



KAZPHOSPHATE LIMITED

**Consolidated Financial Statements and
Independent Auditors' Report**

For the year ended 31 December 2010

Company registration number: 06007551

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KAZPHOSPHATE LIMITED **REPORT OF THE DIRECTORS'**

The directors present their report with the audited financial statements of the Group for the year ended 31 December 2010

PRINCIPAL ACTIVITY

The Group's principal trading activities are the extraction and processing of phosphoric ore, concentration and processing of raw minerals, production of mineral fertilisers, yellow phosphorous and phosphorous-containing products at mine pits and plants located in Southern Kazakhstan. These products are primarily exported from this region.

DIRECTORS

The directors who have held office during the period from 1 January 2010 to the date of this report are as follows

D. Abdykalykova - resigned 19th August 2011
D. Mamytov - resigned 10th March 2010
G. Yessenov - resigned 19th August 2011
Y. Nurgozhayev - appointed 19th August 2011
R. Pshtayev - appointed 19th August 2011

All the directors who are eligible offer themselves for election at the forthcoming first Annual General Meeting

REGISTERED OFFICE

3rd Floor, Fairgate House, 78 New Oxford Street, London, WC1A 1HB

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The results for the year and the financial position at the year end for the Group were considered satisfactory by the directors.

Group revenue increased on a year on year basis by 25% to US\$219M. The Group generated a net loss for the year of US\$36M compared to a net profit of US\$1.8M last year. The increased loss is mostly the result of accounting adjustments in relation to potential future deferred tax liabilities.

Post year end the company obtained loans totalling US\$50M for the construction of a sulphuric acid production facility to increase its production of mineral fertilisers. More detail on this and other subsequent events can be found in Note 35 on page 46.

PRINCIPAL RISKS AND UNCERTAINTIES

Country risk

The Group's operations are subject to country risk being the economic, political and social risks inherent in doing business in Kazakhstan. These risks include matters arising from the policies of the government, economic conditions, the imposition of, or changes to, taxes and regulations, foreign exchange fluctuations and the enforceability of contract rights.

Financial risk

The Group's principal financial instruments are non-derivative and comprise of trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. The main purpose of these instruments is to raise funds for the group's operations and to finance the group's trading activities.

The group has exposure to credit, liquidity and market risk. Note 32 explains the Group's objectives, policies and processes for measuring and managing these risks.

EMPLOYEES

The Group is committed to a policy of equal opportunities in employment by which the Group continues to ensure that all aspects of selection and retention are based on merit and suitability for the job without considerations of sex, marital status, nationality, race, colour, race, ethnicity, sexual orientation or any disability.

The Group aims to maintain a diverse workforce free from discrimination. Persons who have or develop a disability are, where possible, given practical assistance and training to seek to overcome their disability in the performance of their work.

KAZPHOSPHATE LIMITED **REPORT OF THE DIRECTORS'**

PAYMENT POLICY

The Group does not have a formal code that it follows with regard to payments to suppliers. Members of the Group generally agree payment terms with their suppliers when they enter into binding contracts for the supply of goods and services. Suppliers are, in that way made aware of these terms.

Group companies seek to abide by these payment terms when they are satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions.

KEY PERFORMANCE INDICATORS

The following is a summary of key performance indicators

	2010	2009
Sales revenue growth	25%	-53%
Gross profit margin	21%	21%
Return on equity	-4%	-2%

RESULTS AND DIVIDENDS

The consolidated income statement for the period is set out on page 7.

The directors do not recommend payment of an ordinary dividend.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted for use in the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state that the financial statements comply with IFRS,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

ON BEHALF OF THE BOARD

Y Nurgozhayev - Director

Date

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KAZPHOSPHATE LIMITED

We have audited the financial statements of Kazphosphate Limited for the year ended 31 December 2010, which comprise the Group and Parent Company Statements of Financial Position, the Group Statement of Comprehensive Income, the Group and Parent Statements of Cash Flows, the Group and Parent Company Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union, and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's shareholders, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in a Report of the Auditor and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and parent company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted for use in the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Going concern

In forming our opinion on the financial statements we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Group's and parent company's ability to continue as a going concern. At the balance sheet date, the Group's current liabilities exceeded its current assets by US\$ 106,651,000 (2009 US\$ 114,912,000). These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern. Our opinion is not further qualified in respect of this matter.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
OF KAZPHOSPHATE LIMITED**

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Yogan Patel (Senior Statutory Auditor)
for and on behalf of MacIntyre Hudson LLP
New Bridge Street House,
30-34 New Bridge Street,
London
EC4V 6BJ

Date

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KAZPHSOPHATE LIMITED
CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION

	Note	Group 31 December 2010	Company 31 December 2010	Group 31 December 2009	Company 31 December 2009
<i>In thousands of US dollars</i>					
ASSETS					
Non-current assets					
Goodwill		2,770	-	2,770	-
Property, plant and equipment	9	419,756	32	441,026	43
Intangible assets	10	61,837	-	67,175	-
Investments in associate and joint venture		922	-	153	-
Other non-current assets	11	813	-	1,579	-
Restricted cash	11	96	-	79	-
Long term receivables		18	-	37	-
Investments	5	-	141,096	-	141,096
Total non-current assets		486,212	141,128	512,819	141,139
Current assets					
Inventories	12	56,487	-	57,790	-
Trade and other receivables	13	22,462	58	14,905	102
Prepayments		-	-	875	15
Loans receivable	14	2,745	-	3,237	-
Taxes receivable	15	4,982	-	6,676	-
Other current assets		710	-	313	-
Current income tax prepayments		-	-	3,646	-
Cash and cash equivalents	16	412	23	828	2
Total current assets		87,798	81	88,270	119
TOTAL ASSETS		574,010	141,209	601,089	141,258
EQUITY					
Called up share capital	6	98	98	98	98
Retained earnings		284,674	(758)	320,692	(511)
Foreign exchange translation reserve		(21,828)	-	(10,564)	-
Other reserves		(705)	-	(1,043)	-
Revaluation surplus		38,543	-	38,543	-
TOTAL EQUITY		300,782	(660)	347,726	(413)
LIABILITIES					
Non-current liabilities					
Deferred income tax liability	30	74,281	-	51,602	-
Provision for asset retirement obligations	19	3,293	-	2,903	-
Provision for social development of the region	31	568	-	666	-
Employee benefits	20	637	-	981	-
Total non-current liabilities		78,779	-	56,152	-
Current liabilities					
Borrowings	17	172,697	141,584	174,356	141,339
Interests payable		167	-	267	-
Trade and other payables	21	17,224	22	16,840	72
Advances received		-	-	2,543	-
Accruals		132	117	24	135
Provision for unused vacation and bonuses		1,773	-	1,605	-
Employee benefits	20	81	-	62	-
Provision for social development	31	113	-	113	-
Income tax liability		255	143	125	125
Other taxes payable	18	2,007	3	1,276	-
Total current liabilities		194,449	141,869	197,211	141,671
TOTAL LIABILITIES		273,228	141,869	253,363	141,671
TOTAL LIABILITIES AND EQUITY		574,010	141,209	601,089	141,258

Approved and signed on behalf of the Board of Directors and Management on

2011

Y Nurgozhayev - Director

R Pshtayev - Director

KAZPHOSPHATE LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>In thousands of US dollars</i>	Note	2010	2009
Revenue	22	219,847	176,123
Cost of sales	23	(173,614)	(138,424)
Reversal of impairment/(impairment) of property, plant and equipment	9	(921)	177
Gross profit		45,312	37,876
Other operating income	24	728	200
Distribution costs	25	(33,803)	(23,638)
General and administrative expenses	26	(18,884)	(28,981)
Other operating expenses	27	(140)	(110)
Negative goodwill		-	21,000
Operating profit		(6,787)	6,347
Net foreign exchange gain/(loss)		(1,886)	1,704
Finance income	28	1,099	2,567
Finance costs	28	(5,731)	(18,438)
Share of profit of joint venture		423	238
(Loss)/profit before income tax		(12,882)	(7,582)
Income tax benefit/(expense)	29	(23,136)	9,408
Profit/(Loss) for the year		(36,018)	1,826
Other comprehensive income			
Land revaluation		-	(100,972)
Income tax recorded in equity		-	15,146
Actuarial pension (loss)/gain	20	338	(325)
Foreign exchange translation		(11,264)	(29,031)
Other comprehensive income for the year		(10,926)	(115,182)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(46,944)	(113,356)

KAZPHOSPHATE LIMITED
CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY

In thousands of US Dollars

GROUP	Share capital	Foreign exchange translation reserve	Other reserves	Revaluation reserve on property plant & equipment	Retained earnings	Total equity
Balance 1 January 2009	98	18,467	(718)	124,369	318,866	461,082
Total comprehensive income	-	(29,031)	(325)	(85,826)	1,826	(113,356)
Balance 1 January 2010	98	(10,564)	(1,043)	38,543	320,692	347,726
Total comprehensive income	-	(11,264)	338		(36,018)	(46,944)
Balance 31 December 2009	98	(21,828)	(705)	38,543	284,674	300,782

COMPANY

	Share capital	Retained earnings	Total equity
Balance at 1 January 2009	98	(21,211)	(21,113)
Total comprehensive income	-	20,700	20,700
Balance as at 31 December 2009	98	(511)	(413)
Total comprehensive income	-	(247)	(247)
Balance at 31 December 2010	98	(758)	(660)

KAZPHOSPHATE LIMITED
CONSOLIDATED AND COMPANY STATEMENT OF CASH FLOWS

<i>In thousands of US Dollars</i>	Group 2010	Company 2010	Group 2009	Company 2009
Cash flow from operating activities				
Proceeds from sales	216,695	-	178,153	330
Value added tax refund	18,390	48	7,073	53
Cash return from suppliers	1,704	5	3,757	-
Other	443	20	533	-
Payments to suppliers and contractors	(185,855)	(257)	(114,301)	(748)
Payroll expense	(22,914)	(18)	(23,388)	(20)
Budget settlements	(10,847)	-	(15,466)	-
Non-budgetary payment settlements	(3,703)	-	(2,826)	-
Interest paid	(4,913)	-	(5,930)	-
Restricted cash	(231)	-	(27)	-
Others	(1,957)	-	(1,462)	-
Tax paid	(2)	(2)	(77)	(77)
Foreign exchange transaction difference	(5)	1	(35)	5
Net cash received from operating activities	6,805	(203)	26,004	(457)
Cash flow from investing activities				
Interest received	4	-	776	-
Proceeds from disposal of property, plant and equipment	30	-	4	-
Repayment of loan receivable	1,542	27	2,760	-
Other receipts	336	-	86	-
Acquisition of property, plant and equipment	(6,082)	-	(6,562)	-
Acquisition of fixed asset investments	-	-	(2,794)	-
Acquisition of intangible assets	(1)	-	(80)	-
Loan disbursed and financial aid provided to related parties	(1,527)	(68)	(18,677)	(72)
Net cash used in investing activities	(5,698)	(41)	(24,487)	(72)
Cash flow from financing activities				
Proceeds from loans and borrowings	145,770	8,644	96,870	8,687
Repayment of loans and borrowings	(146,959)	(8,379)	(107,119)	(8,245)
Other	(334)	-	-	-
Net cash used in financing activities	(1,523)	265	(10,249)	442
Net (decrease) in cash and cash equivalents	(416)	21	(8,732)	(87)
Cash and cash equivalents at the beginning of the year	828	2	9,560	89
Cash and cash equivalents at the end of the year	412	23	828	2

KAZPHOSPHATE LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

1. The Group and its Operations

These group financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2010 for Kazphosphate Limited (the "Company")

Kazphosphate Limited is a company incorporated in England and Wales. The group financial statements consolidate those of the company and its subsidiaries (together referred to as a group). The parent company financial statements present information about the company as a separate entity and not as a group.

2. Basis of Preparation and Significant Accounting Policies

Basis of preparation. The financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS). In publishing the parent company financial statements here together with the group financial statements, the company has taken advantage of the exemption in S408 of the Companies Act 2006 not to present its individual income statement and related notes that form part of these approved financial statements.

The financial statements are prepared on the historical cost basis, except for property, plant and equipment, inventories and intangible assets that are stated at their fair values. All amounts have been rounded to the nearest US\$1000 except as otherwise indicated.

The consolidated financial statements are prepared in accordance with IFRS, International Accounting Standards (IAS) and related IFRIC interpretations in issue that have been endorsed by the European Commission and are effective at 31 December 2009.

Preparation of the financial statements in conformity with IFRS requires the use of certain accounting estimates and assumptions. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Going concern. The financial statements have been prepared on a going concern basis even though at the year end the Group had net current liabilities amounting to US\$106,651,000 (2009: US\$ 114,912,000). The directors have concluded that a material uncertainty exists that casts significant doubt upon the Group's ability to continue as a going concern and that, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. However, the directors have reviewed cash flow forecasts and trading expectations for the next 12 months from approval of these financial statements, and are confident that the Group will be able to meet its current liabilities. Therefore the directors continue to adopt the going concern basis of accounting.

Functional and presentation currency. The functional and presentation currency of the Group is US dollars ("USD"). All amounts in these group financial statements are presented in thousands of USD except where stated otherwise. The functional currency of the company's Dutch subsidiaries is Euros and the functional currency of the Kazakh subsidiaries is Kazakhstan Tenge.

Foreign currency transactions. Transactions in foreign currencies are translated to USD at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to USD at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to USD at the exchange rate at the date that the fair value was determined. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. The exchange differences arising upon consolidation on retranslation from a functional currency other than USD are recognised as a separate component of equity.

Property, plant and equipment. Property, plant and equipment is stated at fair value less accumulated depreciation and impairment losses, where required. The fair value of land is determined under periodic revaluation conducted by independent appraisers.

The cost includes all expenses directly related with the purchase of a relevant asset. The cost of assets constructed using its own resources includes the cost of used materials, direct labour costs, other expenses directly related with asset delivery and put it into operation for the intended use, and expenses on asset dismantling and transfer and site restoration. The software purchase cost inseparably associated with functionality of corresponding equipment is capitalised in the cost of this equipment.

The individual significant parts of an item of property, plant and equipment (components), whose useful lives are different from the useful life of the given asset as a whole are depreciated individually, applying depreciation rates reflecting their anticipated useful lives. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

KAZPHOSPHATE LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

2. Basis of Preparation and Significant Accounting Policies (continued)

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. All other repair and maintenance costs are charged to profit or loss for the year during the reporting period in which they are incurred.

Gains and losses on disposals of property, plant and equipment determined by comparing proceeds with its carrying amount are recognised in profit or loss for the year.

Stripping costs Stripping (i.e. overburden and other waste removal) costs incurred in the development of a mine and open pits before production commences are capitalised as part of the cost of constructing the mine and subsequently amortised over the life of the operation mines and open pits. The stripping costs incurred subsequently during the production stage of its operations are included in the cost of inventory.

Land revaluation Land is subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset.

Depreciation Each item of property, plant and equipment is depreciated using the straight-line method over its estimated useful life, and depreciation charge is included in profit or loss for the year. Land and construction in progress are not depreciated. The depreciation is charged to profit or loss for the year and determined using the straight-line method over the estimated useful life of the item of property, plant and equipment.

The expected useful lives of property, plant and equipment in the reporting and comparative periods are as follows:

	Useful lives in years
Buildings and constructions	3-50
Machinery and equipment	7-10
Vehicles	6-10
Other assets	8-14

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 was 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 each reporting date.

Impairment The carrying amounts of property, plant and equipment and all other non-financial assets are reviewed for impairment if there is any indication that the carrying amount may not be recoverable.

When a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of "value in use" (being the net present value of expected future cash flows of the relevant cash generating unit) and "fair value less costs to sell" (the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal). Where there is no binding sale agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount the Group could receive for the cash generating unit in an arm's length transaction. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or assets groups.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the profit and loss so as to reduce the carrying amount in the statement of financial position to its recoverable amount. A previously recognized impairment loss is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally resulted in the impairment. This reversal is recognized in profit or loss for the year and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized in prior years.

Intangible assets All intangible assets are stated at fair value less accumulated amortisation and impairment loss, where required. Intangible assets include capitalised software licenses, software products, mining rights, rent entitlements and capitalised costs on social program financing.

KAZPHOSPHATE LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

2. Basis of Preparation and Significant Accounting Policies (continued)

The cost includes all expenses on acquisition and implementation of intangible assets. Intangible assets are amortised using the straight-line method over their useful lives, as follows:

	Useful lives in years
Licenses	6-20
Rent	10
Software	5-6
Goodwill	Indeterminate
Other, including subsurface use rights and rights for groundwater extraction	3-25

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

Mineral rights are measured at fair value less accumulated amortisation and impairment losses based on periodic valuations by the directors. The cost of acquisition of mineral rights comprises the signature bonus, commercial discovery bonus, the cost of subsurface use rights and capitalised expenditures on social sphere financing and professional education.

As part of the cost of acquisition of the mineral rights, the Group is committed to finance social sphere programmes which benefit the wider community in the region. These costs will not benefit the Group directly but are compulsory under the acquisition terms. These social costs are recognised as part of the cost of acquisition upon initial recognition with a corresponding liability recognised at the present value of future social costs during the period of exploration and production.

As part of the cost of acquisition of mineral rights, the Group is committed to finance training programmes for the professional education of employees to become specialists, which will benefit the wider community in the region as well as the Group. The education costs are recognised as part of the acquisition cost, with a corresponding liability equal to the present value of estimated payments for education during the period of exploration and production. Mineral rights are amortised to profit and loss using the units-of-production method based upon proved reserves commencing when phosphoric ore is first extracted.

Goodwill is not amortised as it is considered to have an indeterminate useful life. Goodwill is reviewed annually for indications of impairment with any impairment losses recognised in the statement of comprehensive income. No impairment was recognised in respect of Goodwill during the current period.

Basis of consolidation Subsidiaries are fully consolidated from the date on which control is transferred to the group. Control exists when then the group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. They are deconsolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the group.

The cost of an acquisition is measured as the fair value of the assets plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the cost of acquisition over the fair value of the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as Goodwill. If the cost of acquisition is less than the fair value of the group's share of the net assets of the subsidiary acquired, the difference is recognised directly in profit and loss.

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Uniform accounting policies are applied by the group companies to ensure consistency.

Where the group has to share control of separate trading entities with another party, the results of the jointly controlled entity are included in the consolidated accounts using equity accounting for joint ventures. Therefore the cost of the investment in the jointly controlled entity as well as the group's share of the jointly controlled entity's post acquisition changes in net assets are included in the statement of financial position. The group's share of the jointly controlled entity's post acquisition profits are also disclosed in the statement of comprehensive income.

Investments in associate undertakings are also accounted for using the equity method. These are undertakings in which the Group has between 49% and 20% of the voting rights or otherwise has significant influence but not control.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

2. Basis of Preparation and Significant Accounting Policies (continued)

Inventories Inventories are recorded at the lower of cost and net realisable value. From 2009 cost of inventory is determined by FIFO method and includes inventory purchase costs, production or processing costs and other costs on inventory delivery to their destination and bringing them to a relevant condition. Prior to 2009 cost of inventory was determined by weighted average basis. In respect to own production inventories and work in progress the actual cost comprises related overheads on the basis of normal production capacity of an entity.

Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Financial instruments

(i) **Key measurement terms** Depending on their classification financial instruments are carried at fair value 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 separate financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

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 re-pricing 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** The Group has only one measurement category of financial assets which are loans and receivables.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intend to sell in the near term. Loans and receivables of the Group included in the statement of financial position as trade receivables, loans receivable, cash and cash equivalents and restricted cash.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

2. Basis of Preparation and Significant Accounting Policies (continued)

(iii) *Classification of financial liabilities* The Group's financial liabilities represent financial liabilities carried at amortised cost. The financial liabilities in the statement of financial position included borrowings and trade payables.

(iv) *Initial recognition of financial instruments* Financial assets and liabilities are initially recorded at fair value plus 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. Subsequently, the carrying amount of borrowings is adjusted considering an amortisation gain/loss; amortisation is recorded as interest income/expenses by using effective interest method.

Trade receivables Trade receivables are initially recorded at fair value plus transaction costs. Trade receivables are subsequently carried at amortised cost using the effective interest method less impairment provision. A provision for impairment of trade 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 receivables. Presented below are indicators of the trade receivables impairment:

- any portion of the receivable 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 Company obtains,
- the counterparty considers bankruptcy or a financial reorganisation,
- there is 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,
- the value of collateral, significantly decreases as a result of deteriorating market conditions.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Carrying amount of an asset is decreased against the provisions account and the loss amount is recognised in profit or loss for the year within general and administrative expenses. Uncollectable trade receivables are written off against the trade receivables provisions. The amount of recovered loss is recognised in profit or loss for the year within general and administrative expenses.

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in other non-current assets.

Prepayments. Prepayment is recognised in the group financial statements at cost less provision for impairment. Prepayments paid to suppliers for future supplies of property, plant and equipment are presented within other non-current assets. Prepayments for future supplies of inventories are presented within other current assets. Foreign currency denominated prepayments for goods and services represent the nonmonetary items, and accordingly, are stated at the exchange rate at the prepayment date, and are not subject to revaluation at the reporting date. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly, and a corresponding impairment loss is recognised in profit or loss for the year.

Provision for assets retirement obligations Asset retirement obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Retirement costs include landfill site restoration and closure (dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas).

Provisions for estimated costs of restoration, reclamation and rehabilitation works are provided for and recognised in the cost of property, plant and equipment in the accounting period when the obligation arose, based on the net present value of estimated future costs.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

2. Basis of Preparation and Significant Accounting Policies (continued)

Provisions for assets retirement obligation 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, and are subject to formal review at regular intervals.

The Group estimates their costs based on feasibility and engineering studies using the current technical restoration standards and techniques for conducting restoration and remediation works.

The amortisation or "unwinding" of the discount applied in establishing the net present value of provisions is charged to profit or loss for the year in each reporting period. The amortisation of the discount is shown as finance costs.

Other movements in the provisions for assets retirement obligation, resulting from new disturbance as a result of 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 reporting date and the cost is charged to the profit and loss for the year.

Borrowings Borrowings are initially recorded at fair value including transaction costs and subsequently measured at amortised cost using the effective interest method.

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

Capitalisation of borrowing costs Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualified assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009. Prior to 1 January 2009 all borrowing costs were expensed.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

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.

Operating leases 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.

Trade payables Trade payables are accrued when the counterparty performed its obligations under the contract. At initial recognition, the Group recognises trade payables at fair value. Subsequently trade payables are carried at amortised cost using the effective interest method.

Value added tax ("VAT") Value-added tax 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 unsettled at the reporting date is stated in the statement of financial position on a net basis.

Income taxes Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly to equity, in which case it is recognised 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 income or losses are based on estimates where the separate financial statements are authorised prior to the filing of the relevant tax return. Taxes, other than on income, are recorded within operating expenses.

KAZPHOSPHATE LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

2. Basis of Preparation and Significant Accounting Policies (continued)

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. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred tax balances are measured at corporate income profit tax rates enacted or substantively enacted at the reporting date 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 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's uncertain tax positions are reassessed by management at every reporting date. 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 reporting date 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 reporting date.

Accounting estimates and prior period errors Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. In accordance with the requirements of IAS8 material prior period errors are restated retrospectively.

Revenue recognition Revenues from sales of goods and services are measured at the fair value of the consideration received or receivable, except for trade discounts and VAT. Revenues are recognised at the point of transfer of risks and rewards of ownership of the goods to a buyer normally when the goods are shipped.

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.

Revenue from services is recognised in the same reporting period in which the service is performed by applying the proportion of actual services performed to date from total services to be provided under the contract. Interest income is recognised over the finance period using the effective interest rate method.

Barter transactions Some purchase transactions are performed through non-cash barter transactions. Usually these transactions imply mixed goods exchange with ultimate customers.

Purchase transactions to be paid using non-cash barter are recognized based on the managements' estimate of fair value of the asset which will be received or transferred as a result of non-cash settlement. The fair value is determined on the basis of open market information. Non cash transactions are not included in the statement of cash flows.

Payroll expense and related contributions Wages, salaries, social tax 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.

Employee benefits The Group provides the long term employee benefits to employees before, on and after retirement. The agreement provides for one-off retirement payments, financial aid for employees' disability, significant anniversaries and funeral aid to the Group's employees. The entitlement to some benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. Such benefits are valued consistently with an unfunded defined benefit plan in accordance with IAS 19 Employee Benefits.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

2. Basis of Preparation and Significant Accounting Policies (continued)

The expected costs of the benefits associated with one-off retirement payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans. For defined benefit post-employment plans, the difference between the fair value of the plan assets (if any) and the present value of the defined liabilities obligations is recognised as an asset or liability on the statement of financial position. The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually using the projected unit credit method. Actuarial gains and losses arising in the year are taken to other comprehensive income. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred.

The most significant assumptions used in accounting for given long-term benefits are the discount rate and average labour turnover rate assumptions. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to the profit or loss for the year as interest cost.

Employee benefits other than one-off retirement payments are considered as other long-term employee benefits. The entitlement to these benefits is usually conditional on the completion of a minimum service period. The expected cost of these benefits is accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans.

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.

Finance income and costs Finance income and costs comprise interest expense on borrowings and loans payable, deposits, interest income/expense from unwinding of discount on provision for asset retirement obligations and on other financial assets and liabilities, net foreign currency gains/(loss) related with borrowings.

Share capital. Assets contributed to share capital are recognised at fair value as the contribution date. Any excess of the asset fair value over the nominal value of the share capital contribution at the legal registration date is credited directly to equity as share premium.

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3. Critical Accounting Estimates and Judgements 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 period includes

- Useful lives of property, plant and equipment,
- Employee benefits,
- Provisions for site restoration,
- Impairment of property, plant and equipment,
- Transactions with related parties,
- Land revaluation,
- Determination of functional currency,
- Fair value of financial instruments,
- Deferred tax assets
- Valuation of mining rights
- Carrying value of goodwill

Useful lives of property, plant and equipment. The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution 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.

Employee benefits. The most significant assumptions applied for accounting of these long-term liabilities are discount rate and estimated staff turnover. The discount rate is used to determine a present value of the benefit obligation of future liabilities, and each year unwinding of discount for such liabilities is recognised in the statement of comprehensive income as interest expenses. The assumption on staff turnover is used to forecast future benefit payment flow which is discounted to receive a present value of the benefit obligation of liabilities.

Provisions for assets retirement obligation. In accordance with the environmental legislation and contracts on subsurface use, the Group has a legal obligation to remediate damage caused to the environment from its operations and to decommission its assets and restore a landfill site after its closure. Provision is made based on net present values for site restoration and rehabilitation costs as soon as the obligation arises from past activities. The provision for assets retirement obligation is estimated based on the Group's interpretation of current environmental legislation and the Group's related program for liquidation of subsurface use consequences on the contractual territory and other operations supported by the feasibility study and engineering researches in accordance with the existing rehabilitation standards and techniques. Provisions for assets retirement obligations are subject to potential changes in environmental regulatory requirements and the interpretation of the legislation. Provisions for assets retirement obligations are recognised when there is a certainty of incurring those and when it is possible to measure the amounts reliably.

As at 31 December 2010, the carrying amount of the provision for restoration of phosphoric ore fields was US dollars \$3,225 thousand (2009 US\$ 2,840 thousand), the carrying amount of the provision for restoration of groundwater fields was US dollars \$68 thousand (2009 US\$ 63 thousand).

Impairment of property, plant and equipment. In accordance with IAS 36 "Impairment of Assets", the Group reviewed the carrying amount of property, plant and equipment to determine the existence of any indications of impairment of such assets. The global financial recession was considered by the management as the factor of impairment of property, plant and equipment. Accordingly, as at 31 December 2010 the carrying amount and estimated recoverable amount of the Company's property, plant and equipment was reviewed.

KAZPHOSPHATE LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies (continued)

To determine the discounted future cash flows, the Group's strategic planning models have been used (applying the value in use method, as identified in accordance with IFRS) and thus, the Group assessed the possibility for recovery of the carrying amount of the property, plant and equipment. These models were prepared on the basis of the terms of phosphoric ore subsurface use contracts, since such periods correctly reflect the long-term nature of the Group's assets.

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. Judgment 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 judgment is pricing for similar types of transactions with unrelated parties.

Land revaluation. Land owned by the Group is stated at fair value based on reports prepared by an international valuation company. Due to the nature of the land, the fair value of the land is estimated based on comparable market data. The principal assumption underlying the estimation of the fair value is that related to the adjustments to the size of land plots.

Determination of functional currency. The functional currency of the Group is the currency of the primary economic environment in which the entity operates. The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity's management considers various factors in determining its functional currency: (i) the currency that dominates the determination of the sales price, (ii) the currency that most influences operating costs, (iii) the currency in which an entity's financing is denominated, (iv) considerations of the autonomy of a foreign operation from the reporting entity and the level of transactions between the two, as well as other factors as required by IAS 21.

When the above indicators are mixed and the functional currency is not obvious, management uses its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. Management gives priority to the currency most affecting sales prices and operating costs before considering the currency most relevant to the financing of an entity and the degree of autonomy and independence. The latter factors are designed to provide additional supporting evidence in determining an entity's functional currency.

An analysis of the functional currency showed that the functional currency of the Group is US dollars. Indicators for determining functional currency are mixed for the Group. However, management applied judgment and has chosen US dollars as the functional currency because certain sales, significant portion of capital expenditures and operation expenditures and some debt sources are denominated in US dollars. Management believes that the US dollar most appropriately reflects the currency with the most influence over the Group's operations.

Fair value of financial instruments. The management of the Group uses its judgment to select a variety of methods and verify assumptions that are mainly based on market conditions existing at each reporting date in determining the fair value of the Group's financial instruments.

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 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.

Mining rights. Mining rights represent subsoil contracts between Kazphosphate LLC and the government of the Republic of Kazakhstan. These give Kazphosphate LLC mineral extraction rights which are for a set period. These are intangible assets recognised in the consolidated financial statements on the basis of an independent valuation report by Deloitte LLP Kazakhstan and are amortised over the average length of the entitled extraction period of 15 years.

Goodwill. This is reviewed annually for indications of impairment with any impairment losses recognised in profit or loss. No impairment was recognised in respect of Goodwill during the current period.

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4 New Accounting Pronouncements

(a) Standards, amendments and interpretations effective from 1 January 2010

IFRIC 17, Distribution of Non-Cash Assets to Owners The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognized. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the undistributed non-cash assets will be recognized in the statement of comprehensive income when the entity settles the dividend payable. IFRIC 17 does not have any impact on this financial statement.

IFRIC 18, Transfers of Assets from Customers The interpretation clarifies the accounting for transfers of assets from customers, namely the circumstances in which the definition of an asset is met, the recognition of the asset and the measurement of its cost on initial recognition, the identification of the separately identifiable services (one or more services in exchange for the transferred asset), the recognition of revenue, and the accounting for transfers of cash from customers. This interpretation did not have any impact on this financial statement.

IAS 27 (Revised), Consolidated and Separate Financial Statements The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary.

At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value.

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 previous 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 remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize 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 recognized as expenses rather than included in goodwill. An acquirer has to recognize a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognized 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 revised IFRS 3 did not have a material impact on these financial statements.

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 recognized 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 or 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 (1) to include in its scope option contracts that could result in business combinations, (2) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (3) 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 for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the Annual Improvements to International Financial Reporting Standards, which were issued in May 2008, are

KAZPHOSPHATE LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

4. New Accounting Pronouncements (continued)

effective for annual periods beginning on or after 1 July 2009. The amendments did not have a material impact on these financial statements.

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

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Company has not early adopted.

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.

IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- 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 amortized 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.
- An instrument is subsequently measured at amortized cost only if it is a debt instrument and both (1) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (2) 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.
- 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 recognize unrealized and realized 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 present in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Company is considering the implication of the standard, the impact on the Company and the timing of its adoption by the Company.

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. The Group does not expect the amendments to have any material effect on its financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognized in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Company does not expect IFRIC 19 to have any material effect on its 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 (1) 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, (2) 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 (3) 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 (1) 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.

KAZPHOSPHATE LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

4. New Accounting Pronouncements (continued)

interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (2) to provide guidance on a acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (3) 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 (1) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (2) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (3) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (4) 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 Company does not expect the amendments to have any material effect on its financial statements

Disclosures-Transfers of Financial Assets- Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011) The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognized but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Company is currently assessing the impact of the amended standard on disclosures in its financial statements

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Company's financial statements

KAZPHOSPHATE LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

5. Company Investments

<i>In thousands of US dollars</i>	Shares in subsidiary undertakings
Cost	
Balance at 1 January 2010	141,096
Additions	-
Balance at 31 December 2010	141,096
Carrying amount	
At 31 December 2010	141,096
At 31 December 2009	141,096

The Company's investments at the balance sheet date in the share capital of companies are as follows

Company name	Country of incorporation	Nature of business	Class of shares	Holding %
InterTherm B V	Netherlands	Holding company	Ordinary	100
Energotherm B V	Netherlands	Holding company	Ordinary	100

The Company also has an indirect shareholding in the following companies

Company name	Country of incorporation	Nature of business	Class of shares	Holding %
Kazphosphate LLC	Kazakhstan	Mining and chemical production	Ordinary	100
Lamberto LLC	Kazakhstan	Crop protection manufacturing	Ordinary	100
NitroPhos LLC	Kazakhstan	Production of industrial explosives and drilling	Ordinary	49
ChemFos LLC	Kazakhstan	Exploration and processing of raw minerals	Ordinary	70
Agrochimiya LLC	Kazakhstan	Pesticide and fertilizer production	Ordinary	50

6. Company called up share capital

Allotted and issued:

Number	Class	Nominal value	2010 \$'000	2009 \$'000
50,000	Ordinary share	£1	98	98

As at 31 December 2010 the Company was owed US\$ 58 thousand (2009 US\$ 60 thousand) in relation to unpaid share capital, which is included in trade and other receivables

The Group's ultimate controlling parties are the trustees of the Balliana Family Trust by virtue of their majority shareholding in the Company

KAZPHOSPHATE LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

7 Employee Information

The Group's total staff costs (including directors) were

<i>In thousands of US dollars</i>	2010	2009
Wages and salaries, other bonuses and related expenses	31,063	31,303
Post-employment benefits and other long-term benefits	(278)	395
Total staff costs	30,785	31,698

The average number of employees for the period was 5,858 (2009 6,171)

Production	????	5,752
Distribution	????	26
Administration	????	393
Total	5,858	6,171

The directors of Kazphosphate Limited did not receive any remuneration from the Company during the current period

8. Balances and Transactions with Related Parties

Parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence 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 nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2010 and 2009 are detailed below.

<i>In thousands of US dollars</i>	Note	Entities under common control 2010	Entities under common control 2009
Loans receivable	14	2,745	2,763
Restricted cash, non-current (Delta Bank)		96	79
Wages, salaries and short-term benefits payable		-	3
Borrowings, (Kennon Finance Limited)		123,337	123,337
Borrowings, (Drewes Management Limited)		9,418	9,418

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

<i>In thousands of US dollars</i>	Entities under common control 2010	Entities under common control 2009
General and administrative expenses	44	49
Finance income (interest income)	3	572
Finance cost (interest expense)	4	38

The key management compensation in 2010 and 2009 was included within general and administrative expenses. The total key management compensation cost for the year was as follows

<i>In thousands of US dollars</i>	2010	2009
Wages, salaries, other bonuses and related expenses	294	286
Total key management compensation	294	286

KAZPHOSPHATE LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

9. Property, Plant and Equipment

GROUP

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

<i>In thousands of US Dollars</i>	Land	Buildings and constructions	Machinery and equipment	Other assets	Construction in progress	Total
Cost or revalued amount at 1 January 2009	213,818	235,843	115,970	23,999	7,327	596,957
Additions	-	-	-	-	16,436	16,436
Disposals	-	(2)	(102)	(4)	(1)	(109)
Transfers	-	1,661	7,393	6,417	(15,471)	-
Revaluation (Impairment)/Reversal of impairment	(100,972)	-	-	-	-	(100,972)
	-	(2)	-	-	177	175
Balance at 31 December 2009	112,846	237,500	123,261	30,412	8,468	512,487
Accumulated depreciation at 1 January 2009	-	14,856	24,711	4,128	2,028	45,723
Depreciation	-	14,271	11,504	2,321	(2,028)	26,068
Disposals	-	(29)	(292)	(9)	-	(330)
Accumulated depreciation at 31 December 2009	-	29,098	35,923	6,440	-	71,461
Cost or revalued amount at 1 January 2010	112,846	237,500	123,261	30,412	8,468	512,487
Additions	51	5	91	1	8,557	8,705
Disposals	(24)	(13)	(107)	(187)	(47)	(378)
Transfer	-	3,492	4,063	1,588	(9,143)	-
(Impairments)/Reversal of impairments	-	(452)	(92)	(3)	(374)	(921)
Balance at 31 December 2010	112,873	240,532	127,216	31,811	7,461	519,893
Accumulated depreciation at 1 January 2010	-	29,098	35,923	6,440	-	71,461
Depreciation	-	13,840	12,277	2,793	-	28,910
Disposals	-	(13)	(105)	(116)	-	(234)
Transfers	-	(8)	(556)	564	-	-
Accumulated depreciation at 31 December 2010	-	42,917	47,539	9,681	-	100,137
Carrying amount at 31 December 2010	112,873	197,615	79,677	22,130	7,461	419,756
Carrying amount at 31 December 2009	112,846	208,402	87,338	23,972	8,468	441,026

Depreciation charge

<i>In thousands of US dollars</i>	Note	2010	2009
Cost of sales	23	9,256	8,775
Work in progress and Finished goods		15,368	13,605
General and administrative expenses	26	1,333	1,726
Distribution costs	25	2,953	1,962
Total depreciation		28,910	24,709

KAZPHOSPHATE LIMITED**NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010****9. Property, Plant and Equipment (Continued)**

Additions of property, plant and equipment during 2010 were US \$8,705 thousand (2009 US \$16,436 thousand) and represent purchases in accordance with the Group's investment program focused on production capacity maintenance and equipment replacement, as well as current production modernization

As at 31 December 2009 land, buildings, machinery and equipment carried at US \$17,305 thousand (2009 US \$12,427 thousand) have been pledged as collateral for borrowings received from HSBC Bank Kazakhstan SC JSC, Alfa-Bank SB JSC and Development Bank of Kazakhstan JSC

COMPANY

In thousands of US dollars

Cost/Valuation

Balance at 1 January 2009

77

Impairments

(3)

Balance at 31 December 2009

74

Balance at 1 January 2010

74

Disposals

(2)

Balance at 31 December 2010

72

Depreciation

Balance at 1 January 2009

21

Depreciation charge

10

Balance at 31 December 2009

31

Balance at 1 January 2010

31

Depreciation charge

9

Balance at 31 December 2010

40

Net book value

At 31 December 2010

32

At 31 December 2009

43

KAZPHOSPHATE LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

10. Intangible Assets

GROUP

The movements in the cost of intangible assets are presented below

In thousands of US dollars

	Software	Licenses and Other	Mining rights	Rent entitlements	Total
Historical cost/Valuation					
Balance at 1 January 2009	527	148	74,464	1,701	76,840
Additions	47	821	-	-	868
Disposals	(8)	-	-	-	(8)
Balance at 31 December 2009	566	969	74,464	1,701	77,700
Additions	7	2	-	-	9
Disposals	(2)	-	-	-	(2)
Balance at 31 December 2010	571	971	74,464	1,701	77,707
Amortisation					
Balance at 1 January 2009	71	84	4,964	170	5,289
Amortisation	82	26	4,964	170	5,242
Disposals	(6)	-	-	-	(6)
Balance at 31 December 2009	147	110	9,928	340	10,525
Amortisation	85	127	4,964	170	5,346
Disposals	(1)	-	-	-	(1)
Balance at 31 December 2010	231	237	14,892	510	15,870
Net carrying amount					
At 31 December 2010	340	734	59,572	1,191	61,837
At 31 December 2009	419	859	64,536	1,361	67,175

Software includes capitalized costs of purchasing the ERP SAP program with the right of use and other goods that are required for Group's operational activities

Amortisation of US \$5,346 thousand (2009 US \$5,242 thousand) has been charged to general and administrative expenses

As at 31 December 2010 other intangible assets include capitalized costs on social program financing on the amount of US \$681 thousand (2009 US \$770 thousand) according to the phosphoric ore and ground water extraction contracts

11. Other Non-current Assets

Other non-current assets represent prepayments on purchased property, plant and equipment and services rendered for increase in property, plant and equipment cost. Prepayments mainly relate to the Group's investment projects, such as construction of a workshop for the production of sulphuric acid, granulated sodium triphosphate and edible phosphoric acid.

Restricted cash

In accordance with contractual terms, Kazphosphate LLC transfers cash to a long-term bank deposit account to finance site restoration in future. At 31 December 2010, the total balance on special deposit was US\$ 96 thousand. The effective interest rate on this cash during 2010 was 4.1% (2009 4.1%).

KAZPHOSPHATE LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

12. Inventories

<i>In thousands of US dollars</i>	2010	2009
Raw materials	19,155	25,256
Work in progress	18,529	16,437
Finished products	15,041	16,147
Goods for resale	7,759	4,966
Goods in transit	285	-
Less provisions for obsolete and slow-moving inventory	(4,282)	(5,016)
Total inventories	56,487	57,790

Inventories expensed in the year of US\$ 85,947 thousand (2009 US\$ 85,947 thousand) and charged to cost of sales

Finished products in the amount of US\$ 5,257 thousand (2009 US\$ 4,449 thousand) have been pledged as collateral for borrowings with HSBC Bank Kazakhstan

Analysis of movements in provision for obsolete and slow-moving inventory

<i>In thousands of US dollars</i>	2010	2009
Balance at 1 January	(5,016)	(5,466)
Provision made during the year	(825)	(270)
Amounts written off during the year	1,559	720
Balance 31 December	(4,282)	(5,016)

13 Trade and Other Receivables

GROUP

<i>In thousands of US dollars</i>	2010	2009
Financial assets		
Trade receivables	20,496	18,301
Less provision for impairment loss	(2,286)	(3,536)
Total financial assets	18,210	14,765
Non-financial assets		
Other receivables	4,939	193
Less provision for impairment loss	(687)	(53)
Total non-financial assets	4,252	140
Total trade and other receivables	22,462	14,905

KAZPHOSPHATE LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

13 Trade and Other Receivables (continued)

The ageing analysis of trade receivables classified as financial assets as of 31 December 2009 and 31 December 2010 is as follows

<i>In thousands of US dollars</i>	2010	2009
Current and not impaired	9,135	3,519
<i>Past due but not impaired</i>		
- 30 to 90 days overdue	6,194	3,300
- 90 to 180 days overdue	780	2,531
- 180 to 360 days overdue	1,916	5,004
- over 360 days overdue	185	-
Total past due but not impaired	9,075	10,835
<i>Individually determined to be impaired (gross)</i>		
- 360 days overdue	356	3,946
- over 360 days overdue	1,930	1
Total individually impaired	2,286	3,947
Total trade receivables	20,496	18,301
Less impairment loss provision	(2,286)	(3,536)
Total trade receivables, net	18,210	14,765

Trade receivables that are current and not impaired represent debtors with good quality credit history and good reputation and low risk of default of payments

Analysis of movements in the impairment loss provision for trade and other receivables

<i>In thousands of US dollars</i>	2010	2009
Balance at 1 January	(3,589)	(1,056)
Provision made during the year	1,246	(3,649)
Decrease/ (increase) in provision during the year	(630)	1,116
Balance 31 December	(2,973)	(3,589)

The carrying amounts of the Group's trade receivables are denominated in the following currencies

<i>In thousands of US dollars</i>	2010	2009
US Dollars	11,818	7,716
Tenge	1,717	3,011
Russian Rubles	4,675	4,038
Total trade and other receivables	18,210	14,765

As at 31 December 2010, current and future trade receivables in the amount of US\$ 45,397 thousand (2009 US\$ 9,082 thousand) have been pledged as collateral for borrowings from JSC SB HSBC Bank Kazakhstan and SB JSC Alfa-Bank

COMPANY

<i>In thousands of US dollars</i>	2010	2009
Other receivables	-	23
VAT	-	19
Called up share capital not paid	58	60
Total trade and other receivables	58	102

KAZPHOSPHATE LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

14. Loans Receivable

In accordance with the loan agreements all loans receivable by the Group as at 31 December 2010 and 31 December 2009 are interest free with maturities of less than one year. The carrying amount and fair value of the loans receivables are as follows

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
<i>In thousands of US dollars</i>				
Company Daryn LLP	2,745	2,745	2,855	2,855
Kant JSC	-	-	382	382
Total loans receivable	2,745	2,745	3,237	3,237

Loans receivable represents debt of companies without a credit rating, but their reliability is determined by the Group based on long-term cooperation with these companies and their good credit history. The loan receivable from Daryn LLP is denominated in Kazakh Tenge.

15. Taxes Receivable

	2010	2009
<i>In thousands of US dollars</i>		
VAT refund	4,485	6,502
Other	497	174
Total taxes receivable	4,982	6,676

The VAT refund represents a current asset of input VAT resulting from purchase of goods and services in the Republic of Kazakhstan. Since 2009 on a quarterly basis, the Group's subsidiary Kazphosphate LLC arranges for recover of input VAT under the simplified scheme. In 2010 Almaty City Medeu District Tax Department conducted a tax audit in relation to the accuracy of the VAT assessments and payments for the reporting periods in 2009 and the first half of 2010. Based on this audit, no significant additional tax amounts have been assessed by the state tax authorities. Group management believe that the VAT will be fully refunded during 2011, accordingly, the VAT refund is classified as a current asset.

16. Cash and Cash Equivalents

GROUP

	2010	2009
<i>In thousands of US dollars</i>		
Cash in bank, USD	-	749
Cash in bank, Tenge	277	46
Cash in bank, RR	93	19
Cash in bank, GBP	24	2
Cash on hand	18	12
Total cash and cash equivalents	412	828

COMPANY

	2010	2009
<i>In thousands of US dollars</i>		
Cash in bank, GBP	24	2
Total cash and cash equivalents	24	2

KAZPHOSPHATE LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

17. Borrowings

GROUP

The carrying amount and fair value of borrowing are as follow

<i>In thousands of US dollars</i>	Carrying amount		Fair Value	
	2010	2009	2010	2009
Kennon Finance Limited	123,337	123,337	123,337	123,337
Drewes Management Limited	9,418	9,418	9,418	9,418
HSBC	30,582	22,592	30,582	22,592
Development Bank of Kazakhstan	-	17,206	-	17,206
Alfa-Bank	9,360	1,803	9,360	1,803
Total borrowings	172,697	174,356	172,697	174,356

HSBC. On 25 November 2009, the Kazphosphate LLC, a subsidiary of the parent company, entered into a credit facility agreement with HSBC Bank Kazakhstan SB JSC ("HSBC"), the total amount of credit available being US dollars 40,000 thousand with maturity up to 25 May 2011. The purpose of this credit facility is working capital financing required during normal course of the Company's operations.

The credit facility is secured against property, plant and equipments and trade receivables from sale of yellow phosphorus under the contracts signed between the Group and Fosfa Akciova Spoleconst, Ciech S A, ICL-IP Bitterfeld GmbH, PCC Rokita S A, Reckitt Benckiser Production Sp Zoo.

Kazphosphate LLC has certain restrictive covenants related to the short-term loans provided under the credit facility agreement with HSBC. Restrictive covenants require compliance with certain financial indicators including profitability ratio and financial leverage. As of 31 December 2010 and 31 December 2009 Kazphosphate LLC was in compliance with the restrictive covenants.

Alfa Bank On 22 October 2009, Kazphosphate LLC entered into a credit facility agreement with Alfa-Bank SB JSC in the total amount of Kazakhstan, Tenge 1,500,000 thousand with maturity up to 22 October 2012. The purpose of this credit line is working capital financing.

Credit facility is secured against Kazphosphate LLC's property, plant and equipments and trade receivables from sale of sodium tripolyphosphate, tricalcium phosphate and thermal phosphoric acid under the contracts signed between Kazphosphate LLC and Argo LLC, Riteks P LLC, Eurasia Holding LLC, Vinnicabythim JSC, Business Alliance LLC and other entities.

Development Bank of Kazakhstan. In June 2010, all loans from Development Bank of Kazakhstan JSC have been repaid in full.

Kennon Finance Limited & Drewes Management Limited, the amounts owed to these companies by Kazphosphate Limited, represent unsecured loans and have no fixed repayment date. Kennon Finance Limited and Drewes Management Limited are related parties to Kazphosphate Limited by virtue of common ownership.

KAZPHOSPHATE LIMITED
NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

17. Borrowings (continued)

The Group's borrowings are denominated in currencies as follow

<i>In thousands of US dollars</i>		2010	2009
Loans denominated in	- US dollar	166,637	172,553
	- Tenge	6,060	1,803
Total borrowings		172,697	174,356

Nominal interest rates at the reporting date were as follows

<i>In percentage</i>	2010	2009
HSBC	10	10
Development Bank of Kazakhstan	-	10-13
Alfa-Bank	9.5-12	12

COMPANY

The carrying amount and fair value of borrowing are as follow

<i>In thousands of US dollars</i>	Carrying amount		Fair Value	
	2010	2009	2010	2009
Kennon Finance Limited	123,337	123,337	123,337	123,337
Drewes Management Limited	9,418	9,418	9,418	9,418
Kazphosphate LLC	8,829	8,584	8,829	8,584
Total borrowings	141,584	141,339	141,584	141,339

18. Other Taxes Payable

<i>In thousands of US dollars</i>	2010	2009
Minerals extraction tax (royalty in 2008)	913	482
Environmental emission payments	507	356
Social tax	111	131
Individual income tax	100	129
Payable to social fund	3	71
Corporate withholding tax	153	3
VAT	96	101
Customs fee	117	-
Other	7	3
Total other taxes payable	2,007	1,276

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

19. Provisions for Asset Retirement Obligations

The Group's site restoration obligations in respect of GPK Karatau and GPK Chulaktau ("Mining assets") are provided by the subsurface use contracts ("Contract") signed between Kazphosphate LLC and the Government of the Republic of Kazakhstan. The Group has a legal obligation to landfill site restoration during the mining operations and decommissioning of its assets after its expected closure of the Mining assets.

In April 2009, the Group entered into two contracts for groundwater extraction and use at the territory of its branches NDPH and MU. These two contracts are valid for 25 years and include a provision for site restoration after the Contract expiry date.

In 2008 the Group engaged an independent third party to evaluate future costs for landfill site restoration as at 31 December 2007 in relation to site and infrastructure development built after the commencement of the Contract. The Group is not responsible for site restoration and infrastructure dismantling assets existing before the commencement of the Contract. Significant expenses are expected to be incurred in 2015 at the Contract expiry date. In accordance with valuation conducted by independent experts, the total future costs for equipment decommissioning and site restoration after the Contract expiry date was estimated US\$ 4,242 thousand. Future estimated cash outflows for site restoration purposes were discounted at the rate of 14% and inflation rate of 8% based on the average rates on long-term securities of the Ministry of Finance of the Republic of Kazakhstan (MUIKAM yield rate of 14.28 percent according to information bulletin of the National Bank of the Republic of Kazakhstan) and weighted average inflation rate of 8 percent. Discount unwinding is recognized as interest expense in the statement of comprehensive income within finance costs.

Mining asset retirement and restoration obligations at 31 December 2010 and 2009 are estimated at a discount rate of 14% and inflation rate of 8% based on the average rates on the long-term securities of the Ministry of Finance of the Republic of Kazakhstan (MUIKAM yield rate of 14.28 percent according to the information bulletin of the National Bank of the Republic of Kazakhstan) and weighted average inflation of 8%.

In accordance with the contractual terms, Kazphosphate LLC is required to make payments to a liquidation fund regulated by the government of the Republic of Kazakhstan, and the payments are calculated as 0.1 percent of its operating costs. In accordance with contractual terms, Kazphosphate LLC transfers cash to a long-term bank deposit account to finance site restoration in future. At 31 December 2010, the total balance on special deposit was US\$ 96 thousand (2009 US\$ 79 thousand).

Valued mining asset liquidation and site restoration obligations should be settled at the end of the useful life of each field varying from 2015-2017. Obligations on groundwater wells should be settled after the Contract expiry date in 2034.

Movements in provisions for site restoration obligations are as follows:

<i>In thousands of US dollars</i>	Ore fields	Groundwater wells	Total
Carrying amount at 31 December 2008	3,000	-	3,000
Additions to estimated assets	-	63	63
Currency translation	(510)	-	(510)
Unwinding of the present value discount	350	-	350
Carrying amount at 31 December 2009	2,840	63	2,903
Additions to estimated assets	-	-	-
Currency translation	(18)	-	(18)
Unwinding of the present value discount	403	5	408
Carrying amount at 31 December 2010	3,225	68	3,293

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

20. Employee Benefits

<i>In thousands of US dollars</i>	2010	2009
Short-term portion of employee benefits	81	62
Long-term portion of employee benefits	637	981
Total employee benefits	718	1,043
Changes in the benefit obligations are as follows		
<i>In thousands of US dollars</i>	2010	2009
Present value of defined benefit obligation at the beginning of the year	1,043	718
Benefits paid	(60)	(70)
Current service expenses	60	70
Actuarial losses/(gains)	(338)	325
Discount unwinding expense	20	-
Currency translation	(7)	-
Present value of defined benefit obligation at end of year	718	1,043
Amounts recognised in the statement of financial position and profit or loss for the year is as follows		
<i>In thousands of US dollars</i>	2010	2009
Present value of defined benefit obligation at end of year	718	1,043
Net liability	718	1,043
Interest expense	20	-
Current service expenses	60	70
Actuarial losses/(profit)	(338)	325
Expense recognised in profit or loss for the year	(258)	395
Current service expenses were included in the statement of comprehensive income as part of general and administrative expenses. Actuarial gains were recognised in other comprehensive income		
<i>In thousands of US dollars</i>	2010	2009
Cumulative amount of actuarial gains/losses recognised in other comprehensive income	705	1,043
Principal actuarial assumptions at the reporting date are as follows		
<i>In percentage</i>	2010	2009
Discount rate at 31 December	7.9	8.9
Average labour turnover rate at 31 December	14.5	16.8
Future salary increases at 31 December	7.5	7.8

In 2010 the Group engaged an independent actuary R. M. Khaliyeva (actuarial license No4 dated 28 November 2001 issued by the National Bank of the Republic of Kazakhstan), and all employee benefit obligations as at the end of 2010 were brought into line with the actuarial report. The employee benefits obligation was assessed independently by the Group.

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20. Employee Benefits (continued)

Assumptions on future benefit increase represents expected increase in monthly calculation index (MCI) which is the basis for determining the amounts payable in accordance with the legislation of the Republic of Kazakhstan

In 2010 in employee benefit obligations the following changes occurred

- Changes in discount rates
- MCI is reconciled to the level established by the legislation of the Republic of Kazakhstan
- MCI is attached to the inflation rate
- Personnel turnover rate is changed based on actuarial assumptions

21. Trade and Other Payables

GROUP

<i>In thousands of US dollars</i>	2010	2009
<i>Financial liabilities</i>		
Trade payables	12,456	14,184
Total financial liabilities	12,456	14,184
<i>Non-financial liabilities</i>		
Payables to employees	1,721	1,502
Payables to pension funds	209	176
Prepayments received	2,776	-
Other payables	62	978
Total non-financial liabilities	4,768	2,656
Trade and other payables	17,224	16,840

Trade payables are denominated in the following currencies

<i>In thousands of US dollars</i>	2010	2009
Tenge	9,632	9,777
US Dollars	1,988	2,509
Russian ruble	142	1,366
Euro	674	461
Pounds Sterling	20	71
Total payables	12,456	14,184

COMPANY

<i>In thousands of US dollars</i>	2010	2009
Trade payables	20	71
Social security and other taxes	2	1
Total trade and other receivables	22	72

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22. Revenue

<i>In thousands of US Dollars</i>	2010	2009
Yellow phosphorus	112,205	68,348
Sodium tripolyphosphate	41,654	42,966
Ammophos	30,306	34,993
Phosphoric raws	14,158	8,709
Tricalcium phosphate	5,733	8,017
Thermal phosphoric acid	5,439	5,493
Inventories	1,137	2,115
Services	983	1,988
Granulated slag	4,108	978
RTC services	1,691	948
Ammonia water	563	288
Rent	575	242
Limestone	441	236
Superphosphate	388	230
Ferrophosphorus	276	222
Oxygen	150	158
Dolomite	10	123
Other products	30	69
Total revenue	219,847	176,123

An analysis of the Group's revenue by geographical market is given below

<i>In thousands of US dollars</i>	2010	2009
European Union and Switzerland	122,925	39,663
Commonwealth of Independent States (former USSR)	57,269	47,676
Kazakhstan	20,584	85,842
Asia	7,513	2,836
Americas	67	106
Other	11,489	-
Total revenue	219,847	176,123

23. Cost of Sales

<i>In thousands of US Dollars</i>	2010	2009
Raw materials	115,922	77,347
Electricity	26,380	23,042
Changes in inventories of finished goods and work in progress	9,885	8,600
Repair and maintenance	3,749	10,331
Payroll and related expenses	7,529	9,919
Depreciation	9,256	8,775
Provision for obsolete and slow moving inventory	825	270
Insurance cost	68	140
Total cost of sales	173,614	138,424

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24. Other Operating Income

<i>In thousands of US Dollars</i>	2010	2009
Liabilities write off	25	32
Gain on disposal of property plant and equipment	485	-
Other	218	168
Total other operating income	728	200

25. Distribution Costs

<i>In thousands of US Dollars</i>	2010	2009
Transportation services – export	24,144	14,647
Materials and repair	2,738	3,323
Payroll and related expense	2,415	2,307
Electricity	365	474
Depreciation	2,953	1,716
Information services	2	243
Business trips and representative expenses	321	240
Certification	94	107
Insurance	86	206
Communication expenses	68	61
Customs services	42	47
Advertising costs	30	24
Other	545	243
Total distribution costs	33,803	23,638

26 General and Administrative Expenses

<i>In thousands of US Dollars</i>	2010	2009
Payroll and related expenses	5,509	5,838
Production suspension expenses	1,550	4,820
Provision for impairment of trade and other receivables and advances given	(1,205)	3,649
Maintenance, repair and materials	826	1,273
Communication and IT expenses	327	898
Services of auxiliary shops	-	-
Taxes, other than income tax	627	838
Supervisory Board expenses	375	657
Business trips and representative expenses	521	615
Consulting services	635	605
Depreciation and amortisation	6,679	7,216
Bank charges	378	408
Utilities	168	384
Rent	376	408
Tax fines and penalties	54	285
Security services	315	273
Sponsorship and charity	203	135
Legal services	132	153
Insurance	123	32
Accountancy	77	101
Parent company and consolidated audit remuneration*	37	32
Other	1,177	361
Total general and administrative expenses	18,884	28,981

* Remuneration to the auditors' of subsidiaries is included within Consulting services

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27. Other Operating Expenses

<i>In thousands of US Dollars</i>	2010	2009
Losses on disposal of property, plant and equipment and on shortage of inventories	100	(15)
Other	40	125
Total other operating expenses	140	110

28. Finance Income and Costs

<i>In thousands of US Dollars</i>	2010	2009
<i>Finance income</i>		
Interest income on bank deposit	3	631
Foreign exchange gain from cash and cash equivalents	37	1,073
Foreign exchange gain from borrowings	718	834
Other interest income	341	29
Total finance income	1,099	2,567
<i>Finance costs</i>		
Foreign exchange loss from borrowings	(475)	(10,804)
Foreign exchange loss from cash and cash equivalents	(31)	(1,343)
Interest expense on borrowings	(4,814)	(5,765)
Asset retirement obligations unwinding of present value discount	(408)	(359)
Foreign exchange loss from interest expense	(3)	(167)
Total finance costs	(5,731)	(18,438)
Total finance costs, net	(4,632)	(15,871)

29. Income Tax

<i>In thousands of US Dollars</i>	2010	2009
Current income tax	(917)	1
Deferred income tax expense/(benefit)	(22,219)	(9409)
Income tax expense/(benefit)	23,136	(9408)

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29. Income Tax (continued)

Differences between IFRS and statutory taxation regulations gives rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their income 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 US dollars

	<u>2010</u>		<u>2009</u>
Profit/(loss) before income tax	(12,882)		(7,582)
Income tax (expense)/benefit at applicable tax rate	3,607	28%	2,123
Non-deductible/non-taxable items	(4,523)		(2,049)
Change in tax rate	-		(73)
Current tax (charge)/benefit	<u>(916)</u>		<u>1</u>

30. Group deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following none of which are concerned with the Company, only the other subsidiaries in the Group

	<u>Asset</u>		<u>Liabilities</u>		<u>Net</u>	
<i>In thousands of US dollars</i>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Property, plant and equipment	-	-	(61,857)	(43,387)	(61,857)	(43,387)
Intangible assets	-	-	(12,347)	(10,076)	(12,347)	(10,076)
Liquid fund (asset)	-	-	-	(209)	-	(209)
Trade and other receivables	-	114	-	-	-	114
Provisions	-	836	(249)	-	(249)	836
Employee benefits	35	44	-	-	35	44
Liquid fund	-	424	-	-	-	424
Other payables	137	652	-	-	137	652
Net tax assets/(liabilities)	172	2,070	(74,453)	(53,672)	(74,281)	(51,602)

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30. Group deferred tax assets and liabilities (continued)

<i>In thousands of US dollars</i>	Group 2010	Recognised in income	Recognised in equity	Group 2009
Property, plant and equipment	(61,857)	(18,470)	-	(43,387)
Intangible assets	(12,347)	(2,271)	-	(10,076)
Liquid fund (asset)	-	209	-	(209)
Trade and other receivables	-	(114)	-	114
Provisions	(249)	(1,085)	-	836
Employee benefits	35	(9)	-	44
Liquid fund	-	(424)	-	424
Other payables	137	(515)	-	652
	(74,281)	(22,679)	-	(51,602)

All temporary differences were recognised in the statement of comprehensive income

31. Contingencies, Commitments and Operating Risks

Political and economic situation in Kazakhstan. The Group's largest trading subsidiary Kazphosphate LLC operates in Kazakhstan. In general, the economy of the Country continues to display the characteristics of an emerging-market. These characteristics include, but are not limited to, the existence of a 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. The prospects for economic stability in Kazakhstan are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments, which are beyond the Group's control.

The financial condition and future operations of the Group may be adversely affected by continued economic difficulties related mainly to the current situation in the global financial markets. Management is unable to predict the extent and duration of the economic difficulties, nor quantify the impact, if any, on these financial statements.

Tax and transfer pricing legislation. Kazakh 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 Group may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group may be assessed for additional taxes, penalties and fines. Tax periods remain open to review by the Kazakh tax authorities for five years.

Whilst there is a risk that the Kazakh tax authorities may challenge the policies, including those relating to transfer pricing and excess profits tax legislation. The management believes that they would be successful in defending any such challenge and notes that the amount of potential claim of the tax authorities cannot be reliably estimated.

Accordingly, at 31 December 2010, the financial statements do not include any provisions for potential tax liabilities (2009: no provision).

In 2009 the tax authorities conducted a detailed tax audit on proper tax assessment and timely payment of taxes and other obligatory payments to the budget, including excess profit tax for years ended 31 December 2006, 2007 and 2008. Based on the results of the tax audit, no significant violations were identified.

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31. Contingencies, Commitments and Operating Risks (continued)

Changes in tax legislation On 10 December 2008 the President of Republic of Kazakhstan signed a new Tax Code and other legislative acts following the introduction of the new Tax Code, which came into force starting from 1 January 2009. During 2009 the government continued to introduce amendments to the Tax Code. The key changes made include replacement of the royalty by the mineral extraction tax with the increase in rates from 1.4 percent to 16.2 percent from 2009 till 2012 and up to 16.8 percent in 2013, up to 17 percent in 2014, reduction of the corporate income tax rates from 30 percent to 20 percent from 2009 till 2012, down to 17.5 percent in 2013, 15 percent in 2014, reduction of the VAT from 13 percent to 12 percent, introduction of the fixed social tax rate of 11 percent, increase in the property tax rate from 1 percent to 1.5 percent in relation to the taxable base, which includes only immovable property and cancellation of the property tax in relation to other property, change in the methodology of excess profit tax calculations, and other changes.

On 26 November 2010 the President of the Republic of Kazakhstan signed a law concerning the introduction of amendments into the tax code effective from 1 January 2011. The main amendments include the cancellation of the decrease of corporate income tax rate and fixing it at the level of 20% without any changes in subsequent periods.

Commitments under subsurface use contracts As a part of costs on the acquisition of subsurface use rights, the Group has a commitment to financing social programs which are beneficial for the Zhambyl region of Kazakhstan as a whole. The Group will not receive any direct benefit from such costs but they are obligatory in accordance with the provisions on acquisition of subsurface use rights. According to the addendums to the contracts for phosphoric ore, Kazphosphate LLC should annually pay Tenge 15,000 thousand until the contract expiry date for the development of Zhambyl region. Moreover, similar payments in the amount of Tenge 1,600 thousand are provided under the contracts for ground water production. These social costs were recognised as a part of acquisition costs and were capitalised, and relevant liabilities were recognised at present value of future social costs within the exploration and production period. As at 31 December 2010 the Group recognised current liabilities in the amount of US\$ 113 thousand (2009 US\$ 113 thousand) and non-current liabilities in the amount of US\$ 568 thousand (2009 US\$ 666 thousand).

According to the contracts for phosphoric ore Kazphosphate LLC makes payments for obligatory and voluntary social development programs. The costs on social development programs are expensed as incurred based on their occurrence. For the year ended 31 December 2010 and 31 December 2009 Kazphosphate LLC incurred the following costs in this respect: US\$ 1,016 thousand and US\$ 873 thousand, respectively.

According to the contracts for phosphoric ore extraction, Kazphosphate LLC is liable for financing staff professional training programs. Kazphosphate LLC is required to spend not less than 1% of its operating expenses for staff professional training programs on an annual basis. These costs are expensed as incurred.

Capital expenditure commitments. At 31 December 2010 the Group has contractual capital expenditure commitments on property, plant and equipment purchase totalling US\$ 7,762 thousand (2009 US\$ 773 thousand).

The Group believes that future net income and funding will be sufficient to cover this and any similar commitments.

Operating lease commitments Where the Group is a lessee, the future minimum lease payments under the non-cancellable operating leases are US\$ 27 thousand per month until October 2011.

<i>In thousands of US dollars</i>	2010	2009
Within one year	243	324
1 – 2 years	-	243
Total	243	567

Insurance policies The Group holds insurance policies in relation to the following risks:

- Insurance of property,
- Insurance of civil responsibility of employer for causing damage to life and health of employee during his/her work duties,
- Insurance of civil responsibility of employer for causing damage to environment,
- Insurance of civil responsibility of vehicles owners,
- Insurance of civil responsibility of property owners, operations which can cause damage to third parties.

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31. Contingencies, Commitments and Operating Risks (continued)

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 in the financial statements. Thus, due to adoption of the Ecology Code of the Republic of Kazakhstan, during 2008 the Group created a liquidation fund to provide for landfill site restoration and environmental monitoring upon closure. In addition to the liquidation fund, representing a special account for accumulation of funds, the Group accrued a provision for landfill site restoration obligations. The amount of the accrued provision for landfill site restoration obligations was based on management's best estimates of future costs which will be incurred by the Group for repayment of its current liabilities. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

The new Tax Code of the Republic of Kazakhstan is effective from 1 January 2009, whereby the emission payment rates are increased and levying procedure is updated.

Environmental protection management system ISO 14001 and quality management system ISO-9001 are implemented in NDPhZ and MU divisions. In 2009 the Group introduced a health and labour safety management system based on OHSAS 18001 and received a certificate of compliance with the standard effective until August 2011 (ISO-9001) and April 2013 (ISO-14001, OHSAS 18001).

The Group's management also developed and approved a number of policies on quality, environmental protection, health and labour safety, the main purposes of which are strict observance of requirements and expectations of consumers and other related parties on product quality, environmental pollution prevention, health and labour safety.

32. Financial Risk Management

Financial risk factors The Group's activities expose it to a variety of financial risks: market risk, (including foreign exchange risk), liquidity risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the Group's financial performance.

(a) Credit risk

Financial assets, which potentially subject the Group to credit risk, consist principally of trade receivables, loans receivable, cash and cash equivalents and restricted cash.

The Group has developed policies to ensure that sales of products and services are made to customers with an appropriate credit history and good reputation. Clients which do not meet the Group's solvency requirements may have transactions with the Group only on the terms of prepayments. Maximum credit risk exposure represents the current carrying value of trade receivables, loans receivable, cash and cash equivalents and restricted cash.

Cash is placed in financial institutions, which are considered at the time of deposit to have a minimal risk of default. Additionally, the Group analyses the external credit ratings of these financial institutions.

Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions for receivables impairment already recorded.

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32. Financial Risk Management (continued)

The table below shows the credit ratings as of 31 December 2010 and balances with banks and financial institutions where cash and cash equivalents and term deposits were placed as of 31 December 2010 and 31 December 2009

<i>In thousands of US dollars</i>	Rating	31 December 2010	31 December 2009
Cash and cash equivalents			
Kazkommertsbank JSC	B/ Stable/C (S&P)	33	818
BTA Bank JSC	B-/Stable/- (S&P)	19	2
Bank CenterCredit	B1/Negative (Moody's)	30	1
Halyk Bank of Kazakhstan JSC	B+/ Negative/B (S&P)	3	1
Development Bank of Kazakhstan JSC	BBB-/ Stable/A-3 (S&P)	-	1
HSBC Bank Kazakhstan SB JSC	BBB (Fitch)	5	1
HSBC Bank plc (UK)	AA (Fitch)	23	2
Alfa-Bank SB JSC	B+/ Positive/B (S&P)	279	1
Delta Bank OJSC	B/Stable (S&P)	3	1
Foreign exchange difference		17	-
Total cash and cash equivalents		412	828
Restricted cash			
Delta Bank OJSC, Almaty branch	B/Stable (S&P)	96	79
Total restricted cash		96	79

(b) Market risk

Foreign exchange risk Foreign exchange risk arises when future foreign currency inflows or recognized assets and liabilities are denominated in currency other than the Group's functional currency

The Group exports its products to European and CIS markets and attracts long-term borrowings and trades payable are denominated in foreign currency. As a result, the Group is exposed to foreign exchange risk. Production and processing costs are denominated in Kazakh Tenge, while a portion of the revenues are denominated in US dollars, Euro and Russian rubles. Thus, the Group is exposed to risk that changes in exchange rates affect both revenue and financial position.

The table below shows the total amount of foreign currency denominated assets and liabilities within Kazphosphate LLC being the only material balances that give rise to foreign exchange exposure at 31 December 2010 and 2009

At 31 December 2010						
<i>In thousands of US dollars</i>	Tenge	Russian ruble	US dollar	Euro	Pounds	Total
Financial assets	4,670	4,952	20,239	95	558	30,514
Financial liabilities	(16,519)	(142)	(35,985)	(674)	-	(53,320)
Net balance position	(11,849)	4,810	(15,746)	(579)	558	(22,806)
At 31 December 2009						
<i>In thousands of US dollars</i>	Tenge	Russian ruble	US dollar	Euro	Pounds	Total
Financial assets	6,181	3,994	16,642	50	349	27,217
Financial liabilities	(13,206)	(1,028)	(42,174)	(467)	-	(56,873)
Net balance position	(7,025)	2,966	(25,532)	(417)	-	(29,656)

The Group does not have any formal arrangements to mitigate the foreign exchange risks of the Group's operations

Price risk The Group is not exposed to equity securities price risk since it does not hold a portfolio of quoted equity securities

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32 Financial Risk Management (Continued)

Interest rate risk. The Group's revenues and operating cash flows take on exposure to the effects of market interest rates since interest rates on loans received from HSBC Bank Kazakhstan SB JSC, Alfa-Bank SB JSC and Development Bank of Kazakhstan JSC are fixed. At the same time, the Group is exposed to the changes in fair value related to interest rates.

The Group does not have any formal arrangements to analyse and mitigate interest rate risks.

Liabilities under which the effects of interest rate risks occurred at 31 December 2010 and 31 December 2009 are disclosed in Note 17.

(c) Liquidity risk Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. The Group's approach to liquidity management is to ensure the continuous and sufficient liquidity to meet the Group's liabilities as they fall due (both under standard and non-standard situations), preventing unacceptable losses or reputation damage.

Below is the information on contractual terms of financial liabilities settlement, including interest payments as of 31 December 2010 and 31 December 2009.

<i>In thousands of US dollars</i>	Carrying value	Cash flows under agreement	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Liabilities							
Borrowings	172,864	172,864	-	12,106	28,003	-	132,755
Trade and other payables*	17,224	17,224	-	17,224	-	-	-
Provision for social development	681	681	-	-	113	-	568
Total	190,769	190,769	-	29,330	28,116	-	133,323

<i>In thousands of US dollars</i>	Carrying value	Cash flows under agreement	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Liabilities							
Borrowings	174,623	174,623	1,586	5,372	26,665	-	141,000
Trade and other payables*	14,198	14,198	-	14,198	-	-	-
Provision for social development	779	993	-	-	-	-	880
Total	189,600	189,814	1,586	19,570	26,665	-	141,880

* Advances received, claim provisions, estimated liabilities, salaries payable are not included.

Capital risk 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. The Group monitors capital based on the gearing ratio. This ratio is assessed as net debt to the total amount of capital. Net debt is assessed as total debt amount (including short-term and long-term bank loans recorded in the statement of financial position) net of cash and cash equivalents and term deposits. The total amount of capital is assessed as the amount of equity recorded in the statement of financial position and net debt.

<i>In thousands of US dollars</i>	Note	2010	2009
Total loans		172,864	174,623
Less: Cash and cash equivalents	16	(412)	(828)
Net debt		172,452	173,795
Total own capital		300,782	347,726
Total capital		473,234	521,521
Financial leverage ratio		57%	33%

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33. Financial Instruments by Measurement Category

The accounting policies for financial instruments have been applied to line items below

In thousands of US dollars	2010	2009
<i>Loans and receivables</i>		
Restricted cash	96	79
Trade receivables	18,210	14,765
Loans receivable	2,745	3,237
Cash and cash equivalents	412	828
Long term receivables	18	37
Advances given	-	875
Total financial assets	21,481	19,821
<i>Other financial liabilities</i>		
Borrowings	172,697	174,356
Trade payables	12,456	14,184
Provision for social development of the region, non-current portion	568	666
Provision for social development of the region, current portion	113	113
Interest payable	167	267
Advances received	-	2,543
Income tax liability	255	125
Other taxes payable	2,007	1,276
Total financial liabilities	188,263	193,530

34 Fair Value of Financial Instruments

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, judgment 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.

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 credit risk of the counterparty. The carrying amounts of trade receivables, cash and cash equivalents, restricted cash and loans receivable approximate fair values due to their short term maturities.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Due to short maturities the carrying amount of trade payables and borrowings approximate their fair values.

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35 Subsequent events

In April 2011 HSBC Bank Kazakhstan and JSC ATF Bank signed an agreement with Kazphosphate LLC for the provision of a syndicated loan in the amount of US\$ 50 million for the construction of a sulphuric acid workshop on the basis of a mineral fertilizer plant. This project is implemented in accordance with the instructions of the President of the Republic of Kazakhstan, N.A. Nazarbayev within the chemical industry development program in the Republic of Kazakhstan. The implementation of this project will allow

- an increase in the productions of Kazakh fertilizers up to 600 tonnes per annum,
- to ensure the production of mineral fertilizers using internal electricity facilities up to 25 mW,
- to create jobs,
- to reduce the dependence on external suppliers of sulphuric acid,
- to reduce the cost of mineral fertilizers,
- to ensure 100% provision of Kazakh agricultural producers with the mineral fertilizers and to increase competitiveness in global markets,

As of the reporting date borrowings of US\$ 8 million were invested in the construction of the sulphuric acid production workshop.

In May 2011 an agreement was signed between Kazphosphate LLC and the Czech company Fosfa a.s. for the creation of a joint venture for production of sodium hexametaphosphate and other ammonia ferrous sulphates. The estimated production capacity of the producing plant is 5,000 tonnes per annum.

In June 2011 the Group decided to dispose of its 100% shareholding in the company Lamberto LLC.

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