

**AZIA AVTO JSC**

**Independent Auditor's Report and  
Financial Statements for the year  
ended 31 December 2010**





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## STATEMENT OF THE MANAGEMENT'S RESPONSIBILITY FOR PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31.12.2010

The statement below, which should be read in conjunction with the independent auditor's responsibilities stated in the independent auditor's report on pages 3-4 is made with a view to distinguish the respective responsibilities of the independent auditors and the management in relation to the financial statements of AZIA AVTO JSC (hereinafter "the Company").

The management of the Company is responsible for the preparation of the financial statements that present fairly in all material aspects the financial position of the Company as at 31 December 2010 and its financial performance, cash flows and changes in equity for the year then ended in accordance with International Financial Reporting Standards (hereinafter "IFRS").

In preparing the financial statements the management is responsible for:

- selecting appropriate accounting principles and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- complying with IFRS or disclosing of all material departures from IFRS in the Notes to the financial statements; and
- preparing the financial statements based on the assumption that the Company will continue as a going concern in foreseeable future unless it is inappropriate to presume that such assumption is reasonable.

The management is responsible for:

- designing, implementing and maintaining the internal control system needed for preparation of the financial statements throughout the Company;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Kazakhstan;
- taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- detecting and preventing fraud and other irregularities.

The accompanying financial statements for the year ended 31 December 2010 were approved for issue on 31 March 2011 by the management of the Company.

**President**  
AZIA AVTO JSC



**E.O. Mandiyev**

**Chief Accountant**  
AZIA AVTO JSC

**G.V.Mokina**



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Licenses:

General State License on audit activity #0000276 issued by Ministry of Finance of RK dated 24.06.2004 (original license #0000001 AK Kazakhstanaudit was reregistered due to change of name to BDO Kazakhstanaudit).



"APPROVED"

Managing partner  
General Director  
BDO Kazakhstanaudit LLP

S.Kh. Koshkimbayev

March 31, 2011

## INDEPENDENT AUDITOR'S REPORT

### Shareholders of AZIA AVTO JSC

We have audited the accompanying financial statements of AZIA AVTO JSC (hereinafter "the Company"), which comprise the statement of financial position as at 31 December 2010 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other notes to the financial statements.

### *Management's responsibility for the financial statements*

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

### *Auditor's responsibility*

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

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

The logo for BDO, consisting of the letters 'BDO' in a bold, blue, sans-serif font. The 'B' and 'D' are connected, and the 'O' is separate. A red horizontal line is positioned below the letters.

reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2010, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Auditor**

Qualifying Certificate #0000480 issued by  
Qualifying Commission of RK on attestation  
of auditors dated 12.10.1999



**E.B. Kapayeva**

**STATEMENT OF COMPREHENSIVE INCOME**  
(all amounts are presented in KZT thousands)

	Note	31.12.2010	31.12.2009
Proceeds from sale of own products	14	7 354 749	3 559 540
Proceeds from sale of other inventories and services provided	15	597 992	1 816 437
Cost of own products sold	16	( 5 476 511)	( 2 690 210)
Cost of other inventories sold and services provided	17	( 594 611)	( 1 783 933)
<b>Gross profit</b>		<b>1 881 619</b>	<b>901 834</b>
Expenses on sale of products and provision of services	18	( 580 828)	( 281 094)
Administrative expenses	19	( 503 547)	( 581 365)
Other gains (loss)	21	( 272 865)	( 96 161)
<b>Operating income (loss)</b>		<b>524 379</b>	<b>( 56 786)</b>
Finance income	20	120 233	99 228
Finance costs	20	( 271 381)	( 826 510)
<b>Profit (loss) before tax</b>		<b>373 231</b>	<b>( 784 068)</b>
Corporate income tax savings (expenses)	22	( 214 142)	74 455
<b>Net profit (loss)</b>		<b>159 089</b>	<b>( 709 613)</b>
Other comprehensive income		-	-
<b>COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD</b>		<b>159 089</b>	<b>(709 613)</b>
<b>Basic and diluted earnings/(loss) per share (KZT)</b>	13	<b>1 591</b>	<b>( 7 096)</b>

*The accompanying Notes are an integral part of these financial statements.*

**President**  
**AZIA AVTO JSC**

**Chief Accountant**  
**AZIA AVTO JSC**



**E.O. Mandiyev**

**G.V.Mokina**

**STATEMENT OF FINANCIAL POSITION**  
(all amounts are presented in KZT thousands)

	Note	31.12.2010	31.12.2009
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	189 500	34 416
Trade and other receivables	6	477 461	315 757
Accounts receivable from related parties	6	1 312 218	2 396 578
Advances paid		1 046 101	128 587
Income tax prepayment		958	756
Inventories	7	1 403 372	1 059 142
<b>Total current assets</b>		<b>4 429 610</b>	<b>3 935 236</b>
<b>Non-current assets</b>			
Property, plant and equipment	8	3 289 738	3 346 974
Intangible assets	9	405	186
Trade receivables	6	12 979	14 763
Accounts receivable from related parties	6	652 065	27 291
<b>Total non-current assets</b>		<b>3 955 187</b>	<b>3 389 214</b>
<b>Total assets</b>		<b>8 384 797</b>	<b>7 324 450</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Loans and borrowings	10	5 231 727	5 111 442
Trade and other payables	11	206 409	175 286
Accounts payable to related parties	11	124 439	102 732
Advances received		381 728	30 941
Provisions	12	183 291	20 077
<b>Total current liabilities</b>		<b>6 127 594</b>	<b>5 440 478</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	22	339 256	125 114
<b>Total non-current liabilities</b>		<b>339 256</b>	<b>125 114</b>
<b>Equity</b>			
Share capital	13	1 417 846	1 417 846
Property, plant and equipment revaluation provision		928 520	981 310
Accumulated loss		( 428 419)	( 640 298)
<b>Total equity</b>		<b>1 917 947</b>	<b>1 758 858</b>
<b>Total liabilities and equity</b>		<b>8 384 797</b>	<b>7 324 450</b>

*The accompanying Notes are an integral part of these financial statements.*

**President**  
**AZIA AVTO JSC**

**Chief Accountant**  
**AZIA AVTO JSC**



**E.O. Mandiyev**

**G.V.Mokina**



**STATEMENT OF CHANGES IN EQUITY**  
(all amounts are presented in KZT thousands)

	Share capital	Property, plant and equipment revaluation provision	Retained earnings (loss)	Total
Balance at 1 January 2009	1 417 846	1 068 338	( 17 713)	2 468 471
Comprehensive income (loss) for the period	-	-	( 709 613)	( 709 613)
Property, plant and equipment depreciation carried forward	-	( 87 028)	87 028	-
Balance at 31 December 2009	1 417 846	981 310	( 640 298)	1 758 858
Comprehensive income (loss) for the period	-	-	159 089	159 089
Property, plant and equipment depreciation carried forward	-	( 52 790)	52 790	-
Balance at 31 December 2010	1 417 846	928 520	( 428 419)	1 917 947

*The accompanying Notes are an integral part of these financial statements.*

**President**  
AZIA AVTO JSC

**Chief Accountant**  
AZIA AVTO JSC



**E.O. Mandiyev**

**G.V.Mokina**



**STATEMENT OF CASH FLOWS (direct method)**  
(all amounts are presented in KZT thousands)

<i>Items</i>	Note	2 010	2 009
<b>I. Cash flows from operating activities</b>			
<b>1. Cash inflow, total</b>		7 982 047	4 619 244
including:			
goods, services, works sold		7 598 462	4 616 617
advances received		381 728	
other receipts		1 857	2 627
<b>2. Cash outflow, total</b>		(7 928 692)	(3 291 988)
including:			
payments to suppliers for goods and services	23	(6 371 788)	(2 302 870)
advances paid		(1 046 102)	(30 941)
salaries paid		(182 763)	(165 869)
loan interest paid	23	(81 686)	(660 901)
corporate income tax paid		(202)	(1 168)
payments to the budget		(189 606)	(60 527)
other payments		(56 545)	(69 712)
<b>3. Net cash flows from operating activities</b>		<b>53 355</b>	<b>1 327 256</b>
<b>II. Cash flows from investing activities</b>			
<b>1. Cash inflow, total</b>		9 056	18 432
including:			
sale of property, plant and equipment		9 056	18 432
other receipts			
<b>2. Cash outflow, total</b>		(91 022)	(379 847)
including:			
acquisition of property, plant and equipment		(83 625)	(26 154)
acquisition of intangible assets		(411)	
financial aid granted to other entities		(6 986)	(353 693)
<b>3. Net cash used in investing activities</b>		<b>(81 966)</b>	<b>(361 415)</b>
<b>III. Cash flows from financing activities</b>			
<b>1. Cash inflow, total</b>		1 328 196	1 644 631
including:			
loans received	23	1 328 196	1 644 631
<b>2. Cash outflow, total</b>		(1 144 501)	(2 823 224)
including:			
loans repaid	23	(1 144 501)	(2 823 224)
<b>3. Net cash flows from/(used in) financing activities</b>		<b>183 695</b>	<b>(1 178 593)</b>
<b>Total: Increase (decrease) in cash</b>		<b>155 084</b>	<b>(212 752)</b>
Cash and cash equivalents at the beginning of the reporting period		34 416	247 168
Cash and cash equivalents at the end of the reporting period		189 500	34 416

The accompanying Notes are an integral part of these financial statements.

President  
AZIA AVTO JSC

Chief Accountant  
AZIA AVTO JSC



*(Handwritten signature)*

E.O. Mandiyev

G.V.Mokina



## **1. CORPORATE INFORMATION**

### **(a) Organization and core activities**

AZIA AVTO JSC (hereinafter “the Company”) is a joint stock company established and operating in the Republic of Kazakhstan.

Legal address of the Company: 101/1, Bazhov str., Ust-Kamenogorsk, East Kazakhstan region, Republic of Kazakhstan.

The Company is registered with the East Kazakhstan Department of Justice (State Registration Certificate of Legal Entity No. 150-13-1917-AO dated 20.12.2002). The Company was re-registered due to change of its legal structure (Re-Registration Certificate No. 150-13-1917-AO dated 05.05.2005 issued by the East Kazakhstan Department of Justice).

The Company’s core activity is assembly of cars: VAZ-21214, SKODA OCTAVIA, SKODA SUPERB, SKODA FABIA, SKODA YETI, Chevrolet Captiva, Chevrolet Epica, Chevrolet Lacetti, Chevrolet Aveo, Chevrolet Cruze, KIA Mohave, KIA Sorento, KIA Cerato.

In 2010 the Company started assembly of new models: SKODA FABIA, SKODA YETI, Chevrolet Aveo, Chevrolet Cruze, KIA Mohave, KIA Sorento, KIA Cerato.

Cars manufactured by the Company have a status of «Kazakhstan Goods».

The company has branches and representative offices disclosed in Note 1 (b).

The core activity of branches is sale of products from their warehouses pursuant to orders of the Company.

Number of employees is 320 persons and 282 persons as at 31 December 2010 and 2009 accordingly.

### **(b) The Company’s structure**

<b>Division</b>	<b>Location</b>
Central office. Car assembly plant	RK, Ust-Kamenogorsk, Bazhov street, 101/1
Astana Branch	RK, Astana, Bogenbai avenue, 73/1
Almaty Branch	RK, Almaty, Mailin street, 240
Pavlodar Branch	RK, Pavlodar, Torgovaya street, 2/1
Shymkent Branch	RK, Shymkent, Temirlanovskoe highway, w/n
Karaganda Branch	RK, Karaganda, Satybaldin street, 7
Aktau Branch	RK, Aktau, 1 district, premises of GSK Hazar
Ust-Kamenogorsk Branch	RK, Ust-Kamenogorsk, Nezavisimost avenue, 92/1
Aktobe Branch	RK, Aktobe, Moldagulova street, 54b
Kostanai Branch	RK, Kostanai, Ordzhonikidze street, 54
Uralsk Branch	RK, Uralsk, S.Datov street, 28/1
Atyrau Branch	RK, Atyrau, Elevatornyi proyezd, 7a
Semipalatinsk Branch	RK Semey, Shugayev street, 162 b
Petropavlovsk Branch	RK, Petropavlovsk, Yubileynaya street, 14
Moscow representative office	Russian Federation, Moscow
Togliatti representative office	Russian Federation, Togliatti



Czech representative office

Czech Republic, Prague

The Company's financial statements were approved for issue on 31 March 2011 by the Company's Management.

## **2. BASIS FOR PREPARATION**

The financial statements have been prepared on a historical cost basis, unless otherwise stated in the accounting policies and notes to these financial statements.

The financial statements are presented in Kazakhstan tenge (hereinafter "KZT"), and all values are rounded to the nearest thousand, unless otherwise stated.

### **Statement of Compliance**

The Company's financial statements are prepared according to the International Financial Reporting Standards (hereinafter "IFRS") as issued by the International Accounting Standards Board (hereinafter "IASB") and Interpretations of the International Financial Reporting Interpretations Committee (hereinafter "IFRIC").

### **Business environment of the Company**

In the reporting year Kazakhstan automobile market was influenced by three key factors: enactment of uniform custom duties (and subsequently preferential regime for import of vehicles by individuals), extension of new import car deliveries by the importers and transition of buyers from crisis "saving" strategy to more active dissaving.

All above factors contributed to resuscitation of new cars market, this tendency sustained from May 2010 to the end of the reporting period. In February 2010 vehicle preordering system was introduced providing the buyers with the extremely wide choice of variants, preferential fixed cost of cars and guaranteed delivery terms.

In May 2010 the Company acquired the fourth strategic partner in the name of Korean Concern KIA Motors.

Launching of this brand worldwide bestseller – C-Class Sedan KIA Cerato – and average-sized off-road vehicles KIA Sorento and KIA Mohave became the first stage of AZIA AVTO JSC's cooperation with the Korean Concern.

In May 2010 AZIA AVTO started production of C-Class Sedan Chevrolet Cruze. The Company also started batch production of Chevrolet Aveo sedan and hatchback.

In December 2010 the plant started batch production of Skoda Yeti crossover and Skoda Fabia compact car.

In December 2010, with the Government support, the Company began construction of additional railroad tracks which use will allow doubling of the entity's logistic system capacity.

In June 2010 the RK Government and AZIA AVTO JSC signed the Agreement for Industrial Car Assembly. This document is signed based on the agreements earlier ratified by the Customs Union member-states. Besides, in accordance with the Decision No. 169 of the Customs Union Commission dated 27 January 2010, AZIA AVTO JSC joined the motor-car manufacturers entitled for duty-free movement of products throughout the territory of the Customs Union.

Market collapse in 2008-2009 made it impossible for the Company to make one-time large payments under the bonds matured in the early 2010. This situation was aggravated by the bank's requirement to immediately repay all credit obligations by the Company ahead of schedule. However the Company paid coupon interest to holders of bonds in a timely manner.

As for the first issue bonds, East Kazakhstan Oblast Specialised Interdistrict Economic Court, having considered the reasons of delay and plans to repay these obligations, granted 1 year



suspension for AZIA AVTO JSC to repay debts to KKB Group under the first issue bond loan (Note 10).

Besides, the Company signed agreement for repayment in installments for the period of 2-3 years with the majority of bond holders (Note 10).

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Changes in Accounting Policies and Disclosure Principles**

Adopted accounting policies are in line with the accounting policies used in the previous reporting period except for the fact that as at 01.01.2010 the Group first adopted the following new and revised standards and interpretations.

#### **New and amended standards and interpretations applicable to the December 2010 year-end**

##### ***IFRS 1 First-time Adoption of International Financial Reporting Standards***

Additional exemptions for companies adopting IFRS for the first time.

Effective for annual periods beginning on or after 1 January 2010.

IFRS 1 introduces amendments providing exemptions from full retrospective application of IFRS for the measurement of oil & gas assets and leases.

These amendments rendered no influence on the Company financial statements as the Company is not a first-time adopter.

##### ***IFRS 2 Group Cash-settled Share-based Payment Arrangements***

Effective for annual periods beginning on or after 1 January 2010.

IFRS 2 has been amended to clarify the accounting for group cash-settled share-based payment transactions, where a subsidiary receives goods or services from employees or suppliers but the parent or another entity in the group pays for those goods or services. The amendments clarify that the scope of IFRS 2 includes such transactions. The amendment incorporates the guidance from IFRIC 8 Scope of IFRS 2 and IFRIC 11 Group and Treasury Share Transactions and hence both IFRIC 8 and IFRIC 11 have been withdrawn.

These amendments rendered no influence on the Company financial statements as there were no such transactions in the reporting period.

##### ***IFRS 3 Business Combinations (Revised)***

Effective for periods beginning on or after 1 July 2009.

A change to the scope of IFRS 3 increases the number of transactions to which it must be applied, by including combinations of mutual entities and combinations without consideration (e.g., dual listed shares).

These amendments rendered no influence on the Company financial statements as there were no such transactions in the reporting period.

##### ***IAS 27 Consolidated and Separate Financial Statements (Amendment)***

Effective for periods beginning on or after 1 July 2009.

The most significant changes to IAS 27 are as follows:



- Changes in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss.

- Losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as 'minority interests'); even if the losses exceed the non-controlling equity investment in the subsidiary.

- On loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognised on disposal.

These amendments rendered no influence on the Company financial statements as there were no acquisitions of ownership interests in subsidiaries.

### ***IAS 39 Financial Instruments: Recognition and Measurement — Eligible hedged items (Amendment)***

Effective for periods beginning on or after 1 July 2009.

The final amendment addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

An entity can designate the changes in fair value or cash flows related to a one-sided risk as the hedged item in an effective hedge relationship. In most cases, the intrinsic value of a purchased option hedging instrument, but not its time value, reflects a one-sided risk in a hedged item.

The designated risks and portions of cash flows or fair values in an effective hedge relationship must be separately identifiable components of the financial instrument. Additionally, the changes in cash flows or fair value of the entire financial instrument arising from changes in the designated risks and portions must be reliably measurable.

The amendment indicates that inflation is not a separately identifiable risk and cannot be designated as the hedged risk unless it represents a contractually specified cash flow.

These amendments rendered no influence on the Company financial statements as the Company does not hedge its operations.

### ***IFRIC 17 Distributions of Non-cash Assets to Owners***

Effective for annual periods beginning on or after 1 July 2009.

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

The interpretation applies to all non-reciprocal distributions of non-cash assets, including those giving the shareholders a choice of cash or other assets, provided that:

- All owners of the same class of equity instruments are treated equally
- The non-cash assets distributed are not ultimately controlled by the same party before and after the distribution (i.e., excluding transactions under common control)

An entity must recognise a liability for the distribution when it is no longer at the discretion of the entity (i.e., when shareholder approval is obtained, if required).

The liability is initially recognised at the fair value of the assets to be distributed and is remeasured at the end of each reporting period and immediately before settlement.



At settlement date, the difference between the carrying amount of the assets to be distributed and the liability is recognised in profit or loss as a separate line item.

IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

These changes render no influence on the Company financial statements as there were no distributions of non-cash assets to owners.

### **Improvements to International Financial Reporting Standards (issued 2009)**

**The improvements to IFRSs stated below resulted, where applicable to the Company, in modification of accounting policies, but rendered no influence on the Company financial position and performance.**

#### ***IFRS 2 Share-based Payment***

Scope of IFRS 2 and revised IFRS 3

The amendment clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of IFRS 2.

#### ***IFRS 5 Non-current Assets Held for Sale and Discontinued Operations***

Disclosures.

The Amendment clarifies that the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations are only those set out in IFRS 5.

#### ***IFRS 8 Operating Segments***

Disclosure of information about segment assets

Segment assets and liabilities need only be reported when those assets and liabilities are included in measures used by the chief operating decision maker.

#### ***IAS 1 Presentation of Financial Statements***

Current/non-current classification of convertible instruments

The terms of a liability that could at anytime result in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

#### ***IAS 7 Statement of Cash Flows***

Classification of expenditures on unrecognised assets

Only expenditure that results in a recognised asset can be classified as a cash flow from investing activities.

#### ***IAS 17 Leases***

Classification of land and buildings

The specific guidance on classifying land as a lease has been removed so that only the general guidance remains.

#### ***IAS 36 Impairment of Assets***

Unit of accounting for goodwill impairment testing



The largest unit permitted for allocating goodwill acquired in a business combination is the operating segment defined in IFRS 8 before aggregation for reporting purposes.

### ***IAS 38 Intangible Assets***

Consequential amendments arising from IFRS 3

If an intangible acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognise the group of intangibles as a single asset provided the individual assets have similar useful lives.

Measuring fair value

The valuation techniques presented for determining the fair value of intangible assets acquired in a business combination are only examples and are not restrictive on the methods that can be used.

### ***IAS 39 Financial Instruments: Recognition and Measurement***

Assessment of loan prepayment penalties as embedded derivatives

A prepayment option is considered closely related to the host contract when the exercise price reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract.

Scope exemption for business combination contract

The scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, not derivative contracts where further actions are still to be taken.

Cash flow hedge accounting

Gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges or recognised financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.

### ***IFRIC 9 Reassessment of Embedded Derivatives***

Scope of IFRIC 9 and IFRS 3

IFRIC 9 does not apply to possible reassessment at the date of acquisition to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture.

### ***IFRIC 16 Hedges of a Net Investment in a Foreign Operation***

Amendment of the restriction on the entity that can hold hedging instruments. Qualifying hedging instruments may be held by any entity within the group, provided the designation, documentation and effectiveness requirements of IAS 39 are met.

## **New and amended standards and interpretations applicable to December 2011 year-ends**

### ***IFRS 1 First-time Adoption of International Financial Reporting Standards***

Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters

Effective for annual periods beginning on or after 1 July 2010, early adoption is permitted.



IFRS 1 has been amended to allow first-time adopters to utilise the transitional provisions in IFRS 7 Financial Instruments: Disclosures as they relate to the March 2009 amendments to the standard. These provisions give relief from providing comparative information in the disclosures required by the amendments in the first year of application.

To achieve this, the transitional provisions in IFRS 7 were amended to clarify that the disclosures need not be provided for:

- Annual or interim periods, including any statement of financial position, presented with an annual comparative period ending before 31 December 2009, and
- Any statement of financial position as at the beginning of the earliest comparative period as at a date before 31 December 2009.

These amendments will not influence the Company financial statements as the Company is not a first-time adopter.

#### ***IAS 24 Related Party Disclosures (Revised)***

Effective for annual periods beginning on or after 1 January 2011, early adoption is allowed either for partial exemption for the government-related entities or the revised standard as whole.

The definition of a related party has been clarified to simplify the identification of related party relationships, particularly in relation to significant influence and joint control.

A partial exemption from the disclosures has been included for government-related entities. For these entities, the general disclosure requirements of IAS 24 will not apply. Instead, alternative disclosures have been included, requiring:

- The name of the government and the nature of its relationship with the reporting entity
- The nature and amount of individually significant transactions
- A qualitative or quantitative indication of the extent of other transactions that are collectively significant.

The Company will analyse the revised definition of related parties to be sure that all required information will be disclosed in the financial statements for the year ended 31.12.2011

#### ***IAS 32 Financial Instruments: Presentation***

##### ***Classification of Rights Issues (Amendment)***

Effective for annual periods beginning on or after 1 January 2011, early adoption is permitted.

The definition of a financial liability has been amended to classify rights issues (and certain options or warrants) as equity instruments if:

- The rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments
- In order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

This amendment will not influence the Company financial statements as no such transactions are expected.

#### ***IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)***

Effective for annual periods beginning on or after 1 January 2011. The amendment is adopted retrospectively as at the beginning of the earliest of the reporting period presented in the first financial statements where the Company applied initial edition of this interpretation



IFRIC 14 provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

This amendment will not influence the Company financial statements as the Company has no pension assets.

#### ***IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments***

Effective for annual periods beginning on or after 1 July 2010, early adoption is permitted.

IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with paragraph 41 of IAS 39 Financial Instruments; Recognition and Measurement. The equity instruments issued are measured at their fair value, unless this cannot be reliably measured, in which case they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss.

If only part of a financial liability is extinguished, the entity needs to determine whether part of the consideration paid relates to a modification of the liability outstanding. If so, the consideration paid is allocated between the two parts.

The interpretation does not apply where the creditor is acting in the capacity of a shareholder, common control transactions, and where the issue of equity shares was part of the original terms of the liability.

This amendment will not influence the Company financial statements as the Company does not expect any issue of equity instruments to be provided to a creditor to repay a financial liability.

#### **Improvements to International Financial Reporting Standards (issued 2010)**

- IFRS 1 First-time Adoption of International Financial Reporting Standards. Accounting policy changes in the year of Adoption.
- IFRS 1 First-time Adoption of International Financial Reporting Standards. Revaluation basis as deemed cost.
- IFRS 1 First-time Adoption of International Financial Reporting Standards. Use of deemed cost for operations subject to rate regulation.
- IFRS 3 Business Combinations. Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS.
- IFRS 3 Business Combinations. Measurement of non-controlling interests.
- IFRS 3 Business Combinations. Un-replaced and voluntarily replaced share-based payment awards.
- IFRS 7 Financial Instruments Disclosures. Clarification of disclosures.
- IAS 1 Presentation of Financial Statements. Clarification of statement of changes in equity.
- IAS 27 Consolidated and Separate Financial Statements. Transition requirements for amendments made as a result of IAS 27 Consolidated and Separate Financial Statements.
- IAS 34 Interim Financial Reporting. Significant events and transactions.
- IFRIC 13 Customer Loyalty Programmes. Fair value of award credit.

**New and amended standards and interpretations issued that are effective subsequent to December 2011 year-ends*****IFRS 9 Financial Instruments***

Effective for annual periods beginning on or after 1 January 2013.

The first phase of IFRS 9 Financial Instruments addresses the classification and measurement of financial assets. The Board's work on the other phases is ongoing and includes classification and measurement of financial liabilities, impairment of financial instruments, hedge accounting and derecognition of financial instruments, with a view to replacing IAS 39 Financial Instruments: Recognition and Measurement in its entirety by early 2011.

Phase 1 of IFRS 9 applies to all financial assets within the scope of IAS 39. The key requirements of IFRS 9 are as follows.

At initial recognition, all financial assets are measured at fair value.

***Debt instruments***

Debt instruments may (if the Fair Value Option is not invoked) be subsequently measured at amortised cost if:

- The asset is held within a business model whose objective is to hold the assets to collect the contractual cash flows;
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

All other debt instruments are subsequently measured at fair value.

***Equity investments***

All equity investment financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Entities must make an irrevocable choice for each instrument, unless they are held for trading, in which case they must be measured at fair value through profit or loss.

**Foreign Currency Translation**

The financial statements are presented in KZT, which is the functional currency of the Company. Foreign currency transactions are initially accounted for in the functional currency at the exchange rate effective as at the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated at the functional currency exchange rate as at the reporting date. All exchange differences are taken to the statement of comprehensive income.

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

Weighted average exchange rates fixed on the Kazakhstan Stock Exchange ("KASE") are used as the official exchange rates in the Republic of Kazakhstan.

The following table shows the KZT exchange rates:

	31.12.2010	31.12.2009
U.S. dollar	147,50	148,36
Euro	195,23	212,84
Russian Ruble	4,84	4,92



### Property, plant and equipment

Property, plant and equipment is stated at revalued cost. All property is revalued to fair value, which is a market value or, for specialized machinery and equipment, a depreciated replacement value. Any revaluation surplus is credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset, in which case the increase is recognised in the statement of comprehensive income. A revaluation deficit is recognised in the statement of comprehensive income, except to the extent that it offsets an existing surplus on the same asset, in which case the deficit is recognised in the asset revaluation reserve. Revaluation surplus is attributed directly to retained income as far as revaluation surplus is exercised (through natural wear and at the time of final disposal).

At their acquisition property, plant and equipment are carried at the price of acquisition with the expenses required to bring an asset to a working condition and location. Revaluation is performed at least once in 3-5 years. The subsequent expenses are included into the carrying amount of an asset or recognized as a separate asset, as appropriate, only when it is likely that the future economic benefits associated with the asset will be transferred to the Company and the cost of the asset can be reliably estimated. All other repair and maintenance expenses are recognized in the statement of comprehensive income for the financial period in which they were incurred.

Where a separate item of the property, plant and equipment consists of primary components with different useful lives, they are accounted for as separate items of property, plant and equipment. Value of property, plant and equipment constructed with the own resources includes the cost of materials, labor costs, and related overheads. Repairs and maintenance are expenses as performed.

Expenses for reconstruction and modernisation are capitalised and replaced items are written off. Profit or loss from assets written off is charged to financial performance as written off.

Depreciation of property, plant and equipment is charged to the statement of comprehensive income using the straight-line method over the useful lives. Depreciation is charged starting with the month following the acquisition or commissioning. Land is not depreciated.

Below are the useful lives of property, plant and equipment:

Buildings and constructions	15 - 60 лет
Machinery and equipment	3 - 15 лет
Vehicles	5 - 10 лет
Other equipment	2 - 10 лет

Carrying amount of an asset is immediately written down to its recoverable amount, if the asset carrying amount exceeds its estimated recoverable amount.

Profit and loss on disposal of property, plant and equipment are determined by comparing the revenue with the carrying amount. They are carried to the statement of comprehensive income. When revalued assets are sold, amount included in revaluation provision are reclassified to Retained Earnings.

### Construction in progress

Long-term construction in progress is recognized at cost less recognised impairment losses. Construction in progress includes expenses directly attributable to construction of property, plant and equipment including duly distributed variable overheads attributable to construction and qualified borrowing costs.



When assets are ready for their intended use, their value is reclassified into an appropriate class of property, plant and equipment.

### **Borrowing costs**

Where construction of a qualifying asset is financed through specific borrowings, the finance costs incurred in the course of construction, less any investment income from temporary investment of those loan proceeds, are included within the cost of the qualifying asset. All other finance costs are recognized in the statement of comprehensive income as finance costs.

### **Impairment**

At each reporting date the Company analyses present value of its property, plant and equipment for any indicators of possible impairment losses. In case there are such indicators the asset recoverable amount is assessed to determine possible loss from impairment (if any). In order to identify impairment indicators the assets are divided into smaller identifiable cash generating groups which are substantially independent of cash flows generated by other assets (cash generating units).

Recoverable amount is the higher of fair value less costs to sell or value in use. When determining value in use the estimated future cash flows are discounted to the assets' present value using the discount rate reflecting current market estimates of time value of money and risks specific to the asset.

Where recoverable amount of an asset (or a cash generating unit) is less than its carrying amount, then carrying amount of the asset (cash generating unit) is reduced to its recoverable amount. Impairment loss is recognized in the same period in the statement of comprehensive income.

Where impairment loss is subsequently reversed, carrying amount of the asset (cash generating unit) is increased to revised estimated recoverable amount, this being the case recoverable amount shall not exceed carrying amount determined without impairment loss from the asset (cash generating unit) being accounted for in previous years. Impairment loss reversal is recognized in the same period in the statement of comprehensive income.

### **Intangible assets**

Expenses on acquisition of software, patents and licenses are capitalized and amortized using the straight line method based on the estimated useful lives of 5 – 10 years. If the entity does not intend to sell intangible assets up to the end of their useful lives, their residual value is considered zero.

Intangible assets are recognized at historical cost less amortization and accumulated impairment losses.

At each reporting date intangible assets are reviewed by the Company for any indicators of possible impairment. In case of any indicators of intangible assets impairment, carrying amount of each asset is reviewed and where impairment is identified it is reduced to the recoverable amount.

Intangible assets are amortized using the straight line method based on their historical cost. Amortization terms approximately equal to the estimated useful lives of assets are stated below:

Licenses	10 years (depending on the certificate validity period)
Software	3 - 4 years
Other intangible assets	3 years



**Inventories** including products, materials and work in progress are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs to sell. Cost of inventories includes all acquisition costs, processing and other expenses incurred to bring finished goods to their present location and condition. The cost of finished goods and work in progress includes cost of raw materials and supplies, direct labour, other direct costs and respective share of manufacturing overheads (calculated based on the actual cost) but does not include loan expenses.

The Company uses the perpetual inventory system involving detailed reflexion of movements (receipts and disposals) of inventories on the balance accounts. The Company measures the cost of inventory using the average weighted cost method except for the ready-made cars measured using the specific identification method.

### **Cash**

Cash includes cash on bank accounts and cash on hand, it is not subject to material risks of value fluctuations and recognized at nominal value.

### **Trade and other receivables**

Trade and other receivables include non-derivative financial instruments with fixed or determinable payments which are not quoted on the active market and neither accounted for at fair value though profit or loss, nor qualified as available for sale. Such assets are recognized at amortized cost using the effective interest rate method. Profit and loss are recognized in the statement of comprehensive income when trade and other receivables are derecognized or impaired as well as through amortization.

Receivables are stated at fair value. Provision for impairment of trade receivables is formed if there are objective evidences that the Company will not be able to recover all amounts as they fall due. Significant financial difficulties of debtors, probability of debtors' bankruptcy or financial reorganisation, default or overdue payments are the factors of receivables impairment. Bad debts of buyers and customers are written off against the provision for impairment of trade receivables. Subsequent reversal of the amount written off earlier is charged to administrative expenses in the statement of comprehensive income.

### **Advances paid**

Advances or prepayments made for delivery of goods, works and services are recognised as other current and non-current assets stated at cost.

### **Borrowings**

Bank loans are initially recognised at fair value less any direct costs attributable to loans. Such interest bearing liabilities are further carried at amortized cost using the effective interest rate method which allows charging of interests on the outstanding balance recognized in the balance sheet at the fixed rate over the whole period up to full repayment.

Other interest bearing borrowings are initially recognized at fair value less related direct costs attributable to the borrowings. Upon initial recognition other interest bearing borrowings are carried at amortized cost with any difference between the historical cost and cost at repayment recognized in the income statement over the period of borrowing based on the effective interest.



Borrowings are classified as current liabilities unless the Company has an unconditional right to delay repayment of liability, at least, for one year after the reporting date.

The Company debt instruments are bonds issued by the Company. They are stated at amortised cost. Any difference between the par value and acquisition cost of bonds as at the placing date is stated as discount or premium. Discount (premium) on these financial liabilities is amortised over the whole period of the bond circulation using the effective interest rate. The effective interest rate is a rate ensuring the closest discounting of the expected future cash payments and receipts up to the maturity date of such financial instrument. Amortisation of discount (premium) is charged to the statement of comprehensive income.

### **Trade and other payables**

Trade payables and other short-term monetary liabilities are carried at historical cost which is a fair value of the amount to be paid in the future for the goods or services received irrespective of whether invoices were issued to the Company.

### **Provisions**

Provisions are recognized when the Company has legal or constructive obligations resulting from past events; when it is likely that outflows will be required to repay those obligations; and when those obligations may be reliably estimated, but the term and amount are indefinite.

The Company recognises the estimated amount of liabilities for repair or replacement of the goods sold with unexpired warranty period as at the reporting date. This provision is calculated based on the repair and replacement data for the previous periods.

The Company recognises the provision for employee benefits which is calculated based on the average wages and estimated duration of leaves. Allowance for employee leaves includes estimated social tax.

### **Guarantees**

When the Company enters into guarantee contracts to maintain solvency of related parties, the Company considers such contracts as conditional contracts and recognises them as such. In this connection the Company considers the guarantee contracts as contingent liabilities until payment under the respective guarantee becomes probable.

### **Income tax and deferred taxes**

Income tax for the year includes current and deferred taxes. Deferred tax is recognized in the statement of comprehensive income unless it relates to the items recognised directly in equity. Current tax is an expected tax payable on taxable income for the year using the tax rates enacted or substantially enacted as at the reporting date and any adjustments to the tax payable in respect to the previous years.

Deferred tax assessment should reflect tax implications which would arise from a difference between the carrying amount of existing assets and liabilities recognized in the financial statements and their tax base.

Deferred tax is computed based on how the carrying amount of assets and liabilities are expected to be realised or settled using the tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax asset is recognized only to the extent that it is probable that future taxable profit will be available against which the assets may be utilized.



### **Value added tax (VAT)**

Value added tax represents payments to the budget of a portion of taxable sales turnover value added in the course of manufacture and circulation of goods (works, services) and payments with respect to goods imported to the Republic of Kazakhstan. The Company's core product sale turnover is value added tax exempt. Other goods (works, services) sale turnovers are assessed with value added tax in accordance with the common procedure.

Value added tax on goods (works, services) acquired is subject to refund by offset. The Company uses separate accounts for value added tax expenses and amounts on goods (works, services) received used for taxable and VAT exempt turnovers.

When establishing the provision for impairment of receivables, the Company provides for the whole amount of doubtful debts including VAT.

### **Revenue**

Revenue is recognised at fair value of consideration received or receivable and includes amounts receivable for goods and services provided in the ordinary course of business less discounts and sales taxes.

Revenue is recognised when all material risks and rewards of the goods ownership as well as the effective control have passed to the buyers.

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue and related expenses incurred in the transaction can be reliably measured.

Revenue from services provided is recognised based on the stage of completeness.

### **Employee benefits**

Short-term employee benefits include such items as:

- employee salaries
- short-term paid leaves
- bonuses payable within 12 months upon the end of the period when employees rendered respective services.

When an employee renders services to the Company during the reporting period, the Company recognises non-discounted amount of short-term employee benefits payable for such services as a liability upon deduction of any amounts paid; if amounts already paid exceed non-discounted amount of payments, the Company recognises this excess as an asset to the extent prepaid expenses result in reduction of future payments or return of cash. Accruals are recognized as expenses, except for those amounts which are allowed to be included in the cost of asset.

The Company deducts from employee salaries and transfers pension contributions to pension funds. The Company has no other obligations related to employee retirement benefits.

### **Finance expenses**

Finance expenses include loan interest payable; bond coupons, bond discount amortisation, expenses for receivables discounting, receivables discount amortisation.

All expenses related to borrowing are recognised in the statement of comprehensive income using the effective interest rate method except for borrowing costs directly attributable to acquisition, construction or manufacture qualifying assets which are recognised in the cost of such assets.

### **Setoffs and barter transactions**

A certain part of purchase and sale transactions is carried out by setoff or other non-monetary settlements. As a rule, these transactions are effected in the form of setoff or a chain of non-monetary transactions involving several companies.



Purchase and sale transactions supposed to be settled through setoff or other non-monetary settlements are recognised based on the management estimate of fair values of assets to be received or delivered as a result non-monetary settlements. Fair values are determined based on various market data. Non-monetary transactions are excluded from the statement of cash flows. Therefore investing, financing transactions and operating result are actual monetary transactions.

### **Share capital**

Share capital is divided into ordinary shares. The Company's share capital is generated through payment for shares by the shareholders at par and at price established by the Board of Directors.

### **Dividends**

Dividends are recognised as liability and deducted from equity as at the reporting date only if dividends have been declared prior to and inclusive of the reporting date. Dividends are disclosed in the financial statements if they have been either recommended prior to the reporting date or recommended or declared after the reporting date but before the date when the financial statements are ready for issue.

### **Related-party transactions and settlements**

For the purposes of these financial statements parties shall be considered related if one of them is in the position to control the other or render significant influence on making operational and financial decisions by the other party as stated in IAS 24, Related Party Disclosures. When considering each possible related party relationship, both the substance of the relationship between the parties and the legal form are taken into account.

Related parties can enter into transactions which would not be effected on an arm's length basis, prices and conditions of such transactions can differ from the arm's length prices and conditions. Nature of relations with the related parties wherewith the Company has entered into significant transactions or has significant balances is described in Note 25.

### **Earnings per share**

Basic earnings per share are calculated by dividing of profit or loss attributable to the Company equity holders by the average number of outstanding shares for the period.

Diluted earnings per share are calculated by adjusting of profit or loss attributable to the Company equity holders and the average weighted number of outstanding shares by the influence rendered by all dilutive potential ordinary shares.

The Company has no dilutive shares.

### **Preferred shares**

Preferred shares, being irredeemable and non-cumulative, are classified as equity.

## **4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The Company uses judgments and assumptions concerning future transactions. These estimates and judgements are continuously monitored based on past experience and other factors including expectations of future events which are deemed reasonable in the circumstances. In the future actual results may differ from these judgments and assumptions. Estimates and assumptions which could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods are discussed below.



### **Carrying amount of property, plant and equipment (hereinafter PP&E)**

The Company monitors its PP&E for internal and external indicators of impairment. The management regularly considers if there are any indicators of impairment relating to the Company business on vehicle assembly and sale. If such indicators exist the Company performs the impairment test.

### **Useful lives of intangible assets and property, plant and equipment**

Intangible assets and PP&E are amortised or impaired throughout their useful lives. Useful lives are determined based on the management estimates concerning the period over which assets will generate profit; these periods are regularly reviewed to determine further asset serviceability. Due to long useful lives of certain assets, changes in estimates used may result in material differences in carrying amounts.

### **Provision on warranty service**

Provision amount is estimated by the Company based on the information of the number of vehicles sold and average number of vehicles passed warranty service; at an estimation of size of a provision data of the last three years are used.

### **Taxes**

The existing tax laws suppose various interpretations and undergo frequent changes. Interpretation of tax laws by tax authorities with respect to the Company transactions and activities may differ from that by the Company management. Therefore tax authorities may challenge the correctness of tax laws application, and the Company may be charged with additional taxes, fines and penalties which may appear significant. The period during which tax reports may be inspected by tax and customs authorities makes five years. The Company believes that tax liabilities accrued are correct for all years open for audit; they are based on estimates of many factors including experience of past years and tax laws interpretation. This is based on estimates and assumptions and may include a number of complex judgements concerning future events. To the extent actual tax implications differ from the amounts presented, such difference will affect tax expenses in the period such tax liabilities are estimated.

### **Legal proceedings**

In accordance with IFRSs, the Company recognises provisions only if it has present obligation resulting from past events, outflow of economic resources is probable and may be reliably estimated. If these criteria are not met, the Company may disclose a contingent liability in the notes to the financial statements. Realisation of any liability which is not presently reflected or disclosed in the financial statements may have a significant impact on the Company's financial position. Application of this accounting principle to legal proceedings requires the Company management to make decisions on various matters-of fact and legal issues beyond its control. The Company reviews pending litigations every time changes occur in their course and at each reporting date to assess necessity of provisions in the financial statements. Factors considered in making decisions on accrual of provisions include essence of claim, action or penalty, legal process and amount of potential damage in jurisdiction where legal proceedings take place, claim is filed or penalty is imposed; the course of legal proceedings (including events after the financial statements date but prior to the publication thereof); opinions or views of legal counsels; previous experience with similar trials and any decisions of the Company management as to how to react to the claim, action or penalty.



## 5. CASH AND CASH EQUIVALENTS

	31.12.2010	31.12.2009
Cash on hand in KZT	19 376	12 589
Cash in KZT on bank accounts	168 271	21 449
Cash on bank accounts of representative offices located abroad	1 853	378
	<b>189 500</b>	<b>34 416</b>

There are no restrictions on cash use.

## 6. TRADE AND OTHER RECEIVABLES

### SHORT-TERM TRADE AND OTHER RECEIVABLES

	31.12.2010	31.12.2009
Trade receivables	380 243	248 437
Provision for impairment of trade receivables	(17 555)	(8 874)
	<b>362 688</b>	<b>239 563</b>
Tax refund	41 634	13 803
Other receivables	73 139	62 391
	<b>477 461</b>	<b>315 757</b>

### SHORT-TERM RECEIVABLES FROM RELATED PARTIES

	31.12.2010	31.12.2009
Trade receivables from related parties	1 060 615	1 164 752
Provision for impairment of trade receivables from related parties	(45 397)	(84 201)
	1 015 218	1 080 551
Current part of loans granted to related parties	297 000	1 450 336
Discount recognized for loans	-	(134 309)
	<b>1 312 218</b>	<b>2 396 578</b>

On 25 March 2011 receivables from BIPEK AUTO LLP to AZIA AVTO JSC were repaid for the amount of 500 000 thousand tenge through conclusion of assignment agreement for claiming right to Logistic Company LLP. Receivables from BIPEK AUTO LLP make KZT 469,816 thousand after assignment of claiming right.



The following table provides information about payments made for receivables from related parties, by maturities.

	0 - 6 months	6 - 12 months	1 - 5 years	Total
<b>2010</b>				
Trade receivables from related parties	500 000	180 000	380 615	1 060 615
	<b>500 000</b>	<b>180 000</b>	<b>380 615</b>	<b>1 060 615</b>

**LONG-TERM TRADE RECEIVABLES**

	31.12.2010	31.12.2009
Trade receivables from employees for cars sold	20 033	23 406
Discount recognized for trade receivables from employees	(7 054)	(8 643)
	<b>12 979</b>	<b>14 763</b>

**LONG-TERM RECEIVABLES FROM RELATED PARTIES**

	31.12.2010	31.12.2009
Long-term portion of loans granted to related parties	831 669	35 000
Discount recognized for loans	(179 604)	(7 709)
	<b>652 065</b>	<b>27 291</b>



On 24 May 2010 the Company entered into additional agreements to agreements for loans granted to shareholders, under the terms and conditions whereof the maturity of the debt was extended for 24 months (2 years).

On 24 December 2010 the Company's Board of Directors resolved that the parties shall settle the debt according to the schedule in order to increase the liquidity of the Company. In this connection, on 27 December 2010 additional agreements to loan agreements were entered into, under which shareholders shall repay the debts by installments up to December 2012.

In the period from January to March 2011 members of the Company repaid debt in amount of 240,000 thousand tenge.

As at the date of conclusion of additional agreements, the effective interest rate determined by the Management was 13.73%, which, as the Management believes, reflects the risks most effectively.

The following table provides information on payments made under the loan agreements by maturities.

2010	0 - 6 months	6 - 12 months	1 - 5 years	Total
Loans granted to related parties	240 000	57 000	831 669	1 128 669
	<b>240 000</b>	<b>57 000</b>	<b>831 669</b>	<b>1 128 669</b>

## 7. INVENTORIES

	31.12.2010	31.12.2009
Materials and raw materials	344 150	369 871
Construction in progress	3 732	2 122
Finished goods	991 108	626 885
Other goods	64 382	60 264
	<b>1 403 372</b>	<b>1 059 142</b>

As at 31 December 2010 and 2009 the inventories are pledged as security for bank loans.

## 8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment with book value of 2 562 440 thousand tenge are pledged as security for bank loans (see Note 10).

In 2010 amortization charges of 133 987 thousand tenge (2009: 165 429 thousand tenge) are taken to the costs of selling goods for the amount of 34 881 thousand tenge (2009: 23 020 thousand tenge) to administrative expenses and selling expenses.

Book value of property, plant and equipment includes the value of fully amortized property, plant and equipment. Initial cost of fully amortized property, plant and equipment as at 31 December 2010 makes KZT 200,979 thousand.



As at 31.12.2008 the Company made a revaluation of property, plant and equipment. The Company used the services of Premier Consulting LLP, which is duly qualified and has an experience since 2004.

Fair value determined:

- Land plots – using the market information method, i.e. a method of direct comparison of the objects assessed with other objects put for sale;
- Buildings and constructions – cost approach and market information method with reconciliation of figures resulting from these approaches;
- Specialized equipment (equipment which is rarely or never sold on the market separately from the sale of the whole business, such equipment is a part of) – amortised replacement cost method;
- General equipment (equipment sold on the open market) – comparative approach.

Total fair value of revalued property, plant and equipment is reconciled with potential profit of the Company with due account for its production capacity.



**Historical cost**

	Land	Buildings and constructions	Machines and equipment	Vehicles and other PP&E	Construction in progress	Total
<b>Balance at 1 January 2009</b>	<b>168 193</b>	<b>1 956 500</b>	<b>906 516</b>	<b>682 638</b>	<b>351 148</b>	<b>4 064 995</b>
Acquired	14 964	14	2 999	5 206	2 971	26 154
Additions from inventories	-	-	151 491	8 096	(7)	159 580
Additions from own production	-	650	1 786	507	13 745	16 688
Internal reclassifications	-	20 257	(30 620)	10 363	-	-
Sold	-	-	(497)	(21 963)	-	(22 460)
Written-off	-	-	(155)	(981)	-	(1 136)
<b>Balance at 1 January 2010</b>	<b>183 157</b>	<b>1 977 421</b>	<b>1 031 520</b>	<b>683 866</b>	<b>367 857</b>	<b>4 243 821</b>
Acquired	8 434	567	4 708	68 860	1 056	83 625
Additions from inventories	-	604	1 561	8 998	-	11 163
Additions from own production	-	7 811	3 908	14 974	1 352	28 045
Internal reclassifications	-	68 147	372 082	(372 600)	(67 629)	-
Sold	-	-	(860)	(12 927)	-	(13 787)
Written off	-	-	(929)	(3 117)	(369)	(4 415)
<b>Balance at 31 December 2010</b>	<b>191 591</b>	<b>2 054 550</b>	<b>1 411 990</b>	<b>388 054</b>	<b>302 267</b>	<b>4 348 452</b>
<b>Accrued amortization</b>						
<b>Balance at 1 January 2009</b>	<b>-</b>	<b>(209 437)</b>	<b>(423 819)</b>	<b>(80 039)</b>	<b>-</b>	<b>(713 295)</b>
Amortization charges	-	(54 104)	(102 118)	(32 227)	-	(188 449)
Sold	-	-	358	3 505	-	3 863
Written off	-	-	155	879	-	1 034
Internal reclassifications	-	(5 713)	7 571	(1 858)	-	-
<b>Balance at 1 January 2010</b>	<b>-</b>	<b>(269 254)</b>	<b>(517 853)</b>	<b>(109 740)</b>	<b>-</b>	<b>(896 847)</b>



Amortization charges

Sold

Written off

Internal reclassifications

**Balance at 31 December 2010****Book value**

Balance at 31 December 2009

**Balance at 31 December 2010****Book value with no account for revaluation**

at 31 December 2009

at 31 December 2010

-	(59 726)	(77 519)	(31 623)	-	(168 868)
-	-	924	2 171	-	3 095
-	-	860	3 046	-	3 906
-	(379)	-	379	-	-
-	<b>(329 359)</b>	<b>(593 588)</b>	<b>(135 767)</b>	-	<b>(1 058 714)</b>
<b>183 157</b>	<b>1 708 167</b>	<b>513 667</b>	<b>574 126</b>	<b>367 857</b>	<b>3 346 974</b>
<b>191 591</b>	<b>1 725 191</b>	<b>818 402</b>	<b>252 287</b>	<b>302 267</b>	<b>3 289 738</b>
<b>25 837</b>	<b>720 764</b>	<b>341 004</b>	<b>571 817</b>	<b>367 857</b>	<b>2 027 279</b>
<b>34 271</b>	<b>777 763</b>	<b>699 275</b>	<b>249 978</b>	<b>302 267</b>	<b>2 063 554</b>



**9. INTANGIBLE ASSETS**

	License agreements	Software	Other intangible assets	Total
<b>Historical cost</b>				
Balance at 1 January 2009	376	3 417	1 807	5 600
Balance at 1 January 2010	376	3 417	1 807	5 600
Additions	-	411	-	411
Written-off	-	(111)	(1 807)	(1 918)
<b>Balance at 31 December 2010</b>	<b>376</b>	<b>3 717</b>	<b>-</b>	<b>4 093</b>
<b>Accrued amortization</b>				
Balance at 1 January 2009	(375)	(2 417)	(1 807)	(4 599)
Amortization charges	(1)	(814)	-	(815)
Balance at 1 January 2010	(376)	(3 231)	(1 807)	(5 414)
Amortization charges	-	(192)	-	(192)
Written-off	-	111	1 807	1 918
<b>Balance at 31 December 2010</b>	<b>(376)</b>	<b>(3 312)</b>	<b>-</b>	<b>(3 688)</b>
<b>Book value</b>				
at 31 December 2009	-	186	-	186
at 31 December 2010	-	405	-	405

In 2010 amortization charges of KZT 7 thousand (2009: KZT 79 thousand) are charged to the cost of selling goods for the amount of KZT 185 thousand (2009: KZT 736 thousand) to administrative expenses and selling expenses.

**10. LOANS AND BORROWINGS**

Below is the information about terms and conditions of loan and credit agreements of the Company valued at amortized cost.

Repayment terms and conditions of outstanding loans were as follows:

	31.12.2010	31.12.2009
Long-term loan liabilities	-	-
Current loan liabilities	5 231 727	5 111 442
	<b>5 231 727</b>	<b>5 111 442</b>



	Curre ncy	Maturity date	Interest rate	Current	Non- current	Total loans
<b>31.12.2010</b>						
Komercni banka A.S.	USD	2010	2,5%-3%	597 944	-	597 944
Kazkommertsbank JSC	USD	2010	14%	372 522	-	372 522
Kazkommertsbank JSC	KZT	2010	12,5%; 15%	2 059 538	-	2 059 538
Unsecured loans	KZT	2010	7,5%-9,5%	2 201 723	-	2 201 723
				<b>5 231 727</b>	<b>-</b>	<b>5 231 727</b>
<b>31.12.2009</b>						
Komercni banka A.S.	USD	2010	2,5%-3%	373 335	-	373 335
Kazkommertsbank JSC	USD	2010	14%	374 947	-	374 947
Kazkommertsbank JSC	KZT	2010	12,5%; 15%	2 059 538	-	2 059 538
Unsecured loans	KZT	2010	7,5%-9,5%	2 303 622	-	2 303 622
				<b>5 111 442</b>	<b>-</b>	<b>5 111 442</b>

Bank loans are secured with the following assets:

- Property, plant and equipment with book value of KZT 2,562,440 thousand (Note 8);
- Inventories with book value of KZT 1,399,640 thousand (Note 7).

Being refused by the bank in extension of maturities of loans and unsecured bonds, the major holder whereof was Kazkommertsbank, the Company was forced to default. Debt recovery has become an issue of legal proceedings. The Company acknowledges its obligations and has come to court for time-out on repayment. Preliminary consultations on this issue have been already held. Legal proceedings are pending in court.

SKODA AUTO deliveries are financed with the facility of Komercni Banka. Loans are issued uncollateralised under the insurance of EGAP Export Insurance Company; facility limit is USD 5 million. These loans are always repaid in due time or ahead of schedule. In August 2010 Komercni Bank extended the loan availability period in the form of revolving short-term funding based on partial repayment till 30 June 2011. There no overdue loans here. As at 31 December 2010 debts made USD 4,054 thousand.

Within the first bond program dated 23 November 2006 the Company issued 3,000,000 coupon bonds at par of KZT 1,000.

	31.12.2010	31.12.2009
Par value of bonds	2 201 723	2 321 613
Bond discount	-	(17 991)
<b>Carrying amount of bonds</b>	<b>2 201 723</b>	<b>2 303 622</b>

The first issue of coupon bonds within the first bond program made 1,000,000 bonds at par of KZT 1,000. Circulation of the first issue coupon bonds issued within the first bond program commenced on the date of admission to the official lists of KASE – 3 January 2007. As at 31



December 2010 1,000,000 coupon bonds of the first issue within the first bond program are placed.

Circulation period of the first issue bonds is three years. Coupon interest is paid on 3 July and 3 January. Bonds should have been redeemed simultaneously with the last coupon on 3 January 2010; however bonds have been redeemed in part.

As at 31 December 2010 debts on coupon bonds issued within the first bond program made: principal – KZT 922,200 thousand, interest – KZT 41,038 thousand.

For the first issue bonds, Specialized Interdistrict Economical Court of East Kazakhstan Oblast granted AZIA AVTO JSC a year delay to repay debts to KKB Group.


Description	%	Number of bonds (pcs)	Principal payable, KZT'000	Coupons payable, KZT'000	Comment
KAZKOMMERTSBANK JSC	54	500 000	500 000	22 250	Repayment is deferred until September 20, 2011
KAZKOMMERTSPOLICE INSURANCE COMPANY JSC	24	222 200	222 200	9 888	Repayment is deferred until October 13, 2011
KAZKOMMERTS SECURITIES JSC	14	129 670	129 670	5 770	Repayment is deferred until September 20, 2011
KAZKOMMERTS-LIFE LIFE INSURANCE COMPANY JSC	8	70 330	70 330	3 130	Repayment is deferred until January 21, 2012
		<b>922 200</b>	<b>922 200</b>	<b>41 038</b>	

The second issue of coupon bonds within the first bond program made 2,000,000 bonds at par of KZT 1,000. Circulation of the second issue coupon bonds within the first bond program commenced on the date of admission to the official lists of KASE – 30 April 2007. As at 31 December 2010 1,321,613 coupon bonds of the second issue within the first bond program are placed.

Circulation period of the second issue bonds is three years. Coupon interest is paid on 30 April and 30 October. Bonds should have been redeemed simultaneously with the last coupon within 15 business days after the circulation period end. i.e. 24 May 2010. The last coupon is paid by the Company in full. As at 31 December 2010 debts on the second issue of coupon bonds made: principal – KZT 1,279,523 thousand.



Companies	%	Principal, KZT'000	Penalty as at 01.01.2011	Monthly payments	Maturity date	Comment
GRANTUM Pension Contribution Fund JSC	39,1	500 000	21 236	20 000	Up to 12.06.13	On 17 March 2011 the Company entered into agreement for assignment of claims on bonds of Logistic Company LLP, repayment of debt and penalty shall be made on monthly basis according to the schedule. Amounts owed to Logistic Company LLP were set off with BIPEK AUTO LLP (Note 6).
KAZKOMMERTS SECURITIES JSC	7,4	94 463	4 012	3 000	Up to 20.09.11	Deferment of debt repayment till the end of 2012 is now being negotiated with the bond holder.
SEVEN RIVERS CAPITAL - ЗПФРИ SRC JSC – Debt Instruments	16,2	207 000	8 792	10 000	Overdue	Deferment of debt repayment till the end of 2012 is now being negotiated.
Subsidiary Insurance Company of National Bank of Kazakhstan "Halyk-Kazakhinstrakh", JSC	11,9	153 850	6 534	5 000	Up to 12.04.13	On 24 February 2011 the Company entered into agreement for assignment of claims on bonds of Logistic Company LLP, repayment of debt and penalty shall be made on monthly basis according to the schedule.
BTA Bank Subsidiary "BTA Insurance"	11,5	148 000	6 286	5 783	Up to 12.10.12	On 12 January 2011 the Company entered into agreement for assignment of claims on bonds of Logistic Company LLP, repayment of debt and penalty shall be made on monthly basis according to the schedule.
BTA Bank Subsidiary Organization "Insurance company "London-Almaty", JSC	8,3	105 500	4 480	4 112	Up to 12.10.12	On 12 January 2011 the Company entered into agreement for assignment of claims on bonds of Logistic Company LLP, repayment of debt and penalty shall be made on monthly basis according to the schedule.



BTA subsidiary life insurance company BTA Life, JSC	5,3	67 600	2 871	2 640	Up to 12.10.12	On 28 January 2011 the Company entered into agreement for assignment of claims on bonds of Logistic Company LLP, repayment of debt and penalty shall be made on monthly basis according to the schedule.
Individual holder of bonds	0,3	3 110	132	-	Overdue	Deferment of debt repayment till the end of 2012 is now being negotiated.
		<b>1 279 523</b>		<b>50 535</b>		



## 11. PAYABLES

	<b>31.12.2010</b>	<b>31.12.2009</b>
Trade payables	30 456	44 955
Trade payables to related parties	116 194	102 732
Labour costs	19 648	4 271
Taxes payable	75	15 208
Interests payable	71 515	107 426
Other payables	84 715	3 426
Other payables to related parties	8 245	-
	<b>330 848</b>	<b>278 018</b>

## 12. PROVISIONS

	<b>31.12.2010</b>	<b>31.12.2009</b>
Provision for employee's vacations accrued	20 103	20 077
Provision for penalties and fines accrued	163 188	-
	<b>183 291</b>	<b>20 077</b>

Changes in the provision for unused vacations are as follows:

	<b>31.12.2010</b>	<b>31.12.2009</b>
Balance at 1 January	20 077	16 163
Accrued	20 103	20 077
Used	(20 077)	(16 163)
Balance at 31 December	<b>20 103</b>	<b>20 077</b>

Changes in the provision for penalties and fines accrued are as follows:

	<b>31.12.2010</b>	<b>31.12.2009</b>
Balance at 1 January	-	-
Accrued	163 188	-
Used	-	-
Balance at 31 December	<b>163 188</b>	-

The Company assumes liabilities on warranty service and repair in case of any manufacturing defects. Based on its experience, the Company decided not to form a provision for warranty service as in 2010 and 2009 the expenses incurred on warranty service were fully reimbursed by the components suppliers. The similar agreement has been signed for 2011.



### 13. EQUITY

#### (a) Share capital

	Common shares		Preferred stock	
	2010	2009	2010	2009
Authorized shares (pieces)	133 335	133 335	1 000	1 000
Shares in circulation at the beginning of the year (pieces)	100 000	100 000	-	-
Paid in cash (pieces)	-	-	-	-
Paid at nominal value (thous. tenge)	1 407 856	1 407 856	-	-
Paid at the placing price (thous. tenge)	9 990	9 990	-	-
Shares in circulation at the end of the year, paid in full (pieces)	<b>100 000</b>	<b>100 000</b>	-	-

Holders of common shares are entitled to dividends declared from time to time and to vote at the Company's meetings under "one share-one vote" rule.

#### (b) The Company's Owners

As at 31 December 2010 ownership shares were as follows:

Balushkin Anatoliy Mikhailovich	67,932%
Dzhumanbayev Vladimir Viktorovich	9,99%
Pomortsev Konstantin Valentinovich	5,994%
Bogdanov Anatoliy Nikolayevich	4,995%
Mandiyev Yerzhan Orazbekovich	3,996%
Popov Vladimir Olegovich	3,996%
Potapov Igor Nikolayevich	1,711%
Turkin Andrey Vladimirovich	1,286%
BIPEK AUTO LLP	0,1%

As at 31 December 2009 ownership shares were as follows:

Balushkin Anatoliy Mikhailovich	67,932%
Khlaynovich Maksim Romanovich	9,99%
Pomortsev Konstantin Valentinovich	5,994%
Bogdanov Anatoliy Nikolayevich	4,995%
Mandiyev Yerzhan Orazbekovich	3,996%
Popov Vladimir Olegovich	3,996%
Potapov Igor Nikolayevich	1,711%
Turkin Andrey Vladimirovich	1,286%
BIPEK AUTO LLP	0,1%

#### (c) Dividends

In 2010 and 2009 dividends were not declared.



**(d) Earnings per share**

Earnings per share are based on net profit for the year and the weighted average number of common shares in circulation during the year. The Company has no potential dilutive common shares.

	31.12.2010	31.12.2009
Income (Loss) for the period	159 089	(709 613)
Weighted average number of common shares in circulation (pieces)	100 000	100 000
<b>Earnings (Loss) per share, basic and diluted (tenge)</b>	<b>1 591</b>	<b>(7 096)</b>

**(e) Book value per share**

As at 31.12.2010 and 31.12.2009 the Company has no preferred stock placed.

In accordance with Appendix 6 to the Listing Rules approved by the resolution of the Exchange Council of Kazakhstan Stock Exchange JSC (Minutes of the meeting No. 22 dated 4 October 2010), book value per common share is calculated by the formula:

$$BV_{CS} = NAV / NO_{CS}, \text{ where}$$

- BV<sub>CS</sub> – book value per common share as at the calculation date;
- NAV – net asset value as at the calculation date;
- NO<sub>CS</sub> – number of outstanding common shares as at the calculation date.

Net assets for common shares are calculated by the formula:

$$NAV = (TA - IA) - TL - PS, \text{ where}$$

- TA – total assets in the statement of financial position of issuer as at the calculation date;
- IA – intangible assets in the statement of financial position of issuer as at the calculation date;
- TL – total liabilities in the statement of financial position of issuer as at the calculation date;
- PS – preferred stock in the statement of financial position of issuer as at the calculation date.

	31.12.2010	31.12.2009
Assets (KZT'000)	8 384 797	7 324 450
Intangible assets (KZT'000)	405	186
Liabilities (KZT'000)	6 466 850	5 565 592
Share capital (KZT'000)	1 417 846	1 417 846
<b>Net assets for common shares (KZT'000)</b>	<b>499 696</b>	<b>340 826</b>
Number of outstanding common shares (pieces)	100 000	100 000
<b>Book value of one common share (KZT)</b>	<b>4 997</b>	<b>3 408</b>



**14. PROCEEDS FROM SALE OF OWN PRODUCTS**

	<b>2010</b>	<b>2009</b>
Revenue from sale of cars assembled by the Company	7 385 336	3 588 974
Cars returned	(30 587)	(29 434)
	<b>7 354 749</b>	<b>3 559 540</b>

**15. PROCEEDS FROM SALE OF OTHER INVENTORIES AND SERVICES PROVIDED**

	<b>2010</b>	<b>2009</b>
Revenue from purchased-for-sale cars sold and other inventories	578 696	1 777 812
Revenue from other finished goods sold	7 495	24 074
Revenue from operating lease	11 801	14 551
	<b>597 992</b>	<b>1 816 437</b>

**16. COST OF OWN PRODUCTS SOLD**

	<b>2010</b>	<b>2009</b>
Cost of cars assembled by the Company sold (including salaries)	5 476 511	2 690 210
<i>Payroll expenses</i>	156 262	113 954
	<b>5 476 511</b>	<b>2 690 210</b>

**17. COST OF OTHER INVENTORIES SOLD AND SERVICES PROVIDED**

	<b>2010</b>	<b>2009</b>
Cost of purchased-for-sale cars sold and other inventories	579 844	1 748 683
Cost of other finished goods sold	6 494	21 800
Cost of operating lease	8 273	13 450
	<b>594 611</b>	<b>1 783 933</b>



**18. EXPENSES ON SALE OF PRODUCTS AND PROVISION OF SERVICES**

	<b>2010</b>	<b>2009</b>
Salaries and deductions	8 063	8 295
Car transportation services	101 497	29 370
Advertizing services	2 742	1 502
Agency fee (for car sale services)	314 652	214 235
Pre-sale preparation	127 118	11 686
Lease	2 348	819
Depreciation of PP&E and amortization of intangible assets	6 545	7 359
Other expenses	17 863	7 828
	<b>580 828</b>	<b>281 094</b>

**19. ADMINISTRATIVE EXPENSES**

	<b>2010</b>	<b>2009</b>
Salaries and deductions	103 994	88 565
Depreciation of PP&E and amortization of intangible assets	28 521	16 397
Public Utilities	17 486	12 718
Bank fee	57 378	10 733
Taxes	44 781	53 264
Security services	15 162	15 331
Check, Togliatti and Moscow representative offices maintenance costs	27 149	24 239
Auditing and consulting services	11 770	6 820
Overhead costs	36 062	33 820
Aircraft station maintenance costs	19 583	42 653
Depreciation costs (recovery of receivables)	(30 124)	25 283
Foreign exchange costs	24 301	22 848
Travelling expenses	32 790	17 244
Expenses on underutilization of capacities	60 427	168 899
Other expenses	54 267	42 551
	<b>503 547</b>	<b>581 365</b>

**20. FINANCE INCOME AND FINANCE COSTS**

	<b>2010</b>	<b>2009</b>
Income from discounting (amortization of discount)	120 233	99 228



	<b>2010</b>	<b>2009</b>
Loan interest paid in KZT	41 043	358 232
Loan interest paid in foreign currency	24 628	59 541
Bond interest expenses	31 980	212 487
Bond discount amortisation	17 500	57 480
Receivables discounting	156 230	138 770
	<b>271 381</b>	<b>826 510</b>

**21. OTHER GAINS (LOSS)**

	<b>2010</b>	<b>2009</b>
Loss from property, plant and equipment sold	(1 636)	(195)
Exchange gain (loss)	4 393	(188 807)
Loss from foods services	(6 898)	(4 144)
Other gains	8 716	6 344
Proceeds from deposit	-	300
Loss from fines accrued	(297 327)	-
Proceeds from penalties	19 887	90 341
	<b>(272 865)</b>	<b>(96 161)</b>

**22. INCOME TAX SAVINGS (EXPENSES)**

**(a) Income tax savings (expenses)**

	<b>2010</b>	<b>2009</b>
Current income tax	-	-
Deferred income tax	(214 142)	74 455
<b>Income tax (expense) / savings</b>	<b>(214 142)</b>	<b>74 455</b>

**(b) Reconciliation of effective tax rate**

The amount of corporate income tax differs from its theoretical amount calculated as a product of taxable profit and corporate income tax rate as follows:

	<b>2010</b>	<b>2009</b>
<b>Profit (loss) before tax</b>	<b>373 231</b>	<b>(784 068)</b>
Effective income tax rate	20,00%	20,00%
Estimated tax at effective rate	74 646	(156 814)
Tax effect of non-deductible expenses and non-taxable profit	54 682	83 259
Deferred tax due to changes in tax rates	84 814	(900)
<b>Income tax expense / (savings)</b>	<b>214 142</b>	<b>(74 455)</b>



In 2009 carrying amount of deferred tax assets and liabilities changed due to change in corporate income tax rates: in 2009 – 20%; in 2010 – 17.5%, in 2011 – 15% in accordance with the Tax Code of the Republic of Kazakhstan adopted on 10 December 2008.

In 2010 carrying amount of deferred tax assets and liabilities were adjusted due to establishment of 20% corporate income tax rate for 2010 – 2012.

**(c) Deferred tax liabilities**

	31.12.2010	31.12.2009
Deferred tax asset	(98 659)	(142 371)
Deferred tax liability	437 915	267 485
	<b>339 256</b>	<b>125 114</b>

Deferred tax assets and liabilities are recognised on the following items:

	31.12.2010	31.12.2009
Property, plant and equipment and intangible assets	437 915	267 485
Provisions	(36 658)	(3 011)
Loss carried forward	(62 001)	(139 360)
Deferred tax (asset) liability	<b>339 256</b>	<b>125 114</b>

Movement of temporary difference was as follows:

	2010	2009
At 1 January	125 114	199 569
Recognised in equity	-	-
Charged to income and expenses	214 142	(74 455)
At 31 December	<b>339 256</b>	<b>125 114</b>

Taxable profit (loss) of the Company for 2010: income of KZT 392,957 thousand; for 2009 – loss of KZT 503,616 thousand.

**23. STATEMENT OF CASH FLOWS**

Non-monetary transactions were excluded from the statement of cash flows. Material non-monetary transactions are stated below:

	2010	2009
<b>Financing activities</b>		
Exchange gains on loans	19 343	43 559
Exchange loss on loans	13 832	246 151
Repayment of bonds through offset of trade receivables	75 399	-
<b>Operating activities</b>		
Offset of trade receivables	267 306	1 033 179
Repayment of interest on bonds through offset of trade receivables	51 653	-
Exchange gains on interest	534	1 247
Exchange loss on interest	311	5 298



**24. FINANCIAL RISK MANAGEMENT**

**(a) Summary**

Use of financial instruments exposes the Company to the following risks:

- credit risk;
- liquidity risk;
- market risk.

**(a) Credit risk**

Credit risk is a risk of financial losses of the Company resulting from failure of clients or counterparties on a financial instrument to perform their contract obligations and mainly connected with accounts receivable from the Company clients.

Exposure of the Company to credit risk mainly depends on characteristic features of each specific client.

The Company establishes a provision for impairment being its estimate of losses incurred with respect to trade and other receivables. The basic components of this provision are: actual loss component relating to individually significant risks.

As for advances paid for works and services to be performed, contracts provide for penal sanctions and conditions of advance payment return in case of failure to perform contract obligations.

**Concentration of credit risk**

Maximum exposure to credit risk equals to the carrying amounts of financial assets:

	Note	2010	2009
Cash	5	170 124	21 827
Trade and other receivables	6	2 413 089	2 740 586
		<b>2 583 213</b>	<b>2 762 413</b>

Below are counterparties making 3 or more percent in total sales or trade receivables.

	2010	2009
BIPEK AUTO LLP	1%	19%
State Institution "Head Quarters of the Border Service of the RK National Security Committee"	-	6%
Kazakhstan Temirzholy Branch, Facilities Administration	3%	-
Internal Affairs Department of East Kazakhstan Oblast	3%	1%

Trade receivables are concentrated in Kazakhstan.

As at the reporting date credit risk was concentrated in trade receivables and loans to related parties.

Below are accounts receivables from the most material related party.

	2010	2009
BIPEK AUTO LLP	969 816	1 146 144
	<b>969 816</b>	<b>1 146 144</b>



## Loss from impairment

Receivables by incurrence.

	<u>2010</u>	<u>2009</u>
Undue	52 584	57 896
Overdue for less than 90 days	9 935	65 311
Overdue for 91-180 days	115 092	100 700
Overdue for 181-360 days	954 641	21 263
Overdue for more than a year	224 452	138 602
	<u>1 356 704</u>	<u>383 772</u>

Overdue receivables of KZT 500,000 thousand were setoff against payables and repaid for the amount of KZT 240,000 thousand (Note 6).

Movements of provision for impairment of trade receivables were as follows:

	Note	<u>2010</u>	<u>2009</u>
Provision for impairment of trade receivables at 1 January		8 874	16 026
(Reversed) accrued in the reporting period		8 681	-
Written off against provision		-	(7 152)
Provision for impairment of trade receivables at 31 December	6	<u>17 555</u>	<u>8 874</u>

Movements of provision for impairment of trade receivables from related parties were as follows:

	Note	<u>2010</u>	<u>2009</u>
Provision for impairment of trade receivables from related parties at 1 January		84 201	51 766
(Reversed) accrued in the reporting period		(38 804)	32 435
Written off against provision		-	-
Provision for impairment of trade receivables from related parties at 31 December	6	<u>45 397</u>	<u>84 201</u>

Discount recognised in respect of trade receivables was as follows:

	Note	<u>2010</u>	<u>2009</u>
Discount recognised in respect of trade receivables at 1 January		8 643	10 244
Receivables discounting		1 106	-
Amortisation of receivables discount		(2 695)	(1 601)
Discount recognised in respect of trade receivables at 31 December	6	<u>7 054</u>	<u>8 643</u>





**(b) Market risk**

Market risk is a risk that changes in market prices such as foreign currency exchange rates, interest rates and prices for equity securities will have adverse effect on the Company profit or value of financial instruments the Company holds. Market risk is managed to control the Company's exposure to market risk and observance of the acceptable market risk limits with optimisation of return on risk assets.

**Price risk due to changes in prices for finished goods**

The Company is exposed to fluctuations in prices for automotive vehicles on the world markets. The Company monitors changes in prices on a monthly basis.

**Currency risk**

Currency risk is a risk that value of financial instruments will fluctuate due to changes in foreign currency exchange rates.

Short-term and long-term debts of the Company denominated in USD, EUR and other foreign currencies are accounted for in KZT. Fall of KZT versus foreign currencies may cause growth of the Company expenses related to exchange rate growth.

Risk of changes in exchange rates exists in relation to future business transactions and liabilities. The management does not use hedge instruments to mitigate the effect of currency risk.

The Company exposure to currency risk, based on nominal values, was as follows:

	Note	KZT	USD	EUR	Other	Total
<b>2010</b>						
Cash	6	187 647			1 853	189 500
Trade and other receivables	6	2 406 256	513		4 149	2 410 918
Borrowings	10	(4 261 261)	(970 466)			(5 231 727)
Trade and other payables	11	(323 432)	(5 954)	(1 171)	(216)	(330 773)
		<b>(1 990 790)</b>	<b>(975 907)</b>	<b>(1 171)</b>	<b>5 786</b>	<b>(2 962 082)</b>
<b>2009</b>						
Cash	5	34 038	-	-	378	34 416
Trade and other receivables	6	2 740 069	-	-	517	2 740 586
Borrowings	10	(4 363 160)	(748 282)	-	-	(5 111 442)
Trade and other payables	11	(231 464)	(25 621)	-	(5 725)	(262 810)
		<b>(1 820 517)</b>	<b>(773 903)</b>	<b>-</b>	<b>(4 830)</b>	<b>(2 599 250)</b>

**Interest rate risk**

Interest rate risk is a risk of that value of financial instruments will fluctuate due to changes in market interest rates reducing return on investments and increasing payments on borrowed funds.



The Company limits its interest rate risk through monitoring of changes in interest rates for the currencies the Company's cash, investments and borrowed funds are denominated in.

Changes in interest rates mainly affect borrowings through changing of future cash flows thereof.

The Company management is liable for making decisions concerning borrowings on market conditions, risk of debt financing at the above market interest rates and risk of influence of interest rate changes on cash flows to ensure acceptable exposure to these risks. Derivative financial instruments are not used to decrease exposure to interest rate risk.

Exposure of the Company to interest rate risk relates mainly to long-term debt obligations of the Company.

The Company management has no official policy as to the allocation of interest rate risk between fixed rate and floating rate loans.

When borrowing funds, the management resolves, based on its professional judgement, what interest rate will be the most favourable.

**(c) Fair value**

The Company management believes that the fair values of financial assets and liabilities approximately equal their carrying amounts.

As for trade receivables and payables maturing within six months, the fair values insignificantly differ from the carrying amounts as the time value of money is insignificant.

The fair values of financial assets and liabilities and their carrying amounts whereat they are recognised in the balance sheet are as follows:

The fair values of financial assets and liabilities included in the financial statements are the amounts, for which an instrument may be exchange in a current transaction between the interested parties other than forced sale or liquidation.

The following methods and assumptions were used to determine the fair values:

- Fair values of cash, trade receivables and payables, and other current liabilities approximately equal to their carrying amounts mainly because these instruments will be repaid in the near future.
- Fair values of instruments not traded on an active market, loans issued by the bank and other organisations are determined through discounting of future cash flows using the current rates for debts with similar conditions, credit risk and terms to maturity. The Company management believes that the carrying amounts of such tools approximately equal to their fair values.

**(d) Capital risk management**

Despite a low debt-to-equity ratio, the Company develops procedures to manage capital risk in order to continue as a going concern.

	31.12.2010	31.12.2009
Borrowings	5 231 727	5 111 442
Trade and other payables	330 848	278 018
Less cash	(189 500)	(34 416)
<b>Net debt</b>	<b>5 373 075</b>	<b>5 355 044</b>
<b>Equity</b>	<b>1 917 947</b>	<b>1 758 858</b>
<b>Net debt to equity ratio</b>	<b>0,36</b>	<b>0,33</b>



## 25. RELATED-PARTY TRANSACTIONS

### (a) Transactions with key management personnel

Below are the key management benefits for the reporting period recognised in administrative expenses (see Note 18).

	2010	2009
Salaries and bonuses	10 733	10 161

There were no other payments or benefits to the management.

### (b) Other Related-Party Transactions

For the purposes of these financial statements parties shall be considered related if one of them is in the position to control the other or render significant influence on making operational and financial decisions by the other party, or such parties are under the common control. When considering each possible related party relationship, both the substance of the relationship and their legal form are considered. Ultimate shareholders are disclosed in Note 13.

Related-party transactions include transactions with the entities wherein the Company shareholders have participation interests (other entities) and shareholders, effected on the conditions that were not offered to the third parties.

		Sales to related parties	Purchases from related parties	Debts of related parties*	Debts to related parties*
	<b>2010</b>				
Other entities		189 106	1 220 073	984 652	124 439
		<b>189 106</b>	<b>1 220 073</b>	<b>984 652</b>	<b>124 439</b>
	<b>2009</b>				
Other entities		1 177 398	1 712 558	1 457 665	102 732
		<b>1 177 398</b>	<b>1 712 558</b>	<b>1 457 665</b>	<b>102 732</b>

		Loans issued	Loans received	Debts of related parties*	Debts to related parties*
	<b>2010</b>				
Company shareholders		52 713	-	947 636	-
Other entities		-	-	29 824	-
		<b>52 713</b>	-	<b>977 460</b>	-
	<b>2009</b>				
Company shareholders		353 693	-	938 913	-
Other entities		-	-	27 291	-
		<b>353 693</b>	-	<b>966 204</b>	-

\* See Note 6

\*\* See Note 11

All debts are unsecured. Debts are repaid based on the related parties' solvency. Repayment schedules are reviewed on a regular basis.



**(c) Pricing policy**

Prices for goods and services for related parties and those for the third parties are the same.

## **26. CONTINGENT LIABILITIES**

### ***Insurance***

Kazakhstan insurance market is at the development stage and many forms of insurance protection, usual for other countries of the world, are not widely available in Kazakhstan yet. The Company does not have full coverage in respect of production capacities, business interruption, or civil liability arising from damage of property or environment as a result of accidents with the property or operations of the Company. Until the Company obtains adequate insurance coverage, there is a risk that loss or destructions of certain assets may have material adverse effect on the Company transactions and financial position.

The Company entered into compulsory civil liability insurance contracts in accordance with the laws of the Republic of Kazakhstan.

### ***Environmental issues***

The Company measures its environmental pollution liabilities on a regular basis. As the liabilities are revealed, the same are immediately recognised in the financial statements. The Company has applied for and obtained a pollution source permit from East Kazakhstan Oblast Territorial Administration for Environmental Protection.

Expenses for environmental protection in 2010 made KZT 93 thousand.

### ***Taxation***

Kazakhstan tax system, being relatively new, is characterized by frequent changes in legislative regulations, official explanations and court rulings, which are often unclearly stated and contradictory. Besides, different tax authorities follow different interpretations of tax laws. Inspections are carried out by several regulatory bodies authorized to impose heavy fines and charge penalties and interests. Tax year is open for inspection by tax authorities during the subsequent five calendar years; however under certain circumstances this term may be increased.

These circumstances may result in tax risks in Kazakhstan to be considerably higher than in other countries. The management believes that there is no material uncertainty in tax issues.

### ***Legal claims***

In the course of its day-to-day operations the Company is an object of court proceedings and claims. The management believes that total obligations, if any, resulting from such trials and claims will not have material adverse effect on the Company financial position or performance.

In 2010 the following claims were filed against the Company:

- Insurance Company Kazkommerts-Police JSC filed a claim for recovery of bond debt of KZT 232,087,900 and reimbursement of the state duty of KZT 6,962,637. Decision of the Specialized Interdistrict Economic Court dated 19.03.2010 states: to sustain the claim, to recover KZT 239,050,537 from AZIA AVTO JSC. By the ruling of Appeal Judicial Board of East Kazakhstan Regional Court dated 13.10.2010 AZIA AVTO JSC was allowed a suspension of judgment for 1 year.
- Kazkommerts Securities JSC filed a claim for recovery of bond debt of KZT 135,440,315 and reimbursement of the state duty of KZT 4,063,209.45. Decision of the Specialized Interdistrict Economic Court dated 25.03.2010 states: to sustain the claim, to recover KZT 139,503,524 from AZIA AVTO JSC. By the ruling of the Specialized Interdistrict Economic



Court dated 20.09.2010 **AZIA AVTO JSC was allowed a suspension** of the East Kazakhstan Oblast Specialized Interdistrict Economic Court judgment **for 1 year up to 20 September 2011**. By the ruling of Appeal Judicial Board of East Kazakhstan Oblast Court dated 20.10.2010 the ruling of SIEC dated 20.09.2010 was affirmed.

- Kazkommertsbank JSC filed a claim for recovery of bond debt of KZT 522,250,000 and reimbursement of the state duty of KZT 15,667,500. Decision of the Specialized Interdistrict Economic Court dated 18.03.2010 states: to sustain the claim, to recover KZT 537,917,500 from AZIA AVTO JSC. By the ruling of Appeal Judicial Board of East Kazakhstan Oblast Court dated 20.09.2010 **AZIA AVTO JSC was allowed a suspension of judgment for 1 year up to 20 September 2011**.

- Life Insurance Company Kazkommerts-Life JSC filed a claim for recovery of bond debt of KZT 73,394,934.51 and reimbursement of the state duty of KZT 2,201,848.04. Decision of the Specialized Interdistrict Economic Court dated 20.09.2010 states: to sustain the claim, to recover KZT 75,596,783 from AZIA AVTO JSC. By the ruling of the East Kazakhstan Oblast Specialized Interdistrict Economic Court dated 21.01.2011 (judge A.K. Kusmanova) an application of **AZIA AVTO JSC** for suspension of judgement dated 20.09.2010 in the action of Life Insurance Company Kazkommerts-Life JSC to recover a debt of KZT 73,394,934.51 was sustained in part, **AZIA AVTO JSC was allowed a suspension of the East Kazakhstan Oblast Specialized Interdistrict Economic Court judgment for 1 year up to 21.01.2012**. Life Insurance Company Kazkommerts-Life JSC and AZIA AVTO JSC filed special appeals against this ruling; the date of determination by the court of appeals is not established yet.

- Kazkommertsbank JSC filed a claim against AZIA AVTO JSC and its affiliates (15) for recovery of debt of KZT 2,500,754,105 and levy of execution upon collateral. Decision of the Almaty Specialized Interdistrict Economic Court dated 02.11.2010 states: to recover KZT 2,429,090,274 from AZIA AVTO JSC to Kazkommertsbank JSC, to levy execution upon collateral, to recover judicial expenses for payment of the state duty of KZT 72,872,708 and expenses of KZT 2,382,418 for the professional services of AlmatyExpertiza LLP (valuation of collateral). By the ruling of Appeal Judicial Board dated 06.01.2011 the decision of the Almaty Specialized Interdistrict Economic Court dated 02.11.2010 was modified as follows: to recover debts of KZT 2,399,739,154 and state duty of KZT 71,992,174.62 from AZIA AVTO JSC. Cassational appeals were filed on these decisions; the date of determination by the court of cassation is not established as at the financial statements issue date.

### ***Guarantee obligations***

AZIA AVTO JSC is jointly and severally responsible to Kazkommertsbank JSC for performance by M.R.Khlaynovich of all obligations under the Credit Facility Agreement No.VIP-01/07 dated 28.02.2007 with a limit of USD 200,000 for the period up to 06.03.2022. During 2010 the Company paid interest and principal for M.R.Khlaynovich for the amount of KZT 866 thousand. As at 31 December 2010 AZIA AVTO JSC made guarantee payments for the amount of KZT 9,974 thousand tenge.

### ***Contingent liabilities***

One of the Company's contingent liabilities is compliance with Republic of Kazakhstan Government Order No. 1054 dated 15.10.03 "On Approval of Product Processing Sufficiency Criteria". In case of failure to meet this Order the Company falls from the right to use the decision on the right to establish a free warehouse which entails additional expenses in the form of customs duties. The Company management believes that the Company takes all necessary measures to meet the conditions established by this Order if the Republic of Kazakhstan Government.



## **27. SUBSEQUENT EVENTS**

In March 2011 the Company began production of the following vehicles of KIA brand: compact crossover KIA Soul, sport utility vehicle KIA Sportage, business sedan KIA Optima and luxury sedan KIA Cadenza.

In the 1<sup>st</sup> quarter of 2011 loans granted to related parties were repaid for the amount of KZT 240,000 thousand (Note 6).

In March 2011 receivables of BIPEK AUTO LLP amounting to KZT 500,000 thousand were repaid through offset (Note 6).

During the period from January till March 2011 the Company entered into agreements for extension of bond debt maturities up to 2012 – 2013 for the total amount of KZT 947,950 thousand (Note 10).

**President**  
**AZIA AVTO JSC**

**Chief Accountant**  
**AZIA AVTO JSC**



**E.O. Mandiyev**

**G.V.Mokina**