**Sovereign Wealth Fund “Samruk-Kazyna” JSC**

Separate Financial Statements

*For the year ended December 31, 2010*
*with Independent Auditors’ Report*

# CONTENTS

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## INDEPENDENT AUDITORS' REPORT

To the Shareholder of JSC "Sovereign Wealth Fund "Samruk-Kazyna":

We have audited the accompanying separate financial statements of JSC "Sovereign Wealth Fund "Samruk-Kazyna" (the "Fund"), which comprise the separate statement of financial position as at 31 December 2010 and the separate statement of comprehensive income, separate statement of cash flows and separate statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of separate 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 separate 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 separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

ERNST & YOUNG

*Opinion*

In our opinion, the separate financial statements present fairly, in all material respects the financial position of JSC "Sovereign Wealth Fund "Samruk-Kazyna" as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Elshad Aliyev
Audit Partner

Evgeny Zhemaletdinov
Auditor / General Director
Ernst & Young LLP

Auditor Qualification Certificate
No. 0000553 dated 24 December 2003

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

20 June 2011

# SEPARATE BALANCE SHEET

| *In millions of Tenge* | Note | December 31, 2010 | December 31, 2009 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | 8,501 | 6,529 |
| Intangible assets | | 221 | 89 |
| Investments in subsidiaries | 5 | 2,583,196 | 2,124,629 |
| Investments in associates and joint venture | 6 | 101,783 | 132,697 |
| Loans issued | 7 | 268,039 | 716,904 |
| Amounts due from credit institutions | 8 | 338,917 | 499,510 |
| Other long-term financial assets | 9 | 219,819 | 7,572 |
| Long-term bank deposits | 10 | 402,880 | – |
| Advances paid for non-current assets | | – | 101,080 |
| Deferred tax assets | 20 | 1,464 | – |
| | | 3,924,820 | 3,589,010 |
| **Current assets** | | | |
| Corporate income tax prepaid | | 6,812 | 2,993 |
| Loans issued | 7 | 44,682 | 107,384 |
| Amounts due from credit institutions | 8 | 84,129 | 96,279 |
| Other short-term financial assets | 9 | 205,302 | 1,933 |
| Short-term bank deposits | 10 | 47,887 | 76,168 |
| Other current assets | 11 | 19,205 | 34,637 |
| Cash and cash equivalents | 12 | 401,586 | 537,867 |
| | | 809,603 | 857,261 |
| Assets classified as held for distribution to the Shareholder | 13 | – | 42,457 |
| **TOTAL ASSETS** | | 4,734,423 | 4,488,728 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 13 | 3,891,909 | 3,748,299 |
| Revaluation reserve for available-for-sale investments | | 4,881 | (580) |
| Accumulated losses | | (626,713) | (384,257) |
| **Total equity** | | 3,270,077 | 3,363,462 |
| **Non-current liabilities** | | | |
| Borrowings | 14 | 919,761 | 732,127 |
| Amounts due to the Government | 15 | 352,812 | 206,732 |
| Financial guarantee liabilities | 16 | 24,985 | 19,653 |
| Deferred tax liability | 20 | – | 19,354 |
| Option liabilities | | – | 130,541 |
| | | 1,297,558 | 1,108,407 |
| **Current liabilities** | | | |
| Borrowings | 14 | 91,871 | 13,622 |
| Amounts due to the Government | 15 | 1,845 | 130 |
| Financial guarantee liabilities | 16 | 2,722 | 2,315 |
| Option liabilities | | 69,435 | – |
| Other current liabilities | | 915 | 792 |
| | | 166,788 | 16,859 |
| **TOTAL EQUITY AND LIABILITIES** | | 4,734,423 | 4,488,728 |

*The accounting policies and notes on pages 6 to 39 are an integral part of these separate financial statements.*

Managing Director – Member of the Management Board ____________ Nurlan Rakhmetov

Chief Accountant ____________ Almaz Abdrakhmanova

# SEPARATE STATEMENT OF COMPREHENSIVE INCOME

| *In millions of Tenge* | Note | 2010 | 2009 |
|---|---|---|---|
| Interest income | 17 | 265,050 | 156,954 |
| Interest expenses | 18 | (83,897) | (43,337) |
| Dividend income | | 44,243 | 36,045 |
| **Gross profit** | | 225,396 | 149,662 |
| General and administrative expenses | | (11,608) | (7,299) |
| Finance income | 19 | 44,482 | 15,661 |
| Gain from loss of significant influence in associates | 6 | 86,850 | – |
| Gain from conversion of debt instrument into equity instruments | 5 | 12,343 | – |
| Impairment of investments in subsidiaries and associate | 5 | (701,493) | (94,868) |
| (Impairment) / reversal of impairment of financial assets | | (11,641) | 28,311 |
| Foreign exchange gain, net | | 586 | 139,043 |
| Loss from change in the value of options, net | | 61,106 | (94,124) |
| Other operating (expenses)/income, net | | (3,360) | 969 |
| **(Loss)/profit before income tax** | | (297,339) | 137,355 |
| Income tax expense | 20 | (14,729) | (31,306) |
| **Net (loss)/profit for the year** | | (312,068) | 106,049 |
| **Other comprehensive income/(loss), net of tax** | | | |
| Available-for-sale investments revaluation reserve | | 5,461 | (348) |
| **Total other comprehensive income/(loss), net of tax** | | 5,461 | (348) |
| **Total comprehensive (loss)/income for the year** | | (306,607) | 105,701 |

*The accounting policies and notes on pages 6 to 39 are an integral part of these separate financial statements.*

Managing Director – Member of the Management Board Nurlan Rakhmetov

Chief Accountant Almaz Abdrakhmanova

# SEPARATE STATEMENT OF CASH FLOWS

| *In millions of Tenge* | Note | 2010 | 2009 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| (Loss)/profit before income tax | | **(297,339)** | 137,355 |
| Adjustments for: | | | |
| Depreciation and amortization | | **220** | 228 |
| Gain from loss of significant influence in associates | 6 | **(86,850)** | – |
| Gain from conversion of debt instrument into equity instruments | 5 | **(12,343)** | – |
| Impairment of investments in subsidiaries and associate | | **701,493** | 94,868 |
| Impairment / (Reversal of impairment) of financial assets | 19 | **11,641** | (28,311) |
| Finance income | | **(44,482)** | (15,661) |
| (Gain)/ Loss from change in the value of options, net | | **(61,106)** | 94,124 |
| Gain from disposal of subsidiaries | 5 | **–** | (59) |
| Loss from initial recognition of assets at below-market rates | | **5,374** | – |
| Unrealised foreign exchange gain | | **(533)** | (629) |
| Other | | **7,535** | – |
| **Cash flows from operating activities before changes in working capital** | | **223,610** | 281,915 |
| Change in loans issued | | **(338,574)** | (1,130,998) |
| Change in amounts due from credit institutions | | **172,353** | (378,643) |
| Change in other current assets | | **13,459** | (25,969) |
| Change in amounts due to the Government | | **562,048** | 1,713,967 |
| Change in other current liabilities | | **34** | (16) |
| **Cash flows from operating activities** | | **632,930** | 460,256 |
| Income tax paid | | **(38,469)** | (8,478) |
| Interest received | | **19,939** | 13,183 |
| **Net cash flows from operating activities** | | **614,400** | 464,961 |
| **Cash flows from investing activities:** | | | |
| Placement of bank deposits, net | 10 | **(359,755)** | (74,000) |
| Aquisitions of subsidiaries and associates | 5 | **(331,075)** | (527,934) |
| Purchase of property, plant and equipment and intangible assets | | **(322)** | (24) |
| (Purchase) / proceeds from sale of financial assets, net | | **(193,920)** | 1,956 |
| Advances paid for non-current assets | | **–** | (101,080) |
| **Net cash flows used in investing activities** | | **(885,072)** | (701,082) |

# SEPARATE STATEMENT OF CASH FLOWS (continued)

| *In millions of Tenge* | Note | 2010 | 2009 |
|---|---|---|---|
| **Cash flows from financing activities:** | | | |
| Prepayment of dividends to the Shareholder | 11 | (7,056) | (8,645) |
| Contributions to the share capital | 13 | 141,447 | 67,346 |
| **Net cash flows from financing activities** | | 134,391 | 58,701 |
| **Net change in cash and cash equivalents** | | (136,281) | (177,420) |
| **Cash and cash equivalents, at the beginning of the year** | 12 | 537,867 | 715,287 |
| **Cash and cash equivalents, at the end of the year** | 12 | 401,586 | 537,867 |

**NON-CASH TRANSACTIONS**

The following non-cash transactions were excluded from the separate statement of cash flows:

1. Conversion of Alliance Bank JSC and BTA Bank JSC debt instruments in equity instruments (*Note 5*).
2. Recognition of discount on loans to subsidiaries *(Note 5).*
3. Completion of acquisition of 50% interest in Ekibastuz GRES-1 LLP.
4. Loss of significant control over associates (*Note 6)*
5. Transactions with the Shareholder *(Note 13).*
6. Recognition of discount on loans due to the Government *(Note 15).*
7. Recognition of financial guarantees in favour of Development Bank of Kazakhstan JSK and BTA Bank JSC *(Note 5).*

*The accounting policies and notes on pages 6 to 39 are an integral part of these separate financial statements.*

Managing Director – Member of the Management Board Nurlan Rakhmetov

Chief Accountant Almaz Abdrakhmanova

# SEPARATE STATEMENT OF CHANGES IN EQUITY

| *In millions of Tenge* | Share capital | Available-for-sale investments revaluation reserves | Accumulated losses | Total |
|---|---|---|---|---|
| **As at December 31, 2008** | **3,458,923** | **(232)** | **(892,945)** | **2,565,746** |
| Net profit for the year | – | – | 106,049 | 106,049 |
| Other comprehensive loss | – | (348) | – | (348) |
| **Total comprehensive income for the year** | **–** | **(348)** | **106,049** | **105,701** |
| Contributions to the share capital | 289,376 | – | (58,616) | 230,760 |
| Gain from initial recognition of amounts due to the Government (*Note 15*) | – | – | 461,255 | 461,255 |
| **At December 31, 2009** | **3,748,299** | **(580)** | **(384,257)** | **3,363,462** |
| Net loss for the year | – | – | (312,068) | (312,068) |
| Other comprehensive income | – | 5,461 | – | 5,461 |
| **Total comprehensive loss for the year** | **–** | **5,461** | **(312,068)** | **(306,607)** |
| Contributions to the share capital (*Note 13*) | 143,610 | – | – | 143,610 |
| Gain from initial recognition of amounts due to the Government (*Note 15*) | – | – | 111,145 | 111,145 |
| Transactions with the Shareholder (*Note 13*) | – | – | (32,888) | (32,888) |
| Dividends paid to the Shareholder | – | – | (8,645) | (8,645) |
| **At December 31, 2010** | **3,891,909** | **4,881** | **(626,713)** | **3,270,077** |

*The accounting policies and notes on pages 6 to 39 are an integral part of these separate financial statements.*

Managing Director – Member of the Management Board — Nurlan Rakhmetov

Chief Accountant — Almaz Abdrakhmanova

# NOTES TO THE SEPARATE FINANCIAL STATEMENTS

For the year ended December 31, 2010

## 1. GENERAL INFORMATION

Sovereign Wealth Fund "Samruk-Kazyna" JSC (the "Fund" or "Samruk-Kazyna") was established on November 3, 2008 in conjunction with the Decree of the President of the Republic of Kazakhstan dated October 13, 2008 and the Decree of the Government of the Republic of Kazakhstan dated October 17, 2008. The formation was enacted by the merger of Sustainable Development Fund "Kazyna" JSC ("Kazyna") and Kazakhstan Holding Company for State Assets Management "Samruk" JSC ("Samruk") and the additional transfer of ownership in certain entities owned by the Government of the Republic of Kazakhstan (the "Government" or the "State") to the Fund. The Government, represented by the State Assets and Privatization Committee of the Ministry of Finance is the sole shareholder of the Fund (the "Shareholder").

The Government's overall objective of the reorganization is to increase management efficiency and to optimise organisational structures in the Fund's subsidiaries in order to achieve successfully their strategic objectives set in the respective Government programs and development plans.

The Fund is a holding company for state-owned enterprises listed in *Notes 5 and 6*. The Fund activities are governed by the Law of the Republic of Kazakhstan "On Sovereign Wealth Fund" No. 134-4 dated February 13, 2009. During the period since November 3, 2008 through February 13, 2009 the Fund performed certain types of financial activities based on the license for conducting banking activities in national and foreign currency issued by the Agency of the Republic of Kazakhstan on regulating and supervision of financial market and financial organizations dated November 27, 2008, license number 5.2.66 No. 0001231.

The Fund has its registered office in the Republic of Kazakhstan, Astana, 19, Kabanbay Batyr Avenue.

These separate financial statements were authorized for issue by the Managing Director – Member of the Management Board and Chief Accountant of the Fund on June 30, 2011.

### Economic environment

Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. These reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government are aimed to support the future stability of the Kazakhstan economy.

The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Kazakhstan.

While management believes, it is taking appropriate measures to support the sustainability of the Fund's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Fund's results and financial position in a manner not currently determinable. In case of further deterioration in the areas described above the negative effect on the Fund's operating results and financial position is not currently determinable.

### Plan of stabilization of economic and financial systems for 2009-2010

In order to maintain stability of economic and financial system of the country during the world economic crisis the Government by Decree No. 1085 dated November 25, 2008 approved a Joint action plan of the Government of the Republic of Kazakhstan, the National Bank of the Republic of Kazakhstan and the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Market and Financial Organizations on stabilization of the economy and financial system for 2009-2010 ("Stabilization Plan"). The Stabilization Plan provides certain measures aimed at the following:

- Stabilization of financial sector
- Resolution of real estate market issues
- Small and medium business support
- Development of agricultural sector
- Implementation of innovation, industrial and infrastructure projects

The Fund is the principal operator for the Government in the implementation of the Stabilization Plan.

# NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

## 2. BASIS OF PREPARATION

These separate financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the Notes to these separate financial statements. The Fund maintains its accounting records in Kazakhstan Tenge ("Tenge" or "KZT"). All values in these separate financial statements are rounded to the nearest million, except when otherwise indicated.

In addition to these separate financial statements, the Fund prepares consolidated financial statements as required by IAS 27. A copy of the consolidated financial statements can be obtained from the Fund's head office (*Note 1*).

These separate financial statements are prepared in accordance with requirements of the Kazakhstani legislation.

### Statement of compliance

These separate financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by International Accounting Standard Board ("IASB").

The preparation of separate financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in *Note 4*.

### Foreign currency translation

*Functional and presentation currency*

The separate financial statements are presented in Tenge, which is the Fund's functional and presentation currency.

*Transactions and balances*

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the separate 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 assets measured at the fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

*Exchange rates*

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

As at December 31, 2010 and 2009 the currency exchange rate of KASE was 147.5 Tenge to 1 US Dollar and 148.36 Tenge to 1 US Dollar respectively. These rates were used to translate monetary assets and liabilities denominated in US Dollars as at December 31, 2010 and 2009. The currency exchange rate of KASE as at June 30, 2011 was 146.99 Tenge to 1 US Dollar.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year, except as follows:

The Fund has adopted the following new and amended IFRS and IFRIC interpretations as of January 1, 2010:

IFRS 2 *Share-based payment* (Revised)

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Fund adopted this amendment as of January 1, 2010. It did not have an impact on the financial position or performance of the Fund.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Changes in accounting policy (continued)**

IAS 39 *Financial instruments: recognition and measurement – eligible hedged items* (Amendment)

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. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Fund has concluded that the amendment will have no impact on the financial position or performance of the Fund, as the Fund has not entered into any such hedges.

IFRIC 17 *Distribution of non-cash assets to owners*

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 has no effect on either, the financial position or performance of the Fund.

**Standards issued but not yet effective**

Standards issued but not yet effective up to the date of issuance of the Fund's separate financial statements are listed below. This listing is of standards and interpretations issued, which the Fund reasonably expects to be applicable at a future date. The Fund intends to adopt those standards when they become effective.

IAS 12 *Income Taxes* (Amendment)

This amendment becomes effective for annual periods on or after January 1, 2012. This amendment clarifies certain issues related to deferred taxes on investment property recorded at fair value. This amendment will have no impact on the Fund after its initial recognition.

IAS 24 *Related party disclosures* (Amendment)

The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Fund does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard. The Fund did not make early adoption.

IAS 32 *Financial instruments: presentation – classification of rights issues* (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Fund after initial application.

IFRS 1 *First time adoption of IFRS: Hyperinflation and cancellation of fixed dates for initial adoption* (Amendment)

This amendment becomes effective for annual periods on or after July 1, 2011. This amendment represents new exception concerning deemed cost for entities in countries of hyperinflation economy. This amendment will have no impact on the Fund after its initial recognition.

IFRS 7 *Financial Instruments: Disclosures* (Amendment)

During 2010, several changes were made to IFRS 7 that are set to take effect in 2011 and 2012. Generally, these changes are intended to simplify the disclosures and reduce the amount of time and effort needed to prepare an entity's financial statements. Amendment will have no impact on the financial position or performance of the Fund, but will affect the disclosures in financial statements.

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Standards issued but not yet effective (continued)**

IFRS 9 *Financial instruments: classification and measurement*

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Fund's financial assets. The Fund will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 11 *Joint Arrangements*

IFRS 11 improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognise its rights and obligations arising from the arrangement. The classification of a joint arrangement is determined by assessing the rights and obligations of the parties arising from that arrangement. There are only two types of arrangements provided in the standard - joint operation and joint venture. IFRS 11 also eliminates proportionate consolidation as a method to account for joint arrangements. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Fund does not expect any impact on its financial position or performance.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 Disclosure of Interests in Other Entities issued in May 2011 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Fund does not expect any impact on its financial position or performance.

IFRS 13 *Fair Value Measurement*

IFRS 13 Fair Value Measurement defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Fund's assets and liabilities accounted for at fair value. Currently the Fund evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

IFRIC 14 *Prepayments of a minimum funding requirement* (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after January 1, 2011 with retrospective application. The amendment 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. The amendment is deemed to have no impact on the separate financial statements of the Fund.

IFRIC 19 *Extinguishing financial liabilities with equity instruments*

IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the separate financial statements of the Fund.

*Improvements to IFRSs (issued in May 2010)*

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011.

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Improvements to IFRSs (issued in May 2010) (continued)*

- IFRS 3 *Business combinations*;
- IFRS 7 *Financial instruments: disclosures*;
- IAS 1 *Presentation of financial statements*;
- IAS 27 *Consolidated and separate financial statements*;
- IFRIC 13 *Customer loyalty programmes*.

The Fund, however, expects no impact from the adoption of the amendments on its financial position or performance.

**Investments in subsidiaries**

Investments in subsidiaries are accounted for at cost, less any impairment losses. Cost of investments in subsidiaries acquired on reorganisation was valued as a share in subsidiaries' "equity items".

**Investments in joint ventures and associates**

The Fund's investments in its joint ventures and associates are accounted for at cost, less any impairment losses. Associates are entities in which the Fund has significant influence and which are neither subsidiaries nor joint ventures of the Fund.

**Impairment of non-financial assets**

The Fund assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If any such indication of impairment exists or when annual impairment testing for an asset group is required, the Fund makes an estimate of its recoverable amount. An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in separate statement of comprehensive income.

The following criteria are also applied in assessing impairment of specific assets:

*Investments in subsidiaries, joint ventures and associates*

The Fund determines at each reporting date whether there is any objective evidence that the investment in subsidiaries, associates and joint ventures is impaired. If the objective of impairment exists, the Fund conducts impairment test and identifies impairment as difference between the recoverable value and carrying value of investments.

**Financial assets**

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives. The Fund determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Financial assets (continued)**

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

The Fund's financial assets include cash and cash equivalents, bank deposits, trade and other receivables, loan issued, amounts due from credit institutions and other receivables. The subsequent measurement of financial assets depends on their classification as follows:

*Amounts due from credit institutions, loans and other receivables*

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement such financial assets are carried at amortized cost using the effective interest rate (EIR) method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in interest income in the separate statement of comprehensive income. The losses arising from impairment are recognised as a separate line in the separate statement of comprehensive income.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Fund has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in interest income in the separate statement of comprehensive income. The losses arising from impairment are recognised as a separate line in the separate statement of comprehensive income.

*Available-for-sale financial investments*

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the profit and loss and removed from the available-for-sale reserve.

*Fair value determination*

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques include cash flow discounting models, reference to the current fair value of another instrument that is substantially the same, option valuation models or other valuation models.

**Derecognition**

*Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Derecognition (continued)**

*Financial assets (continued)*

- the Fund retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or the Fund has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Fund's continuing involvement in the asset.

In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

*Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

**Impairment of financial assets**

*Amounts due from credit institutions, loans to customers and bank deposits*

For amounts due from credit institutions, loans and bank deposits carried at amortised cost the Fund first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Fund determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the separate statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of revenue in the separate line of the statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been sold or has been transferred to the Fund. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit and losses in the separate statement of comprehensive income.

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost the Fund first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Fund determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of financial assets (continued)**

*Financial assets carried at amortised cost (continued)*

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

The present value of the estimated future cash flows is discounted at the financial assets' original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the separate statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of revenue in the separate statement of comprehensive income. Financial assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been sold or has been transferred to the Fund. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in finance income.

**Non-current assets classified as held for distribution to the Shareholder**

Assets are classified as non-current assets held for transfer to the Shareholder if they meet the following criteria:

- are available for immediate transfer in their current condition;
- there is a firm intention to ensure their planned transfer;
- actions have been taken to execute the plan;
- there is a high possibility of making a transfer, and it is expected that the transfer will be made within one year from classification.

Non-current assets classified as held for transfer to the Shareholder have been presented separately in the separate financial statements within current assets category on the face of the separate balance sheet.

Non-current assets and disposal groups classified as held for transfer to the Shareholder are measured at the lower of carrying amount and fair value less costs to transfer.

Non-current asset that ceases to be classified as held for transfer to the Shareholder is measured at the lower of:

- its carrying amount before the asset (or disposal group) was classified as held for transfer to the Shareholder, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset (or disposal group) not been classified as held for transfer to the Shareholder, and
- its recoverable amount at the date of the subsequent decision not to transfer.

**Value Added Tax (VAT)**

The tax authorities permit the settlement of sales and purchases VAT on a net basis. VAT recoverable represents VAT on domestic purchases net of VAT on domestic sales. Export sales are zero rated.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand and cash on demand deposits, other short-term highly liquid investments with original maturities of three months or less.

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial liabilities**

*Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, as appropriate. The Fund determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs. The Fund's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings and financial guarantee contracts.

*Subsequent measurement*

The measurement of financial liabilities depends on their classification as follows:

*Loans and amounts due to the Government*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the separate statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in interest expense in the statement of comprehensive income.

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Fund having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to Government and credit institutions and initially recognised at the fair value of the consideration received less directly attributable transaction costs.

Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the separate statement of comprehensive income over the period of the borrowings using the effective interest method. If the Fund purchases its own debt, it is removed from the separate balance sheets and the difference between the carrying amount of the liability and the consideration paid is recognised in net interest income.

*Debt securities issued*

Debt securities issued represent bonds issued by the Fund. They are accounted for according to the same principles used for loans and amounts due to the Government.

*Financial guarantee contracts*

Financial guarantee contracts issued by the Fund are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

**Options arising on investments acquisition**

If when acquiring investments the Fund issues to a third party a call option on acquired interest in the business, the Fund assesses whether being a party to such option gives to a third party access to benefits and risks associated with ownership of such interest.

If a call-option does not provide a third party with access to benefit and risk of ownership of an interest, a call option is not accounted for the purposes of determination of Fund's significant influence.

Fair value of the liability for the Fund under the option is recognized as a part of acquired investments. The financial liability is subsequently measured in accordance with the requirements of IAS 39. Changes in the fair value of a financial liability as well as any income or loss related to the settlement of these options are recorded directly in separate statement of comprehensive income.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition**

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Fund and the amount of revenue can be reliably measured.

*Interest and similar income and expenses*

For all financial instruments measured at amortised cost and interest bearing securities classified as available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if there is reassessment of payments and cash receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

*Dividends*

Revenue is recognized when the Fund's right to receive the payment is established.

**Expense recognition**

Expenses are recognized as incurred and are reported in the separate financial statements in the period to which they relate on the accrual basis.

**Income tax**

Income tax for the year comprises current and deferred tax. Income tax is recognised in the separate statement of comprehensive income except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

**Equity**

*Share capital*

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is charged to retained earnings.

*Dividends*

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

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

**Contingent liabilities and contingent assets**

Contingent liabilities are not recognised in the separate financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the separate financial statements. Where an inflow of economic benefits is probable, they are disclosed.

**Offsetting**

Assets and liabilities are only offset and reported at the net amount in the balance sheet when there is a legally enforceable right to offset the recognised amounts and the Fund intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Subsequent Events**

The results of post-year-end events that provide evidence of conditions that existed at the reporting date (adjusting events) are reflected in the separate financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

## 4. SIGNIFICANT ACCOUNTING ESTIMATES, JUDGMENTS AND ASSUMPTIONS

The preparation of the separate financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Fair value of financial instruments*

Where the fair value of financial assets and financial liabilities recorded in the separate balance sheet cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value reported in the separate financial statements.

*Allowance on impairment of loans issued and amounts due from credit institutions*

The Fund reviews its individually significant loans issued and due from credit institutions at each reporting date to assess whether an impairment loss should be recorded in the profit and losses. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Fund makes judgement about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

*Taxation*

Taxable income is computed in accordance with the tax legislation enacted as of January 1, 2009. The Group accrues and pays corporate income tax (CIT) at a rate of 20% of taxable income in 2010. In assessing tax risks, management considers to be probable obligations the known areas of tax positions which the Fund would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, the determination of expected outcomes from pending tax proceedings and the outcome of ongoing compliance audits by tax authorities.

*Deferred tax assets*

Deferred tax assets were recognized for all allowances on doubtful accounts and other liabilities to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved, as well as successful application of tax planning strategies. The recognised deferred tax assets amounted to 2,744 million Tenge as at December 31, 2010 (2009: 15,089 million Tenge) (*Note 20*).

## 5. INVESTMENTS IN SUBSIDIARIES

The following table represents investments in subsidiaries, activity, country of incorporation or location of the Funds subsidiaries, as well as the Funds share in these subsidiaries:

| *In millions of Tenge* | Activity | Country | 2010 | 2009 | Ownership December 31, 2010 | Ownership December 31, 2009 |
|---|---|---|---|---|---|---|
| "BTA Bank" JSC | Bank services | Kazakhstan | **891,092** | 212,095 | **81,48%** | 75.10% |
| "National Company "KazMunayGas" JSC | Oil and gas industry | Kazakhstan | **710,541** | 544,354 | **100,00%** | 100.00% |
| "National Company Kazakhstan "Temir Zholy" JSC | Freight and passengers railway transportation | Kazakhstan | **653,985** | 591,832 | **100,00%** | 100.00% |
| "Development Bank of Kazakhstan" JSC | State investment activity | Kazakhstan | **294,402** | 283,246 | **100,00%** | 100.00% |
| "National Atomic Company "KazAtomProm" JSC | Uranium production | Kazakhstan | **147,275** | 147,275 | **100,00%** | 100.00% |
| "Alliance Bank" JSC | Bank services | Kazakhstan | **122,801** | – | **67,00%** | 96.01% |
| "Kazakhstan Electricity Grid Operating Company" JSC | Transfer of electricity | Kazakhstan | **111,529** | 111,529 | **100,00%** | 100.00% |
| "Samruk-Energy" JSC | Production and transportation of heat and electricity | Kazakhstan | **91,586** | 28,984 | **94,01%** | 94.01% |
| "Kazakhtelecom" JSC | Services of fixed communication | Kazakhstan | **88,733** | 88,733 | **51,00%** | 51.00% |
| "Kazyna Capital Management" JSC | Creation of investment funds | Kazakhstan | **69,444** | 54,444 | **100,00%** | 100.00% |
| "Entrepreneurship development Fund "Damu" JSC | Development of small entrepreneurship | Kazakhstan | **39,521** | 39,521 | **100,00%** | 100.00% |
| "Real Estate Fund "Samruk-Kazyna" JSC | Stabilization of real estate market | Kazakhstan | **27,483** | 26,052 | **100,00%** | 100.00% |
| "Investment Fund of Kazakhstan" JSC | Assistance in realization of the strategy of industrial and innovation development | Kazakhstan | **29,615** | 25,895 | **100,00%** | 100.00% |
| "Temirbank" JSC | Bank services | | **23,488** | – | **79,90%** | |
| "House Construction Saving Bank of Kazakhstan" JSC ("HCSBK" JSC) | Development of house construction savings system | Kazakhstan | **22,766** | 14,500 | **100,00%** | 100.00% |
| "KazPost" JSC | Postal activity and financial services | Kazakhstan | **9,387** | 9,387 | **100,00%** | 100.00% |
| Export-Credit Insurance Corporation KazExportGarant JSC (former "State Corporation for Insurance of Export Credit and Investments" JSC) | Insurance services | Kazakhstan | **9,064** | 8,031 | **100,00%** | 100.00% |
| "Air Astana" JSC | Passengers air transportation | Kazakhstan | **7,276** | 7,276 | **51,00%** | 51.00% |
| "Kazakhstan Fund of Guarantee of Mortgage Loans" JSC | Guarantee of mortgage loan | Kazakhstan | **5,675** | 5,675 | **100,00%** | 100.00% |
| "United Chemical Company" JSC | Development of chemical industry | Kazakhstan | **3,561** | 2,000 | **100,00%** | 100.00% |
| ~~"National Company "Kazakhstan Engineering" JSC~~ | ~~Industry~~ | ~~Kazakhstan~~ | ~~**3,462**~~ | ~~3,462~~ | ~~**61,00%**~~ | ~~100.00%~~ |
| "National Mining Company "Tau-Ken Samruk" JSC | Development of mining industry | Kazakhstan | **3,437** | 1,937 | **100,00%** | 100.00% |
| "International Airport Aktobe" JSC | Airport services | Kazakhstan | **3,021** | 3,021 | **100,00%** | 100.00% |
| "Samruk-Kazyna Contract" LLP | Projects management | Kazakhstan | **2,193** | 2,193 | **100,00%** | 100.00% |

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

## 5. INVESTMENTS IN SUBSIDIARIES (continued)

| | | | | | Ownership | |
|---|---|---|---|---|---|---|
| *In millions of Tenge* | Activity | Country | 2010 | 2009 | December 31, 2010 | December 31, 2009 |
| "International Airport Atyrau" JSC | Airport services | Kazakhstan | **1,196** | 1,196 | **100,00%** | 100.00% |
| "KAMKOR" LLP | Repair of railway rolling equipment and track | Kazakhstan | **932** | 932 | **100,00%** | 100.00% |
| "SK Farmacy" LLP | Purchase of medicine within the limits of guaranteed medical aid for population | Kazakhstan | **700** | 700 | **100,00%** | 100.00% |
| "Samruk-Kazyna Invest" JSC | Professional services on investment projects | Kazakhstan | **394** | 394 | **100,00%** | 100.00% |
| "Airport Pavlodar" JSC | Airport services | Kazakhstan | **239** | 80 | **100,00%** | 100.00% |
| "Kazakh Research Institute named after Chokin" JSC | Scientific work | Kazakhstan | **219** | 219 | **50,00%** | 50.00% |
| "KOREM" JSC | Operator of electricity market | Kazakhstan | **161** | 161 | **100,00%** | 100.00% |
| "Karagandagiproshakht i K" LLP | | Kazakhstan | **6** | – | **90,00%** | 0,00% |
| KGF IM | Financial transactions | Cayman Islands | **–** | – | **100,00%** | 100.00% |
| KGF Management | Financial transactions | Cayman Islands | **–** | – | **100,00%** | 100.00% |
| KGF SLP | Financial transactions | Cayman Islands | **–** | – | **100,00%** | 100.00% |
| "Kazakhstan Center of Investment Assistance "KazInvest" LLP | Investment activity | Kazakhstan | **–** | – | **100,00%** | 100.00% |
| Less: Impairment | | | **(791,988)** | (90,495) | | |
| | | | **2,583,196** | 2,124,629 | | |

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

## 5. INVESTMENTS IN SUBSIDIARIES (continued)

*Acquisition of Alliance Bank JSC shares*

Under the restructuring plan, in March 2010 the Fund acquired additional ordinary and preferred shares issued by the bank as a part of the bank's debt restructuring plan. According to the terms of restructuring, the Fund provided 33% of the bank's ordinary and preferred shares to the bank's creditors, and, as a result, the Fund's interest in ordinary and preferred shares became 67%.

The acquisition was performed through a 24,000 million Tenge cash payment by the Fund and conversion of Alliance Bank JSC bonds purchased by the Fund in 2009 into share capital, fair value of which as at the date of conversion amounted to 98,801 million Tenge (nominal value and amortized cost amounted to 105,000 million Tenge and 86,458 million Tenge, respectively). Income from conversion of bonds of Alliance Bank JSC amounted to 12,343 million Tenge and was recognized in profit and loss.

*Acquisition of BTA Bank JSC shares*

Within the restructuring plan, on August 19, 2010 the Fund has acquired shares issued by the bank. In accordance with the terms of restructuring, the Fund has provided 18.5% of the bank's ordinary shares to the bank's creditors, after which the Fund's share amounted to 81.48%, and 0.02% are owned by minority shareholders.

The shares were acquired through the Fund's conversion of bonds of BTA Bank JSC purchased by the Fund in 2009. On August 11, 2010 BTA Bank JSC has introduced changes to the prospect of issue of bonds purchased by the Fund in 2009. In accordance with changes, the bonds maturity is 4.5 years. The fair value of the bonds as at the date of conversion amounted to 671,472 million Tenge.

Changes in the prospect have resulted in significant modifications in the initial terms of bond placement, and, accordingly, lead to derecognition of BTA Bank JSC bonds and recognition of new bonds under IAS 39. The Fund has recognized net amortization of discount on these bonds as a difference between fair value and carrying amount of the bonds as at the date of changes amounting 104,429 million Tenge as interest income.

*Acquisition of Temirbank JSC shares*

As part of the BTA Bank JSC restructuring plan approved in March 2010, on May 11, 2010 (in accordance with the Government Regulation No. 372 dated April 30, 2010) the Fund acquired 75,933,000 newly issued ordinary shares of Temirbank JSC ("Temirbank"), a 100% owned subsidiary of BTA Bank, at 1.42 Tenge per share for total cash consideration of 108 million Tenge, resulting in Fund's share in Temirbank of 79.9%.

Further, in accordance with the restructuring plan, in June 2010 the Fund made additional contribution of 23,380 million Tenge to the share capital of the bank through acquisition of 15,905,000,000 issued ordinary shares.

*Other changes in investments in subsidiaries*

During the year ended December 31, 2010 the Fund made the following contributions to charter capital of subsidiaries using proceeds from the State budget:

- contributions to charter capital of National Company "KazMunayGas" JSC in the amount of 162,484 million Tenge, of which 49,500 million Tenge to finance construction of "Beineu-Bozoi" gas pipeline;
- contributions to charter capital of National Company "Kazakhstan Temir Zholy" JSC and Investment Fund of Kazakhstan JSC in the amount of 3,880 million Tenge and 3,720 million Tenge, respectively, to finance construction and operation of "Shar–Ust-Kamenogorsk" railway route through capitalization of concessioner company;
- contributions to charter capital of National Company "Kazakhstan Temir Zholy" JSC in the amount of 19,542 million Tenge and 29,036 million Tenge to finance construction of "Uzen–State border of Turkmenistan" and "Khorgos–Zhetygen" railway lines through capitalization of concessioner company respectively;
- to the charter capital of Samruk-Energy JSC at the amount of 42,460 million Tenge. Contribution to the charter capital was made in order to finance construction of objects of Almaty power complex;
- contribution to charter capital of House Construction Saving Bank of Kazakhstan JSC in the amount of 3,700 million Tenge for implementation of state housing program;
- contribution to charter capital of Kazyna Capital Management JSC in the amount of 15,000 million Tenge for financing of projects.

## 5. INVESTMENTS IN SUBSIDIARIES (continued)

*Other changes in investments in subsidiaries (continued)*

In 2010, the Fund contributed 42% of Pavlodar Petrochemical Plant JSC shares, that were earlier received from the Shareholder (*Note 13*), with the fair value of 3,703 million Tenge to the charter capital of National Company "KazMunayGas" JSC.

In 2010, the Fund has granted loans to its subsidiaries at interest rates below market (*Note 7*), and discount in the amount of 48,631 million Tenge was recognized as increase in investments in subsidiaries.

The Fund has also provided financial guarantees to third parties in favor of Development Bank of Kazakhstan JSC and BTA Bank JSC. The fair value of these guarantees totaling 15,880 million Tenge was recognized as an increase in investments in respective subsidiaries.

*Impairment*

In 2010 the Fund recognized an impairment loss on investments in BTA Bank JSC and Alliance Bank JSC for 611 billion Tenge (2009: 84 billion Tenge) and 90 billion Tenge respectively. The recoverable amount of investments in BTA Bank JSC and Alliance Bank JSC was determined as the fair value less cost to sell. The estimated selling price of BTA Bank JSC was determined based on current market quotes of BTA Bank JSC shares. Due to absence of an active market for shares of Alliance Bank JSC the estimated selling price of Alliance Bank JSC was derived from the expected net assets of the bank based on the bank's Business Plan.

## 6. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

As at December 31 investments in associates and joint venture were presented as follows:

| *In millions of Tenge* | **December 31, 2010** | December 31, 2009 |
|---|---|---|
| **Joint venture:** | | |
| "Ekibastuz GRES-1" LLP | **101,502** | – |
| **Associates:** | | |
| "Astana-Finance" JSC | **6,516** | 6,516 |
| "Maikainzoloto" JSC | **281** | 281 |
| "Halyk Bank of Kazakhstan" JSC | **–** | 84,070 |
| "Kazkommertsbank" JSC | **–** | 48,346 |
| Less: Impairment | **(6,516)** | (6,516) |
| | **101,783** | 132,697 |

As at December 31, activities of associates and joint venture, countries of residence and the Funds share in these organizations were as follows:

| Company | Activity | Country | % in charter capital December 31, 2010 | % in charter capital December 31, 2009 |
|---|---|---|---|---|
| **Joint ventures:** | | | | |
| "Ekibastuz GRES-1" LLP | Production and transportation of heat and electricity | Kazakhstan | **50.00%** | – |
| **Associates:** | | | | |
| "Astana-Finance" JSC | Finance organization | Kazakhstan | **5.52%** | 5.52% |
| "Maikainzoloto" JSC | Gold production | Kazakhstan | **25.00%** | 25.00% |
| "Halyk Bank" JSC | Banking services | Kazakhstan | **–** | 26.81% |
| "Kazkommertsbank" JSC | Banking services | Kazakhstan | **–** | 18.30% |

On 9 December 2009, the Fund has entered into the agreement with Ekibastuz Holdings B.V. and Kazakhmys PLC on the acquisition of a 50% share in Ekibastuz GRES-1 LLP. On 11 December 2009, the Fund has paid an advance of 680,854 thousand US dollars (equivalent to 101,502 million Tenge as at the date of payment) for these shares.

## 6. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE (continued)

On 12 July 2010, the Fund has completed the transaction on acquisition of a 50% share in Ekibastuz GRES-1 LLP

*Loss of significant influence over "Kazkommertsbank" JSC ("Kazkommertsbankank") and "Halyk Bank of Kazakhstan" JSC ("Halyk bank")*

In accordance with the option agreements concluded by the Fund upon the acquisition of shares of Kazkommertsbank and Halyk Bank in 2009, the major shareholders obtained the right to purchase shares of these banks owned by the Fund at any time during a period from the first till fifth anniversary of the acquisitions (call options). The options became exercisable in the first half of 2010, which resulted in a loss by the Fund of its significant influence in the banks. In accordance with IAS 28, the Fund lost significant influence in these associates and reclassified these investments into financial assets available for sale (*Note 9*) and recognized a gain of 86,850 million Tenge in profit and loss, representing the difference between the carrying value and fair value of these investments.

During the year ended December 31, 2010 the Fund's ownership interest in these banks remained unchanged.

As at December 31, 2010 a fair value of liabilities on options amounted to 69,435 million Tenge. Change in fair value of options during 2010 was recognized within profit and loss.

## 7. LOANS ISSUED

Loans issued comprised the following at December 31:

| *In millions of Tenge* | **December 31, 2010** | December 31, 2009 |
|---|---|---|
| Loans to third and related parties | **207,411** | 16,244 |
| Loans to subsidiaries | **105,589** | 79,527 |
| Bonds issued by subsidiaries (*Note 5,14*) | **781** | 693,608 |
| Interest accrued | **9,314** | 34,909 |
| Less: Impairment | **(10,374)** | – |
| **Total loans issued** | **312,721** | 824,288 |
| **Less: current portion** | **(44,682)** | (107,384) |
| **Non-current portion** | **268,039** | 716,904 |

The following table provides analysis of loans issued by maturities at December 31, 2010 and 2009:

| *In millions of Tenge* | **December 31, 2010** | December 31, 2009 |
|---|---|---|
| Loans for which no impairment has been identified: | | |
| - Neither past due, nor impaired | **311,051** | 805,199 |
| Past due, but not impaired: | | |
| - overdue less than 30 days | **1,670** | 106 |
| - overdue from 30 to 90 days | – | – |
| - overdue from 90 to 180 days | – | 18,056 |
| - overdue from 180 to 360 days | – | 927 |
| - overdue over 360 days | – | – |
| **Total overdue loans** | **1,670** | 19,089 |
| **Total loans issued** | **312,721** | 824,288 |

### Loans to subsidiaries

*Samruk-Energy JSC*

In February 2010 Samruk-Energy JSC has repaid a loan in the amount of 44,465 million Tenge obtained under a loan facility of State China Development Bank, and the Fund has provided a new tranche maturing in 2029 in the amount of 47,622 million Tenge with interest rate of 1.2% per annum. This loan was funded by issue of the Fund's bonds to the National Bank of the Republic of Kazakhstan ("NBRK").

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

## 7. LOANS ISSUED (continued)

### Loans to subsidiaries (continued)

*Samruk-Energy JSC (continued)*

At the initial recognition, the loan was recorded at its fair value of 27,480 million Tenge determined using a market interest rate of 7.66% prevailing at the transaction date. The difference of 20,142 million Tenge between the nominal value of the loan and its fair value was recognized as an increase in the investment in "Samruk-Energy" JSC (*Note 5*).

*Real Estate Fund "Samruk-Kazyna" JSC*

Within the Stabilization Plan during 2010, the Fund provided an additional loan to Real Estate Fund "Samruk-Kazyna" JSC in the amount of 30,725 million Tenge maturing on August 18, 2024 at an interest rate below market to complete construction and purchase of finished housing.

At the initial recognition, the loan was recorded at its fair value of 19,297 million Tenge determined using a market interest rate of 5.60% prevailing at the date of transaction. The difference of 11,428 million Tenge between the nominal value of the loan and its fair value was recognized as an increase in the investment in Real Estate Fund "Samruk-Kazyna" JSC (*Note 5*).

According to changes in terms of loans dated December 13, 2010 the Fund has right to request from Real Estate Fund "Samruk-Kazyna" JSC early repayment of the loan (or part of it) in December of each year, and the borrower is obliged to repay it upon the Fund's request. Owing to changes in terms of loans, the Fund has reclassified those loans to short-term assets and, accordingly, treated it as a capital withdrawal of 10,788 million Tenge.

*National Company "Kazakhstan Temir Zholy" JSC*

On October 21, 2010 the Fund has entered into a loan agreement with National Company "Kazakhstan Temir Zholy" JSC, according to which the Fund has granted a loan in the amount of 30,000 million Tenge maturing on 25 January 2024 and with interest rate below market to finance construction of railways "Uzen – State border of Turkmenistan" and "Khosgos – Zhetygen".

When initially recognized, this loan was measured at fair value amounting to 20,306 million Tenge using a relevant market interest rate. The difference between nominal value of the loan and its fair value totaling 9,694 million Tenge was recognized as an increase in investments in National Company "Kazakhstan Temir Zholy" JSC (*Note 5*).

*House Construction Savings Bank of Kazakhstan JSC*

In 2010, the Fund has granted loans to House Construction Savings Bank of Kazakhstan JSC in the total amount of 14,400 million Tenge with maturity prior to August 1, 2019 to issue housing loans to certain categories of citizens.

When initially recognized, this loan was measured at fair value amounting to 9,835 million Tenge using a relevant market interest rate. The difference between nominal value of the loan and its fair value totaling 4,565 million Tenge was recognized as an increase in investments in House Construction Savings Bank of Kazakhstan JSC (*Note 5*).

*Development Bank of Kazakhstan JSC*

In 2010, the Fund has granted a loan to Development Bank of Kazakhstan JSC in the total amount of 5,000 million Tenge with maturity prior to November 1, 2029 and interest rate below market to decrease a lending rate for investment projects in priority industries.

When initially recognized, this loan was measured at fair value amounting to 2,198 million Tenge using a relevant market interest rate. The difference between nominal value of the loan and its fair value totaling 2,802 million Tenge was recognized as an increase in investments in Development Bank of Kazakhstan JSC (*Note 5*).

## 7. LOANS ISSUED (continued)

**Loans to other companies**

*Kazakhmys Finance PLC*

During the year 2010 the Fund provided loans to Kazakhmys Finance PLC in the amount of 700 million US dollars with maturities from 12 to 15 years. The interest rate on the loans is calculated as six-months LIBOR plus a 4.80% margin. These loans were provided for development of projects at Nurkazgan, Abyz and Bozymchak gold and copper mining fields. The loans were financed by proceeds of the loan facility of State China Development Bank.

*Eurasian Natural Resources Corporation PLC*

In November 2010, the Fund has entered into a loan agreement with Eurasian Natural Resources Corporation PLC ("ENRC"), according to which the Fund has granted a loan in the amount of 500 million US dollars with maturity of 10 years (73,750,000 million Tenge as at 31 December 2010). An annual interest rate on the loan is 7.5%. These loans were granted to implement investment projects in Kazakhstan. These loans were financed from funds obtained under the second bond program *(Note 14)*.

Loans to other companies also included loans to construction companies.

As at December 31, 2010 a provision for impairment of loans was represented by impairment of loans issued to construction companies.

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

## 8. AMOUNTS DUE FROM CREDIT INSTITUTIONS

Amount due from credit institutions comprised the following at December 31:

| *In millions of Tenge* | December 31, 2010 | December 31, 2009 |
|---|---|---|
| 10 largest local banks | 238,647 | 362,965 |
| Other local credit institutions | 175,679 | 219,921 |
| Interest accrued | 8,720 | 12,903 |
| **Total amounts due from credit institutions** | **423,046** | 595,789 |
| **Less: current portion** | **(84,129)** | (96,279) |
| **Non-current portion** | **338,917** | 499,510 |

| *In millions of Tenge* | December 31, 2010 | December 31, 2009 |
|---|---|---|
| Raitings above BB+ | 6,853 | 4,473 |
| Ratings from B to BB- | 46,585 | 93,337 |
| Rating B- | 196,797 | 156,073 |
| Ratings lower than B- | – | 106,379 |
| No rating | 172,811 | 235,527 |
| | 423,046 | 595,789 |

The following table provides analysis of amounts due from credit institutions by maturities at December 31:

| *In millions of Tenge* | December 31, 2010 | December 31, 2009 |
|---|---|---|
| **Amounts for which no impairment has been identified:** | | |
| - Neither past due, nor impaired | 422,793 | 595,770 |
| **Past due, but not impaired:** | | |
| - overdue less than 30 days | 132 | 19 |
| - overdue from 30 to 90 days | 121 | – |
| - overdue from 90 to 180 days | – | – |
| - overdue from 180 to 360 days | – | – |
| - overdue over 360 days | – | – |
| **Total amounts due from credit institutions** | **423,046** | 595,789 |

As at December 31, 2010 amounts due from credit institutions were mainly represented by loans to the following financial entities:

- Entrepreneurship Development Fund Damu JSC ("Damu Fund") in the amount of 162,856 million Tenge (2009: 218,909 million Tenge) in order to finance small and medium businesses, of which 77,559 million Tenge (2009: 123,277 million Tenge) were the amounts placed under the Stabilization Plan *(Note 1)*. These loans had interests at the rate of 5.5% - 7% per annum;
- To the second tier banks to refinance mortgage loans, for development of agro-industrial complex and construction of housing in Astana and Almaty in the amount of 123,171 million Tenge (2009: 122,818 million Tenge), 42,188 million Tenge (2009: 19,255 million Tenge) and 46,538 million Tenge (2009: 115,591 million Tenge), respectively. A part of amounts granted to the second tier banks to refinance mortgage loans and for construction of residential objects in Astana and Almaty at the amount of 163,027 million Tenge (2009: 140,534 million Tenge) is the amounts placed under the Stabilization Plan. These loans had interest rates of 5.20% - 9.55% per annum.

In the second half of 2010, the Fund has placed deposits in Kazkommertsbank JSC at the amount of 38,132 million Tenge to finance construction companies in order to complete construction of housing in Astana and Almaty. These loans had interest rates of 1% and 7% per annum. Fair value of the deposit at below market rate amounted to 10,725 million Tenge using a relevant market interest rate. The difference between nominal value of the loan and its fair value totaling 3,975 million Tenge was recognized as loss from initial recognition of assets at below market rates in the profit and loss.

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

## 8. AMOUNTS DUE FROM CREDIT INSTITUTIONS (continued)

In March 2010 Alliance Bank JSC early repaid 16,500 million Tenge placed by the Fund in 2009 to finance construction companies in order to complete construction of housing in Almaty under the Stabilization Plan.

In 2010 Halyk Bank of Kazakhstan JSC and Kazkommertsbank JSC early repaid amounts placed by the Fund in January 2009 to extend loans for the industrial projects in the amount of 60,000 million Tenge and 46,500 million Tenge, respectively.

## 9. OTHER FINANCIAL ASSETS

As at December 31 other financial assets comprised the following:

| *In millions of Tenge* | **December 31, 2010** | December 31, 2009 |
|---|---|---|
| Financial assets available for sale: | | |
| *Equity securities of Kazakhmys PLC* | 216,937 | – |
| *Equity securities of "Halyk Bank" JSC (Note 6)* | 132,194 | – |
| *Equity securities of "Kazkommertsbank" JSC (Note 6)* | 73,159 | – |
| *Debt securities* | 831 | 5,510 |
| Financial assets held to maturity: | | |
| *Debt securities* | 2,000 | 3,995 |
| **Total other financial assets** | **425,121** | 9,505 |
| **Less: current portion** | **(205,302)** | (1,933) |
| **Non-current portion** | **219,819** | 7,572 |

On October 5, 2010 the Fund has acquired 11% of ordinary shares of Kazakhmys PLC. Consideration paid amounted to 198,028 million Tenge. Kazakhmys PLC is the largest copper producer and the owner of coal mines and power stations in Kazakhstan.

As discussed in *Note 6*, during 2010 the Fund lost its significant influence in Halyk Bank JSC and Kazkommertsbank JSC and, accordingly, reclassified these investments into financial assets available for sale. Fair value of investments in equity securities of Halyk Bank JSC and Kazkommertsbank JSC as of the date of loss of significant influence totaled to 219.266 million Tenge.

Fair value of equity securities of Kazakhmys PLC, Halyk Bank JSC and Kazkommertsbank JSC as at December 31, 2010 was determined based on published quotations from the active market.

## 10. BANK DEPOSITS

As at December 31 bank deposits comprised the following:

| *In millions of Tenge* | **December 31, 2010** | December 31, 2009 |
|---|---|---|
| 10 largest local banks | 439,947 | 74,000 |
| Other local credit institutions | 6,000 | – |
| Interest accrued | 4,820 | 2,168 |
| **Total bank deposits** | **450,767** | 76,168 |
| **Less: current portion** | **(47,887)** | (76,168) |
| **Non-current portion** | **402,880** | – |

| *In millions of Tenge* | **December 31, 2010** | December 31, 2009 |
|---|---|---|
| Raitings above BB+ | 6,151 | 16,723 |
| Ratings from B to BB- | 44,427 | 32,016 |
| Rating B- | 400,189 | 18,172 |
| No rating | – | 9,257 |
| | **450,767** | 76,168 |

## 10. BANK DEPOSITS (continued)

*Placement of special deposit in BTA Bank JSC*

On May 13, 2010 the Fund had placed a deposit in BTA Bank JSC in the amount of 175,000 million Tenge maturing on December 30, 2024 at an interest rate of 11% per annum. The deposit was placed to accumulate funds for future settlement of the Fund's bonds currently held by BTA Bank JSC with a nominal value of 645,000 million Tenge (*Note 14*).

*Placement of special deposit in Alliance Bank JSC*

On June 18, 2010 the Fund placed a deposit in Alliance Bank JSC in the amount of 29,000 million Tenge maturing on December 30, 2024 at interest rate of 10.5% per annum. The deposit was placed to accumulate funds for partial settlement of the Fund's bonds currently held by Alliance Bank JSC with a nominal value of 105,000 million Tenge *(Note 14)*.

*Placement of special- deposits with BTA Bank JSC and Temirbank JSC*

In December 2010, the Fund has placed deposits with BTA Bank JSC and Temirbank JSC with maturities in 2020 in the amount of 29,300 million Tenge and 57,700 million Tenge, respectively. These deposits had interests at the rate of 9% and 8% per annum, respectively. Deposits were placed to accumulate funds for repayment of interest on the Fund's bonds *(Note 14)* owned by BTA Bank JSC.

*Placement of temporary excess cash*

Under the excess cash management policy, the Fund place deposits with large Kazakhstan second tier banks.

As at December 31, 2010 the weighted average interest rate on long-term bank deposits is 9.89% (2009: no long-term bank deposits were placed), and the weighted average interest rate on short-term bank deposits is 8.38% (2009: 10.23%).

## 11. OTHER CURRENT ASSETS

As at December 31 other current assets comprised the following:

| *In millions of Tenge* | **December 31, 2010** | December 31, 2009 |
|---|---|---|
| Prepayment of dividends to the Shareholder | **7,056** | 8,645 |
| Dividends receivable | **4,704** | – |
| Other accounts receivable | **2,153** | – |
| Restricted cash | **–** | 24,000 |
| Other | **6,558** | 1,992 |
| Less: Impairment | **(1,266)** | – |
| | **19,205** | 34,637 |

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

## 12. CASH AND CASH EQUIVALENTS

| *In millions of Tenge* | **December 31, 2010** | December 31, 2009 |
|---|---|---|
| Current accounts with banks – Tenge | **393,980** | 420,296 |
| Current accounts with banks – Euro | **1,596** | – |
| Current accounts with banks – US Dollars | **3** | 43,870 |
| Term bank deposits – Tenge | **6,007** | 73,701 |
| | **401,586** | 537,867 |

As at December 31, 2010 weighted average interest rate for most current accounts placed with Kazakhstan banks is equal to 0.20% (2009: 1.14%)

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Fund. As at December 31, 2010, the weighted average interest rate for time deposits with banks was 1.50% (2009: 0.25%).

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

## 12. CASH AND CASH EQUIVALENTS (continued)

Total amount of Fund's cash balances on bank accounts include funds allocated from the State budget and National Fund for Government programs. As at December 31, 2010 these cash balances were accumulated on the accounts with the National Bank and amounted to 373 billion Tenge, including:

- 264 billion Tenge (2009: 190 billion Tenge) of National Fund's amounts, received under Stabilization Plan;
- 11.8 billion Tenge (2009: 38.2 billion Tenge) of amounts from the State budget received to provide financing of projects implemented by the Fund's subsidiaries.
- 22.7 billion Tenge – loan issued by the Government for the subsequent financing of House Construction Savings Bank of Kazakhstan JSC and Doszhan Temir Zholy JSC (2009: 27,3 billion Tenge - loan issued by the Government for the subsequent financing of Kazakhstan Development Bank JSC, KPI JSC and Construction Savings Sank of Kazakhstan JSC).
- 74 billion Tenge – funds provided to Kazyna JSC in 2006-2008 for the purpose of investment projects financing (2009: 49.1 billion Tenge).

## 13. EQUITY

### Share capital

During 2010 and 2009 the Fund made issue of shares, which were contributed as follows:

| Payment for shares | Number of shares authorized and issued | Par value, in Tenge | Share capital, in Millions of Tenge |
|---|---|---|---|
| **As at December 31, 2008** | **3,427,432,843** | | **3,458,923** |
| Cash contributions | 15,274,340 | 10,000; 1,000 | 67,346 |
| Property contributions | 22,203,019 | 10,000; 1,000 | 222,030 |
| **As at December 31, 2009** | **3,464,910,202** | | **3,748,299** |
| Cash contributions | 14,144,838 | 10,000; 5,000; 1,000 | 141,447 |
| Property contributions | 21,627 | 100,000 | 2,163 |
| **As at December 31, 2010** | **3,479,076,667** | | **3,891,909** |

As at December 31, 2010 3,479,076,667 shares were fully paid (2009: 3,464,910,202 shares).

**2009**

*Contributions of state-owned shares*

- In accordance with the Resolution of the Government of the Republic of Kazakhstan No.962 dated October 17, 2008, on January 19, 2009 state-owned shares of National Atomic Company "KazAtomProm" JSC were transferred to the Fund.
- In accordance with the Resolution of the Government of the Republic of Kazakhstan No.10 dated January 15, 2009, on April 15, 2009 state-owned shares of National Mining Company "Tau-Ken Samruk" were transferred to the Fund. National Mining Company "Tau-Ken Samruk" JSC was established in 2009.
- In accordance with the Resolution of the Government of the Republic of Kazakhstan No.1148 dated July 27, 2009, on August 20, 2009 state-owned shares of House Construction Savings Bank of Kazakhstan JSC, Institution of Organic Catalysis and Electrical Chemistry JSC and Institution of Chemical Sciences named after A.B.Bekturov JSC were transferred to the Fund.

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

## 13. EQUITY (continued)

**2009 (continued)**

*Cash contributions*

- In accordance with the Law of the Republic of Kazakhstan "On Republican budget for 2009-2011" dated December 4, 2008, during 2009 the Government contributed an amount of 67,346 million Tenge to the Fund's equity. This amount was mostly intended for financing of investment projects implemented by subsidiaries and for financing of measures on implementation of state housing program and to extend loans for small and medium business.

**2010**

*Cash contributions*

In accordance with the Law of the Republic of Kazakhstan "On Republican budget for 2010-2012" dated December 7, 2009, during the year 2010 the Government contributed cash to the Fund's equity in the amount of 141,447 million Tenge. This amount was mostly intended for financing of investment projects implemented by subsidiaries.

*Dividends*

On December 15, 2009 in accordance with the Decision of the Board of Directors of the Fund No. 31 dated September 30, 2009 the Fund paid dividends of 2 Tenge 52 Tiyn per share totaling to 8,645 million Tenge (*Note 11*). On March 26, 2010, the Resolution of the Government of the Republic of Kazakhstan No. 239 approved final order of distribution of the Fund's net income for 2008 and settled prepayment of dividends.

*Transactions with the Shareholder*

In accordance with a swap agreement signed in 2010 between the Shareholder and the Fund, the Fund transfers to the Shareholder shares of Social-Entrepreneurship Corporations ("SEC") and National Innovation Fund JSC in exchange for the State's 42% interest in Pavlodar Petrochemical Plant JSC ("PPP"), 1.67% interest in Kazakh British Technical University ("KBTU"), 90% interest in Karagandagiproshakht JSC and other real estate and property.

In 2010, the Fund has transferred shares of subsidiaries to the state holding and obtained property and shares of PPP, KBTU and Karagandagiproshakht and K LLP. The Fund has recorded the transfer of subsidiaries to the Shareholder as the difference between the carrying amount of investments and fair value of state shareholdings of PPP and KBTU and property transferred in the amount of 32,888 million Tenge.

In December 2010, shares of PPP and KBTU were invested in National Company "KazMunayGas" JSC as contribution to charter capital (*Note 5*).

**Book value of shares**

In accordance with the decision of the Exchange Board of the Kazakhstan Stock Exchange ("KASE") dated October 4, 2010 financial statements shall disclose book value per share (common and preferred) as of the reporting date, calculated in accordance with the KASE rules.

| *In millions of Tenge* | 2010 | 2009 |
|---|---|---|
| Total assets | 4,734,373 | 4,488,727 |
| Intangible assets | (221) | (89) |
| Total liabilities | (1,464,296) | (1,125,266) |
| **Net assets for common shares** | 3,269,856 | 3,363,372 |
| **Number of common shares as of December 31** | 3,479,076,667 | 3,464,910,202 |
| Book value per share, Tenge | 940 | 971 |

## 14. BORROWINGS

Borrowings, including accrued interest, comprised the following as at December 31:

| *In millions of Tenge* | **December 31, 2010** | December 31, 2009 |
|---|---|---|
| Bonds issued, purchased by subsidiaries: | | |
| - BTA Bank JSC | **522,282** | 507,656 |
| - Alliance Bank JSC | **84,817** | 82,616 |
| - National Company KazMunayGas JSC | **42,037** | 66,527 |
| - Development Bank of Kazakhstan JSC | **26,068** | 63 |
| - Export-Credit Insurance Corporation KazExportGarant JSC | **2,035** | – |
| Bonds issued, purchased by other companies | **48,995** | – |
| Credit facility of State China Development Bank | **285,398** | 88,887 |
| **Total borrowings** | **1,011,632** | 745,749 |
| Less: amounts due for settlement within 12 months | **(91,871)** | (13,622) |
| **Amounts due for settlement after 12 months** | **919,761** | 732,127 |

As at December 31 borrowings, including accrued interest, comprised the following currencies:

| *In millions of Tenge* | **December 31, 2010** | December 31, 2009 |
|---|---|---|
| Tenge-denominated borrowings | **863,490** | 656,862 |
| US dollar-denominated borrowings | **148,142** | 88,887 |
| | **1,011,632** | 745,749 |

### Bonds issued purchased by subsidiaries

*Bonds exchange with NC KazMunayGas JSC*

On September 22, 2010 the Fund made an early redemption of bonds to NC KazMunayGas JSC in the amount of 79,000 million Tenge. At the same time, NC KazMunayGas JSC made an early redemption of bonds to the Fund in the amount of 190,000 million Tenge. The Fund has recognized net amortization of discount on these bonds in the amount of 59,478 million Tenge within interest income *(Note 17)*.

*Bonds exchange with Development Bank of Kazakhstan JSC*

In 2010, Development Bank of Kazakhstan JSC purchased the Fund's bonds in the amount of 37,926 million Tenge (2009: 53,142 million Tenge). The bonds are maturing after 50 years with 0.1% coupon rate. When initially recognized, the bonds were measured at fair value equal to 700 million Tenge using appropriate market interest rate. Placement of the Fund's bonds was performed concurrently with the purchase of Development Bank of Kazakhstan JSC bonds for the same consideration and similar terms, except for the fact that purchased bonds have optional coupon, and Development Bank of Kazakhstan JSC can unilaterally and unconditionally reject repayment of coupon without bearing any further liabilities. Optional coupon for 2010 amounted to 4,439 million Tenge and was recognized as dividend income.

### Bonds issued purchased by other organizations

Under the second bonds program, in September 2010 the Fund has placed bonds in the amount of 75,000 million Tenge on the open market. The bonds' maturities are 10 years with coupon rate of 6.5% per annum.

Under this program Fund's subsidiaries Development Bank of Kazakhstan JSC and Export-Credit Insurance Corporation KazExportGarant JSC acquired bonds of the Fund. As of December 31, 2010 the carrying value of the bonds was 25,285 million Tenge and 2,035 million Tenge respectively. Remaining bonds were acquired by other parties.

## 14. BORROWINGS (continued)

### Loans received

*Credit facility of State China Development Bank*

On June 22, 2009 the Master financial agreement for opening of credit facility for 3 billion US dollars was signed between the Fund, State China Development Bank and Development Bank of Kazakhstan JSC, acting as an operator. According to this agreement, State China Development Bank shall provide USD-denominated long-term loans to the Fund in the amount of 3 billion US dollars with an interest rate of 6-m LIBOR plus 4.3%. Loans are assigned for supporting and development of industrial production and other industries between China and Kazakhstan. In 2010, the Fund has obtained 4 tranches in the amount of 400 million US dollars under this credit facility (2009: 600 million US dollars)

The purpose of the tranches obtained in 2010 is granting loans to Kazakhmys Finance PLC for development of cooper deposit Bozshakol (*Note 8*).

*Loan from NC KazMunayGas JSC*

On September 21, 2010, the Fund has entered into an agreement with NC KazMunayGas JSC for receiving a loan in the amount of 152,000 million Tenge with maturity in 2030. Loan interest rate is 7% per annum.

This loan was obtained for the purposes of accumulation of cash for further repayment of the Fund's bonds held by BTA Bank JSC with nominal value of 645,000 million Tenge and repayment of related coupon (*Note 10*).

## 15. AMOUNTS DUE TO THE GOVERNMENT

As at December 31 amounts due to the Government comprised of the following:

| *In millions of Tenge* | **December 31, 2010** | December 31, 2009 |
|---|---|---|
| Bonds placed by NBRK | **328,632** | 191,991 |
| Loans from the Ministries | **26,025** | 14,871 |
| | **354, 657** | 206,862 |

### 2010

In 2010 the Fund has placed 220,000,000 coupon bonds with nominal value of 1,000 Tenge per bond to the total amount of 220,000 million Tenge. The maturity of bonds shall be 15 years, coupon interest of 0.4% shall be paid semiannually. All bonds were purchased by the National Bank of the Republic of Kazakhstan. These bonds were initially recorded at fair value calculated using market interest rates applicable to the Fund as at the date of bonds issue and subsequently are carried at amortized cost The difference between nominal cost of loans and their fair value at the amount of 102,733 million Tenge was recognized in the separate statement of changes in equity.

Amounts obtained from realization of these bonds have the following purpose: acquisition of shares of Kazakhmys PLC on the organized market and expenses related to acquisition of the shareholding.

In accordance with the Law of the Republic of Kazakhstan "On Republican budget for 2010-2012" dated December 7, 2009, on December 2010 the Fund has obtained 2 loans from the Ministry of Industry and New Technologies of the Republic of Kazakhstan to the total amount of 18,803 million Tenge with interest rates ranging between 0.25% and 0.5%. Loans were granted to the period from 11 to 20 years and intended for the following purposes:

- Providing loan to House Construction Savings Bank of Kazakhstan JSC at the amount of 15,163 million Tenge in order to grant housing loans to certain categories of citizens at the interest rate of 1% per annum;
- Providing loan to Doszhan Temir Zholy JSC at the amount of 3.640 million Tenge to finance project "Construction and operation of new railway line "Railway station Shar – Ust-Kamenogorsk". With interest rate not exceeding 0.5% per annum.

When initially recognized, these loans were measured at fair value equal to 10,391 million Tenge using appropriate market interest rate and subsequently are carried at amortized cost. The difference between nominal cost of loans and their fair value at the amount of 8,412 million Tenge was recognized in the separate statement of changes in equity.

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

## 15. AMOUNTS DUE TO THE GOVERNMENT (continued)

### 2009

In 2009 the Fund has placed 480,000 and 149,900,000 coupon bonds with nominal value of 1,000,000 Tenge and 1,000 Tenge per bond, respectively, to the total amount of 629,900 million Tenge on unorganized market. The maturity of bonds shall be 15 years and 20 years, coupon interest at the amount of 0.02% and 1% shall be paid half-yearly. All bonds were purchased by the National Bank of the Republic of Kazakhstan. These bonds were initially recorded at fair value calculated using market interest rates of 9.5% and 5.96%, respectively applicable to the Fund as at the date of bonds issue and subsequently are carried at amortized cost. The difference between nominal cost of loans and their fair value at the amount of 448,833 million Tenge was recognized in the separate statement of changes in equity

Amounts obtained from realization of these bonds were used for development and support of residential sector, financing of small and medium business under the Stabilization plan, purchase of 50% share in Ekibastuz GRES-1 LLP and granting loan to Samruk-Energy JSC.

In accordance with the Law of the Republic of Kazakhstan "On Republican budget for 2009-2011" dated December 4, 2008, on December 23, 2009 the Fund has obtained 3 loans from the Ministry of Finance of the Republic of Kazakhstan in the amount of 27,277 million Tenge with interest rates ranging between 0.1% and 1.5%. Loans were granted to the period from 10 to 20 years and intended for the following purposes:

- Providing loan to House Construction Savings Bank of Kazakhstan JSC at the amount of 18,277 million Tenge in order to grant housing loans to certain categories of citizens at the interest rate of 4% per annum;
- Providing loan to Development Bank of Kazakhstan JSC at the amount of 5,000 million Tenge in order to decrease loan rates for projects in priority industries. Interest rate for the end-use borrower shall not exceed 0.2% per annum;
- Providing loan for Kazakhstan Petrochemical Industries Inc LLP at the amount of 4,000 million Tenge to finance construction of infrastructure for first integrated gas and chemical complex in Atyrau oblast with interest rate not exceeding 3% per annum.

When initially recognized, these loans were measured at fair value equal to 14,855 million Tenge using estimated market interest rate of 5.96%. The difference between nominal cost of loans and their fair value at the amount of 12,422 million Tenge was recognized in the separate statement of changes in equity.

## 16. FINANCIAL GUARANTEE LIABILITIES

Movements in the financial guarantee liabilities comprise as follows:

| *In millions of Tenge* | 2010 | 2009 |
|---|---|---|
| As at January 1 | **21,968** | 1,168 |
| Guarantees issued during the year | **15,880** | 21,367 |
| Amortization of financial guarantees liabilities | **(10,030)** | (505) |
| Effect of changes in exchange rates | **(111)** | (62) |
| As at December 31 | **27,707** | 21,968 |
| **Less: current portion** | **(2,722)** | (2,315) |
| **Non-current portion** | **24,985** | 19,653 |

Financial guarantees liabilities comprise the Fund's liabilities on guarantees issued to financial institutions in order to finance economic activity and significant contracts of their subsidiaries (*Note 5*). All guarantee agreements are concluded on the terms that no indemnification shall be paid to the Fund. Total guaranteed outstanding is 1,980,000 thousand US dollars as at December 31, 2010 (2009: 1.580,000 thousand US dollars).

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

## 17. INTEREST INCOME

Interest income for the year ended December 31 comprised the following:

| *In millions of Tenge* | 2010 | 2009 |
|---|---|---|
| Unwinding of discount on loans issued | 174,945 | 204 |
| Interest on loans | 44,185 | 44,311 |
| Interest on bonds | 45,920 | 59,482 |
| Income from discounting of financial assets and liabilities | – | 52,828 |
| Other | – | 129 |
| | 265,050 | 156,954 |

## 18. INTEREST EXPENSES

Interest expenses for the year ended December 31 comprised the following:

| *In millions of Tenge* | 2010 | 2009 |
|---|---|---|
| Interest on bonds | 39,841 | 27,673 |
| Unwinding of discount on financial assets and liabilities | 30,219 | 14,395 |
| Interest on loans | 7,946 | 1,246 |
| Expenses from discounting of financial assets | 5,805 | – |
| Other | 86 | 23 |
| | 83,897 | 43,337 |

## 19. FINANCE INCOME

Finance income for the year ended December 31 comprised the following:

| *In millions of Tenge* | 2010 | 2009 |
|---|---|---|
| Interest on bank deposits | 23,343 | 3,958 |
| Income from financial guarantees | 16,277 | 505 |
| Interest on current bank accounts | 3,412 | 10,207 |
| Other | 1,450 | 991 |
| | 44,482 | 15,661 |

## 20. INCOME TAX EXPENSE

Income tax expenses for the year ended December 31 comprised the following:

| *In millions of Tenge* | 2010 | 2009 |
|---|---|---|
| Withholding tax | 10,308 | 6,691 |
| Current income tax expenses | 25,239 | – |
| Deferred income tax (benefit) / expenses | (20,818) | 24,615 |
| | 14,729 | 31,306 |

In December 2008, the Government approved amendments to the tax code effective January 1, 2009, in accordance to which the statutory income tax rates were changed to 20% in 2009, 17.5% in 2010 and 15% from 2011 onwards.

In November 2009, the Government approved amendments to the tax code effective January 1, 2009, in accordance to which the statutory income tax rates are further changed to 20% in 2009-2012, 17.5% in 2013 and 15% in 2014 and onwards. The mechanism for calculating EPT was also changed in 2009. In November 2010, the Government approved amendments to the tax code effective January 1, 2011, in accordance with such changes the statutory income tax rates are changed to 20% for future periods. The Funds's calculations of deferred tax and income tax expense as of December 31, 2010 and 2009 for the years then ended reflect these changes in the tax code.

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

## 20. INCOME TAX EXPENSE (continued)

A reconciliation of income tax expense applicable to profit before income tax at the statutory income tax to income tax expense was as follows:

| *In millions of Tenge* | 2010 | 2009 |
|---|---|---|
| **Profit before tax** | (297,339) | 137,355 |
| Statutory tax rate | 20% | 20% |
| **Income tax expense on accounting profit** | (59,468) | 27,471 |
| | | |
| **Tax effect of permanent differences** | 74,197 | 3,835 |
| Impairment of investments into subsidiaries and associate | 156,324 | – |
| Effect of change in tax rate | 8,895 | (8,031) |
| Income from financial guarantees | (2,006) | – |
| Income from conversion of debt instruments into equity | (2,469) | – |
| Withholding income tax | (6,086) | 6,691 |
| Non-taxable income from dividends | (7,961) | (7,209) |
| Non-taxable income on securities registered at KASE | (9,255) | (8,835) |
| Loss on changes in the value of options, net | (12,221) | 18,825 |
| Income from loss of significant influence on associates | (17,370) | – |
| Amortization of discount on financial assets and liabilities | (35,205) | 2,162 |
| Other permanent differences | 1,551 | 232 |
| **Expenses on corporate income tax presented in the statement of comprehensive income** | 14,729 | 31,306 |

Deferred tax balances, calculated by applying the statutory tax rates in effect at the balance sheet date to the temporary differences between the basis of assets and liabilities and the amounts reported in the separate financial statements, are comprised of the following:

| *In millions of Tenge* | 2010 | 2009 |
|---|---|---|
| **Deferred tax assets** | | |
| Amounts due from credit institutions | 2,713 | – |
| Other current liabilities | 31 | 57 |
| Investments in subsidiaries and associates | – | 15,032 |
| **Deferred tax assets** | 2,744 | 15,089 |
| | | |
| **Deferred tax liabilities** | | |
| Property, plant and equipment | (866) | (370) |
| Loans received | (414) | (7,386) |
| Loans issued | – | (26,687) |
| **Deferred tax liabilities** | (1,280) | (34,443) |
| **Net deferred tax liability** | 1,464 | (19,354) |

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

## 21. RELATED PARTY TRANSACTIONS

Related parties include entities of the Fund's group and other entities controlled by the Government, the Fund's key management personnel, other related parties. Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

Nature of transactions, which have been entered into with related parties during 2010 and 2009, is disclosed in *Notes 5, 6, 7, 8, 10, 11, 13, 14, 15, 16.*

The following table provides the total amount of transactions, which have been entered into with related parties during 2010 and 2009 and the related balances as at December 31, 2010 and 2009, respectively:

| *In millions of Tenge* | | Due from related parties | Due to related parties | Cash and deposits placed with related parties |
|---|---|---|---|---|
| Other entities controlled by the Government | **December 31, 2010** | **2,238** | **354,454** | **373,028** |
| | December 31, 2009 | 4,384 | 206,739 | 339,577 |
| Subsidiaries | **December 31, 2010** | **364,075** | **814,737** | **359,314** |
| | December 31, 2009 | 1,135,478 | 656,922 | 180,906 |
| Associates and joint venture | **December 31, 2010** | **–** | **–** | **–** |
| | December 31, 2009 | 229,588 | – | 2,052 |
| Other related parties | **December 31, 2010** | **21,001** | **34,981** | **5,678** |
| | December 31, 2009 | – | – | – |

| *In millions of Tenge* | | Dividends received | Purchases from related parties | Interest earned from related parties | Interest incurred to related parties |
|---|---|---|---|---|---|
| Other entities controlled by the Government | **2010** | **–** | **–** | **463** | **2,718** |
| | 2009 | – | – | 481 | 10,988 |
| Subsidiaries | **2010** | **41,983** | **1,083** | **354,120** | **107,757** |
| | 2009 | 36,045 | 474 | 89,559 | 31,081 |
| Associates and joint venture | **2010** | **–** | **–** | **5,186** | **1** |
| | 2009 | – | – | 18,831 | – |
| Other related parties | **2010** | **2,261** | **–** | **1,917** | **–** |
| | 2009 | – | – | – | – |

Total compensation to key management personnel included in general and administrative expenses in the accompanying separate statement of comprehensive income amounted to 298 million Tenge and 285 million Tenge for the years ended December 31, 2010 and 2009, respectively. Compensation to key management personnel consists of contractual salary.

## 22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Fund's principal financial liabilities consist of borrowings from credit institutions and the Government, bonds issued and other accounts payable. The main purpose of these financial instruments is to raise finance for the Fund's operations. The Fund's financial assets comprise loans issued to subsidiaries and credit institutions, short-term bank deposits, other accounts receivable, purchased bonds and state securities, cash and cash equivalents arising directly from its operating activity.

The Fund is exposed to market risk, interest rate risk, credit risk, currency risk and liquidity risk.

## 22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Fund limits interest rate risk by monitoring changes in interest rates in the currencies in which its cash, investments and borrowings are denominated.

The Fund's exposure to interest risk relates primarily to the Fund's long-term debt obligations with floating interest rates (*Note 14*).

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Fund's profit before tax (through the impact on floating rate borrowings). There is no impact on the Fund's equity.

| *In millions of Tenge* | Increase / decrease in basis points | Effect on profit before tax |
|---|---|---|
| **2010** | **+100** | **(1,481)** |
| | **-25** | **370** |
| 2009 | +100 | (447) |
| | -25 | 112 |

### Credit Risk

Credit risk arising from the inability of a party to meet the terms of the Fund's financial instrument contracts is generally limited to the amounts, if any, by which the counterparty's obligations exceed the obligations of the Fund to that party. It is the Fund's policy to enter into financial instruments with a diversity of creditworthy parties. The maximum exposure to credit risk is represented by the carrying value of each financial asset. The Fund considers that its maximum exposure is reflected by the amount of loans to customers (*Note 7*), amount due from credit institutions (*Note 8*), financial assets (*Note 9*), bank deposits (*Note 10*) and other current assets (*Note 11*) net of allowances for impairment recognized at the reporting date.

Concentrations of credit risk may arise from exposures to a single debtor or to groups of debtors having similar characteristics such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions.

### Liquidity Risk

Liquidity risk is the risk that the Fund will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The table below summarises the maturity profile of the Fund's financial liabilities at December 31, 2009 and 2008 based on contractual undiscounted payments.

| *In millions of Tenge* | On demand | From 1 to 3 months | From 3 months to 1 year | From 1 to 5 years | >5 years | Total |
|---|---|---|---|---|---|---|
| **As at December 31, 2010** | | | | | | |
| Loans | 64,727 | 17,442 | 30,639 | 360,217 | 1,696,538 | **2,169,563** |
| Amounts due to the Government | – | 48 | 1,169 | 7,135 | 934,695 | **943,047** |
| Other current liabilities | 226 | 477 | 212 | – | – | **915** |
| **Total** | **64,953** | **17,967** | **32,020** | **367,352** | **2,631,233** | **3,113,525** |

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

## 22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

| *In millions of Tenge* | On demand | From 1 to 3 months | From 3 months to 1 year | From 1 to 5 years | >5 years | Total |
|---|---|---|---|---|---|---|
| As at December 31, 2009 | | | | | | |
| Loans | 5,098 | 15,003 | 21,041 | 186,923 | 1,456,572 | 1,684,637 |
| Amounts due to the Government | – | 48 | 195 | 1,010 | 689,081 | 690,334 |
| Other current liabilities | 34 | 376 | 382 | – | – | 792 |
| Total | 5,132 | 15,427 | 21,618 | 187,933 | 2,145,653 | 2,375,763 |

### Currency risk

Except for current accounts with banks in foreign currency, the Fund attracts substantial amount of foreign currency denominated long-term borrowings and is thus exposed to currency risk.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Fund's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Fund's equity.

| *In millions of Tenge* | Increase / decrease in currency rate | Effect on profit before tax |
|---|---|---|
| **2010** | | |
| **Euro** | **16,65%** | **266** |
| | **-16,65%** | **(266)** |
| **US Dollar** | | |
| | **11,56%** | **134** |
| | **-11,56%** | **(134)** |
| 2009 | | |
| US Dollar | 10% | (2,226) |
| | -15% | 3,340 |

### Capital management

The primary objective of the Fund's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize value of parties concerned. The Fund manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Fund may adjust issue new shares or attract borrowings.

The Fund performs capital management through attracting financial resources at optimally advantageous conditions for further financing of its activity and to invest it for resolving strategic tasks assigned to the Fund. The process of capital management also comprises regular monitoring of current conditions at the capital market, cost of borrowed funds and risks related to the each class of capital.

The Fund has established the equity to debt ratio, which should not exceed 4. This coefficient was satisfied during the reporting period and as at the reporting date.

The Fund performs capital management through optimization of balance between debt and equity using the capital adequacy coefficient representing the ratio of the Fund's equity to its assets. It is the Fund's policy that this ratio should not be less than 0.25.

Capital adequacy coefficient is presented as follows

| *In millions of Tenge* | December 31, 2010 | December 31, 2009 |
|---|---|---|
| Share capital | **3,891,909** | 3,748,299 |
| Reserves | **4,881** | (580) |
| Accumulated loss | **(626,713)** | (384,257) |
| Total equity | **3,370,077** | 3,363,462 |
| Total borrowings | **1,366,289** | 952,611 |
| Total assets | **4,734,423** | 4,488,728 |
| Capital adequacy coefficient | **0.69** | 0.75 |
| Debt to equity ratio | **0.42** | 0.28 |

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

## 22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Fair value hierarchy

The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Set out below is a comparison by category of carrying amounts and fair values of all of the Fund's financial instruments:

| *In millions of Tenge* | **December 31, 2010** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| Investments available-for-sale | **423,121** | 423,121 | – | – |
| | | | | |
| **Liabilities measured at fair value** | | | | |
| Liability on call option | **69,435** | – | 69,435 | – |

| *In millions of Tenge* | **December 31, 2009** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| Investments available-for-sale | **5,510** | 5,510 | – | – |
| | | | | |
| **Liabilities measured at fair value** | | | | |
| Liability on call option | **130,541** | – | 130,541 | – |

### Fair value of financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the Fund's financial instruments:

| *In millions of Tenge* | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | **December 31, 2010** | December 31, 2009 | **December 31, 2010** | December 31, 2009 |
| *Financial assets* | | | | |
| Cash and cash equivalents | **401,586** | 537,867 | **401,586** | 537,867 |
| Bank deposits | **450,767** | 76,168 | **450,767** | 76,168 |
| Loans issued | **312,721** | 824,288 | **311,628** | 961,558 |
| Amounts due from credit institutions | **423,046** | 595,789 | **422,986** | 595,789 |
| Other financial assets | **425,121** | 9,505 | **425,409** | 9,505 |
| Other current assets | **19,205** | 34,637 | **19,155** | 34,637 |
| | | | | |
| *Financial liabilities* | | | | |
| Borrowings | **(1,011,632)** | (745,749) | **(1,068,481)** | (823,954) |
| Amount due to the Government | **(354,657)** | (206,862) | **(409,770)** | (284,961) |
| Financial guarantee liabilities | **(27,707)** | (21,968) | **(36,882)** | (21,968) |
| Option liabilities | **(69,435)** | (130,541) | **(69,435)** | (130,541) |
| Other current liabilities | **(915)** | (792) | **(1,154)** | (792) |

The fair value of interest-bearing borrowings obtained and issued has been calculated by discounting the expected future cash flows at prevailing interest rates.

The carrying amount of cash, other current assets and other current liabilities approximates their fair value due to the short-term maturity of these financial instruments.

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

## 23. COMMITMENTS AND CONTINGENCIES

### Legal proceedings

In the opinion of the management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Fund and which have not been accrued or disclosed in these separate financial statements.

### Contingent liabilities

The Fund assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its separate financial statements only where it is probable that events giving rise to the liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in these separate financial statements for any of the contingent liabilities mentioned above.

### Insurance Matters

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Fund does not have coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Fund property or relating to Fund operations. Until the Fund obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Fund's operations and financial position.

### Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2010. As at December 31, 2010, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Fund's tax positions will be sustained.

### Allowances against assets placed with BTA Bank JSC

In September 2010, the Tax Committee of Astana initiated integrated tax audit of the Fund's activities for 2009. During the tax audit the tax authorities raise question on deductibility of Provisions for corporate income tax purpose for 2009. As at the date of these financial statements the Fund did not received the tax audit act yet.

The Decree of the Government No. 2275 dated 30 December 2009 approved the Rules of "allocation of assets and contingent liabilities to the category of doubtful and bad by the national management holding, and by legal entities that are mainly engaged in borrowing transactions and repurchase of accounts receivable and 100% of voting shares (share of participation) of such entities belong to the national management holding, and they have the right to deduct provision (reserve) expenses against doubtful and bad assets, contingent liabilities, apart from assets and contingent liabilities provided in favour of related parties, or third parties on obligations of related parties (apart from assets and contingent liabilities of credit cooperatives)" ("Rules").

In accordance with the Rules the Fund formed and deduct for corporate income tax purposes provisions on assets placed in BTA Bank JSC in the amount of 846,748 million Tenge ("Provisions").

The Fund's management believes that as at 31 December 2010 its interpretation of applicable legislation (including Rules) is appropriate and the Fund's position on deduction of these provisions will be sustained. Accordingly, the Fund did not recognize any provisions associated with possible accruals by tax authorities in these financial statements.

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

## 23. COMMITMENTS AND CONTINGENCIES (continued)

**Commitments under Stabilization Plan**

The Fund was assigned as the Government's principal operator in implementation of the Stabilization Plan approved by the Government in 2008 (*Note 1*). As at December 31, 2010 commitments for measures on financial sector stabilization and small and medium business support were fulfilled.

*Settlement of real estate market issues*

The Government made a decision to provide funds for stabilization of real estate market. The Government assigned the Fund to place deposits with second-tier banks and provide direct financing to construction companies. As at December 31, 2010 commitment to provide financing for completion of ongoing construction and acquisition of completed housing through the Fund and its subsidiaries amounted to 33,784 million Tenge (2009: 177,684 million Tenge).

*Implementation of innovation, industrial and infrastructure projects*

As at December 31, 2010 115,000 million Tenge was contributed to the share capital of Development Bank of Kazakhstan JSC ("DBK") for the purposes of financing of innovation, industrial and infrastructure projects. As at December 31, 2010 the Fund's remaining commitments to provide financing to innovation, industrial and infrastructure projects amounted to 5,000 million Tenge.

Approved projects for the purposes of financing of innovation, industrial and infrastructure projects were for 53,600 million Tenge. As at December 31, 2010 the DBK's remaining commitments to provide financing to innovation, industrial and infrastructure projects amounted to 61,400 million Tenge.

**Commitments under investment projects**

As at December 31, 2010 Fund's commitments on implementation of investment projects amounted to 40,000 million Tenge. These funds were reallocated from commitments on stabilization of the real estate market in the amount of 70,000 million Tenge.

**Commitments of loans providing**

In accordance with the Government Resolution No. 1376 dated December 20, 2010 the Fund received a loan for further financing of Doszhan Temir Zholy JSC in the amount of 3,640 million Tenge. As at December 31, 2010 commitments on loan issuance are 3,640 million Tenge.

In accordance with the Government regulation No.1377 dated December 20, 2010 the Fund received a loan for further financing of House Construction Savings Bank of Kazakhstan JSC in the amount of 15,163 million Tenge. As at December 31, 2010 commitments on loan issuance are 15,163 million Tenge.

In accordance with the Government regulation No. 2148 dated December 21, 2009 the Fund received a loan for further financing of Hose construction savings bank of Kazakhstan JSC in the amount of 18,277 million Tenge. As at December 31, 2010 commitments on loan issuance are 3,877 million Tenge.

## 24. SUBSEQUENT EVENTS

*Loans issued*

On January 28, 2011 the Fund issued loans to NC KazMunayGas JSC and Samruk-Energy JSC in the amount of 23,337 million Tenge and 7,000 million Tenge, respectively, for financing of investment projects (*Note 23*).

On February 25, 2011 the Fund issued a loan to Doszhan Temir Zholy JSC in the amount of 3,640 million Tenge for financing the project "Construction and operation of new railway line "Railway station Shar – Ust-Kamenogorsk" (*Note 23*).

On April 21, 2011 the Fund granted loans to Kaztemirtrans JSC and Locomotive JSC, subsidiaries of NC Kazakhstan Temir Zholy JSC in the amount of 60,000 million Tenge and 15,000 million Tenge respectively, for purchase of property and equipment by these companies.

# NOTES TO SEPARATE FINANCIAL STATEMENTS (continued)

## 24. SUBSEQUENT EVENTS (continued)

*Sales of ordinary shares of Halyk Bank Kazakhstan JSC*

In March 2011, Holding Group ALMEX JSC and Halyk Bank Kazakhstan JSC signed an agreement on assignment of right of demand for partial exercise of option on ordinary shares of Halyk Bank Kazakhstan JSC.

In accordance with this agreement on March 30, 2011 Halyk Bank Kazakhstan JSC realized its right for partial execution of option *(Note 6)* and acquired 213,000,000 of its ordinary shares.

Furthermore, Holding Group ALMEX JSC exercised an option and redeemed 46,064,909 ordinary shares of Halyk Bank Kazakhstan JSC.

*Transfer of shares of subsidiaries*

On April 5, 2011 the Fund made a contribution to the share capital of NC Kazakhstan Temir Zholy JSC of 100% interest in KAMKOR Repair Corporation LLP.

On 12 April 2011, the Fund transferred to the State Property and Privatisation Committee of the Ministry of Finance of Kazakhstan ordinary shares of House Construction Savings Bank of Kazakhstan JSC and Kazakhstan Mortgage Loans Guarantee Fund JSC.

*Replacement of the Chairman of the Management Board*

On April 12, 2011 Mr. Kulibayev T.A., who was previously Deputy Chairman of the Management Board, was appointed as a new Chairman of the Management Board of the Fund. The previous Chairman of the Foundation Board Kelimbetov K.N. appointed as Minister of Economic Development and Trade of the Republic of Kazakhstan.

*Placement of bonds on the open market*

Within the second bond program in April 2011, the Fund has placed on the open market bonds for the amount of 75,000 million Tenge. The bonds have a maturity of 7 years with a coupon rate 5.89% per annum.

*Contribution to the share capital of subsidiary*

In the second quarter of 2011, the Fund made a contribution to the share capital of "National Company "Kazakhstan Temir Zholy" JSC for the total amount of 33,367 thousand Tenge. The contribution has been made in the form of cash and property in the amount of 31,232 thousand Tenge and 2,135 thousand Tenge, respectively.

*Contribution to share capital of the Fund*

In the first half of 2011, the Government contributed to the share capital of the Fund the sum of 57,283 million Tenge. The contribution has been made in the form of contribution of cash and property amounting to 56,080 million Tenge and 1,203 million Tenge, respectively.