REAL ESTATE FUND "SAMRUK-KAZYNA" JSC

Consolidated Financial Statements

For the year ended December 31, 2011
with Independent Auditors' Report

CONTENTS

ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of REAL ESTATE FUND "SAMRUK-KAZYNA" JSC

We have audited the accompanying consolidated financial statements of REAL ESTATE FUND "SAMRUK-KAZYNA" JSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Aisulu Narbayeva
Auditor

Auditor Qualification Certificate
No. 0000137 dated 21 October 1994

Evgeny Zhemaletdinov
General Director
Ernst & Young LLP

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

March 15, 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2011

In thousands of Tenge	Notes	2011	2010*
ASSETS			
Non-current assets			
Property and equipment	5	4,944,989	4,551,128
Investment property	6	1,629,330	2,071,767
Advances paid to construction companies	8	3,547,395	23,135,138
Intangible assets		24,008	19,533
Non-current financial assets	9	21,585,886	13,598,808
		31,731,608	43,376,374
Current assets			
Inventories		9,812	4,714
Inventory property	7	673,667	680,772
Advances paid to construction companies	8	224,410	–
Trade receivables	11	608,813	1,528,002
Prepaid income tax		131,109	–
Other current financial assets	12	12,725,422	12,365,727
Other current assets	13	23,205	539,188
Cash and cash equivalents	14	32,976,265	26,047,375
		47,372,703	41,165,778
Assets classified as held for sale	10	25,172,720	–
		72,545,423	41,165,778
TOTAL ASSETS		104,277,031	84,542,152
EQUITY AND LIABILITIES			
Equity			
Share capital	15	19,876,956	15,000,000
Additional paid-in capital	16	7,611,892	11,356,866
Available-for-sale reserve	15	87,997	–
Retained earnings		3,611,055	395,272
		31,187,900	26,725,138

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at December 31, 2011

In thousands of Tenge	Notes	2011	2010*
Non-current liabilities			
Parent loans	16	**15,320,839**	25,911,257
Other non-current liabilities		**417,928**	156,647
Deferred tax liability	23	**149,184**	23,579
		15,887,951	26,091,483
Current liabilities			
Current portion of Parent loans	16	**54,249,344**	30,724,814
Obligations under "repo" agreements	17	**2,254,003**	851,004
Trade payables	18	**106,651**	18,178
Income tax payable		**–**	42,943
Other current liabilities		**591,182**	61,592
		57,201,180	31,698,531
		73,089,131	57,790,014
TOTAL EQUITY AND LIABILITIES		**104,277,031**	84,542,152

* Certain amounts shown here do not correspond to the 2010 consolidated financial statements and reflect reclassifications made as detailed in *Note 2*.

The accompanying notes on pages 6 through 32 are an integral part of these consolidated financial statements.

Chairman of the Management Board — *Palymbetov B. A.*

Managing Director – Member of the Management Board — *Karibzhanov M. Kh.*

Chief accountant — *Sipuldina B. K.*

Акционерное қоғамы "Самұрық-Қазына" жылжымайтын мүлік қоры
"Фонд недвижимости "Самрук-Казына" Акционерное общество
Қазақстан Республикасы Астана қаласы
Город Астана Республика Казахстан

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2011

In thousands of Tenge	Notes	2011	2010
Revenue	19	5,239,208	1,358,571
Cost of revenue	20	(1,326,057)	(746,925)
Gross profit		3,913,151	611,646
General and administrative expenses	21	(1,293,013)	(782,491)
Operating profit / (loss)		2,620,138	(170,845)
Finance income	22	2,981,818	3,020,890
Finance cost	22	(1,437,681)	(2,038,426)
Other income		210,586	2,002
Profit before tax		4,374,861	813,621
Income tax expense	23	(1,101,604)	(430,465)
Profit for the year		3,273,257	383,156
Other comprehensive income			
Net gain on available-for-sale financial assets		109,996	–
Income tax effect		(21,999)	–
Other comprehensive income for the year, net of tax		87,997	–
Total comprehensive income for the year, net of tax		3,361,254	383,156

The accompanying notes on pages 6 through 32 are an integral part of these consolidated financial statements.

Chairman of the Management Board — *Palymbetov B. A.*

Managing Director – Member of the Management Board — *Karibzhanov M. Kh.*

Chief accountant — *Sipuldina B. K.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2011

In thousands of Tenge	Share capital	Additional paid-in capital	Available-for-sale reserve (*Note 15*)	Retained earnings	Total
At 1 January, 2010	15,000,000	10,862,071	–	14,254	25,876,325
Profit for the year	–	–	–	383,156	383,156
Other comprehensive income for the year	–	–	–	–	–
Total comprehensive income for the year	–	–	–	383,156	383,156
Discounting of Parent loan (*Note 16*)	–	9,719,148	–	–	9,719,148
Change in Parent loan terms of (*Note 16*)	–	(9,224,353)	–	–	(9,224,353)
Dividends (*Note 15*)	–	–	–	(2,138)	(2,138)
At 31 December, 2010	15,000,000	11,356,866	–	395,272	26,752,138
Profit for the year	–	–	–	3,273,257	3,273,257
Other comprehensive income for the year	–	–	87,997	–	87,997
Total comprehensive income for the year	**–**	**–**	**87,997**	**3,273,257**	**3,361,254**
Issue of share capital (*Note 15*)	4,876,956	–	–	–	4,876,956
Change in Parent loan terms of (*Note 16*)	–	(3,744,974)	–	–	(3,744,974)
Dividends (*Note 15*)	–	–	–	(57,474)	(57,474)
At December 31, 2011	**19,876,956**	**7,611,892**	**87,997**	**3,611,055**	**31,187,900**

The accompanying notes on pages 6 through 32 are an integral part of these consolidated financial statements.

Chairman of the Management Board — *Palymbetov B. A.*

Managing Director – Member of the Management Board — *Karibzhanov M. Kh.*

Chief accountant — *Sipuldina B. K.*

ҚАЗАҚСТАН РЕСПУБЛИКАСЫ АСТАНА ҚАЛАСЫ Акционерлік қоғамы "Самұрық-Қазына" жылжымайтын мүлік қоры "Фонд недвижимости "Самрук-Казына" Акционерное общество ГОРОД АСТАНА РЕСПУБЛИКА КАЗАХСТАН

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2011

In thousands of Tenge	Notes	2011	2010
Operating activities			
Profit before income tax		4,374,861	813,621
Adjustments for:			
Depreciation and amortization		63,517	31,306
Finance income	22	(2,981,818)	(3,020,890)
Finance cost	22	1,437,681	2,038,426
Working capital adjustments			
Increase in inventories		(5,098)	(3,637)
Decrease in trade receivables		919,189	(1,301,133)
Decrease in other current assets		1,169,770	(6,218,555)
Increase in trade payables		88,473	8,743
Decrease in other current liabilities		(5,561)	39,695
		5,061,014	(7,612,424)
Income tax paid		(934,185)	(328,724)
Interest paid		(101,405)	(11,802)
Net cash flows from operating activities		4,025,424	(7,952,950)
Investing activities			
Prepayments for acquisition of real estate properties		(26,414,469)	(20,263,240)
Funds returned by contractors		12,472,645	–
Bank deposits		5,968,200	7,933,305
Loans provided		–	(557,873)
Purchases of property, equipment and intangibles		(63,623)	(33,547)
Transactions with securities, net		394,704	1,772,658
Interest received		1,548,274	1,882,920
Net cash used in investing activities		(6,094,269)	(9,265,777)
Financing activities			
Proceeds from Parent loans		22,238,034	31,624,814
Repayment of Parent loans		(14,585,824)	(9,978)
Cash received under "repo" agreements		1,402,999	711,004
Dividends paid		(57,474)	(2,138)
Net cash flows from financing activities		8,997,735	32,323,702
Net increase in cash and cash equivalents		6,928,890	15,104,975
Cash and cash equivalents at January 1	13	26,047,375	10,942,400
Cash and cash equivalents at December 31	13	32,976,265	26,047,375

Non cash transactions are disclosed in *Note 24.*

The accompanying notes on pages 6 through 32 are an integral part of these consolidated financial statements.

Chairman of the Management Board — *Palymbetov B. A.*

Managing Director – Member of the Management Board — *Karibzhanov M. Kh.*

Chief accountant — *Sipuldina B. K.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

1. CORPORATE INFORMATION

Real Estate Fund "Samruk-Kazyna" JSC (the "Company") was created by the decree of the Government of the Republic of Kazakhstan #265 dated March 6, 2009 (the "inception date").

The Company's registered office is located at 12/1, Konaev st., Astana, the Republic of Kazakhstan.

The Government controls the Company through Sovereign Wealth Fund "Samruk-Kazyna" JSC (the "Parent"), which owns 100% interest in the Company.

In 2010 the Company formed two subsidiaries – "FM Management" LLP and "Zaulim" LLP (together – the "Group"). Principal activities of the subsidiaries are disclosed in *Note 2*.

The Company's mission is to assist the government in stabilization of the real estate market of Kazakhstan. The Company's major activities include the following:

- Targeted acquisition of residential and non-residential premises, including premises under construction, through share purchase agreements in construction, financial aid agreements and investment in real estate properties, purchase-sale agreements and placement of targeted bank deposits, which are directed to financing of construction companies to complete the construction;
- Effective management of acquired premises;

These financial statements present, on a consolidated basis, the financial performance for the year ended December 31, 2011 and financial position as at that date for the Group.

The consolidated financial statements of the Group for the year, ended December 31, 2011 were authorized for issue by the management of the Group on March 15, 2011.

2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements and its subsidiaries (the Group) have been prepared on a historical cost basis, except as described in the accounting policies and the explanatory notes.

The consolidated financial statements are presented in Kazakhstan Tenge ("Tenge" or "KZT") and all values are rounded to the nearest thousand, except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends and are eliminated in full.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Subsidiaries

The following subsidiaries have been included in these consolidated financial statements as of December 31, 2011:

Name	Country of residence	Principal activity	Percentage of ownership 2011	2010
"FN Management" LLP	Kazakhstan	Sale and rent of real estate properties and their maintenance	100%	100%
"Zaulim" LLP	Kazakhstan	Construction of an administrative building	100%	100%

Reclassifications

In thousands of Tenge	As previously reported	Reclassifications	As reclassified
Consolidated statement of financial position as at December 31, 2010			
[1] Inventory property	–	680,772	680,772
[1] Assets classified as held for sale	680,772	(680,772)	–
[2] Obligations under "repo" agreements	–	(851,004)	(851,004)
[2] Trade payables	(869,182)	851,004	(18,178)

[1] This reclassification has been made to the previous year consolidated statement of financial position in order to conform to the current year presentation: inventory property was separated from assets classified as held for sale.

[2] This reclassification has been made to the previous year consolidated statement of financial position in order to conform to the current year presentation: obligations under "repo" agreements were separated from trade payables.

Reclassifications had no impact on net profit, comprehensive income or equity.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of the reporting period. 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.

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. In 2011 and 2010 the Group did not recognize any impairment losses on non-financial assets.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. As a source information for this model, information from active markets is used, where available, however if it is not practicable, it requires judgment to establish a fair value.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Fair value of financial instruments (continued)

The judgments include use of such source data as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments, recognized in the consolidated financial statements.

Classification of financial instruments as held for trading or available-for-sale

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When in rare circumstances the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. As a result of analysis conducted in 2011, the Group reclassified its financial assets held for trading to available-for-sale financial assets (*Note 12*) due to absence of management's intention to sell them in the foreseeable future.

Advances paid to construction companies

Advances paid to construction companies are made by the Group to acquire real estate properties. Advances to construction companies do not represent a financial instrument and are therefore measured at the amount actually paid to construction companies.

Interest bearing financing of construction companies

At recognition interest bearing financing of construction companies are measured at fair value, calculated as present value of future cash flows discounted at the market borrowing rates effective at initiation of the borrowings.

After initial recognition, such interest bearing financing of construction companies are subsequently measured at amortised cost using the effective interest rate method (EIR).

Classification of investment property and inventory property

The Group determines whether the property is classified as investment property or inventory property:

- Investment property comprises apartments, parking lots and commercial premises which are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation.
- Inventory comprises property that is held for sale in the ordinary course of business. Principally, this is apartments, parking lots and commercial premises that the Group develops and intends to sell before or on completion of construction.

Valuation of investment property and inventory property

Investment property is measured at cost less accumulated depreciation and accumulated impairment. The fair values are determined based on recent real estate transactions with similar characteristics and locations to those of the Group assets. Fair value of investment property is disclosed in *Note 6*.

Inventory property is stated at the lower of cost and net realizable value (NRV). NRV for inventory property is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group having taken suitable external advice and in the light of recent market conditions.

Assets classified as held for sale

In 2011 the Group announced its intention to sell its 100% share in "Zaulim" LLP to "KazMunayGasService" LLP, the company, which is under control of Parent company. The Management considered the disposal of subsidiary met the criteria to be classified as held for sale for the following reasons:

- On December 28, 2011 "Real Estate Fund "Samruk-Kazyna" JSC concluded an agreement to sell its 100% share in "Zaulim" LLP to "KazMunayGasService" LLP.
- On January 25, 2012 the Group completed the sale of the subsidiary for consideration of 68,631 thousand Tenge (*Note 28*).
- On January 27, 2012 the Company signed an agreement with "Zaulim" LLP about return of funds given by the Company to "Zaulim" LLP for construction of administrative building in the amount of 27,049,064 thousand Tenge (*Note 28*).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

New and amended standards and interpretations

- *IAS 24 Related Party Disclosures (amendment) effective 1 January 2011*
- *IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010*
- *IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011*
- *Improvements to IFRSs (May 2010)*

The adoption of the standards or interpretations is described below:

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements in Kazakhstan, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

- *IFRS 3 Business Combinations:* The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
- *IFRS 7 Financial Instruments — Disclosures:* The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Improvements to IFRSs (continued)

- *IAS 1 Presentation of Financial Statements:* The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Group presents the analysis of each component of other comprehensive income in the consolidated statement of changes in equity.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- *IFRS 3 Business Combinations* (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- *IFRS 3 Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- *IAS 27 Consolidated and Separate Financial Statements*
- *IAS 34 Interim Financial Statements*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- *IFRIC 13 Customer Loyalty Programmes* (determining the fair value of award credits)
- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendments become effective for annual periods beginning on or after 1 January 2013 and will have no impact on the Group's financial position or performance.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

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 and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Group does not have any joint arrangements, and expects no effect of the adoption of the standard on its financial statements. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Foreign currency translation

The Group's consolidated financial statements are presented in Tenge, which is the functional currency of the Company and its subsidiaries. Tenge is the currency of the primary economic environment in which the Company and its subsidiaries operate. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the income statement.

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

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

The exchange rate comprised 148.4 Tenge to 1 US Dollar as at December 31, 2011 (2010: 147.5 Tenge to 1 US Dollar).

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised.

Sale of real estate properties

Revenue from the sale of real estate properties is recognised when the significant risks and rewards of ownership of the real estate properties have passed to the buyer. Revenue from sale of share participation in objects under construction is recognized when the significant risks and rewards related to ownership rights have passed to the buyer.

Rental income

Rental income receivable from operating leases, less the Group's initial direct costs of entering into the leases, is recognised on a straight-line basis over the term of the lease, except for contingent rental income which is recognised when it arises.

Interest income

For all financial instruments measured at amortised cost, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the 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 liability. Interest income is included in finance income in the income statement.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expense recognition

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability 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;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition 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;
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes (continued)

Deferred income tax (continued)

Deferred tax relating to items recognised outside profit or loss is recognised outside profit and loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Employee benefits

Social tax

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. Social tax is expensed as incurred.

Defined contribution scheme

The Group withholds up to 10% from the salary of its employees as the employees' contribution to their designated pension funds. Under the legislation, employees are responsible for their retirement benefits and the Group has no present or future obligation to further compensate its employees upon their retirement.

Financial assets

Initial recognition and measurement

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. The Group 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.

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

The Group's financial assets include cash and cash equivalents, short-term and long-term bank deposits, government bonds, trade and other receivables, loans and other amounts receivable, such as interest bearing advances paid to construction companies.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

The Group has no financial assets at fair value through profit and loss.

The Group evaluates its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When in rare circumstances the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these instruments cannot be reclassified after initial recognition.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short–term deposits with an original maturity of three months or less.

Loans and receivables

Loans and receivables, including long-term deposits, 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 subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs for loans and in cost of sales or other operating expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments include debt securities. Debt securities in this category are those that are intended to be held for an indefinite period of time and that 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 the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to the income statement in finance costs. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR method.

Derecognition

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group 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 Company 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 Group could be required to repay.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses 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 Group 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 present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan 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 income statement. 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 finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. 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 finance costs in the income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, 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 finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

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, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Initial recognition and measurement (continued)

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade payables and Parent loans.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Trade payables

Liabilities for trade amounts payable are recognized at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Parent loans

After initial recognition, a loan from the Parent is subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement 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 finance cost in the income statement.

Derecognition

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

When an existing financial liability due to Parent company is replaced by another from the Parent company on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of changes in equity.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if,

- There is a currently enforceable legal right to offset the recognised amounts
- There is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Fair value of financial instruments

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 may include

- Using recent arm's length market transactions;
- Reference to the current fair value of another instrument that is substantially the same
- A discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in *Note 27*.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advances paid to construction companies

Advances paid to construction companies represent advances paid for the construction of the investment property. Advances paid to construction companies are measured at cost (the consideration paid) less impairment loss, if any. Advances paid to construction companies are settled upon transfer of title to the property from the construction company to the Group.

Investment properties

Investment property comprises property held to earn rentals or for capital appreciation or both. Property held under a lease is classified as investment property when the definition of an investment property is met. The lease obligation is recognised under IAS 17 at fair value of the interest in the leasehold property.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment loss. Depreciation is computed on a straight-line basis over the useful life, which is estimated to be 50 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Investment property is transferred to non-current assets held for sale when it is expected that the carrying amount will be recovered principally through sale rather than from continuing use. For this to be the case, the property must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such property and its sale must be highly probable.

Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the statement of comprehensive income, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the income statement.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination are their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be finite.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Intangible assets with finite lives are amortised over the estimated useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense for intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Intangible assets consist primarily of software and licenses. Intangible assets are amortized on a straight-line basis over their estimated useful lives, generally from 5 to 10 years.

Property and equipment

Plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives as follows:

	Years
Building	46
Office equipment	3-7
Machinery and equipment	7

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in income statement in the year the asset is derecognised.

The assets' residual values, useful lives, methods of depreciation are reviewed and adjusted if appropriate at each financial year end.

Property and equipment consists primarily of land, administrative building, office equipment and vehicles.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's CGU's to which the individual assets are allocated. These budgets and forecast calculations are generally covering s period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations including impairment on inventories are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Inventories

Inventories are valued at the lower of cost or net realisable value. Costs comprise charges incurred in bringing inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. The same cost formula is used for all inventories having a similar nature and use. All inventories are valued on the weighted-average cost basis.

Inventory property

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realisable value.

Cost includes:

- Freehold and leasehold rights for land
- Amounts paid to contractors for construction
- Borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs

Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and discounted for the time value of money if material, less costs to completion and the estimated costs of sale.

The cost of inventory recognised in profit or loss on disposal is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

For arrangements entered into prior to January 1, 2005, the date of inception is deemed to be January 1, 2005 in accordance with the transitional requirements of IFRIC 4.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessor

Finance leases under which the Group transfers substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance income and increase in the lease receivable so as to achieve a constant rate of interest on the remaining balance of the liability. Finance income is recognised in the income statement.

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

Group as a lessee

Leases in which the risks and benefits of ownership of the asset are not transferred to the Group are classified as operating leases. Operating lease payments are recognised as an operating expense in the income statement on a straight-line basis over the lease term.

5. PROPERTY AND EQUIPMENT

The movement of property and equipment for the years ended December 31, 2011 and 2010 was as follows:

In thousands of Tenge	Land	Buildings	Office equipment	Vehicles	Construction in progress	Total
Cost						
At January 1, 2010	215,000	–	32,062	–	–	247,062
Additions	–	–	20,018	2,530	4,292,491	4,315,039
Transfers	(215,000)	–	–	–	215,000	–
At December 31, 2010	**–**	**–**	**52,080**	**2,530**	**4,507,491**	**4,562,101**
Additions	26,101	4,850,855	55,330	–	17,981,544	22,913,830
Transfer to assets held for sale	–	–	(1,464)	–	(22,489,035)	(22,490,499)
Disposals	–	–	(298)	–	–	(298)
At December 31, 2011	**26,101**	**4,850,855**	**105,648**	**2,530**	**–**	**4,985,134**
Accumulated depreciation and impairment						
At January 1, 2010	–	–	(1,890)	–	–	(1,890)
Depreciation charge for the period	–	–	(9,055)	(28)	–	(9,083)
At December 31, 2010	**–**	**–**	**(10,945)**	**(28)**	**–**	**(10,973)**
Depreciation charge for the year	–	(17,576)	(11,843)	(169)	–	(29,588)
Depreciation on disposal	–	–	29	–	–	29
Transfer to assets held for sale	–	–	387	–	–	387
At December 31, 2011	**–**	**(17,576)**	**(22,372)**	**(197)**	**–**	**(40,145)**
Net book value						
At December 31, 2010	–		41,135	2,502	4,507,491	4,551,128
At December 31, 2011	**26,101**	**4,833,279**	**83,276**	**2,333**	**–**	**4,944,989**

Construction in progress is represented by capital expenditures related to the construction of the administrative building. In 2011 this construction in progress was transferred into assets classified as held for sale (*Note 10*).

5. PROPERTY AND EQUIPMENT (continued)

In 2011 the Group received from the Parent company a contribution to the share capital in the form of an administrative building with fair value of 4,850,855 thousand Tenge and related land with fair value of 26,101 thousand Tenge (*Note 15*). Fair value was estimated by an independent accredited appraiser "Ocenochnyi-yuridicheskyi center" LLP. Fair value was determined according to market prices. It means that the fair values were determined based on active market prices, adjusted for differences in characteristics, location or condition of assets.

6. INVESTMENT PROPERTY

The movement of investment property for the year ended December 31, 2011 was as follows:

In thousands of Tenge	Apartments	Commercial premises	Parking lots	Total
Cost				
At January 1, 2010	–	–	–	–
Additions	846,792	53,748	1,266,000	2,166,540
Disposals	–	–	(76,000)	(76,000)
At December 31, 2010	**846,792**	**53,748**	**1,190,000**	**2,090,540**
Additions	–	1,164	40,000	41,164
Disposals	(252,240)	(71,520)	(130,000)	(453,760)
Transfers	(594,552)	594,552	–	–
At December 31, 2011	**–**	**577,944**	**1,100,000**	**1,677,944**
Accumulated depreciation and impairment				
At January 1, 2010	–	–	–	–
Depreciation charge for the year	–	(806)	(17,967)	(18,773)
At December 31, 2010	**–**	**(806)**	**(17,967)**	**(18,773)**
Depreciation charge for the year	(3,145)	(9,933)	(24,377)	(37,455)
Depreciation on disposal	3,145	1,102	3,367	7,614
At December 31, 2011	**–**	**(9,637)**	**(38,977)**	**(48,614)**
Net book value				
At January 1, 2011	846,792	52,942	1,172,033	2,071,767
At December 31, 2011	**–**	**568,307**	**1,061,023**	**1,629,330**

Disposals of investment property represent financial lease of premises. Investment property mainly comprises of parking lots and residential and commercial premises. Management believes that as of December 31, 2011 the fair value of investment property equals to 2,268,791 thousand Tenge (2010: 2,290,040 thousand Tenge).

7. INVENTORY PROPERTY

The movement of inventory property for the year ended December 31, 2011 was as follows:

In thousands of Tenge	Apartments	Commercial premises	Parking lots	Total
At January 1, 2010	–	–	–	–
Inventory property, received from construction companies	1,100,016	162,372	–	1,262,388
Inventory property sold	(558,804)	(22,812)	–	(581,616)
At January 1, 2011	541,212	139,560	–	680,772
Inventory property, received from construction companies	1,009,301	93,907	80,000	1,183,208
Inventory property sold	(1,138,313)	–	(52,000)	(1,190,313)
At December 31, 2011	**412,200**	**233,467**	**28,000**	**673,667**

8. ADVANCES PAID TO CONSTRUCTION COMPANIES

The Group concludes agreements with construction contractors (the "Contractor") on acquisition of residential and non-residential premises and parking lots under construction in Astana and Almaty complexes. In accordance with the terms of the agreements, the Group is committed to make advance payments to the Contractor and the Contractor are committed to complete the construction in accordance with the set deadlines. The Group becomes the owner of the respective premises upon completion of the construction by the Contractor. Completion of the prepaid construction of the premises is expected in 2012.

The agreements with Contractor contain a guarantee clause under which the Contractor provide collateral in form of land plots and construction in progress to secure prepayments of the Group.

The movement of advances paid to construction companies for the years ended December 31, 2011 and 2010 was as follows:

In thousands of Tenge	2011	2010
At the beginning of the period	**23,135,138**	22,956,133
Advances paid for the period	**19,030,453**	14,652,301
Funds returned by Contractors	**(1,500,993)**	(1,187,582)
Acquired property	**(6,864,983)**	(6,730,791)
Share in the objects under construction sold	**(10,404,724)**	(1,768,336)
Transferred to own construction in progress	**(17,981,545)**	(4,292,491)
VAT on construction in progress	**(2,157,784)**	(514,651)
Other	**516,243**	20,555
At the end of the period	**3,771,805**	23,135,138
Less: advances paid for objects, which will be realised in 2012	**224,410**	–
Advances paid for objects, which will be leased out	**3,547,395**	23,135,138

9. NON-CURRENT FINANCIAL ASSETS

In thousands of Tenge	2011	2010
Interest bearing financing of construction companies	**11,704,674**	6,881,757
Finance lease receivables	**8,379,932**	3,139,059
Bank deposits	**1,501,280**	3,044,480
Loan given	**–**	533,512
	21,585,886	13,598,808

Interest bearing financing of construction companies

In accordance with the terms of certain construction contracts, the Group makes prepayments in the course of construction of the object, but the construction company has a right to sell the object at any price. The construction company has such right in the course of the construction and within one year after the construction is completed. In accordance with contract terms an interest equal to refinancing rate of the National Bank of the Republic of Kazakhstan effective at the date of tranche is accrued on the financing made to the construction company. In 2011 the refinancing rate equaled 7%. The Group considers such financing as a financial instrument.

At recognition this financial instrument is measured at fair value calculated as present value of future cash flows. The discount rate comprised 5%, which represents market rates under similar financial instruments. The difference for 186,977 thousand Tenge between the nominal value of financing made and its fair value was recognized in the income statement as finance cost (*Note 22*).

Loan given

Loan given represents loan given in 2010 to the company "Caspian Development Center" LLP with date of repayment in 2012. As of December 31, 2011 the loan was reclassified to other current financial assets.

Finance lease receivables

Finance lease receivables represent lease of real property – residential and commercial premises. Finance lease receivables are denominated in Tenge.

9. NON-CURRENT FINANCIAL ASSETS (continued)

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

In thousands of Tenge	2011 Minimum payments	2011 Present value of payments	2010 Minimum payments	2010 Present value of payments
Within one year	**1,325,028**	**422,906**	415,688	92,529
After one year but not more than five years	**6,625,139**	**2,644,070**	1,983,593	370,116
More than five years	**8,127,684**	**5,735,862**	3,967,186	2,768,943
Total minimum lease payments	**16,077,851**	**8,802,838**	6,366,467	3,231,588
Less amounts representing finance income	**(7,275,013)**	**–**	(3,134,879)	–
Present value of minimum lease payments	**8,802,838**	**8,802,838**	3,231,588	3,231,588
Less: amounts to be received within 12 months		**422,906**		92,529
Amounts to be received after more than 12 months		**8,379,932**		3,139,059

Bank deposits

At the end of 2011 the Group has deposit denominated in Tenge, opened in 2009 and placed in JSC ATF Bank, maturing in 2014 and earning interest rate of 10%. In April 2011 the Group made partial withdrawal of the deposit.

10. ASSETS CLASSIFIED AS HELD FOR SALE

In 2011 the Group announced its intention to sell its 100% share in "Zaulim" LLP to "KazMunayGasService" LLP, the company, which is under control of Parent company. The Management considered the disposal of subsidiary met the criteria to be classified as held for sale for the following reasons:

- On December 28, 2011 "Real Estate Fund "Samruk-Kazyna" JSC concluded an agreement to sell its 100% share in "Zaulim" LLP to "KazMunayGasService" LLP.
- On January 25, 2012 the Group completed the sale of the subsidiary for consideration of 68,631 thousand Tenge (*Note 28*).
- On January 27, 2012 the Company signed an agreement with "Zaulim" LLP about return of funds given by the Company to "Zaulim" LLP for construction of administrative building in the amount of 27,049,064 thousand Tenge (*Note 28*).

Assets of the subsidiary were classified as assets classified as held for sale at December 31, 2011 in the consolidated statement of financial position and comprised of the following:

In thousands of Tenge	2011	2010
Construction in progress	**22,489,035**	–
Office equipment	**1,077**	–
VAT recoverable	**2,673,713**	–
Other	**8,895**	–
	25,172,720	–

11. TRADE RECEIVABLES

In thousands of Tenge	2011	2010
Short-term finance lease receivable	**422,906**	92,529
Receivable from third parties from sale of participation shares in the objects under construction	**64,660**	1,432,372
Other	**121,247**	3,101
	608,813	1,528,002

11. TRADE RECEIVABLES (continued)

Trade receivables as of December 31, 2011 and 2010 are denominated in Tenge. The Group has no bad debt allowance on trade receivables as of December 31, 2011 and 2010.

As of December 31, the ageing analysis of trade receivables is as follows.

	Total	Neither past due, nor impaired	Past due but not impaired: < 30 days	30 – 60 days	60 – 90 days	90 – 120 days	> 120 days
2011	**608,813**	**608,813**	**–**	**–**	**–**	**–**	**–**
2010	1,528,002	1,528,002	–	–	–	–	–

12. OTHER CURRENT FINANCIAL ASSETS

In thousands of Tenge	2011	2010
Financial assets available-for-sale	**2,906,078**	–
Financial assets at fair value through profit or loss	**–**	1,805,325
Interest bearing financing to contractors (Note9)	**2,471,171**	–
Bank deposits	**5,895,000**	10,320,000
Interest receivable	**499,907**	238,975
Loans given	**953,266**	–
Other	**–**	1,427
	12,725,422	12,365,727

Financial assets available-for-sale comprise of government bonds. These financial assets were reclassified in 2011 from financial assets at fair value through profit or loss. Unrealised gains from changes of fair value of reclassified assets which would have been recognised in the income statement if assets had not been reclassified, amounted to 109,996 thousand Tenge. As of December 31, 2011 under "repo" agreements were pledged financial assets available-for-sale with carrying value of 2,415,748 thousand (2010: under "repo" agreements were pledged financial assets at fair value through profit or loss with carrying value of 973,010 thousand Tenge) (*Note 17*).

The bank deposits have initial maturity of 9-12 months and earn interest of 4.5%-9.5% per annum. As of December 31, 2011 and 2010 the bank deposits are denominated in Tenge.

Interest receivable represents interest on government bonds, current bank accounts and bank deposits, including special deposits.

On November 2, 2011 the Group concluded an agreement with the Parent company on assignment of rights of demand, which granted the Group a right to claim from the Parent company's debtors "Omiruzak and Co" LLP and "Capitalstroyservis" LLP interest-free financial aid given to them by the Parent company in amount of 270,000 thousand Tenge and 136,537 thousand Tenge, respectively. This financial aid becomes due on July 1, 2012. In its turn, the Group recognized for these amounts a loan payable to the Parent company, which will be repaid after repayment of the financial aid by the debtors (*Note 16*). Also, loans given include a loan given in 2010 to the company "Caspian Development Center" LLP, which was reclassified in 2011 to other current financial assets as it matures in 2012 (*Note 9*).

13. OTHER CURRENT ASSETS

As of December 31, 2011 and 2010 other current assets mainly comprise of prepaid taxes other than income tax.

14. CASH AND CASH EQUIVALENTS

In thousands of Tenge	2011	2010
Cash in bank	**32,975,201**	26,046,168
Cash on hand	**1,064**	1,207
	32,976,265	26,047,375

As of December 31, 2011 and 2010 cash and cash equivalents included Tenge-denominated cash on current bank accounts. The current bank accounts earn interest at the rate of 3%-4%.

15. EQUITY

The share capital is fully paid by the Parent and comprise of 16,219,239 common shares: 1,000 Tenge par value 15,000,000 common shares, authorised and issued till 2011, and 4,000 Tenge par value 1,219,239 common shares, authorized and issued in 2011.

In 2011 addition to share capital in the amount of 4,876,956 thousand Tenge was made by the Parent company in the form of the administrative building and land.

In 2011 the Group declared and paid dividends on its common shares for 57,474 thousand Tenge (2010: 2,138 thousand Tenge).

Available-for-sale reserve includes unrealized gains from changes of fair value of financial assets available-for-sale (*Note 12*).

16. PARENT LOANS

In thousands of Tenge	2011	2010
Parent loan		
Tranches received in 2009	**19,550,881**	34,146,683
Unamortised discount on tranches received in 2009	**(4,230,042)**	(9,093,616)
Tranches received in 2010	**30,724,814**	30,724,814
Tranches received in 2011	**22,644,658**	–
Parent financial aid		
Financial aid received	**900,000**	900,000
Unamortised discount on financial aid	**(20,128)**	(41,810)
	69,570,183	56,636,071
Current portion of loans	**(54,249,344)**	(30,724,814)
Non-current portion of loans	**15,320,839**	25,911,257

On August 18, 2009 the Group concluded the 225,000,000 thousand Tenge unsecured credit facility agreement with the Parent. The obtained borrowings bear interest rate of 1.5% p.a. and mature on August 18, 2024. The principal is paid in equal semi-annual installments following three-year grace period.

Tranches received in 2009 were recognized initially at fair value calculated as the present value of future cash outflows discounted at the yield to maturity of the governmental bonds with similar terms presented at initiation of the borrowings – 5.86%-6.92%. The difference of 10,862,071 thousand Tenge between the proceeds received and its fair value was recorded in equity as additional paid in capital. Subsequent to initial recognition the loan was accounted for at amortised cost.

In 2010 the Group received new tranches under the same credit facility with Parent. The loans at recognition were measured at fair value calculated as present value of future cash outflows discounted at the yield to maturity of the governmental bonds with similar terms presented at initiation of the borrowings – 5.59%-7.23%. The difference between the proceeds received and its fair value comprised 9,677,011 thousand Tenge and was recorded in the statement of changes in equity.

In August 2010 the Group concluded additional agreement to the Parent loan with the following major changes: i) credit facility was reduced down from 225,000,000 thousand Tenge to 155,000,000 thousand Tenge, ii) interest rate for the first twenty four months is set at 0.02% p.a., for the rest of the period – 2% p.a. separately for each tranche, iii) principal is paid in equal annual payments following a three year grace period and iv) interest is paid semi-annually on June 30 and December 31 for each tranche.

Further in December 2010 additional changes to the Parent loan terms were concluded. The key change to the terms represents the Parent's right in December of each year to demand settlement of the entire loan, except for the tranches received in 2009.

As the terms of the additional agreements resulted in substantial change of the initial loan terms, these additional agreements resulted in derecognition of the loans received in 2010 and they were recognized as new loans in accordance with IFRS 39 *Financial Instruments: Recognition and Measurement*. The difference between the carrying value of the loan its fair value at recognition for 9,224,353 thousand Tenge was recognized in the statement of changes in equity.

16. PARENT LOANS (continued)

In 2011, the Group has made early repayments of the tranches received in 2009 in the amount of 14,585,824 thousand Tenge. As this resulted in substantial changes of the initial loan terms, the tranches received in 2009 were derecognized and the new loans were recognized in accordance with IFRS 39 *Financial Instruments: Recognition and Measurement*. The tranches were recalculated on the revised effective interest rates and unamortized discount in the amount of 3,744,974 thousand Tenge was recognized in the statement of changes in equity.

In accordance with the decree of the Parent Management board, the Group received an interest free loan from the Parent for 900,000 thousand Tenge with maturity set on November 26, 2012. The loan is to be settled at maturity. The loan at recognition were measured at fair value calculated as present value of future cash outflows discounted at the yield to maturity of the governmental bonds with similar terms presented at initiation of the borrowings – 2.53%. The difference of 42,137 thousand Tenge between the proceeds received and its fair value was recognized in the statement of changes in equity in 2010. In 2011 unwinding of discount amounted to 21,681 thousand Tenge.

17. OBLIGATIONS UNDER "REPO" AGREEMENTS

The Group attracts cash and cash equivalents under "repo" agreements under pledged owned government bonds (with interest 0.5%-1.5%) for 14-28 days through broker. Attracted cash and cash equivalents are deposited to the Company's bank accounts earning 3%-4% interest.

As of December 31, 2011 financial assets available-for-sale under "repo" agreements were pledged with carrying value of 2,415,748 thousand (2010: under "repo" agreements were pledged financial assets at fair value through profit or loss with carrying value of 973,010 thousand Tenge).

18. TRADE PAYABLES

As at December 31, 2011 and 2010 trade payables comprised commissions payable to suppliers. Trade payables were denominated in Tenge and did not bear interest.

19. REVENUE

In thousands of Tenge	**2011**	2010
Sale of residential and commercial premises	**1,401,009**	676,843
Sale of advances paid to construction companies in the objects under construction	**3,116,805**	521,501
Revenue from finance lease	**609,224**	133,861
Other revenue	**112,170**	26,366
	5,239,208	1,358,571

20. COST OF REVENUE

In thousands of Tenge	**2011**	2010
Cost of residential and commercial premises	**1,207,811**	581,616
Real estate properties service	**45,148**	93,855
Depreciation and amortization	**29,841**	18,773
Other	**43,257**	52,681
	1,326,057	746,925

21. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of Tenge	2011	2010
Payroll and related taxes	911,120	505,196
Professional services	126,089	31,220
Rent	81,592	93,521
Taxes and fines	47,521	–
Depreciation and amortization	33,676	12,533
Maintenance of building	25,329	–
Business trip	9,640	12,152
Communication	9,231	10,395
Advertising expenses	9,219	21,594
Materials	6,739	10,463
Repair and maintenance	4,448	2,632
Bank charges	3,328	8,185
BOD maintenance	2,300	–
Other	22,781	74,600
	1,293,013	782,491

22. FINANCE INCOME / (FINANCE COST)

In thousands of Tenge	2011	2010
Finance income		
Interest income on bank deposits and current bank accounts	1,826,450	2,273,082
Income on government bonds	98,852	470,871
Interest income on interest bearing financing of construction companies	1,043,298	276,827
Interest income on loan given	13,218	110
	2,981,818	3,020,890
Finance cost		
Interest expense on the Parent loan	(1,250,704)	(1,820,277)
Discount on interest bearing financing of construction companies (*Note 9*)	(186,977)	(193,677)
Discount on loan given (*Note 9*)	–	(24,472)
	(1,437,681)	(2,038,426)

23. INCOME TAX

The major components of income tax expense for the years ended December 31, 2011 and 2010 were as follows:

In thousands of Tenge	2011	2010
Current income tax charge	997,998	391,941
Deferred income tax expense resulting from origination and reversal of temporary differences	103,606	37,745
Deferred income tax expense resulting from change in tax rate	–	779
	1,101,604	430,465

23. INCOME TAX (continued)

Reconciliation of income tax expense applicable to profit before income tax at the statutory income tax rate to income tax expense is as follows for 2011 and 2010:

In thousands of Tenge	2011	2010
Profit before income tax	4,374,861	813,621
Statutory tax rate	20%	20%
Income tax at the statutory tax rate	874,972	162,724
Discount on financial instruments	203,764	420,217
Change in income tax rate	–	779
Other non-deductible expenses / (non-taxable income)	22,868	(153,255)
	1,101,604	430,465

As of December 31, components of deferred tax assets and liabilities are as follows:

	Consolidated statement of financial position		Consolidated income statement	
In thousands of Tenge	2011	2010	2011	2010
Deferred tax assets:				
Tax losses carry–forward	–	–	–	3,652
Prepaid taxes	190	–	(190)	7,720
Financing of construction companies	9,106		(9,106)	–
Other	44,736	–	(44,736)	4,620
	54,032	–	(54,032)	15,992
Deferred tax liabilities:				
Intangible assets	(677)	(487)	190	243
Financial assets held for sale	(43,216)	–	43,216	–
Property and equipment	(159,323)	(23,092)	136,231	22,289
	(203,216)	(23,579)	179,637	22,532
Net deferred tax liability	(149,184)	(23,579)	–	–
Deferred income tax expense	–	–	125,605	38,524

Reconciliation of net deferred tax liabilities:

In thousands of Tenge	2011	2010
At January 1	(23,579)	14,945
Income tax expense recognized in profit or loss	(103,606)	(38,524)
Income tax expense recognized in other comprehensive income	(21,999)	–
At December 31	(149,184)	(23,579)

As of December 31, 2011 and 2010 the Group did not have any unrecognized deferred tax assets.

In November 2010, the Government of the Republic of Kazakhstan approved amendments to the Tax Code effective January 1, 2011, in accordance to which the statutory income tax rates are set at 20% from 2011 and onwards. The Group's calculation of deferred tax and income tax expense reflects these changes in the tax law.

24. NON-CASH TRANSACTIONS

During 2011 the Group received from Parent company the administrative building and land with estimated fair value of 4,876,956 thousand Tenge. This transaction was excluded from the consolidated statement of cash flow.

25. RELATED PARTY TRANSACTIONS

The category 'parent-controlled entities' comprises entities controlled by the Parent company, except for banks controlled by the Parent company. Halyk Bank of Kazakhstan is a related party due to the bank being controlled by member of the management board of Parent company. BTA Bank JSC, Temirbank JSC and Alliance Bank JSC are related parties since they are controlled by Parent company.

25. RELATED PARTY TRANSACTIONS (continued)

Related party transactions were made on terms agreed to between the parties. Purchases and sales transactions are made on market terms. Outstanding balances at the year-end are unsecured, short-term and settlement occurs in cash, except as discussed below.

For the year ended December 31, 2011 and 2010, the Group has not recorded any impairment of trade accounts receivables relating to amounts owned by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The major transactions with related parties during the years ended December 31, 2011 and 2010 were as follows:

In thousands of Tenge	2011	2010
Parent-controlled entities		
Interest income on bank deposits	**1,072,438**	891,664
Sale of premises to related parties	**1,126,356**	551,400
Rental income	**38,088**	–
Purchases from related parties	**12,124**	9,461
Sale of premises to related parties		
"Samruk-Energo" JSC	**–**	550,510
"Kazatomprom NAC" JSC	**1,067,209**	–
"KazMunayGas EP" JSC	**24,592**	–
"Semser security" LLP	**34,555**	–

As a result of the above transactions, the Group had the following balances due to/from related parties as of December 31:

In thousands of Tenge	2011	2010
Parent-controlled entities		
Cash in current bank accounts	**14,248,174**	26,017,848
Bank deposits	**138,000**	3,740,000
Trade receivables	**37,029**	84
Trade payables	**(1,583)**	485
Other current liabilities	**(68,631)**	–

Parent loans

Details of the Parent loans are described in *Note 16.*

Cash and cash equivalents

The Group's cash and cash equivalents comprised of 14,248,174 thousand Tenge held in JSC Alliance Bank and 18,714,448 thousand Tenge held in JSC Narodnyi Bank Kazakhstan as of December 31, 2011 (2010: 26,017,848 thousand Tenge in JSC Alliance Bank and 29,527 thousand Tenge in JSC Narodnyi Bank Kazakhstan).

Compensation of key management personnel

In 2011 key management personnel consisted of twelve persons (2010: eleven persons). Total compensation to key management personnel included in payroll costs amounted to 120,179 thousand Tenge for the reporting period (2010: 99,085 thousand Tenge). Compensation to key management personnel consists of the contractual salary.

The Group performed additional procedures to determine related parties of key management personnel, which did not discover any related parties.

26. COMMITMENTS AND CONTINGENCIES

Contractual commitments

As at December 31, 2011 the Group had contractual commitments amounting to 2,532,115 thousand Tenge (2010: 31,910,259 thousand Tenge) under agreements with construction companies.

26. COMMITMENTS AND CONTINGENCIES (continued)

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 assesses 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 proceeding 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, 2011. As at December 31, 2011 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained.

Government subsidies and guarantees

As of December 31, 2011 the Group did not obtain any subsidies and guarantees from the Government.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise the Parent loan, trade payables, obligations under "repo" agreement and other current liabilities. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as cash and cash equivalents, finance lease receivables, trade receivables, bank deposits and government bonds.

The main risks arising from the Group's financial instruments are liquidity risk and credit risk.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell the assets timely close to their fair values.

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 summarizes the maturity profile of the Group's financial liabilities as at December 31, 2011 and 2010 based on contractual undiscounted payments:

	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
December 31, 2011						
Parent loan	54,249,344	–	392,090	9,747,379	12,261,090	76,649,903
Trade payables	–	106,651	–	–	–	106,651
Obligations under "repo" agreements	–	2,254,003	–	–	–	2,254,003
Other current liabilities	–	591,182	–	–	–	591,182
	54,249,344	2,951,836	392,090	9,747,379	12,261,090	79,601,739

	On demand	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
December 31, 2010						
Parent loan	30,724,814	1,245	5,585	11,957,736	28,164,232	70,853,612
Trade payables	–	18,178	–	–	–	18,178
Obligations under "repo" agreements	–	851.,004	–	–	–	851,004
Other current liabilities	–	61,592	–	–	–	61,592
	30,724,814	932,019	5,585	11,957,736	28,164,232	71,784,386

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

Financial instruments, which potentially subject the Group to credit risk, consist primarily of cash on bank deposits and current bank accounts, trade receivables and loan given. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

Fair values of financial instruments

The carrying amount of all financial assets and financial liabilities as of December 31, 2011 and 2010 approximates their fair values.

The carrying amount of cash and cash equivalents, trade receivables, trade payables and other current monetary assets and liabilities approximates their fair value due to the short-term maturity of these financial instruments. Parent loans are stated at amortized costs which approximate their fair values.

The fair value of financial assets is estimated using discounted cash flow based on rates currently available to the Group with similar terms and average maturities. The fair value of financial assets is considered to be equal to their carrying values.

Capital management

The Group's key objective over the capital management is to ensure the stable sufficiency of the capital to support the operations of the Group and maximize the shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. No changes were made in the objectives, policies or processes during the year ended December 31, 2011.

The Group monitors capital using gearing ratio, which is net debt divided by total capital. The Group includes within net debt Parent loans, obligations under "repo" agreements and trade payables.

The table below shows the Group's gearing ratio as of December 31, 2011 and 2010:

In thousands of Tenge	2011	2010
Parent loan	**69,570,183**	56,636,071
Obligations under "repo" agreements	**2,254,003**	851,004
Trade payables	**106,651**	18,178
Net debt	**71,930,837**	57,505,253
Equity	**31,187,900**	26,752,138
Gearing ratio	**2.3**	2.15

28. SUBSEQUENT EVENTS

On January 25, 2012 the Group sold its 100% share in "Zaulim" LLP to "KazMunayGasService" LLP for 68,631 thousand Tenge.

On January 27, 2012 the Group concluded an amendment to the sale-purchase agreement #4 dated May 8, 2009, under which the Group receives back cash it invested into construction of the administrative building, together with the interest. On February 15, 2012 the Group received cash in the amount of 27,049,064 thousand Tenge.

On February 3, 2012, the Group received from the Parent company property and equipment as payment for shares with carrying value of 113,206 thousand Tenge. On February 29, 2012, 28,301 shares with par value of 4,000 Tenge and 1 share with par value of 2,490 Tenge were transferred to the Parent company.

In February 2012 the Group decided to make an early repayment of the Parent loans in the amount of 28,206,400 thousand Tenge.