SAT & Company JSC

International Financial Reporting Standards

Consolidated Financial Statements and Independent Auditor's Report

31 December 2010

(Translated from the Russian original)

Contents

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of SAT & Company JSC

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

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.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal 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 qualified audit opinion.

Our report has been prepared in Russian and in English. In all matters of interpretation of information, views or opinions, the Russian version of our report takes precedence over the English version.

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Basis for qualified opinion

As set out in Note 5 to the consolidated financial statements, in 2009 the Group completed its acquisition of SAT&Co Holding A.Ş. ("SAT&Co Holding"). As at 31 December 2010 the Group had not been able to complete its assessment of the fair value of the acquired identifiable assets and liabilities as required by IFRS 3 *Business Combinations*, and, consequently, accounted for the acquired assets and liabilities of SAT&Co Holding using their provisional fair values at the acquisition date. In the absence of information about the fair value of the acquired identifiable assets and liabilities, we were unable to satisfy ourselves as to: the carrying amount of the acquired property, plant and equipment, intangible assets and exploration and evaluation assets, goodwill and the resulting deferred tax liability as of 31 December 2010 and 2009; the amount of depreciation, amortisation and impairment loss for the years then ended.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, 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.

Emphasis of matter

We draw attention to Note 4 to the consolidated financial statements, which states that as of 31 December 2010 the Group's current liabilities exceeded its current assets by Tenge 5,598,911 thousand. This, along with other matters as described in Note 4, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Group to continue as a going concern. Our opinion is not qualified in respect of this matter

Almaty, Kazakhstan
21 July 2011

Approved by:

Zhanbota T. Bekenov
Managing Director, PricewaterhouseCoopers LLP
(General State License from the Ministry of Finance
of the Republic of Kazakhstan
№ 0000005 dated 21 October 1999)

Signed by:

Azamat Konratbaev
Audit partner
(The Association of Chartered of
the Certified Accountants, Certificate
№ 00770863 dated 8 May 2003)

Signed by:

Svetlana I. Belokurova
Auditor in charge
(Qualified Auditor's Certificate Republic of Kazakhstan
№0000357 dated 21 February 1998)

Our report has been prepared in Russian and in English. In all matters of interpretation of information, views or opinions, the Russian version of our report takes precedence over the English version.

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In thousands of Kazakhstani Tenge	Note	31 December 2010	31 December 2009 (restated)	1 January 2009 (restated)
ASSETS				
Non-current assets				
Property, plant and equipment	8	43,648,255	6,422,455	3,716,562
Exploration and evaluation assets	9	8,272,054	16,092,062	-
Intangible assets	10	1,788,607	137,425	596,647
Investments in associates	11	3,849,445	415,477	228
Investments at cost	12	1,040,470	4,471,639	-
Deferred income tax assets	31	-	-	88,231
Other non-current assets	13	6,301,700	6,421,553	13,941,098
Total non-current assets		**64,900,531**	**33,960,611**	**18,342,766**
Current assets				
Inventories	14	1,699,671	1,192,271	635,780
Trade and other receivables	15	2,330,968	3,699,973	2,900,456
Other current assets	16	771,304	952,170	1,129,777
Cash and cash equivalents	17	2,720,281	1,511,944	3,552,127
Non-current assets held for sale	18	955,724	-	-
Total current assets		**8,477,948**	**7,356,358**	**8,218,140**
TOTAL ASSETS		**73,378,479**	**41,316,969**	**26,560,906**
EQUITY				
Share capital	19	16,497,036	8,942,284	1,884,116
Subscribed shares		-	-	3,311,665
Treasury shares	19	(26,021)	(419)	-
Currency translation reserve		489,345	133,466	-
Retained earnings		13,199,467	11,576,680	12,131,848
Equity attributable to the Group's equity holders		**30,159,827**	**20,652,011**	**17,327,629**
Non-controlling interest		4,391,817	190,978	-
TOTAL EQUITY		**34,551,644**	**20,842,989**	**17,327,629**
LIABILITIES				
Non-current liabilities				
Site restoration provision	20	1,262,121	214,619	-
Borrowings	21	15,525,219	10,968,617	5,477,414
Deferred income tax liability	31	6,849,574	3,029,252	221,133
Other non-current liabilities		1,113,062	1,419	-
Total non-current liabilities		**24,749,976**	**14,213,907**	**5,698,547**
Current liabilities				
Borrowings	21	9,422,692	987,540	646,470
Trade and other payables	22	4,654,167	5,272,533	2,888,260
Total current liabilities		**14,076,859**	**6,260,073**	**3,534,730**
TOTAL LIABILITIES		**38,826,835**	**20,473,980**	**9,233,277**
TOTAL LIABILITIES AND EQUITY		**73,378,479**	**41,316,969**	**26,560,906**

Signed on behalf of the management on 23 July 2011.

Olzhas T. Tokhtarov
Chairman of the Management Board

Nadezhda I. Sharabok
Chief Accountant

In thousands of Kazakhstani Tenge	**Note**	**2010**	**2009 (restated)**
Continuing operations			
Revenue	23	2,585,185	2,373,136
Cost of sales	24	(2,472,946)	(1,769,496)
Gross profit		**112,239**	**603,640**
Gain on business combination	5	15,338,408	-
Impairment of exploration and evaluation assets	9	(8,104,190)	(369,151)
Impairment of investments at cost	12	(3,372,883)	-
Other operating income	25	1,409,776	2,595,737
General and administrative expenses	26	(4,148,315)	(1,788,188)
Distribution costs	27	(440,821)	(415,030)
Other operating expenses	28	(296,892)	(11,217)
Operating profit		**497,322**	**615,791**
Finance income	29	21,719	766,332
Finance costs	30	(1,777,355)	(1,052,400)
Share in loss of associates	11	(354,188)	(152,901)
(Loss) / profit before income tax		**(1,612,502)**	**176,822**
Income tax benefit / (expense)	31	1,497,458	(47,801)
(Loss) / profit for the year from continuing operations		**(115,044)**	**129,021**
Discontinued operations			
Profit / (loss) for the year from discontinued operations	32	1,274,902	(766,724)
Profit / (loss) for the year		**1,159,858**	**(637,703)**
Other comprehensive income			
Foreign exchange differences on translation to presentation currency		395,422	133,466
Total comprehensive income / (loss) for the year		**1,555,280**	**(504,237)**
Profit / (loss) is attributable to:			
Equity holders of the Group		1,995,122	(555,168)
Non-controlling interest		(835,264)	(82,535)
Profit / (loss) for the year		**1,159,858**	**(637,703)**
Total comprehensive income / (loss) is attributable to:			
Equity holders of the Group		2,351,001	(421,702)
Non-controlling interest		(795,721)	(82,535)
Total comprehensive income / (loss) for the year		**1,555,280**	**(504,237)**
Earnings / (loss) per share attributable to the equity holders of the Group, basic and diluted (in Tenge per share)			
For (loss) / profit from continuing operations			
Common shares	33	(0.09)	0.13
Preference shares	33	(0.09)	-
For profit / (loss) from discontinued operations			
Common shares	33	1.03	(0.76)
Preference shares	33	1.03	-

In thousands of Kazakhstani Tenge	Note	Share capital	Sub-scribed shares	Trea-sury shares	Currency translation reserve	Retained earnings	Total	Non-control-ling interest	Total
		Attributable to the equity holders of the Group							
Balance at 1 January 2009		**1,884,116**	**3,311,665**	**-**	**-**	**12,131,848**	**17,327,629**	**-**	**17,327,629**
Loss for the year (as previously reported)		-	-	-	-	(328,568)	(328,568)	(82,535)	(411,103)
Restatements		-	-	-	-	(226,600)	(226,600)	-	(226,600)
Loss for the year (restated)		-	-	-	-	(555,168)	(555,168)	(82,535)	(637,703)
Other comprehensive income		-	-	-	133,466	-	133,466	-	133,466
Total comprehensive loss for the year (restated)		-	-	-	133,466	(555,168)	(421,702)	(82,535)	(504,237)
Share issue		7,058,168	(3,311,665)	-	-	-	3,746,503	-	3,746,503
Treasury shares		-	-	(419)	-	-	(419)	-	(419)
Business combinations	5	-	-	-	-	-	-	209,145	209,145
Other		-	-	-	-	-	-	64,368	64,368
Balance at 31 December 2009 (restated)		**8,942,284**	**-**	**(419)**	**133,466**	**11,576,680**	**20,652,011**	**190,978**	**20,842,989**
Profit for the year		-	-	-	-	1,995,122	1,995,122	(835,264)	1,159,858
Other comprehensive income		-	-	-	355,879	-	355,879	39,543	395,422
Total comprehensive income for the year		-	-	-	355,879	1,995,122	2,351,001	(795,721)	1,555,280
Share issue	19	7,554,752	-	-	-	-	7,554,752	-	7,554,752
Treasury shares		-	-	(25,602)	-	-	(25,602)	-	(25,602)
Business combinations	5	-	-	-	-	-	-	5,058,953	5,058,953
Other		-	-	-	-	(372,335)	(372,335)	(62,393)	(434,728)
Balance at 31 December 2010		**16,497,036**	**-**	**(26,021)**	**489,345**	**13,199,467**	**30,159,827**	**4,391,817**	**34,551,644**

In thousands of Kazakhstani Tenge	**Note**	**2010**	**2009**
Cash flows from operating activities			
Cash inflows:			
Cash receipts from customers		3,012,834	2,444,406
Other cash inflows		1,190,527	1,911,282
Cash outflows:			
Cash paid to suppliers for goods and services		(3,469,314)	(2,338,370)
Cash paid to employees		(860,430)	(332,795)
Interest paid on borrowings and bonds		(1,478,837)	(790,024)
Corporate income tax and other taxes paid to budget		(305,916)	(120,296)
Cash paid for sponsorship		(877,129)	(114,048)
Other cash outflows		(648,121)	(1,389,499)
Net cash used in operating activities - continuing operations		**(3,436,386)**	**(729,344)**
Net cash used in operating activities - discontinued operations		**(302,189)**	**(323,396)**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		54,204	550
Purchase of property, plant and equipment		(322,141)	(71,618)
Purchase of intangible assets		(115)	(1,124)
Purchase of other non-current assets		(856,603)	(853,615)
Proceeds from sale of securities and investments		209,594	3,413,259
Purchase of securities and investments		-	(8,922,137)
Proceeds from disposal of subsidiaries, net of cash disposed		5,686,507	6,099
Acquisition of subsidiaries, net of cash acquired		(10,222,856)	(741,187)
Proceeds from disposal of share in associate		-	2,516,800
Acquisition of associates	11	(3,788,156)	(568,150)
Proceeds from cash refund transferred for trust management		2,163,810	-
Transfer of cash into trust management		-	(2,166,595)
Repayment of loans given to other entities		5,150,011	1,370,939
Loans provided		(5,109,505)	(1,604,127)
Transfers from restricted cash		360,243	-
Transfers to restricted cash		(1,156)	(2,600,096)
Advances received for business acquisition		1,005,500	465,000
Interest income received		15,716	435,836
Other cash inflows		58,788	13,446
Other cash outflows		(170,637)	(14,113)
Net cash used in investing activities - continuing operations		**(5,766,796)**	**(9,320,833)**
Net cash used in investing activities - discontinued operations		**403,011**	**-**
Cash flows from financing activities			
Proceeds from issue of shares	19	8,467,659	3,746,503
Payments for treasury shares	19	(25,602)	(419)
Proceeds from issue of bonds		1,526,866	4,165,501
Payments for treasury bonds		(5,062)	(920,299)
Proceeds from loans and borrowings		2,229,455	4,500,209
Repayments of loans and borrowings		(2,473,368)	(2,466,547)
Transfer to restricted cash		-	(360,359)
Other cash inflows		115,428	11,000
Other cash outflows		(69,501)	-
Net cash from financing activities - continuing operations		**9,765,875**	**8,675,589**
Net cash from financing activities - discontinued operations		**544,822**	**(342,199)**
Net increase / (decrease) in cash		**1,208,337**	**(2,040,183)**
Cash and cash equivalents at the beginning of the year	17	1,511,944	3,552,127
Cash and cash equivalents at the end of the year	17	**2,720,281**	**1,511,944**

36 The Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2010 for SAT & Company JSC (the "Company") and its subsidiaries (together referred to as the "Group").

Corporate background

The Company was incorporated on 18 October 2001 as limited liability partnership and on 15 August 2006 the Company was re-registered as a joint stock company in accordance with the Kazakhstani legislation.

The Company's common and preference shares and coupon bonds are placed at Kazakhstan Stock Exchange ("KASE"). The Company's common and preference shares are included in the KASE first category shares list; coupon bonds are included in the KASE non-rated first subcategory debt securities list.

The Company's shareholders

At 31 December 2010 and 2009 the Company's common shareholders were:

	31 December 2010	31 December 2009
Mr. Rakishev Kenes Khamituly	50.46%	50.46%
MAC ALIANS LLP	22.96%	24.50%
Accumulation pension funds	24.25%	13.31%
Others	2.33%	11.73%
Total	**100.00%**	**100.00%**

The Company's ultimate controlling party is Mr. Kenes Rakishev.

Principal activity

Prior to 2009 the Group's activity was significantly diversified: the Group was engaged in mechanical engineering, construction, transportation, logistics and other industries.

In 2008 the Group's shareholders defined the metallurgy and mining industries as the priority ones for the Group's operations. Accordingly, in 2009 and 2010 the Group consistently made a number of strategic acquisitions in the metallurgy and mining industries (Note 5). However, in 2008-2010 the Group disposed certain entities, which did not represent the Group's core operations.

Main subsidiaries and associates

The following list shows the Group's subsidiaries and associates, and the percentage of the ownership held directly or indirectly by the Company in these companies (the Company's ownership percentage in brackets):

Shalkiya Zinc N.V. ("Shalkiya Zinc NV") (81.39%): an entity incorporated in the Netherlands, and representing a holding company which has 100% interest in charter capital of Shalkiya Zinc LLP ("Shalkiya Zinc"). The principal activity of Shalkiya Zinc is exploration, extraction and complex processing of lead-zinc ore at Shalkiya and Talap fields located in Kyzylorda oblast. The Group acquired the above-mentioned share in Shalkiya Zink NV in December 2010 (Note 5).

Central Asian Investing Consulting Company LLP ("CAICC") (100%): an entity incorporated in the Republic of Kazakhstan, and representing a holding company. CAICC holding structure comprises the production division
represented by Taraz Metallurgy Plant LLP, and extracting division, consisting of the following manganese ore exploration and production companies – Arman-100 LLP, Saryarka Mining LLP and KARUAN LLP. The Group acquired the above mentioned share in CAICC in December 2010 (Note 5).

Taraz Metallurgy Plant LLP ("TMP") (100%): an entity incorporated in the Republic of Kazakhstan. TMP's main activity is production of ferroalloy products for metallurgy industry on the basis of metallurgy plant located in Taraz, Zhambyl oblast.

1 The Group and its Operations (continued)

Arman-100 LLP ("Arman-100") (100%): an entity incorporated in the Republic of Kazakhstan and engaged in production of manganese ore at the West Kamys field in Karaganda oblast with further processing and sale of manganese concentrate to TMP.

Saryarka Mining LLP ("Saryarka Mining") (80%): an entity incorporated in the Republic of Kazakhstan and engaged in exploration and further production of ferromanganese ore at Tyuebay-Syurtysu field in Karaganda oblast.

KARUAN LLP ("KARUAN") (50%): an entity incorporated in the Republic of Kazakhstan and engaged in exploration of manganese ore at Aitkokshe field in Mangistau oblast.

Trade House Taraz Metallurgy Plant LLC ("TH TMP") (90%): an entity incorporated in the Russian Federation and mainly engaged in sales of the products of TMP and other third-party metallurgy companies in the Russian Federation, the Republic of Belorussia and the Ukraine.

SAT&Co Holding A.Ş. ("SAT&Co Holding") (90%): an entity incorporated in Turkey and acquired by the Group in June 2009 (Note 5), main activity of which is exploration and production of chrome ore. SAT&Co Holding is a holding company, in possession of a 100% share in charter capital of SAT& Co Madencilik İşl. Tic. A.Ş. ("SAT&Co Madencilik"), which holds a license for chrome exploration, as well as Denizli Madencilik İşl. Tic. A.Ş. ("Denizli Madencilik") and Sivas Madencilik İşl. Tic. A.Ş. ("Sivas Madencilik"), which are operators at these fields carrying out exploration and production operations. As at 31 December 2009 the Group's interest in SAT&Co Holding was 87%.

Mining Company SAT Komir LLP ("SAT Komir") (100%): an entity incorporated in the Republic of Kazakhstan and engaged in production of brown coal at Kumyskuduk site of Verhnesokurskoe field in Karaganda oblast of the Republic of Kazakhstan.

Ertis Ferronickel Plant ("FNP Ertis") (51%): an entity incorporated in the Republic of Kazakhstan and mainly engaged in development of the project on processing of cobalt and nickel ores of Gornostayevskoye field. FNP Ertis owns 100% interest in charter capital of Kaznickel LLP.

Kaznickel LLP ("Kaznickel") (51%): an entity incorporated in the Republic of Kazakhstan and engaged in exploration of cobalt and nickel ores at Gornostayevskoye field located in the Eastern Kazakhstan oblast.

Jinsheng SAT (Tianjin) Commercial Trading Co. Ltd. ("Jinsheng SAT") (51%): an entity incorporated in the People's Republic of China which did not engage in any significant operations in 2010 and 2009.

SAT Trade LLP ("SAT Trade") (50%): a subsidiary incorporated in the Republic of Kazakhstan and mainly engaged in purchase and processing of crude oil at Atyrau Refinery Plant and further sale of oil products.

Kazakhstan Petrochemical Industries Inc. LLP ("KPI") (49%): an associate incorporated in the Republic of Kazakhstan and engaged in construction and establishment of an integrated petrochemical complex for production of polypropylene and polyethylene in the Western Kazakhstan. As at 31 December 2009 the Group owned 25% interest in KPI's charter capital.

Kazgeocosmos LLP ("Kazgeocosmos") (32.1%): an associate incorporated in the Republic of Kazakhstan and engaged in aerospace monitoring of natural and industrial facilities.

Other companies: various companies not involved in significant operations, and which are not material for the Group as a whole.

Unless stated otherwise, the Group held the same percentage of ownership in the aforementioned companies as at 31 December 2009 plus 100% interest in charter capital of Kazferrostal JSC (hereinafter "KFS"). KFS is an entity incorporated in the Republic of Kazakhstan main activity of which is production of metal products from carbon and ferroalloy steels at the complex of metallurgy processing of the scrap and ferrous metals. The Group disposed its interest in KFS in December 2010 (Note 32).

1 The Group and its Operations (continued)

Subsurface use contracts

The Group operates in the Republic of Kazakhstan in accordance with the following subsurface use contracts:

Contractual area	Current stage	Mineral resource	Signing date	Expiration date	Entity	Share oft
Gornostayevskoye	Exploration	Nickel	26 February 2004	26 February 2026	Kaznickel	51%
Kumyskuduk Verkhnesokurskoe	Production	Coal	26 June 2001	26 June 2026	SAT Komir	100%
Shalkiya	Production	Zinc	31 May 2002	31 May 2046	Shalkiya Zink	81.39%
Talap	Exploration	Zinc	15 December 2004	15 December 2024	Shalkiya Zink	81.39%
Western Kamys	Exploration/ Production	Manganese	14 May 2001	14 May 2013	Arman 100	100%
Aitkokshe	Exploration	Manganese	30 July 2008	30 July 2013	KARUAN	50%
Tuyebay-Surtysu	Exploration	Ferro-manganese	8 May 2008	8 May 2012	Saryarka Mining	80%

The Group is also involved in exploration and production of chrome ore in Turkey in accordance with 17 exploration and production contracts with expiry dates varying from March 2011 to November 2017.

Registered address and place of business

The registered address of the Company's head office is 241, Mukanov Street, Almaty, the Republic of Kazakhstan.

37 Basis of Preparation and Significant Accounting Policies

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

The preparation of the financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires the management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4. Actual results could differ from these estimates.

Going concern

These consolidated financial statements are prepared in accordance with the IFRS on the basis of going concern principle which assumes the realisation of assets and settlement of liabilities in the normal course of business in the foreseeable future. Uncertainties related to the events and conditions that may cast a significant doubt upon the Group's ability to continue as a going concern are presented in Note 4.

Restatement of comparative information

Comparative information was revised for the following:

(i) Accounting for acquisition of SAT&Co Holding (Turkey)

When accounting for acquisition of SAT&Co Holding in the consolidated financial statements prepared in accordance with IFRS for the year 2009, the Group recorded the excess of acquisition cost over the fair value of net assets of the acquiree in the amount of Tenge 12,080,862 thousand as goodwill. In 2010, the Group's management determined the fair value of chrome ore exploration and production licenses based on its internal assessment, and increased the license cost by Tenge 15,040,928 thousand. Accordingly, the Group recognised the deferred income tax liability in the amount of Tenge 3,008,186 thousand. The Group concluded that goodwill arising from business combination due to the synergy with the Group's other assets and acquisition of any unidentifiable assets is insignificant.

2 Basis of Preparation and Significant Accounting Policies (continued)

In 2010, the Group also made the following minor adjustments to preliminary fair values of assets and liabilities of the acquiree:

- The Group capitalised certain capital expenditures erroneously expensed in the previous period in the amount of Tenge 152,274 thousand to cost of property, plant and equipment;
- The Group recognised site restoration provision of Tenge 126,620 thousand and recorded this amount to cost of respective property, plant and equipment;
- The cost of certain advances to suppliers and contractors and certain payables was decreased by Tenge 159,920 thousand and Tenge 55,766 thousand, respectively.

Comparative information has been restated and adjusted. Presented below are the results of the restatement at 31 December 2009 with no effect on 1 January 2009 results or the results for 2009:

In thousands of Kazakhstani Tenge	**31 December 2009**
Increase in exploration and evaluation assets	15,040,928
Decrease in goodwill	(12,080,862)
Increase in property, plant and equipment	278,894
Decrease in trade and other receivables	(159,920)
Increase in deferred income tax liability	(3,008,186)
Increase in site restoration provision	(126,620)
Decrease in trade and other payables	55,766
Change in equity	**-**

(ii) Accounting for acquisition of Kaznickel

When accounting for acquisition of Kaznickel in the consolidated financial statements prepared in accordance with IFRS for the year 2009, the Group recognised the excess of acquisition cost over the fair value of net assets of the acquiree in the amount of Tenge 510,259 thousand as goodwill.

In 2010 the Group's management determined the fair value of the rights for exploration of cobalt and nickel ores of the Gornostaevskoye field based on its internal assessment and increased the cost of such right by Tenge 434,534 thousand. Accordingly, the Group recognised deferred income tax liability in amount of Tenge 65,180 thousand. The Group concluded that there are no unidentified assets in the acquiree and there is no effect of synergy as a result of combination with other assets of the Group or other potential benefits that give rise to goodwill.

In 2010 the Group has also made the following minor adjustments to preliminary fair values of assets and liabilities of the acquiree:

- The Group capitalised certain capital expenditures erroneously expensed in the previous period in the amount of Tenge 63,211 thousand to cost of exploration and evaluation assets;
- The Group recognised deferred income tax asset in the amount of Tenge 89,090 thousand;
- The Group recognised site restoration provision of Tenge 14,421 thousand and carried it to cost of relevant exploration and evaluation assets;
- Certain payables were decreased by Tenge 3,025 thousand.

Comparative information has been restated and adjusted. Presented below are the results of such restatement at 31 December 2009 with no effect on 1 January 2009 results or the results for 2009:

In thousands of Kazakhstani Tenge	**31 December 2009**
Increase in exploration and evaluation assets	497,745
Decrease in goodwill	(510,259)
Increase in deferred income tax asset	89,090
Increase in site restoration provision	(14,421)
Increase in deferred income tax liability	(65,180)
Decrease in trade and other payables	3,025
Change in equity	**-**

2 Basis of Preparation and Significant Accounting Policies (continued)

(iii) Accounting for acquisition of Sat Komir

In the consolidated financial statements prepared in accordance with IFRS for the year 2009, the Group recognised the acquisition of 100% interest in SAT Komir as business combination. Before the acquisition date, SAT Komir did not constitute an integrated set of activities and assets, since it did not possess sufficient resources, processes and other features required under definition of the business in accordance with provisions of IFRS 3, Business Combinations. Accordingly, the Group's management concluded that at the acquisition date this entity represented a group of assets (not business) and recorded the acquisition of SAT Komir as acquisition of the group of assets. Comparative information has been restated and adjusted. Presented below are the results of such restatement as at 31 December 2009 with no effect on 1 January 2009:

In thousands of Kazakhstani Tenge	**31 December 2009**
Increase in property, plant and equipment	9,240
Decrease in goodwill	(9,240)
Change in equity	**-**

(iv) Other adjustments

- In the consolidated financial statements prepared in accordance with IFRS for the year 2009, the Group incorrectly capitalised expenses on capital repair of Botakara railway station, for which the right to use is not established by the ownership right, lease or other agreement in the amount of Tenge 116,071 thousand. In these consolidated financial statements this amount was expensed as part of distribution costs for the year 2009. Comparative information has been revised to correct this error.
- During preparation of the financial statements in accordance with IFRS for the year 2009, the Group did not recognise the provision for site restoration related to the obligations of the Group entities under the terms of the subsurface use contracts to eliminate the consequences of its contractual activities, including the removal or dismantlement of facilities and equipment on the contractual area, and restoration of disturbed lands. In 2010, the Group estimated the future costs for decommissioning and restoration, and recognised related provision for site restoration in the amount of Tenge 73,578 thousand and recorded this amount to respective property, plant and equipment (Note 20). This restatement does not have any impact on the Group's profit for the year 2009. Comparative information has been restated and adjusted.
- In these consolidated financial statements cost of certain capital expenditures related to fields where the Group commenced production stage at 31 December 2009 in the amount of Tenge 643,570 thousand was reclassified from exploration and evaluation assets to property, plant and equipment. This restatement does not have any impact on the Group's profit for the year 2009. Comparative information has been restated and adjusted.
- The Group has written off deferred income tax assets in the amount of Tenge 110,840 thousand with respect to tax losses carried forward incurred by the Group entities for which no taxable profits are expected. Comparative information has been restated and adjusted.
- In these consolidated financial statements deferred income tax assets of the certain entities of the Group in the amount of Tenge 153,566 thousand were offset with deferred income tax liabilities related to the same taxable entities. This restatement does not have any effect on the Group's profit for the year 2009. Comparative information has been restated and adjusted.
- In these consolidated financial statements prepayments for property, plant and equipment in the amount of Tenge 263,028 thousand were reclassified from trade and other receivables to other non-current assets. This restatement does not have any effect on the Group's profit for the year 2009. Comparative information has been restated and adjusted.
- In these consolidated financial statements the Group also adjusted some minor errors as at 31 December 2009 and for the year then ended. As a result, at 31 December 2009 the cost of property, plant and equipment decreased by Tenge 7,919 thousand, trade and other payables of the Group decreased by Tenge 8,230 thousand, and cost of sales for 2009 decreased by Tenge 311 thousand.

2 Basis of Preparation and Significant Accounting Policies (continued)

Presented below are the results of these restatements at 31 December 2009 and for the year then ended which do not have effect at 1 January 2009.

In thousands of Kazakhstani Tenge	**31 December 2009**
Increase in property, plant and equipment	593,158
Decrease in exploration and evaluation assets	(643,570)
Decrease in deferred income tax assets	(264,406)
Increase in other non-current assets	263,028
Decrease in trade and other receivables	(263,028)
Increase in site restoration provision	(73,578)
Decrease in trade and other payable	8,230
Decrease in deferred income tax liability	153,566
Change in equity	**(226,600)**

In thousands of Kazakhstani Tenge	**2009**
Decrease in cost of sales	311
Increase in distribution costs	(116,071)
Increase in income tax expense	(110,840)
Change in profit	**(226,600)**

(v) Reclassification of discontinued operations

The following profit and loss items for 2009 were reclassified to income and expenses from discontinued operations due to disposal of KFS in 2010 (Note 32):

In thousands of Kazakhstani Tenge	**2009**
Increase in:	
Loss for the year from discontinued operations	766,724
Decrease in:	
Revenue	(1,890,943)
Cost of sales	1,343,272
Other operating income	(65,906)
Distribution costs	125,646
General and administrative expenses	1,273,426
Other operating expenses	110,021
Income tax benefit	(128,792)

(vi) Reclassifications of the statement of financial position items

To conform to the presentation of the current year financial statements certain reclassifications of the comparative information have been made.

- Development assets at 31 December 2009 of Tenge 174,185 thousand were reclassified to exploration and evaluation assets (1 January 2009: nil).
- Goodwill at 31 December 2009 of Tenge 125,363 thousand was reclassified to intangible assets (1 January 2009: Tenge 582,823 thousand).
- Investments at cost at 31 December 2009 of Tenge 4,471,639 thousand were reclassified from investments into a separate line item (1 January 2009: nil).
- Investments in associates at 31 December 2009 of Tenge 415,477 thousands were reclassified from investments into a separate line item (1 January 2009: Tenge 228 thousand).
- Other investments at 31 December 2009 of Tenge 14,113 thousand were reclassified from investments into other non-current assets (1 January 2009: nil).

2 Basis of Preparation and Significant Accounting Policies (continued)

- Advances for property, plant and equipment as at 31 December 2009 of Tenge 361,999 thousand (1 January 2009: Tenge 1,006,115 thousand), advances for business combination at 31 December 2009 of Tenge 360,000 thousand (1 January 2009: Tenge 11,300,600 thousand) and long-term receivables at 31 December 2009 of Tenge 2,822,413 thousand (1 January 2009: Tenge 1,634,383 thousand) were reclassified into other non-current assets.
- Short-term investments at 31 December 2009 of Tenge 232,274 thousand (1 January 2009: Tenge 364,000 thousand), current income tax prepayments at 31 December 2009 of Tenge 6,396 thousand (1 January 2009: Tenge 6,761 thousand), trade and other receivables at 31 December 2009 of Tenge 713,500 thousand (1 January 2009: nil) and advances given at 1 January 2009 of Tenge 759,016 thousand (31 December 2009: nil) were reclassified to other current assets.
- Advances given at 31 December 2009 of Tenge 2,313,000 thousand (1 January 2009: Tenge 246,763 thousand) were reclassified into trade and other receivables.
- Accrued interest at 31 December 2009 of Tenge 549,613 thousand (1 January 2009: Tenge 353,533 thousand) was reclassified from trade and other payables to short-term borrowings.
- Current income tax payable as at 31 December 2009 of Tenge 1,888 thousand (1 January 2009: nil) was reclassified into trade and other payables.
- Other minor reclassifications were made in respect of comparative information to conform to the current year presentation and disclosure.

In thousands of Kazakhstani Tenge	**1 January 2009**	**31 December 2009**
Increase in:		
Exploration and evaluation assets	-	174,185
Intangible assets	582,823	125,363
Investments in associates	228	415,477
Investments at cost	-	4,471,639
Other non-current assets	13,941,098	3,558,525
Trade and other receivables	246,763	1,599,500
Other current assets	1,129,777	952,170
Short-term borrowings	353,553	549,613
Decrease in:		
Development assets	-	174,185
Goodwill	582,823	125,363
Long-term investments	228	4,901,229
Advances for property, plant and equipment	1,006,115	361,999
Advances for business combination	11,300,600	360,000
Long-term receivables	1,634,383	2,822,413
Short-term investments	364,000	232,274
Advances given	1,005,779	2,313,000
Current income tax prepayment	6,761	6,396
Current income tax payable	-	1,888
Trade and other payables	353,553	547,725

(vii) Reclassification of profit and loss items for 2009

- Loss from impairment of exploration and evaluation assets of Tenge 369,151 thousand was reclassified from impairment loss into a separate line item.
- Accrued provisions for slow-moving inventories of Tenge 43,540 thousand were reclassified from impairment loss to cost of sales.
- Impairment of goodwill and trade and other receivables of Tenge 1,255,390 thousand were reclassified to general and administrative expenses.
- Certain distribution costs in the amount of Tenge 6,158 thousand were reclassified from general and administrative expenses to distribution costs.
- Loss from change in fair value of investments through profit or loss in the amount of Tenge 10,939 thousand was reclassified into other operating expenses.

2 Basis of Preparation and Significant Accounting Policies (continued)

In thousands of Kazakhstani Tenge	**2009**
Increase in:	
Cost of sales	43,540
Impairment of exploration and evaluation assets	369,151
Distribution costs	6,158
General and administrative expenses	1,249,232
Other operating expenses	10,939
Decrease in:	
Impairment loss	1,668,081
Loss from change in fair value of investments through profit or loss	10,939

(viii) Effect of restatement on the individual items of the statement of financial position as at 1 January 2009 and 31 December 2009:

In thousands of Kazakhstani Tenge		**1 January 2009** As previously reported	**Restatement**	**Restated**	**31 December 2009** As previously reported	**Restatement**	**Restated**
Property, plant and equipment	(i), (iii), (iv)	3,716,562	-	3,716,562	5,541,163	881,292	6,422,455
Exploration and evaluation assets	(i), (ii), (iv)	-	-	-	1,022,774	15,069,288	16,092,062
Development assets	(vi)	-	-	-	174,185	(174,185)	-
Goodwill	(i), (ii), (iii),(vi)	582,823	(582,823)	-	12,725,724	(12,725,724)	-
Intangible assets	(vi)	13,824	582,823	596,647	12,062	125,363	137,425
Long-term investments	(vi)	228	(228)	-	4,901,229	(4,901,229)	-
Investments in associates	(vi)	-	228	228	-	415,477	415,477
Investments at cost	(vi)	-	-	-	-	4,471,639	4,471,639
Deferred income tax assets	(i), (ii), (iv)	88,231	-	88,231	175,316	(175,316)	-
Advances for property, plant and equipment	(vi)	1,006,115	(1,006,115)	-	361,999	(361,999)	-
Advances for business combination	(vi)	11,300,600	(11,300,600)	-	360,000	(360,000)	-
Long-term receivables	(vi)	1,634,383	(1,634,383)	-	2,822,413	(2,822,413)	-
Other non-current assets	(iv), (vi)	-	13,941,098	13,941,098	2,600,000	3,821,553	6,421,553
Short-term investments	(vi)	364,000	(364,000)	-	232,274	(232,274)	-
Inventories		635,780	-	635,780	1,192,271	-	1,192,271
Advances given	(vi)	1,005,779	(1,005,779)	-	2,313,000	(2,313,000)	-
Trade and other receivables	(i), (iv), (vi)	2,653,693	246,763	2,900,456	2,523,421	1,176,552	3,699,973
Current income tax prepayment	(vi)	6,761	(6,761)	-	6,396	(6,396)	-
Other current assets	(vi)	-	1,129,777	1,129,777	-	952,170	952,170
Cash and cash equivalents		3,552,127	-	3,552,127	1,511,944	-	1,511,944
Share capital		1,884,116	-	1,884,116	8,942,284	-	8,942,284
Subscribed shares		3,311,665	-	3,311,665	-	-	-
Treasury shares		-	-	-	(419)	-	(419)
Currency translation reserve		-	-	-	133,466	-	133,466
Retained earnings	(iv)	12,131,848	-	12,131,848	11,803,280	(226,600)	11,576,680
Non-controlling interest		-	-	-	190,978	-	190,978
Site restoration provision	(i), (ii), (iv)	-	-	-	-	214,619	214,619
Deferred income tax liability	(i), (ii), (iv)	221,133	-	221,133	109,452	2,919,800	3,029,252
Long-term borrowings		5,477,414	-	5,477,414	10,968,617	-	10,968,617
Other non-current liabilities		-	-	-	1,419	-	1,419
Short-term borrowings	(vi)	292,917	353,553	646,470	437,927	549,613	987,540
Current income tax payable	(vi)	-	-	-	1,888	(1,888)	-
Trade and other payables	(i), (ii), (iv), (vi)	3,241,813	(353,553)	2,888,260	5,887,279	(614,746)	5,272,533

2 Basis of Preparation and Significant Accounting Policies (Continued)

(ix) The effect of restatement on the individual profit and loss items for 2009

In thousands of Kazakhstani Tenge		**As previously reported**	**Restatement**	**Restated**
Revenue	(v)	4,264,079	(1,890,943)	2,373,136
Cost of sales	(iv), (v), (vii)	(3,069,539)	1,300,043	(1,769,496)
Other operating income	(v)	2,661,643	(65,906)	2,595,737
Impairment of exploration and evaluation assets	(vii)	-	(369,151)	(369,151)
Impairment loss	(vii)	(1,668,081)	1,668,081	-
Distribution costs	(iv), (v), (vii)	(418,447)	3,417	(415,030)
General and administrative expenses	(v), (vii)	(1,812,382)	24,194	(1,788,188)
Loss on change in fair value of investments through profit or loss	(vii)	(10,939)	10,939	-
Other operating expenses	(v), (vii)	(110,299)	99,082	(11,217)
Finance income		766,332	-	766,332
Finance costs		(1,052,400)	-	(1,052,400)
Share of loss of associates		(152,901)	-	(152,901)
Income tax benefit / (expense)	(iv), (v)	191,831	(239,632)	(47,801)
Loss for the year from discontinued operations	(v)	-	(766,724)	(766,724)

The revised IAS 1, 'Presentation of Financial Statements', which became effective from 1 January 2009 requires an entity to present a statement of financial position as at the beginning of the earliest comparative period ('opening statement of financial position'), when the entity applies an accounting policy retrospectively or makes a retrospective restatement or when it reclassifies items in its financial statements. The opening statement of financial position is presented in these financial statements as a result of changes in presentation made following the adoption of the revised IAS 1 from 1 January 2009, including the introduction of the statement of comprehensive income.

The requirement to present the additional opening statement of financial position, when the entity has made a restatement or reclassification, extends to the information in the related notes. Management considered materiality and concluded that omission of certain notes to the additional opening statement of financial position is therefore, in management's view, not material.

Consolidated financial statements

(i) Subsidiaries

Subsidiaries are those companies and other entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The purchase method of accounting is used by the Group to account for the acquisition of subsidiaries, including companies under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

2 Basis of Preparation and Significant Accounting Policies (continued)

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

(ii) Purchase and sale of non-controlling interests

The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

(iii) Investments in associates

Associates are entities over which the Company has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(iv) Disposal of subsidiaries and associates

When the Group ceases to have control or significant influence, any retained interest in the entity is re measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Foreign currency translation

(i) Functional currency and presentation currency

All amounts in the consolidated financial statements are stated in thousands of Tenge, unless stated otherwise.

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Group and its subsidiaries, except for the SAT & Co Holding (Turkey), Jinsheng SAT and TH TMP is Tenge. Functional currencies of SAT & Co Holding (Turkey), Jinsheng SAT and TH TMP are Turkish Lira, Renminbi and Russian Rouble, respectively.

2 Basis of Preparation and Significant Accounting Policies (Continued)

The results and financial position of each group entity are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position are translated at the closing rate at the end of the respective reporting period;
- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- components of equity are translated at the historic rate; and
- all resulting exchange differences are recognised in other comprehensive income.

When control over a foreign operation is lost, the previously recognised exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate at the reporting date.

(ii) Operations and balances in foreign currency

Transactions in foreign currencies are translated into functional currency at the official exchange rate on the date of the transaction. Gains or losses from exchange rate differences resulting from the settlement of such transactions, as well as the translation of foreign currency denominated monetary assets and liabilities at exchange rates at year-end profit or loss for the year.

At 31 December 2010, the principal exchange rate used to translate foreign currency balances was US Dollar 1 = Tenge 147.40 (2009: US Dollar 1 = Tenge 148.36). Exchange restrictions and currency controls exist relating to conversion of Tenge into other currencies. Currently, Tenge is not freely convertible in most countries outside of the Republic of Kazakhstan.

Property, plant and equipment

(i) Recognition and subsequent measurement

Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost comprises purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use. The cost of self-constructed assets includes the cost of materials, direct labour and part of direct construction overhead costs.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to profit and loss for the reporting period as incurred.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in profit or loss for the year within other operating income or expenses.

Mining assets are carried at cost less accumulated amortisation and less any impairment losses, if required. Expenditure, including evaluation costs, incurred to establish or expand productive capacity, as well as the costs to conduct mining-construction, mining-capital and mining preparation works during the development or mine reconstruction phase, are capitalised to mining assets.

(ii) Depreciation

Land is not depreciated. Mining assets are depreciated using the unit-of-production method based on estimated economically viable recoverable reserves to which they relate. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values. Each item's estimated useful life depends on its own useful life limitations and the present assessment of economically recoverable reserves of the mine property at which the item is located.

2 Basis of Preparation and Significant Accounting Policies (continued)

Estimated useful lives are presented in the table below:

	Useful lives (in years)
Buildings and constructions	15-50
Machinery and equipment	4-25
Vehicles	5-10
Other	3-15

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil, if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

(iii) Impairment

At the end of each reporting period management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit and loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

(vi) Stripping costs

Stripping (i.e. overburden and other waste removal) costs incurred in the development of a mine before production commences are capitalised as part of the cost of constructing the mine and subsequently amortised using unit of production method over the useful lives of the mine. Stripping costs incurred subsequently, during the production stage of its operations are expensed.

Exploration and evaluation assets

(i) Initial recognition and subsequent measurement

Exploration and evaluation assets are measured at cost less provision for impairment, where required.

Exploration and evaluation assets include the cost of subsurface use (exploration) rights, capitalised expenditures on drilling of exploratory wells, cost of support equipment and facilities, geological and geophysical studies, stripping costs, as well as production and other general overhead costs that are directly attributable to the exploration fields. Production and other general overhead costs capitalised within exploration and evaluation assets include salaries of personnel involved in the exploration and evaluation activities and other overhead costs directly related to exploration and evaluation activities.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral reserve is demonstrable. Once commercial reserves are found, exploration and evaluation assets are transferred to development tangible and intangible assets (within property, plant and equipment and intangible assets) and amortised using the unit-of-production method based on proved and probable mineral reserves.

(ii) Impairment of exploration and evaluation assets

Exploration and evaluation assets are tested by the Group for impairment when reclassified to development tangible or intangible assets or whenever facts and circumstances indicate assets' impairment. An impairment loss is recognised for the amount by which exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use.

One or more of the following facts and circumstances indicate that the Group should test its exploration and evaluation assets for impairment (the list is not exhaustive):

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral reserves in the specific area is neither budgeted nor planned;

2 Basis of Preparation and Significant Accounting Policies (Continued)

- exploration for and evaluation of mineral reserves in the specific area have not led to the discovery of commercially viable quantities of mineral reserves and the Group has decided to discontinue such operations in the specific area;
- sufficient data exist to indicate that, although development works in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full resulted from efficient development or by sale.

For the purpose of assessing impairment, the exploration and evaluation assets, subject to impairment testing are grouped by projects.

Goodwill

Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Intangible assets

The Group's intangible assets have definite useful lives and primarily include capitalised computer software and subsurface use rights (extraction of mineral resources). Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring it to use and is amortised on a straight line basis over useful lives estimated by the management as 3 to 5 years. Subsurface use rights are amortised over the term of the relevant subsurface use contracts.

If impaired, the carrying value of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Finance instruments

(i) Key measurement terms

Depending on their classification financial instruments are carried at fair value [cost] or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments.

2 Basis of Preparation and Significant Accounting Policies (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

(ii) Classification of financial assets

Financial assets have the following categories: (a) loans and receivables; (b) available-for-sale financial assets and (c) financial assets held to maturity.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. Loans and receivables are included in current assets, except for those with maturities greater than 12 months after the reporting period, which are classified as non-current assets.

Held-to-maturity investments include quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period.

All other financial assets are included in the available-for-sale category, which includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

(iii) Classification of financial liabilities

Financial liabilities of the Group include financial liabilities carried at amortised cost.

(iv) Initial recognition of financial instruments

Financial assets and liabilities are initially recorded at fair value less transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

(v) Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

2 Basis of Preparation and Significant Accounting Policies (continued)

(vi) Available-for-sale investments

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year as finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year as finance income when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired at which time the cumulative gain or loss is reclassified from other comprehensive income to finance income in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to finance costs in profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

(vii) Held-to-maturity investments

Held-to-maturity investments are carried at amortised cost using the effective interest method, net of any provision for incurred impairment losses.

(viii) Offsetting

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

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Trade and other receivables

Trade and other receivables, except for prepaid taxes and advances to supplies, are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method less provision for impairment to such receivables. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in profit and loss for the year. The primary factor that the Group considers in determining whether a financial asset is impaired is its overdue status. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or other financial reorganisation;
- there is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Advances to suppliers are carried at cost less provision for impairment. Advances are classified as non-current when the goods or services relating to the advances are expected to be obtained after one year, or when advances relate to an asset which will itself be classified as non-current upon initial recognition. Advances to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other advances are written off when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to an advance will not be received, the carrying value of advances is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Prepaid taxes are recorded at amounts actually paid less provision for impairment.

Value added tax

Value-added tax ("VAT") related to sales is payable to the tax authorities when goods are shipped or services are rendered. Input VAT can be offset against output VAT upon the receipt of a tax invoice from a supplier. Tax legislation allows the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases is stated in the statement of financial position on a net basis. Recoverable VAT is classified as non-current if its settlement is not expected within one year after the reporting period. Non-current recoverable VAT is measured at discounted value. Discounted value is determined based on estimated dates and the amount to be offset.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and cash at current bank accounts. Cash and cash equivalents are carried at amortised cost using the effective interest rate method. Restricted balances are excluded from cash and cash equivalents for the purposes of the statement of cash flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets, while balances restricted for more than three months but less than twelve months after the reporting period are included in other current assets.

Non-current assets held for sale and disposal groups

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current reporting period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment and intangible assets are not depreciated or amortised.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Discontinued operations

A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Earnings and cash flows of discontinued operations, if any, are disclosed separately from continuing operations with comparatives being re-presented.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Preference shares which carry a mandatory coupon are classified as financial liabilities and are presented in other non-current liabilities. The dividends on these preference shares are recognised as interest expense on an amortised cost basis using the effective interest method.

Dividends

Dividends are recognised as a liability and are deducted from equity at the end of reporting period only if they are declared before or at the end of reporting period. Dividends are disclosed when they are proposed before the end of reporting period or proposed or declared after the reporting period but before the financial statements are authorised for issue.

Provisions

Provisions are recognised 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 will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

Site restoration provision

Site restoration provision includes the landfill site restoration and closure (dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas). Estimated landfill site restoration and closure costs are stated in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the mine development or during the production phase, based on the net present value of estimated future costs. Site restoration provisions do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure and restoration plan. The cost estimates are calculated annually during the life of the operation to reflect known developments, e.g. updated cost estimates and revisions to the estimated lives of operations.

Landfill site restoration and closure costs are a normal consequence of mining, and the majority of landfill site restoration and closure expenditure is incurred during the life of the mine. Although the ultimate cost to be incurred is uncertain, the Group estimates the respective costs based on feasibility and engineering studies using current restoration standards and techniques.

The amortisation or “unwinding” of the discount applied in establishing the net present value of provisions is charged to profit or loss in each accounting period. The amortisation of the discount is shown as a finance cost.

Movements in the provision for asset retirement obligations, resulting from new disturbance as a result of mine development, updated cost estimates, changes to the estimated lives of operations and revisions to discount rates are adjusted within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

Other movements in the provisions for mining assets and waste polygons retirement obligations, resulting from new disturbance as a result of mine development, updated cost estimates, changes to the estimated lives of operations and revisions to discount rates are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate using the depreciation methods applied to those assets. Movements in the provisions for asset retirement obligations that relate to disturbance caused by the production phase are charged to profit or loss for the year.

Where restoration and remediation works are conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous remediation work at each balance sheet date and the cost is charged to the profit and loss for the year.

Obligation on payment of commercial discovery bonus and reimbursement of historical costs

The Group recognises the obligation on payment of commercial discovery bonus and reimbursement of historical costs on those contracts for which the commercial discovery is highly probable and commercial feasibility of capital investments and further development and production of mineral resources are proved. Management’s estimates of probability of commercial discovery are based on results of exploration, test production and evaluation of mineral resources reserves by independent engineers. Commercial discovery bonus and historical costs are initially recognised as part of subsurface use rights.

2 Basis of Preparation and Significant Accounting Policies (continued)

Borrowings

Borrowings are initially recognised at fair value net of transaction costs. Borrowings are subsequently measured at amortised cost, the difference between the amount of the proceeds (net of transaction costs) and the cost to maturity is recognised in the profit and loss for the period of the loan using the effective interest rate.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

In accounting for loans from related parties with off market terms, the Company records gain on origination within profit and loss for the year or a directly in equity as a capital contribution to the Company. The method used reflects the transaction's economic substance and is applied consistently to all similar transactions and is disclosed in the consolidated financial statements.

Borrowing costs that are 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 (a qualifying asset) are capitalised.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation ceases when all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Trade and other payables

Trade and other payables are accrued when the counterparty performed its obligations under the contract. Trade and other payables, except for advances received, are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. Advances received are stated at actual amounts received from the third parties.

Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Revenue recognition

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Revenues are shown net of VAT and discounts. Revenues are measured at the fair value of the consideration received or receivable. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

Proceeds from sales of minerals produced during the test production stage are not recognised in profit or loss for the year as revenues, but are credited against cost of exploration and evaluation assets.

Interest income is recognised on a time-proportion basis using the effective interest rate method.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Operating lease

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Payroll expense and related contributions

Wages, salaries, contributions to pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the period in which the associated services are rendered by the employees of the Group. On behalf of its employees, the Group pays those statutory pension and post-employment benefit amounts prescribed by the legal requirements of the Republic of Kazakhstan. Such payments are expensed as incurred. Upon retirement of employees, the financial obligations of the Group cease and all subsequent payments to retired employees are administered by the state and private cumulative pension funds.

Income tax

Income taxes have been provided for in these consolidated financial statements in accordance with legislation of the Republic of Kazakhstan enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

In determining the tax bases of the restoration and closure costs are added to the cost of property plant and equipment and site restoration provision the Group allocates the future tax deductions to the liability. Under this approach the initial recognition exception does not apply. Deferred tax liability is recognised in respect of the taxable temporary difference on the restoration and closure costs are added to the cost of property plant and equipment and, subject to recognition criteria mentioned above, a deferred tax asset is recognised in respect of the deductible temporary difference on the site restoration provision.

Earnings per share

Preference shares are considered to be participating shares. Earnings per share are determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting year.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

38 New Accounting Pronouncements

(i) Standards, amendments and interpretations effective from 2010 and adopted by the Group:

- IAS 27, Consolidated and Separate Financial Statements (revised in January 2008; effective for the periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent company and non-controlling interest (before - minority interest), even if the results in a non-controlling package represents a deficit balance. Previous standard required that the excess losses to be allocated to the holders of the parent company, who in most cases covers these losses. The revised standard also specifies that changes to the parent's ownership interest in a subsidiary that does not lead to loss of control must be accounted for as equity transactions. In addition, the standard describes how a company should measure any gain or loss from a loss of control over the subsidiary. All investments are preserved in the former subsidiary should be measured at fair value at the date of loss of control. Adoption of the revised standard did not have any significant impact on the consolidated financial statements of the Group.

- Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity’s own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. These amendments did not have the significant impact on the consolidated financial statements of the Group.

- IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the current IFRS 3 method (proportionate share of the acquiree’s identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to re-measure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group applied the revised IFRS 3 retrospectively to all business combinations presented in these consolidated financial statements. Adoption of the revised IFRS 3 had an impact on disclosure of business combinations but did not have any significant effect on the recognition or measurement of transactions and balances.

3 New Accounting Pronouncements (continued)

(ii) Standards and interpretations to existing standards which are effective for the annual periods beginning on or after 1 January 2010 and not relevant to the Group's operations

- Embedded Derivatives - amendments to IFRIC 9 and IAS 39 (effective for annual periods beginning on or after 30 June 2009).
- IAS 39 (Amendment), Financial Instruments: Recognition and Measurement – Eligible Hedged items, effective with retrospective application for annual periods beginning on or after 1 July 2009 with early adoption.
- IFRIC 17, Distribution of Non-Cash Assets to Owners, effective for annual periods beginning on or after 1 July 2009.
- IFRIC 18, Transfer of Assets from Customers, effective for annual periods beginning on or after 1 July 2009.
- IFRS 1, First-time Adoption of International Financial Reporting Standards, following the amendment in December 2008; following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009.
- Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment; effective for annual periods beginning on or after 1 January 2010.
- Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS; effective for annual periods beginning on or after 1 January 2010.

(iii) Standards, amendments and interpretations to existing standards which are not effective or early adopted by the Group

- Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. At present, the Group estimates the effect of the revised standard on the disclosures in its consolidated financial statements.
- Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

3 New Accounting Pronouncements (continued)

- IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features of the standard are as follows:

  1. Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  2. An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
  3. All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

  The adoption of IFRS 9 from 1 January 2013 is mandatory and early application is permitted. The Group is currently considering the implications of adopting this standard, its impact on the Group and the timing of application.

- IFRS 10, Consolidated financial statements, IFRS 11, Joint arrangements, IFRS 12, Disclosure of interests in other entities (issued in May 2011 and effective for accounting periods beginning on or after 1 January 2011. Earlier application is permitted if the entire package of standards is adopted at the same time). The Group is currently considering the implications of adopting this standard, its impact on the Group and the timing of adoption.

(iv) Standards, amendments and interpretations to existing standards which are not effective or relevant to the Group's operations

Presented below are the amendments and interpretations to the existing standards which are published and obligatory to the Group's accounting periods beginning on or after 1 January 2011 or for the later period but not relevant for the Group's operations:

- Classification of Rights Issues - Amendment to IAS 32, Financial Instruments: Presentation (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010).
- Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010).
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010).
- Prepayment of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011).
- Disclosures—Transfer of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 January 2011).
- Amendment to IFRS 1, First-time Adoption of International Financial Reporting Standards (effective for annual periods beginning on or after 1 July 2011).
- Amendment to IAS 12, Income Taxes (effective for annual periods beginning on or after 1 January 2012).

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's consolidated financial statements.

39 Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Going concern

As at 31 December 2010 the Group's current liabilities exceed its current assets by Tenge 5,598,911 thousand. Furthermore, as at 31 December 2010 the most of the Group's subsidiaries are at the exploration, evaluation or early development stage (Note 1). The successful completion of the exploration and evaluation stage as well as further development of fields up to commencement of production and reaching the production levels sufficient to cover the costs incurred requires significant financial investments.

These factors indicate the significant uncertainty which can doubt the Group's ability to continue its operations as a going concern, and accordingly, its ability to realise the assets and settle the liabilities in ordinary course of its business. These consolidated financial statements do not include the adjustments of carrying amounts of assets and liabilities, revenue and expenses, as well as classifications of statement of financial position which can arise due to this uncertainty, and these adjustments can be rather material.

Management assumes that the Group will continue as a going concern, and in making such judgment the management considered the current plans, financial position and availability of the Group's financial resources. In particular, the following factors are considered for the assessment of the Groups' ability to continue as a going concern:

- In 2011, the State Mineral Resources Reserve Commission of the Republic of Kazakhstan approved the feasibility study of Gornostaevskoye field ore quality requirements. FNP Ertis engaged large international companies into development of nickel ore processing technology. Currently, such researches are at the completion stage and will result in Bankable Feasibility Study to be delivered by Wardell Armstrong International in the second half of 2011. It is planned to arrange the credit line with Development Bank of Kazakhstan JSC in the amount of US Dollar 90-100 million to finance design, preparatory and infrastructure works.
- The Group has significant proved reserves of lead-zinc ores at Shalkiya field. Estimate of reserves in accordance with JORC was made by independent engineers of AMC Consultants in 2007. Production at the field was suspended since 2008. The Group is currently considering the various investing options to finance construction of new processing and concentration plant at Shalkiya field. The management plans to obtain required investments and commence the construction of plant by the end of 2011. The construction period is 2 years. The Group expects to commence the commercial production at the field in 2013.
- The Group has significant reported reserves of coal at the main mine area (SAT Komir). Since August 2010 such facilities as field camp, substations, railway station, road, maintenance shop and other facilities were constructed. During 2010-2011 heating season the Group extracted and sold approximately 628 thousand tonnes of coal. In 2011, the Group expects to extract and sell more than 1 million tonnes. Costs on project will be mainly financed by own funds.
- Currently SAT&Co Holding (Turkey) performs exploration and production works at Sivas and Denizli fields. By the end of the current year, the large scale drilling campaign will be completed to confirm the estimate of reserves of chrome ore in accordance with JORC. For this purpose the Group engaged DMT GmbH&Co (Germany). Project related costs will be mainly recovered by sales of produced minerals.
- The management considers the estimated recoverable reserves of manganese ore at West Kamys, Tuyebay-Syurtysu and Aitkokshe contract areas as significant. Currently, operations at these contractual areas are at exploration stage except for Arman-100 (at production stage). The Group expects increase in production of up to 1,370 thousand tonnes per year by 2012 which will be sufficient to fully meet needs of the production division.

  At present, the production capacity of TMP is approximately 28 thousand tonnes of ferro-silico-mangenese per year. The program to increase the production capacity of the plant up to 200 thousand tonnes per year in 2011-2013 is currently being implemented. As part of this program's implementation, two reconstructed thermal furnaces with capacity of 36 thousand tonnes of ore each entered into exploitation in June 2011, as a result the total production capacity increased up to 100 tonnes of ferroalloys per year.

  Reconstruction of furnaces and further financing of geological exploration works and test production at the contractual areas are mainly financed by the loans obtained in 2011 from Sberbank SB JSC.

  In addition to principle activities TMP produces and sells the electrode and repair masses, rolled steel, baked blind coal, phosphate chips, broken slag and other materials, which enables it to cover its costs partially by own funds.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

- The number of unplaced common shares of the Company is 1,826,396,706 shares with average market price of Tenge 71 per share. The Group expects to place these financial instruments through an additional placement, if necessary.
- Management also considers alternative options to raise long-term financing at favourable terms for the investment projects purposes.

The management believes that the Group will have sufficient financing to complete exploration, evaluation and development works and other capital projects mentioned above and start commercial production at contractual areas within the expected timeframe, and therefore can continue its operations as a going concern at least during the next 12 months.

Acquisition of Shalkiya Zinc and CAICC

As described in Note 5, the Group completed the acquisition of Shalkiya Zinc and CAICC (Note 1) in 2010. The Group's management determined the acquisition date as 27 December 2010, when the Group received the confirmation of the State's refusal to exercise its pre-emptive right for acquisition of these entities and the Group fulfilled all other substantial conditions under acquisition agreements. Although formal completion of the acquisition of these entities including procedures on registration of shares' transfer and issue and payment of the additional shares were occurred in 2011, the management believes that these procedures were of formal nature, and are not substantial conditions in determination of the date for transfer of control over Shalkiya and CAICC. The management believes that the Group obtained the unconditional ability to control the financial and operational policies of the acquired subsidiaries after the date of receipt of the State refusal from exercise of its pre-emptive right. Accordingly, acquisition of Shalkiya Zinc and CAICC was recognised in these consolidate financial statements in 2010.

Subsidiaries

The Group owns 50% interest in charter capital of KARUAN and SAT Trade (Note 1). The Group has ability to control the financial and operational policies of these subsidiaries through certain contractual relations. Accordingly, these companies are the Group's subsidiaries, and are fully consolidated in these financial statements.

Investments recognised at cost

In 2009, the Group acquired 51% interest in Taonan City Jinsheng Metallurgical Products Co. Ltd., ("Taonan"), Baicheng Jinsheng Nickel Industry Co. Ltd. ("Baicheng") and Ulanhot Jinyuanda Heavy Chemical Industry Co. Ltd. ("Ulanhot") which own metallurgical plants in the People's Republic of China from Tianjin Jinsheng Metallurgical Products Co. Ltd. ("TJMP").

In accordance with share purchase agreements entered into by the Group with TJMP and articles of association of these entities the Group has majority voting rights, and, consequently, has the ability to make decisions which determine the financial and operational policies of the entities. However, from the date of acquisition management was unable to ensure implementation of such decisions, and, accordingly, management concluded that the Group does not have control over these entities. Thus, at 31 December 2010 and 2009 investments in mentioned companies were recognised as investments at cost (Note 12).

In 2010, Taonan, Baicheng и Ulanhot entered into trust management agreement with TJMP which is valid until 31 December 2012, pursuant to which TJMP undertakes to ensure net profit of each of the mentioned companies in the amount of Renminbi 11 million (approximately Tenge 248 million) in 2011 and Renminbi 17.5 million (Tenge 402 million) in 2012.

As at 31 December 2010 the Group performed impairment test with respect to investments in Taonan, Baicheng and Ulanhot using the discounted cash flows model. Key assumptions used in preparing cash flows forecasts include the following:

- expected cash flows, i.e. dividends of these entities will comprise 50% of the above mentioned amount of guaranteed net profit until 2015, inclusively, and 80% after 2015;
- cash flows are forecasted for 10 years;
- it is assumed that trust management agreement with TJMP will be extended after 2012 with fixed guaranteed amount of net profit of Renminbi 17.5 million per annum during the entire forecast period;
- the discount rate is 26% per annum. This rate is based on the weighted average cost of capital for the Group of 13%, and also includes a premium of 13% for a high risk that the Group will not be able to obtain the expected share of net profit in the form of dividends.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

The recoverable value of these investments at 31 December 2010 was determined based on the impairment test amounted to Tenge 1,040,470 thousand. The Group recorded the respective impairment loss of Tenge 3,372,883 thousand.

Management could not reliably estimate fair value of these investments. Taonan, Baicheng and Ulanhot have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible.

Acquisition of SAT&Co Holding

As described in Note 5, in 2009 the Group acquired SAT&Co Holding. As at 31 December 2010 and the date of these consolidated financial statements the Group was not able to finalise measurement of fair value of business and fair value of acquired identifiable assets and liabilities of SAT&Co Holding. The Group's management believes that acquisition cost of Tenge 13,265,237 thousand represents fair value of the business of SAT&Co Holding. Accordingly, as described in Note 2, the excess of acquisition cost over fair value of net assets was fully recorded as part of exploration and evaluation assets.

The Group expects that evaluation of the fair value of SAT&Co Holding business at the acquisition date will not be finished during 2011 upon completion of reserves evaluation. Currently, reserve evaluation is being performed by the independent engineers and will be completed in the third quarter of 2011. If as a result of this valuation fair value of SAT&Co Holding business is lower than acquisition cost, such negative difference will be charged to expense of 2009.

Impairment of non-financial assets

At the end of each reporting period management assesses whether there is any indication of impairment of separate assets or groups of assets, and whether there is any indication that an impairment loss recognised in prior periods for separate assets or groups of assets other than goodwill may no longer exist or may have decreased. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The calculation of value in use requires the application of the management's estimates and judgments which are deemed appropriate under the current circumstances.

In accordance with the accounting policy for the purpose of impairment test the assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). For the purpose of assessing the impairment indicators and, if necessary, for performing impairment tests the management identified the following main cash-generating units:

Generating unit	Company	Description	Type of non-financial assets
Shalkiya Zinc	Shalkiya Zinc	Lead-zinc fields Shalkiya and Talap and Kentau processing plant	Property, plant and equipment and intangible assets
TMP	CAICC	Production of ferroalloys and other materials for metallurgy sector	Property, plant and equipment
West Kamys	Arman-100	Extraction of manganese ore at West Kamys field	Property, plant and equipment
Aitkokshe	KARUAN	Exploration of manganese ore at Aitkokshe field	Exploration and evaluation assets
Tuyebay-Surtysu	Saryarka Mining	Exploration of manganese ore at Tuyebay-Surtysu field	Exploration and evaluation assets
Sivas	SAT&Co Holding	Exploration and extraction of chrome ore in Sivas region	Property, plant and equipment, exploration and evaluation assets
Denizli	SAT&Co Holding	Exploration of chrome ore in Denizli region	Exploration and evaluation assets
Kumyskuduk Verhnesokurskoe	SAT Komir	Extraction of brown coal	Property, plant and equipment
Gornostayevskoye	Kaznickel	Exploration of cobalt-nickel ore at Gornostayevskoye field	Exploration and evaluation assets

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

Shalkiya Zinc, TMP, West Kamys, Aitkokshe and Tuyebay-Syurtysu

Property, plant and equipment, exploration and evaluation assets and intangible assets of these generating units were measured at fair value at the acquisition date (Note 5) by an independent professional appraiser. Fair value of property, plant and equipment, exploration and evaluation assets and intangible assets was measured taking into account the recoverability of these assets using the discounted cash flows method. The Group concluded that cost to sell these assets is not significant, and, therefore, their fair value determined at the acquisition date approximates their recoverable amount.

Sivas and Denizli

In performing exploration and evaluation works at these generating units in 2010, the Group concluded that the following indicators of possible impairment of exploration and evaluation assets exist:

- discovery of commercially viable reserves on remote areas in current economic and operational conditions is unlikely, and, consequently, the Group will not continue further exploration on these areas;
- revised chrome ore reserves estimates in certain areas obtained during the additional exploration during 2010 proved to be lower than preliminary estimated reserves.

Accordingly the Group performed impairment test with respect to assets of these generating units as at 31 December 2010. Recoverable amount of non-financial assets of Sivas and Denizli was determined based on value in use. Value in use of exploration and evaluation assets was determined in accordance with estimates of future cash inflows and outflows expected to derive from use of the assets, discount rate and other factors. The estimates of future cash flows include cost to complete exploration and development of the fields. Presented below are the results of impairment test:

In thousands of Kazakhstani Tenge	**Sivas**	**Denizli**	**Total**
Carrying amount of exploration and evaluation assets	10,675,056	4,471,571	15,146,627
Recoverable amount	5,853,144	1,189,293	7,042,437
Impairment loss	**4,821,912**	**3,282,278**	**8,104,190**

Principal assumptions, which have significant impact on the projected future cash flows are future volume of extraction and sales of chrome ore, future price of chrome ore, expected production expenses and selling expenses. The impairment review and calculations are based on assumptions that are consistent with the Group's business plans. Presented below is the sensitivity analysis, which demonstrates impairment values at different levels of sales volumes and price of chrome ore, production expenses and selling expenses (given all other variables held constant).

In thousands of Kazakhstani Tenge	**Impairment loss**
Chrome ore sales (+20%)	6,522,768
Chrome ore sales (-20%)	9,685,612
Chrome ore price (+10%)	5,513,444
Chrome ore price (-10%)	10,694,935
Production expenses (+20%)	8,789,501
Production expenses (-20%)	7,418,880
Distribution costs (+20%)	8,399,328
Distribution costs (+20%)	7,809,052

Pre-tax applied nominal discount rate (not adjusted for inflation) of 13% is based on the Group's risk-free weighted average cost of capital, since the risks related to the relevant cash flows are taken into consideration in the cash flows forecast.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

Kumyskuduk Verhnesokurskoe

In 2010 SAT Komir, the entity at the early production stage, incurred gross loss. Management concluded that this fact is an indicator of possible impairment, and, accordingly, performed the impairment test in respect of assets of this entity at 31 December 2010.

The recoverable amount of non-financial assets of SAT Komir was determined based on value in use calculation. In preparing this calculation management used pre-tax cash flow projections based on the strategic planning models and operating budgets of SAT Komir, modified as appropriate to meet the requirements of IAS 36, and approved by management. These models cover the effective period of subsurface use contract of SAT Komir (Note 1). Estimates of future cash flows do not include amounts expected to arise from improving or enhancing the cash-generating unit's current performance.

Applied pre-tax nominal discount rate (not adjusted for inflation) of 13% is based on the Group's risk-free weighted average cost of capital, since the risks related to the relevant cash flows are taken into consideration in the cash flows forecast. As a result of the impairment test management concluded that there is no impairment loss to be recognised. Excess of the recoverable amount over the carrying amount comprised Tenge 548,171 thousand (74% of the carrying amount).

Principal assumptions having significant impact on the projected future cash flows are future volume of sales of coal, future price of coal and expected production expenses. Presented below is the sensitivity analysis which demonstrates the amounts of possible impairment at different levels of sales volumes of coal, price of coal and production expenses (given all other variables are held constant):

In thousands of Kazakhstani Tenge	**Impairment loss**
Coal sales (-20%)	None
Coal sales (-30%)	93,243
Coal price (-5%)	None
Coal price (-10%)	231,631
Production expenses (+5%)	None
Production expenses (+10%)	327,715

Gornostayevskoye

At 31 December 2010 the management tested the exploration and evaluation assets of this cash-generating unit for impairment, and concluded that there are no indicators of impairment at that date.

Obligation on payment of commercial discovery bonus and reimbursement of historical costs

In accordance with the terms of subsurface use contracts the Group's subsidiaries that are subsurface users are required to:

- pay the commercial discovery bonus at the rate of 0.1% of recoverable mineral reserves, provided that commercial discovery is confirmed by an authorised state body.
- reimburse the historical costs related to the geological information and other costs incurred by the Republic of Kazakhstan for exploration of the contractual areas before the transfer of subsurface use rights to the Group. Historical costs are reimbursed upon commencement of the commercial production.

The Group recognises the commercial discovery bonus and historical costs reimbursement obligations for those contracts under which the commercial discovery is highly probable, and the economical feasibility of capital investments and further development and production of mineral resources is proved.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

The Group did not recognise obligation on payment of commercial discovery bonus and reimbursement of historical costs on the contract for exploration of cobalt-nickel ore at Gornostayevskoye field in these consolidated financial statements at 31 December 2010. Currently, the Group performs evaluation of reserves and the feasibility study of project to determine the economic viability of further significant capital investments in case of the commercial discovery. Before that the Group has a formal possibility to cancel extension of the contract to avoid the payment of this obligation. Obligation on payment of commercial discovery bonus and reimbursement of historical costs will be recognised when the commercial viability of the project is demonstrated and the Group allocates the required funds for the construction of production facilities and development of field.

Social and training obligations

In accordance with the terms of subsurface use contracts, the Group is obliged to finance certain social infrastructure and training projects on annual basis. The fulfilment of these obligations can be done in the form of cash payments or contributions of an equivalent value. The obligations are the greater of a fixed amount or a defined percentage of the capital expenditures for the year. These projects are aimed at satisfying local community's needs and funds are generally spent on local projects for the population living in the area of exploration and production activities.

Management believes that even though the subsurface use contracts specify a minimal amount that has to be spent for social obligations, the funding of these projects is not substantially different than the funding of other costs of the exploration and production and should therefore be recorded when incurred. Management believes that the social obligations are directly related to the exploration and production activities and these obligations are not substantially different than the obligations for the minimum exploration or the annual work programs. This view is supported by the terms of the subsurface use contracts which do not obligate the Group to fund any social projects after the cancellation or expiration of the contract. Therefore, no liabilities for social and training obligations for future years were recognised in these financial statements as of 31 December 2010 and 2009.

Provision for asset retirement and site restoration obligation

In accordance with the contracts on subsurface use and environmental legislation, the Group has a legal obligation to decommission its mining assets and other production assets, and to recultivate lands after cessation of its activity. Provision for asset retirement and waste polygons restoration obligation is recognised for the future decommissioning and removal of production assets at the end of their economic lives. Provision is based on net present value of the costs for site restoration, production facilities and land restoration as the obligation accrues as a result of past activities.

The provision for mining assets retirement and waste polygons restoration obligation is based on the Group's interpretation of the current environmental legislation in the Republic of Kazakhstan supported by the feasibility study and engineering research in accordance with current restoration standards and techniques. Provision is estimated on the basis of current legal and objective requirements, technology and price levels. Since actual costs for retirement and restoration can differ from estimates due to changes in environmental regulatory requirements and interpretation of the legislation, technology, prices and conditions, and the fact that such costs can relate to future periods, the carrying value of provision is regularly reviewed and adjusted for any changes.

Significant judgments used in such estimations include the estimate of discount rate and timing of cash flows. Discount rate is applied to the nominal costs the management expects to spend on mining assets retirement and waste polygons restoration in the future. Accordingly, the management's estimates are based on current prices are inflated using the expected long-term inflation rate (2010: 5.1%-6.7%; 2009: 5.6%-6.6%, depending on the date of mining assets retirement and waste polygons restoration), and subsequently discounted using discount rate. The discount rate reflects the current market estimates of the time value of money and those risks specific to the liability not reflected in the best estimate of the costs. The discount rate used by the Group's companies for calculation of provision as at 31 December 2010 varies from 2.8% to 7.9% (31 December 2009: 6%-7.5%) depending on the estimated date of mining assets retirement and waste polygons restoration.

At 31 December 2010 the carrying value of site restoration provision was Tenge 1,262,121 thousand (2009: Tenge 214,619 thousand) (Note 20).

Estimated useful life of mining assets

Mining assets, classified as part of property, plant and equipment, are depreciated over the respective life of the mine using the unit of production (UOP) method based on proved and probable mineral reserves. Assumptions, which were valid at the initial (preceding) determination of mineral reserves, may change as new information becomes available. Any changes could affect prospective depreciation rates and asset carrying values.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

The calculation of the UOP rate of depreciation could be impacted to the extent that actual production in the future periods is different from current forecasted production based on proved and probable mineral reserves, which would generally arise as a result of significant changes in any of the factors or assumptions used previously in estimating mineral reserves. These factors could include:

- changes in proved and probable mineral reserves;
- the grade of mineral reserves varying significantly from time to time;
- differences between actual commodity prices and commodity price assumptions used in the estimation of mineral reserves;
- unforeseen operational issues at mine sites; and
- changes in capital, operating, processing and restoration costs, discount rates and foreign exchange rates, which could adversely affect the economic viability of mineral reserves.

Management reviews the appropriateness of assets' useful economic lives at least once per year; any changes could affect prospective depreciation rates and asset carrying values. As t 31 December 2010 the carrying amount of mining assets was Tenge 1,980,233 thousand (2009: Tenge 969,987 thousand) (Note 8).

Useful lives of other property, plant and equipment

The bulk of other property, plant and equipment is depreciated using straight-line method over their useful lives. The estimation of the useful lives of these items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits, associated with these assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminishment of the economic benefits embodied in the assets.

Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

Impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of estimates as further detailed in Note 10.

Impairment of accounts receivable

Specific provisions for accounts receivable are based on the regular assessment of the receivables collections, overdue status and the previous experience. Management believes that doubtful debt provisions made as at 31 December 2010 and 31 December 2009 are adequate and represent the management's best estimate of uncollectable receivables (Note 15).

Provision for inventories impairment

Inventories are accounted for at lower of cost and net realisable value. The Group records the provisions for impairment of inventories on the basis of regular stock-taking results and analysis of slow-moving, obsolete and other inventories where the net realisable value is below their cost. The provision is recorded through profit or loss for the year. The management believes that impairment provisions made as at 31 December 2010 and 31 December 2009 are adequate and represent the management's best estimate of impaired inventories (Note 14).

Deferred income tax asset recognition

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

4 Critical accounting Estimates and Judgments in applying accounting policies (continued)

Initial recognition of related party transactions

In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Terms and conditions of related party balances are disclosed in Note 7.

40 Business Combinations

During 2010 and 2009 the Group consecutively made a range of strategic acquisitions in the metallurgic and mining industries.

Acquisition of Kaznickel

On 31 December 2009 the Group acquired 51% ownership in the share capital of Kaznickel through newly established subsidiary FNP Ertis, and obtained control through its voting majority advantage at the general holders meeting of Kaznickel. Main activity of Kaznickel is exploration of cobalt-nickel ores on Gornostayevskoye ore deposit located in Eastern Kazakhstan oblast. The Group acquired Kaznickel with the purpose of expanding of its operations into the exploration of non-ferrous metals (nickel and cobalt).

Total acquisition cost comprised of payment for charter capital contribution in the amount of Tenge 280 thousand and provision of financial aid to the acquired entity in the amount of US Dollar 5,000 thousand (equivalent to Tenge 741,800 thousand at the acquisition date) for the purpose of settling the liability to the previous owners of Kaznickel.

The Group included the amount of provided temporary financial aid into the acquisition cost. However, the total amount of temporary financial aid is fully repayable by the acquiree. Should the temporary financial aid be excluded from acquisition cost it would have an impact on presentation of information below but would not affect the cost of assets and liabilities.

Details of the assets and liabilities acquired are as follows:

In thousands of Kazakhstani Tenge	**Fair value**
Property, plant and equipment	5,423
Exploration and evaluation assets	927,815
Intangible assets	464
Deferred income tax asset	23,911
Inventories	55
Trade and other receivables	9,742
Cash and cash equivalents	893
Total assets	**968,303**
Site restoration provision	14,421
Borrowings	178,342
Trade and other payables	33,460
Total liabilities	**226,223**
Total net assets	**742,080**
Less: non-controlling interest	-
Total purchase consideration	**742,080**
Less: cash and cash equivalents of acquired subsidiary	(893)
Outflow of cash and cash equivalents on acquisition	**741,187**

5 Business Combinations (continued)

Management of the Group concluded that there are not any non-identifiable assets in the acquired entity and there is no synergy effect due to combination with other assets of the Group as a result of acquisition or other potential benefits giving a rise to goodwill. Fair value of a subsurface use right included within exploration and evaluation assets was determined based on the Group's management estimate.

Fair value of trade and other receivables is Tenge 9,742 thousand, and includes advances to suppliers with fair value of Tenge 9,060 thousand. The gross contractual amount of receivables is Tenge 10,208 thousand, of which Tenge 466 thousand is expected to be non-recoverable.

The Group measured non-controlling interest in Kaznickel at the non-controlling interest's proportionate share of net assets of the acquired entity attributable to non-controlling interest. Net assets of Kaznickel are measured including the obligation on financial aid payable to the Group of US Dollar 5,000 thousand.

Net loss of Kaznickel from the acquisition date to 31 December 2009 is insignificant for these consolidated financial statements. If the acquisition had occurred at the beginning of the year, the Group's revenue for 2009 would have been Tenge 2,373,136 thousand, and its net loss for 2009 would have been Tenge 846,037 thousand.

Acquisition of SAT&Co Holding

On 30 June 2009 the Group completed acquisition of 87% interest in share capital of SAT&Co Holding from Mark Global Corporation, which is an entity under common control of the Group's shareholders. The Group obtained control through its ability to cast the majority of votes at the board of directors of SAT&Co Holding.

Total purchase consideration includes cash payment in the amount of Tenge 11,494,494 thousand and conceding the right to receivable from Denmar Assets Management Inc. of Tenge 1,770,743 thousand.

SAT&Co Holding is a holding company which owns 100% interest in SAT&Co Madencilik, which is a holder of 17 licences on exploration and extraction of chrome in Turkey, and of Denizli Madencilik and Sivas Madencilik, which are operators on these contractual areas and carry out exploration and production of chrome ore. The Group acquired SAT&CO Holding to expand its operations in chrome production.

Acquisition of SAT&Co Holding was accounted for using acquisition of accounting method. At 31 December 2010 and 31 December 2009 the Group was not able to complete the assessment of fair value of acquired identifiable assets and liabilities of SAT&Co Holding due to the absence of reliable estimate of reserves on acquired contractual territories, which are the key inputs for estimation of value of licenses for exploration and development of chrome. Accordingly, the Group accounted this acquisition using notional fair values at the acquisition date.

In 2011 the Group engaged the independent engineers DMT GmbH&Co to conduct appraisal of reserves; however, this appraisal was not completed as at the date of these consolidated financial statements. Accordingly, the Group has not completed assessment of fair value of the acquired identifiable assets and liabilities as at 31 December 2010 and continued to account for this acquisition using notional fair values at the acquisition date. The Group expects that appraisal of reserves and measurement of fair value of acquired identifiable assets and liabilities as at the acquisition date will be completed in 2011.

5 Business Combinations (continued)

In thousands of Kazakhstani Tenge	**Fair value**
Property, plant and equipment	1,056,236
Exploration and evaluation assets	15,147,981
Intangible assets	2,073
Trade and other receivables	250,099
Cash and cash equivalents	233,096
Total assets	**16,689,485**
Borrowings	75,090
Deferred income tax liability	3,008,186
Site restoration provision	126,620
Trade and other payables	5,207
Total liabilities	**3,215,103**
Total net assets	**13,474,382**
Less: non-controlling interest	(209,145)
Total purchase consideration	**13,265,237**
Less: cash and cash equivalents of acquired subsidiary	(233,096)
Less: prepayment	(11,261,398)
Less: transfer of the receivable	(1,770,743)
Outflow of cash and cash equivalents on acquisition	**-**

The fair value of trade and other receivables is Tenge 250,099 thousand, and includes advances to suppliers with a fair value of Tenge 205,259 thousand and trade receivables with a fair value of Tenge 44,840 thousand. The gross contractual amount of advances and trade receivables is Tenge 410,019 thousand, of which Tenge 159,920 thousand is expected to be non-recoverable.

The acquired subsidiary contributed revenue of Tenge 109,240 thousand and losses of Tenge 480,600 thousand to the Group for the period from the date of acquisition to 31 December 2009. If the SAT&Co Holding acquisition had occurred on 1 January 2009, the Group revenue for 2010 would have been Tenge 2,373,136 thousand, and net loss for 2009 would have been Tenge 728,483 thousand.

Acquisition of OSPF Otan

On 15 December 2009 the Group entered into the agreement on acquisition of 89% interest in Open Saving Pension Fund Otan JSC ("OSPF Otan") mainly engaged in investment management of pension assets, broker and dealer activities at the securities market and accumulation of pension funds for defined contribution pension plan.

Acquisition of OSPF Otan was subject to mandatory approval by the Agency of the Republic of Kazakhstan on Regulation and Control over Financial Market and Financial Organisations ("AFN"), which was received on 3 March 2010. Transaction on acquisition of OSPF Otan was completed on 12 March 2010. Acquisition cost was Tenge 3,608,921 thousand and was fully paid in cash.

OSPF Otan was acquired in accordance with the Group's plan of development of its financial division. Due to the changes in the Group's plan in 2010, pursuant to the resolution dated 28 May 2010 the Group decided to sell its 89% interest in OSPF Otan. On 6 September 2010 the Group disposed this interest to the individuals for consideration of Tenge 3,705,500 thousand.

During the period from the acquisition date to the date of decision on disposal of OSPF Otan, the Group has not finalised the assessment of fair value of identifiable assets and liabilities at the acquisition date.

5 Business Combinations (continued)

During the period from 12 March 2010 to 6 September 2010, OSPF Otan acquired 77,493 thousand of the Company's common shares issued in 2010 for the amount of Tenge 5,501,999 thousand. This amount represents the investment of pension assets being managed by OSPF Otan. At 31 December 2010 OSPF Otan held 6.61% of total issued authorised shares of the Company (Note 19).

Since the operations of the pension fund represents the separate major line of business of the Group, OSPF Otan results including gain on disposal are presented as discontinued operations (Note 32).

Acquisition of CAICC

On 27 January 2009 the Group signed the share purchase agreement on acquisition of 50% interest in charter capital of CAICC with the owners of CAICC each of whom owned 12.5% interest in charter capital. On 22 April 2009 the Group signed sale-purchase agreement with Almex Plus Firm LLP ("Almex Plus") on acquisition of the remaining 50% interest in CAICC.

According to the mentioned agreements, the overall cost of 100% interest is Tenge 87 thousand as a payment for the share in the charter capital of CAICC plus obligation to provide CAICC with financing in the amount of Tenge 6,950,000 thousand to repay the liability of CAICC due to Almex Plus.

In accordance with the Law of the Republic of Kazakhstan on Subsurface Use dated 24 June 2010, the State has the pre-emptive right among the other contract parties and legal entity participants to obtain the disposed right of subsurface use or facilities related to subsurface use right.

In accordance with the agreements, the State's refusal to exercise its pre-emptive right for acquisition of CAICC was one of the conditions preceding the completion of the transaction. The Group's management concluded that receipt of the State's refusal is the substantial condition in obtaining the control over CAICC rather than a perfunctory requirement.

The highest governing body of CAICC controlling its financial and operating policies is the general owners meeting. In accordance with mentioned agreements, the previous shareholders of CAICC were obliged to re-register owners upon completion of the transaction.

On 27 December 2010 the Group received a decision of the State Interdepartmental Committee on Exercise of the Pre-emptive Right on refusal of the State to exercise such right. Since all other substantial conditions preceding completion of the transaction were fulfilled, the Group obtained the control financial and operational policies of CAICC at that date.

CAICC is a holding company owning 100% of interest in charter capital of TMP, 100% of interest in charter capital of Arman-100, 80% of interest in charter capital of Saryarka Mining and 50% of interest in charter capital of Karuan. Acquisition of a vertically integrated group of companies involved in extraction of manganese ore and production of ferromanganese silicon will allow the Group to strengthen its position in mining and metallurgical sector.

CAICC results from the acquisition date to 31 December 2010 are insignificant to these consolidated financial statements. If acquisition had occurred on 1 January 2010, the Group's net loss for 2010 would have been Tenge 936,955 thousand and the Group's revenue for 2010 would have been Tenge 5,166,099 thousand.

5 Business Combinations (continued)

Details of the assets and liabilities acquired and negative goodwill arising are as follows:

In thousands of Kazakhstani Tenge	**Fair value**
Property, plant and equipment	12,768,622
Exploration and evaluation assets	165,358
Intangible assets	107,849
Other non-current assets	1,344,765
Inventories	1,450,302
Trade and other receivables	343,298
Other current assets	502,158
Cash and cash equivalents	291,998
Total assets	**16,974,350**
Deferred income tax liability	815,364
Site restoration provision	209,499
Borrowings	6,429,605
Trade and other payables	1,369,630
Total liabilities	**8,824,098**
Total net assets	**8,150,252**
Less: non-controlling interest	(114,797)
Gain on bargain purchase (negative goodwill)	(1,085,368)
Total purchase consideration	**6,950,087**
Less: cash and cash equivalents of acquired subsidiary	(291,998)
Outflow of cash and cash equivalents on acquisition	**6,658,089**

Assessment of fair value of property, plant and equipment, exploration and evaluation assets and intangible assets was carried out by the independent professional appraiser with the recognised and relevant professional qualification and recent experience in valuation of assets of similar location and category. The basis for evaluation of fair value of property, plant and equipment and valuation of tangible exploration and evaluation assets was market value and the replacement cost.

The Group included the amount of provided temporary financial aid into the acquisition cost. However, the total amount of temporary financial aid is fully repayable by the acquiree. Should the temporary financial aid be excluded from acquisition cost it would have an impact on presentation of information below but would not affect the cost of assets and liabilities.

The fair value of trade and other receivables is Tenge 343,298 thousand, and includes advances to suppliers with a fair value of Tenge 384,095 thousand. The gross contractual amount of receivables is Tenge 415,086 thousand of which Tenge 71,788 thousand is expected to be non-recoverable.

The Group measured the non-controlling interest proportionally to share of net assets of CAICC attributable to non-controlling interest.

Gain on bargain purchase (negative goodwill) arises due to the fact that under difficult economic conditions CAICC was not able to obtain additional financing for further development of the production division (installation of open type furnaces at TMP) and development of its mineral base. The previous owners of CAICC decided to withdraw from the project in order to recover invested funds. This allowed the Group to acquire CAICC at lower cost.

5 Business Combinations (continued)

Acquisition of Shalkiya Zinc

On 3 August 2010 the Group entered into an investment agreement with Shalkiya Zinc NV for acquisition of 81.39% interest in the entity for US Dollar 50,000 thousand through additional issue of shares of Shalkiya Zinc NV.

Shalkiya Zinc NV is a holding company which owns 100% interest in charter capital of Shalkiya Zinc. The principal activity of Shalkiya Zinc is underground mining of lead-zinc ore at Shalkiya polymetal field in Kyzylorda oblast, production of lead and zinc concentrates at Kentau processing plant in Southern Kazakhstan oblast, and exploration of polymetal field Talap. Fall in the world zinc prices in November 2008 caused the decrease in profitability and further suspension of operations at fields and Kentau processing plant. At the acquisition date, the production operations of Shalkiya Zinc were not resumed.

In accordance with the investment agreement, the State's refusal to exercise its pre-emptive right for acquisition of Shalkiya Zinc NV was one of the conditions preceding the completion of the transaction. The Group's management concluded that receipt of the State's refusal is the substantial condition in obtaining the control over Shalkiya Zinc NV rather than a perfunctory requirement.

On 27 December 2010 the Group received a decision of the State Interdepartmental Committee on Exercise of the Pre-emptive Right on refusal of the State to exercise such right. Since all other substantial conditions preceding completion of the transaction were fulfilled, the Group obtained the control financial and operational policies of Shalkiya Zinc NV at that date. The Group obtained the control, because the Group's representatives received all appropriate voting majority rights of executive directors of Shalkiya Zinc.

Details of the assets and liabilities acquired and negative goodwill arising as a result of this acquisition are presented below:

In thousands of Kazakhstani Tenge	**Fair value**
Property, plant and equipment	28,169,924
Intangible assets	1,666,142
Other non-current assets	843,676
Inventories	263,454
Trade and other receivables	7,438,803
Cash and cash equivalents	44,154
Total assets	**38,426,153**
Deferred tax liability	4,611,848
Site restoration provision	690,632
Other non-current liabilities	199,920
Borrowings	5,174,671
Trade and other payables	1,181,886
Total liabilities	**11,858,957**
Total net assets	**26,567,196**
Less: non-controlling interest	(4,944,156)
Gain on bargain purchase (negative goodwill)	(14,253,040)
Total acquisition cost	**7,370,000**
Less: cash and cash equivalents of acquired subsidiary	(44,154)
Obligation of the Group on payment for additional issue of shares of Shalkiya Zinc	(7,370,000)
Outflow of cash and cash equivalents on acquisition	**(44,154)**

The Group estimated non-controlling interest proportionally to its share of net assets of Shalkiya Zinc attributable to non-controlling interest. In assessing fair value of net assets of Shalkiya Zinc NV total amount of consideration for additional issue of shares of Shalkiya Zinc in the amount of Tenge 7,370,000 thousand payable by the Group was included into trade and other receivables to reflect non-controlling interest in the aforementioned amount.

5 Business Combinations (continued)

The fair value of trade and other receivables is Tenge 68,803 thousand, and includes advances to suppliers with a fair value of Tenge 23,510 thousand and other receivables with a fair value of Tenge 45,293 thousand. The gross contractual amount of receivables is Tenge 275,990 thousand of which Tenge 207,187 thousand is expected to be non-recoverable.

Assessment of fair value of property, plant and equipment, exploration assets and intangible assets was performed by an independent professional appraiser with the recognised and relevant professional qualification and recent experience in valuation of assets of similar location and category. The basis for evaluation of fair value of property, plant and equipment and valuation of tangible exploration and evaluation assets was market value and the replacement cost.

Gain on bargain purchase (negative goodwill) arises due to the fact that at the moment of acquisition Shalkiya Zinc NV was in a difficult financial position and was not able to settle its liabilities to third parties. The previous shareholders did not have sufficient funds to improve the financial position of Shalkiya Zinc NV due to significant total debt, and were not able to sell their shares due to the fact that subsurface contract of Shalkiya Zinc was suspended. This allowed the Group to acquire Shalkiya Zinc at lower cost.

The results of Shalkiya Zinc NV from the acquisition date to 31 December 2010 are not significant to these consolidated financial statements. If the acquisition had occurred at 1 January 2010, the Group's net loss for 2010 would have been Tenge 839,315 thousand and revenue for 2010 would have been Tenge 2,585,185 thousand.

41 Operating Segments

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Management Board) of the Company.

(a) Description of operating segments

The Group functions within eight main operating segments:

- Head office: the segment is represented by the operations of the head office of the Group, including acquisition and disposal of investment assets and securities;
- Ferroalloys: the segment is represented by the vertically integrated holding CAICC (Note 1), including mining division (exploration of manganese mining deposits, production of manganese ore and production of manganese concentrate) and production division (processing of manganese and ferromanganese ore, production of ferroalloys);
- Zinc: the segment is represented by Shalkiya Zinc NV and Shalkiya Zinc (Note 1), involved in exploration, production and complex processing of lead-zinc ore;
- Coal: the segment is represented by SAT Komir (Note 1), involved in production and sales of coal;
- Nickel: the segment is represented by FNP Ertis and Kaznickel (Note 1), involved in exploration works for further production and sales of nickel;
- Oil products: the segment is represented by SAT Trade (Note 1), involved in feedstock oil trading and sales of oil products;
- Chrome: the segment is represented by SAT&Co Holding A.S., involved in production of chrome ore and its subsequent sale for processing;
- Petrochemicals: the segment is represented by KPI (Note 1), involved in construction of the integrated petrochemical complex for production of polypropylene and polyethylene in Western Kazakhstan.

(b) Factors that management uses to identify the reporting segments

Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires its target market and its technologies.

6 Operating Segments (continued)

(c) Measurement of operating segment profit or loss, assets and liabilities

CODM measures performance of each segment based on after-tax profit. CODM carries out analysis on financial information prepared in compliance with IFRS which are statutory financial reporting standards in the Republic of Kazakhstan. Accordingly, financial information by segments prepared under internal reporting requirements does not differ from financial information prepared in compliance with IFRS.

(***d) Geographical information***

For the purposes of these financial statements, two geographical segments have been determined: Turkey, which includes Chrome operating segment, and the Republic of Kazakhstan, which includes all the remaining operating segments.

6 Operating Segments (continued)

Segment information within operating segments for the year ended 31 December 2010 is set out below:

In thousands of Kazakhstani Tenge	**Head office**	**Ferroalloys**	**Zinc**	**Coal**	**Nickel**	**Oil products**	**Chrome**	**Petro chemicals**	**Other reconciling items**	**Intersegment eliminations**	**Total**
Revenues from core activities	-	-	-	1,014,337	-	1,033,064	303,566	-	297,294	-	2,648,261
Intersegment revenue	-	-	-	-	-	-	-	-	(63,076)	-	(63,076)
Revenue from external customers	**-**	**-**	**-**	**1,014,337**	**-**	**1,033,064**	**303,566**	**-**	**234,218**	**-**	**2,585,185**
Cost of sales	-	-	-	(707,123)	-	(835,279)	(763,734)	-	(229,886)	63,076	(2,472,946)
Gain from business combination	15,338,408	-	-	-	-	-	-	-	-	-	15,338,408
Impairment of exploration and evaluation assets	-	-	-	-	-	-	(8,104,190)	-	-	-	(8,104,190)
Impairment of investments at cost	(3,372,883)	-	-	-	-	-	-	-	-	-	(3,372,883)
Other operating income / (expenses)	1,174,624	-	-	622	2,565	(2,065)	(51,896)	-	(10,966)	-	1,112,884
Selling expenses	(10,874)	-	-	(344,780)	-	(36,695)	(48,416)	-	(56)	-	(440,821)
General and administrative expenses	(3,483,597)	-	-	(104,295)	(84,856)	(151,390)	(73,295)	-	(250,882)	-	(4,148,315)
Finance income	20,888	-	-	-	-	-	-	-	831	-	21,719
Finance costs	(1,693,660)	-	-	(4,388)	(860)	(11,360)	(47,637)	-	(19,450)	-	(1,777,355)
Share in losses of associates after tax	-	-	-	-	-	-	-	(354,188)	-	-	(354,188)
Profit / (loss) before income tax	**7,972,906**	**-**	**-**	**(145,627)**	**(83,151)**	**(3,725)**	**(8,785,602)**	**(354,188)**	**(276,191)**	**63,076**	**(1,612,502)**
Income tax (expense) / benefit	-	-	-	(1,492)	(6,980)	-	1,505,930	-	-	-	1,497,458
Profit / (loss) for the year from continuing operations	**7,972,906**	**-**	**-**	**(147,119)**	**(90,131)**	**(3,725)**	**(7,279,672)**	**(354,188)**	**(276,191)**	**63,076**	**(115,044)**
Profit / (loss) for the year from discontinued operations	-	-	-	-	-	-	-	-	1,274,902	-	1,274,902
Profit / (loss) for the year	**7,972,906**	**-**	**-**	**(147,119)**	**(90,131)**	**(3,725)**	**(7,279,672)**	**(354,188)**	**998,711**	**63,076**	**1,159,858**

6 Operating Segments (continued)

In thousands of Kazakhstani Tenge	Head office	Ferroalloys	Zinc	Coal	Nickel	Oil products	Chrome	Petrochemicals	Other reconciling items	Intersegments eliminations	Total
Other key segment information											
Depreciation and amortisation	31,998	-	-	29,067	2,818	156	198,378	-	2,790	-	265,207
Provision for doubtful trade and other receivables	1,920,079	-	-	14,638	-	-	-	-	-	-	1,934,717
Interest expense	1,661,862	-	-	-	-	11,360	10,325	-	21,170	-	1,704,717
Capital expenditures	258,145	-	-	565,645	61,715	-	58,838	-	21,954	-	966,297
Associates	-	-	-	-	-	-	-	3,849,445	-	-	3,849,445
Total assets	**27,759,626**	**11,664,688**	**5,697,769**	**1,400,103**	**2,077,753**	**218,682**	**8,558,001**	**3,849,445**	**332,949**	**11,819,463**	**73,378,479**
Total liabilities	**23,353,920**	**16,003,473**	**11,995,060**	**1,855,416**	**2,160,089**	**216,055**	**2,571,333**	**-**	**521,721**	**(19,850,232)**	**38,826,835**

6 Operating Segments (Continued)

Segment information within reporting segments for the year ended 31 December 2009 is set out below:

In thousands of Kazakhstani Tenge	Head office	Ferroalloys	Zinc	Coal	Nickel	Oil products	Chrome	Petro chemicals	Other reconciling items	Intersegments eliminations	Total
Revenues from core activities	616,316	-	-	42,871	-	1,883,984	100,940	-	345	-	2,644,456
Intersegment revenue	-	-	-	-	-	(271,320)	-	-	-	-	(271,320)
Revenue from external customers	**616,316**	**-**	**-**	**42,871**	**-**	**1,612,664**	**100,940**	**-**	**345**	**-**	**2,373,136**
Cost of sales	(338,777)	-	-	(141,952)	-	(1,150,681)	(148,404)	-	(339)	10,657	(1,769,496)
Impairment of exploration and evaluation assets	-	-	-	-	-	-	(369,151)	-	-	-	(369,151)
Other operating income / (expenses)	2,576,145	-	-	502	-	(1,228)	3,064	-	23,778	(17,741)	2,584,520
Distribution costs	(86,315)	-	-	(131,407)	-	(444,757)	-	-	-	247,449	(415,030)
General and administrative expenses	(1,276,115)	-	-	(63,225)	(2,267)	(269,730)	(199,552)	-	(31,720)	54,421	(1,788,188)
Finance income	766,332	-	-	-	-	-	-	-	-	-	766,332
Finance costs	(1,137,932)	-	-	(141)	-	(8,309)	(23,383)	-	-	117,365	(1,052,400)
Share in losses of associates after tax	-	-	-	-	-	-	-	(152,901)	-	-	(152,901)
Profit / (loss) before income tax	**1,119,654**	**-**	**-**	**(293,352)**	**(2,267)**	**(262,041)**	**(636,486)**	**(152,901)**	**(7,936)**	**412,151**	**176,822**
Income tax (expense) / benefit	(29,607)	-	-	(101)	-	23	4,893	-	(6,000)	(17,009)	(47,801)
Profit / (loss) for the year from continuing operations	**1,090,047**	**-**	**-**	**(293,453)**	**(2,267)**	**(262,018)**	**(631,593)**	**(152,901)**	**(13,936)**	**395,142**	**129,021**
Loss for the year from discontinued operations	-	-	-	-	-	-	-	-	(766,724)	-	(766,724)
Profit / (loss) for the year	**1,090,047**	**-**	**-**	**(293,453)**	**(2,267)**	**(262,018)**	**(631,593)**	**(152,901)**	**(780,660)**	**395,142**	**(637,703)**

6 Operating Segments (Continued)

In thousands of Kazakhstani Tenge	Head office	Ferroalloys	Zinc	Coal	Nickel	Oil products	Chrome	Petroche micals	Other reconciling items	Intersegments eliminations	Total
Other key segment information											
Depreciation and amortisation	19,316	-	-	9,407	-	1,998	55	-	709	-	31,485
Provision for doubtful trade and other receivables	98,091	-	-	50,514	-	7,988	369,151	-	(20,294)	-	505,450
Interest expense	1,012,824	-	-	-	-	8,309	23,383	-	7,884	-	1,052,400
Capital expenditures	213,990	-	-	428,546	50	380	165,535	-	9,733	-	818,234
Associates	-	-	-	-	-	-	-	415,477	-	-	415,477
Total assets	**41,935,741**	**-**	**-**	**724,357**	**944,857**	**528,423**	**4,668,616**	**415,477**	**5,817,054**	**(13,717,556)**	**41,316,969**
Total liabilities	**13,785,890**	**-**	**-**	**1,000,366**	**970,919**	**522,078**	**3,485,265**	**-**	**4,031,477**	**(3,322,015)**	**20,473,980**

Total consolidated revenue includes revenue from core activities.

Analysis of Group's income by types of goods and services is shown in Note 23 (Revenue), Note 25 (Other operating income) and Note 29 (Interest income).

Capital expenditures represent additions to property, plant and equipment, exploration and evaluation assets and intangible assets during the year, and also prepayments for the assets specified, made during the year.

42 Balances and Transactions with Related Parties

Related parties are defined in IAS 24 Related Party Disclosures. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Company's ultimate controlling party are disclosed in Note 1.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding as at 31 December 2010 and 2009 is detailed below.

The following companies were included as other related parties:

- entities under significant control of the shareholders holding more than 20% of common shares;
- entities under control or significant influence of close family members of the shareholders holding more than 20% of common shares;
- entities where shareholders holding more than 20% of common shares or their close family members are members of the key management personnel.

List of related parties includes certain entities, which are under control of National Welfare Fund Samruk-Kazyna JSC (hereinafter "Samruk-Kazyna"). The transactions with subsidiaries of Samruk-Kazyna are not disclosed if they are conducted in accordance with the terms applied to all public and private companies i) if such transactions are individually insignificant; ii) if sales of the of the Group entities are based on arm's length principles; and iii) if there are no other suppliers of the services, such as those of electric power, telecommunication services, etc.

As at 31 December 2010, the outstanding balances with related parties were as follows:

In thousands of Kazakhstani Tenge	**Note**	**Shareholders**	**Entities under common control**	**Other related parties**
Other non-current assets	13	-	-	363,676
Less: provision for impairment	13	-	-	(30,750)
Trade and other payables	15	-	-	3,309,385
Less: provision for impairment	15	-	-	(1,948,532)
Cash and cash equivalents	17	-		174,905
Borrowings	21	-	-	11,256,083
Other non-current liabilities	19	-	-	912,907
Trade and other payables	22	-	79,700	1,570,777

As at 31 December 2009, the outstanding balances with related parties were as follows:

In thousands of Kazakhstani Tenge	**Note**	**Shareholders**	**Entities under common control**	**Other related parties**
Other non-current assets	13	-	-	2,725,607
Less provision for impairment	13	-	-	(30,524)
Trade and other payables	15	-	-	2,999,175
Less provision for impairment	15	-	-	(1,078,943)
Cash and cash equivalents	17	-	-	23,329
Trade and other payables	22	-	80,273	762,190

7 Balances and Transactions with Related Parties (Continued)

As at 1 January 2009, the outstanding balances with related parties were as follows:

In thousands of Kazakhstani Tenge	Note	Shareholders	Entities under common control	Other related parties
Other non-current assets	13	-	-	1,661,300
Less provision for impairment	13	-	-	(26,917)
Trade and other receivables	15	-	-	1,112,860
Less provision for impairment	15	-	-	(1,014,420)
Trade and other payables	22	-	-	500,269

Gross receivables from related parties include the following:

In thousands of Kazakhstani Tenge	31 December 2010	31 December 2009 (restated)	1 January 2009 (restated)
Mirador Trade LLP	1,426,706	164,852	24,917
Dala Group LLP	440,000	-	-
Shymkent Munai Onimderi LLP	358,000	626,000	656,000
KFS	325,000	-	-
Dan Construction LLP	286,975	506,577	292,996
Mark Global Corporation	-	1,039,220	
SAT Ferrostal	-	222,937	
Other	472,704	439,589	138,947
Total trade and other receivables, gross	**3,309,385**	**2,999,175**	**1,112,860**

Mirador Trade LLP

Receivable from Mirador Trade LLP includes temporary interest-free financial aid of Tenge 1,401,331 thousand and other receivables of Tenge 25,375 thousand. The interest-free financial aid was provided in accordance with the agreement dated 25 November 2010 and is due on 25 September 2011. Based on the financial information available to the Group, management concluded that the Group will not obtain its outstanding accounts receivable from Mirador Trade LLP in full according to the original terms and recorded a provision for impairment for full amount of receivable. Accrued provision for impairment in the amount of Tenge 1,426,706 thousand was included in general and administrative expenses for 2010 (Note 26).

Dala Group LLP

On 31 March 2010 the Group entered into a framework agreement on provision of interest-free financial aid to Dala Group LLP in the amount of Tenge 440,000 thousand. In accordance with the framework agreement, the total amount of receivable is repayable during 2011. As at 31 December 2010 receivable from Dala Group LLP were neither past due nor impaired.

Shymkent Munai Onimderi LLP

Receivable from Shymkent Munai Onimderi LLP represents temporary interest-free financial aid provided in accordance with the framework agreement on provision of interest-free financial aid dated 22 October 2007. Temporary financial aid is repayable during 2011. The management recorded provision for impairment of outstanding temporary financial aid amount as at 31 December 2010 in the amount of Tenge 121,450 thousand (31 December 2009: Tenge 571,167; 1 January 2009: Tenge 656,000 thousand).

KFS

Receivable from KFS includes short-term portion of temporary interest-free financial aid provided during the period from 2007 to 2009 in the amount of Tenge 297,160 thousand and other receivables of Tenge 27,840 thousand. Prior to 31 December 2010 KFS was a subsidiary of the Group (Note 32). As at 31 December 2010 receivable from KFS is neither past due nor impaired.

7 Balances and Transactions with Related Parties (Continued)

Dan Construction LLP

In accordance with the framework agreement on provision of temporary interest-free financial aid in 2010, the Group provided to Dan Construction LLP interest-free financial aid in the total amount of Tenge 286,975 thousand. The temporary financial aid is repayable in 2011. Based on financial information available to the Group, management concluded that the Group will not be able to collect its outstanding receivable from Dan Construction LLP in full according to the original terms and therefore recorded provision for impairment for full amount of outstanding receivable. As at 31 December 2009 provision for impairment of outstanding temporary financial aid amount provided to Dan Construction LLP totaled Tenge 198,155 thousand (1 January 2009: Tenge 292,996 thousand).

The income and expense items with related parties for the year ended 31 December 2010 were as follows:

In thousands of Kazakhstani Tenge	**Note**	**Shareholders**	**Key management personnel**	**Other related parties**
Revenue	23	-	-	53,000
General and administrative expenses	26	-	-	1,504,706
Finance costs	30	-	-	53,333

The income and expense items with related parties for the year ended 31 December 2009 were as follows:

In thousands of Kazakhstani Tenge	**Note**	**Shareholders**	**Key management personnel**	**Other related parties**
Revenue	23	-	-	160,736

Key management personnel compensation in 2010 that includes salaries, bonuses and other short-term employee benefits comprised Tenge 25,214 thousand (2009: Tenge 40,968 thousand). Key management personnel as at 31 December 2010 included 4 persons (2009: 4 persons).

As at 31 December 2010 members of key management personnel owned 1.51% of outstanding common shares of the Company (2009: 6.17%).

Business combinations involving related parties are disclosed in Note 5.

43 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

In thousands of Kazakhstani Tenge	**Mining assets**	**Land**	**Buildings and con-structions**	**Machinery and equipment**	**Vehicles**	**Other**	**Construction in progress**	**Total**
Cost at 1 January 2009	-	198,900	1,065,528	1,923,356	36,141	145,859	732,624	4,102,408
Accumulated depreciation	-	-	(70,271)	(255,192)	(8,783)	(51,600)	-	(385,846)
Carrying amount at 1 January 2009 (restated)	**-**	**198,900**	**995,257**	**1,668,164**	**27,358**	**94,259**	**732,624**	**3,716,562**
Acquisitions through business combinations	730,738	-	3,758	1,740	2,729	322,694	-	1,061,659
Additions	245,887	-	626,374	112,039	4,563	16,841	808,439	1,814,143
Transfers	-	-	3,341	-	-	-	(3,341)	-
Depreciation charge	(6,638)	-	(23,696)	(112,032)	(4,028)	(19,905)	-	(166,299)
Disposals	-	-	-	(2,296)	-	(1,314)	-	(3,610)
Cost at 31 December 2009	976,625	198,900	1,699,001	2,034,839	43,433	484,080	1,537,722	6,974,600
Accumulated depreciation and provision for impairment	(6,638)	-	(93,967)	(367,224)	(12,811)	(71,505)	-	(552,145)
Carrying amount at 31 December 2009 (restated)	**969,987**	**198,900**	**1,605,034**	**1,667,615**	**30,622**	**412,575**	**1,537,722**	**6,422,455**
Acquisitions through business combinations	999,918	2,151	27,427,679	8,507,989	126,929	190,616	3,683,264	40,938,546
Additions	150,819	46,715	63,033	201,230	129,905	31,100	591,019	1,213,821
Transfers	-	-	819,893	37,155	-	-	(857,048)	-
Depreciation charge	(115,810)	-	(122,102)	(162,912)	(41,882)	(32,221)	-	(474,927)
Disposals	-	-	(33)	(37,965)	(408)	(17,547)	(10,298)	(66,251)
Discontinued operations (Note 32)	-	(178,708)	(1,520,209)	(1,555,575)	(5,847)	(57,813)	(77,190)	(3,395,342)
Transfer to disposal assets group	-	-	-	-	-	-	(955,724)	(955,724)
Translation to presentation currency	(24,681)	(1,022)	(209)	(4,581)	90	(3,920)	-	(34,323)
Cost at 31 December 2010	2,102,681	68,036	28,307,094	8,719,007	288,577	560,327	3,911,745	43,957,467
Accumulated depreciation and provision for impairment	(122,448)	-	(34,008)	(66,051)	(49,168)	(37,537)	-	(309,212)
Carrying amount at 31 December 2010	**1,980,233**	**68,036**	**28,273,086**	**8,652,956**	**239,409**	**522,790**	**3,911,745**	**43,648,255**

Additions in 2010 include increase in provisions for site restoration in the amount of Tenge 142,743 thousand recorded to the cost of relevant assets (2009: Tenge 73,578 thousand) (Note 20).

Depreciation charge in 2010 includes depreciation of property, plant and equipment of KFS in the amount of Tenge 219,751 thousand included in profit from discontinued operations for the year (2009: Tenge 128,982 thousand) (Note 32).

Construction in progress as at 31 December 2010, basically, represents the cost of construction and installation works in progress and equipment to be installed in course of modernisation of Shalkiya mine. Upon completion, assets will be transferred to ‘Building and constructions’ and ‘Machinery and equipment’ categories.

As at 31 December 2010 property, plant and equipment with the carrying amount of Tenge 10,442,887 thousand (2009: Tenge 2,544,590 thousand) was pledged as collateral for certain borrowings (Note 21).

44 Exploration and Evaluation Assets

In thousands of Kazakhstani Tenge	Note	2010	2009 (restated)
Carrying amount at 1 January		16,092,062	-
Additions		122,536	383,058
Acquisitions through business combinations	5	165,358	16,075,796
Impairment for the year	4	(8,104,190)	(369,151)
Translation to presentation currency		(3,712)	2,359
Total exploration and evaluation assets		**8,272,054**	**16,092,062**

Impairment of exploration and evaluation assets relates to the assets of SAT&Co Holding (Turkey) (Note 4).

The exploration and evaluation assets include the capitalised expenditures as follows:

In thousands of Kazakhstani Tenge	2010	2009 (restated)
Rights for exploration and evaluation:		
- Denizli	5,853,144	10,678,768
- Sivas	1,189,293	4,471,571
- Gornostayevskoye	434,534	434,534
Total rights for subsurface use:	*7,476,971*	*15,584,873*
Geological and geophysical works	452,322	184,721
Exploratory drilling	232,253	231,788
Payroll and related expenses	67,409	57,103
Laboratory works	33,898	32,850
Other	9,201	727
Total exploration and evaluation assets	**8,272,054**	**16,092,062**

45 Intangible Assets

In thousands of Kazakhstani Tenge	**Goodwill**	**Subsurface use rights**	**Other**	**Total**
Cost at 1 January 2009	582,823	-	21,945	604,768
Accumulated amortisation and provision for impairment	-	-	(8,121)	(8,121)
Carrying amount at 1 January 2009 (restated)	**582,823**	**-**	**13,824**	**596,647**
Additions	-	-	730	730
Acquisitions through business combinations	-	-	2,537	2,537
Amortisation	-	-	(4,756)	(4,756)
Impairment	(457,461)	-	-	(457,461)
Disposals	-	-	(10)	(10)
Translation to presentation currency	-	-	(262)	(262)
Cost at 31 December 2009	125,362	-	24,922	150,284
Accumulated amortisation and provision for impairment	-	-	(12,859)	(12,859)
Carrying amount at 31 December 2009 (restated)	**125,362**	**-**	**12,063**	**137,425**
Additions	-	-	22,238	22,238
Acquisitions through business combinations	-	1,773,744	247	1,773,991
Depreciation	-	-	(5,892)	(5,892)
Discontinued operations (Note 32)	(125,362)	-	(14,368)	(139,730)
Translation to presentation currency	-	-	575	575
Cost at 31 December 2010	-	1,773,744	32,910	1,806,654
Accumulated amortisation and provision for impairment	-	-	(18,047)	(18,047)
Carrying amount at 31 December 2010	**-**	**1,773,744**	**14,863**	**1,788,607**

Goodwill as at 31 December 2010 and 2009 relates to KFS, which was acquired by the Group in 2008 and disposed in 2010 (Note 32). The recoverable amount of KFS as at 31 December 2009 was assessed based on calculation of value in use of this generating unit. Management used the forecasted cash flows based on approved financial budgets for the five year period. The Group applied 20.5% as a pre-tax discount rate including all risks specific to this generating unit.

Subsurface use rights include cost of contracts of Arman-100 and Shalkiya Zinc on production of minerals which were acquired by the Group in 2010 (Note 5).

46 Investments in Associates

The table below summarises movements in the carrying amount of Group's investments in associates:

	2010		2009	
In thousands of Kazakhstani Tenge	**KPI**	**Kazgeocosmos**	**KPI**	**Kazgeocosmos**
Carrying value at 1 January	415,477	-	228	-
Acquisition of share	3,688,152	100,004	568,150	-
Share in losses for the year	(327,643)	(26,545)	(152,901)	-
Carrying amount at 31 December	**3,775,986**	**73,459**	**415,477**	**-**

Investments in associates as at 31 December 2010 represent 49% interest in share capital of KPI (2009: 25%) and 32.1% participation interest in Kazgeocosmos (2009: 25.5%) (Note 1).

KPI

KPI was formed on 27 March 2008 jointly with NC Kazmunaigas JSC (51%) and LyondellBasell Kazakhstan Holdings B.V. (24%) for the purpose of construction of the integrated petrochemical complex and subsequent production of polypropylene and polyethylene in Western Kazakhstan.

On 11 May 2010 LyondellBasell signed an exit agreement on withdrawal of participating interest in KPI, and made a transfer of its 24% share to the Group for the total amount of Tenge 733,850 thousand. In addition, during 2010 due to increase in charter capital of KPI, the Group paid its share of Tenge 2,954,302 thousand in cash.

In accordance with the agreement dated 28 December 2008 signed between KPI and Development Bank of Kazakhstan JSC, interests of owners in the charter capital of KPI are pledged as collateral for a bank loan obtained by KPI at 31 December 2010 for total amount of Tenge 9,962,608 thousand.

Kazgeocosmos

The Group takes part in joint investment project "Aerospace Monitoring of Natural and Industrial Facilities." Participants in this project are: the Group (25.5%), Investment Fund of Kazakhstan JSC (the "IFK") (49%) and KGC LLP (25.5%).

In accordance with the agreement on joint investment project dated 30 June 2006, starting from 2010 IFK gradually ceases its participation in accordance with a set schedule starting 2010. Accordingly, on 6 November 2010 the Group acquired additional 6.6% of the total number of outstanding shares in Kazgeocosmos from IFK for Tenge 100,004 thousand, and as a result as at 31 December 2010 the Group's interest increased to 32.1%. As at 31 December 2009 investment in Kazgeocosmos was fully impaired.

In accordance with the share purchase agreement dated 18 October 2010, the Group jointly with the participant KGC LLP has the obligation to acquire remaining 42.4% interest currently owned by IFK for the total amount of Tenge 748,465 thousand during the period of 2011-2013.

Financial information of associates as at 31 December 2010 and 2009 and for the years ended on this date is summarised below:

In thousands of Kazakhstani Tenge	**Total assets**	**Total liabilities**	**Revenue**	**Loss for the year**
2010				
KPI	21,836,783	14,130,316	-	(799,812)
Kazgeocosmos	566,177	249,679	316,981	(120,444)
2009				
KPI	6,443,235	901,706	-	(1,151,594)
Kazgeocosmos	724,966	288,024	338,872	(75,501)

47 Investments at Cost

The table below summarises information on changes in value of investments at cost:

In thousands of Kazakhstani Tenge	Note	2010	2009 (restated)
Carrying value at 1 January		4,471,639	-
Additions		-	4,471,639
Disposals		(58,286)	-
Impairment for the year	4	(3,372,883)	-
Total investments at cost		**1,040,470**	**4,471,639**

Investments at cost relate to 51% interest in Taonan, Baicheng и Ulanhot (Note 4).

48 Other Non-Current Assets

In thousands of Kazakhstani Tenge	31 December 2010	31 December 2009 (restated)	1 January 2009 (restated)
Restricted cash & cash equivalents	2,601,156	2,600,096	-
Long-term receivables from related parties	363,676	559,012	1,661,300
Long term receivables from employees	313,591	-	-
Funds transferred to investment portfolio management	-	2,166,595	-
Other long-term receivables	62,160	209,911	-
Less: provision for impairment	(90,750)	(113,200)	(26,917)
Total long-term financial assets	*3,249,833*	*5,422,414*	*1,634,383*
Prepayments for property, plant and equipment	1,419,388	355,225	1,006,115
Non-current VAT recoverable	1,317,559	263,028	-
Inventories	273,095	-	-
Prepayments for exploration and evaluation assets	36,865	-	-
Prepayments for business acquisition	-	360,000	11,300,600
Other	4,960	20,886	-
Total other non-current assets	**6,301,700**	**6,421,553**	**13,941,098**

As part of restricted cash & cash equivalents there is included collateralised deposit of Tenge 2,600,000 thousand in Eximbank Kazakhstan JSC ("Eximbank Kazakhstan") with maturity of 36 months placed at rate of 15% per annum. The restrictions on this deposit will be cancelled upon full repayment of the loan (Note 21). Restricted cash amount also includes special bank deposits opened in accordance with subsurface use contracts. The interest rates on the deposits vary from 1% to 4% per annum.

Fair value of the long-term financial assets approximates their carrying amounts.

Prepayments for business acquisition as at 1 January 2009 include cash transferred to Mark Global Corporation, which is a related party of the Group, for acquisition of 87% interest in SAT&Co Holding. Acquisition of SAT&Co Holding was completed on 30 June 2009 (Note 5). Prepayments for business acquisition as at 31 December 2009 represent funds in the amount of Tenge 360,000 thousand transferred under the escrow agreement dated 12 November 2009 for acquisition of OSPF Otan. Acquisition of OSPF Otan was finalised on 12 March 2010 (Notes 5 and 32).

Non-current VAT recoverable represent asset on input VAT accrued as a result of purchase of goods and services on the territory of the Republic of Kazakhstan. Management believes that this amount will be recoverable in full in the future upon completion of exploration and commencement of sales.

49 Inventories

In thousands of Kazakhstani Tenge	**2010**	**2009**
Raw materials	883,617	860,331
Finished goods	665,998	474,612
Work in progress	179,756	39,309
Less: provision for impairment	(29,700)	(181,981)
Total inventories	**1,699,671**	**1,192,271**

Movement in provisions for impairment of inventories is presented below:

In thousands of Kazakhstani Tenge	**Note**	**2010**	**2009**
Balance as at 1 January		181,981	161,388
Accruals for the year			
-continuing operations	24	(18,117)	29,040
-discontinued operations		-	12,423
Inventory written offs		-	(20,870)
Disposals related to discontinued operations		(134,164)	-
Balance at 31 December		**29,700**	**181,981**

50 Trade and Other Receivables

In thousands of Kazakhstani Tenge	**Note**	**2010**	**2009 (restated)**	**1 January 2009 (restated)**
Trade receivables		1,518,033	408,828	787,437
Temporary financial aid to related parties		2,823,279	319,071	1,058,309
Other financial receivables		259,816	3,453,789	2,256,167
Less: provision for impairment		(3,340,220)	(2,016,756)	(1,625,291)
Total financial receivables		*1,260,908*	*2,164,932*	*2,476,622*
Advances to suppliers		902,512	1,397,932	358,113
Other receivables		191,919	215,241	175,310
Less: provision for impairment		(24,371)	(78,132)	(109,589)
Total trade and other receivables		**2,330,968**	**3,699,973**	**2,900,456**

Financial receivables of the Group as at 31 December 2010 and 2009 were denominated in the following currencies:

In thousands of Kazakhstani Tenge	**2010**	**2009 (restated)**	**1 January 2009 (restated)**
Tenge	369,506	1,500,167	2,438,127
US Dollar	887,328	664,765	38,495
Other	4,074	-	-
Total financial trade receivables	**1,260,908**	**2,164,932**	**2,476,622**

15 Trade and Other Receivables (continued)

Presented below is movement in the Group's provision for impairment of financial receivables:

In thousands of Kazakhstani Tenge	**2010**	**2009 (restated)**
Balance at 1 January	2,016,756	1,625,291
Accruals for the year	1,323,626	394,629
Bad debt written off during the year	(162)	(3,164)
Balance at 31 December	**3,340,220**	**2,016,756**

Analysis of financial assets by credit quality is shown below:

In thousands of Kazakhstani Tenge	**2010**	**2009 (restated)**	**1 January 2009 (restated)**
Current and not impaired			
Kazakhstan customers	82,685	103,466	2,476,622
Foreign customers	886,328	664,765	-
Total current and not impaired	*969,013*	*768,231*	*2,476,622*
Past due but not impaired			
- from 30 to 90 days	70,274	258,020	-
- from 90 to 180 days	73,217	161,248	-
- from180 to 360 days	77,740	698,272	-
- over 360 days	70,664	279,161	-
Total past due but not impaired	*291,895*	*1,396,701*	-
Individually impaired (gross)			
- from 30 to 90 days	-	10,821	1,310,303
- from 90 to 180 days	-	68,375	10,292
- from180 to 360 days	3,329,399	1,937,560	304,696
- over 360 days	10,821	-	-
Total individually impaired	*3,340,220*	*2,016,756*	*1,625,291*
Less provision for impairment	(3,340,220)	(2,016,756)	(1,625,291)
Total	**1,260,908**	**2,164,932**	**2,476,622**

The main part of the impaired receivables is comprised of debtors, which experience significant economic difficulties.

All past due but not impaired receivables relate to customers which are expected to pay 2011.

51 Other Current Assets

In thousands of Kazakhstani Tenge	**2010**	**2009 (restated)**	**1 January 2009 (restated)**
Short-term financial investments available for sale	-	232,274	364,000
Total other financial current assets	-	232,274	364,000
VAT recoverable and prepaid taxes	755,521	719,896	765,777
Other	15,783	-	-
Total other current assets	**771,304**	**952,170**	**1,129,777**

52 Cash and Cash Equivalents

In thousands of Kazakhstani Tenge	**2010**	**2009**
Cash on current accounts, Tenge	1,947,726	903,696
Cash on current accounts in foreign currencies	204,661	469,120
Cash on term deposits, Tenge	431,408	-
Cash on term deposits in foreign currencies	51,828	133,075
Cash on hand	84,658	6,053
Total cash and cash equivalents	**2,720,281**	**1,511,944**

All cash in current accounts are neither past due nor impaired. The table below represents the credit quality of cash in current accounts:

		2010		**2009**	
In thousands of Kazakhstani Tenge	**Rating (Moody's)**	**Current accounts**	**Term deposits**	**Current accounts**	**Term deposits**
Bank CenterCredit	Ba3	1,505,231	-	-	-
ATF Bank	Ba2	140,827	-	854	-
Alliance Bank	B3	108,427	-	9,126	-
Halyk Bank	Ba2	64,177	-	14,203	-
Eurasian Bank	B1	60,137	431,408	633,400	-
Other	Ba3	273,588	51,828	715,233	133,075
Total		**2,152,387**	**483,236**	**1,372,816**	**133,075**

Term deposits have contractual maturity of less than three months and are repayable on demand.

53 Non-Current Assets held for Sale

Non-current assets held for sale represent the cost of aircraft hangar complex at the international airport of Almaty (the "hangar complex") and the right to use land plot 1.8 hectares for construction and maintenance of hangar complex. In 2010 management of the Group decided to sell the hangar complex. Accordingly, on 31 December 2010 carrying value of the hangar complex was classified in the consolidated statement of financial position as non-current asset held for sale.

On 26 January 2011 the Group entered into a preliminary agreement with Kazakhmys Corporation LLP on sale of the hangar complex. Hangar complex was recorded at carrying value, because its fair value less costs to sell, determined based on the price set in the preliminary agreement in the amount of Tenge 2,950,000 thousand, exceeds its carrying value.

54 Share Capital

As at 31 December 2010 and 31 December 2009 the shareholders (owners of common shares) of the Company were as follows:

	2010	2009
Rakishev Kenes Khamituly	50.46%	50.46%
MAC ALLIANS LLP	22.96%	24.50%
OSPF Otan JSC	6.61%	0.00%
SPF BTA Kazakhstan JSC subsidiary of BTA Bank JSC	5.28%	5.64%
SPF Atameken JSC	4.20%	4.48%
SPF Ular Umit JSC	3.05%	0.00%
SPF Amanat Kazakhstan JSC	2.99%	3.19%
SPF Kazakhmys JSC	2.12%	2.27%
SPF Korgau JSC	0.00%	3.29%
Physical bodies	2.33%	6.17%
Total	**100.00%**	**100.00%**

As at 31 December 2010 Almex Plus was the holder of all the preference shares (2009: no preference shares issued).

	2010		2009	
	Number of shares	Value, thousands of Tenge	Number of shares	Value, thousands of Tenge
Common shares	1,173,603,294	14,209,943	1,099,410,820	8,942,284
Preference shares	106,666,667	3,200,000	-	-
Share capital, including debt component of preference shares	**1,280,269,961**	**17,409,943**	**1,099,410,820**	**8,942,284**
Less debt component of preference shares		(912,907)		-
Total share capital		**16,497,036**		**8,942,284**

Total number of authorised common shares is 3,000,000,000 shares (2009: 3,000,000,000 shares). Total number of issued common shares is 1,173,603,294 shares (2009: 1,099,410,820 shares). All common shares issued are fully paid. Each common share carries one voting right.

Total number of authorised preference shares is 750,000,000 shares (2009: 750,000,000 shares). Total number of preference shares issued is 106,666,667 shares (2009: nil). All issued preference shares are fully paid.

Both common shares and preference shares do not have the declared nominal value.

The preference shares rank ahead of the common shares in the event of the Company's liquidation. The preference shares give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organisation and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed.

19 Share Capital (continued)

Preference share dividends are set at Tenge 1 per share. Dividends on preference shares are declared in the amount not less than on common shares. Preference shares get voting rights at the moment when dividends on preference shares are not paid in full in three months from the date of expiry of the period set for payment of such dividends until the dividends are actually paid.

Preference shares are compound financial instruments that contain both a liability and an equity component. The Group assessed fair value of the debt component by applying the relevant effective interest rate to the amount of mandatory annual dividends using a net present value formula on perpetuity. Amortised cost of the debt component of the preference shares is included in other non-current liabilities.

In 2010 Company placed 74,192,474 common shares for the amount of Tenge 5,267,659 thousand and 106,666,667 preference shares for the amount of Tenge 3,200,000 thousand.

As at 31 December 2010 treasury shares purchased from the shareholders include 366,730 common shares. These common shares carry voting rights in the same proportion as other ordinary shares. In 2010 the Company acquired 360,830 treasury common shares for Tenge 25,602 thousand.

On 8 November 2010 new KASE listing requirements were established, in accordance with which the Group shall disclosed the following information: total assets less total intangible assets, less total liabilities and non-voting preference shares (included in equity) divided by the number of common shares outstanding at the end of the year. At 31 December 2010, this indicator calculated by the management of the Group based on the consolidated financial statements comprised Tenge 25.97. (2009: Tenge 18.83). The Group also shall disclose the dividends payable to holders of non-voting preference shares, non-voting preference shares (included in equity) and debt component of non-voting preference shares divided by number of issued preferred shares. At 31 December 2010, this indicator comprised Tenge 30.50 (2009: nil).

During 2010 and 2009 the Group neither declared nor paid dividends.

Subscription shares as at 31 December 2008 represent cash obtained for shares placed in 2009.

55 Provision for Site Restoration

The Group has a legal obligation related to site restoration as a result of mining operations and decommissioning of its mining property following the closure of contractual fields.

A breakdown of provision for mining assets retirement obligations by fields is presented below:

In thousands of Kazakhstani Tenge	**Note**	**2010**	**2009 (restated)**
Carrying amount at 1 January		214,619	-
Increase of provision through business combinations		900,131	141,041
Additions to property, plant and equipment		160,176	73,578
Unwinding of the present value discount	30	9,899	-
Changes in estimate due to change in discount rate against assets related to site restoration provision		(17,433)	-
Effect of translation to presentation currency		(5,271)	-
Carrying amount at 31 December		**1,262,121**	**214,619**

20 Provision for Site Restoration (continued)

The amount of the provision for mining assets retirement obligations is determined using the nominal prices effective at the reporting dates by applying the forecasted inflation rate for the expected period of the useful life of the mines and waste polygons and discount rate at the reporting dates. Uncertainties in estimates used in calculation of such expenses include potential changes in environmental legislation requirements, volumes of restoration works needed, alternative methods of site restoration, discount and inflation rates.

Carrying amounts of provisions for site restoration by fields are presented below:

In thousands of Kazakhstani Tenge	**Expected closure date**	**31 December 2010**	**31 December 2009 (restated)**	**1 January 2009 (restated)**
Shalkiya	2046	690,632	-	-
Nailem Gyursoy	2011	213,728	126,620	-
Western Kamys	2021	137,829	-	-
Verhnesokurskoe	2026	136,131	73,578	-
Waste polygons (TMP)	2015	59,085	-	-
Gornostaevskoye	2026	12,131	14,421	-
Aitkokshe	2013	9,831	-	-
Tuyebay - Syurtysu	2037	2,754	-	-
Total		**1,262,121**	**214,619**	**-**

Principal assumptions used in calculations of mining asset retirement obligations are presented below:

	2010	**2009**	**1 January 2009**
Discount rate	2.8%-8.0%	6.0%-7.5%	-
Inflation rate	5.1%-6.7%	5.6%-6.6%	-

56 Borrowings

In thousands of Kazakhstani Tenge	2010	2009 (restated)	1 January 2009 (restated)
Long-term portion			
Bonds issued	9,719,655	7,949,887	5,010,075
Eximbank Kazakhstan	2,600,000	2,600,000	-
Development Bank of Kazakhstan	2,556,364	-	-
Almex Plus	104,035	-	-
Eurasian Bank	212,427	339,883	467,339
Other borrowings	332,738	78,847	-
Total borrowings – long-term portion	**15,525,219**	**10,968,617**	**5,477,414**
Short-term portion			
BTA Bank	4,849,692	-	-
Development Bank of Kazakhstan	3,295,992	-	-
Bonds issued	489,238	461,374	194,110
Almex Plus	450,000	-	-
Eurasian Bank	130,288	131,350	192,916
Eximbank Kazakhstan	83,417	306,981	-
ATF Bank	22,580	-	-
Other borrowings	101,485	87,835	259,444
Total borrowings – short-term portion	**9,422,692**	**987,540**	**646,470**
Total borrowings	**24,947,911**	**11,956,157**	**6,123,884**

Development Bank of Kazakhstan

In 2008 TMP entered into a credit facility agreement with Development Bank of Kazakhstan with the maximum credit line limit of Tenge 4,214,194 thousand for acquisition of property, plant and equipment with maturity on 23 October 2017. Annual effective interest rate is 13.45%. Principal amount and accrued interest is payable on a semi-annual basis. The carrying amount of liability under this credit line as at 31 December 2010 is Tenge 2,833,516 thousand, including accrued interest in the amount of Tenge 61,222 thousand.

In August 2009 TMP entered into additional credit facility agreement with the Development Bank of Kazakhstan with the maximum credit line of Tenge 3,015,200 thousand for the purpose of replenishment of working capital financing with maturity on 6 August 2014. The funds under the credit facility are provided in form of 1 year maturity loans. The credit line bears interest rate of 12.75% per annum which is payable on annual basis. The carrying amount of funds used under the credit facility as at 31 December 2010 is Tenge 3,018,840 thousand including accrued interest of Tenge 60,709 thousand. The credit facility is secured by property, plant and equipment constructed according to the investment project with the carrying amount of Tenge 3,257,279 thousand along with the share of CAICC in TMP, Arman-100 and Saryarka Mining.

Eximbank Kazakhstan

In October 2009 the Group entered into a credit facility agreement with Eximbank Kazakhstan on provision of loan in the amount of Tenge 2,600,000 thousand for acquisition of share in Taonan, Baicheng and Ulanhot (Note 4) with maturity on 13 October 2012. The annual interest rate on the loan is 15% and the interest is payable on an annual basis. The principal on the loan is repayable at the expiration date of the agreement. The given loan is secured by restricted cash in the amount of Tenge 2,600,000 thousand.

Eurasian Bank

In July 2008 the Group entered into an agreement with Eurasian Bank on provision of a loan in the amount of Tenge 637,280 thousand for acquisition of property, plant and equipment with maturity on 16 July 2013. The annual effective interest rate is 15%. Interest and principal amounts are repayable on a monthly basis.

This loan is secured by the purchased office building with the carrying amount of Tenge 637,280 thousand.

21 Borrowings (continued)

BTA Bank

The amount of outstanding loan from BTA Bank as at 31 December 2010 represents the liability of Shalkiya Zinc, acquired by the Group in December 2010 (Note 5). In accordance with the terms of the general loan agreement the annual effective interest rate for the given loan varies from 14.5% to 18.8% and is payable on a quarterly basis. The principal is repayable on a quarterly basis until 30 December 2013. In case of breach of the loan agreement the bank has a right to accelerate the loan repayment. In 2009 Shalkiya Zinc breached the loan agreement terms by making late payments in respect of this loan. Consequently, the total amount of loan has been classified as short-term.

The given loan is secured by property, plant and equipment of Shalkiya Zinc with the carrying amount of Tenge 4,477,682 thousand.

Almex Plus LLP

In 2009 CAICC, acquired by the Group in December 2010, entered into an agreement with Almex Plus LLP on provision of temporary interest-free financial aid in the amount of Tenge 603,400 thousand for working capital replenishment. The financial aid is repayable on a monthly basis starting from April 2011 till March 2012. This loan is not secured by any collateral. The effective interest rate on this loan is 13.52% per annum.

Bonds issued

On 3 January 2008 the Group issued coupon bonds in the amount of Tenge 15,000,000 thousand. Bonds are redeemable in 7 years after the issue date. The interest rate for the first year of circulation is 12% and is fixed. Starting form the second year of circulation the floating rate is applied, defined as growth / decline in consumer prices index published by the Statistics Agency of the Republic of Kazakhstan for the last 12 months preceding the month of the corresponding coupon period, plus fixed margin of 2%.

Table below shows the maturities of the borrowings of the Group:

In thousands of Kazakhstani Tenge	**2010**	**2009 (restated)**	**1 January 2009 (restated)**
Borrowings with maturity of			
- less than 6 months	7,706,059	869,904	582,743
- from 6 months to 1 year	1,716,633	117,636	63,727
- from 1 year to 3 years	4,114,119	3,018,730	254,913
- over 3 years	11,411,100	7,949,887	5,222,501
Total borrowings	**24,947,911**	**11,956,157**	**6,123,884**

Borrowings of the Group are denominated in the following currencies:

In thousands of Kazakhstani Tenge	**2010**	**2009 (restated)**	**1 January 2009 (restated)**
- Tenge	22,362,857	11,814,188	6,123,884
- US Dollar	1,860,667	35,044	-
- Euro	236,483	-	-
- Russian Rouble	113,712	-	-
- Turkish Lira	67,495	106,925	-
- Renminbi	306,697	-	-
Total borrowings	**24,947,911**	**11,956,157**	**6,123,884**

21 Borrowings (Continued)

Table below shows the analysis of the carrying amounts and fair values of the borrowings

	2010		2009 (restated)		1 January 2009 (restated)	
In thousands of Kazakhstani Tenge	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Bonds issued	10,208,893	9,026,849	8,411,261	8,117,654	5,204,185	5,735,054
Development Bank of Kazakhstan	5,852,356	5,709,964	-	-	-	-
BTA Bank	4,849,692	4,857,062	-	-	-	-
Eximbank Kazakhstan	2,683,417	2,683,417	2,906,981	2,906,981	-	-
Almex Plus	554,035	561,265	-	-	-	-
Eurasian Bank	342,715	342,715	471,233	471,233	660,255	660,255
ATF Bank	22,580	22,580	-	-	-	-
Other borrowings	434,223	434,223	166,682	166,682	259,444	259,444
Total	**24,947,911**	**23,638,075**	**11,956,157**	**11,662,550**	**6,123,884**	**6,654,753**

57 Trade and Other Payables

In thousands of Kazakhstani Tenge	**2010**	**2009 (restated)**	**1 January 2009 (restated)**
Trade payables	1,826,712	2,409,539	534,448
Dividends payable on preference shares	53,333	-	-
Other financial payables	130,278	1,954,712	1,204,376
Total financial payables	*2,010,323*	*4,364,251*	*1,738,824*
Advances received	1,807,780	435,738	660,291
Payroll and pension contributions payable	217,406	141,438	53,156
Taxes payable	89,606	49,313	23,490
Unused vacation reserve	66,325	52,262	38,591
Other payables	462,727	229,531	373,908
Total trade and other payables	**4,654,167**	**5,272,533**	**2,888,260**

Advances received include the amount of Tenge 1,470,500 thousand received by the Group from Kazakhmys Corporation LLP for construction of the hangar complex (Note 18).

Other financial liabilities as at 31 December 2009 include the amount of Tenge 1,039,000 thousand payable by the Group to Basell Europe Holdings B.V. ("Basell Europe"), related to participation of this entity in construction of the petrochemical complex (Notes 1 and11). In 2010, based on exit agreement Basell Europe cancelled its right to demand this amount. As a result, the Group recognised income for the whole amount of payable (Note 25).

22 Trade and Other Payables (continued)

Financial payables of the Group are denominated in currencies as follows:

In thousands of Kazakhstani Tenge	**2010**	**2009 (restated)**	**1 January 2009 (restated)**
- Tenge	1,620,451	1,088,590	1,478,498
- US Dollar	237,696	1,636,778	257,110
- Renminbi	56,806	1,479,558	-
- Russian Rouble	53,454	353	108
- Pound Sterling	36,166	-	-
- Euro	5,750	6,380	3,108
- Turkish Lira	-	152,592	-
Total financial payables	**2,010,323**	**4,364,251**	**1,738,824**

58 Revenue

In thousands of Kazakhstani Tenge	**2010**	**2009 (restated)**
Oil and oil products	1,033,063	1,896,105
Coal	1,014,338	42,871
Chrome ore	303,723	100,940
Other	234,061	333,220
Total revenue	**2,585,185**	**2,373,136**

59 Cost of Sales

In thousands of Kazakhstani Tenge	**Note**	**2010**	**2009 (restated)**
Crude oil and oil products		835,279	1,467,011
Payroll and related costs		423,645	44,324
Stripping costs		312,153	80,733
Other materials		258,478	59,695
Depreciation of property, plant and equipment		211,848	-
Transportation		156,348	-
Rent		65,369	11,422
Provision for impairment of inventories	14	(18,117)	29,040
Other		227,943	77,271
Total cost of sales		**2,472,946**	**1,769,496**

60 Other Operating Income

In thousands of Kazakhstani Tenge	**Note**	**2010**	**2009 (restated)**
Gain on write-off of payables to Basell Europe	22	1,039,000	-
Gain on write-off of other liabilities		127,381	-
Gain less losses from disposal of property, plant and equipment		5,890	-
Gain from disposal of investments		-	1,651,469
Foreign exchange gains less losses		-	874,660
Other		237,505	69,608
Total other operating income		**1,409,776**	**2,595,737**

Income from disposal of investments in 2009 represents gain on disposal of 26% share in Kazakhstan Petrochemical Industries Inc. JSC which was earlier recognised at cost of Tenge 364,000 thousand due to lack of reliable data necessary to determine of its fair value with required degree of accuracy.

61 General and Administrative Expenses

In thousands of Kazakhstani Tenge	**2010**	**2009 (restated)**
Provision for impairment of receivables	1,934,717	505,450
Sponsorship and other financial aid	883,852	115,568
Payroll and related costs	659,141	490,512
Consulting services	168,426	134,642
Security services	81,278	81,350
Business trip expenses	74,281	55,562
Rent	71,172	99,293
Depreciation of property, plant and equipment and amortisation of intangible assets	44,164	31,485
Taxes and charges	33,686	43,363
Materials	22,486	11,560
Bank charges	18,014	14,463
Telecommunication services	14,639	12,905
Other	142,459	192,035
Total general and administrative expenses	**4,148,315**	**1,788,188**

62 Distribution Costs

In thousands of Kazakhstani Tenge	**2010**	**2009 (restated)**
Transportation and logistics services	179,862	137,976
Repair and technical maintenance	135,004	116,071
Payroll and related costs	38,229	6,157
Other	87,726	154,826
Total distribution costs	**440,821**	**415,030**

63 Other Operating Expenses

In thousands of Kazakhstani Tenge	2010	2009 (restated)
Losses less gains from disposal of investments	72,717	-
Foreign exchange losses less gains	28,309	-
Loss on disposal of property, plant and equipment	17,387	-
Other	178,479	11,217
Total other operating expenses	**296,892**	**11,217**

64 Finance income

In thousands of Kazakhstani Tenge	2010	2009 (restated)
Interest income on bonds	12,589	164,234
Interest income on banks deposits	6,378	282,221
Unwinding of present value discount from interest free financial aid	-	319,877
Other	2,752	-
Total finance income	**21,719**	**766,332**

65 Finance Costs

In thousands of Kazakhstani Tenge	Note	2010	2009 (restated)
Interest expense on issued bonds		1,211,555	840,737
Interest expense on other borrowings		493,162	211,663
Dividends on preference shares		53,333	-
Foreign exchange losses less gains on loans and cash and cash equivalents		9,406	-
Unwinding of present value discount on site restoration provision	20	9,899	-
Total finance costs		**1,777,355**	**1,052,400**

66 Income Tax

Income tax benefit includes the following:

In thousands of Kazakhstani Tenge	2010	2009 (restated)
Current income tax	(80)	(6,935)
Deferred income tax	1,497,538	(40,866)
Total income tax benefit / (expense)	**1,497,458**	**(47,801)**

31 Income Tax (continued)

The theoretical and actual income tax benefit is disclosed below:

In thousands of Kazakhstani Tenge	2010	2009 (restated)
IFRS (loss) / profit before income tax	**(1,612,502)**	**176,822**
Theoretical income tax benefit / (expense) at statutory tax rate of 20% (2009: 20%)	322,500	(35,364)
Adjustments for:		
Gain on business combinations	3,067,682	-
Impairment of investments at cost	(674,577)	-
Non-taxable gain on disposal of investments	-	430,559
Share of losses of associates	(70,838)	(30,580)
Impairment of receivables not related to business activities	(395,689)	-
Sponsorship	(175,426)	(22,794)
Effect of changes in tax rates	-	(17,715)
Non-deductible expenses	(576,194)	(371,907)
Total income tax benefit / (expense)	**1,497,458**	**(47,801)**

Differences between IFRS and Kazakhstani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below, and is recorded at the rate applicable to period of assets realisation or liabilities settlement.

In thousands of Kazakhstani Tenge	1 January 2010	Discontinued operations	Business combinations	Recorded to profit and loss	31 December 2010
Tax effect of deductible temporary differences					
Tax losses carried forward	64,693	(32,940)	293,858	(31,753)	293,858
Site restoration provision	446	-	151,572	1,582	153,600
Trade and other receivables	24,518	(67,359)	65,092	42,841	65,092
Inventories	-	-	62,954	-	62,954
Accruals	96,131	-	49,818	(91,423)	54,526
Unused vacation provision	-	-	6,023	-	6,023
Taxes payable	1,980	(354)	1,815	960	4,401
Gross deferred tax asset	**187,768**	**(100,653)**	**631,132**	**(77,793)**	**640,454**
Tax effect of taxable temporary differences					
Property, plant and equipment	232,298	(190,399)	6,051,144	(3,107)	6,089,936
Exploration and evaluation assets	2,984,722	-	-	(1,692,747)	1,291,975
Other	-	(19,606)	7,200	120,523	108,117
Gross deferred tax liability	**3,217,020**	**(210,005)**	**6,058,344**	**(1,575,331)**	**7,490,028**
Less offsetting with deferred tax assets	(187,768)	100,653	(631,132)	77,793	(640,454)
Recognised deferred income tax liability	**3,029,252**	**(109,352)**	**5,427,212**	**(1,497,538)**	**6,849,574**
Continuing operations				(1,497,538)	
Discontinued operations				-	

31 Income Tax (continued)

In thousands of Kazakhstani Tenge	**1 January 2009**	**Charged to profit and loss**	**Business combinations**	**31 December 2009**
Tax effect of deductible temporary differences				
Accruals	65,381	-	30,750	96,131
Tax losses carried forward	84,520	-	(19,827)	64,693
Trade and other receivables	18,975	-	5,543	24,518
Taxes payable	1,677	-	303	1,980
Site restoration provision	-	446	-	446
Exploration and evaluation assets	-	23,465	(23,465)	-
Gross deferred tax asset	**170,553**	**23,911**	**(6,696)**	**187,768**
Less: offset with deferred tax assets	(82,322)	-	(105,446)	(187,768)
Recognised deferred income tax asset	**88,231**	**23,911**	**(112,142)**	**-**
Tax effect of taxable temporary differences				
Property, plant and equipment	303,455	-	(71,157)	232,298
Exploration and evaluation assets	-	3,008,186	(23,464)	2,984,722
Gross deferred income tax liability	**303,455**	**3,008,186**	**(94,621)**	**3,217,020**
Less: offset with deferred tax assets	(82,322)	-	(105,446)	(187,768)
Recognised deferred tax liability	**221,133**	**3,008,186**	**(200,067)**	**3,029,252**
Continuing operations			40,866	
Discontinued operations			(128,791)	

In the context of the Group's current structure, tax losses and current tax assets of different companies of the Group cannot be offset with the current tax liabilities and tax benefits of other companies of the Group, and accordingly, taxes can be assessed even in case of consolidated tax loss. Therefore, deferred income tax assets and liabilities are offset only if they relate to the same taxable company.

67 Discontinued Operations

In thousands of Kazakhstani Tenge	**2010**	**2009**
KFS	1,178,322	(766,724)
OSPF OTAN	96,580	-
Total profit / (loss) for the year from discontinued operations	**1,274,902**	**(766,724)**

KFS

On 30 December 2010 the Group sold 100% interest in KFS to Balkiya Plus LLP for Tenge 3,500,000 thousand. Since metal waste processing operations of KFS represent a separate significant line of the Group's business, this disposal group is presented in the consolidated financial statements as discontinued operations. The consolidated financial statements for the previous year have been restated and presented in accordance with the representation of the current year.

OSPF OTAN

On 6 September 2010 the Group sold 89% interest in OSPF OTAN (Note 5) to individuals for Tenge 3,705,500 thousand.

Since pension fund represented a separate major line of business of the Group, in the consolidated financial statements OSPF OTAN is recorded as discontinued operations.

32 Discontinued Operations (continued)

The calculation of profit from disposal of KFS and OSPF OTAN is presented below:

In thousands of Kazakhstani Tenge	**KFS**	**OSPF OTAN**
Total consideration	3,500,000	3,705,500
Net assets disposed	(2,487,122)	(3,646,112)
Gain on disposal	**1,012,878**	**59,388**

Consideration from sale of KFS is in the form of cash payments of Tenge 2,190,000 thousand and receivable from Balkiya Plus LLP of Tenge 1,310,000 thousand. Consideration from sale of 87% interest in OSPF OTAN has been fully paid in cash.

The analysis on performance of discontinued operations is presented below:

		2010		**2009**
In thousands of Kazakhstani Tenge	**KFS**	**OSPF OTAN**	**Total**	**KFS**
Revenues	2,819,793	529,107	3,348,900	1,890,943
Expenses	(2,654,349)	(491,915)	(3,146,264)	(2,786,458)
Profit / (loss) before income tax from discontinued operations	165,444	37,192	202,636	(895,515)
Income tax benefit	-	-	-	128,791
Gain on disposal	1,012,878	59,388	1,072,266	-
Profit / (loss) for the year from discontinued operations	**1,178,322**	**96,580**	**1,274,902**	**(766,724)**

Profit before income tax in 2010 represents results from the operations for the period prior to the date of disposal.

The analysis of cash flows from discontinued operations is presented below:

		2010		**2009**
In thousands of Kazakhstani Tenge	**KFS**	**OSPF OTAN**	**Total**	**KFS**
Operating activities	(339,144)	36,955	(302,189)	(323,396)
Investing activities	(98,202)	501,213	403,011	-
Financing activities	544,822	-	544,822	(342,199)
Total cash flows	**107,476**	**538,168**	**645,644**	**(665,595)**

68 Earnings per Share

Basic earnings /(loss) per share are calculated by dividing the profit or loss attributable to owners of the Company by the weighted average number of common shares in issue during the year, excluding treasury shares.

The Company has no potentially diluted common shares; therefore, the diluted earnings per share are equal to the basic earnings per share.

Earnings per share from continuing operations are calculated as follows:

	2010	**2009**
Profit / (loss) for the year from continuing operations attributable to the holders of common shares, in thousands of Tenge	(105,128)	129,021
Profit /(loss) for the year from continuing operations attributable to the holders of preference shares, in thousands of Tenge	(9,916)	-
(Loss) / profit for the year from continuing operations, in thousands of Tenge	(115,044)	129,021
Weighted average number of outstanding common shares (in thousands)	1,130,824	1,008,168
Weighted average number of outstanding preference shares (in thousands)	106,667	-
Basic and diluted earnings per common share from continuing operations (expressed in Tenge per share)	(0.09)	0.13
Basic and diluted earnings per preference share from continuing operations (expressed in Tenge per share)	(0.09)	-

Earnings per share from discontinued operations are calculated as follows:

	Note	**2010**	**2009**
Profit for the year from discontinued operations attributable to the holders of common shares, in thousands of Tenge		1,165,010	(766,724)
Profit for the year from discontinued operations attributable to the holders of preference shares, in thousands of Tenge		109,892	-
Profit / (loss) for the year from discontinued operations, in thousands of Tenge	32	1,274,902	(766,724)
Weighted average number of outstanding common shares (in thousands)		1,130,824	1,008,168
Weighted average number of outstanding preference shares (in thousands)		106,667	-
Basic and diluted earnings / (loss) per common share from discontinued operations (expressed in Tenge per share)		1.03	(0.76)
Basic and diluted earnings / (loss) per preference share from discontinued operations (expressed in Tenge per share)		1.03	-

69 Contingencies, Commitments and Operating Risks

Political and economic situation in the Republic of Kazakhstan

In general, the economy of the Republic of Kazakhstan continues to display the characteristics of an emerging market. These characteristics include, but are not limited to, the existence of national currency that is not freely convertible outside of the country and a low level of liquidity of debt and equity securities in the markets.

The mining sector in Kazakhstan is still impacted by political, legislative, fiscal and regulatory developments in Kazakhstan. The prospects for economic stability in Kazakhstan are largely dependent on the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments, which are beyond the Group's control.

The recent global financial crisis has had a severe effect on the economy of the Republic of Kazakhstan and the financial situation in the financial, banking and corporate sectors significantly deteriorated since mid-2008. In 2010, the Kazakhstani economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of Tenge against major foreign currencies, and increased liquidity levels in the banking sector.

Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade and other receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Management performed impairment test of certain non-financial assets and investments at cost (Note 4).

Management is unable to predict all developments which could have an impact on the Kazakhstani economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business.

Tax legislation

Kazakhstani tax legislation and practice is in a state of continuous development and therefore is subject to varying interpretations and frequent changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Company may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest. Tax periods remain open to retroactive review by the tax authorities for five years. In some cases tax reviews might cover the period of more than five years.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. In the opinion of the Group's management, no material losses will be incurred in respect of existing and potential tax claims in excess of provision that have been made in these consolidated financial statements.

On 10 December 2008, the President of the Republic of Kazakhstan signed the New Tax Code effective from 1 January 2009. The key changes included the following: replacement of the royalty with the mineral extraction tax; introduction of rent tax; reduction of the corporate income tax rate from 30% to 20% in the financial year 2009, to 17.5% in 2010, and to 15% in 2011; reduction of the VAT rate from 13% to 12%, change in the methodology of excess profit tax calculations; and other changes.

Further, on 17 November 2009, the President of the Republic of Kazakhstan approved new changes and amendments to the Tax Code. The key amendment was to keep corporate income tax rate at 20% until 1 January 2013, and to apply the rate of 17.5% in 2013 and 15% onwards.

On 26 November 2010, the President of the Republic of Kazakhstan signed the Law on Amendments and Addenda to Some Legislative Acts of the Republic of Kazakhstan on Taxation, according to which the corporate income tax rate was fixed at 20% without changes in rates in subsequent years.

Changes in corporate income tax rate had an impact on amounts of recognised deferred income tax liabilities at 31 December 2010 and 2009.

34 Contingencies, Commitments and Operating Risks (continued)

Transfer pricing

According to the transfer pricing law, the international business transactions are subject to the state control. This law prescribes Kazakhstani companies to maintain and, if required, to provide economic rationale and method of the determination of prices used in international business transactions, including existence of the documentation supporting the prices and price differentials applied. Additionally, price differentials cannot be applied in the international business transactions with companies registered in offshore countries. In case of deviation of transaction price from market price, the tax authorities have the right to adjust taxable base and to impose additional taxes, fines and interest penalties.

The transfer pricing law in some of its sections does not contain detailed and clear policies on its use in practice (for example, form and content of documentation, which supports discounts) and definition of tax liabilities of the Group within transfer pricing policies require interpretation of transfer pricing law.

The Group is engaged in transactions which are subject to state control in terms of transfer pricing. Regardless of the inherent risks that the tax authorities may question transfer pricing policy of the Group, related to the new law on transfer pricing, the management of the Group believes that it will be able to sustain its position in case if transfer pricing policy of the Group will be challenged by the tax authorities. Therefore, no additional tax obligations were recorded by the Group in these consolidated financial statements.

Legal proceedings

From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

Environmental matters

The enforcement of environmental regulation in the Republic of Kazakhstan is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately.

Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage in addition to the amounts already accrued and recorded in these consolidated financial statements that could adversely affect operational results or financial position of the Group

Provision for site restoration obligation

Group's subsidiaries have a legal obligation to decommission its mining assets and other production assets, and to restore a landfill site after its closure. As at 31 December 2010 the carrying value of the site restoration provision is Tenge 1,262,121 thousand (2009: Tenge 214,619 thousand).

The site restoration provision is estimated based on the Group's interpretation of current environmental legislation in the Republic of Kazakhstan supported by the feasibility study and engineering researches in accordance with the existing restoration standards and methods and rehabilitation techniques. This estimate may change upon completion of subsequent environmental investigation works and revision of the existing restoration and recultivation programmes.

Obligations on subsurface use contracts

In accordance with the terms of subsurface use contracts (Note 1), the Group has the following obligations:

- to fulfil minimum work program, which specifies volume of capital expenditures, geological costs, production and processing costs, and their estimated cost that should be completed during the term of subsurface use contracts;
- to finance certain social infrastructure projects;
- to finance professional training of Kazakhstani personnel;
- to pay bonus of commercial discovery in the case of commercial discovery;
- to reimburse the historical costs incurred by the State and related to geological information.

In accordance with the Law of the Republic of Kazakhstan on Mineral Resources and Subsurface Use, the Ministry of Industry and New Technologies is able to terminate subsurface use contracts unilaterally in case of material breach of obligations stipulated by subsurface use contracts and work program.

34 Contingencies, Commitments and Operating Risks (continued)

The Group is subject to periodic reviews of its activities by governmental authorities with respect to the requirements of its licenses and related subsurface use contracts. Management cooperates with governmental authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of a license could result in fines, penalties, license limitation, suspension or revocation. Group's management believes that any issues of non-compliance will be resolved through negotiations or corrective actions without any material effect on the Group's financial position.

Minimum work program

The table below shows minimum volume of capital expenditures, geological costs, which needs to be fulfilled during the effective term of subsurface use contracts and also unfulfilled part of minimum work program as at 31 December 2010:

Contractual area	Work program term	Minimum volume for the entire period	Unfulfilled portion of minimum work program as at 31 December 2010	Amount to be fulfilled in 2011
Kumyskuduk Verkhnesokurskoe	2004 - 2026	1,512,020	620,760	339,129
Aitkokshe	2008 - 2013	967,622	750,766	254,222
Western Kamys	2001 - 2013	547,966	237,809	47,152
Tuyebay-Surtysu	2008 - 2012	240,851	-	-
Gornostayevskoye	2004 - 2026	42,319	-	-
Total		**3,310,778**	**1,609,335**	**640,503**

The table below represents minimum volume of costs on exploration and refining which need to be fulfilled during the effective period of subsurface use contracts, and also unfulfilled part of minimum work program as at 31 December 2010:

Contractual area	Work program term	Minimum volume for the entire period	Unfulfilled portion of minimum work program as at 31 December 2010	Amount to be fulfilled in 2011
Shalkyia	2002 - 2046	11,975,429	11,975,429	-
Kumyskuduk Verkhnesokurskoe	2004 - 2026	11,287,408	10,501,502	669,136
Western Kamys	2001 - 2013	2,492,356	1,661,512	827,311
Total		**25,755,193**	**24,138,443**	**1,496,447**

Management believes that the Group fully complies with minimum work program requirements. The unfulfilled amount of minimum work programs, and social infrastructure projects and trainings of Kazakhstani personnel as at 31 December 2010 is carried forward to the future periods. Management believes that the Group has sufficient resources to fulfil its contractual obligations in the future.

Social projects obligation

In accordance with the terms and conditions of subsurface use contracts, annually the Group is obliged to fund specific projects in social infrastructure. Fulfilment of such obligations may be in the form of cash payments. Obligation represents fixed amount or 1% of the budgeted operational costs for the year. Management believes that as at 31 December 2010 the Group fully complies with social project financing requirements.

Training of Kazakhstani personnel

In accordance with the contracts on subsurface use the Group is obliged to finance professional training of Kazakhstani personnel not less than 0.1%-1.0% of total operational costs for the year stated in annual minimum work program. Management believes that as at 31 December 2010 the Group fully complies with Kazakhstani personnel training requirements.

34 Contingencies, Commitments and Operating Risks (continued)

Obligation to pay a bonus of commercial discovery and reimbursement of historical costs

In accordance with the contracts on subsurface use the Group is obliged to pay bonus of commercial discovery at fixed rate of the value of recoverable reserves of mineral resources provided that the authorised state body approves its commercial discovery.

In accordance with the contracts on subsurface use the Group is obliged to reimburse historical costs related to geological information and other costs incurred by the Republic of Kazakhstan with respect to exploration of contractual areas prior to transfer of subsurface use rights to the Group. Principal payments within reimbursement of historical costs are made commencing the date of production after commercial discovery.

As at 31 December 2010 the Group recognised obligation on reimbursement of historical costs under the contract on lead and zinc ore at polymetal field Shalkiya in the amount of Tenge 203,574 thousand in other long-term liabilities in these consolidated financial statements.

The Group did not recognise obligation on payment of commercial discovery bonus and reimbursement of historical costs on the contract for exploration of cobalt-nickel ore at Gornostayevskoye field in these consolidated financial statements as at 31 December 2010. Currently, the Group performs evaluation of reserves and the feasibility study of project to determine the economic viability of further significant capital investments in case of the commercial discovery. Before that the Group has a formal possibility to cancel extension of the contract to avoid the payment of this obligation. Obligation on payment of commercial discovery bonus and reimbursement of historical costs will be recognised when the commercial viability of the project is demonstrated and the Group allocates the required funds for the construction of production facilities and development of field. At 31 December 2010 estimated obligation on payment of commercial discovery bonus and obligation on reimbursement of historical costs under this contract are Tenge 122,575 thousand and Tenge 803,901 thousand, respectively.

Capital expenditure commitments

Investment commitments

Under the contract dated 20 June 2007, signed between TMP and the Committee on Investments of the Ministry of Industry and Trade of the Republic of Kazakhstan the Group has undertaken to provide investments into transformation of the chemical plant into ferroalloy and steel production plant in the total amount of not less than Tenge 3,597,008 thousand during the entire term of the contract. At 31 December 2010 the Group completely fulfilled its obligations under this contract.

Other capital expenditure commitments

As at 31 December 2010 the Group had other contractual commitments on purchase of property, plant and equipment and exploration and evaluation assets for the total amount of Tenge 258,263 thousand. Management believes that the Group will have sufficient funds to fulfil its capital expenditure commitments.

As at 31 December 2010 the Group had other contractual commitments on purchase of property, plant and equipment for Tenge 24,340,891 thousand (2009: Tenge 49,179,010 thousand). Management believes that the Group will have sufficient funds to fulfil its capital commitments.

70 Financial Instruments by Category

In thousands of Kazakhstani Tenge	**Note**	**2010**	**2009 (restated)**	**1 January 2009 (restated)**
Loans and receivables				
Other non-current financial assets	13	3,249,833	5,422,414	1,634,383
Financial receivables	15	1,260,908	2,164,932	2,476,622
Cash and cash equivalents	17	2,720,281	1,511,944	3,552,127
Total loans and receivables		*7,231,022*	*9,099,290*	*7,663,132*
Investments available for sale	16	-	232,274	364,000
Investments at cost	12	1,040,470	4,471,639	-
Total financial assets		**8,271,492**	**13,803,203**	**8,027,132**
Financial liabilities at amortised cost				
Borrowings	21	24,947,911	11,956,157	6,123,884
Other long-term liabilities	19	912,907	-	-
Financial payables	22	2,010,323	4,364,251	1,738,824
Total financial liabilities		**27,871,141**	**16,320,408**	**7,862,708**

71 Financial Risk Management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments to hedge risk exposures.

Risk management is carried out by management under policies set by the Board of Directors of the Company, which provides principles for risk management, covering specific areas, such as credit risk, liquidity risk and market risk.

(a) Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk mainly arises from restricted cash, trade and other financial receivables and other current financial assets and cash and cash equivalents. The carrying amount of restricted cash, trade and other financial receivables and other current financial assets and cash and cash equivalents represent the maximum amount of credit risk exposures.

With respect to banks and financial institutions, only entities with high ratings are accepted.

The Group does not have the system of assessing the creditworthiness the customers; policy for assigning internal ratings and setting credit limits for counterparties.

The table below shows credit ratings (if available) as at the end of the relevant reporting period:

In thousands of Kazakhstani Tenge	**Rating (Moody's)**	**31 December 2010**	**31 December 2009**
Short-term financial receivables	Not available	1,260,908	2,164,932
Long-term financial receivables	Not available	648,677	2,822,318
Restricted cash	Not available	2,601,156	2,600,096
Funds transferred to investment portfolio management	Not available	-	2,166,595
Cash and cash equivalents			
Bank CenterCredit	Ba3	1,505,231	-
Eurasian Bank	B1	491,545	633,400
ATF Bank	Ba2	140,827	854
Alliance Bank	B3	108,427	9,126
Halyk Bank	Ba2	64,177	14,203
Other	Not available	325,416	848,308
Total cash on current accounts and term deposits		2,635,623	1,505,891
Total maximum exposure to credit risk		**7,146,364**	**11,259,832**

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group manages the liquidity risk using short-term (one month) forecasts of the expected cash flows from operating activities. The Group has developed a range of internal regulations, aimed at establishing control procedures for appropriate placement of temporary excess cash, invoice processing and payments, as well as preparation of operational budgets. The Group's objective is to maintain the balance between the continuous financing and flexibility using the bank term deposits.

36 Financial Risk Management (continued)

The following table summarises the Group's financial liabilities by maturities, indicating the time remaining as at reporting date till the maturity dates stipulated under the terms of contracts.

In thousands of Kazakhstani Tenge	**On demand and less than 1 month**	**1-6 months**	**6-12 months**	**1-3 years**	**Over 3 years**
As at 31 December 2010					
Borrowings	1,274,799	3,015,162	6,560,477	8,179,227	13,991,362
Financial payables	1,415,538	385,146	209,639	-	-
Total financial liabilities	**2,690,337**	**3,400,308**	**6,770,116**	**8,179,227**	**13,991,362**
As at 31 December 2009					
Borrowings	-	615,171	1,305,644	6,566,770	10,986,516
Financial payables	1,978,020	2,001,857	384,374	-	-
Total financial liabilities	**1,978,020**	**2,617,028**	**1,690,018**	**6,566,770**	**10,986,516**

(c) Market risk

Interest rate risk

Revenues and operating cash flows of the Group are not subject to changes in market interest rates because interest rates on all loans are fixed. However, the Group is exposed to fair value changes on interest rates. The Group has no formal agreements for the analysis and reduction of the risks associated with changes in interest rates.

Foreign exchange risk

Foreign exchange risk arises when future foreign currency inflows, or recognised assets and liabilities, are denominated in currencies other than the functional currency of the Group.

The Group is exposed to currency risk mainly in respect of borrowings and payables to suppliers and vendors, denominated in US Dollars. Exposure to currency risk in respect of cash and cash equivalents is insignificant, because they are mainly denominated in Tenge (Note 17). Due to the fact that the variety of financial derivative instruments on the Kazakhstani market is limited and these instruments are rather expensive the management chooses at the moment not to hedge the Group's foreign exchange risk, as currently benefits from implementing such instruments do not outweigh the costs. Nevertheless, the Group continues monitoring changes of financial derivatives market in order to implement hedging structure in the future or as needed.

The table below shows the total amount of assets and liabilities denominated in a foreign currency that give rise to foreign exchange risk:

In thousands of Kazakhstani Tenge	**US Dollar**	**Euro**	**Renminbi**	**Russian Rouble**	**Pound Sterling**	**Turkish Lira**	**Total**
As at 31 December 2010							
Assets	941,669	75,058	130,670	494	-	-	1,147,891
Liabilities	2,098,363	289,937	306,697	170,518	5,750	103,661	2,974,926
Net position	**(1,156,694)**	**(214,879)**	**(176,027)**	**(170,024)**	**(5,750)**	**(103,661)**	**(1,827,035)**
As at 31 December 2009							
Assets	799,662	288,713	372,425	-	-	-	1,460,800
Liabilities	1,671,822	6,380	1,479,558	353	-	259,517	3,417,630
Net position	**(872,160)**	**282,333**	**(1,107,133)**	**(353)**	**-**	**(259,517)**	**(1,956,830)**

36 Financial Risk Management (continued)

On 4 February 2009 the National Bank of the Republic of Kazakhstan ceased to maintain the exchange rate of Tenge to other foreign currencies. Tenge weakened by 25% against the US dollar and the closing KASE exchange rate at that date was 1 US Dollar = Tenge 150.03 (31 December 2008: US Dollar 1 = Tenge 120.77).

At 31 December 2010, if Tenge had weakened/strengthen by 10% against the US Dollar with all other variables held constant, the pre-tax profit for the year would have decreased/increased by Tenge 92,536 thousand (2009: decreased by Tenge 69,773 thousand).

At 31 December 2010, if Tenge had weakened/strengthen by 10% against the Renminbi with all other variables held constant, the pre-tax profit for the year would have decreased/increased by Tenge 14,082 thousand (2009: decreased by Tenge 88,571 thousand).

Price risk

The Group is not exposed to price risk of equity securities since it does not have any portfolio of quoted equity securities.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return equity to the shareholders or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors its capital structure on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is the equity as shown in the consolidated statement of financial position plus net debt. During 2010 the Group's strategy, which had not changed since 2009, stipulated maintaining the gearing ratio at the level from 30% to 40%.

In thousands of Kazakhstani Tenge	**Note**	**2010**	**2009 (restated)**
Total borrowings	21	24,947,911	11,956,157
Less cash and cash equivalents	17	(2,720,281)	(1,511,944)
Net debt		22,227,630	10,444,213
Total equity		34,551,644	20,842,989
Total capital		56,779,274	31,287,202
Gearing ratio		**39%**	**33%**

37 Fair Value of Financial Instruments

Fair value estimate

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. . Management has used all available market information in estimating the fair value of financial instruments

37 Fair Value of Financial Instruments (continued)

Financial assets carried at amortised cost

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty. Due to the short-term nature of trade receivables, their carrying amounts approximate fair values.

Financial liabilities carried at amortised cost

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted using current interest rates for new instruments with similar credit risk and remaining maturity. Due to the short-term nature of trade payables, their carrying amount approximates their fair value. Fair value of borrowings is disclosed in Note 21.

38 Events After Reporting Date

On 18 January 2011 the Group formally completed transaction on acquisition of 81.39% interest in Shalkiya Zinc NV (Note 5). The Group negotiates with BTA Bank on restructuring of the loan of Shalkiya Zinc included in the short-term borrowings as at 31 December 2010 (Note 21). Management of the Group expects that as a result of restructuring of this loan the interest rate will be decreased and grace period of 2 years will be provided.

In January 2011 the Group sold its share in Trading House TMP at nominal value in the charter capital and established Trading House SAT JSC with interest share of 99%. The principal business of Trading House SAT LTD is sales of ferroalloy products of TMP in CIS markets.

In March 2011 pursuant to the agreement on purchase of shares from non-controlling equity holders, the Group additionally purchased 3% of share in Shalkiya Zinc NV for Tenge 244,275 thousand, as a result, increasing its share in Shalkiya Zinc NV increased to 84.39%.

In February 2011 the Group established Avia Centre JET LLP, and contributed into its charter capital temporary rights of tenure for a plot of land (Note 18) and hangar complex, with the purpose of subsequent resale of the 100% share in this entity to Kazkakhmys Corporation LLP.

On 3 May 2011 the Group entered into the agreement with the subsidiary of Sberbank of Russia JSC on provision of credit line for the total amount of USD 59,964 thousand in order to refinance the loan from Development Bank of Kazakhstan, complete the financing of the final stage of TMP modernisation and replenish the working capital.