KAZAKHSTAN KAGAZY PLC

International Financial Reporting Standards
Annual Report and Consolidated financial statements

31 December 2010

CONTENTS

Group highlights

REVENUE[1]	Reported Revenue 2010: USD 69.4mln 2009: USD 63.8mln	Underlying revenue[1] 2010: USD 53.3mln 2009: USD 44.0mln
PROFITABILITY	Total comprehensive loss 2010: USD (56.8)mln 2009: USD (349.5)mln Total comprehensive loss per share 2010: US cent (53) 2009: US cent (233)	EBITDA before exceptional items and revaluation [2] 2010: USD 4.8mln 2009: USD 1.2mln EBITDA before exceptional Items per share[2] 2010: US cent 4.6 2009: US cent 1
CASH	Net Increase/(Decrease) in cash 2010: USD 1.4 mln 2009: USD (55.3) mln Net cash per share 2010: US cent 1 2009: US cent (53)	Cash generated from operating activities 2010: USD 12.0 mln 2009: USD 7.7 mln Cash generated from/(used by) operating activities per share 2010: US cent 11.4 2009: US cent 7.3

[1] See note 5

[2] Defined as loss before tax, interest, depreciation and amortisation adjusted for exceptional items (see note 9)

Chairman's statement

2010 has been an extremely challenging and a year in which significant successes have been achieved.

At the start of the year I focused the company on three objectives.

The first was to continue with the transparent, thorough and constructive restructuring of our borrowings. This had to be undertaken in a difficult environment as there is no regulatory or legal framework in Kazakhstan to deal with financial restructuring of non-financial companies. I am glad to report that we have achieved significant progress, approximately 60% of our total debt portfolio and 100% of our bonds have been restructured[3]. We are proud to be the first non-financial company in Kazakhstan to achieve a restructuring of its bonds; this shows the confidence the major pension funds and insurance companies in Kazakhstan, our principal bondholders, have placed in the future of our company; I am confident that we will conclude our restructuring in 2011.

The second was to focus our management on profitability and cash generation. We have reduced administrative costs by 37.2%, consolidated production facilities, closed Kagazy Trading (which was operating only marginally profitably and was tying up working capital) and consistently increased prices in our Paper Business.

My third major aim was to prepare the company for growth by creating a strong management team. I have spent 2010 identifying the managers that can lead the company forward. I am very glad to have been able to promote a new generation – young and ambitious but at the same time experienced; our new senior management has spent an average of 7.5 years with the company - they will make the success of our company a reality.

Trading review

Our company has made great progress operationally and financially during the year. In 2010 Group revenues increased by 8.8% and Underlying Revenues[4] by 21.1%, Group EBITDA before exceptional items (see Note 9), which we see as the most appropriate measure of underlying performance is USD 4.8 million. Most importantly, net cash from operating activities increased by 56.2% to USD 12.0 million.

Sales and production volumes at our paper plant reached record levels in the last quarter of 2010 and overall, production of paper was up by 9% and corrugated production up by 24% compared with 2009. Prices were increased in the second half of the year by approximately 25% after more than a year of effectively flat prices; this will have a big impact upon our profitability going forward.

Our warehouses, which began the year with occupancy levels around 29% had great success in increasing occupancy and our Paragon facility is now 69% full and our Peak facility is 64% full. Our order book suggests that this will increase further during 2011. Container Terminal volumes were also much increased with average monthly container traffic growing by 20 %.

This is quite an achievement in what has remained a difficult market and at a time when much of the Group resource has been targeted at completing the Group's financial restructuring; it is a testament to the hard work and commitment of the Group's management and workforce. The full impact of the measures undertaken in 2010 will be seen only in 2011 and we continue to seek to implement new measures to increase the profitability and the cash flows of the group.

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[3] The Group has finalised agreement with all Bond Holders except one where agreement has been reached but finalisation of documents is imminent as at the date of this report.

[4] Underlying Revenue is defined as revenue excluding the revenue from Kagazy Trading (formerly part of the Paper Segment) which was closed down in 2010.

Asset Revaluations

We have seen a further downward valuation of our real estate assets in 2010. Anecdotal evidence suggests that the market for real estate in Kazakhstan reached its bottom in 2010. The market anticipates that as the banks become more liquid, their appetite for lending returns and that as the economy continues to grow, the market for real estate will become more liquid and values will improve.

Whilst the downward revaluation is unwelcome, it has no impact upon the Group's ability to generate profits and cash flows from its operating assets.

Non-operational Assets

The Group has invested over USD 200 million in assets which are currently unproductive. These investments comprise largely the proposed industrial park in Almaty ("Industrial Park") and the Astana City Project in Astana ("Astana City Project") both of which comprise land and construction in progress.

At present, there is no finance available to complete the Industrial Park. It is the Group's intention to complete this project when the economic case for completion is sound. The future of the Industrial Park is continually under review by the Board, and alternative ways of realising value from this project will be considered as and when the real estate market becomes more liquid.

To date the Astana City Project has been financed by the Development Bank of Kazakhstan. Further progress in this project is dependent upon agreeing restructuring terms with Development Bank of Kazakhstan.

It is the Board's belief that, although the current market value of the Industrial Park and the Astana City Project is lower than cost, market value will increase as the Kazakh real estate market improves. It is impossible to predict when this may happen and by how much. Nevertheless, the economic indicators for Kazakhstan which are all positive - real GDP growth to be in excess of 5% for the next four years; relatively high oil prices; and the improving liquidity of the Kazakh financial system all point to an increase in the value of real estate in the short to medium term.

Operational restructuring

A number of operational measures have been undertaken during the year aimed at increasing revenues, increasing efficiency, reducing costs and maximising working capital. These measures began to have an impact in the second half of 2010 and we expect the effect to be seen fully in 2011.

During the year, the measures the group has undertaken include the following:

Paper segment

- The Kagazy Trading operations (the purchase and resale of paper products) was closed down. This business unit had been marginally profitable but utilised an excessive amount of working capital;
- The operations of Kazupak were moved to the Kagazy Recycling site, which has led to a reduction in costs and an increase in productivity.

Logistics segment

- The logistics segment has been integrated and management unified. This integration allows the Group to optimise the services it provides to its customers and will in turn lead to increases in revenue and efficiency.

Financial Restructuring

In last year's annual report, we reported that the Group was in discussion with all of its Banks and Bond Holders in order to restructure the terms of the Group's obligations. This year, I am happy to report that we have made significant progress in this regard.

- In November 2010, we reached agreement with Alliance Bank not only to restructure its loan but also to refinance the loan from Eurasian Bank, a total of USD 34.6 million;

- By the date of this report, we had reached agreement with all of our Bond Holders to restructure the terms of their bonds, a total of USD 114.8 million (including capitalised unpaid coupon).

Following these agreements, we have successfully restructured approximately 60% of the Group's Borrowings on terms which have extended maturity significantly and reduced the cash cost of borrowing significantly in the short to medium term.

We remain in positive dialogue with the European Bank for Reconstruction and Development ("EBRD") and the Development Bank of Kazakhstan ("DBK") and we expect that final agreement will be reached in the second quarter of 2011.

The terms agreed with Alliance Bank and our Bond Holders and the proposed terms currently being discussed with DBK and EBRD are consistent with the Group's current forecast cash flows and our commitment to raising new equity to improve the Group's balance sheet. Details of the equity raising will be finalised following completion of the financial restructuring, but it is the current intention to seek to raise new funds in the second half of 2011.

Accordingly, based upon the current cash flow projections for the Group, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore the annual financial statements continue to be prepared on a going concern basis.

Outlook

The outlook for the Group is positive.

We have agreed terms with creditors representing over half of the value of our outstanding financial liabilities and we expect to complete the financial restructuring process in 2011. Our individual operating units are functioning well, have seen significant growth in 2010 and we expect further growth in 2011.

The outlook for Kazakhstan is positive also.

This will have a significant impact not only on our operating units but on the value of our non operating assets and our ability to realise value from our significant investment in such assets.

Our Paper Business, with over 60% market share, is the market leader in Kazakhstan and we expect this to continue for the foreseeable future. We will continue to seek to improve efficiency in our paper business and we will, where appropriate, consider making incremental investments in production to increase margins and cash-flows.

Our Logistics Business is in, the view of the Directors, the acknowledged market leader in terms of service levels provided. Now that our current logistics operations are becoming full and are operating profitably, we are considering our strategy for this segment, which may include further investment.

I would like to thank our financial creditors who have recognised that Kazakhstan Kagazy is operationally sound and who have worked with us to agree to the first ever bond restructuring of a non-financial company in the history of Kazakhstan.

Finally I would also like to thank all of our staff for the commitment that they have shown to the success of the Group in what has been a difficult period.

I am confident that with such a strong team the company has a solid and profitable future.

On behalf of the Board
Tomas Mateos Werner
Chairman of the Board of Directors
Kazakhstan Kagazy PLC
21 April 2011

Operational Restructuring

During 2010, the Group has made a number of significant operational measures designed to increase the profitability and cashflow of the group both short term and long term. The impact of these changes has already had some impact in 2010, but we expect the full impact to be seen only in 2011. These measures are described below.

Closure of Kagazy Trading

In August 2010, the Group commenced the closure of its operations at Kagazy Trading, at which point it began to liquidate its existing stock and wind down all of its operations. Despite contributing approximately 12.0% of Paper segment revenues, Kagazy Trading's contribution to comprehensive income was immaterial. Moreover, its operations required a significant amount of working capital, which was released when operations ceased.

Transfer of the Kazupak operations to the Kagazy Recycling site

In September 2010, the Kazupak operations were transferred to unutilised space at the Kagazy Recycling site. Combining all of the Group paper operations at one site, has increased efficiency and reduced costs. In addition, the Kazupak site which was unused following the transfer of its operations was made available for sale and was sold in January 2011 (see Note 36).

Creation of a single Logistics Segment management team

In November 2010, the Group's Logistics operations were combined under one management team, headed by Yermek Mubarakov, who had previously been General Director of Paragon, although the operations had been progressively converging during the course of the year. This structural change allows the Group to provide a unified service to its customers which will enable the Group to optimise the usage of all of its logistics facilities.

Streamlining of Group operations

During the Period, the Group has concentrated on minimising central overheads. The Group's Kazakh's head office has been moved to smaller less expensive premises, head count has been reduced by 121 employees (9.4%), and central overheads have fallen from USD 10.6 million to USD 6.4 million.

Operating and Financial Review

Our operations and main operating subsidiaries

Unit	Activity	Employees (2010)	Employees (2009)
PAPER	**Turnover USD 60.6 million**	**724**	**792**
	Gross Profit USD 19.4 million		
Kagazy Recycling LLP (“Kagazy Recycling”)	Kagazy Recycling remains the leading producer of paper and corrugated board in Kazakhstan. In 2010, it produced 43.7 tonnes of paper (2009 – 40.1 tonnes) and 103.0 million m^2 of corrugated board (2009 – 83.3 million m^2). The Company manufactures its products from recycled paper collected from Kazakhstan and Russia.	715	659
Kazupak LLP (“Kazupak”)	The Kazupak operations, were transferred to the Kagazy Recycling site in August of 2010.	-	82
Kagazy Trading LLP (“Kagazy Trading”)	Kagazy Trading used to import paper products for resale in Kazakhstan. It’s operations were closed in August of 2011.	9	51
LOGISTICS	**Turnover USD 8.8 million**	**353**	**362**
	Gross Profit USD 3.6 million		
Paragon Development LLP (“Paragon”)	The Paragon facility is a class A warehouse in Almaty offering value added services to its customers. Capacity was 49,000 m^2 in 2010 and average occupancy was 39% (2009 – 22%).	164	172
Astana Contract JSC	The Company is also responsible for the Astana City Project The financing for its completion is under discussion with DBK, its sole financier. If completed, the warehouse is expected to have a total available floor space of 33,000 m^2 and the container terminal is expected to be able to handle a maximum of 14,000 containers per annum.	126	111
Astana Contract LLP (“Astana Contract”)	The Company operates a container terminal in Almaty, adjacent to the Paragon facility The container terminal has a capacity of approximately 42,000 cars a year (2010 – 20,510; 2009 – 17,071 cars handled) and provides unloading and loading services and outdoor storage facilities.		
Prime Estate Activities Kazakhstan LLP (“PEAK”)	The Company operates a class B warehouse with a total capacity of 35,000 m^2. In 2010, average occupancy was 48% (2009- 30%).	63	79
CORPORATE/INVESTMENT PROPERTY			
Kazakhstan Kagazy JSC (“Kazakhstan Kagazy”)	In addition to acting as the Kazakh holding company of the Group’s operations. The Company is also responsible for the proposed business park on a 700 hectare site in northern Almaty.	85 [5]	129

([5]) Including employees of all intermediate holding companies

Trading and Financial Review

Revenues

In 2010, the consolidated Group Revenue increased by 8.8%. However, in August 2010, the Group commenced the closure of its operations at Kagazy Trading, at which point it began to liquidate its existing stock and wind down all of its operations. Kagazy Trading's contribution to the profitability of the Group was marginal (see Note 5) and it tied up a significant amount of working capital. Adjusting for the revenues of Kagazy Trading, the revenue of the Group ("Underlying Revenue") grew by 21.1%.

	2010	2009	Increase/ Decrease
Paper (Underlying) [(1)]	53.3	44.0	21%
Logistics	8.8	7.8	13%
Underlying Revenue	62.1	51.8	20%
Kagazy Trading	7.3	11.9	(39)%
Total Revenue	69.4	63.8	9%

Note (1) Underlying revenue is defined as revenue excluding Kagazy Trading Revenues

Paper

Our paper business performed well in 2010, despite weak economic conditions: paper production grew by 9% in 2010 and corrugated production grew by 24%. Our plant reached peak production levels in the final quarter of 2010 and this level of activity has continued into the first quarter of 2011.

	2010	2009	Increase
Paper production (thousand tonnes)	43.7	40.1	9%
Corrugated production (thousand million m^2)	103.0	83.3	24%

As demand began to strengthen during the second half of the year prices, which had remained weak throughout the whole of 2009 and the first half of 2010, began to strengthen. Additionally, the Group instituted a targeted pricing policy based on customer volumes. The price increases began in the second half of the period and have continued into 2011. The full impact of the results of the price increases coupled with the increased levels of demand will be seen in 2011.

Corrugated prices USD per 000 m^2	2010	2009
Average price at beginning of period (first quarter)	414	457
Average price at end of period (last quarter)	507	403
Average for the year	449	419

Paper prices USD per ton	2010	2009
Average price at beginning of period (first quarter)	422	446
Average price at end of period (last quarter)	529	405
Average for the year	457	411

Logistics

Paragon	**2010**	**2009**	**2010**	**2009**
Average occupancy m^2	18,935	10,868	39%	22%
Occupancy at the end of the period, m^2	29,428	11,231	60%	23%
Peak				
Average occupancy, m^2	16,866	10,633	48%	30%
Occupancy at the end of the period, m^2	22,280	12,235	64%	35%
Astana Contract				
Containers processed December (month)	2,252	1,758	64%	50%
Total containers processed in 2010 (year)	20,510	17,071	49%	41%

Paragon

At the beginning of the Period, occupancy at Paragon was just 23%. During the course of 2010, Management concentrated on increasing occupancy at which they have had great success; at the end of 2010, occupancy stood at 60%. Paragon had a number of significant successes during the year of 2010 and since the year end has concluded a 5 year contract with Avon Cosmetics (Kazakhstan) to take 5,000 m^2 of space, approximately 10% of the space at Paragon. Demand for warehousing strengthened towards the end of the period and there are signs that there is some upward pressure on pricing.

Peak

At the beginning of the Period, occupancy of Peak was just 37%; at the end of 2010, it had reached 64%, although most of the increase occurred in the latter part of the Period.

Since the period end, Peak has signed contracts with three multinational companies who together have taken a further 20% of the space available.

Astana Contact

At the beginning of the Period, Astana contract was operating at 34% of capacity; at the end of 2010, it had reached 64%.

Astana contract is in the process of implementing new systems designed at improving efficiency and optimising revenue capture. This process will be completed in 2011.

Cost of Sales and Gross Margin

USD m	**Paper**			**Paper (excluding Kagazy Trading)**			**Logistics**			**Group**		
	2010	**2009**	**Inc**	**2010**	**2009**	**Inc**	**2010**	**2009**	**Inc**	**2010**	**2009**	**Inc**
Revenue	60.6	56.0	8.2%	53.3	44.0	21.1%	8.8	7.8	12.8%	69.4	63.8	8.8%
Cost of Sales	(41.2)	(38.8)	6.2%	(35.0)	(28.7)	22.0%	(5.2)	(3.3)	57.6%	(46.4)	(42.1)	10.2%
Gross profit	19.4	17.2	12.8%	18.3	15.3	20.0%	3.6	4.5	(20.0)%	23.0	21.7	6.0%
Gross Margin	32.0%	30.7%		34.3%	34.8%		40.9%	57.7%		33.1%	34.0%	

The Group’s reported gross margin fell slightly in 2010, from 33.9% to 33.0%. The major reason for this is the reduction in the gross margin achieved by our Logistics division. The 2009 Logistics Sector revenue figure contains an amount of approximately USD 2.5 million, which relates to income from the previous operator of Paragon for which there are no associated cost of sales (see Note 5.2). Adjusting for this amount, the adjusted gross margin (“Effective Gross Margin”) for the Group is as follows:

Effective Gross margin %	**2010**	**2009**
Paper (excluding Kagazy Trading)	34.3	34.8
Logistics	40.9	37.7
Group	33.1	31.3

In the Paper Segment, Gross margin increased, although the margin derived from paper and corrugated production was flat as the increase in prices which occurred in the second half of 2010 was matched by a more consistent increase in production costs, primarily because of the increase in the cost of raw materials, over the year.

Due to the high level of fixed costs involved in the Logistics operation, particularly in the warehouses, gross margin is highly dependent upon occupancy levels. The Effective Gross Margin of the Logistics business rose from 37.7% to 40.9% reflecting the increased occupancy levels at our warehouses.

Administrative expenses

Administrative expenses have fallen by 37%. There have been reductions in administrative expenses throughout the group but must notably in the central overhead costs (see Operational changes above) which have been decreased by 66%.

Selling expenses

Selling expenses have reduced from 9.0% of revenue to 8.5% of revenue, despite the increase in Underlying Revenue of around 21.1%, this reflects the Group’s continued concentration on minimising costs.

EBITDA before exceptional items and revaluation

During 2010, and in the last quarter of 2009, the Group has incurred significant restructuring costs (see Note 9), which although these are likely to continue into 2011, are not representative of ongoing costs of the company. Similarly the significant revaluations in 2009 and 2010 caused largely by the fluctuations in the Kazakh real estate market are not representative of the underlying profitability of the Group. Accordingly, in the Director’s opinion, EBITDA before exceptional items and revaluation is the best indicator as to the underlying profitability of the Group is making.

EBITDA before exceptional items and revaluation has increased from USD 1.2 million in 2009 to USD 4.8 million in 2010, a fourfold increase. This represents a significant achievement in a difficult market. This achievement is largely due to the operational measures taken in 2010 (see Operational restructuring). Not only has underlying profitability has increased, net cash flows from operating activities has increased by USD 4.3 million to USD 12.0 million (see discussion on cash flows below).

Financial income

Almost all of the financial income in the Period is represented by foreign exchange gains on KZT denominated bonds following the appreciation of the KZT and the USD against the EUR by 8.2% and 7.6% respectively and the KZT against the USD by 0.6%. This has the most significant impact upon the USD value of the loan from EBRD which is denominated in EUR and the loan from Alliance Bank which was denominated in EUR until November 2010 when it was converted into KZT.

In 2009, there were no foreign exchange gains on loans as due to the significant depreciation of the KZT in February 2009. Financial income in 2009 was represented largely by interest received on deposits, the reduction of the consideration for Astana Contract and a gain on early bond redemption. None of these items occurred in the Period.

Finance costs

Finance costs have reduced for the following reasons:

a) The average effective rate of interest on the Group's bank borrowings was reduced from 12.01% to 10.05% largely as a result of the reduction in the effective rate payable to EBRD (which is based on Euribor and certain financial ratios of Kagazy Recycling) from 9.3% in 2009 to 5.2% in 2010;
b) The reduction in Bond Coupon payable due to the First Issue reaching maturity in February 2010 by approximately USD 1.8 million compared with a full year's charge in 2009;
c) The appreciation of the KZT and the EUR against the USD which eliminated any significant foreign exchange costs in 2010 compared with the 25% devaluation of the KZT in February 2009 which led to a significant exchange loss.
d) The reduction in total borrowings (in principal terms) by USD 13.1 million, representing approximately 6% of the balance outstanding.

Revaluation of assets

The Group has revalued its fixed assets downwards by a further USD 47.8 million following a downward revaluation of USD 225.7 million in 2009, the majority of which relates to real estate held by the Group. The revaluation was based on advice from independent appropriately qualified valuers prepared in accordance with International Valuation Standards.

Valuation is, at all times, an inexact science and in the current highly illiquid real estate market establishing market values of non operational real estate is challenging. It is the Directors' belief that provided that the wider Kazakhstani economy continues to recover as expected then this valuation is likely to represent an historic low point.

Moreover, it should be stressed that the valuation of the assets does not have any impact upon the ability of the company to trade profitably. However, the value of the real estate, as the market recovers will have an impact upon the Group's strategy for its current non-operational assets and hence the future cash flows of the Group.

PPE, Investment Property and Trading Property ("Fixed Assets")

The Group's Fixed Assets has been revalued by reference to independent valuations see Note 8.

In addition, Trading Property, represented largely by land and construction in progress at the proposed Industrial Park has been reclassified as Investment Property as it is the Directors' view that this can no longer be considered as a short term project.

VAT recoverable

VAT recoverable has reduced in the year as it has been utilised in offsetting VAT payable.

Other current assets

At the end of 2009, other current assets were represented by cash held in restricted accounts as security against loans to EBRD and Eurasian Bank. In 2010, these amounts were released.

Borrowings

In November 2010, Alliance Bank agreed to restructure its loan and to refinance the Eurasian Bank loan, a total of KZT 34.6 million. At the date of this report, agreement had been reached with all[6] of the bond holders ("Bond Holders") of the First Issue, and amendments of the terms of prospectus had become effective in respect of the Second, Third and Fourth Issues. Accordingly at the date of this report, the Group remains in breach of its obligations only to EBRD and Development Bank of Kazakhstan and in relation to a lease agreement with Raiffeisen Bank for equipment which is no longer utilised by the Group. At the Date of this report approximately 60% of the Group's borrowings had been restructured.

A summary of the Group's debt position is shown below:

In thousands of US$	**31 March 2011 Unaudited**	**31 December 2010**	**31 December 2009**
Bank debt not in default	36,520	37,806	12,922
Alliance Bank JSC	34,105	34,763	-
Kazkommertsbank JSC	2,415	3,043	4,894
Eurasian Bank JSC	-	-	8,028
Bonds not in default (1)	109 778	9 999	101 855
Total Bank and Bonds not in default	**146,297**	**47,805**	**114,777**
Bank debt in default	96,213	95,410	132,124
Alliance Bank JSC	-	-	30,145
Development bank of Kazakhstan JSC	57,666	59,185	59,145
EBRD	38,287	35,968	42,579
Raiffeisen Leasing Kazakhstan LLP	260	257	255
Bonds in default	7,207	90,558	-
Total Bank and Bonds in default	103,420	185,968	132,124
Total debt	**249,717**	**233,773**	**246,901**

Notes

1: Including capitalised unpaid coupon.

Alliance Bank

The General terms of the Alliance loan are set out in Note 29. In summary, the maturity of the loan has been extended to 2020 from 2013, the loan has been redenominated in KZT, which will reduce future currency risk, capital and interest payments have been suspended until March 2012 and the interest rate has been reset at 12.5%, a competitive market rate.

Bonds

The Group has four issues of bonds ("Bonds").

	KZT million	**USD thousand**	**Maturity**
First Issue (KZ2CKY05B448)	4,000	27,137	2010
Second Issue (KZPC1Y05C020)	3,500	23,745	2011
Third Issue (KZPC2Y07C024)	3,500	23,745	2013
Fourth Issue (KZ2C0Y05D117)	12,000	81,411	2013

[1] The Group has finalised agreement with all Bond Holders except one where agreement has been reached but finalisation of documents is imminent as at the date of this report.

The First Issue matured on 18 February, 2010, and under Kazakh law, this ceased being a bond at that date and became a simple obligation of the company. This technical issue required the Group to reach separate agreement with each of the First Issue holders, although the principle underlying each separate agreement was that in all material respects each First Issue Holder should be treated equally. At the end of 2010, agreement had been reached with 17 Bond Holders of first issue with a combined value of USD 4 million or 4.3%. At the date of this report, agreement has been reached with 23 out of 24 of the First Issue Bond holders, representing 82%, although agreement is imminent with the final bnd holder. In general terms, the First Issue Bond Holders have agreed to repayment in equal annual installments from 2015 to 2018 and to reduce the coupon to 6% from an effective coupon of 10.1% in 2009.

In February and March 2011, agreement was reached with all of the Fourth Issue Bond Holders and the required majority of the Second Issue and Third Issue Bond Holders to amend the terms of the prospectus. The revised terms have been approved by the Agency for financial regulation and supervision of the financial market and financial organizations ("AFN"), the regulatory body responsible for supervision of the Bonds, at which point the amendments became effective and it is expected that the Bonds will resume trading on the Kazakhstan Stock Exchange in April 2011. The outline terms agreed with the Bond Holders of the Second, Third and Fourth Issues, compared with the original terms, are as follows:

	Second Issue		**Third Issue**		**Fourth Issue**	
	Old terms	**New terms**	**Old terms**	**New terms**	**Old terms**	**New terms**
Maturity	2011	2026	2013	2028	2013	2028
Nominal coupon (1)	CPI+1.5%, not more than 12%	13%	CPI+1.5%, not more than 12%	13%	12%	13%

Note (1): No cash coupon is paid in 2011 and 2012, in 2013, the cash coupon paid is 1%, increasing by 1% per annum until 2019. Unpaid coupon is accrued and paid on maturity.

The deferred coupon payment terms reduce the cash payable on the Group's bonds by USD 84 million between now and 2019 compared with payment of the full coupon.

EBRD and DBK

Agreement on restructuring terms with EBRD and DBK is expected by 30 June 2011.

Cash flow

Net Cash flow generated by operating activities

Net cash flow generated by operating activities has increased by USD 4.3 million to USD 12.0 million. This increase is represented mainly by the increase in the underlying profitability of the Group, EBITDA before exceptional items having grown by USD 3.6 million in the same period. In addition, the Group has kept a tight control on the working capital of the group and has released working capital through the cessation of the Kagazy Trading operations.

Net cash used in investing activities

Capital expenditure was restricted to essential maintenance in 2010, and total capital expenditure was USD 2.7 million compared with 18.0 million in 2009. Included in investing activities is a decrease in the amount of VAT recoverable which was used to offset otherwise non-recoverable VAT payable in 2010.

Net cash used in financing activities

Net cash used in financing activities is represented entirely by the cost of servicing the Group's borrowings.

Risk Management and Internal Control

Risk management policies, objectives and structure

The Group is exposed through its operations to one or more of the following financial risks:

- Market risk;
- Credit risk;
- Liquidity risk.

The Group has adopted risk management policies which are designed to mitigate these risks. In particular, the Group has a formal budgeting process which sets detailed targets each year. Senior Management of the individual operating companies prepare monthly management information packs explaining deviations from budget and these are discussed at a monthly meeting with the management of Kazakhstan Kagazy JSC.

Market Risk

Market risk represents the risk that the fair value of future cash flows will vary because of changes in foreign exchange rates (foreign exchange rate risk), interest rates (interest rate risk), or other market factors (other price risk). The Group is exposed to market risks related to foreign currency exchange rates, interest rates and raw material commodity prices. These exposures may change over time as business practices evolve and could have a material adverse impact on the Group's financial results.

- *Foreign currency risk*

The Group is significantly exposed to debt denominated in EUR and US dollars, whilst all its revenues and the majority of its costs are Tenge denominated. The Group has foreign currency denominated debt in part because some lenders require it but also because interest rates on foreign currency loans tend to be lower than on KZT denominated loans.

Foreign currency debt may expose the Group to unexpected increases in the KZT value of its obligations if the KZT devalues.

- *Fair value or cash flow interest risk*

As part of the restructuring, the Group is seeking to fix all interest payments to Banks and all coupons to Bondholders. Interest payments on foreign currency debt will remain exposed to foreign currency fluctuations.

- *Market price risks*

The Group is exposed to the influence of market prices on its products and services and the cost of raw materials and other services, in particular the cost of waste paper, the raw material used in the production of paper and corrugated board.

The Management of the Group believes that the exposure of its current activities to the risk of market price fluctuations in its Paper business is at an acceptable level as the market for products is well developed and relatively predictable.

The Logistics sector in Kazakhstan is relatively new and the supply/demand balance can vary enormously as was seen in 2009 versus 2008. However, it is as likely that Kagazy will benefit from supply demand imbalance in the medium term when the Kazakh economy recovers and the demand for warehousing returns to levels seen in 2008. Nevertheless, until the Logistics market matures, the Group will remain exposed to potential wide fluctuations in demand and pricing.

The Group seeks to source the majority of its recycled paper (which accounts for approximately 45% of the total cost of paper production and 24% of the cost of production of corrugated board) from Kazakhstan and wherever possible from Almaty. There is insufficient recycled paper in Kazakhstan of a sufficient quality to meet the Group's requirements; therefore it is forced to source some of the raw material from Russia. The cost of raw material is dictated largely by the cost of transporting it to Almaty. Accordingly, the Group is exposed to fluctuations in the cost of recycled paper dependent upon availability of local sources.

Credit Risk

The Group is exposed to credit risk from transactions with holdings of cash and cash equivalents, credit sales, and to the risk of contractors not performing according to advances made. It is the Group's policy to assess the credit risk of all customers before entering into contracts taking into account such factors as the customers' financial position, reliability and the market situation as a whole. The Group mainly trades with established long-term customers whose credit risk is either low or minimal. The Group also use large banks with representation in the region. This helps to manage credit risk from cash and cash equivalents. As to prepayments made for carrying out work and services, the contracts for such services include charges for non-performance and conditions for returning the prepayments in cases of non-performance.

Liquidity Risk

Liquidity risk is a function of the difficulties which may be encountered in raising funds to meet future commitments as they fall due. See the Financial Restructuring and Going Concern section of the Operating and Financial Review for a full description of the current liquidity situation.

The financial statements provide quantitative analysis of risks and sensitivities associated with financial instruments at Note 35.

Risk management objectives and tasks for 2011

In 2010, the Group identified that the controls and systems at Astana Contract were out of date. Deloitte was appointed to undertake a view of existing systems and advise on how these should be updated to reflect current demands. The implementation of these recommendations has begun and is expected to be completed by the end of June 2011.

Internal Control

The Internal Control System at Kagazy was established in 2003 and has developed since then with the objective of supporting the efficient performance of the Group by:

- improving the efficiency and effectiveness of operations;
- optimising the activities of the Group and its management bodies;
- ensuring the adequacy and timeliness of financial and administrative information and reporting;
- minimizing internal and external risks;
- ensuring compliance with legal requirements and standards regulating the activity of Kagazy;
- improving the management of assets and liabilities; and
- ensuring the safety of Kagazy's assets.

The Group's head-office holds monthly meetings with the management of each of its operating units during which operating performance is reviewed.

Shareholder Information

Stock Exchange Listing

The Company’s shares are not listed. Global Depositary Receipts (“GDRs”), exchangeable 1 for 1 with the Company’s ordinary shares, are admitted to trading under the symbol “KAG” on the London Stock Exchange.

Kazakhstan Kagazy Shareholder Structure

Shareholder	Number of Shares (m)	% capital
Tomas Mateos Werner	29.9	28.6%
SP Angel Corporate Finance LLP	25.0	23.9%
Others owning < 10% individually	49.8	47.5%
Total	**104.7**	**100%**

Tomas Mateos Werner, Group Chairman, had a beneficial interest in 28.6% (2009: 28.6%)of the share capital of the Company. No other director had any interest in the share capital of the company either at the date of this report or at the year end.

GDR price – year to 31 December 2010

At end of year (Dec 31, 2010): USD 0.25 Lowest: USD 0.14 Highest: USD 0.38

In the Period, the market for Kazakhstan Kagazy PLC GDR’s was very illiquid and, therefore, prices quoted do not necessarily reflect the price at which GDR’s could have been bought or sold.

Directors' Report and Corporate Governance

Company Information

Directors	Tomas Mateos Werner Alexander Valitov Jeremy Polturak
Registered Office	15-19 Athol Street Douglas Isle of Man IM1 1LB
Principal Bankers	HSBC Private Bank (Guernsey) Limited Park Place Park Street St Peter Port Guernsey GY1 1EE
Independent Auditors	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
Solicitors	Norton Rose 4 More London London SE1 2AQ
Legal Advisors in the Isle of Man	Cains Advocates Limited 15-19 Athol Street Douglas Isle of Man IM1 1LB
Company registration number	000653V

Directors' Report

The Directors submit the Annual Report of the Group together with the audited consolidated financial statements for the year ended 31 December 2010.

Principal activities and business review

A review of the principal activities and business can be found in the Operating and Financial Review section starting on page 10.

Results

See Operating and Financial Review starting on page 10.

Events after reporting date

See Note 36.

Corporate Governance

The Company is incorporated in the Isle of Man with debt admitted to the London Stock Exchange, as such, is not subject to the Companies Acts, nor is it required to comply with the UK Combined Code on Corporate Governance (the "Code"). Following the successful restructuring of the Group's financial obligations, it is our intention to structure and operate the Board in compliance with best practice for a company of our nature and size.

Kazakhstan Kagazy abides by the corporate governance rules of the Kazakhstan Stock Exchange and has adopted a code of ethics which can be viewed at the Group's website.

The Board of Directors

The Directors of Kazakhstan Kagazy plc since 1 January 2010 are as follows:

Name	Position	Date appointed	Date resigned
Alessandro Manghi	Chairman of Board	April 2008	15 January 2010
Yuriy Bogday	CEO	April 2008	23 July 2009
Thomas Johnson	Non-executive Director	July 2007	15 January 2010
Tomas Mateos Werner	Chairman of Board	26 April 2010	n/a
Alexander Valitov	Chief Executive Officer	23 July 2009	n/a
Jeremy Polturak	Non-executive Director	26 April 2010	n/a

Jeremy Polturak is an independent non-executive Director.

The names and other biographical details of the current Board members are presented below:

Tomas Mateos Werner

Tomas Mateos Werner (44) has been Chairman of the Board of Kazakhstan Kagazy JSC since November 2009 following the acquisition of 23.9% of Kazakhstan Kagazy plc's shares in September 2009. Tomas is currently the Managing Partner of Werner Capital, a private wealth management company, and from 1992 to 2008 held senior positions as a banker at Deutsche Bank, Merrill Lynch and HSBC in New York, Zurich, Frankfurt and London. He holds an MBA from Columbia Business School (USA) and London Business School (UK), a Master's from the Hochschule St. Gallen (Switzerland) and is a Graduate in Law from UIB (Spain).

Alexander Valitov

Alexander Valitov (55) has been with the Group since 2007 and was General Director of Kagazy Recycling LLP from January 2008 until September 2009. Previously, he was the General Director of Kadamzhay Antimonial Plant JSC in the Kyrgyz Republic from (2005 to 2007) and he was Vice President of ELM Developments Co. in Toronto Canada (2002 to 2004). Alexander holds a degree in Mechanical Engineering from Bauman Moscow State Technical University.

Jeremy Polturak

Jeremy Polturak (49) is the Managing Partner of NSO Petroleum a privately owned Oil and Gas company. He is also principal partner of Portico Advisors an FSA regulated alternative investment advisory firm. Between 1984 and 1997 Jeremy held various positions at European Banking Company, Midland Montagu and latterly Bankers Trust where he was the head of Corporate Derivative FX and FI Sales.

Remuneration package

The Directors are entitled to receive by way of fees for their services as Directors such sum as the Board may from time to time determine. Following the proposed restructuring, when it is anticipated that the Board will increase to five members, a remuneration committee will be established to oversee the Directors remuneration.

Currently, Directors' fees total USD 6,000 per month.

Remuneration

No Director receives a salary for their services as Directors.

Pension

There are no pension arrangements for the Directors.

Remuneration of key management personnel

Total compensation of the Group's key managers includes contract salaries, bonuses, vacation leave payments etc. This amount is included in the general and administrative expenses of the consolidated statement of comprehensive income and totaled USD 3.1 million (2009:USD 2.3 million).

Employees

At 31 December 2010, the Group had 1,136 employees (2009: 1,258). The decrease in the number of employees has resulted from the operational initiatives undertaken by the Group in the Period.

Shareholders

Management seeks to maintain an active dialogue with its institutional and private shareholders. All corporate materials, including annual reports, financial statements and other information, are available on the Group's website www.kazakhstankagazy.com.

The Board invites all shareholders and GDR holders to attend the Company's Annual General Meeting and encourages them to exercise their voting right and participate with questions.

Capitalisation

The Company's issued and outstanding share capital is represented by 104.7 million ordinary shares at par USD 0.1 per share.

Powers of the Directors

The Board of Directors is responsible for management and control of the Group's business. The business of the Group is managed by the Board, which may exercise all the powers of the Group whether relating to the management of the business or not. Members of the Board of Directors are appointed or re-appointed at any general meeting. The Board has power at any time to appoint any person who is willing to act as a Director, either to fill a vacancy or as an addition to the existing Board.

Independent Auditors

The current Directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group' auditors for the purposes of their audit and to establish that the auditors are aware of that information. The Directors are not aware of any relevant audit information of which the auditors are unaware.

During the year BDO LLP resigned as auditors to the group, and the directors have appointed PricewaterhouseCoopers LLP.

On behalf of the Board
Tomas Mateos Werner
Chairman of the Board of Directors
Kazakhstan Kagazy plc
21 April 2011

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

The directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). In preparing these group 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 whether applicable IFRSs issued by IASB have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the group financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the directors, whose names and functions are listed in the Director's report confirm that to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with IFRSs issued by IASB, give a true and fair view of the assets, liabilities, financial position and loss of the group and the undertakings included in the consolidation taken as a whole; and
- the annual report includes a fair review of the development and performance of the business and the position of the group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The directors are responsible for the maintenance and integrity of the group web site, www.kazakhstankagazy.com. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board

Tomas Mateos Werner
Chairman of the Board of Directors
Kazakhstan Kagazy PLC

21 April 2011

INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF KAZAKHSTAN KAGAZY PLC

We have audited the financial statements of Kazakhstan Kagazy plc for the year ended 31 December 2010 which comprise the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

Respective responsibilities of the directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 24 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 and express an opinion on 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.

This report, including the opinion, has been prepared for and only for the directors to assist them to discharge their obligations under section 4 of the Disclosure and Transparency Rules (the "DTR") issued by the United Kingdom's Financial Services Authority (the "FSA") and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come including without limitation under any contractual obligations of the company, save where expressly agreed by our prior consent in writing.

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 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 affairs as at 31 December 2010 and of the group's loss and the group's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs issued by the IASB.

pwc

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Emphasis of matter – Going concern:

In forming our opinion on the consolidated financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 3 of the consolidated financial statements concerning the Group's ability to restructure the terms of its loans with EBRD and Development Bank of Kazakhstan and the ability to raise new equity or quasi equity as part of the revised terms agreed with Alliance Bank and the Group's Bond Holders, such that the resulting interest and capital repayments are commensurate with the Group's forecast cash flows. These conditions, along with other matters described in Note 3, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Group to continue as a going concern. The consolidated financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

1 Embankment Place

London

WC2N 6RH

21 April 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

In thousands of US$	Note	2010	2009
Revenue	5	69,376	63,775
Cost of sales	6	(46,448)	(42,133)
Gross profit		**22,928**	**21,642**
Loss from revaluation of property, plant and equipment and investment properties	8	(47,490)	(211,780)
Administrative expenses	9	(16,310)	(26,046)
Distribution costs	10	(5,870)	(5,765)
Other operating (expenses)/income	11	(1,753)	5,536
Loss from disposal of subsidiary	12	(234)	-
Operating loss		**(48,729)**	**(216,413)**
Analysed as:			
EBITDA before exceptional items* and revaluation		4,784	1,186
Depreciation and amortisation		(4,991)	(5,772)
Loss from revaluation of property, plant and equipment and investment properties		(47,490)	(211,780)
Exceptional items	9	(1,032)	(47)
Total		**(48,729)**	**(216,413)**
Finance income	13	5,259	15,921
Finance costs	13	(22,451)	(59,796)
Loss before income tax		**(65,921)**	**(260,288)**
Income tax benefit	14	9,920	16,183
Loss for the year from continuing operations		**(56,001)**	**(244,105)**
Other comprehensive loss			
Loss from revaluation of property, plant and equipment and investment properties	8	(286)	(13,893)
Currency translation reserve		684	(93,620)
Income tax recorded in other comprehensive income	14	(1,238)	2,114
Other comprehensive loss for the year		**(840)**	**(105,399)**
Total comprehensive loss for the year		**(56,841)**	**(349,504)**
Loss attributable to:			
- Owners of the parent		(56,001)	(244,105)
Loss for the year from continuing operations		**(56,001)**	**(244,105)**
Total comprehensive loss attributable to:			
- Owners of the parent		(56,841)	(349,504)
Total comprehensive loss for the year		**(56,841)**	**(349,504)**
Loss per share attributable to equity holders of the company during the year:			
Basic loss per share (US cent per share)	28	(53)	(233)

* EBITDA before exceptional items is defined as profit before interest, taxation, depreciation and amortisation adjusted for exceptional items.

The notes on pages 32 to 87 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

In thousands of US$	Note	2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment	15	167,466	204,272
Intangible assets		32	40
Investment property	16	149,817	102,265
Non-current advances for goods and services	17	2,540	10,252
VAT recoverable	18	7,870	11,976
Other non-current assets	19	2,793	1,363
Total non-current assets		**330,518**	**330,168**
Current assets			
Trading property	20	-	52,427
Inventories	21	7,264	7,052
Advances for goods and services	22	3,077	2,592
Other current assets	23	198	8,628
Trade and other receivables	24	10,799	11,101
Cash and cash equivalents	25	3,567	1,967
Assets held for sale	26	-	1,582
Total current assets		**24,905**	**85,349**
TOTAL ASSETS		**355,423**	**415,517**
EQUITY			
Share capital	27	10,470	10,470
Share premium		244,340	244,340
Revaluation reserve		37,730	36,741
Currency translation reserve		(87,659)	(88,343)
Other reserves		81,181	81,181
Accumulated loss		(203,047)	(144,533)
TOTAL EQUITY		**83,015**	**139,856**
LIABILITIES			
Non-current liabilities			
Borrowings	29	32,628	82,857
Deferred income tax liabilities	14	159	8,223
Other non-current payables	30	26	250
Total non-current liabilities		**32,813**	**91,330**
Current liabilities			
Trade and other payables	31	10,939	10,737
Current income tax payable		-	307
Borrowings	29	228,259	172,444
Other taxes payable	32	397	843
Total current liabilities		**239,595**	**184,331**
TOTAL LIABILITIES		**272,408**	**275,661**
TOTAL EQUITY AND LIABILITIES		**355,423**	**415,517**

Approved for issue and signed on behalf of Board of Directors on 21 April 2011: ______________

Tomas Mateos Werner
Chairman of the Board of Directors
Kazakhstan Kagazy PLC

The notes on pages 32 to 87 are an integral part of these consolidated financial statements.

KAZAKHSTAN KAGAZY PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	Attributable to owners of the parent						
In thousands of US$	**Share capital(1)**	**Share premium (2)**	**Revaluation reserves (3)**	**Other reserves (4)**	**Currency translation reserve (5)**	**Retained earnings/ (accumulated loss)(6)**	**Total equity**
Balance at 1 January 2009	**10,470**	**244,340**	**85,755**	**81,181**	**5,275**	**62,337**	**489,358**
Loss for the year	-	-	-	-	-	(244,105)	**(244,105)**
Other comprehensive loss	-	-	(11,779)	-	(93,618)	-	**(105,397)**
Total comprehensive loss	**-**	**-**	**(11,779)**	**-**	**(93,618)**	**(244,105)**	**(349,502)**
Transfer of revaluation surplus to retained earnings on disposal of property, plant and equipment	-	-	(37,235)	-	-	37,235	**-**
Balance at 31 December 2009	**10,470**	**244,340**	**36,741**	**81,181**	**(88,343)**	**(144,533)**	**139,856**
Loss for the year	-	-	-	-	-	(56,001)	**(56,001)**
Loss from revaluation of property, plant and equipment and investment properties	-	-	(286)	-	-	-	**(286)**
Income tax recorded in other comprehensive loss	-	-	(1,238)	-	-	-	**(1,238)**
Currency translation reserve	-	-	-	-	684	-	**684**
Total comprehensive loss	**-**	**-**	**(1,524)**	**-**	**684**	**(56,001)**	**(56,841)**
Transfer of revaluation surplus to retained earnings on disposal of property, plant and equipment	-	-	2,513	-	-	(2,513)	**-**
Balance at 31 December 2010	**10,470**	**244,340**	**37,730**	**81,181**	**(87,659)**	**(203,047)**	**83,015**

(1) Share capital is the amount subscribed for shares at nominal value.
(2) Share premium represents the excess of the amount subscribed for share capital over the nominal value of these shares net of share issue expenses.
(3) Revaluation reserves represent the cumulative surplus value (net of tax) of the assets classified as property, plant and equipment over historic cost less amounts transferred to/from retained earnings representing the proportion of the revaluation reserve charged to profit and loss. Transfer of revaluation surplus to retained earnings on disposal of property, plant and equipment is retranslated at closing exchange rates.
(4) Other reserves represent a merger reserve relating to the acquisition of Kazakhstan Kagazy JSC and its subsidiary undertakings in 2007. Kazakhstan Kagazy PLC and Kazakhstan Kagazy JSC were companies under common control at the time of the transaction this was accounted for as a merger reserve.
(5) Exchange differences arising on translation of the net assets and the results of foreign operations are recognised directly in currency translation reserve.
(6) Retained earnings/(accumulated loss) represent the cumulative profit/(loss) earned by the Group attributable to the equity holders.

The notes on pages 32 to 87 are an integral part of these consolidated financial statements.

KAZAKHSTAN KAGAZY PLC
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

In thousands of US$	Note	2010	2009
Cash flows from operating activities			
Loss before income tax		**(65,921)**	**(260,288)**
Adjustments for:			
Depreciation of property, plant and equipment and amortisation of intangible assets	**5**	4,991	5,772
Impairment of property, plant and equipment	**8**	47,490	211,780
Impairment of trade and other receivables	**22, 24**	2,500	7,700
Finance income	**13**	(5,259)	(15,921)
Finance costs	**13**	22,451	59,796
Impairment of inventories	**21**	310	354
Loss from disposal of property, plant and equipment	**11**	622	304
Impairment of VAT recoverable	**11**	538	880
Income from decrease in deferred liability on business combination (contingent component)		-	(6,255)
Loss from disposal of subsidiary	**12**	234	-
Loss from sale of assets held for sale	**11**	198	-
Operating cash flows before working capital changes		**8,154**	**4,122**
Increase in trade and other receivables		(2,202)	(2,060)
(Increase)/decrease in inventories		(424)	3,380
Decrease in other current assets		8,606	-
(Increase)/decrease in current tax assets and advances for goods and services		(2,964)	455
(Decrease) in other taxes payable		(447)	(742)
Increase in trade and other payables		1,159	92
Changes in working capital		**3,728**	**1,125**
Interest received		75	2,582
Income taxes paid		-	(174)
Net cash from operating activities		**11,957**	**7,655**
Cash flows from investing activities			
Purchase of property, plant and equipment	**15**	(1,829)	(1,382)
Purchase of investment property		-	(4,516)
Purchase of intangible assets		-	(41)
Payments for construction in progress including advances		(856)	(12,120)
Proceeds from sale of property, plant and equipment and construction in progress		181	652
Decrease in VAT recoverable		5,597	1,119
Increase in non-current accounts receivable		(3)	-
Disposal of assets held for sale		64	-
Cash outflows of disposed subsidiary		(356)	-
Net cash from/(used in) investing activities		**2,798**	**(16,288)**

The notes on pages 32 to 87 are an integral part of these consolidated financial statements.

In thousands of US$	Note	2010	2009
Cash flows from financing activities			
Proceeds from issue of bonds		-	12,597
Proceeds from bank loans		5,541	36,383
Repayment of bank loans		(11,652)	(43,693)
Repayment of principal amount of bonds		(2,625)	(4,202)
Finance lease payments		(1,887)	(1,528)
Long-term restricted cash withdrawal/(deposit)		270	(8,187)
Interest paid		(2,718)	(23,826)
Payment of deferred liability for business combination		-	(12,980)
Repayment of other non-current payables		(234)	(1,267)
Net cash used in financing activities		**(13,305)**	**(46,703)**
Net increase/(decrease) in cash and cash equivalents		**1,450**	**(55,336)**
Cash and cash equivalents at the beginning of the year	**25**	**1,967**	**62,736**
Exchange gains/(losses) on cash and cash equivalents		150	(5,433)
Cash and cash equivalents at the end of the year	**25**	**3,567**	**1,967**

1 The Group and its operations

Kazakhstan Kagazy PLC (the "Company") is a public company incorporated and domiciled under the laws of the Isle of Man. Refer to shareholder Information section of the Annual Report for details of the nature of the Company's listing.

The Company and its subsidiaries (the "Group") operate in three major reportable operating segments, which are:

1) the production and distribution of corrugated paper and paperboard packaging, as well as trading other paper products ("Paper Segment");
2) the provision of logistics services through an integrated inland container terminal, supported by class "A" and class "B" warehousing ("Logistics Segment"); and
3) the land held for development and future sale ("Property Segment").

The company operates mainly through its subsidiaries, whose principal activities are shown in the table below:

Entity	Ownership share	Country of incorporation	Principal activity	Immediate parent
Corporate centre				
Megasol Investments Ltd	100%	Cyprus	Intermediate holding company	Kazakhstan Kagazy PLC
Coenagrion Holdings BV	100%	Netherlands	Intermediate holding company	Megasol Investments Ltd
Kagazy Investments JSC**	100%	Republic of Kazakhstan	Intermediate holding company	Coenagrion Holdings BV
Kazakhstan Kagazy JSC*	100%	Republic of Kazakhstan	Intermediate holding company	Kagazy Investments JSC
Business segment – Paper				
Kagazy Recycling LLP	100%	Republic of Kazakhstan	Production of paper, corrugated and sheeting materials	Kazakhstan Kagazy JSC*
Kagazy Trading LLP	100%	Republic of Kazakhstan	Trading and marketing of various paper products	Kagazy Recycling LLP
Kazupack LLP	100%	Republic of Kazakhstan	Production and sale of corrugated paper products	Kagazy Recycling LLP
Ecopak Osiyo LLC	100%	Uzbekistan	Distribution and sale of paper products	Kagazy Recycling LLP-95%, Kazakhstan Kagazy JSC-5%
EcopacAsia LLC	100%	Kyrgyzstan	Distribution and sale of paper products	Kagazy Recycling LLP-95%, Kazakhstan Kagazy JSC-5%
Raw Material Company LLC	100%	Kyrgyzstan	Waste paper collection for paper production purposes	Kagazy Recycling LLP-19%, Kazakhstan Kagazy JSC-81%**
Kagazy Equipment Services LLC	100%	Kyrgyzstan	Property lease	Raw Material Company LLC
Sibinvest LLC	95%	Russia	Lease of production base and equipment for waste paper gathering	Kazakhstan Kagazy JSC 95%**, Kagazy Investments JSC 5%**

1 The Group and its operations (continued)

Entity	Ownership share	Country of incorporation	Principal activity	Immediate parent
Business segment - Logistics				
Prime Estate Activities Kazakhstan LLP ”PEAK”)*	100%	Republic of Kazakhstan	Property and land development for real estate projects	Kazakhstan Kagazy JSC
PEAK Akzhal LLP	100%	Republic of Kazakhstan	Owner and Operator of class “B” warehouses located in the Almaty region (“PEAK”)	PEAK LLP
PEAK Aksenger LLP	100%	Republic of Kazakhstan	Real estate construction and land development projects	PEAK LLP
Astana Contract JSC	100%	Republic of Kazakhstan	Property leasing services (owner of container terminal in Almaty and and construction in progress and land in Astana (“Astana City Project”)	PEAK Aksenger LLP
Paragon Development LLP	100%	Republic of Kazakhstan	Property leasing services (owner of class “A” warehouses (“Paragon”) located in Almaty)	Astana Contract JSC
PD Logistics LLP	100%	Republic of Kazakhstan	Logistics operator of Paragon	Astana Contract JSC
Astana Contract LLP	100%	Republic of Kazakhstan	Management of container terminal located in Almaty	Astana Contract JSC

* Kazakhstan Kagazy JSC and PEAK are also engaged in Property Segment activities.
**Shares in all joint stock companies (“JSC”) of the Group are ordinary and unquoted.

2 Significant accounting policies

Basis of preparation. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a historical cost basis, as modified by revaluation of property, plant and equipment, investment property, trading property and assets held for sale recognised at fair value through profit or loss.

Presented below are the significant accounting policies used for preparation of these consolidated financial statements. These accounting policies have been consistently applied to all presented reporting periods, unless stated otherwise.

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

The financial reporting framework that has been applied in their preparation of financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs issued by the International Accounting Standards Board (IASB). Differences between IFRS and IFRS as adopted by EU did not have a material impact on these financial statements.

Going concern. The management prepared these financial statements on the basis of going concern. Note 3 discloses the information on uncertainties related to events and conditions which may cast a material uncertainty upon the Group's ability to continue as going concern.

Presentation currency. Unless stated otherwise, the figures in these financial statements are presented in US dollars ("USD", "US$"), rounded to the nearest US$ 1,000.

Foreign currency translation. The functional currency of each of the Group's entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company is US$ and its subsidiaries is Kazakhstani Tenge ("KZT").

Transactions in currencies other than the local functional currency are translated to the functional currency at the rate of exchange prevaling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Exchange gains and losses on settlement of foreign currency transactions and the translation of monetary assets and liabilities are taken to the statement of comprehensive income. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

2 Significant accounting policies (continued)

The results and financial position of each of the Group's entity, which is a foreign operation (none of which has the currency of a hyperinflationary economies), are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);

(iii) components of equity are translated at the historic rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

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

Official exchange rates published by the National Bank of the Republic of Kazakhstan were as follows:

	31 December 2010	Average for 2010	31 December 2009	Average for 2009
KZT/USD	147.40	147.35	148.36	147.51
USD/EUR	1.3253	1.3278	1.4348	1.3934
KZT/EUR	195.23	195.72	212.84	205.87

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

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

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

2 Significant accounting policies (continued)

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

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

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

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

Operating segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker has been identified as the senior management team.

Segments whose revenue, result or assets are 10% or more of all the segments are reported separately. Accordingly, the Group has identified the following operating segments on the basis of internal reports that are regularly reviewed by the Group's chief operating decision maker and the way in which decisions to allocate resources to each segment and assess its performance are made: Paper, Logistics and Property. The Logistics Segment has several operating sub-segments that are aggregated into a single reporting segment as each of the segments have similar economic characteristics, and are similar in each of the following respects: the nature of the products and their production processes, the type of customers, the methods in which products are distributed and the nature of the regulatory environment.

Financial instruments

Classification of financial assets. The Group has one class of financial assets, which is loans and receivables. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments. Loans and receivables are included in current assets, except for those with maturities greater than 12 months after the reporting date. They are classified as non-current assets. Subsequently, loans and receivable are stated at amortised cost using the effective interest method less the impairment provision.

2 Significant accounting policies (continued)

The Group's financial assets in the consolidated statement of financial position include cash and cash equivalents, restricted cash, trade receivables and receivables from related parties.

Classification of financial liabilities. The Group has one class of financial liabilities which is other financial liabilities recognised at amortised cost. The Group's financial liabilities in the consolidated statement of financial position include trade and other payables and payables to the related parties, bonds and loans. Bonds are listed on Kazakhstan Stock Exchange ("KASE"), and loans are unquoted non-derivative liabilities.

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

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

Deferred and previously partially contingent consideration recognised for the Astana Contract acquisition, payable in Kazakhstani Tenge, is fixed on US dollars terms and therefore accounted for in accordance with the Group's accounting policy for foreign currency transactions.

Fair value of financial instruments. The management of the Company uses its judgement 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 Company's financial instruments. In the normal course of business the Company enters into transactions with its related parties. Initial recognition of financial instruments is 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.

Initial recognition of financial instruments. Financial assets and liabilities are initially recorded at fair value plus transaction costs.

2 Significant accounting policies (continued)

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.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Group uses discounted cash flow valuation techniques to determine the fair value of loans to related parties that are not traded in an active market. Differences may arise between the fair value at initial recognition which is considered to be the transaction price and the amount determined at initial recognition using the valuation technique. Any such differences are amortised on a straight line basis over the term of the loans to related parties.

In accounting for intra-group loans with non-market terms, the Company records gain or loss on origination and foreign currency exchange gain or loss within profit and loss for the year or directly in equity (within currency translation reserve) as a capital contribution. The method used reflects the transaction's economic substance and is applied consistently to all similar transactions and is disclosed in the financial statements. In consolidated financial statements the intra-group loans and the gain or loss on origination on those loans are eliminated, and foreign currency exchange gain or loss is consolidated to Group's currency translation reserve.

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.

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

Property, plant and equipment. Property, plant and equipment, excluding transport and other immaterial property are stated at cost, restated to the market price at the end of the reporting period.

Property, plant and equipment are subject to revaluation at market value 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.

2 Significant accounting policies (continued)

Increases in the carrying amount arising on revaluation of land and buildings are credited to other reserves in owners' 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 account for the year. The revaluation reserve for property, plant and equipment included in equity is transferred directly to accumulated deficit when the revaluation surplus is realised on the retirement or disposal of the asset.

For the purposes of the Group's property, plant and equipment, market value is determined on the basis of the reports of independent appraisers with an appropriate professional qualification as well as recent experience of the property valuation of the same nature and the same territory.

Accounting policies in terms of valuation are presented in Note 3.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

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

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amount and are recognised in profit or loss for the year within other operating income or costs.

Construction in progress intended for use as property, plant and equipment. Property, plant and equipment under construction is initially recognised at cost, and is subsequently carried at fair value, based on valuations by independent professionally qualified appraisers. During construction revaluation difference is recognised in other comprehensive income. After completion construction in progress gets revalued as at completion date, and any resulting adjustment is recognised in a revaluation reserve in respect to the asset.

Construction in progress comprises costs directly related to construction of the asset including an appropriate allocation of directly attributable variable overheads that are incurred in construction and qualifying borrowing costs.

2 Significant accounting policies (continued)

Construction in progress is not depreciated until commissioning. When the assets are ready for their intended use, their fair value is transferred to the appropriate classification within property, plant and equipment.

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

	Useful life	Annual rate of depreciation
	years	%
Buildings and construction	33-50	2-3
Machinery and equipment	13-33	3-8
Transport	10-14	7-10
Other	5-10	10-20

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

Investment property. Investment property represents buildings and warehouses owned by the Group to earn rentals and for capital appreciation, or both, and which is not occupied by the Group.

Investment property includes construction in progress intended for future use as investment property. Investment property is initially recognised at cost, and subsequently remeasured at fair value on the basis of annual valuation conducted by independent professional appraisers. During construction the assets are accounted for as investment property as described above. Construction in progress comprises costs directly related to construction of investment property including an appropriate allocation of directly attributable variable overheads that are incurred in construction and qualifying borrowing costs.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Determination of fair value is disclosed in Note 3.

If a valuation obtained for a property is net of all payments expected to be made, any related lease liability recognised separately in the statement of financial position is added back to arrive at the carrying value of the investment property for accounting purposes.

2 Significant accounting policies (continued)

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately. Gains or losses on disposal of investment property are calculated as proceeds less carrying amount. Where the Group disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in profit or loss for the year within net gain from fair value adjustment on investment property.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost for accounting purposes.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation of property, plant and equipment. Any resulting increase in the carrying amount of the property is recognised in profit or loss for the year to the extent that it reverses a previous impairment loss, with any remaining increase credited directly to other comprehensive income. Any resulting decrease in the carrying amount of the property is initially charged against any revaluation surplus previously recognised in other comprehensive income, with any remaining decrease charged to profit or loss for the year as impairment.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance lease balance outstanding. The corresponding rental obligations, net of future finance charges, are included into borrowings. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life. If the Company is not reasonably certain that it will obtain ownership by the end of the lease term, amortisation is accrued during the shorter lease term.

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

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

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

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

Value added tax ("VAT"). VAT related to sales is payable to the state budget when goods are shipped or services are rendered. Purchase VAT can be offset against sales VAT upon the receipt of a tax invoice from a supplier. Tax legislation allows the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a net basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Non-current VAT recoverable is stated at amortised cost using the effective interest rate method.

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

Inventories. Inventories are recorded at the lower of cost and net realisable value. When inventory is transferred to production or other disposal, cost is determined on the weighted average basis. The cost of finished goods and work in process comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion, selling, marketing and distribution expenses.

Trading property. Trading property is initially recognised at cost within current assets. Subsequently, trading property is recognised at the lower of cost and net realisable value. Cost of trading property includes purchase costs and costs for bringing the trading property to its current condition. The Group classifies property as trading property subject to the Management intentions at the moment of acquisitions.

2 Significant accounting policies (continued)

Trade and other receivables. Trade and other receivables are unquoted financial assets with fixed or determinable payments. Trade and other receivables are carried at amortised cost using the effective interest method.

Advances issued. Advances issued are carried at cost less provision for impairment. Advances issued are classified as non-current when the goods or services relating to the advances are expected to be obtained after one year, or when the advances issued relate to an asset which will itself be classified as non-current upon initial recognition.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period are included in other non-current assets.

Borrowings. Bank borrowings are initially recognised at fair value less any transaction costs directly attributable to the borrowings. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position.

Other interest bearing liabilities (including bonds) are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, other interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on the effective interest basis.

The coupon rate on some bonds of the Group are linked to the inflation rates in Kazakhstan. Bonds are treated as instruments with floating rates. Initially, the bonds are stated at fair value less transaction costs. Subsequently, bonds are stated at amortised cost using the effective interest rate method. Effective interest rate is determined annually to reflect the changes in estimated cash outflows resulting from the adjustment of the inflation rate. Inflation represents the forecasted data based on the prevailing inflation rates.

Loans and borrowings are classified as current liabilities except when the Group has the unconditional right to defer the settlement of the liability for at least one year after the reporting date.

In circumstances where the Group no longer has the unconditional right to defer settlement, due to default under the terms of a loan, all unamortised transaction costs and bond discounts are expensed immediately in in profit and loss accounts.

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 (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

2 Significant accounting policies (continued)

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

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale. Capitalisation of borrowing costs is suspended during the long-term periods of construction suspension.

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

Trade and other payables. Trade and other payables are recognised when the counterparty performed its obligations under the contracts. Trade and other payables are initially recognised at fair value and subsequently are carried at amortised cost using the effective interest method.

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

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

Sales are shown net of VAT and discounts.

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

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

Changes in presentation. Where necessary, corresponding figures have been reclassified to conform to the presentation of the current year amounts.

3 Critical accounting estimates and judgements

Financial restructuring and going concern

Current status of negotiations with the Group's Banks and Bond Holders

In the Group financial statements for the year ended 31 December 2009, it was reported that the Group was in breach of its obligations to EBRD, Development Bank of Kazakhstan, Eurasian Bank, Alliance Bank and that it had defaulted on the coupon payment on all of its bond issues.

In November 2010, Alliance Bank agreed to restructure its loan and to refinance the Eurasian Bank loan, a total of KZT 34.6 million. As at 30 March 2011, agreement was reached with 23 out of 24 First Issue Bond Holders representing 82% by value of the First Issue, and the amendments of the terms of prospectus became effective in respect of the Second, Third and Fourth Issues. Agreement has been reached with the last outstanding First Issue Bond Holder and documents are expected to be signed shortly. Accordingly at the date of this report, the Group remains in breach of its obligations only to EBRD and Development Bank of Kazakhstan and in relation to a lease agreement with Raiffeisen Bank for equipment which is no longer utilised by the Group. At the Date of this report approximately 60% of the Group's borrowings had been restructured.

A summary of the Group's debt position is shown below:

In thousands of US$	**31 March 2011 Unaudited**	**31 December 2010**	**31 December 2009**
Bank debt not in default	36,520	37,806	12,922
Alliance Bank JSC	34,105	34,763	-
Kazkommertsbank JSC	2,415	3,043	4,894
Eurasian Bank JSC	-	-	8,028
Bonds not in default (1)	109,778	9,999	101,855
Total Bank and Bonds not in default	**146,298**	**47,805**	**114,777**
Bank debt in default	96,213	95,410	132,124
Alliance Bank JSC	-	-	30,145
Development Bank of Kazakhstan JSC	57,666	59,185	59,145
EBRD	38,287	35,968	42,579
Raiffeisen Leasing Kazakhstan LLP	260	257	255
Bonds in default	7,207	90,558	-
Total Bank and Bonds in default	103,420	185,968	132,124
Total debt	**249,718**	**233,773**	**246,901**

Notes
1: Including capitalised unpaid coupon.

3 Critical accounting estimates and judgements (continued)

Alliance Bank

General terms of Alliance loan are set out in Note 29. In summary, the maturity of the loan has been extended to 2020 from 2013, the loan has been redenominated in KZT, which will reduce future currency risk, capital and interest payments have been suspended until March 2012 and the interest rate has been reset at 12.5%, a competitive market rate.

EBRD

The Group is close to finalising revised terms with EBRD; the major terms of the restructured loan facility have been agreed and we expect that these arrangements will be finalised in the first half of 2011.

Bonds

The Group has four issues of bonds ("Bonds").

	KZT million	**USD thousand**	**Maturity**
First Issue (KZ2CKY05B448)	4,000	27,137	2010
Second Issue (KZPC1Y05C020)	3,500	23,745	2011
Third Issue (KZPC2Y07C024)	3,500	23,745	2013
Fourth Issue (KZ2C0Y05D117)	12,000	81,411	2013

The First Issue matured on 18 February, 2010, and under Kazakh law, this ceased being a bond at that date and became a simple obligation of the company. This technical issue required the Group to reach separate agreement with each of the First Issue holders, although the principle underlying each separate agreement was that in all material respects each First Issue Holder should be treated equally. At the end of 2010, agreement had been reached with 17 bond holders of the First Issue with a combined value of USD 4 million or 4.3%. At the date of this report, agreement has been reached with 23 out of 24 of the First Issue Bond holders, representing 82%; in general terms, the First Issue Bond Holders have agreed to repayment in equal annual installments from 2015 to 2018 and to reduce the coupon to 6% from an effective coupon of 10.1% in 2009.

In February and March 2011, agreement was reached with all of the Fourth Issue Bond Holders and the required majority of the Second Issue and Third Issue Bond Holders to amend the terms of the prospectus. On 25 February 2011 the revised terms have been approved by Agency for financial regulation and supervision of the financial market and financial organizations ("AFN") at which point the amendments became effective and it is expected that the Bonds will resume trading on the Kazakhstan Stock Exchange in April 2011. The major terms agreed with the Bond Holders of the Second, Third and Fourth Issues, compared with the original terms, are as follows:

3 Critical accounting estimates and judgements (continued)

	Second Issue		Third Issue		Fourth Issue	
	Old terms	New terms	Old terms	New terms	Old terms	New terms
Maturity	2011	2026	2013	2028	2013	2028
Nominal coupon (1)	CPI*+1.5%, not more than 12%	13%	CPI*+1.5%, not more than 12%	13%	12%	13%

*CPI-Consumer price index

Note (1): No cash coupon is paid in 2011 and 2012, in 2013, the cash coupon paid is 1%, increasing by 1% per annum until 2019. Unpaid coupon is accrued and paid on maturity.

EBRD

The terms of the proposed agreement with EBRD, currently in discussion, remain confidential, although they have been designed in order that the Group should be able to service its obligations to all of its creditors based on the Group forecasts.

Development Bank of Kazakhstan ("DBK")

Detailed negotiations have been held with DBK.

On 21 January 2011, DBK applied to the court with the claim to recover debt owed by Astana Contract JSC and Paragon Development LLP. Such application can have two likely outcomes. First, an amicable agreement is reached with DBK, which is then approved by the court, which will allow the court to impose the conditions contained in such agreement. Second, no such amicable agreement is reached and DBK enforce their rights under the DBK Agreements, although the analysis performed by the Management suggests that this is unlikely to be economically advantageous to DBK.

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

Going concern. As explained above, the Group is in breach of its borrowing obligations with EBRD and DBK. Discussions are progressing with both parties but agreements on revising the terms of the loans with EBRD and DBK have not yet been reached. It is the Directors' belief that agreements will be reached with EBRD and DBK.

The terms of the agreements reached with Alliance Bank and the Group's Bond Holders require the Group to raise USD 5 million of new equity or quasi equity to strengthen the statement of financial position of the Group by the end of 2011. Based on the external advice received, subject to market conditions, the Directors are confident that these funds can be raised.

3 Critical accounting estimates and judgements (continued)

However, despite the positive discussions on these matters, due to (1) the ongoing nature of the talks with EBRD and DBK and that revised agreements regarding the Group's borrowings with these parties have not yet been achieved and (2) the requirement contained in the revised agreements with Alliance Bank and the Bond Holders to raise additional equity or quasi equity, the Directors have concluded that a material uncertainty exists in relation to the Group's ability to continue as a going concern and that the Group may not be able to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include the adjustments that would be necessary if the Group was unable to continue as a going concern.

However, the Management believe that agreements will be reached with EBRD and DBK on satisfactory terms and they remain confident, based on external advice and subject to market conditions, that sufficient new equity or quasi equity will be raised to fulfill the requirements contained in the agreements with Alliance Bank and the Bond Holders. Accordingly, based upon the current cash flow projections for the Group, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore the annual financial statements continue to be prepared on a going concern basis.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or 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; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

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.

3 Critical accounting estimates and judgements (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year.

Impairment of non-financial assets. The Group monitors internal and external indicators of impairment and conducts impairment tests of property, plant and equipment, investment property, trading property and intangible assets when impairment is identified.

At each reporting date the Group analyses the carrying amount of its assets to determine the indicators of impairment. For each asset with indicators of impairment and for goodwill, the recoverable amount of the asset is determined to assess the amount of impairment loss, if any. For the purposes of the impairment test, the assets are combined into groups at the lowest level for which there are separate identifiable cash flows (cash generating unit).

The recoverable amount of an asset is the higher of fair value less selling costs and value in use. When determining value in use, the future cash flows are discounted using the effective interest rate reflecting the current market value of time value of money and risks inherent for such asset.

If the recoverable amount of an asset (or group of assets generating cash flows) is lower than its carrying amount, carrying amount of the asset (or group of assets generating cash flows) is written down to recoverable amount. An impairment loss is recognised immediately in the consolidated statement of comprehensive income, unless the respective asset is carried at revalued cost, in which case, the impairment loss is considered as revaluation loss. Any excess of impairment loss over revaluation reserve is recognised in profit and loss accounts.

When an impairment loss is subsequently reversed, the carrying amount of assets (asset generating cash flows) is increased to a revised estimate of its recoverable amount, to the extent that the revised carrying amount does not exceed the carrying amount which would be determined if impairment loss had not been recognised for asset (asset generating the cash flows) for the previous periods. Any reversal of an impairment loss is recognised immediately in the consolidated statement of comprehensive income, if the respective asset is not carried at revalued cost; in this case, the reversal of the impairment loss is reflected as an increase in in profit and loss accounts.

As at 31 December 2010 the management reviewed the carrying amount of property, plant and equipment for impairment. The assets are tested for impairment on the basis of the reports of independent appraisers.

Valuation of property, plant and equipment, investment property and trading property. The Group used the report of independent appraisers for determination of fair value of its land and buildings classified as trading property, investment property, and property, plant and equipment.
Valuation of land is based on comparable sales, while valuation of buildings and investment property is based both on comparable sales and discounted future cash flows.

3 Critical accounting estimates and judgements (continued)

Estimation of discounted future cash flows is based on different assumptions, including future rental income, expected maintenance costs, future costs for development and respective discount rates.

Fair value of property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. A "willing seller" is not a forced seller prepared to sell at any price. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition. In the absence of current prices in an active market, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any change in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

Market value of the Group's property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Disclosure on the valuation of investment property, land and buildings is provided in Note 8.

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 the 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 annually 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.

VAT recoverable. The Group has significant recoverable VAT amounts due to construction works in 2008-2009. VAT is recoverable by offsetting VAT liabilities or other taxes. Management assessed the recoverability of VAT receivables outstanding as at 31 December 2010 based on anticipated future trading. Where the carrying value of the asset is insufficient to support the VAT recoverable, a provision is made against it. VAT recoverable is discounted using a discount rate that approximates the Group's borrowing costs at the date the VAT recoverable originated. The timing of future output VAT has been estimated based on Group forecasts and future asset disposals. Refer to Note 18.

4 New standards, amendments to standards or interpretations

(a) Standards effective for annual periods beginning on or after 1 January 2010

The new standards, amendments to standards or interpretations which were effective in the financial year beginning 1 January 2010 but which do not have a material effect on the Group's financial statements are described in the table below. There were no new standards, amendments to standards or interpretations, effective in the financial year beginning 1 January 2010, which impacted or are likely to have a future impact on the Group's financial statements.

Standard or interpretation	Content	Applicable for financial years beginning on or after
IFRIC 17	Distributions of Non-Cash Assets to Owners	1 July 2009
IFRIC 18	Transfers of Assets from Customers	1 July 2009
IAS 27	Consolidated and Separate Financial Statements	1 July 2009
IFRS 3	Business Combinations	1 July 2009
IFRS 2	Share-based Payment	1 January 2010
IAS 39	Financial Instruments: Recognition and Measurement	1 July 2009
IFRS 1	First-time Adoption of International Financial Reporting Standards	1 July 2009

(b) New accounting pronouncements

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 Group has not early adopted.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The following new standards, amendments to standards or interpretations are not yet effective but are not expected to have a material effect on the Group's financial statements:

Standard or interpretation	Content	Applicable for financial years beginning on or after
IFRS 9	Financial instruments: Classification and measurement	1 January 2013
IAS 32	Classification of Rights Issues	1 February 2010
IAS 24	Related Party Disclosures	1 January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2011
IFRIC 14	Prepayments of a Minimum Funding Requirement	1 January 2011
Amendment: IFRS 1	Limited exemption from comparative IFRS 7 disclosures for first-time adopters	1 July 2010
Amendment: IFRS 7	Disclosures—Transfers of Financial Assets	1 July 2011

5 Segment information

5.1. Products and services from which reportable segments derive their revenues

Senior management of the Group has defined the following operating segments in accordance with IFRS:

Paper	- Paper, corrugated board and packaging products
	- Other paper product trading
Logistics	- Container terminal services
	- Commercial warehousing
Property	- Property development and sale

The Paper Segment comprises the production and sale of paper and corrugated board, and until October 2010 the purchase and resale of paper products.

The Logistics Segment is represented by a container terminal in Almaty which provides container loading and offloading services, handling services and warehousing services through class A warehouses (“Paragon”) and class B warehouses (“PEAK”), both are located in Almaty. Logistics Segment also includes a partly constructed warehouse and container terminal construction in Astana (“Astana City Project”), owned by Astana Contract JSC. Assets related to Astana City Project are classified as property, plant and equipment (Note 15).

The Property Segment consists of approximately 700 hectares of land situated adjacent to PEAK and to the proposed site of the new Almaty belt-highway to the north of Almaty, purchased with the purpose of developing an industrial park (“Industrial Park”, owned by Kazakhstan Kagazy JSC, and by PEAK) and subsequent sale and construction of class B warehouses (“Logistics centre phase 2”) in Almaty region. Development work began in 2008 and was suspended in 2010 (Note 13). Assets related to the Industrial Park and the Logictics centre phase 2 are classified as investment properties (Note 16).

Information regarding the Group’s reportable segments is presented below.

5.2 Segment revenues and results

2010	**Paper**	**Logistics**	**Property**	**Unallocated**	**Total**
In thousands of US$					
Revenue*	60,590	8,786	-	-	**69,376**
Cost of sales*	(41,219)	(5,229)	-	-	**(46,448)**
Gross profit*	**19,371**	**3,557**	**-**	**-**	**22,928**
Revaluation of property, plant and equipment and investment properties	(21,511)	(25,477)	(502)	-	**(47,490)**
Administrative expenses	(9,864)	(5,130)	-	(1,316)	**(16,310)**
Distribution costs	(5,177)	(693)	-	-	**(5,870)**
Other operating expenses	(2,045)	(173)	-	231	**(1,987)**
Operating loss	**(19,226)**	**(27,916)**	**(502)**	**(1,085)**	**(48,729)**
Finance income	3,819	441	999	-	**5,259**
Finance costs	(4,972)	(6,433)	(10,714)	(332)	**(22,451)**
Loss before income tax	**(20,379)**	**(33,908)**	**(10,217)**	**(1,417)**	**(65,921)**

5 Segment information (continued)

* So as to free up the working capital in Kagazy Trading LLP, measures were taken in 2010 to reduce inventories, claim outstanding accounts receivable etc., the subsidiary, however, continues to exist as a legal entity. This does not qualify as discontinued operations as this subsidiary is a part of the Paper Segment. Revenue includes USD 7,241 thousand (10.4 % of total revenue), cost of sales includes USD 6,210 thousand (13.4 % of total cost of sales) and gross profit includes USD 1,031 thousand (4.5 % of total gross profit) related to Kagazy Trading LLP.

2009	**Paper**	**Logistics**	**Property**	**Unallocated**	**Total**
In thousands of US$					
Revenue	55,990	7,785	-	-	**63,775**
Cost of sales	(38,806)	(3,327)	-	-	**(42,133)**
Gross profit	**17,184**	**4,458**	**-**	**-**	**21,642**
Revaluation of property, plant and equipment and investment properties	(22,182)	(83,969)	(105,629)	-	**(211,780)**
Administrative expenses	(14,134)	(9,560)	-	(2,352)	**(26,046)**
Distribution costs	(4,853)	(912)	-		**(5,765)**
Other operating income	474	5,038	-	24	**5,536**
Operating loss	**(23,511)**	**(84,945)**	**(105,629)**	**(2,328)**	**(216,413)**
Finance income	8,461	7,457	-	3	**15,921**
Finance costs	(22,229)	(26,494)	(11,068)	(5)	**(59,796)**
Loss before income tax	**(37,279)**	**(103,982)**	**(116,697)**	**(2,330)**	**(260,288)**

Revenue reported above represents revenue generated from external customers. During the year there were inter-segment sales for a total of USD 1,596 thousand, including sales from the Logistics Segment to the Paper Segment for USD 1,595 thousand (2009: USD 618 thousand, including sales from the Logistics Segment to the Paper Segment for USD 616 thousand).

Kazakh head office expenses are distributed between operating segments in proportion to the share of segment revenue to total Group revenue.

The 2009 Logistics Sector revenue figure contains an amount of USD 2,484 thousand which relates to income from the previous operator of Paragon ("CALM") and which was not received and for which there were no associated costs of sales. The Group terminated its contract with the previous operator on 26 May 2009. The table below shows the Group Revenue and Logistics Segment revenue and gross profit excluding this amount.

	2009	
In thousands of US$	**Group**	**Logistics**
Revenue	61,291	5,301
Cost of Sales	(42,133)	(3,327)
Gross Profit	**19,158**	**1,974**

The Group has been operating Paragon since 1 April 2009.

5 Segment information (continued)

5.3. Segment assets and liabilities

In thousands of US$	**2010**	**2009**
Segment assets		
Paper		
Property, plant and equipment	79,779	98,301
Investment property	1,877	2,412
Assets held for sale	-	1,582
Other non-current assets	23,377	33,754
	105,033	**136,049**
Logistics		
Property, plant and equipment	87,687	105,970
Investment property	7,710	12,573
Other non-current assets	13,640	21,134
	109,037	**139,677**
Property		
Trading property	-	52,427
Investment property	140,230	87,281
	140,230	**139,708**
Total segment assets	**354,300**	**415,434**
Unallocated	1,123	83
Consolidated assets	**355,423**	**415,517**
Segment liabilities		
Paper	**(84,768)**	**(110,283)**
Logistics	**(86,571)**	**(76,619)**
Property	**(100,784)**	**(88,679)**
Total segment liabilities	**(272,123)**	**(275,581)**
Unallocated	(285)	(80)
Consolidated liabilities	**(272,408)**	**(275,661)**

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets and liabilities are allocated to reportable segments other than assets and liabilities which are recorded generally and allocated to each segment on the basis of revenues.

Segment liabilities mainly consist of the following (further details are disclosed in Note 3):

- First and Second Issue of bonds, and loan from EBRD, which were used for financing of the Paper Segment;
- Third and Fourth Issues of bonds and loans from DBK and Alliance bank, which were used for financing of the Logistics and the Property Segments.

5 Segment information (continued)

5.4 Other segment information

In thousands of US$	Depreciation and amortization		Capital expenditures	
	2010	2009	2010	2009
Paper	3,820	4,697	1,448	1,764
Logistics	1,171	1,075	6,533	9,858
Business acquisition	-	-	20	9,236
Total	**4,991**	**5,772**	**8,001**	**20,858**

5.5 Revenue from major products and services

The following is an analysis of the Group's revenue from continuing operations from sales of its major products and services.

In thousands of US$	2010	2009
Paperboard containers and boxes	53,079	41,800
Other paper products for resale	7,241	13,820
Container terminal services	3,765	3,373
Class A warehousing	3,869	3,556
Class B warehousing	1,153	960
Other (Paper & Logistics)	269	266
Total	**69,376**	**63,775**

5.6 Geographical information

The Group's principal business activities and operations are within the Republic of Kazakhstan. The Group's manufacturing facilities are primarily based in Kazakhstan.

5.7 Information about major customers

Revenue arising from sales to main customers of paper business total USD 40.8 million (2009: USD 41.8 million), logistics business totals USD 2,504 thousand (2009: USD 2,603 thousand). The Group has no customers which represent 10% or more of the revenue of the Group.

6 Cost of sales

In thousands of US$	**2010**	**2009**
Purchased paper	11,359	7,754
Waste paper	6,548	4,055
Goods for resale	6,210	11,589
Staff costs	5,800	4,900
Depreciation of property, plant and equipment	4,343	4,115
Chemicals	2,288	2,160
Utilities	1,915	1,529
Maintenance expenses	1,793	1,559
Natural gas	1,582	1,391
Other materials	865	822
Rail road expenses	726	337
Transport expenses	454	377
Vacation reserve	337	188
Security services	308	166
Fuel	251	228
Rent expenses	210	293
Insurance	152	40
Other	887	652
Total	**46,028**	**42,155**
Change in finished goods and work in process	420	(22)
Total cost of sales	**46,448**	**42,133**

7 Staff costs

In thousands of US$	**2010**	**2009**
Wages and salaries	12,351	12,706
Social security	1,174	1,230
Total staff costs	**13,525**	**13,936**

Employees

As at 31 December 2010, the Group had a total of 1,162 employees (2009: 1,283 employees).

7 Staff costs (continued)

Compensation of key management

The compensation of the Group's key management includes contract salaries, bonuses and annual leave allowances. This amount is included as part of administrative expenses in the consolidated statement of comprehensive income and totals USD 1,250 thousand, including bonuses of USD 155 thousand in 2010 (2009: USD 2,703 thousand, including bonuses of USD 1,643 thousand). Over the course of the reporting period the Group's key management personnel consisted of 8 key managers (2009: 12).

8 Revaluation of property, plant and equipment and investment properties

The accounting classification as a result of asset revaluations is as follows:

	Profit and Loss		Other comprehensive loss		Total	
In thousands of US$	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Property, plant and equipment (Note 15)	**(41,816)**	**(86,527)**	**502**	**(13,893)**	**(41,314)**	**(100,420)**
Land	(17,594)	(54,995)	(8,306)	(5,418)	(25,900)	(60,413)
Buildings and construction	(3,970)	(29,755)	8,925	(8,402)	4,955	(38,157)
Machinery and equipment	(11,782)	(1,344)	(186)	(67)	(11,968)	(1,411)
Transport and other property, plant and equipment	-	-	-	7	-	7
Construction in progress	(8,470)	(433)	69	(13)	(8,401)	(446)
Investment property (Note 16)	**(5,674)**	**(94,982)**	**(788)**	**-**	**(6,462)**	**(94,982)**
Land	5,617	(46,923)	(788)	-	4,829	(46,923)
Buildings and construction	(5,747)	(7,750)	-	-	(5,747)	(7,750)
Construction in progress	(5,544)	(40,309)	-	-	(5,544)	(40,309)
Trading property	-	**(27,858)**	**-**	**-**	**-**	**(27,858)**
Intangible assets	-	**(2,413)**	**-**	**-**	**-**	**(2,413)**
Total	**(47,490)**	**(211,780)**	**(286)**	**(13,893)**	**(47,776)**	**(225,673)**

The Group has determined the value of the Group's fixed assets (property, plant and equipment and investment properties) by reference to independent valuation reports conducted in accordance with Kazakh legislation, the Valuation Standards of the International Valuation Standards Committee by two appropriately qualified experts: Deloitte TCF LLP and Apprais Consult LLP.

In reaching their conclusions, the Valuers have used the following methods:

Land

All land has been valued using the comparative market approach.

8 Revaluation of property, plant and equipment and investment properties (continued)

Operating assets, including buildings, machinery and equipment

Operating assets have been valued on the depreciated replacement cost approach cross checked by reference to the income approach, which considers the net present value of expected future cash flows from the relevant operating assets.

Construction in progress

Construction in progress is valued on the basis of depreciated replacement cost provided that there is a reasonable expectation that the construction will be completed.

9 Administrative expenses

In thousands of US$	**2010**	**2009**
Staff costs	6,132	8,980
Provision against doubtful debts	2,499	7,700
Property tax and other taxes, than income tax	1,463	2,493
Professional fees	2,189	373
Insurance costs	421	599
Security costs	382	725
Audit costs	350	362
Business trip costs	347	161
Depreciation of property, plant and equipment	295	667
Procurement costs	201	335
Property and vehicle rental costs	200	1,125
Banking costs	206	467
Communication costs	151	209
Transportation costs	138	108
Utilities	94	130
Property, plant and equipment servicing and maintenance costs	84	162
Penalties and fines	65	687
Amortisation of intangible assets	6	3
Other administrative expenses	1,087	760
Total administrative expenses	**16,310**	**26,046**
Cost incurred in relation to restructuring (exceptional items)	**1,032**	**47**

Exceptional items

Included in the total administrative expenses are the costs incurred solely in relation to restructuring and represents consulting services, legal services and business trip expenses.

10 Distribution costs

In thousands of US$	**2010**	**2009**
Delivery costs	2,647	1,769
Staff costs	1,831	1,960
Storage costs	361	725
Property, plant and equipment servicing and maintenance costs	247	77
Cargo handling and forwarding costs	222	144
Raw materials procurement costs	208	269
Depreciation of property, plant and equipment	100	156
Marketing and advertising costs	63	144
Utilities	5	63
Amortisation of intangible assets	-	413
Other distribution costs	186	45
Total distribution costs	**5,870**	**5,765**

11 Other operating (expenses)/income

In thousands of US$	**2010**	**2009**
Gain/(loss) from disposal of other assets	63	(7)
Foreign exchange (loss)/gain	(807)	1,084
Loss from disposal of property, plant and equipment	(622)	(304)
Impairment of VAT recoverable	(538)	(880)
Provisions against impairment of inventories	(310)	(354)
Loss from sale of assets available for sale	(198)	-
Gain from reduction in deferred consideration (contingent element)	-	6,255
Other	659	(258)
Total other operating (expenses)/income	**(1,753)**	**5,536**

The gain from the reduction of deferred consideration relates to the Astana Contract acquisition in 2008. It arises from the reduction in the original purchase price and consists of a deferred (50%) and a contingent (50%) element. The deferred element of the gain from the reduction of the deferred consideration is disclosed in Note 13.

12 Loss from disposal of subsidiary

On 14 February 2010 Eko Trade Asia LLC, the subsidiary of Kazakhstan Kagazy JSC in Uzbekistan, was sold for USD 180 thousand. Loss from the disposal of this subsidiary was USD 234 thousand. This subsidiary was not material to the Group and did not qualify as discontinued operations.

13 Finance income and costs

In thousands of US$	2010	2009
Finance income		
Interest received on bank long-term deposits	74	2,513
Gain from reduction in deferred consideration (deferred element) (Note 11)	-	6,255
Gain on early bond redemption	-	1,102
Total interest income calculated using effective interest method	**74**	**9,870**
Foreign exchange gain on loans, net	5,230	3
Foreign exchange (loss)/gain on bank long-term deposits, net	(45)	6,048
Total finance income	**5,259**	**15,921**
Finance costs		
Loans and bonds interest	(21,307)	(27,817)
Less interest capitalised on bank loans	-	2,079
Bank and bond loans interest, net	**(21,307)**	**(25,738)**
Finance lease interest	(422)	(682)
Unwinding of discount - bonds	(915)	(1,041)
Unwinding of discount - deferred consideration	-	(1,257)
Unwinding of the discount and effect in changes in discount rates - VAT recoverable	1,999	(943)
Unwinding of the discount and effect in changes in discount rates - long term receivables	(599)	(194)
Total interest costs calculated using effective interest method	**(21,244)**	**(29,855)**
Fines and penalties	(937)	(511)
Foreign exchange loss on accelerated payment of deferred consideration	-	(2,893)
Foreign exchange loss on bank loans, net	-	(26,211)
Other finance costs	(270)	(326)
Total finance costs	**(22,451)**	**(59,796)**
Net finance costs	**(17,192)**	**(43,875)**

Finance costs in 2009 include a charge of USD 1,788 thousand related to the write off of previously unamortised costs in respect of borrowings in default at 31 December 2009. There were no such costs in 2010.

Fines and penalties are related to breach of terms of bank loans. In 2009 these penalties and fines were disclosed in administrative expenses, however management believes it is more appropriate to classify these as finance costs due to the nature of these costs and the fact that they are related to the financing of the Group. Prior year comparatives have been reclassified to conform to this presentation of the current year amounts.

As part of the ongoing discussions with DBK (Note 3) the Astana City Project has been suspended. The Group has suspended the capitalisation of the borrowing costs related to to DBK loan since 1 January 2010. Finance costs relating to the Astana City Project that were capitalised in the year ended 31 December 2009 amounted to USD 2,079 thousand.

13 Finance income and costs (continued)

The construction of the Industrial park and the Logistics centre phase 2 in Almaty (Note 5 and Note 16) have been suspended as disclosed in Note 3. This construction was partly financed by the Alliance Bank loan, which was refinanced in 2010 (Note 3). The Group has suspended the capitalisation of the borrowing costs related to this loan since 1 January 2010 due to suspension of the construction.

Foreign exchange loss on accelerated payment of deferred consideration (Note 31) relates to the deferred consideration payable under the Astana Contract acquisition which was payable in Tenge at a fixed US Dollar exchange rate of 121. The accelerated payment of deferred consideration of USD 13 milliion was translated at the exchange rate on the date of payment of 150.15 which generated a foreign exchange loss in 2009.

There were no early bond redemptions during the year.

14 Income taxes

a. Corporate income tax expenses

In thousands of US$	**2010**	**2009**
Current tax expense		
Local tax expense	-	-
Foreign tax expense	(307)	(19)
Total current tax expense	**(307)**	**(19)**
Under provision of deferred tax in prior years	160	-
Effect of change in tax rates (from 15% to 20% in Kazakhstan)	1,414	-
Origination and reversal of temporary differences	(11,187)	(16,164)
Total tax benefit	**(9,920)**	**(16,183)**
Factors affecting the tax charge for the year:		
Loss before tax	**(65,921)**	**(260,288)**
Income tax benefit at standard rate of tax in Kazakhstan of 20% (2009: 20%)	(13,184)	(52,058)
Tax effects of:		
Expenses not deducted for tax purposes	2,658	830
Change in unrecognised deferred tax asset	497	30,099
Non-taxable income	(254)	(1,610)
Over provision of deferred tax in prior years	(2,125)	-
Increase in future tax rate from 15 to 20% - profit and loss	1,414	5,388
Exemptions granted	1,074	1,168
Total tax benefit	**(9,920)**	**(16,183)**

The tax exemptions and tax holidays granted arise as a result of tax holidays granted to Kagazy Recycling LLP. The tax holiday in Kazakhstan Kagazy JSC expired in 2007. The balancing tax holidays were transferred to Kagazy Recycling LLP and are expected to expire in 2012.

On 10 December 2008 the President of the Republic of Kazakhstan approved a new Tax Code effective from 1 January 2009. Key changes are as follows: decrease in corporate income tax from 30% to 20% in 2009, up to 17.5% in 2010 and to 15% in 2011.

14 Income taxes (continued)

Further on 17 November 2009 the President of the Republic of Kazakhstan approved new amendments and modifications to the Tax Code. Key changes were as follows: extension of corporate income tax rate at 20% till 1 January 2003 and application of 17.5% in 2014 and 15% in subsequent periods.

On November 26, 2010, the President of the Republic of Kazakhstan approved amendments and modifications to the tax legislation. Changes stipulate that fixed corporate income tax rate is 20% without any changes in subsequent periods.

The interest on suspended construction (Note 13) is not deductible for income tax purposes.

b. Deferred tax liabilities

The opening and closing liability is analysed as follows:

	Property assets	Tax losses	Other	Total
As at 1 January 2009	**37,058**	**(2,936)**	**(1,521)**	**32,601**
Deferred tax on property, plant and equipment revaluation – other comprehensive income	(2,114)	-	-	(2,114)
Deferred tax - profit and loss	(20,155)	2,404	1,233	(16,518)
Property, plant and equipment depreciation temporary difference	354	-	-	354
Translation difference	(6,907)	532	275	(6,100)
As at 31 December 2009	**8,236**	**-**	**(13)**	**8,223**
Increase in future tax rate from 15% to 20% - profit and loss	1,418	-	(4)	1,414
Increase in future tax rate from 15% to 20% - other comprehensive income	1,327	-	-	1,327
Deferred tax on property, plant and equipment revaluation – other comprehensive income	(89)	-	-	(89)
Deferred tax - profit and loss	(9,498)	-	17	(9,481)
Property, plant and equipment depreciation temporary difference	(1,706)	-	-	(1,706)
Translation difference	471	-	-	471
As at 31 December 2010	**159**	**-**	**-**	**159**

The deferred income tax expense and deferred tax on revaluation of investment property were charged to profit and loss. The deferred tax liabilities arising on revaluation of property, plant and equipment were charged to reserves unless the downward revaluation of property, plant and equipment revaluation exceeded the previously recognised revaluation surplus, in which case the deferred tax was recognised in profit and loss.

Unrecognised temporary differences, primarily related to tax losses total USD 160.2 million (2009: USD 150.5 million), which would give rise to a deferred tax asset of USD 32.0 million (2009: 22.6 million). Management considered the likelihood of future taxable profits in the relevant entities and concluded that no asset should yet be recognised. Substantial part of the unrecognised deductible temporary differences expire in 2018.

The new Tax Code approved on 10 December 2008 allows losses incurred after 1 January 2009 to be carried forward for ten years. Losses incurred earlier can be carried forward for three years.

15 Property, plant and equipment

In thousands of US$	Land	Buildings and construction	Machinery and equipment	Transport	Other	Construction in progress	Total
Cost or valuation							
Balance as at 1 January 2009	**212,270**	**77,044**	**98,567**	**2,116**	**3,906**	**125,423**	**519,326**
Additions	4,667	865	407	101	394	9,821	**16,255**
Capitalisation of borrowing costs	-	-	-	-	-	2,079	**2,079**
Transferred from construction in progress	-	10,442	1,138	-	6	(11,586)	**-**
Reclassification into investment property	(98,235)		-	-	-	(100,103)	**(198,338)**
Reclassification from investment property	20,170	41,080					**61,250**
Reclassification into assets held for sale	-	-	(1,791)	-	-	-	**(1,791)**
Reclassification between property, plant and equipment groups	(292)	(182)	254	-	220	-	**-**
Revaluation through other comprehensive loss	(5,419)	(8,697)	168	7	2	(13)	**(13,952)**
Revaluation through profit and loss	(54,995)	(30,700)	(1,461)	-	-	(433)	**(87,589)**
Disposals	-	(455)	(536)	(232)	(358)	(106)	**(1,687)**
Translation differences	(21,632)	(14,375)	(18,414)	(371)	(766)	(4,727)	**(60,285)**
Balance as at 31 December 2009	**56,534**	**75,022**	**78,332**	**1,621**	**3,404**	**20,355**	**235,268**
Additions	-	590	926	68	246	6,151	**7,981**
Transferred from construction in progress	-	2	1,204	-	-	(1,206)	**-**
Reclassification with investment property	71	(552)	-	-	-	-	**(481)**
Reclassification from assets held for sale	-	-	1,332	-	-	-	**1,332**
Reclassification from intangible assets	-	-	-	-	1	-	**1**
Reclassification into between property, plant and equipment groups	-	301	(306)	(3)	7	-	**(1)**
Revaluation through other comprehensive loss	(8,306)	9,977	(824)	-	-	69	**916**
Revaluation through profit and loss	(17,594)	(4,211)	(13,464)	-	-	(8,470)	**(43,739)**
Disposals	-	(2)	(817)	52	(311)	-	**(1,078)**
Translation differences	412	532	565	2	21	148	**1,680**
Balance as at 31 December 2010	**31,117**	**81,659**	**66,948**	**1,740**	**3,368**	**17,047**	**201,879**

15 Property, plant and equipment (continued)

In thousands of US$	Land	Buildings and construction	Machinery and equipment	Transport	Other	Construction in progress	Total
Accumulated depreciation							
Balance as at 1 January 2009	**-**	**12,850**	**19,861**	**373**	**515**	**-**	**33,599**
Charges per year	-	1,679	3,217	147	306	-	**5,349**
Reclassification into assets held for sale	-	6	(215)	-	-	-	**(209)**
Reclassification between property, plant and equipments groups	-	-	-	-	-	-	**-**
Revaluation through other comprehensive loss	-	(295)	235	-	2	-	**(58)**
Revaluation through profit and loss	-	(945)	(117)	-	-	-	**(1,062)**
Disposals	-	(8)	(3)	(46)	(261)	-	**(318)**
Translation differences	-	(2,421)	(3,723)	(68)	(93)	-	**(6,305)**
Balance as at 31 December 2009	**-**	**10,866**	**19,255**	**406**	**469**	**-**	**30,996**
Charges per year	-	1,369	3,138	129	349	-	**4,985**
Reclassification from intangible assets	-	-	-	-	-	-	**-**
Reclassification between property, plant and equipments groups	-	4	(3)	2	(3)	-	**-**
Revaluation through other comprehensive loss	-	1,052	(638)	-	-	-	**414**
Revaluation through profit and loss	-	(241)	(1,682)	-	-	-	**(1,923)**
Disposals	-	(2)	(135)	(15)	(124)	-	**(276)**
Translation differences	-	79	136	2	-	-	**217**
Balance as at 31 December 2010	**-**	**13,127**	**20,071**	**524**	**691**	**-**	**34,413**
Carrying value							
As at 1 January 2009	**212,270**	**64,194**	**78,706**	**1,743**	**3,391**	**125,423**	**485,727**
As at 31 December 2009	**56,534**	**64,156**	**59,077**	**1,215**	**2,935**	**20,355**	**204,272**
As at 31 December 2010	**31,117**	**68,532**	**46,877**	**1,216**	**2,677**	**17,047**	**167,466**
Historical cost							
As at 1 January 2009	**133,692**	**47,485**	**62,418**	**1,656**	**3,290**	**125,616**	**374,157**
As at 31 December 2009	**135,227**	**91,324**	**52,753**	**1,152**	**2,908**	**22,476**	**305,840**
As at 31 December 2010	**109,810**	**98,373**	**37,957**	**1,152**	**2,648**	**19,168**	**269,108**

15 Property, plant and equipment (continued)

The Group has the legal right of ownership in respect of all its property, plant and equipment.

Refer to Note 29 f for details of the assets pledged as security for bank loans. Refer to Note 8 for details of external valuation of property, plant and equipment.

Additions to construction in progress in 2010 mainly represents construction equipment and materials for USD 5,760 thousand received to Astana city project in March 2010.

During the reporting period, the Group has incurred capital expenditures consisting of the road construction works at container terminal for USD 196 thousand related to compliance with the local customs requirements and the roofing and installation of ventilation equipment at Kagazy Recycling for USD 295 thousand. The Group has also purchased machinery and equipment for Kagazy Recycling for USD 864 thousand.

Assets under finance lease disclosed in Note 29 d.

Revaluation of property, plant and equipment is summarised in Note 8.

16 Investment property

In thousands of US$	**Land**	**Buildings and construction**	**Construction in progress**	**Total**
Balance as at 31 December 2008	**39,801**	**75,412**	**-**	**115,213**
Reclassification from property, plant and equipment	98,235	-	100,103	**198,338**
Additions	94	-	4,510	**4,604**
Changes of fair value through profit and loss	(46,923)	(7,750)	(40,309)	**(94,982)**
Revaluation through profit and loss	(20,170)	(41,080)	-	**(61,250)**
Translation differences	(26,404)	(14,152)	(19,102)	**(59,658)**
Balance as at 31 December 2009	**44,633**	**12,430**	**45,202**	**102,265**
Additions	-	-	19	**19**
Reclassification from trading property	52,822	-	-	**52,822**
Revaluation through other comprehensive loss	(788)	-	-	**(788)**
Revaluation through profit and loss	5,617	(5,747)	(5,544)	**(5,674)**
Reclassification (to)/from property, plant and equipment	(71)	552	-	**481**
Translation differences	296	69	327	**692**
Balance as at 31 December 2010	**102,509**	**7,304**	**40,004**	**149,817**

Revaluation of investment property is summarised in Note 8.

16 Investment Property (continued)

As a result of changes in IAS 40 effective 1 January 2009, construction in progress at the Industrial park of USD 198,338 thousand was transferred from trading property to investment property in 2009. It is the Group's intention to earn rental income from these assets. The revaluation reserve related to these assets was written off through retained earnings.

The reclassification of investment property to property, plant and equipment of USD 94,982 thousand in 2009 was due to the termination of the operating contract with CALM (Note 5). Accordingly, the asset has been classified to property, plant and equipment since 1 April 2009.

During 2010 the waste paper collection site in the Auezovskiy district of Almaty with a book value of USD 750 thousand was reclassified from investment property to property, plant and equipment, as these assets are no longer rented out and now used and operated by the Group.

As at 31 December 2010 Management reclassified the owner-occupied portion of PEAK with a book value of USD 1,231 from investment property to property, plant and equipment.

Reclassification of trading property to investment property is disclosed in Note 20.

As at 31 December 2010 the investment property comprises:

- the waste paper collection site owned by the Group's subsidiary Sibinvest LLC in Novosibirsk in Russia;
- PEAK warehouses available for rent to external parties;
- land plots with infrastructure and construction in progress related to Industrial park in Almaty region, for subsequent sale (Note 5); and
- construction in progress (class B warehouses) and land plots related to Logictics centre phase 2 in Almaty region (Note 5).

Details of the external valuation of investment property are disclosed in Note 8 and details of investment property pledged as security for bank loans are disclosed in Note 29 f.

17 Non-current advances for goods and services

In thousands of US$	**2010**	**2009**
Advances for construction contracts	2,540	10,252

Non-current advances are made to contractors in respect of construction projects and include advances with respect to construction of the Astana City Project. In 2010, the Group took ownership of metal constructions and equipment totaling USD 6,451 thousand which had been prepaid at the end of 2009.

18 VAT recoverable

Non-current VAT recoverable principally relates to input VAT in respect of the Astana City Project, as well as construction of Paragon and PEAK at the Industrial Park project.

Under Kazakh tax law, VAT receivables are recovered by offsetting future VAT liabilities. Non-current VAT represents amounts to be recovered after more than one year, therefore management discounts the VAT recoverable amounts using the Group's cost of borrowing (12.38% - 14%, depending on the date of origination) at the date the VAT originated and the estimated date of recovery.

Following a review by management of the timing of VAT recoveries based on expectations of future asset sales and trading forecasts, management have recognised USD 538 thousand in 2010 in other operating expenses. Unwinding of the present value discount and effect of changes in discount rates of USD 1,999 thousand is recognised in finance expenses.

In thousands of US$	**2010**	**2009**
VAT recoverable	14,334	19,843
Discount	(5,031)	(6,979)
Provision for impairment	(1,433)	(888)
Total VAT recoverable	**7,870**	**11,976**

19 Other non-current assets

In thousands of US$	**2010**	**2009**
Non-current accounts receivable	1,820	56
Non-current restricted cash	952	1,259
Total other financial non-current assets	**2,772**	**1,315**
Non-current part of deferred expenses	21	48
Total other non-current assets	**2,793**	**1,363**

Non current accounts receivable mainly includes discounted receivable from Kazvtorsiryo LLP of USD 1,771 thousand.

Non-current restricted cash in 2009 consisted of deposit balances with Uzbekskaya Yarmorka LLC.

As at 31 December 2010 non-current restricted cash consists of cash pledged as collateral to loans from EBRD (Note 29).

20 Trading property

Management has reassessed classification of the land acquired for the construction of the Industrial Park and Logistics centre phase 2 (Note 16) as investment property given the likely long term nature of the project.

21 Inventories

In thousands of US$	2010	2009
Raw materials	3,316	1,628
Major spare parts (paper)	1,829	1,958
Work in progress	532	438
Finished products	480	984
Goods	454	1,439
Other materials	1,708	1,346
Provisions against impairment	(1,055)	(741)
Total inventories	**7,264**	**7,052**

Provision against impairment		
Opening balance of provisions	**(741)**	**(495)**
Accrued provisions created in the year	(310)	(359)
Utilisation of provisions	-	20
Translation differences	(4)	93
Closing balance of provisions	**(1,055)**	**(741)**

EBRD (Note 29) has a charge on finished goods for a fixed dollar amount of USD 1,429 thousand as at 31 December 2010.

Spare parts primarily consist of spare components of paper production lines.

Other materials include packaging materials, minor spare parts, consumables and special clothing.

22 Advances for goods and services

In thousands of US$	**2010**	**2009**
Advances for goods and services	3,585	2,936
Provision against doubtful advances	(508)	(344)
Advances for goods and services, net	**3,077**	**2,592**

Provision against advances for goods and services		
Opening balance of provisions	**(344)**	**(493)**
Accrued for the reporting period	(11)	(42)
Utilisation of provisions	35	8
Reclassifications of provision from advances to trade receivable	(185)	(86)
Reversal of unused provisions	-	177
Translation difference	(3)	92
Closing balance of provisions	**(508)**	**(344)**

23 Other current assets

In thousands of US$	**2010**	**2009**
Restricted cash	14	8,147
Other financial current assets	**14**	**8,147**
Prepaid expenses	184	481
Total other current assets	**198**	**8,628**

Restricted cash amount in 2009 consisted of a restricted account with Kazkommertsbank JSC in accordance with EBRD loan agreement of USD 4,732 thousand and USD 3,404 thousand held in a deposit account with Eurasian Bank JSC. The deposits were held as a security for the loans. In 2010 these funds were withdrawn by EBRD and Eurasian Bank respectively for payments of loans and interest.

24 Trade and other receivables

In thousands of US$	2010	2009
Trade receivables	14,576	14,543
Other financial receivables	2,023	4,862
Provision against doubtful trade and other receivables	(10,062)	(10,178)
Net financial trade and other financial receivables	**6,537**	**9,227**
Other receivables	2,492	1,256
Receivables from employees	183	267
Interest receivable	1	2
Discounted other trade receivables	-	(177)
Provisions against other receivables	(1,874)	-
Other receivables, net	**802**	**1,348**
Other taxes recoverable	3,460	526
Total trade and other receivables	**10,799**	**11,101**

Provisions against doubtful trade and other receivables		
Opening balance of provisions	**(10,178)**	**(3,675)**
Accrued for the reporting period	(2,489)	(7,860)
Utilisation of provisions	11	1,277
Reclassification of receivables	792	(511)
Recovery of unused provisions	-	25
Translation differences	(72)	566
Closing balance of provisions	**(11,936)**	**(10,178)**

In 2010 other financial receivables include amounts receivable from Kagazy Processing LLP for USD 1,207 thousand, which was fully provided for in 2009.

In 2010 other receivables of USD 2,389 thousand include advances paid to Zeromax GMBH for purchases for Astana City Project. Provision for impairment was recognised in 2010 for USD 1,874 thousand. Other taxes recoverable include current VAT recoverable for USD 3,269 thousand, mainly in the Paper Segment.

Trade and other financial receivables are denominated as follows:

In thousands of US$	2010	2009
KZT	16,409	19,058
USD	146	303
EUR	40	44
Other	4	-
Total financial trade and other receivables, gross	**16,599**	**19,405**

24 Trade and other receivables (continued)

Analysis by credit quality of financial trade receivables is as follows:

	2010		2009	
In thousands of US$	Trade accounts receivable	Other receivables	Trade accounts receivable	Other receivables
Neither past due nor impaired trade receivables	2,650	1,886	4,741	230
Total neither past due nor impaired	**2,650**	**1,886**	**4,741**	**230**
Past due but not impaired				
up to 1 month	134	709	153	4,355
up to 2 months	136	46	82	14
up to 3 months	21	-	413	13
4 to 6 months	15	-	14	20
more than 6 months	22	-	113	1,376
Total past due but not impaired	**328**	**755**	**775**	**5,778**
Impaired				
30 to 60 days overdue	10	223	842	-
60 to 90 days overdue	643	9	616	2
90 to 120 days overdue	204	3	371	-
120 to 150 days overdue	125	11	246	-
150 to 200 days overdue	188	198	235	1
over 200 overdue	10,428	1,430	6,717	107
Total impaired	**11,598**	**1,874**	**9,027**	**110**
Less impairment provision	(10,062)	(1,874)	(10,178)	-
Net financial trade and other receivables	**4,514**	**2,641**	**4,365**	**6,118**

In 2010 impairment provision consists of provision for CALM LLP of USD 4,791 thousand, Kagazy Processing LLP of USD 1,203 thousand and Zeromax LLC of USD 1,874 thousand.

25 Cash and cash equivalents

In thousands of US$	2010	2009
Cash held at banks in Tenge	2,102	1,671
Cash held at banks in currencies other than Tenge	1,367	256
Cash in transit	10	1
Cash on hand	88	39
Total	**3,567**	**1,967**

26 Current assets held for sale

In 2010, the Group sold a corrugated paper making machine with carrying value USD 248 thousand. A sheet cutting and paper packing machine for USD 1,334 was reclassified as property, plant and equipment, as it no longer meets criteria for assets held for sale as at 31 December 2010. The Group has no assets held for sale as at 31 December 2010.

27 Share capital

In thousands of US$	**2010**	**2009**
Authorised		
150,000,000 Ordinary shares of USD 0.10 each	15,000	15,000
Allotted, issued and fully paid		
104,700,000 Ordinary shares of USD 0.10 each	10,470	10,470

28 Loss per share

Basic loss per share is calculated as a ratio of the loss after taxation divided by the weighted average number of ordinary shares.

In thousands of US$	**Loss for the year**	**Weighted average number of ordinary shares**	**Basic loss per share, US cent**
Year ended			
31 December 2010 (Basic)	(56,001)	104,700,000	(53)
31 December 2009 (Basic)	(244,105)	104,700,000	(233)

There are no other dilutive shares, hence no diluted loss per share is disclosed.

29 Borrowings

In thousands of US$	2010	2009
Non-current:		
Bonds net of discount	-	79,649
Bank loans	31,471	-
Finance leases	1,157	3,208
Total non-current borrowings	**32,628**	**82,857**
Current:		
Bonds net of discount	100,557	22,206
Bank loans	98,445	139,897
Finance leases	2,143	1,941
Total current borrowings	**201,145**	**164,044**
Total borrowings	**233,773**	**246,901**
Interest payable:		
Bonds	11,617	3,477
Bank loans	15,407	4,820
Finance leases	90	103
Total interest payable	**27,114**	**8,400**
Total borrowings and interest payable	**260,887**	**255,301**

The net book value of assets pledged as collateral is disclosed in Note 29 f.

a. Interest rates

The nominal interest rates at the end of the reporting period are as follows (principal amounts):

In thousands of US$	2010	%	2009	%
Development Bank of Kazakhstan	59,185	10	59,145	10
EBRD	35,968	5.241*	42,579	8.5*
Alliance Bank JSC	34,763	12.5	30,145	12-14
Kazkommertzbank JSC	3,043	8.57-12.5	4,894	8.57-12.5
Raiffeisen Leasing Kazakhstan LLP	257	11.479	255	11.479
Eurasian Bank JSC	-	-	8,028	10
Total principal bank loans and finance lease	**133,216**		**145,046**	

*The interest rate is reset semiannually, based on Euribor and depending on the Group's financial ratios.

29 Borrowings (continued)

The bonds are listed on the Kazakhstan Stock Exchange with coupon rates as follows (principal amounts):

In thousands of US$	**2010**	**2009**
Floating rate bonds at par value 2.5% p.a. + inflation	19,456	22,242
Discount on bonds	-	(36)
Floating rate bonds at par value 1.5% p.a. + inflation	46,909	46,574
Discount on bonds	(630)	(929)
Fixed rate bonds 12% p.a.	36,840	36,577
Discount on bonds	(2,018)	(2,573)
Total bonds (net of discount)	**100,557**	**101,855**

b. Repayment dates of borrowings

The repayment dates of the Group's borrowings as at 31 December 2010 are as follows:

Bank loans and bonds:	**2010**				
In thousands of US$	**1 year or less**	**1 - 2 years**	**2 – 5 years**	**More than 5 years**	**Total**
Fixed rate	117,009	598	11,230	19,643	**148,480**
Floating rate	109,017	-	-	-	**109,017**
Total	**226,026**	**598**	**11,230**	**19,643**	**257,497**

Finance leases:	**2010**				
In thousands of US$	**1 year or less**	**1 - 2 years**	**2 – 5 years**	**More than 5 years**	**Total**
Fixed rate	615	615	410	-	**1,640**
Floating rate	1,618	132	-	-	**1,750**
Total	**2,233**	**747**	**410**	**-**	**3,390**

Borrowings total:	**2010**				
In thousands of US$	**1 year or less**	**1 - 2 years**	**2 – 5 years**	**More than 5 years**	**Total**
Fixed rate	117,624	1,213	11,640	19,643	**150,120**
Floating rate	110,635	132	-	-	**110,767**
Total	**228,259**	**1,345**	**11,640**	**19,643**	**260,887**

29 Borrowings (continued)

The repayment dates of the Group's borrowings as at 31 December 2009 are as follows:

Bank loans and bonds:

In thousands of US$	2009 1 year or less	1 - 2 years	2 – 5 years	More than 5 years	Total
Fixed rate	102,565	-	34,005	-	**136,570**
Floating rate	67,835	23,349	22,295	-	**113,479**
Total	**170,400**	**23,349**	**56,300**	**-**	**250,049**

Finance leases:

In thousands of US$	2009 1 year or less	1 - 2 years	2 – 5 years	More than 5 years	Total
Fixed rate	610	610	1,017	-	**2,237**
Floating rate	1,434	1,391	190	-	**3,015**
Total	**2,044**	**2,001**	**1,207**	**-**	**5,252**

Borrowings total:

In thousands of US$	2009 1 year or less	1 - 2 years	2 – 5 years	More than 5 years	Total
Fixed rate	103,175	610	35,022	-	**138,807**
Floating rate	69,269	24,740	22,485	-	**116,494**
Total	**172,444**	**25,350**	**57,507**	**-**	**255,301**

c. Currency of borrowings

The Group's borrowings are denominated in the currencies below. The Group's foreign exchange risk is limited to those bank loans denominated in USD and EUR.

In thousands of US$	2010 KZT	USD	EUR	Total
Bank loans and bonds:				
Fixed rate	82,827	67,292	-	**150,119**
Floating rate	73,185	-	37,583	**110,768**
Total	**156,012**	**67,292**	**37,583**	**260,887**

In thousands of US$	2009 KZT	USD	EUR	Total
Bank loans and bonds:				
Fixed rate	40,791	66,343	31,672	**138,806**
Floating rate	72,856	-	43,639	**116,495**
Total	**113,647**	**66,343**	**75,311**	**255,301**

29 Borrowings (continued)

Alliance Bank

On 1 November 2006 credit line facility was concluded with Alliance Bank for a total of EUR 5.5 million, and subsequently the facility was increased to EUR 74.4 million. Throughout 2006 - 2007 six tranches were obtained for the purpose of construction of PEAK. On 5 November 2010 the outstanding debt was restructured, which included reconsideration of the major loan terms such as interest rate, currency and maturity as discussed in Note 3.

Development Bank of Kazakhstan

On 24 December 2007 Paragon Development LLP concluded a loan agreement with Development Bank of Kazakhstan for the amount of USD 39.4 million with loan term up to 2017. The loan was obtained with the aim of refinancing debt from Halyk Bank of Kazakhstan, which initially was taken to finance the construction of Paragon in Almaty region.

On 28 January 2008 Astana Contract JSC concluded a loan agreement with the Development Bank of Kazakhstan for a total amount of USD 56.8 million to be repaid in 2020. The loan was obtained to finance the Astana City Project.

As at 31 December 2010 the Group was in default in relation to its loans from DBK as discussed in Note 3.

EBRD

On 25 May 2007 Kagazy Recycling signed a loan agreement with European Bank for Reconstruction and Development for the amount of EUR 33 million repayable in 2014. The loan was obtained with the purpose of financing the paper business projects. In October 2008 the Group received the full amount as per loan agreement.

As at 31 December 2010 the Group was in default in relation to its loan from EBRD as discussed in Note 3.

d. Finance leases

As at 31 December 2010, the Group had leases with Kazkommertsbank JSC and Raiffeisen Leasing Kazakhstan LLP. The leased equipment consists of three elements of corrugated paper producing equipment with carrying value of USD 7,759 thousand and power generators with carrying value of USD 281 thousand for paper plant. Such assets are classified as finance leases, as the Group has the right to purchase the assets at the end of the minimum lease term by paying a nominal amount.

29 Borrowings (continued)

Finance lease payables and their present values as at 31 December 2010 are as follows:

Finance leasing:	**2010**				
In thousands of US$	**1 year or less**	**1 - 2 years**	**2 – 5 years**	**More than 5 years**	**Total**
Finance lease payments	2,371	847	429	-	3,647
Finance costs	(228)	(100)	(19)	-	(347)
Present value of lease payable as at 31 December 2010	**2,143**	**747**	**410**	**-**	**3,300**

Finance lease payables and their present values as at 31 December 2009 are as follows:

Finance leasing:	**2009**				
In thousands of US$	**1 year or less**	**1 - 2 years**	**2 – 5 years**	**More than 5 years**	**Total**
Finance lease payments	2,354	2,182	1,395	-	5,931
Finance costs	(413)	(181)	(188)	-	(782)
Present value of lease payable as at 31 December 2009	**1,941**	**2,001**	**1,207**	**-**	**5,149**

e. Default and breaches

As at 31 December 2010, the Group was in breach of its obligations in respect of loans from EBRD (USD 35,968 thousand) and Development Bank of Kazakhstan (USD 59,185 thousand). Thus, each of the banks specified above, in accordance with terms of the loan agreements and following due procedures, could claim immediate redemption of debt as well as respective collateral.

As at 31 December 2010 a restructuring agreement had been signed with Alliance Bank JSC and agreement was reached with 20 (17 of First Issue, 2 of Second Issue, 1 of Third issue) Bond Holders with a total value of USD 44,761 thousand.

See note 3 for the current status of negotiations with EBRD and DBK.

29 Borrowings (continued)

f. Fixed assets held as security for Borrowings

As at 31 December 2010, the net book value of physical assets pledged as security for bank loans was as follows:

In thousands of US$	Alliance bank	EBRD*	DBK	KKB	Raiffeisen leasing	Total
Property, plant and equipment	**4,360**	**59,310**	**62,152**	**7,759**	**281**	**133,862**
Land	235	3,560	26,084	-	-	29,879
Buildings and construction	3,733	20,947	36,049	-	-	60,729
Machinery and equipment	392	33,671	19	7,759	281	42,122
Construction in progress	-	137	-	-	-	137
Equipment for installation	-	177	-	-	-	177
Transport facilities	-	412	-	-	-	412
Others	-	406	-	-	-	406
Investment property	**68,373**	**-**	**-**	**-**	**-**	**68,373**
Land	67,852	-	-	-	-	67,852
Buildings and construction	521	-	-	-	-	521
Total	**72,733**	**59,310**	**62,152**	**7,759**	**281**	**202,235**

*EBRD has security over the shares in Kagazy Recycling LLP in addition to the fixed assets set out in this table.

29 Borrowings (continued)

As at 31 December 2009, the net book values of physical assets pledged as security for bank loans was as follows:

In thousands of US$	Alliance bank	EBRD	Eurasian Bank	DBK	KKB	Raiffeisen leasing	Total
Property, plant and equipment	**1,264**	**76,596**	**3,720**	**81,416**	**9,980**	**422**	**173,398**
Land	-	4,842	541	46,046	-	-	51,429
Buildings and construction	1,264	19,353	3,097	35,316	-	-	59,030
Machinery and equipment	-	44,290	-	54	9,980	422	54,746
Construction in progress	-	83	-	-	-	-	83
Equipment for installation	-	7,145	-	-	-	-	7,145
Transport facilities	-	412	-	-	-	-	412
Others	-	471	82	-	-	-	553
Investment property	**23,486**	**745**	**18,493**	**-**	**-**	**-**	**42,724**
Land	23,486	250	7,956	-	-	-	31,692
Buildings and construction	-	495	10,537	-	-	-	11,032
Trading property	**26,526**	**-**	**6,000**	**-**	**-**	**-**	**32,526**
Land	26,526	-	6,000	-	-	-	32,526
Total	**51,276**	**77,341**	**28,213**	**81,416**	**9,980**	**422**	**248,648**

30 Other non-current payables

In thousands of US$	2010	2009
Other non-current payables	26	250
Total other non-current payables	**26**	**250**

31 Trade and other payables

In thousands of US$	2010	2009
Trade payables to suppliers and contractors	2,412	1,550
Payable to related parties (Note 33)	145	6
Total financial trade payables	**2,557**	**1,556**
Debt related to purchase of Astana Contract (Notes 13, 34, 36)	2,000	2,000
Assessment liability related to VAT payment	1,746	1,734
Advances received	871	558
Provision for vacation leave	654	575
Wages and salaries payable	579	586
Pensions	114	126
Other current liabilities	2,418	3,602
Total trade and other payables	**10,939**	**10,737**

Management considers that the carrying amount of trade and other payables approximates their fair value due to short-term nature of trade and other payables.]

Other current liabilities consist of fines and penalties accrued on loans (Note 13) of USD 882 thousand (2009-USD 876 thousand).

Trade payables are denominated in the following currencies:

In thousands of US$	2010	2009
USD	1,687	1,111
KZT	480	56
EUR	315	382
GBP	75	7
Total financial trade payables	**2,557**	**1,556**

32 Other taxes payable

In thousands of US$	2010	2009
VAT payable	266	33
Withholding tax	53	486
Income tax	32	95
Property tax	15	118
Social tax	13	91
Environmental payments	9	8
Other taxes	9	12
Total other taxes payable	**397**	**843**

33 Transactions with related parties

For the purposes of these financial statements, 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.

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

Tomas Mateos Werner	Chairman of the Company's Board of Directors
Werner Capital Management Limited	Owned by Tomas Mateos Werner
Werner Capital Advisory Limited	Owned by Tomas Mateos Werner
Theta Investment Holdings Limited (BVI)	Owns 23.9% share Kazakhstan Kagazy PLC and is owned by Tomas Mateos Werner
Frajon Holdings Limited	Owns 23.9% share of Kazakhstan Kagazy PLC
SP Angel Corporate Finance LLP	Beneficial owner 100% of Frajon Holdings Limited

In 2009 the Group was involved in transactions with related parties such as sales and purchase of property, plant and equipment, leasing of premises. In 2010 transactions with related parties consisted solely of payments to SP Angel Corporate Finance LLP for financial advisory services provided.

Below the details on such transactions are shown:

Amounts due to related parties:

In thousands of US$	**2010**	**2009**
SP Angel Corporate Finance LLP (Note 31)	145	6

Goods and services provided by related parties:

In thousands of US$	Nature of services	**2010**	**2009**
SP Angel Corporate Finance LLP	Consulting services	511	6

34 Contingencies, commitments and operating risks

Political and economic situation in the Republic of Kazakhstan

In general, the economy of Kazakhstan continues to display the characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a 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 paper and logistics sectors in Kazakhstan are still impacted by political, legislative, fiscal and regulatory developments in Kazakhstan. The prospects for future economic stability in the Republic of 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 Group carries out its principal business in the Republic of Kazakhstan. The laws and legislative acts which regulate the business in the Republic of Kazakhstan are subject to regular changes, and therefore the Group's assets and transactions might be subject to risk due to adverse changes in the political and economic environment.

Taxation

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

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained.

On 5 July 2008, the new law on transfer pricing was introduced, which is effective from 1 January 2009. Under this law international transactions and transaction related to international ones and meeting specific criteria are subject to state control. This law prescribes Kazakhstan companies to maintain and, if required, to provide economic rationale and method of the determination of prices used in international transactions, including existence of the documentation supporting the prices applied. In case of deviation of transaction price from market price the tax authorities have the right to adjust taxable base and to impose additional taxes, fines and interest penalties.The transfer pricing law in some areas lacks detailed clear-cut guidance as to how its rules should be applied in practice (for example the form and content of documentation supporting the discounts), and determination of the Company's tax liabilities within the context of the transfer pricing regulations requires an interpretation of transfer pricing law.

34 Contingencies, commitments and operating risks (continued)

On 26 November 2010, the President of the Republic of Kazakhstan approved amendments and modifications to the tax legislation. Changes stipulate that fixed corporate income tax rate is 20% without any changes in subsequent periods.

Litigation

Deferred consideration of Peak Aksenger

On 21 April 2009, KK PLC agreed to guarantee ("KK PLC Guarantee") the obligation of PEAK Aksenger LLP to pay USD 2 million ("Guaranteed Amount") for the final installment of the consideration to the vendors of Astana Contract ("Vendors") on the earlier of 10 April 2010 and the date that the founder shareholders reduced their shareholding in the Company below 33% (combined), subject to there being an equivalent sum owing under the original sale and purchase agreement as subsequently amended (the deferred consideration).

On 14 September 2009, the Vendors issued a statutory demand notice for payment of the full amount of the KK PLC Guarantee .

On 8 February 2010 PEAK Aksenger LLP submitted a claim in the Almaty court against the Vendors. for a sum in excess of the guaranteed amount.

After the reporting period, on 27 January 2011 an agreement with Vendors such that it was agreed that no amounts were due to either party and the stutory demand was withdrawn.

ATF Bank

On 24 February 2010 the Group has applied a claim against ATF Bank to adjudge illegitimate actions taken by ATF Bank in putting on sale and auctioning warehousing equipment, shelving and software, which forms an integral part of warehousing complex (class A warehouses), since in addition to the pledge agreements entered into by the Bank and CALM Group additional agreements were signed, conferring upon the Group a status of a keeper of the property for a period of two years. The Group is currently negotiating with the bank for redemption of the collateral.

Development Bank of Kazakhstan

On 28 February 2011 Kazakhstan Kagazy JSC announced it intends to enter into legal proceedings with Development Bank of Kazakhstan to reach mutually beneficial agreement with a view to Bank Loan Agreements. See note 3.

Insurance

The Group holds the following insurance policies:

- Voluntary property insurance and insurance of break in production
- Compulsory employees' insurance against incidents while performing their official duties
- Insurance on civil and legal liabilities of vehicle owners
- Insurance of customs brokers' liability
- Compulsory environmental insurance

Purchase commitments

The Group has no significant purchase commitments as at 31 December 2010 (2009: nil).

35 Financial Instruments – risk management

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

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

Principal categories of financial instruments

In thousands of US$	**2010**	**2009**
Financial assets		
Cash and cash equivalents (Note 25)	3,567	1,967
Trade receivables, other financial receivables (Note 24), gross	16,599	19,405
Other non-current assets (Note 19)	1,820	56
Restricted cash (Notes 19, 23)	966	9,406
Total financial assets	**22,952**	**30,834**
Financial liabilities		
Trade and other payables (Note 31)	(2,557)	(1,556)
Borrowings (Note 29)	(260,887)	(255,301)
Other non-current payables (Note 30)	(26)	(250)
Total financial liabilities	**(263,470)**	**(257,107)**
Net position	**(240,518)**	**(226,273)**

Currency risk

Foreign exchange risk is caused by foreign exchange changes which impact the Group and might have an adverse effect on the Group's financial results. The Group carries out certain transactions in a foreign currency. The Group does not use any derivative instruments to manage its foreign exchange risk, meanwhile the Group intends to minimise this risk by managing cash assets and liabilities in a foreign currency at the same (relatively stable) level.

35 Financial instruments – risk management (continued)

The Group's maximum exposure to foreign exchange risk by class of assets as at 31 December 2010 and 2009 is shown below:

Assets	**USD denominated**		**EUR denominated**	
In thousands of US$	**2010**	**2009**	**2010**	**2009**
Cash and cash equivalents	69	8	237	93
Current trade receivables	146	303	40	44
Total assets	**215**	**311**	**277**	**137**
Liabilities				
Borrowings	(59,185)	(64,142)	(35,968)	(72,724)
Trade payables	(480)	(56)	(315)	(382)
Interest payable	(8,107)	(2,201)	(1,615)	(2,588)
Total liabilities	**(67,772)**	**(66,399)**	**(37,898)**	**(75,694)**
Net position	**(67,557)**	**(66,088)**	**(37,621)**	**(75,557)**

The Group primarily is subject to the following foreign exchange fluctuations: USD/KZT and EUR/KZT. The following table shows the Group's sensitivity to a 10% increase/(decrease) in KZT against the relevant foreign currency. 10% is the sensitivity level used in internal reports on foreign exchange risk for key management, and represents assessment by Management of potential foreign exchange changes. The sensitivity analysis includes only unsettled financial assets denominated in a foreign currency and adjusts their conversion as of the period ended by 10% change in foreign exchange rates. Sensitivity analysis also includes external loans. Positive figures below show increase in profit, where KZT gains by 10% against a relevant currency. When KZT is weakened by 10% against a relevant currency, the adverse effect will be made on a relevant currency and balances will be negative.

	USD effect (for foreign subsidiaries)		**EUR effect (for foreign subsidiaries)**	
In thousands of US$	**2010**	**2009**	**2010**	**2009**
Profit	6,756	6,609	3,762	7,556

Interest rate risk

The Group is subject to interest rate risk due to changes in the market cost of interest-bearing borrowings. The detailed analysis of Group borrowings specifying appropriate interest rates and maturities is provided in note 29.

35 Financial instruments – risk management (continued)

As at 31 December 2010 for borrowings with floating interest rate the Group is subject to potential market risk in relation to changes in Euribor rates. The table below summarises the effect on net profit of change in Euribor by 1 percent with all other variables held constant:

	Interest rate effect	
In thousands of US$	**2010**	**2009**
Profit	585	1,063

The table below shows the ratings of the banks and account balances with such banks as of the reporting date:

In thousands of US$	Rating agency	Rating	2010	2009
Eurasian Bank	Moody's	B1 - (long-term)	1,756	719
HSBC Kazakhstan	Moody's	-	1,010	14
ATF Bank	Moody's	Ba2 - (long-term)	205	49
Capital Bank of Uzbekistan	-	-	160	236
Kazkommertzbank	Moody's	Ba3 - (long-term)	137	275
RBS NB Uzbekistan CJSC	-	-	-	375
Others	Not applicable	-	201	259
Total cash at banks			**3,469**	**1,927**

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources.

The Group seeks to maintain a stable funding base primarily consisting of borrowing, trade and other payables.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

Refer to Note 29 for repayments dates on loans and borrowings.

Current liquidity situation of the Group is described in Note 3.

35 Financial instruments – risk management (continued)

The table below shows liabilities at 31 December 2010 by their remaining contractual maturity.

2010	**Maturity dates**					
In thousands of US$	**Up 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Financial liabilities						
Trade and other payables	-	(879)	(1,678)	-	-	**(2,557)**
Other non-current payables	**-**	-	-	(26)	**-**	**(26)**
Total financial liabilities	**-**	**(879)**	**(1,678)**	**(26)**	**-**	**(2,583)**

The table below shows liabilities at 31 December 2009 by their remaining contractual maturity.

2009	**Maturity dates**					
In thousands of US$	**Up 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Total**
Financial liabilities						
Trade and other payables	-	(78)	(1,478)	-	-	**(1,556)**
Other non-current payables	**-**	-	-	(250)	**-**	**(250)**
Total financial liabilities	**-**	**(78)**	**(1,478)**	**(250)**	**-**	**(1,806)**

36 Events after reporting date

Significant new contracts

On 21 January 2011 the Group signed a five year contract with Avon Cosmetics (Kazakhstan). Under this contract, Avon has leased 5,000 m2 of space at Paragon representing approximately 10% of the available space. Following the conclusion of this contract, Paragon was 63% utilised.

Sale of unutilised assets

Following the transfer of the Group's operations at Kazupack LLP to the Kagazy Recycling LLP production site, the Kazupack production site was sold on 25 January 2011 for USD 1,157 thousand.

Agreements with Bond Holders

On 25 February 2011 the amendments to the prospect of the Fourth Issue of bonds with a total value of USD 82.2 million was registered with AFN and on 18 March 2011, the amendments to the Second and Third Issues was registered with Agency on financial regulations. Summary details of the amended terms of these bonds are set out in Note 3.

Deferred consideration of Peak Aksenger

Following the year end the Group entered into negotiations with Vendors of Astana Contract in relation to the deferred consideration payable to the Group and a settlement agreement was reached on 27 January 2011 (Note 31, 34).