

**JSC "National Company "Food Contract Corporation"**

Consolidated financial statements

*For the year ended 31 December 2010*

## INDEPENDENT AUDITORS' REPORT

To the shareholder of JSC "National Company "Food Contract Corporation"

### Introduction

We have audited the accompanying consolidated financial statements of JSC "National Company "Food Contract Corporation" and its subsidiaries (jointly "the Group"), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young LLP*

  


Aisulu Narbayeva  
Auditor

Auditor Qualification Certificate  
No. 0000137 dated 21 October 1994

25 March 2011

  


Evgeny Zhemaletdinov  
General Director  
Ernst & Young LLP

State Audit License for audit activities on the  
territory of the Republic of Kazakhstan: series  
МФЮ-2, No. 0000003 issued by the Ministry of  
Finance of the Republic of Kazakhstan on  
15 July 2005

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 31 December 2010

<i>In thousands of Tenge</i>	Note	31 December 2010	31 December 2009
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	11,391,886	10,834,189
Goodwill		41,300	41,300
Long term advances paid	9	353,782	452,226
Deferred income tax asset	28	1,109	67,526
Loans to farmers	10	–	100,000
Other financial assets	11	176,385	187,529
Other non-current assets	12	10,119,404	8,113,834
		<b>22,083,866</b>	<b>19,796,604</b>
<b>Current assets</b>			
Inventories	13	47,370,138	78,497,175
VAT and other taxes recoverable		2,880,058	6,491,604
Income tax prepaid		237,406	214,288
Accounts receivable	14	32,940,505	35,970,292
Short-term advances paid	9	12,099,252	6,875,488
Current portion of loans to farmers	10	5,270,622	41,491,051
Other financial assets	11	12,343,531	4,782,290
Cash and cash equivalents	15	26,378,726	17,042,410
		<b>139,520,238</b>	<b>191,364,598</b>
Assets classified as held for sale	16	1,855,022	1,013,916
		<b>141,375,260</b>	<b>192,378,514</b>
<b>TOTAL ASSETS</b>		<b>163,459,126</b>	<b>212,175,118</b>



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

<i>In thousands of Tenge</i>	Note	31 December 2010	31 December 2009
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	17	44,877,483	34,267,483
Additional paid-in capital	17	39,745	39,745
Foreign currency translation reserve	17	366,735	460,752
Retained earnings		11,693,383	10,960,790
		<b>56,977,346</b>	<b>45,728,770</b>
<b>Non-controlling interest</b>		<b>94,195</b>	<b>19,490</b>
<b>Total equity</b>		<b>57,071,541</b>	<b>45,748,260</b>
<b>Non-current liabilities</b>			
Finance lease liability	19	248,539	299,285
Deferred tax liability	28	279,291	548,881
Debt securities issued	20	52,072,163	14,945,063
		<b>52,599,993</b>	<b>15,793,229</b>
<b>Current liabilities</b>			
Accounts payable	21	455,130	2,164,228
Advances received		2,905,768	773,809
Current portion of financial lease liabilities	19	53,193	50,746
Taxes payable		145,035	112,271
Dividends payable		600,192	—
Income tax payable		35,256	67,599
Borrowings	18	47,392,784	146,061,165
Interest swap	18	—	264,197
Current portion of debt securities issued	20	1,962,750	960,000
		<b>53,550,108</b>	<b>150,454,015</b>
Liabilities directly associated with assets classified as held for sale	16	237,484	179,614
<b>Total liabilities</b>		<b>106,387,585</b>	<b>166,426,858</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>163,459,126</b>	<b>212,175,118</b>

*The accompanying notes on pages 8 to 48 are an integral part of these consolidated financial statements.*

Chairman of the Board



Kabdrakhmanov B.O.

Chief accountant

Nurmukhanbet G.E.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

<i>In thousands of Tenge</i>	Note	2010	2009
Revenue	22	79,506,912	56,705,315
Cost of sales	23	(63,830,510)	(45,541,315)
<b>Gross profit</b>		<b>15,676,402</b>	<b>11,164,000</b>
General and administrative expenses	24	(6,126,715)	(3,528,039)
Selling expenses	25	(4,862,095)	(2,801,111)
Loss from impairment of property and equipment	8	(222,476)	(452,946)
<b>Operating profit</b>		<b>4,465,116</b>	<b>4,381,904</b>
Foreign exchange income / (loss), net		96,892	(6,479,906)
Finance income	26	7,492,623	9,622,412
Finance costs	26	(10,211,616)	(6,447,855)
Other income	27	650,569	1,370,563
Other expenses	27	(20,573)	(55,474)
<b>Income before taxes</b>		<b>2,473,011</b>	<b>2,391,644</b>
Income tax expense	28	(964,491)	(671,819)
<b>Profit for the year</b>		<b>1,508,520</b>	<b>1,719,825</b>
Profit attributable to:			
Equity holder of the parent		1,532,850	1,721,814
Non-controlling interest		(24,330)	(1,989)
		<b>1,508,520</b>	<b>1,719,825</b>
<b>Other comprehensive income:</b>			
Exchange differences on translation of foreign operations		(94,017)	459,607
<b>Other comprehensive income for the year, net of tax</b>		<b>(94,017)</b>	<b>459,607</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>1,414,503</b>	<b>2,179,432</b>
Attributable to:			
Equity holder of the parent		1,438,833	2,181,421
Non-controlling interest		(24,330)	(1,989)
		<b>1,414,503</b>	<b>2,179,432</b>

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

<i>In thousands of Tenge</i>	Note	2010	2009
<b>Earnings per share</b>			
Basic and diluted profit for the year attributable to equity holders of the parent	17	39.34	51.38

*The accompanying notes on pages 8 to 48 are an integral part of these consolidated financial statements.*

Chairman of the Board



*Kabdrakhmanov B.O.*

Chief accountant

*Nurmukhanbet G.E.*



**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 December 2010

<i>In thousands of Tenge</i>	Note	2010	2009
<b>Profit before tax</b>		<b>2,473,011</b>	2,391,644
Adjustments for:			
Depreciation and amortisation		403,482	387,100
Gain from disposal of property and equipment	27	(1,949)	(209)
Impairment of property and equipment	8	222,476	448,569
Finance costs	26	10,211,616	6,447,855
Finance income	26	(7,492,623)	(9,622,412)
Bad debt provision expenses	24	4,180,957	156,412
Unrealised foreign exchange (gain) / loss		(80,382)	6,505,704
<b>Adjustment to current assets and current liabilities:</b>			
Changes in inventories		27,878,867	(38,389,488)
Changes in VAT and other taxes recoverable		3,611,546	(595,709)
Changes in advances paid		(5,871,187)	4,438,920
Changes in loans to farmers		31,922,488	(48,621,375)
Changes in other financial assets		20,343	27,635
Changes in accounts receivable		2,240,438	(27,858,912)
Changes in taxes payable		32,764	214,381
Changes in accounts payable		573,345	20,607,853
Changes in advances received		2,313,754	–
<b>Cash from / (used in) operating activities</b>		<b>72,638,946</b>	(83,462,032)
Income tax paid		(1,528,760)	(201,492)
Interest and coupons paid on debt securities		(4,165,851)	(3,217,401)
Interest received		3,097,589	2,650,770
<b>Net cash from / (used in) operating activities</b>		<b>70,041,924</b>	(84,230,155)
<b>Investment activities:</b>			
(Placement) / repayment of bank deposits		(11,630,486)	922,794
Purchase of property and equipment		(1,350,529)	(2,893,666)
Proceeds from disposal of property and equipment		–	63,216
Purchase of securities		–	(4,000,000)
Proceeds from disposal of investments available-for-sale		4,052,080	329,883
Disposal of assets classified as held for sale		208,522	–
Additions to liabilities directly associated with assets classified as held for sale		57,870	–
<b>Net cash used in investment activities</b>		<b>(8,662,543)</b>	(5,577,773)



**CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**

<i>In thousands of Tenge</i>	<b>Note</b>	<b>2010</b>	<b>2009</b>
<b>Financing activities:</b>			
Proceeds from issuance of shares	17	10,610,000	1,476,800
Proceeds from government loans		11,250,000	11,178,000
Repayment of government loans		(20,976,000)	(2,351,383)
Repayment of finance lease liabilities		(50,746)	(10,740)
Proceeds on debt securities		37,094,976	–
Redemption of debt securities		–	(400,000)
Loans from commercial banks		14,784,900	32,247,833
Repayment of loans from commercial banks		(41,011,920)	(33,193,505)
Loans from the Shareholder		59,336,639	108,017,094
Repayment of loans from the Shareholder		(122,880,849)	(17,601,171)
Dividends paid		(200,065)	(206,155)
<b>Net cash (used in) / from financing activities</b>		<b>(52,043,065)</b>	<b>99,156,773</b>
<b>Net increase in cash and cash equivalents</b>		<b>9,336,316</b>	<b>9,348,845</b>
Net exchange rate difference		–	1,448,223
Cash and cash equivalents as at 1 January		17,042,410	6,247,754
<b>Cash and cash equivalents as at 31 December</b>	<b>15</b>	<b>26,378,726</b>	<b>17,044,822</b>

**NON-CASH TRANSACTIONS – ADDITIONAL DISCLOSURE:**

Significant non-cash transactions, including the following were excluded from the statement of cash flows:

In 2010 the Group performed offset of loans to farmers against payables to farmers in the amount of KZT 2,384,469 thousand (2009: KZT 18,857,312 thousand).

In 2010 the purchase of property and equipment in the amount of KZT 53,855 thousand was performed using the payment made during last year (2009: KZT 1,732,364 thousand).

In 2010 the Group performed offset of accounts receivable against accounts payable in the amount of KZT 129,644 thousand (2009: nil).

In 2010 when conducting a quarterly stocktaking the Group has revealed a grain shortage in the amount of KZT 1,269,991 thousand (2009: nil), The Group has obtained compensation for grain loss at the expense of guilty party in the form of elevator complex with value of KZT 655,295 thousand which was recorded in the consolidated financial statements as assets classified as held for sale. The amount of KZT 290,163 thousand was taken as an offset against accounts payable and advances received from the guilty party. The remaining amount of KZT 324,533 thousands was recorded in the accounts receivable.

*The accompanying notes on pages 8 to 48 are an integral part of these consolidated financial statements.*

Chairman of the Board



*Kabdrakhmanov B.O*

Chief accountant

*Nurmukhambet G.E.*

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2010

In thousands of Tenge	Attributable to equity holders of the parent					Total	Non-controlling interest	Total
	Share capital	Additional paid-in capital	Foreign currency translation reserve	Retained earnings				
As at 01 January 2009	32,790,683	39,745	1,145	9,440,699	42,272,272	25,911	42,298,183	
Profit for the year	-	-	-	1,721,814	1,721,814	(1,989)	1,719,825	
Other comprehensive income for the year	-	-	459,607	-	459,607	-	459,607	
Total comprehensive income for the year	-	-	459,607	1,721,814	2,181,421	(1,989)	2,179,432	
Share issue (Note 17)	1,476,800	-	-	-	1,476,800	-	1,476,800	
Dividends (Note 17)	-	-	-	(201,723)	(201,723)	(4,432)	(206,155)	
As at 31 December 2009	34,267,483	39,745	460,752	10,960,790	45,728,770	19,490	45,748,260	
Profit for the year	-	-	-	1,532,850	1,532,850	(24,330)	1,508,520	
Other comprehensive income for the year	-	-	(94,017)	-	(94,017)	-	(94,017)	
Total comprehensive income for the year	-	-	(94,017)	1,532,850	1,438,833	(24,330)	1,414,503	
Share issue (Note 17)	10,610,000	-	-	-	10,610,000	-	10,610,000	
Dividends (Note 17)	-	-	-	(800,257)	(800,257)	-	(800,257)	
Minority interest (Note 17)	-	-	-	-	-	99,035	99,035	
<b>As at 31 December 2010</b>	<b>44,877,483</b>	<b>39,745</b>	<b>366,735</b>	<b>11,693,383</b>	<b>56,977,346</b>	<b>94,195</b>	<b>57,071,541</b>	

The accompanying notes on pages 8 to 48 are an integral part of these consolidated financial statements.

Chairman of the Board

  
 Kabdrakhmanov B.O.

Chief accountant

  
 Nurmukhanbet G.E.




## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2010

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### 1. GENERAL

Joint Stock Company "National Company "Food Contract Corporation" (the "Company") is incorporated and operates in the Republic of Kazakhstan. In accordance with Government resolutions the Company's and its subsidiaries (jointly the "Group") activity is to maintain state grain reserves at the levels required to supply the population of Kazakhstan with grain and grain products, to maintain grain reserves at the required level and to ensure timely grain replenishment. The Company is also responsible for keeping accounting records and monitoring the quality, quantity and security of state grain resources. Starting from 2002 the Company has been entitled to perform commercial operations related to grain sales.

In 2005 the Company began providing loans to farmers for crop sowing and harvesting purposes under permanent state license No. 46 dated 22 February 2005 of the Agency of the Republic of Kazakhstan for the Regulation and Supervision of the Financial Market and Financial Operations ("FMSA").

According to the decree of the Government of the Republic of Kazakhstan No. 858 dated 19 August 2005 "On some issues related to development of pilot "Textile industry cluster" the Company built a cotton processing factory in South-Kazakhstan region with the capacity to process 60,000 tons of cotton annually. The plant was put into exploitation in 2006.

According to the Decree of the President of the Republic of Kazakhstan No. 220 dated 11 December 2006 and the Government resolution No. 1247 dated 23 December 2006, JSC National Holding Company KazAgro was established. On 17 April 2007 the Company's 100% shares were transferred to the share capital of JSC National Holding Company KazAgro, thus, beginning from 17 April 2007 the only shareholder of the Company is JSC National Holding Company KazAgro (the "Shareholder").

The consolidated financial statements include the Company's financial statements, those of its subsidiaries and joint ventures as referred to in Note 5.

These consolidated financial statements were approved for issue by the Chairman of the Management Board and the Chief Accountant on 25 March 2011.

#### Operating environment

Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in a decline in the gross domestic product, capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Kazakhstan. While the Kazakhstan Government has introduced a range of stabilization measures aimed at providing liquidity to Kazakhstan banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

Also, factors including increased unemployment in Kazakhstan, reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the Group's borrowers' ability to repay the amounts due to the Group. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(continued)**

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**2. BASIS OF PREPARATION**

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements. These consolidated financial statements are presented in Kazakhstan Tenge ("Tenge" or "KZT") and all monetary amounts are rounded to the nearest thousand Tenge except when otherwise indicated.

**Statement of compliance**

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2010.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of subsidiary, without a change of control, is accounted for as an equity transaction.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Changes in accounting policy and disclosure**

The accounting policies adopted are consistent with those of the previous financial year, except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2010:

- IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items effective 1 July 2009;
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009;
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (May 2009)

The adoption of the standards or interpretations is described below:

*IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items* The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

*IFRIC 17 Distributions of Non-cash Assets to Owners* This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position nor performance of the Group.

**Improvement to IFRSs**

In May 2008 and April 2009 the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

*Issued in May 2008*

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment has no impact on the financial position nor financial performance of the Group.

*Issued in April 2009*

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The amendment has no impact on the financial position nor financial performance of the Group.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Improvements to IFRSs (continued)***Issued in April 2009 (continued)*

- *IFRS 8 Operating Segment Information*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 7.
- *IAS 7 Statement of Cash Flows*: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment did not have any impact on the presentation in the statement of cash flows.
- *IAS 36 Impairment of Assets*: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

Other amendments resulting from *Improvements to IFRSs* to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

*Issued in April 2009*

- IFRS 2 Share-based Payment
- IAS 1 Presentation of Financial Statements
- IAS 17 Leases
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

**Interest in joint ventures**

The Group has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The Group recognises its interest in the joint venture using the proportionate consolidation method. The Group combines its proportionate share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, income and expenses and unrealised gains and losses on transactions between the Group and its jointly controlled entity. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Interest in joint ventures (continued)**

Upon loss of joint control and provided the former joint control entity does not become a subsidiary or associate, the Group measures and recognises its remaining investment at its fair value. Any differences between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

**Non-current assets held for sale and discontinued operations**

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated income statement of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from income and expenses from continuing activities, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale.

The resulting profit or loss (after taxes) is reported separately in the income statement. Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

**Foreign currency translation**

The Group's consolidated financial statements are presented in Tenge, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group has elected to recycle the gain or loss that arises from the direct method of consolidation, which is the method the Group uses to complete its consolidation.

*i) Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the income statement with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

*ii) Group companies*

The assets and liabilities of foreign operations are translated into Tenge at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Foreign currency translation (continued)***ii) Group companies (continued)*

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange ("KASE") are used as official currency exchange rates in the Republic of Kazakhstan. For foreign currencies, which are not quoted by the KASE, the exchange rates are calculated by the National Bank of Kazakhstan using the cross-rates to the US dollar ("USD" or "US Dollar") in accordance with the quotations received from relevant sites of national banks.

The following table summarizes the foreign currency exchange rates to Tenge:

	<b>As at 31 December 2010</b>	As at 31 December 2009
USD	<b>147.40</b>	148.36
Euro	<b>195.23</b>	212.84
Azerbaijani Manat	<b>184.73</b>	184.73
Georgian Lari	<b>83.15</b>	88.01
Iranian Rial	<b>0.014</b>	0.015

Weighted average Tenge exchange rates for the years ended 31 December 2010 and 2009 were:

	<b>2010</b>	2009
USD	<b>147.35</b>	147.51
Euro	<b>195.71</b>	205.87
Azerbaijani Manat	<b>183.6</b>	183.5
Georgian Lari	<b>82.67</b>	88.31
Iranian Rial	<b>0.014</b>	0.015

**Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

*Sale of goods*

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

*Rendering of services*

Revenue from rendering of services is recognised by reference to the stage of completion. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

*Commission income*

In accordance with the Rules established by Kazakh Government the Group is entitled to deduct a certain percent from revenue from the sale of the government grain reserves as a commission. In 2010 and 2009 the commission did not exceed 3% of the total proceeds from these sales. The commission is used for maintenance of office premises, employees' salary and to cover other expenses associated with purchase of goods and services to support the Group activities.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Revenue recognition (continued)***Interest income*

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

**Taxes***Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

*Deferred tax*

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Taxes (continued)***Deferred tax (continued)*

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**Government grants**

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

**Financial assets***Initial recognition and measurement*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and deposits, trade and other receivables, loans issued and available-for-sale investments.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets (continued)***Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in finance income or finance cost in the consolidated statement of comprehensive income.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated statement of comprehensive income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income in finance costs.

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income in finance costs.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial assets (continued)***Subsequent measurement (continued)*

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income and loss in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is reclassified from the available-for-sale reserve to profit or loss and recognized as operating loss, or determined to be impaired, at which time the cumulative loss is recognised in the consolidated income statement and reclassified from the available-for-sale reserve.

The Group evaluated its available-for-sale financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and has the intent and ability to hold these assets for the foreseeable future or maturity. The reclassification to held to maturity is permitted only when the entity has the ability and intent to hold until the financial asset accordingly.

*Derecognition*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Impairment of financial assets**

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation.

Additionally, such evidence includes observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Impairment of financial assets (continued)***Financial investments available-for-sale*

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

**Financial liabilities***Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

*Loans from the Ministry of Agriculture*

Interest free loans from the Ministry of Finance received by the Group after 1 January 2009 and come within the scope of a definition of government grants are accounted for at the fair value as of the date of recognition. The difference between the loan cost and the fair value is recognized as the finance income. Interest free loans from the Ministry of Finance received by the Group prior to 1 January 2009 are accounted for at the initial cost of consideration received.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial liabilities (continued)***Loans from the Shareholder*

Loans from the Shareholder are accounted for the fair value as at the recognition date. The difference between the loan cost and the fair value is recognized as the finance income.

*Subsequent measurement*

The measurement of financial liabilities depends on their classification as follows:

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated income statement.

*Loans and borrowings*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in the income statement.

*Loans from the Ministry of Agriculture*

Interest free loans from the Ministry of Finance received by the Group after 1 January 2009 are accounted for at amortised cost using EIR method. Interest free loans from the Ministry of Finance received by the Group prior to 1 January 2009, and which conform the criteria of government grants are accounted at cost.

*Loans from the Shareholder*

After initial recognition loans from the Shareholder are measured at amortised cost using EIR method.

*Derecognition*

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

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



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(continued)****3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Offsetting of financial instruments**

Financial assets and financial liabilities are only offset and reported at the net amount in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Fair value of financial instruments**

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 30.

**Property, plant and equipment**

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings and constructions	14-50 years
Machinery and equipment (except technological complex on cotton production and grain terminals)	4-25 years
Vehicles	4-50 years
Other assets	4-13 years

Unit of production method is used to calculate the depreciation of technological complex on cotton production and grain terminals.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**(continued)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Lease**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

*Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term. Operating lease agreements of the Group are short term and contain termination terms.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**Inventories**

Inventories are valued at the lower of cost or net realisable value. Costs comprise charges incurred in bringing inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

The cost of all inventories, including grain and cotton is accounted for under FIFO method.

Minimum level of grain reserves determined by the Resolution of the Government of the Republic of Kazakhstan No. 394 dated 28 March 2001 could not be used without special permission of the Government of the Republic of Kazakhstan and, accordingly, included within other non-current assets.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Impairment of non financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

*Goodwill*

Goodwill is tested for impairment annually (as at 31 December), and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Cash and short term deposits**

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement cash flows, cash and cash equivalents consist of cash and short term deposits as defined above.

**Provisions***General*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

**4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

**Assets classified as held for sale**

In April 2009 the Board of Directors announced its decision to dispose of the subsidiary Agrofirma Zhana-Zher LLP ("Zhana-Zher"), and therefore its assets and liabilities were classified as held for sale. The Board considered the subsidiary met the criteria to be classified as held for sale at that date for the following reasons:

- Zhana-Zher can be immediately sold to a potential buyer in its current condition.
- The Board of Directors had a plan to sell Zhana-Zher and had entered into negotiations with a potential buyer.
- Negotiations are expected to be finalised and the sale to be completed in 2011.

For more details on assets classified as held for sale refer to Note 16.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

**4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)****Impairment of non financial assets**

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

**Taxes**

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

The Group has tax losses carry forward amounting to KZT 30,495 thousand (in 2009: KZT 77,860 thousand). These losses relate to subsidiaries, occurred in 2010, have term of limitation and could be used to offset taxable income of subsidiaries within next ten years. Further details on taxes are disclosed in Note 28.

**Fair value of financial instruments**

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

**5. CONSOLIDATION**

The following subsidiaries and joint ventures have been included in these consolidated financial statements:

**5.1 Subsidiaries**

	Activity	Country of residence	Percentage ownership	
			2010	2009
Ak-Bidai Terminal JSC	Grain station	Kazakhstan	100%	100%
Expert Agrarian Company LLP	Business review, provision of guarantees	Kazakhstan	100%	100%
Astyk Koimalary LLP	Grain storage and processing	Kazakhstan	100%	100%
Cotton Contract Corporation JSC	Raw cotton processing and storage	Kazakhstan	100%	100%
Agrofirm Zhana-Zher LLP	Production of agricultural products	Kazakhstan	91%	100%
	Creation of cotton and textile cluster companies, export and domestic supply of cotton and textile raw materials			
Kazakhstan Maktasy JSC		Kazakhstan	100%	100%
	Grain purchase, receiving, storage and processing	Georgia	100%	100%
Batumi Grain Terminal LLC				
Agrofirm Zhana-Ak Dala LLP	Storage and sale of tomatoes	Kazakhstan	99.9%	99.9%
Kazastyktrans LLP	Transportation services	Kazakhstan	50%	50%

As at 31 December 2010 and 2009 the Group exercises control over Kazastyktrans LLP and accordingly consolidates this company as a subsidiary.

**5.2 Joint ventures**

	Activity	Country of residence	Percentage ownership	
			2009	2008
Baku Grain Terminal LLC	Grain station	Azerbaijan	50%	50%
Amirabad Green Terminal Kish LLC	Grain station	Iran	50%	50%



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

**6. INTEREST IN JOINT VENTURES**

The Group's share of the assets and liabilities as at 31 December 2010 and 2009 and income and expenses of the jointly controlled entities for the years ended 31 December 2010 and 2009, which are proportionally consolidated in the consolidated financial statements, are as follows:

<i>In thousands of Tenge</i>	<b>2010</b>	<b>2009</b>	<b>As at 01 January 2009</b>
Share in the statement of financial position of joint ventures:			
Current assets	<b>174,365</b>	411,792	1,664,352
Non-current assets	<b>2,092,749</b>	2,055,427	866,851
Current liabilities	<b>(51,938)</b>	(16,600)	(124,020)
Equity	<b>2,215,176</b>	2,450,619	2,407,183
Share of the joint venture's revenue and profit:			
Revenue	<b>158,854</b>	108,322	22,372
Cost of sales	<b>(141,102)</b>	(172,120)	(16,275)
General and administrative expenses	<b>(40,094)</b>	(43,230)	(18,157)
Finance costs	–	(53)	(606)
Finance income	<b>1</b>	526	6,064
Other income	<b>5,167</b>	42,220	(21,411)
Loss before taxes	<b>(17,174)</b>	(64,335)	(28,013)
Income tax expense	–	–	–
Loss for the year from continuing operations	<b>(17,174)</b>	(64,335)	(28,013)

The Group has no share of any contingent liabilities or capital commitments as at 31 December 2010 and 2009.

**7. OPERATING SEGMENT INFORMATION**

For management purposes, the Group is organised into business units based on their activities and has three reportable operating segments as follows:

- Grain cluster segment comprises purchase, sale, storage, processing and transfer of grain and all operations related to farmer's funding;
- Cotton cluster segment comprises purchase, sale, processing and storage of primary cotton;
- Horticultural cluster segment comprises growing and processing of horticultural crops.

Grain cluster segment is the Group's reporting segment; the others are insignificant and have been aggregated to form the other segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, Group financing (including finance costs and finance income) and income taxes are managed on a separate basis and are also allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

**7. OPERATING SEGMENT INFORMATION (continued)***For the year ended 31 December 2010*

<i>In thousands of Tenge</i>	Grain cluster	Other	Eliminations and adjustments	Consolidated
<b>Revenue</b>				
External customers	75,323,070	4,183,842	–	79,506,912
Inter-segment	603,956	470,957	(1,074,913) <sup>1)</sup>	–
<b>Total</b>	<b>75,927,026</b>	<b>4,654,799</b>	<b>(1,074,913)<sup>1)</sup></b>	<b>79,506,912</b>
<b>Results</b>				
Depreciation and amortization	(242,750)	(160,732)	–	(403,482)
Impairment	(222,476)	–	–	(222,476)
Finance costs	(10,199,460)	(72,740)	60,584 <sup>2)</sup>	(10,211,616)
Finance income	7,523,732	29,475	(60,584) <sup>2)</sup>	7,492,623
Income tax	(862,424)	102,067	–	(964,491)
<b>Segment profit</b>	<b>911,937</b>	<b>596,583</b>	<b>–</b>	<b>1,508,520</b>
<b>Operating assets</b>	<b>152,862,065</b>	<b>10,190,598</b>	<b>(1,448,559)<sup>2)</sup></b>	<b>161,604,104</b>
<b>Operating liabilities</b>	<b>105,321,652</b>	<b>2,277,008</b>	<b>(1,448,559)<sup>2)</sup></b>	<b>106,150,101</b>
<b>Other disclosures</b>				
Capital expenditures <sup>3)</sup>	664,600	909,304	–	1,573,904

*For the year ended 31 December 2009*

<i>In thousands of Tenge</i>	Grain cluster	Other	Eliminations and adjustments	Consolidated
<b>Revenue</b>				
External customers	53,940,189	2,765,126	–	56,705,315
Inter-segment	5,133	187,568	(192,701) <sup>1)</sup>	–
<b>Total</b>	<b>53,945,322</b>	<b>2,952,694</b>	<b>(192,701)</b>	<b>56,705,315</b>
<b>Results</b>				
Depreciation and amortization	(204,874)	(182,226)	–	(387,100)
Impairment	(452,946)	–	–	(452,946)
Finance costs	(6,435,337)	(183,839)	171,321 <sup>2)</sup>	(6,447,855)
Finance income	9,753,730	40,003	(171,321) <sup>2)</sup>	9,622,412
Income tax	(653,458)	(18,361)	–	(671,819)
<b>Segment profit</b>	<b>1,888,490</b>	<b>(168,665)</b>	<b>–</b>	<b>1,719,825</b>
<b>Operating assets</b>	<b>205,966,731</b>	<b>8,057,912</b>	<b>(2,863,441)<sup>2)</sup></b>	<b>211,161,202</b>
<b>Operating liabilities</b>	<b>165,616,056</b>	<b>3,494,629</b>	<b>(2,863,441)<sup>2)</sup></b>	<b>166,247,244</b>
<b>Other disclosures</b>				
Capital expenditures <sup>3)</sup>	1,839,391	3,084,547	–	4,923,938

1) Inter-segment revenues are eliminated on consolidation.

2) Inter-segment loans and related finance income and loss are eliminated on consolidation.

3) Capital expenditure consists of additions of property, plant and equipment and intangible assets.

In 2010 income from sale of grain to a large grain company amounted to 55% of the Group's consolidated revenue (2009: 58%)

In 2010 the Group's revenue from sales abroad amounted to 5% of the Group's consolidated revenue (2009: 13%).



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

**8. PROPERTY, PLANT AND EQUIPMENT**

The movements in property, plant and equipment for the year ended 31 December 2010 were as follows:

<i>In thousands of Tenge</i>	Land	Buildings and premises	Equipment	Vehicles	Other	Construction in progress	Total
<b>Cost:</b>							
At 1 January 2009	398,321	1,804,869	2,265,411	827,915	361,803	2,412,776	8,071,095
Additions	19,736	36,553	1,271,790	94,240	55,823	3,445,796	4,923,938
Disposals	-	-	(24,052)	(38,864)	(20,455)	(25,838)	(109,209)
Transfers	85	1,892,354	827,808	2,886	8,452	(2,731,585)	-
Transfers from investment property	16,936	235,064	-	-	-	-	252,000
Assets held for sale	(268,628)	(44,243)	(563,581)	(22,683)	(1,963)	-	(901,098)
Effect from changes in exchange rates	-	65,433	7,127	3,145	6,291	115,436	197,432
<b>At 31 December 2009</b>	<b>166,450</b>	<b>3,990,030</b>	<b>3,784,503</b>	<b>866,639</b>	<b>409,951</b>	<b>3,216,585</b>	<b>12,434,158</b>
Additions	4,320	215,218	475,131	168,155	42,459	668,621	1,573,904
Disposals	-	(9,100)	(5,440)	(11,400)	(3,022)	(4,716)	(33,678)
Transfers	126	1,013,206	70,431	71,800	(25,936)	(1,157,018)	(27,391)
Assets available for sale	-	-	-	-	-	(295,298)	(295,298)
Effect from changes in exchange rates	-	2	(8)	(339)	(218)	(48,938)	(49,501)
<b>At 31 December 2010</b>	<b>170,896</b>	<b>5,209,356</b>	<b>4,324,617</b>	<b>1,094,855</b>	<b>423,234</b>	<b>2,379,236</b>	<b>13,602,194</b>
<b>Accumulated depreciation and impairment:</b>							
At 1 January 2009	-	(301,467)	(515,923)	(273,671)	(70,753)	-	(1,161,814)
Depreciation charge	-	(73,507)	(208,668)	(82,251)	(22,431)	-	(386,857)
Impairment charge	-	-	(173,276)	-	-	(35,658)	(208,934)
Disposals	-	-	22,974	15,421	12,184	-	50,579
Transfers from investment property	-	(1,748)	-	-	-	-	(1,748)
Depreciation of assets held for sale	-	5,652	92,201	8,752	1,000	-	107,605
Effect from changes in exchange rates	-	491	205	400	104	-	1,200
<b>At 31 December 2009</b>	<b>-</b>	<b>(370,579)</b>	<b>(782,487)</b>	<b>(331,349)</b>	<b>(79,896)</b>	<b>(35,658)</b>	<b>(1,599,969)</b>
Depreciation charge	-	(109,288)	(185,266)	(88,443)	(20,485)	-	(403,482)
Impairment charge	-	-	-	-	-	(222,476)	(222,476)
Disposals	-	1,225	4,260	8,611	1,450	-	15,546
Effect from changes in exchange rates	-	-	3	36	34	-	73
<b>At 31 December 2010</b>	<b>-</b>	<b>(478,642)</b>	<b>(963,490)</b>	<b>(411,145)</b>	<b>(98,897)</b>	<b>(258,134)</b>	<b>(2,210,308)</b>
<b>Net book value</b>							
At 31 December 2009	166,450	3,619,451	3,002,016	535,290	330,055	3,180,927	10,834,189
<b>At 31 December 2010</b>	<b>170,896</b>	<b>4,730,714</b>	<b>3,361,127</b>	<b>683,710</b>	<b>324,337</b>	<b>2,121,102</b>	<b>11,391,886</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

**8. PROPERTY, PLANT AND EQUIPMENT (continued)**

As at 31 December 2010 construction in progress comprises the following significant projects:

- Design and estimate documentation ("DED") and feasibility report ("FR") for construction of plants to produce bioethanol and biodiesel totaling KZT 1,283,840 thousand that were redirected to the projects on construction of plants on advanced grain and oilseeds processing.
- DED and FR for construction of wholesale markets in Astana and Shymkent totaling KZT 698,910 thousand (2009: KZT 622,368 thousand). The Group scheduled to commence construction of wholesale markets in Astana and Shymkent in 2011 and to finish the construction of these projects in 2015.
- Project on 1,140 ha land area reclamation in order to introduce drip irrigation system to grow horticultural crops in Shengeldy area of Almaty oblast totaling KZT 62,096 thousand. Also the Group is providing power supply for pumping stations in the amount of KZT 44,226 thousand and developing FR and DED for vegetable store construction to the amount of KZT 25,308 thousand in this region.

Due to reorientation of DED and FR in 2010 on bioethanol and biodiesel production plants to the projects on construction of plants on advanced grain and oilseeds processing the Group has conducted analysis of DED and FR data actuality. According to the analysis results the Group has estimated that DED and FR on bioethanol and biodiesel production plants has lost their actuality for 15% and 20%, respectively, and recognized impairment to the amount of KZT 222,476 thousand (2009: nil).

In 2009 the Group recognized impairment of grain terminal in Baku of KZT 173,276 thousand as the carrying amount of terminal exceeded its recoverable amount. The grain terminal's recoverable amount was determined through calculation of value in use applying cash flow forecast based on five year financial plan approved by the Group's management. After tax rate used to discount cash flows was 14.6%. Cash flows for the period exceeding 5 years were extrapolated using 3% fixed growth rate, expected long-term inflation rate. The impairment relates to grain cluster segment.

In 2009 the Group recognized full impairment of grain terminal project in Batumi of KZT 35,658 thousand due to unavailability of further financing of construction. The impairment relates to grain cluster segment.

Carrying amount of machinery and equipment used by the Group under finance lease agreements and agreements of installment purchase as at 31 December 2010 amounted to KZT 442,933 thousand (2009: KZT 466,818 thousand).

As at 31 December 2010 and 2009 the Group did not have any assets pledged as security for the Group's borrowings.

In 2010 the Group has transferred purchase software from construction in progress to intangible assets recorded in other non-current assets (2009: nil).

In 2010 the Group has excluded a commercial property in Nursaya residential complex to the amount of KZT 295,298 thousand (2009: nil) from property and equipment as an asset held for sale (Note 16).

In 2010 and 2009 the Group did not capitalize any borrowing costs.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

**9. ADVANCES PAID**

As at 31 December 2010 advances paid comprised:

<i>In thousands of Tenge</i>	2010	2009
<b>Long-term advances paid:</b>		
Equipment supply and construction and assembly works	353,782	452,226
	<b>353,782</b>	<b>452,226</b>
<b>short-term advances paid:</b>		
Supply of grain	12,639,150	6,666,677
Other	107,525	208,811
	<b>12,746,675</b>	<b>6,875,488</b>
Less: allowance for doubtful debt	(647,423)	-
	<b>12,099,252</b>	<b>6,875,488</b>

As at 31 December 2010 advances paid for supply of equipment and construction and assembly works comprise advances paid for equipment for grain terminal totaling KZT 68,782 thousand (2009: KZT 194,730 thousand).

As at 31 December 2010 advances paid for supply of equipment and construction and assembly works comprise advances paid for DED and construction under horticulture products wholesale market and vegetable store construction project at the amount of KZT 285,000 thousand (2009: KZT 153,283 thousand).

As at 31 December 2010 and 2009 advances paid for supply of grain were secured by pledged land areas and grain.

The movements in the allowance for doubtful debts were as follows:

<i>In thousands of Tenge</i>	2010
Allowance for doubtful debts at the beginning of the year	-
Charge for the year	(647,423)
Allowance for doubtful debts at the end of the year	(647,423)

**10. LOANS TO FARMERS**

As at 31 December loans provided to farmers for sowing season were as follows:

<i>In thousands of Tenge</i>	2010	2009
Current loans with maturity less than 1 year	7,693,606	41,727,640
Non-current loans with maturity over 1 year	-	100,000
	<b>7,693,606</b>	<b>41,827,640</b>
Less: allowance for doubtful debt	(2,422,984)	(236,589)
	<b>5,270,622</b>	<b>41,591,051</b>
Less: loans maturing within 1 year	5,270,622	(41,491,051)
Long-term portion of loans	-	100,000

As at 31 December 2010 loans guaranteed by Kazakh commercial banks amounted to KZT 975,983 thousand (2009: KZT 35,276,246 thousand). Effective interest rate on loans guaranteed by Kazakh commercial banks was 8% per annum (2009: 8%). Residual amount of loans was secured by collateral of grain of future harvest, commercial property, land areas and agricultural equipment. Effective interest rate on such loans was 9% per annum (2009: 11%).

All loans to farmers as at 31 December 2010 and 2009 are denominated in Tenge.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### 10. LOANS TO FARMERS (continued)

The movements in the allowance for doubtful debts were as follows:

<i>In thousands of Tenge</i>	2010	2009
Allowance for doubtful debts at the beginning of the year	236,589	85,753
Charge for the year	2,254,253	150,836
Write-offs	(67,858)	–
Allowance for doubtful debts at the end of the year	2,422,984	236,589

### 11. OTHER FINANCIAL ASSETS

<i>In thousands of Tenge</i>	2010	2009
<b>Non-current other financial assets:</b>		
Interest-free loan for access to additional electrical power supply	105,947	99,950
Loans to employees	59,438	71,729
Investments available for sale	11,000	11,000
Investments in associates	–	4,850
	176,385	187,529
<b>Current other financial assets:</b>		
KZT denominated deposits	12,322,729	692,243
Loans to employees	20,802	23,539
Financial assets at fair value through profit or loss	–	4,066,508
	12,343,531	4,782,290

In 2009 financial assets at fair value through profit or loss comprised bonds of corporate issuers Corporation APK-Invest LLP and Atameken-Agro JSC designed for trade transactions. In 2010 issuers has fully repaid their liabilities to the Company having paid KZT 4,052,080 thousand in cash.

As at 31 December bank deposits were placed with Kazakhstani commercial banks with maturities from 3 to 12 months. Interest rates on Tenge and Euro denominated deposits are 6-10% (2009: 4-8%).

### 12. OTHER NON-CURRENT ASSETS

Other non-current assets comprised minimal level of grain at the amount of KZT 9,933,571 thousand as at 31 December 2010 (2009: KZT 7,956,098 thousand) according to the Regulation of the Government of the Republic of Kazakhstan No. 394 dated 28 March 2001.

As at 31 December 2010 other non-current assets also comprised of residential apartments to be sold to employees of the Group and intangible assets presented primarily by software.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

**13. INVENTORIES**

Inventories comprised the following at 31 December:

<i>In thousands of Tenge</i>	2010	2009
Grain stock	45,399,184	76,502,613
Cotton stock	979,775	1,340,752
Other inventory	991,179	653,810
	<b>47,370,138</b>	<b>78,497,175</b>

As at 31 December 2010 and 2009 the Group's management considers that inventory balances will be realized or utilized within one year at the price not lower than its carrying amount.

**14. ACCOUNTS RECEIVABLE**

<i>In thousands of Tenge</i>	2010	2009
Short-term trade accounts receivable	33,785,221	35,632,382
Other accounts receivable	502,423	347,510
	<b>34,287,644</b>	<b>35,979,892</b>
Less: allowance for doubtful debt	(1,347,139)	(9,600)
	<b>32,940,505</b>	<b>35,970,292</b>

The movements in the allowance for doubtful debts were as follows:

<i>In thousands of Tenge</i>	2010	2009
Allowance for doubtful debts at the beginning of the year	9,600	4,497
Charge for the year	1,347,139	5,576
Write-offs	(9,600)	(473)
Allowance for doubtful debts at the end of the year	<b>1,347,139</b>	<b>9,600</b>

At 31 December 2010 and 2009 the accounts receivable were denominated in various currencies as follows:

<i>In thousands of Tenge</i>	2010	2009
Tenge	32,925,952	35,743,383
US Dollars	14,553	226,909
	<b>32,940,505</b>	<b>35,970,292</b>

As at 31 December, the ageing analysis of trade receivables is as follows:

<i>In thousands of Tenge</i>	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-90 days	90-120 days	120-360 days	>360 days
2010	32,940,505	29,767,354	-	172,272	-	317,507	2,683,372
2009	35,970,292	35,921,280	48,725	8	-	279	-

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**15. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprised the following at 31 December:

<i>In thousands of Tenge</i>	2010	2009
Cash in current bank accounts, Tenge	21,991,138	15,531,954
Cash in current bank accounts, US dollars	59,376	1,328,059
Cash on current bank accounts, other currencies	54,386	20,375
Deposits with initial maturity less than 3 months, Tenge	4,266,974	–
Deposits with initial maturity less than 3 months, US dollars	–	140,942
Cash on hand, Tenge	6,852	21,080
	<b>26,378,726</b>	<b>17,042,410</b>

Deposits with initial maturity less than 3 months earn interest at the rate of 1.8-10% (2009: 1.2 - 10%).

As at 31 December 2010 and 31 December 2009 current bank accounts were pledged as collateral for loans from the Shareholder and for liabilities under finance lease with the right of claim when the terms of loan agreement and finance lease agreements are defaulted.

**16. ASSETS CLASSIFIED AS HELD FOR SALE**

On 9 March 2009 the Board of Directors declared its decision to realize its subsidiary Agrofirma Zhana-Zher LLP. In 2010 the Company was not able to finalize a transaction on sale of its subsidiary due to the reasons beyond the Company's control and plans to finalize it in 2011.

The major classes of assets and liabilities of Agrofirma Zhana-Zher LLP classified as held for sale as at 31 December 2010 and 2009 are as follows:

<i>In thousands of Tenge</i>	2010	2009
<b>Assets</b>		
Property plant and equipment (Note 8)	892,528	793,493
Deferred tax asset	–	18,082
Other non-current assets	43	69
Inventories	10,364	183,891
Accounts receivable	14	15,117
Amounts due from banks relating to assets classified as held for sale	21	2,411
Other current assets	1,459	853
	<b>904,429</b>	<b>1,013,916</b>
<b>Liabilities</b>		
Deferred tax liability	1,186	–
Accounts payable	236,298	179,614
	<b>237,484</b>	<b>179,614</b>
<b>Net assets</b>	<b>666,945</b>	<b>834,302</b>

Other assets classified as held for sale as at 31 December 2010 represent commercial property in Nursaya residential complex and elevator complex totaling KZT 295,298 thousand and KZT 655,295 thousand, respectively (2009: nil). It is planned to finalize the sales on them in 2011.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**17. EQUITY***Authorised share capital (number of shares)*

<i>In thousands of Tenge</i>	<b>2010</b>	2009
Ordinary shares	<b>44,877,483</b>	34,267,483
	<b>44,877,483</b>	34,267,483

During the reporting period authorized share capital was increased by KZT 10,610,000 thousand through issue of 10,610,000 ordinary shares with nominal value KZT 1,000 each.

*Issued and fully paid ordinary shares*

	Number	In thousands of Tenge
At 1 January 2009	32,790,683	32,790,683
Issued in 2009 and paid by cash	1,476,800	1,476,800
As at 31 December 2009	34,267,483	34,267,483
Issued in 2010 and paid by cash	10,610,000	10,610,000
<b>As at 31 December 2010</b>	<b>44,877,483</b>	<b>44,877,483</b>

**Additional paid-in capital**

Additional paid-in capital at the amount of KZT 39,745 thousand represents excess of property and equipment value contributed to the share capital over nominal value of share capital.

**Dividends**

According to the decision of the Board of Directors dated 28 May 2010 dividends at the amount of KZT 800,257 thousand were declared, KZT 200,065 thousand of which were paid in 2010 (2009: KZT 206,155 thousand).

**Foreign currency translation reserve**

The foreign currency translation reserve is used to record exchange differences arising from the translation of functional currencies of the foreign subsidiaries to Tenge, whose financial statements are included in these consolidated financial statements in accordance with the accounting policy disclosed in Note 3.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### 17. EQUITY (continued)

#### Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are equal to basic earnings per share, as the Group does not have any dilutive potential ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations.

<i>In thousands of Tenge</i>	2010	2009
Net Profit for the year	1,532,850	1,721,814
Net Profit attributable to ordinary equity holders of the parent for basic earnings computation	1,532,850	1,721,814
Number of ordinary shares basic earnings computation	38,963,611	33,508,256
Basic and diluted (loss) / earnings per share, Tenge	39.34	51.38

### 18. BORROWINGS

Borrowings comprised the following at 31 December 2009:

<i>In thousands of Tenge</i>	Currency	Maturity	Effective interest rate	2010	2009
Ministry of Agriculture National Managing Holding KazAgro JSC	Tenge	December 2011	6.37%	10,600,568	20,307,898
Halyk Savings Bank of Kazakhstan JSC	Tenge	February – August 2011	6,35%	26,351,589	88,603,041
ABN AMRO BANK N.V.	US Dollars	June 2010 September 2010,	12,5%	–	18,193,760
SOCIETE GENERALE BNP PARIBAS (SUISSE) S.A.	US Dollars	April 2010	6,58*%	–	7,424,712
Citibank Kazakhstan	US Dollars	April 2011	6,8%	–	4,505,446
		August 2011	12 months Libor + 4%	6,755,627	7,026,308
		April 2011	4,95%	3,685,000	–
				47,392,784	146,061,165
Less current portion of loans				47,392,784	146,061,165
Non-current portion of loans				–	–

\*With the interest swap effect

Loan from the Ministry of Agriculture of the Republic of Kazakhstan is interest free and its purpose is to finance state grain purchase program. The loan is unsecured. Tranches obtained in 2010 were recognized at fair value as at the date when they were received and recorded subsequently at amortised cost. The difference between tranches obtained and fair value of tranches as at the date of receipt was recognized as finance income in the statement of comprehensive income. As at 31 December 2010 the loan comprised unamortized discount of KZT 649,432 thousand.

A loan from Parent is designed to finance the subjects of agroindustrial complex, including conducting of spring sowing campaign. The loan interest is 1.02%. Tranches obtained in 2010 were recognized at fair value as at the date when they were received and recorded subsequently at amortised cost. The difference between tranches obtained and fair value of tranches as at the date of receipt was recognized as finance income in the statement of comprehensive income. As at 31



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**18. BORROWINGS (continued)**

December 2010 the loan comprised unamortized discount of KZT 558,812 thousand. The loan is secured by the Group's current bank accounts.

During 2010 the Company has fully early repaid loans from Halyk Bank of Kazakhstan JSC and ABN AMRO BANK N.V. Loan from SOCIETE GENERALE was repaid by the Company according to the schedule.

In April 2010, the Company has obtained the loan of USD 25,000,000 under the facility of Citibank Kazakhstan JSC within the limits of Current Loans Agreement dated 19 December 2008. In 2010 the Group continued financing its working capital through loans from BNP PARIBAS (SUISSE) S.A. on the basis of current loan facilities.

During 2010 and 2009 the Group has used swap contracts to manage its operating risks. Thus, on 6 October 2008 the Company entered into interest swap contract with London branch of ABN AMRO BANK N.V. ("Bank"). In accordance with interest swap contract the Company has paid fixed rate interest of 5.99% per annum to the Bank, and the Bank has paid floating interest rate of 3 months Libor plus 2.25% to the Company. This instrument was closed by the Group in 2010.

**19. FINANCE LEASE LIABILITIES**

In November 2009 the Group obtained equipment totaling KZT 439,757 thousand under finance lease agreement with Kazagrofinance JSC, related party. Finance lease agreement was signed for 8 years with interest of 4.3%.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments comprised the following:

<i>In thousands of Tenge</i>	2010		2009	
	Minimum lease payments	Present value of payments	Minimum lease payments	Present value of payments
Within one year	63,643	53,193	63,225	50,746
After one year but not more than five years	223,274	202,679	285,387	253,425
After five years	47,236	45,860	46,319	45,860
Total minimum lease payments	334,153	301,732	394,931	350,031
Less unamortized discount	(32,421)	–	(44,900)	–
Present value of minimum lease payments	301,732	301,732	350,031	350,031

Finance lease liabilities were secured by cash balances on bank accounts.

**20. DEBT SECURITIES ISSUED**

Debt securities issued at KASE comprised the following at 31 December:

<i>In thousands of Tenge</i>	Maturity	Interest rate	2010	2009
Bonds issued – 2 issue	March 2013	8%	15,000,000	15,000,000
Bonds issued – 3 issue	February 2013	10.5%	15,000,000	–
Bonds issued – 4 issue	October 2013	9%	22,000,000	–
Unamortized premium / (discount) on debt liabilities issued			72,163	(54,937)
Interest accrued on debt securities issued			1,962,750	960,000
			54,034,913	15,905,063
Less current portion of debt securities issued			(1,962,750)	(960,000)
Non-current portion of debt securities issued			52,072,163	14,945,063

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**21. ACCOUNTS PAYABLE**

Accounts payable comprised the following at 31 December 2010:

<i>In thousands of Tenge</i>	2010	2009
Accounts payable for grain supply	346,396	2,045,307
Other accounts payable	108,734	118,921
	<b>455,130</b>	<b>2,164,228</b>

At 31 December accounts payable were denominated in various currencies as follows:

	2010	2009
Tenge	443,901	2,143,898
Other currencies	11,229	20,330
	<b>455,130</b>	<b>2,164,228</b>

**22. REVENUE**

Revenue for the years ended 31 December comprised the following:

<i>In thousands of Tenge</i>	2010	2009
Revenue from sales of grain	73,644,542	51,779,683
Revenue from sales of cotton	3,631,644	2,660,295
Revenue from services rendered	1,369,732	1,613,911
Revenue from sales of tomato paste	333,442	144,819
Revenue from sales of tomato	151,903	13,074
Other	375,649	493,533
	<b>79,506,912</b>	<b>56,705,315</b>

**23. COST OF SALES**

Cost of sales for the years ended 31 December comprised the following:

<i>In thousands of Tenge</i>	2010	2009
Cost of grain sold	59,521,297	42,141,732
Cost of cotton sold	2,646,517	2,453,384
Salaries and taxes	776,249	478,203
Depreciation and amortization	309,810	290,928
Cost of tomato paste sold	83,082	1,234
Cost of tomato sold	7,809	5,179
Other	485,746	170,655
	<b>63,830,510</b>	<b>45,541,315</b>



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**24. GENERAL AND ADMINISTRATIVE EXPENSES**

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

<i>In thousands of Tenge</i>	<b>2010</b>	<b>2009</b>
Allowances for doubtful debt	<b>4,180,957</b>	156,412
Salaries and taxes	<b>1,115,243</b>	936,365
Taxes other than income tax	<b>229,347</b>	1,970,610
Depreciation and amortization	<b>79,509</b>	78,599
Rent	<b>50,186</b>	60,988
Social events	<b>41,629</b>	5,476
Repair and maintenance	<b>34,963</b>	9,048
Communication	<b>34,440</b>	43,235
Materials	<b>21,480</b>	43,398
Utilities	<b>12,481</b>	9,654
Other	<b>326,480</b>	214,254
	<b>6,126,715</b>	<b>3,528,039</b>

Due to poor grains crop in 2010 owing to bad weather conditions and drought the farms were not able to repay their liabilities to the Group in proper time on advances issued for grain supply, loans issued and accounts receivable. In this respect the Group has recognized significant provisions on bad debts in these consolidated financial statements.

Tax expenses in 2009 are mainly represented by write-off of VAT not allowed for reimbursement.

**25. SELLING EXPENSES**

Selling expenses for the years ended 31 December comprised the following:

<i>In thousands of Tenge</i>	<b>2010</b>	<b>2009</b>
Grain storage	<b>3,391,422</b>	959,944
Loading operations and rail way	<b>466,687</b>	79,123
Shipping	<b>363,668</b>	1,222,697
Salaries and taxes	<b>333,723</b>	263,813
Materials	<b>22,464</b>	45,970
Depreciation and amortization	<b>14,163</b>	18,577
Marketing	<b>4,288</b>	10,637
Other	<b>265,680</b>	200,350
	<b>4,862,095</b>	<b>2,801,111</b>

During the year ended 31 December 2010 the Group obtained government grants totaling KZT 2,671,475 thousand (2009: KZT 1,150,292 thousand) in consideration of grain storage expenses; thus, the Group's grain storage expenses were decreased by the amount of reimbursement received.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### 26. FINANCE INCOME/COSTS

Finance income for the years ended 31 December comprised the following:

<i>In thousands of Tenge</i>	2010	2009
Interest income on loans to farmers	2,182,691	3,727,613
Discounting of loans from the Ministry of Agriculture and from Shareholder	3,877,955	4,833,570
Interest income on bank deposits and current accounts	891,858	611,470
Income from prolongation of loans to farmers	278,203	365,047
Fair value of interest swap	162,023	–
Interest income accrued on financial assets at fair value through profit or loss	20,628	38,100
Income from changes in fair value of financial assets	10,574	28,408
Interest income on loans to employees	5,467	7,342
Other	63,224	10,862
	<b>7,492,623</b>	<b>9,622,412</b>

Finance costs for the years ended 31 December comprised the following:

<i>In thousands of Tenge</i>	2010	2009
Interest costs on loans received	1,833,840	2,488,146
Unwinding of discount of loans from the Ministry of Agriculture and from Shareholder	5,203,000	2,300,279
Interest costs on debt securities issued	3,024,032	1,233,359
Fair value of interest swap	–	264,197
Other	150,744	161,874
	<b>10,211,616</b>	<b>6,447,855</b>

### 27. OTHER INCOME / EXPENSE

Other income for the years ended 31 December comprised the following:

<i>In thousands of Tenge</i>	2010	2009
Fines and penalties under supply agreements	461,459	1,164,252
Income from sale of property and equipment, net	1,949	209
Other income	187,161	206,102
	<b>650,569</b>	<b>1,370,563</b>

Other expenses for the years ended 31 December comprised the following:

<i>In thousands of Tenge</i>	2010	2009
Other expenses	20,573	55,474
	<b>20,573</b>	<b>55,474</b>

### 28. INCOME TAX

The Group is subject to corporate income tax at the prevailing statutory rate of 20%. The major components of income tax expense in the consolidated financial statements are:

<i>In thousands of Tenge</i>	2010	2008
Current income tax charge	1,166,478	399,712
Benefit on current income tax of prior periods	–	(150,685)
Deferred income tax (benefit) / charge	(201,987)	422,792
	<b>964,491</b>	<b>671,819</b>



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

**28. INCOME TAX (continued)**

A reconciliation of income tax expense applicable to profit before income tax at the statutory income tax rate of 20% to current income tax expense was as follows for the year ended 31 December 2010:

<i>In thousands of Tenge</i>	2010	2008
Income before taxes	2,473,011	2,391,644
Income tax at statutory income tax rate of 20%.	494,602	478,329
Impairment of advances given and loans to farmers	241,983	—
Change in opening deferred tax resulting from change in tax rate	14,693	(27,471)
Non-deductible expenses	213,213	220,961
<b>Total income tax expense</b>	<b>964,491</b>	<b>671,819</b>

Deferred tax balances, calculated by applying the statutory tax rates in effect at the reporting date to the temporary differences between the basis of assets and liabilities and the amounts reported in the consolidated financial statements, are comprised of the following at 31 December 2010:

<i>In thousands of Tenge</i>	Consolidated income statement for 2010				At 31 December 2010 as stated in non-current assets and liabilities
	At 1 January 2010 as stated in on-current assets and liabilities	Origination and reversal of temporary difference	Effect of the change in tax rate	Assets held for sale at 31 December 2010	
<b>Deferred tax assets:</b>					
Interest swap	52,839	(52,839)	—	—	—
Accounts receivable	48,073	215,267	—	—	263,340
Tax losses carry-forward	15,572	(9,473)	—	—	6,099
Accrued vacations	13,909	(6,066)	—	—	7,843
Other	65,905	(58,298)	—	—	7,607
Less: deferred tax assets less deferred tax liabilities	(128,772)	(155,008)	—	—	(283,780)
<b>Deferred tax assets</b>	<b>67,526</b>	<b>(66,417)</b>	<b>—</b>	<b>—</b>	<b>1,109</b>
<b>Deferred tax liabilities</b>					
Property, plant and equipment	162,152	126,287	14,693	1,186	301,946
Interest free loan discounting	506,658	(265,009)	—	—	241,649
Other	8,843	10,633	—	—	19,476
Less: deferred tax assets less deferred tax liabilities	(128,772)	(155,008)	—	—	(283,780)
<b>Deferred tax liabilities</b>	<b>548,881</b>	<b>(283,097)</b>	<b>14,693</b>	<b>1,186</b>	<b>279,291</b>
Net tax loss / (income)	—	(216,680)	14,693	—	—
<b>Net deferred tax liabilities / (assets)</b>	<b>481,355</b>	<b>—</b>	<b>—</b>	<b>1,186</b>	<b>278,182</b>
Including:					
Net deferred tax assets	67,526	—	—	—	1,109
Net deferred tax liabilities	(548,881)	—	—	—	(279,291)
Net deferred tax assets on assets available for sale	—	—	—	(1,186)	—

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

**28. INCOME TAX (continued)**

<i>In thousands of Tenge</i>	Consolidated income statement for 2009				At 31 December 2009 as stated in non-current assets and liabilities	At 31 December 2009 as stated in non-current assets and liabilities
	At 31 December 2009 as stated in non-current assets and liabilities	Origination and reversal of temporary difference	Effect of the change in tax rate	Assets available for sale at 31 December 2009		
<b>Deferred tax assets:</b>						
Interest swap	-	52,839	-	-	-	52,839
Accounts receivable	14,303	33,770	-	-	-	48,073
Tax losses carry-forward	28,454	5,200	-	18,082	-	15,572
Accrued vacations	3,439	10,470	-	-	-	13,909
Other	6,193	59,712	-	-	-	65,905
Less: deferred tax assets less deferred tax liabilities	-	(128,772)	-	-	-	(128,772)
<b>Deferred tax assets</b>	<b>52,389</b>	<b>33,219</b>	<b>-</b>	<b>18,082</b>	<b>-</b>	<b>67,526</b>
<b>Deferred tax liabilities</b>						
Property, plant and equipment	92,870	96,753	(27,471)	-	-	162,152
Interest free loan discounting	-	506,658	-	-	-	506,658
Other	-	8,843	-	-	-	8,843
Less: deferred tax assets less deferred tax liabilities	-	(128,772)	-	-	-	(128,772)
<b>Deferred tax liabilities</b>	<b>92,870</b>	<b>483,482</b>	<b>(27,471)</b>	<b>-</b>	<b>-</b>	<b>548,881</b>
Net tax loss / (income)	-	450,263	(27,471)	-	-	-
<b>Net deferred tax liabilities / (assets)</b>	<b>40,481</b>	<b>-</b>	<b>-</b>	<b>(18,082)</b>	<b>-</b>	<b>481,355</b>
Including:						
Net deferred tax assets	52,389	-	-	-	-	67,526
Net deferred tax liabilities	(92,870)	-	-	-	-	(548,881)
Net deferred tax assets on assets available for sale	-	-	-	18,082	-	-

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. There were no any unrecognized deferred tax assets on tax losses carry forward at 31 December 2010 and 2009.

In November 2010 the Government of the Republic of Kazakhstan has approved changes in tax code effective from 1 January 2011, according to which established tax rates were changed to 20% for all future periods. The Group's calculation of deferred tax and income tax expense reflects these changes in the tax law.

The movements in the net deferred tax liability were as follows for the years ended December 31:

<i>In thousands of Tenge</i>	2010	2009
Opening balance as of January 1	481,355	40,481
Origination and reversal of temporary differences	(216,680)	450,263
Change in opening deferred tax resulting from change in tax rate	14,693	(27,471)
Deferred tax on assets held for sale	(1,186)	18,082
<b>Closing balance as of December 31</b>	<b>278,182</b>	<b>481,355</b>



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**29. RELATED PARTY TRANSACTIONS**

The category 'parent-controlled entities' comprises entities controlled by the Parent.

**Terms and conditions of transactions with related parties**

Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates. Outstanding balances at the year-end are unsecured, short-term and settlement occurs in cash, except as discussed below.

As at 31 December 2010 and 2009, the Group has not recorded any impairment of accounts receivables relating to amounts owned by related parties.

The balances with the Shareholder and entities under common control at 31 December 2010 and 2009 were as follows:

<i>In thousands of Tenge</i>	<b>Accounts receivable</b>		<b>Accounts payable</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Kazagrofinance JSC	385	477	302,117	–
KazAgroGarant JSC	–	–	220	298
Kazagromarketing JSC	–	–	176	–
	<b>385</b>	<b>477</b>	<b>302,513</b>	<b>298</b>

Sales and purchases with the Parent and entities under common control during the years ended 31 December 2010 and 2009 and the years ended 31 December were as follows:

<i>In thousands of Tenge</i>	<b>Sales</b>		<b>Purchases</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
NMH KazAgro JSC	–	7,732	3,002,594	432,762
Kazagrofinance JSC	–	–	12,161	–
KazAgroGarant JSC	–	–	5,074	2,539
Kazagromarketing JSC	–	55	–	1,179
	–	<b>7,787</b>	<b>3,019,829</b>	<b>436,480</b>

<i>In thousands of Tenge</i>	<b>Liability on loans</b>		<b>Finance lease liabilities</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
KazAgroFinance JSC	–	–	301,732	350,031
NMH KazAgro JSC	26,351,589	88,603,041	–	–
Ministry of agriculture of RK	10,600,568	20,307,898	–	–
	<b>36,952,157</b>	<b>108,910,939</b>	<b>301,732</b>	<b>350,031</b>

**Compensation to key management personnel of the Group**

Key management personnel comprise members of the Group's Board and Board of Directors (7 persons as at 31 December 2010 (2009: 6 persons)).

Compensation to key management personnel of the Group for the years ended 31 December 2010 and 2009 was KZT 51,551 thousand and KZT 56,336 thousand, respectively, and included salary. The remuneration of key management personnel of the Group is determined by the Board of Directors.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES**

The Group's principal financial instruments consist of loans received, finance lease liabilities, debt liabilities, cash and short-term deposits as well as loans issued, accounts receivable and accounts payable. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and credit risk. The Group further monitors the market risk and liquidity risk arising from all financial instruments.

**Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Company's borrowings with floating interest rates.

The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. Also, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2010, after taking into account the effect of interest rate swaps, approximately 86% of the Group's borrowings are at a fixed rate of interest (2009: 100%).

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before income tax (through the impact on floating rate borrowings including interest swap effect). There is no impact on the Group's equity.

<i>In thousands of Tenge</i>	2010	Effect on profit before tax	2009	Effect on profit before tax
	Increase / (decrease) in basis points		Increase / (decrease) in basis points	
US Dollars	+100	(67,556)	+100	–
	-25	16,889	-25	–

\* 1 basis point = 0,01%

**Currency risk**

As a result of significant loans received, accounts receivable, cash and cash equivalents denominated in the US Dollars, the Group's consolidated statement of financial position can be affected significantly by movement in the US Dollar / Tenge exchange rates.

The following table demonstrates the sensitivity to a reasonably possible changes in the US Dollar exchange rates, with all the variables held constant, of the Group's profit before income tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Group's equity.

<i>In thousands of Tenge</i>	2010	Effect on profit before tax	2009	Effect on profit before tax
	Increase / (decrease) in exchange rate		Increase / (decrease) in exchange rate	
US Dollars	+11.56%	(1,192,761)	+10%	1,726,651
	-11.56%	1,192,761	-15%	(2,589,976)



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)****Market risk**

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency, and securities, all of which are exposed to general and specific market movements. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing appropriate margin and collateral requirements.

**Credit risk**

The Group trades only with recognised, creditworthy parties. It is the Group's policy that all customers and farmers who wish to trade on credit terms and receive loans, respectively, are subject to credit verification procedures and provide guarantees from the 2-tier banks, collateral in the form of grain or other property. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in Note 10, 11, 14 and 15.

*Concentration of credit risk*

In 2010 accounts receivable from sales of grain to three large groups of grain companies amounted to 90% of the Group's consolidated accounts receivable (2009: 89%).

With respect to credit risk arising from other financial assets of the Group, comprising cash and cash equivalents and other financial assets, the Group's exposure to credit risk arises from default of counterparty, with a maximum exposure equal to the carrying amount of these financial instruments.

The Group places its cash and cash equivalents with financial institutions with default risk evaluated as minimal as at the date of placement.

**Fair value of financial instruments**

Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between knowledgeable willing parties according to arm's length conditions, other than in a forced or liquidation sale.

<i>In thousands of Tenge</i>	<b>Carrying amount</b>		<b>Fair value</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Financial assets</b>				
Cash and cash equivalents	<b>26,378,726</b>	17,042,410	<b>26,378,726</b>	17,042,410
Accounts receivable	<b>32,940,505</b>	35,970,292	<b>32,690,505</b>	35,970,292
Bank deposits	<b>12,322,729</b>	692,243	<b>12,322,729</b>	692,243
Loans to customers	<b>5,270,622</b>	41,591,051	<b>5,270,622</b>	41,591,051
Loans to employees	<b>80,240</b>	23,539	<b>80,240</b>	23,539
Securities	–	4,066,508	–	4,066,508
Other financial assets	<b>116,947</b>	211,068	<b>116,947</b>	211,068
<b>Financial liabilities</b>				
Fixed interest rate loans	<b>40,637,157</b>	146,061,165	<b>40,637,157</b>	146,805,302
Floating interest rate loans	<b>6,755,627</b>	–	<b>6,755,627</b>	–
Finance lease liabilities	<b>301,732</b>	350,031	<b>273,796</b>	330,031

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

**30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)****Liquidity risk**

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of loans, equity securities and finance leases.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010 based on contractual undiscounted payments:

<i>In thousands of Tenge</i>	On demand	Due later than one month but not later than three months	Due later than one year but not later than one year	Due later than one year but not later than five years	Due after five years	Total
<b>As at 31 December 2010</b>						
Borrowings	-	-	47,392,784	-	-	47,392,784
Finance lease liabilities	-	-	63,643	270,510	-	334,153
Accounts payable	313,401	141,729	-	-	-	455,130
Dividends payable	-	600,192	-	-	-	600,192
Debt securities	-	-	1,962,750	52,000,000	-	53,962,750
	<b>313,401</b>	<b>741,921</b>	<b>49,419,177</b>	<b>52,270,510</b>	-	<b>102,745,009</b>
<b>As of 31 December 2009</b>						
Borrowings	8,111,491	35,459,467	109,605,307	-	-	153,176,265
Finance lease liabilities	-	54,971	8,255	285,387	46,318	394,931
Accounts payable	141,464	2,022,764	-	-	-	2,164,228
Debt securities	-	-	960,000	14,945,063	-	15,905,063
	<b>8,252,955</b>	<b>37,537,202</b>	<b>110,573,562</b>	<b>15,230,450</b>	<b>46,318</b>	<b>171,640,487</b>

**Cash flow risk**

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount.

Cash flow requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise. The management of the Group believes that any possible fluctuations of future cash flows associated with a monetary financial instrument will not have material impact on the Group's operations.

**Capital management**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the holders of ordinary shares or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 2009.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### 30. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

#### Capital management (continued)

The Group monitors capital using a debt-to-equity ratio, which is net debt divided by total capital. The Group's policy is to keep the ratio not greater than 1. The Group includes within net debt loans, debt securities, finance lease liabilities and trade accounts payable less cash and current deposits. Capital includes equity attributable to the equity holders of the Group.

The debt-to-equity ratio at the year end was as follows:

<i>In thousands of Tenge</i>	2010	2009
Borrowings	47,392,784	146,061,165
Debt securities	54,034,913	15,905,063
Finance lease liabilities	301,732	350,031
Accounts payable	455,130	2,164,228
Less cash	(26,378,726)	(17,042,410)
<b>Net debt</b>	<b>75,805,833</b>	<b>147,438,077</b>
Equity attributable to the Group's shareholder	56,977,346	45,728,770
<b>Equity and net debt</b>	<b>132,783,179</b>	<b>193,166,847</b>
<b>Debt-to-equity ratio</b>	<b>0.57</b>	<b>0.76</b>

### 31. COMMITMENTS AND CONTINGENCIES

#### Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. In addition, management believes that international agreements, under which the Group works with non-residents, and which provide for certain tax exemptions, have a priority over national tax legislation. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2010. Management believes that as at 31 December 2010 its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained.

#### Transfer pricing monitoring

Transfer pricing monitoring in the Republic of Kazakhstan has a very broad scope and is applied to a range of transactions that directly or indirectly relate to international transactions, irrespective whether those transactions are with related party or not. Transfer pricing regulation requires that all the taxes applicable to transactions are calculated based on market prices. A new Kazakhstan transfer pricing statute was introduced effective from 1 January 2009. The new statute is not distinct, some of its provisions has little application experience. Moreover the statute does not give the detailed instructions that are currently under the development. As a result the application of transfer pricing statute is not distinct. Due to uncertainties connected with transfer pricing statute there is a risk that the position of tax authorities will be different from that of the Group. The management of the Group believes that its application of transfer pricing statute is appropriate as at 31 December 2010 and no additional provisions need to be accrued in the financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**(continued)

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**32. SUBSEQUENT EVENTS**

During the 1st quarter of 2011 the Group has paid KZT 600,192 thousand of dividends declared and not paid in as at 31 December 2010.

On 29 January 2011 the Group has concluded a loan agreement with the Shareholder in the amount of KZT 39,000,000 thousand for financing the entities of agricultural complex, including the spring sowing campaign. Under this agreement the Group has received the first tranche in amount of KZT 2,411,621 thousand. The interest rate of the loan is 0.5% per annum. The loan is repayable on 20 December 2011. Also during the 1st quarter of 2011 the Group has partially repaid its obligations under the loan agreements #19 and #54 in amounts of KZT 8,742,488 thousand and KZT 1,863,901 thousand respectively.

In accordance with regulation of the Government of the Republic of Kazakhstan dated 7 February 2011 No. 86 an amount from budget was determined to purchase grain for government resources from 2011 harvest:

- By spring-summer financing totaling KZT 6,375,000 thousand;
- In autumn totaling KZT 6,375,000 thousand.

On 16 February 2011 the Group entered into a loan agreement with the Ministry of Agriculture, under which KZT 6,375,000 thousand were obtained. The loan is repayable in 20 December 2012.