JOINT STOCK COMPANY
FOOD CONTRACT
CORPORATION
AND ITS SUBSIDIARIES

Consolidated Financial Statements
Year Ended December 31, 2004

and Independent Auditors' Report

JOINT STOCK COMPANY FOOD CONTRACT CORPORATION AND ITS SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Joint Stock Company Food Contract Corporation:

We have audited the accompanying consolidated balance sheet of Joint Stock Company Food Contract Corporation (the "Company") and its subsidiaries (the "Group") as at December 31, 2004 and the related consolidated statements of income, changes in shareholders' equity and cash flows (the "consolidated financial statements") for the year then ended. These consolidated financial statements are the responsibility of the Group's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2004, and the consolidated results of the Group's operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche

March 28, 2005

JOINT STOCK COMPANY FOOD CONTRACT CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 2004
(in thousands of Kazakhstani tenge)

	Notes	2004	2003
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment, net	4	1,559,902	1,375,511
Goodwill, net	5	203,283	225,871
Intangible assets, net		1,662	2,000
Advances paid		-	111,510
Investments in associates	6	6,439	5,577
		1,771,286	1,720,469
CURRENT ASSETS:			
Inventories, net	7	22,207,505	23,233,065
Accounts receivable, net	8	6,547,003	8,795,296
Value added tax and other taxes receivable	9	2,818,973	3,708,965
Advances paid	10	2,529,026	253,383
Short-term investments	11	3,232,208	3,146,334
Cash and cash equivalents	12	11,540,930	3,704,486
		48,875,645	42,841,529
TOTAL ASSETS		50,646,931	44,561,998
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY:			
Share capital	13	7,491,583	45,762
Unpaid capital	13	(7,000,000)	-
Additional paid-in-capital	13	39,745	-
Seed grain recourses fund	14	1,692,254	1,692,254
Retained earnings and reserve capital		8,426,934	8,392,128
		10,650,516	10,130,144
DEFERRED TAX LIABILITIES, NET	15	77,048	42,935
NON-CURRENT LIABILITIES:			
Long-term bank loans	16	8,525,525	5,166,570
CURRENT LIABILITIES:			
Accounts payable	17	429,126	2,863,144
Advances received	18	6,522,002	4,335
Tax liability		9,812	15,931
Short-term bank loans	19	24,432,902	26,338,939
		31,393,842	29,222,349
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		50,646,931	44,561,998

On behalf of the Group's Management:

Bisembayev A.A.	Baizirova N.A.
First Vice-President	Chief Accountant
March 28, 2005	March 28, 2005
Astana	Astana

The notes on pages 7 to 25 form an integral part of these consolidated financial statements. The independent auditors' report is on page 1.

JOINT STOCK COMPANY FOOD CONTRACT CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2004
(in thousands of Kazakhstani tenge)

	Notes	2004	2003
REVENUE	20	30,222,470	33,465,034
COST OF SALES	21	(28,037,679)	(29,658,975)
GROSS PROFIT		2,184,791	3,806,059
General and administrative expenses	22	(2,221,619)	(614,282)
Selling expenses	23	(1,841,540)	(3,019,981)
OPERATING PROFIT		(1,878,368)	171,796
Finance cost, net	24	(1,624,281)	(865,295)
Income from associates	6	862	4,655
Other income, net	25	2,856,680	1,095,867
Foreign exchange gain, net		1,511,748	543,593
PROFIT BEFORE INCOME TAX		866,641	950,616
INCOME TAX	15	(445,196)	(422,205)
NET PROFIT for the year		421,445	528,411

On behalf of the Group's Management:

Bisembayev A.A.	Baizirova N.A.
First Vice-President	Chief Accountant
March 28, 2005	March 28, 2005
Astana	Astana

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JOINT STOCK COMPANY FOOD CONTRACT CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2004
(in thousands of Kazakhstani tenge)

	Notes	Share capital	Unpaid capital	Additional paid-in capital	Retained earnings and reserved capital	Seed grain resources fund	Total shareholders' equity
Balance January 1, 2003		45,762	-	-	8,047,094	-	8,092,856
Net profit		-	-	-	528,411	-	528,411
Dividends declared and paid		-	-	-	(183,377)	-	(183,377)
Establishment of seed grain resources fund	14	-	-	-	-	1,692,254	1,692,254
Balance December 31, 2003		45,762	-	-	8,392,128	1,692,254	10,130,144
Share issuance	13	7,445,821	(7,000,000)	39,745	-	-	485,566
Net profit		-	-	-	421,445	-	421,445
Dividends declared and paid		-	-	-	(386,639)	-	(386,639)
Balance December 31, 2004		**7,491,583**	**(7,000,000)**	**39,745**	**8,426,934**	**1,692,254**	**10,650,516**

On behalf of the Group's Management:

Bisembayev A.A.
First Vice-President

March 28, 2005
Astana

Baizirova N.A.
Chief Accountant

March 28, 2005
Astana

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JOINT STOCK COMPANY FOOD CONTRACT CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004
(in thousands of Kazakhstani tenge)

	2004	2003
OPERATING ACTIVITIES:		
Profit before income tax	866,641	950,616
Adjustments for:		
Depreciation	92,071	78,979
Amortization	1,002	1,232
Change in provision for write-off of inventory to net realizable value	(109,488)	109,488
Loss/(profit) on disposal of property, plant and equipment and intangible	386,420	(13,445)
Goodwill amortization	22,588	5,804
Provision for deposits	1,381,169	-
Change in provision for doubtful accounts	122,539	(32,796)
Foreign exchange difference	(1,511,748)	(811,945)
Income from associates	(862)	(4,655)
Finance costs, net	1,624,281	865,295
Operating cash flow before movements in working capital	2,874,613	1,148,573
Decrease/(increase) in accounts receivable	1,809,471	(6,762,649)
Increase in short-term investments	(1,456,043)	(3,146,333)
Decrease/(increase) in advances prepaid	2,835,832	(340,844)
Decrease/(increase) in VAT and other taxes receivable	958,218	(1,304,475)
Decrease/(increase) in inventories	1,135,048	(5,279,451)
(Decrease)/increase in accounts payable	(2,434,018)	170,870
Increase/(decrease) in advances received	6,517,667	(4,282,687)
Cash from/(used in) operations	12,240,788	(19,796,996)
Income tax paid	(485,428)	(550,630)
Interest and coupons paid	(1,244,811)	(623,277)
Net cash from/(used in) operating activities	10,510,549	(20,970,903)
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(262,775)	(259,327)
(Loss)/proceeds on disposal of property, plant and equipment	-	91,329
Acquisition of associate	-	(922)
Acquisition of investments	(11,000)	
Purchase of intangible assets	(1,026)	(1,963)
Purchase of subsidiaries less cash acquired	-	(87,768)
Net cash used in investing activities	(274,801)	(286,651)

JOINT STOCK COMPANY FOOD CONTRACT CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS (C0NTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004
(in thousands of Kazakhstani tenge)

	2004	2003
FINANCING ACTIVITIES:		
Proceeds from issuance of capital stock	85,821	-
Receipt of state financing	6,208,382	5,500,000
Proceeds from loans for purchase of commercial grain resources	37,225,125	26,186,483
Receipt of funds from corporate bonds placement	3,000,000	-
Repayment of loans and financing	(48,531,993)	(8,966,306)
Dividends paid	(386,639)	(183,377)
Net cash (used in)/from financing activities	(2,399,304)	22,536,800
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,836,444	1,307,246
CASH AND CASH EQUIVALENTS, beginning of the year	3,704,486	2,397,240
CASH AND CASH EQUIVALENTS, end of the year	11,540,930	3,704,486

During 2004 non-cash transactions include receipt of property, plant and equipment amounting to 399,745 thousand tenge from the State Property Committee of the Republic of Kazakhstan as a contribution to the share capital (see Note 13).

During 2004 the Group also issued promissory notes in the amount of 4,999,965 thousand tenge under grain purchase contracts with domestic suppliers. Promissory notes were issued in accordance with Order of the Ministry of Agriculture of the Republic of Kazakhstan #177 as of April 3, 2004 and have been used for the purpose of advance payments to grain suppliers during 2004. The maturity date is January 20, 2005 (see Note 19).

During 2003 non-cash transactions include amounts received from the Ministry of Agriculture of the Republic of Kazakhstan in the amount of KZT 1,692,254 thousand received for the purpose of establishing a seed grain fund (see Note 14).

During 2003 the Group also had the following non-cash transactions related to acquisition of subsidiaries:

a) Acquisition of subsidiaries' property, plant and equipment in the amount of KZT 616,387 thousand.
b) Acquisition of accounts receivable in the amount of KZT 22,049 thousand.
c) Acquisition of accounts payable in the amount of KZT 42,448 thousand.
d) Acquisition of interest payable in the amount of KZT 36,758 thousand.
e) Acquisition of long-term loans in the amount of KZT 839,970 thousand.

During 2003 the Group received property, plant and equipment in the amount of KZT 287,144 thousand as a repayment of accounts receivable.

On behalf of the Group's Management:

______________________	______________________
Bisembayev A.A.	Baizirova N.A.
First Vice-President	Chief Accountant
March 28, 2005	March 28, 2005
Astana	Astana

The notes on pages 7 to 25 form an integral part of these consolidated financial statements. The independent auditors' report is on page 1.

(in thousands ofKazakhstani tenge)

1. NATURE OF THE BUSINESS

Joint Stock Company Food Contract Corporation (the "Company" or the "Corporation") is incorporated and operates in the Republic of Kazakhstan. The Government of Kazakhstan is the owner of 100% of the Company. In accordance with the Decree of the Government of the Republic of Kazakhstan the Company's principal activity is to maintain state grain reserves at the level 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 maintaining accounting records and monitoring of quality, quantity and safety of state grain resources.

Since 2002 the Company was granted the right to perform commercial operations related to grain sales.

The Corporation is the parent company of the following subsidiaries (hereinafter referred as the "Group"):

Name	Principal activity	Country of operations	Share	Date of acquisition/ establishment
Expert-Agro corporation LLP	Grain products trading	Kazakhstan	100%	January 1, 2003
Kazastyktrans LLP	Transportation services	Kazakhstan	50%	February 26, 2003
Ak Bidai Terminal LLP	Grain terminal	Kazakhstan	51%	September 22, 2003
Biday Onimdery LLP	Grain products trading	Kazakhstan	100%	July 6, 2004
Astyk Koimalari LLP	Grain processing	Kazakhstan	100%	November 6, 2003

The financial statements of the above mentioned subsidiaries have been included in these consolidated financial statements of the Group.

The number of employees of the Group as at December 31, 2004 and 2003 was 1,012 and 817, respectively.

2. PRESENTATION OF FINANCIAL STATEMENTS

Basis of presentation – These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements are presented in thousands of tenge, except for per share amounts and unless otherwise indicated. All entities of the Group maintain their accounting records in tenge ("Tenge" or "KZT") in accordance with the Kazakhstani Accounting Standards ("KAS"). Kazakhstani statutory accounting principles and procedures differ from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Group's Kazakhstani statutory accounting records, reflect adjustments necessary for such consolidated financial statements to be presented in accordance with IFRS.

These consolidated financial statements of the Group are prepared on the historical cost basis, except for the valuation of financial instruments in accordance with IAS No. 39 "Financial Instruments: Recognition and Measurement" ("IAS 39").

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

Measurement currency **–** The measurement currency of the accompanying consolidated financial statements is Kazakhstani tenge.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation **–** These consolidated financial statements incorporate the financial statements of JSC Food Contract Corporation and other enterprises, where the Company, directly or indirectly exercises control. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group. On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions, balances and unrealized gains (losses) on transactions are eliminated on consolidation.

Property, plant and equipment – Property, plant and equipment is stated at historical cost less accumulated depreciation.

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

Deprecation is computed under the straight-line method utilizing the useful economic lives of the assets, which are:

Buildings and constructions	14 to 50 years
Machinery and Equipment	4 to 25 years
Vehicles	4 to 50 years
Other assets	4 to 13 years

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are put into operation. Construction in progress is reviewed regularly to determine whether its carrying value is fairly stated and whether appropriate provision for impairment is made.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated income statement.

Goodwill – Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognized as an asset and amortized on a straight-line basis following an assessment of its useful life of 10 years. Goodwill arising on the acquisition of an associate is included within the carrying amount of the investment in associate. Goodwill arising on the acquisition of subsidiaries and jointly controlled entities is presented separately in the balance sheet. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.

At each balance sheet date, the Group reviews the carrying amounts of its goodwill to determine whether there is any indication that goodwill has suffered an impairment loss. An impairment loss, if any, is recognized as an expense in the current period.

Intangible assets – Intangible assets are stated at cost less accumulated amortization. Amortization is computed under the straight-line method over the estimated useful lives of 6 years.

Impairment of tangible and intangible assets – At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is impossible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land, buildings, other than investment property, or equipment, carried at a revalued amount, in which case the impairment loss is treated as a decrease in the related revaluation reserve.

Investments in associates **–** The associate is an enterprise over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee. The results and the assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognize any impairment in the value of individual investments.

Where a group enterprise transacts with an associate of the Group, unrealized profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealized losses provide evidence of an impairment of the asset transferred.

Inventories – Inventories are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price less sale arrangement costs.

Cost of grain is accounted for using weighted average method. Cost of other inventory is calculated using the first-in, first-out method.

Beginning April 1, 2001, the Group changed its accounting policy for inventory. This change is based on Decree of the Government of the Republic of Kazakhstan # 330 dated March 5, 2001, which presumes the Group to be liable for the segregated accounting of state grain reserves and resources.

For the purposes of these consolidated financial statements state reserves and resources include grain, seeds and forage. State reserves cannot be used in any capacity without a special approval from the Government of the Republic of Kazakhstan. State resources can be sold at the discretion of the Group's Management.

The Group accounts for state grain reserves and resources under Corporation Charter, the Agency Agreement between the Group and the Ministry of Agriculture as well as the Government Decree # 330 as at March 5, 2001 "Rules on segregated accounting of operations with state grain reserves and own grain resources".

Accounts receivable – Accounts receivable are stated at their net realizable value after deducting provisions for uncollectable amounts.

Investments – In accordance with IAS 39, investments are classified into the following categories: held-to-maturity, trading, available-for-sale and loans and receivables originated by the enterprise. Investments with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, other than loans and receivables originated by the Group are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. Loans originated by the Group are financial assets that are created by the Group by providing money directly to a borrower or by participating in loan facility, other that those that are originated with the intent to be sold immediately or in the short term, which are classified as held-for-trading. All other investments are classified as available-for-sale.

Held-to-maturity investments, loans and receivables originated by the Group companies are included in non-current assets unless they mature within 12 months of the balance sheet date. Investments held for trading are included in current assets. Available-for-sale investments are classified as current assets if management intends to realize them within 12 months of the balance sheet date. All purchases and sales of investments are recognized on the settlement date.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs. Estimation of fair values of financial instruments is made in accordance with the requirements of IAS No. 32 "Financial Instruments: disclosure and presentation" and IAS 39 "Financial instruments: Recognition and Measurement". As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented in the consolidated financial statements are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of after initial recognition its full holdings of a particular instrument. Investments in non-marketable equity instruments for which fair value could not be estimated reliably are measured at cost less any provision for impairment.

Available-for-sale and trading investments are subsequently carried at fair value by reference to their quoted market price at the balance sheet date. For unquoted securities fair value is determined by reference to market prices of securities with similar credit risk and/or maturity and in other cases by reference to the share in estimated equity capital of an investee. Gains or losses on measurement to fair value of investments are recognized in the consolidated income statement for the period.

Held-to-maturity investments are carried at amortized cost calculated using the effective interest rate method, less any provision for impairment or permanent diminution in value.

Loans granted by the Group at interest rates that are below the market are discounted to fair value using the effective interest method.

Cash and cash equivalents – Cash includes petty cash and cash held in current bank accounts. Cash equivalents include short-term investments with maturity of up to three months that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

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

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

Trade and other payables – Liabilities for trade and other amounts payable are stated at their nominal value.

Income taxes – Income taxes have been computed in accordance with the laws of the Republic of Kazakhstan. They are based on the results for the year as adjusted for items that are non-assessable or non-tax deductible.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its tax assets and liabilities on a net basis.

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

Revenue recognition – Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenue can be measured reliably. Sales from services are recognized when services are performed.

The Group's products and services are generally sold based on contracts. These contracts presume fixed and determined price and no rights to return purchased goods or other similar provisions. These contracts contain fixed and determined price and absence of the right of return of purchased goods or other similar provisions. The Group is not liable for any additional obligations related to the sale of its commodities. Revenue is recognized at the moment when products are delivered to customer, or at the time when the title is transferred.

In accordance with the Rules established by the Government of the Republic of Kazakhstan, the Group has a right to retain a certain percentage of revenues as a commission fee. During 2004 and 2003, the commission fees did not exceed 3% of total revenues from state resources sale. Commission fees are used to maintain office facilities, provide employees' salaries, and cover other expenses related to the purchase of goods and services necessary in the course of the Group's business activity.

Foreign currencies transactions – Transactions in currencies other than tenge are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the (consolidated) balance sheet date. All translation differences are recognized in the (consolidated) income statement.

Operating leases – Rents paid under operating leases are charged to the consolidated income statement as incurred.

Retirement benefit costs – In accordance with the legislative requirements of the Republic of Kazakhstan the Group pays into an employee pension fund the amount equivalent to 10% of each employee's wage, but not more than 49,500 tenge per each employee per month in 2004. These amounts are expensed when they are incurred. Pension fund payments are withheld from employees' salaries and included with other salary costs in the consolidated income statement. The Group does not have other liabilities related to pension payments.

Provisions – Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the obligation can be estimated reliably.

Segment reporting – The Group's business operations are located in the Republic of Kazakhstan and relate primarily to grain trading and processing. Therefore, business activities are subject to the same risks and returns and addressed in the consolidated financial statements of the Group as one reportable segment.

State subsidies – State subsidies are recognized on a systematic basis as other income over the periods when the related costs which they are intended to compensate are incurred.

Reclassifications – The consolidated financial statements as at December 31, 2003 and for the year ended December 31, 2003 were reclassified to comply with the consolidated financial statements presentation requirements as at December 31, 2004 and for the year ended December 31, 2004. These reclassifications have not affected previously reported results of operations or shareholders' equity. These reclassifications are presented below:

	For the year ended December 31, 2003	**For the year ended December 31, 2004**	**Total**
Income on deposits	228,050	-	228,050
Interest expense	(1,064,501)	-	(1,064,501)
Other finance cost	(28,844)	-	(28,844)
Finance cost, net	-	(865,295)	865,295
Revenue	33,501,775	33,465,034	36,741
Included in other income:			
Income from rent	-	36,741	(36,741)
	32,636,480	**32,636,480**	**-**

4. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment as at December 31, 2004 and 2003 consisted of the following:

	Land	**Buildings and construc-tions**	**Machinery and equipment**	**Vehicles**	**Other assets**	**Construc-tion in progress**	**Total**
Cost							
At January 1, 2004	**29,906**	**757,947**	**667,160**	**174,484**	**67,062**	**45,121**	**1,741,680**
Additions	20,323	287,678	187,197	102,172	41,902	23,248	662,520
Disposals	(32,781)	(272,558)	(77,221)	(61,448)	(13,737)	(11,515)	(469,260)
At December 31, 2004	**17,448**	**773,067**	**777,136**	**215,208**	**95,227**	**56,854**	**1,934,940**
Accumulated Depreciation							
At January 1, 2004	-	**(67,361)**	**(229,880)**	**(49,679)**	**(19,249)**	**-**	**(366,169)**
Charge for the year	-	(28,255)	(30,820)	(25,549)	(7,447)	-	(92,071)
Disposals	-	16,251	30,586	28,595	7,770	-	83,202
At December 31, 2004	-	**(79,365)**	**(230,114)**	**(46,633)**	**(18,926)**	**-**	**(375,038)**
Net Book Value							
At December 31, 2004	**17,448**	**693,702**	**547,022**	**168,575**	**76,301**	**56,854**	**1,559,902**
At December 31, 2003	**29,906**	**690,586**	**437,280**	**124,805**	**47,813**	**45,121**	**1,375,511**

As at December 31, 2004 property, plant and equipment in the amount of KZT 338,395 thousand was pledged to secure long-term loan provided by JSC Kazkommertsbank to the Group (Note 16).

As at December 31, 2003 property, plant and equipment in the amount of KZT 338,395 thousand was pledged under a long-term loan provided by JSC Halyk Bank Kazakhstan (see Note 16).

5. GOODWILL, NET

	Kazastyktrans LLP	Ak-Bidai Terminal LLP	Total
Cost as at January 1, 2004	162	231,513	231,675
Cost as at December 31, 2004	162	231,513	231,675
Accumulated amortization as at January 1, 2004	(16)	(5,788)	(5,804)
Charge for the period	(16)	(22,572)	(22,588)
Accumulated amortization as at December 31, 2004	(32)	(28,360)	(28,392)
Net book value as at December 31, 2004	**130**	**203,153**	**203,283**
Net book value as at December 31, 2003	**146**	**225,725**	**225,871**

6. INVESTMENTS IN ASSOCIATE

	2004	2003
Cost of investment	5,577	-
Acquired during the year	-	922
Share of post-acquisition profit	862	4,655
Total	**6,439**	**5,577**

Details of the Company's associate at December 31, 2004 and 2003 were as follows:

Name of associate	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power held	Principal activity
JSC Kazakhstan International Agriculture Exchange	Republic of Kazakhstan	34.7%	34.7%	Agriculture products trading

7. INVENTORIES, NET

Inventories as at December 31, 2004 and 2003 consisted of the following:

	2004	2003
State reserves	5,886,416	6,786,203
State grain resources	8,119,967	1,237,103
Commercial grain resources	7,568,507	14,923,100
Other grain	9,075	13,007
Other inventory	623,540	273,652
Total	**22,207,505**	**23,233,065**

As at December 31, 2004 and 2003 the Group recognized losses from write-off of grain inventories to net realisable value for the amount of 0 and 109,488 thousand tenge, respectively.

At December 31, 2004 and 2003 commercial grain resources with a book value of KZT 1,557,100 thousand and KZT 17,612,162 thousand, respectively, were pledged to secure short-term loans granted to the Group (see Note 20).

8. ACCOUNTS RECEIVABLE, NET

Accounts receivable as at December 31, 2004 and 2003 consisted of the following:

	2004	**2003**
Trade accounts receivable	30,719,860	33,592,999
Other accounts receivable	1,213,190	465,805
Less: Doubtful debt allowance	(25,386,047)	(25,263,508)
Total	**6,547,003**	**8,795,296**

At December 31, 2004 included in other accounts receivable 773,500 thousand tenge were due from Melissa Transcentre LLP, for shares of Valut-Transit Bank purchased by the Company under "swap" and "repo" agreement for corporate bonds of the Company. The "swap" and "repo" agreement was concluded on July 7, 2004 between Food Corporation JSC and Avanta-Effect LLP, Ais-Alyans LLP, Kristal-Unios LLP and Terminal Gold LLP, - shareholders of Valut-Transit Bank. Terms of the swap agreement stipulate an exchange of Food Corporation bonds in the amount of 69,340 units, with 8% coupon rate payable annually, issued and placed at par value of 10,000 tenge for common stock of Valut-Transit Bank, in the quantity of 2,187,500 shares at 320 tenge per share. On the settlement date, June 29, 2005, Food Corporation will exchange back common stock of Valut-Transit Bank in the quantity of 2,187,500 shares at 353,6 tenge per share to Food Contract corporate bonds. On December 28, 2004 the Company sold common stock of Valut-Transit Bank to Melissa Transcentre LLP. Under the sales contract terms these receivables will be settled on June 29, 2005 (see Note 16).

9. VALUE ADDED TAX AND OTHER TAXES RECEIVABLE

Value added tax and other taxes receivable as at December 31, 2004 and 2003 consisted of the following:

	2004	**2003**
VAT reimbursable	2,547,642	3,698,129
Other taxes receivable	271,331	10,836
Total	**2,818,973**	**3,708,965**

10. ADVANCES PAID

Advances paid as at December 31, 2004 and 2003 consisted of advance payments under grain purchase contracts with domestic suppliers in the amount of 2,529,026 and 253,383 thousand tenge, respectively.

Advances paid are secured by Kazakhstani commercial banks guarantees, that should be used in case suppliers fail to supply grain to the Company. As at December 31, 2004 advances in the amount of 500,508 thousand tenge were secured by collateralized property, plant and equipment.

11. SHORT-TERM INVESTMENTS

Short-term investments as at December 31, 2004 and 2003 consisted of the following:

	2004	2003
Bank deposits, net (a)	3,221,208	3,146,334
Other (б)	11,000	-
Total	**3,232,208**	**3,146,334**

(a) As at December 31, 2004 and 2003 bank deposits consisted of the following:

	2004	2003	Interest rate
Deposits in USD	3,924,413	1,609,718	8%-12%
Deposits in KZT	677,964	1,536,616	7.8%-8.5%
	4,602,377	**3,146,334**	
Less: provision on deposits	(1,381,169)	-	
Total	**3,221,208**	**3,146,334**	

Deposits were opened with commercial banks of Kazakhstan with average maturity of 3 to 12 months.

As at December 31, 2004 provision on deposits with Nauryz Bank Kazakhstan was recognized in these consolidated financial statements as the bank is under the conservation process. As at December 31, 2004 the Company sold 187,000 thousand tenge from this deposit to a third party.

(b) Other short-term investments in the amount of 11,000 thousand tenge are represented by investments of 10% to JSC Grain Certificates Guarantee Fund.

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, 2004 and 2003 consisted of the following:

	2004	2003
Restricted accounts	152	1,585,843
Cash in bank accounts, USD	1,410,931	1,903,609
Cash in bank accounts, KZT	10,117,128	202,076
Petty cash	12,719	12,958
Total	**11,540,930**	**3,704,486**

Restricted accounts are opened with the Treasury of the Ministry of Finance of the Republic of Kazakhstan in accordance with the Government Decree # 330 dated March 5, 2001 for the purpose of accumulating funds for the purchase, storage and sale of state grain resources. The restricted cash can be used by the Group with the approval of the Government of the Republic of Kazakhstan. Management believes such approval would not be withheld if requested. Accordingly, the restricted cash is included with cash and cash equivalents for the purpose of these consolidated financial statements.

13. SHARE CAPITAL, UNPAID CAPITAL AND ADDITONAL PAID-IN-CAPITAL

As at December 31, share capital consists of the following:

	2004	2003
Ordinary shares (7,491,583 and 45,762 authorized and issued, par value of 1 share - 1,000 tenge)	7,491,583	45,762
Unpaid capital	(7,000,000)	-
Additional paid in capital	39,745	-
	531,328	**45,762**

On June 29, 2004 the Company registered additional issue of shares in the amount of 445,821 thousand tenge. In accordance with the Government Decree dated September 9, 2003, additional contribution to the share capital of the Company was made by property of 399,745 thousand tenge and cash of 85,821 thousand tenge. Additional paid in capital in the amount of 39,745 thousand tenge is represented by the excess of the book value of the property contributed over share capital at par.

In accordance with the Order of the Ministry of Agriculture # 688 dated November 18, 2004 the Company issued additional shares for the amount of 7,000,000 thousand tenge. As at December 31, 2004 these shares were unpaid.

Dividends in the amount of 386,639 thousand tenge and 183,377 thousand tenge were declared and paid during years ended December 31, 2004 and 2003, respectively.

14. SEED GRAIN RESOURCES FUND

As at January 1, 2003 the Group had accounts payable to the Entrepreneurship Development Fund in the amount of KZT 1,692,254 thousand in respect of seed grain (the "Payables) in accordance with the Agreement #1-SS as at November 29, 2000 signed between the Ministry of Finance of the Republic of Kazakhstan, Ministry of Agriculture of the Republic of Kazakhstan, Entrepreneurship Development Fund, Agriculture Support Fund and Food Contract Corporation (the "Agreement").

On November 26, 2003 Food Corporation signed additional agreements to the Agreement. In accordance with these additional agreements signed by the Ministry of Finance of the Republic of Kazakhstan, Ministry of Agriculture of the Republic of Kazakhstan, Entrepreneurship Development Fund, Agriculture Support Fund and Food Contract Corporation the Payables were converted into state seed grain resources fund. The fund is not distributable.

15. TAXATION

The Group's provision for income tax for the years ended December 31, 2004 and 2003 is as follows:

	2004	2003
Current income tax expenses	411,083	399,722
Deferred income tax expenses	34,113	22,483
Total income tax expense	**445,196**	**422,205**

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

The tax effect on the major temporary differences that give rise to the deferred tax assets and liabilities as at December 31, 2004 and 2003 is presented below:

	2004	2003
Deferred tax assets		
Taxes payable	638	-
Total	**638**	**-**
Deferred tax liabilities		
Difference in depreciable value of property, plant and equipment	(76,992)	(42,660)
Intangible assets	(694)	-
Other adjustments	-	(275)
Total	**(77,686)**	**(42,935)**
Deferred tax liabilities, net	**(77,048)**	**(42,935)**

The statutory tax rate effective in the Republic of Kazakhstan, the location of the majority of the Group's entities, was 30% in 2004 and 2003. The taxation charge for the year is different from that which would be obtained by applying the statutory income tax rate to the net profit before income tax. Below is a reconciliation of theoretical income tax at 30% to the actual expense recorded in the Group's consolidated income statement:

	2004	2003
Profit before income tax	866,641	950,616
Income tax at statutory rate of 30%	259,992	285,185
Tax effect of non-deductible expenses	185,204	137,020
Income tax expense	**445,196**	**422,205**

16. LONG-TERM BANK LOANS

Long-term bank loans as at December 31, 2004 and 2003 consisted of the following:

	Interest rate	2004	2003
Credit Suisse First Boston International (a)	6m.LIBOR+2.75%	4,550,000	-
Bonds issued (b)	8%	3,000,000	-
JSC Kazkommertzbank (c)	12%	975,525	-
Development Bank of Kazakhstan (d)	8%	-	2,884,400
JSC ABN AMRO Bank (e)	LIBOR+3.94%	-	1,442,200
JSC Halyk Bank Kazakhstan (f)	17%	-	839,970
Total		**8,525,525**	**5,166,570**

a) Credit line of 105,000,000 US Dollars (KZT 13,650,000 thousand) was provided by Credit Suisse First Boston International for two years in accordance with the agreement dated May 13, 2004 (see Note 19). This credit line is collateralized by receivable in future of 110,000,000 US Dollars (KZT 14,300,000 thousand) under contract #180/13709510 dated November 19, 2003 with Alfred C. Toepfer International. Amounts received under this credit line will be repaid by three equal installment at June 18 and December 18, 2005 and at maturity date on June 18, 2006. Interest of LIBOR+2.75% per annum is payable semi-annually.

b) In 2004 the Company issued 300,000 corporate bonds at a par value of 10,000 KZT per bond with a maturity of five years. Bonds were traded in the Kazakhstan Stock Exchange. The bonds effective interest was 8 percent per annum. Interest is payable annually. Interest accrued as at December 31, 2004 amounting to 150,757 thousand tenge is included in accrued expenses.

c) Credit line of KZT 975,525 thousand was provided by JSC Kazkommertzbank for five years in accordance with the agreement #2499 dated December 1, 2004. Amounts received under this credit line will be repaid by one instalment at maturity on December 1, 2009. Interest of 12% per annum is payable monthly. The loan is collateralised by property, plant and equipment in the amount of KZT 338,395 thousand (see Note 4).

d) Credit line of 20,000,000 US Dollars (KZT 2,884,400 thousand) was provided by the Development Bank of Kazakhstan in 2003 for one and a half years in accordance with the agreement SL 001-SPT/03 dated June 16, 2003. This credit line is collateralized by grain with a value of 13,030,491 US Dollars (KZT 1,879,257 thousand) (see Note 7) and amounts receivable of 29,959,910 US Dollars (KZT 4,320,818 thousand) under contract # 048-SPT/03 dated October 22, 2003 with Silvretta Trading Company LDA. Amounts received under this credit line were repaid during 2004.

e) Credit line of 10,000,000 US Dollars (KZT 1,442,200 thousand) was provided by JSC ABN AMRO Bank in 2003 for one and a half years in accordance with the agreement dated July 31, 2003. This credit line is collateralized by grain with a value of 12,000,000 US Dollars (KZT 1,730,640 thousand) (see Note 7). The loan was repaid by one installment at maturity on June 23, 2004.

f) Credit line of KZT 839,970 thousand was provided by JSC Halyk Bank Kazakhstan in 2003 for 5 years in accordance with the agreement #KS00-33 dated May 11, 2000. This credit line is collateralized by property, plant and equipment with a value of KZT 338,395 thousand (Note 4). This loan was repaid by one installment on December 2, 2004.

At December 31, 2004 included in corporate bonds outstanding 700,188 thousand tenge were placed with the KG Securities for the period ended June 29, 2005. Bonds were placed under “swap” and “repo” agreement for ordinary shares of Valut-Transit Bank (see Note 8).

The long-term bank loans are repayable as follows:

	2004	**2003**
Within one year	9,100,000	
In the second year	-	5,166,570
In the third to the fifth years inclusive	5,525,525	-
After five years	3,000,000	-
Less: Amount due for settlement within 12 months (shown under current liabilities)	(9,100,000)	-
Amount due for settlement after 12 months	**8,525,525**	**5,166,570**

Analysis of borrowings by currency:

Tenge	975,525	-
US Dollar	7,550,000	5,166,570
Total	**8,525,525**	**5,166,570**

17. ACCOUNTS PAYABLE

Trade accounts payable as at December 31, 2004 and 2003 consisted of the following:

	2004	2003
Trade accounts payable	424,020	2,250,243
Other accounts payable	5,106	612,901
Total	**429,126**	**2,863,144**

18. ADVANCES RECEIVED

Advances received as at December 31, 2004 consisted of advance payment received from Silvretta Trading LDA under contract #333/04 as at May 14, 2004 in the amount of 6,522,002 thousand tenge. Advances received as at December 31, 2003 consisted of advances prepaid for participation in tenders in the amount of 4,335 thousand tenge.

19. SHORT-TERM BANK LOANS

Short-term borrowings as at December 31, 2004 and 2003 consisted of the following:

	Interest rate	2004	2003
Credit Suisse First Boston International (short-term portion of long-term debt) (See Note 16)	6m.LIBOR+2.75%	9,100,000	-
Promissory notes issued (a)		4,999,965	-
HSBC Bank of Kazakhstan (b)	6m.LIBOR+3.8%	1,950,000	1,442,200
JSC Halyk Bank Kazakhstan (c)	16%	1,577,100	4,326,600
Ministry of Agriculture of the Republic of Kazakhstan (d)	-	6,208,382	5,422,275
JSC Kazkommertsbank (e)	6.10%	-	9,031,130
JSC Bank TuranAlem (f)	12%	-	5,582,466
Interest accrued on loans from banks		446,880	534,268
Coupon accrued on corporate bonds		150,575	-
Total		**24,432,902**	**26,338,939**

During 2004 the Group has received the short-term loans under the following credit lines:

a) On March 30, 2004 the Company issued promissory notes with a value of KZT 4,999,965 thousand under grain purchase contracts with domestic suppliers. Promissory notes were issued in accordance with Government Decree #177 dated April 3, 2004. The maturity date is January 20, 2005.

b) Credit line of 15,000,000 US Dollars (KZT 1,950,000 thousand) was provided by HSBC Bank Kazakhstan for one year in accordance with the agreement # CIB06/04 dated June 14, 2004. This credit line is collateralized by receivables in future of 39,000,000 US Dollars (KZT 5,070,000 thousand) under contract #134-1/04S dated May 20, 2004 with Silvretta Trading Company LDA. Amounts received under this credit line will be repaid by one installment at maturity on June 30, 2005. Interest of LIBOR+3.8% per annum is payable at the maturity.

   Credit line of 10,000,000 US Dollars (KZT 1,442,200 thousand) was provided by HSBC Kazakhstan in 2003 for one year in accordance with agreements #030603 dated June 10, 2003 and is collateralized by amounts receivable under a contract with Glencore International AG #478078 as at May 21, 2003 totaling 10,000,000 US Dollars (KZT 1,442,200 thousand). This credit line was repaid on March 31, 2004.

c) Credit line of KZT 1,577,100 thousand was provided by JSC Halyk Bank Kazakhstan in 2003 for threemonths in accordance with agreement #97-2004 MSB dated December 9, 2004 and is collateralized by grain of KZT 1,557,100 thousand (see Note 7). Amounts received under this credit line will be repaid on March 1, 2005. Interest of 16% per annum is payable at the maturity.

   Credit line of 30,000,000 US Dollars (KZT 4,326,600 thousand) was provided by JSC Halyk Bank Kazakhstan in 2003 for one year in accordance with agreement # KS03-44 dated April 25, 2003 and is collateralized by grain of KZT 5,609,837 thousand (38,241,092 US Dollars). Amounts received under this credit line were repaid on June 21, 2004.

d) Short-term loans to the Group are provided by the Government of the Republic of Kazakhstan through the Ministry of Agriculture of the Republic of Kazakhstan for financing the state program on grain purchase for the current year. Interest-free loan from the Ministry of Agriculture of the Republic of Kazakhstan will be repaid on December 20, 2005.

e) Credit lines of 45,000,000 US Dollars (KZT 6,489,900 thousand) and KZT 3,723,250 thousand were provided by JSC Kazkommertsbank in 2003 for one year in accordance with loan agreement # 27 dated April 17, 2003 and # 88 dated September 26, 2003, respectively, and are collateralized by amounts receivables of 45,000,000 US Dollars (KZT 6,489,900 thousand) from Silvretta Trading Company LDA, grain of 44,500,000 US Dollars (KZT 6,417,790 thousand) and by amounts receivable under contract # TR-03/349 as at September 10, 2003 with OOO Roskhleboproduct in the amount of 24,000,000 US Dollars (KZT 3,461,280 thousand), respectively. In 2003 45,000,000 US Dollars (KZT 6,489,900 thousand) and KZT 2,541,156 thousand, respectively, were received under these credit lines. These amounts were repaid on July 7 and May 20, 2004, respectively.

f) Credit line of KZT 6,000,000 thousand was provided by JSC Bank TuranAlem in 2003 for one year in accordance with agreement #0201/03/100/100 dated September 11, 2003 and collateralized by grain of KZT 1,974,638 thousand (see Note 7). This credit line was repaid on April 16, 2004.

20. REVENUE

Revenue for the years ended December 31, 2004 and 2003 consisted of the following:

	2004	2003
Sales	30,138,242	33,230,106
Commission income	84,228	234,928
Total	**30,222,470**	**33,465,034**

21. COST OF SALES

Cost of sales for the years ended December 31, 2004 and 2003 consisted of the following:

	2004	2003
Cost of sold grain	27,842,025	29,628,402
Payroll and related taxes	92,700	-
Depreciation and amortization	35,361	21,325
Repair and maintenance	32,377	-
Utilities	5,081	67
Other	30,135	9,181
Total	**28,037,679**	**29,658,975**

22. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended December 31, 2004 and 2003 consist of the following:

	2004	2003
Provision for doubtful accounts	1,503,708	(32,796)
Payroll expenses and related taxes	374,852	394,188
Taxes	54,417	2,243
Depreciation and amortization	51,024	50,760
Communication services	37,610	27,923
Social sphere disbursements	35,627	28,584
Repair and maintenance	26,815	12,520
Social events	16,000	9,762
Materials	15,347	10,213
Utilities	5,126	2,332
Stationery	3,129	2,568
Other	97,964	105,985
Total	**2,221,619**	**614,282**

23. SELLING EXPENSES

Selling expenses for the years ended December 31, 2004 and 2003 consisted of the following:

	2004	2003
Grain storage expenses	1,487,116	1,561,291
Payroll and related taxes	108,546	152,124
Expedition services	80,361	422,756
Materials	32,237	145,781
Loading services	30,404	118,604
Marketing	27,150	102,877
Railway service expenses	12,559	316,763
Depreciation and amortization	6,688	8,126
Other	56,479	191,659
Total	**1,841,540**	**3,019,981**

24. FINANCE COST, NET

Finance cost, net for the years ended December 31, 2004 and 2003 consisted of the following:

	2004	2003
Interest income	316,283	228,050
Interest expense	(1,940,564)	(1,093,345)
Total	**(1,624,281)**	**(865,295)**

25. OTHER INCOME, NET

Other income for the years ended December 31, 2004 and 2003 consisted of the following:

	2004	2003
Accounts payable over 3 years old	1,809,675	-
Government subsidies	918,303	818,704
Fines on grain supply contracts	213,350	109,180
Interest on seed loans	103,320	139,242
Rent income	50,753	36,741
(Loss)/income from disposal of property, plant and equipment and intangible assets	(426,998)	13,445
Other	188,277	(21,445)
Total	**2,856,680**	**1,095,867**

During 2004 the Company recognized accounts payable over 3 years old in the amount of 1,809,675 thousand tenge as income. The Company's management believes that no claims will be raised by third parties in respect to these accounts payable.

26. CONTRACTUAL COMMITMENTS

On March 31 and August 25, 2004 the Group signed Agency agreements (the "Agreement") with the Ministry of Agriculture of the Republic of Kazakhstan #D8 and D3-25. The purpose of Agreement is to attract credit resources to the Group for the purchase of not less than 464,196 tons of grain in accordance with the Decree #290 dated March 9, 2004. Interest-free loan shall be repaid till December 20, 2005. As at December 31, 2004 the Group received 6,208,382 thousand tenge. In 2003 the Group received 5,500,000 thousand tenge from the Government within the similar program of grain purchase financing.

State reserves are determined annually by an appropriate Decree of the Government of the Republic of Kazakhstan. The quantity of state grain reserves is confidential information and, accordingly, is not to be disclosed in these consolidated financial statements.

27. COMMITMENTS AND CONTINGENCIES

Social commitments – Certain Group entities have entered into collective agreements with its employees. Under terms of such agreements the Group has a commitment to make certain social payments to the employees, the amount of which can vary from year to year. No provision for such commitments is recorded in the consolidated financial statements as the Group's management is unable to reasonably estimate the amount of the future social expense.

Legal issues – The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in the aggregate, a material adverse impact on the Group. Management believes that the resolution of all such matters will not have a material impact on the Group's consolidated financial position or operating results.

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

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

28. RISK MANAGEMENT POLICIES

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

Credit risk **–** The Group's credit risk is primarily attributable to its trade receivables and advances paid. The amounts presented on the consolidated balance sheet are net of allowance for doubtful debts, estimated by the Group's management based on the prior year experience and their assessment of the current economic environment.

The Groups management does not except any counterparties to fail to meet their obligations.

Currency risk – Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's management structures the level of the currency risk by setting limits on the level of exposure by currencies (primarily in USD).

Interest rate risk – Interest rate risk to the Group is related to liabilities for loans the Group would be potentially entering in. The management of the Group considers this risk to be insignificant.

29. CONCENTRATION OF BUSINESS RISK

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

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets, trade accounts and other receivables, other current assets, cash and cash equivalents, bank overdrafts and trade accounts and other payables are recorded at their carrying values which approximate the fair values of these instruments as a result of their short-term duration.

Interest rates on long and short-term borrowings are market related, the carrying values of these financial instruments approximate their fair values.

The fair values of financial instruments are estimates and do not necessarily reflect the amount of cash that would have been realized had these instruments been liquidated at the date of valuation.