total	8,530,511	7,100,045

In 2006 and 2005 expenses from operations with related parties were 316,587 thousand tenge and 36,639 thousand tenge, respectively (see Note 44).

(in thousands of tenge)

36. GENERAL AND ADMINISTRATIVE EXPENSES

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

	2006	2005
Payroll expenses and related taxes	712,810	607,376
Taxes other than income tax	232,397	208,624
Depreciation and amortization	135,961	118,769
Transportation	98,865	73,946
Sponsorship and charity	97,989	60,093
Security	93,102	89,291
Professional fees	77,768	49,871
Penalties and fines	77,120	131,406
Heat shortages	76,375	44,053
Provision for doubtful debts	71,394	207,259
Telecommunication services	44,092	30,106
Maintenance of property, plant and equipment	41,321	-
Administrative expenses	40,324	-
Electricity shortages	37,003	40,935
Inventories	33,577	23,692
VAT for heat and electricity shortages	26,146	18,572
Write off of construction in progress	23,688	-
Rent and maintenance	14,082	13,811
Unused vacation reserve	11,482	3,900
Consulting services	11,008	-
Provisions/(recovery of provision) for guarantees	10,275	(6,943)
Utilities	9,615	11,061
Bank charges	6,718	32,541
Business trip expenses	6,696	4,560
Recovery of provision for obsolete inventory (see Note 12)	(10,472)	(3,402)
Recovery of provision for fines and penalties on income tax	(10,823)	-
Recovery of provision for other non-current assets (see Note 11)	(455,736)	(995,191)
Other	136,265	152,540
Total	1,649,042	916,870

Heat and electricity shortages represent the cost of heat and electricity produced, which were lost by technical problems heat and electricity through power networks, theft or other reasons.

In 2006 and 2005 operations with related parties were 68,295 thousand tenge and nil, respectively (see Note 44).

(in thousands of tenge)

37. SELLING EXPENSES

Selling expenses for the years ended December 31 consisted of the following:

	2006	2005
Payroll expenses and related taxes	197,027	227,092
Transportation	46,588	47,308
Bank charges	17,928	-
Depreciation and amortization	13,344	12,557
Security expenses	11,851	10,547
Inventories	11,316	11,264
Communication expenses	6,251	7,266
Rent expenses	5,498	8,910
Business trip expenses	3,380	5,204
Advertising and marketing	-	14,231
Other	3,440	2,914
Total	316,623	347,293

38. OTHER OPERATING INCOME

Other operating income for the years ended December 31, 2006 and 2005 consisted of income from fines, accrued by the Group based on court decisions for noncompliance with contracts terms related to excess use of electricity and heat.

39. OTHER INCOME, NET

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

	2006	2005
Income from factoring operations	1,700,000	-
Income from accounts payable writen off	39,052	4,465
Recovery insurance payments	28,756	-
Income from the placement of bonds	22,461	-
Rent income	18,063	-
Income from the products of subsidiaries	8,754	11,319
Income from the sale of inventories, net	7,085	92,109
Income from the verification of inventories	5,431	-
Interest income from cash placed on deposit with maturity less than one year	4,506	-
Income from sublease agreements	1,640	3,296
Income from construction-and-assembling operations	-	20,329
Income from storage services	-	8,959
Surplus from property, plant and equipment verification	-	1,333
(Loss)/gain on property, plant and equipment disposal	(8,271)	24,686
Expenses on the depreciation of property, plant and equipment transferred to operating lease	(16,960)	-
Other income, net	(11,451)	16,530
Total	1,799,066	183,026

(in thousands of tenge)

On May 11, 2006 Pavlodarenergy JSC and Eximbank Kazakhstan JSC signed a purchase factoring contract. According to the contract, Eximbank Kazakhstan JSC factored accounts receivables from Kuralay LLP and Rossin LLP with a nominal value of 17,098,372 US dollar to Pavlodarenergy JSC for 850,000 thousand tenge. Subsequently on May 11, 2006 Pavlodarenergy JSC concluded a sale factoring contract with Progressivnye Tehnologii LLP. According to the contract, Pavlodarenergy JSC sold accounts receivable from Kuralay LLP and Rossin LLP for 2,550,000 thousand tenge. As a result of these transactions the Group recorded other income from factoring operations of 1,700,000 thousand tenge.

In 2006 and 2005 the Group received other income, net from operations with related parties of 91,148 thousand tenge and 52,619 thousand tenge, respectively (see Note 44).

40. GAIN ON DISPOSAL OF AN INTEREST IN A SUBSIDIARY

The gain on disposal of an interest in a subsidiary for the years ended December 31 consisted of the following:

	2006	2005
Sale of investments	1,845,667	674,884
Cost of investments	(1,070,409)	(328,841)
Total	775,258	346,043

In December 2005 the Group decided to sell 40% of its shares in Pavlodarenergyservice JSC through KASE. As of December 31, 2006 and 2005 the Group sold 15.19% and 7.5% of their total authorized, issued and fully paid shares in Pavlodarenergyservice JSC, respectively.

41. FINANCE COSTS

Finance costs for the years ended December 31 was as follows:

	2006	2005
Interest expenses on issued bonds	179,340	-
Interest expenses on bank loans	92,248	186,422
Interest expenses on finance lease agreements	14,420	4,324
Interest expenses on the dump restoration liability (see Note 28)	9,839	-
Total	295,847	190,746

(in thousands of tenge)

42. NET GAIN ON RECOGNITION OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The net gain on recognition of financial assets at the fair value through profit or loss comprises:

	2006	2005
Trading gain on operations with financial assets recognized at fair value through profit or loss		
- Bonds	485,235	-
- Shares	15,295	-
Fair value adjustment on recognition of financial assets at fair value through profit or loss		
- Bonds	(62,641)	-
- Shares	113,327	-
Total net gain on recognition of financial assets at fair value through profit or loss	551,216	-

43. GAIN/(LOSS) FROM DISCONTINUED OPERATIONS

On April 14, 2006 and September 29, 2006 the Group's Board of Directors approved the decision to sell 60% of its shares of Kaustik JSC and 100% of its shares in MacCenter Kazakhstan LLP. The main activity of Kaustik JSC was production of technical products, while the main activity of MacCenter Kazakhstan LLP was sale of computer equipment.

The results of the discontinued operations of Kaustik JSC and MacCenter Kazakhstan LLP for the years ended December 31 were as follows:

	2006	2005
Net gain/(loss) of subsidiaries	3,924	(5,673)
Gain/(loss) from disposal	8,699	(198,328)
Profit/(loss) from discontinued operations	12,623	(204,001)

(in thousands of tenge)

The results of activities for the period from January 1, 2006 till the date of disposal were as follows:

	MacCenter Kazakhstan LLP Period ended September 29, 2006	**Kaustik JSC Period ended April 14, 2006**
Sales	128,005	95,296
Cost of sales	(106,992)	(83,103)
Gross profit	21,013	12,193
Selling and service provision expenses	(1,612)	(757)
General and administrative expenses	(11,423)	(10,070)
Operating income	7,978	1,366
Financing costs	(1,187)	(2,057)
Other income	-	71
Other expenses	(1,115)	(25)
Profit/(loss) before income tax	5,676	(645)
Income tax expense	(1,365)	-
Profit/(loss) for the period	4,311	(645)
Attributable to:		
Equity holders of the Parent	4,311	(387)
Minority interest	-	(258)
	4,311	(645)

(in thousands of tenge)

Net assets disposed as at the date of disposal and January 1, 2006 were as follows:

	MacCenter Kazakhstan LLP		Kaustik JSC	
	September 29, 2006	January 1, 2006	April 14, 2006	January 1, 2006
ASSETS:				
Property, plant and equipment and intangible assets	8,454	807	152,339	155,629
Intangible assets	10	12	255	259
Inventories	44,434	41,836	32,400	30,911
Trade debtors of subsidiaries	8,426	13,302	29,986	13,246
Advances paid	4,216	2,603	6,789	23,277
Value added tax	3,339	4,118	-	-
Other accounts receivable	241	286	6,243	6,129
Cash and cash equivalents	4,395	7,171	580	1,399
Total assets	73,515	70,135	228,592	230,850
LIABILITIES:				
Trade creditors of subsidiaries	53,643	23,747	18,816	12,029
Loans from banks	-	24,975	71,777	71,923
Advances received	5,014	11,646	9,793	19,487
Taxes payable	1,170	1,118	5,313	7,932
Other liabilities and accrued expenses	18,507	17,779	14,832	10,775
Total liabilities	78,334	79,265	120,531	122,146
Net assets	(4,819)	(9,130)	108,061	108,704
Minority interest	-		(42,621)	
Proceeds from disposal of a subsidiary	4,906		3,793	
	87		69,233	
Total consideration satisfied by:				
Receivable on disposal	87		233	
Cash received	-		69,000	
	87		69,233	

(in thousands of tenge)

44. RELATED PARTIES TRANSACTIONS

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

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

During 2006 the Group had significant operations with the following related parties:

Name of the related party	Relationship
Klebanov A.Y.	Shareholder
Amirkhanov E.A.	Shareholder
Kan S.V.	Shareholder
CapitalImportCorp LLP	Associated company
ATP Energetic LLP	Associated company
Energyinvest-PV LLP	Associated company
MacCenter Kazakhstan LLP	Associated company
Enter-Unit LLP	Associated company
Bicycle team CAFEC	Associated company
Kaustik JSC	Associated company
Kompstroi LLP	Associated company
Kunaev D.I. OAPF JSC	Associated company

In 2006 and 2005 the Group had the following significant transactions outstanding with related parties:

Purchases of property, plant and equipment (see Note 6)

	2006	2005
Kaustik JSC	23,047	-
Energyinvest-PV LLP	17,330	-
Other	-	134,244
Total	40,377	134,244

Finance lease receivables (see Note 9)

	2006	2005
ATP Energetic LLP:		
Finance lease receivable within the current year	6,219	17,428
Finance lease receivable in the second to fifth years inclusive	-	6,219
Total	6,219	23,647

(in thousands of tenge)

Loans to customers (see Note 10)

	2006	2005
MacCenter Kazakhstan LLP	20,500	-
Kompstroi LLP	8,200	-
Other	30,351	-
Total	59,051	-

Provision for impairment losses on loans to customers (see Note 10)

	2006	2005
MacCenter Kazakhstan LLP	1,025	-
Other	986	-
Total	2,011	-

Purchases of inventories (see Note 12)

	2006	2005
Kaustik JSC	191,258	-
ATP Energetic LLP	6,866	62
Energyinvest-PV LLP	-	1,562
Total	198,124	1,624

Trade accounts receivable (see Note 13)

	2006	2005
Energyinvest-PV LLP	9,246	-
ATP Energetic LLP	2,037	111,172
Enter-Unit LLP	233	233
MacCenter Kazakhstan LLP	152	-
CapitalImportCorp LLP	-	-
Kokshe JSC	-	5,827
Total	11,668	117,232

Advances paid (see Note 14)

	2006	2005
ATP Energetic LLP	66,939	59,880
Total	66,939	59,880

(in thousands of tenge)

Other accounts receivable (see Note 16)

	2006	2005
CapitalImportCorp LLP	160,620	-
Due from key personnel Pavlodarenergy JSC	75,220	-
ATP Energetic LLP	12,037	-
MacCenter Kazakhstan LLP	4,772	-
Total	252,649	-

Customer accounts (see Note 26)

	2006	2005
Kunaev D.I. OAPF JSC	63,795	-
MacCenter Kazakhstan LLP	4,030	-
Enter-Unit LLP	389	-
Total	68,214	-

Trade accounts payable (see Note 29)

	2006	2005
CapitalImportCorp LLP	179,000	-
Kaustik JSC	20,456	-
ATP Energetic LLP	-	440
Total	199,456	440

Liabilities on loans and unused credit lines

	2006	2005
MacCenter Kazakhstan LLP	9,081	-
Total	9,081	-

Guarantees issued

	2006	2005
MacCenter Kazakhstan LLP	17,780	-
Total	17,780	-

(in thousands of tenge)

The following amounts, which arose from transactions with related parties, have been included in the consolidated income statement for the years ended December 31:

Interest income (see Note 34)

	2006	2005
MacCenter Kazakhstan LLP	1,511	-
Kan S.V.	491	-
Other	1,200	-
Total	3,202	-

Revenue (see Note 34)

	2006	2005
Kaustik JSC	22,866	-
Total	22,866	-

Cost of sales (see Note 35)

	2006	2005
ATP Energetic LLP	316,519	-
Kaustik JSC	68	-
Cost of sold shares of Kokshe JSC	-	36,639
Total	316,587	36,639

General and administrative expenses (see Note 36)

	2006	2005
ATP Energetic LLP	51,840	-
Bicycle team CAFEC	16,455	-
Total	68,295	-

(in thousands of tenge)

Other income (see Note 39)

	2006	2005
Kaustik JSC	65,346	-
Energyinvest-PV LLP	20,437	-
ATP Energetic LLP	3,868	9,276
MacCenter Kazakhstan LLP	1,497	-
Sales of shares of Kokshe JSC	-	43,343
Total	91,148	52,619

Key personnel of the Group

In 2006 the compensation of members of the Board of Directors and other key Group's management personnel, which consisted of 8 people, was 167,453 thousand tenge (2005: 102,176 thousand tenge).

45. TRANSITION TO IFRS

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

(in thousands of tenge)

Reconciliation of consolidated balance sheet as of January 1, 2005:

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

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

46. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of financial instruments are disclosed in accordance with the requirements of IAS 32 "Financial instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount for which an instrument can be exchanged between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. As no readily available market exists for a part of the Group's 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 of December 31, 2006 and 2005 the Group used the following methods and assumptions to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and cash equivalents – The 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 provision for doubtful debts is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

Long-term loans – The carrying amount of long-term loans 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.

Finance lease obligations – The carrying amount of finance lease obligations represents the fair value or, if lesser, the current value of minimum rent as determined when the rent period starts.

Loans to customers – The fair value of a 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.

47. RISK MANAGEMENT POLICIES

Risk management 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. 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 single customer or group of customers. Limits on the level of credit risk by customer are approved monthly by the Group management.

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 become due.

Interest rate risk – The Group's interest rate risk 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 the periodic estimation of potential losses that could arise from adverse changes in market conditions. The Budget-Economy Department monitors 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.

48. 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 its customers' needs. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated balance sheet.

The Group's maximum exposure to credit loss from contingent liabilities and commitments to extend credit, in the event of the other party fails to perform, and 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.

As of December 31, 2006 and 2005 the loss provision on letters of credit and guarantees amounted to 17,218 thousand tenge and 6,943 thousand tenge, respectively.

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.

(in thousands of tenge)

As of December 31, 2006 and 2005 nominal or contractual amounts and the risk weighted credit equivalents of instruments with off-balance sheet risks were:

	December 31, 2006		December 31, 2005	
	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount
Contingencies and obligations on letters of credit				
Guarantees issued and similar liabilities	2,369,876	2,352,658	235,722	228,779
Liabilities on loans and unused credit lines	2,015,474	1,007,737	1,509,991	754,996
Total contingencies and liabilities on letter of credit	4,385,350	3,360,395	1,745,713	983,775

Agency agreements – The Group served the credit lines received by the Government of the Republic of Kazakhstan from international financial institutions within intergovernmental credit agreements. The Group may incur losses due to MFRK failing to officially notify of borrower's failure to execute its liabilities. Following the Group's acquisition in 2004 by private enterprises Group management began transferring certain bad debts and related liabilities to the newly-established State Rehabilitation Fund.

Legal issues – The Group can be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in total, a material adverse impact on the Group.

Tax and regulatory environment – The Government of the Republic of Kazakhstan continues to reform 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 authorized by law to impose fines and penalties. While the Group believes it has provided adequately for all tax liabilities based on its understanding of 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 June 20, 1997, the Group transfers its employees pension contributions to accumulative pension funds in according to the size of employees salaries and be in the appropriate deadline. As of December 31, 2006 and 2005 the Group was not liable for any additional 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 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 a change, if it occurs, may require the Group to modernize technology to meet more stringent standards.

Insurance – As of December 31, 2006 and 2005 the Group insured the TETS-2, TETS-3 and oxygen workshop production facilities. The Group did not insure the administrative building. Since the lack of insurance had not led to a decrease in the value of assets or the creation of liabilities, no provision was made in these consolidated financial statements for contingent expenses relating to the damage or loss of such assets.

Capital investments – Pavlodarenergy JSC has developed and agreed a capital investment plan for 1007-2013 with the Agency for Regulation of Natural Monopolies. According to the plan, Pavlodarenergy JSC is to invest 8,000 million tenge into production assets.

49. EVENTS AFTER THE BALANCE SHEET DATE

On January 31, 2007 the Group and Askar-Pavlodar LLP concluded agreement #3-204 for the sale of property (interest in the partnership's share capital) on the sale of 100% interest in the share capital of Energetic rest-house LLP for 360 thousand tenge exclusive of VAT. On May 8, 2007 the Company and GKP Almatyzher concluded a real estate land and construction repurchase agreement for 500,000 thousand tenge and 110,000 thousand tenge, respectively (see Note 19).

In 2007, Pavlodarenergy JSC approved new price tariffs from June 1, 2007. The Group's steam supply service increased to 16 kg/cm – by 57%, steam 40 kg/cm – by 31%, while hot water supply service increased – by 26%.

In January 2007, Eximbank Kazakhstan JSC placed 608,341 common shares for subscription worth 1,000 tenge per share for a total of 608,341 thousand tenge on the unorganized stock market.

In 2007, as a part of its first bond program, Eximbank Kazakhstan JSC had the AFC register bonds on October 12, 2006 worth 38,020,000 shares, with a par value of 1,000 tenge for a total of 3,846,000 thousand tenge. The bonds discount amounted to 2,192 thousand tenge, while the premium on the bonds amounted to 46,192 thousand tenge.

In May 2007, the Company became a major shareholder in D.I. Kunayev OAPF JSC by purchasing a 99% interest in the company

In May 2007, the Company purchased a TETS (heating and electricity station) and heat distributing facilities in Ekibastuz, Pavlodar oblast from Access Industries.

50. CONCENTRATION OF BUSINESS RISK

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