



 **КАЗАГРОФИНАНС**

Жылдық есеп Годовой отчет
Annual report

2009

 **KAZAGROFINANCE**

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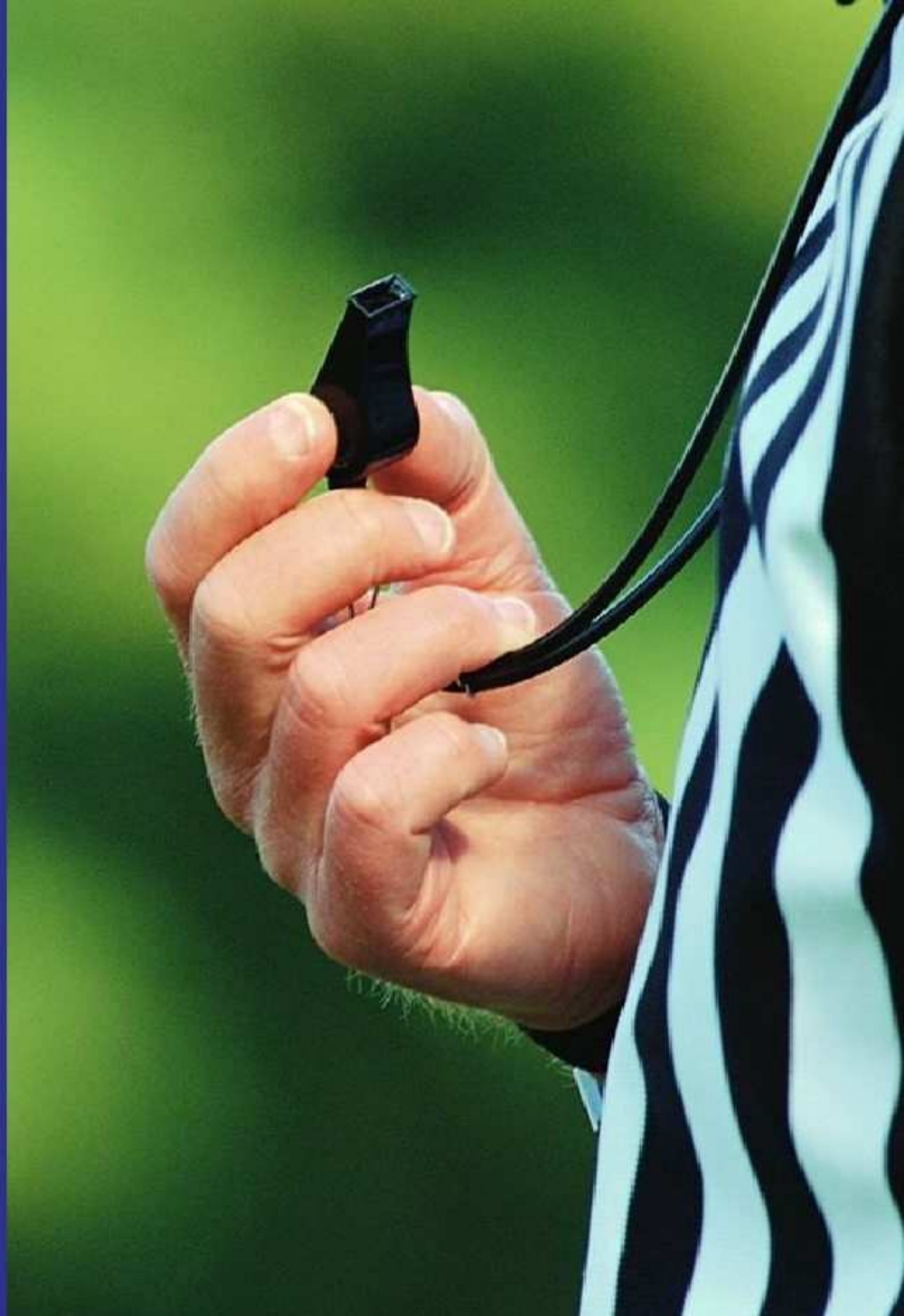


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Address
of the Chairman
of the Board of
"KazAgroFinance" JSC



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Dear partners and colleagues!

Our company was 10 years old in December, 2010. During all these years we have tried to fulfill our mission clearly and to contribute to the development of the industry. For this period we have become a recognized financial institution, established contacts with international companies and achieved certain results in the work on support agriculture in Kazakhstan.

Initially our company was created as a leasing company, which aims to help Kazakhstan farmers with updating of, primarily, agricultural machinery. But food shortages of own production caused necessity for development of new directions, so our company faced the objective of final import-substituting production. Therefore, since 2005, we have been funding projects on processing and production of finished products. There were mills, bakeries, sausage workshops and oil processing branches and more. The most important is that our projects had a social function of creating of additional jobs, the development of related infrastructures, etc., in addition to meeting the growing demand among the population.

10 years have passed, due to the Company's effort the financial leasing as a tool of updating of the basic means of production and development of a competitive environment among financial institutions, is widespread not only in agricultural industrial sector but also in Kazakhstan, and the Company itself has become recognizable and well-known among agricultural producers. Over these years we have invested in the agricultural industrial sector over U.S. \$ 1 milliard.

Despite the fact that for Kazakhstan, as well as the entire world community, this year has been full of big changes and difficult decisions, effective Kazakhstan State policy has provided the way out of crisis and in 2010 we entered with new forces. This is confirmed by our own stable position, as evidenced by the share occupied in the leasing market at almost 40,0%, and in the leasing market of the agricultural industrial sector our company occupies a dominant position at 95.9%.

As you know, in the Address of the President of the Republic of Kazakhstan to the people of Kazakhstan "Through Crisis to Renovation and Prosperity" the Head of the State paid attention to the Agricultural Industrial Sector, saying that due to its development "... we simultaneously solve the two significant challenges for the country – providing food safety and diversification of exports. As known, at that same time it was decided to continue the financing of investment projects in eleven major spheres, "KAZAGROFINANCE" JSC was identified as an operator of six of them. Certainly, it was difficult to start such an ambitious work. This is a responsibility for financial means of the National Fund, and development of a large list of documents and meeting the needs of the population, and more. However, I think we made it! In 2009, 13 projects were funded to the total amount of \$ 10.7 milliard tenge. All the projects are innovative and carefully selected.

Transparency and compliance with international standards are our basic principles, so our plans for 2010, in addition to continuing the implementation of investment projects, include improving the quality of services, further development of quality management system and further expansion of the client base.

Our success achieved in 2009 became possible due to the support from the holding company and the State, confidence of partners and clients of "KAZAGROFINANCE" JSC, as well as the dedicated work of all staff. Dear ladies and gentlemen, I want to express to you all my great gratitude and confidence in our further growth due to our cooperative efforts!

Sincerely,
"KazAgroFinance" JSC

Dulat Aitzhanov



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Business Card
of the Company



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The mission of the Company is implementation of the State policy on forming of competitive and export-oriented Agricultural Industrial Sector by providing of available financial services and realization of other activities on its technical and technological renewal based on high standards of business running, stability and reliability.

For implementation of statute objectives the Company realizes the following kinds of activities:

- 1) Leasing in the Agricultural Industrial Sector;
- 2) Crediting and providing financial services to the entities of the Agricultural Industrial Sector;
- 3) Participating in implementation of republican and other budget programs aimed at the development of the Agricultural Industrial Sector.

Development Chronology of KAZAGROFINANCE JSC

1999 - state registration of the Company

2000 - the first credit against goods in the form of 630 John Deere combine-harvesters has been received

2003 - construction of the first machines and tractors stations

2004 - supplying of the first sowing complexes

2005 - purchasing of the livestock product processing equipment

2006 - implementation of ERP-system Oracle E-Business Suite, assigned the status of Financial Agency

2007 - financing of the greenhouse complexes, construction of the dairy farms and leasing of the livestock.

2008 - The creation of the intensive orchards and the fish-processing farms

2009 - The implementation of major investment projects

The development of branch network:



In all regions of Kazakhstan the Company is represented by 10 branches and 3 representative offices.

Ratings.

In July 10, 2009 the international rating agency "Moody's Investors Service" assigned long-term rating to "KAZAGROFINANCE" JSC in foreign and national currency at level Ba1/outlook negative.

In December 29, 2009 the international agency "Fitch Rating" lowered the long-term rating of "KAZAGROFINANCE" JSC in foreign and national currency BB/outlook stable.

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Estimation
of the Company's
competitive positions



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Despite of the significant changes in the leasing market, today "KAZAGROFINANCE" JSC is still the leader in leasing business, both in the whole country, and in the agricultural industry.

According to the analysis, during 2009 the greater part of the leasing market was shared between "KAZAGROFINANCE" JSC and "Astana-Finance Leasing Company" JSC with sizes of lease portfolio 33 482,6 million tenge (share 38,9%) and 28 436,4 million tenge (share 33,1%) respectively. Their closest competitor is "Development Bank of Kazakhstan" JSC, with the size of portfolio 19 276,9 million tenge, which is 22,4% of the total leasing portfolio. Shares of other participants are insignificant.

Most financial institutions, engaged in leasing activity in 2009, suspend or terminate the activity, in connection with economic crisis.

The Table 1. The size of the leasing portfolio of the main participants of the leasing market (as of the end of 2009)



In the agricultural industrial sector in 2009 leasing operations were conducted not only by "KAZAGROFINANCE" JSC, but also by "ASTANA FINANCE LEASING COMPANY" JSC in small amount. Taking into account that according to the information of the Agency of Statistics of the Republic of Kazakhstan the amount of agricultural leasing services constituted 34 899,3 million tenge, "KAZAGROFINANCE" JSC's share was 95,5%

One of the factors of this situation is the profitable financing terms. The comparative analysis of basic conditions for funding primary players in this market has indicated that conditions of the Company are the most satisfactory, making our services available for the majority of agricultural businessmen of the country.

As the analysis showed, for today the basic source of funding of most institutions is the funds on the program of "DAMU" Entrepreneurship Development Fund, the rate of which is 12,5%. However, in accordance to this program, only small and medium business entities, which have really functioning stable business for 12 months and more, busy with services providing and also products producing and processing.

Therefore, our proposed rate of financing within 4-13,5 % is the most profitable for the present day. The rate of our closest competitor – "ASTANA FINANCE LEASING COMPANY" JSC reaches 12-18%, "BRK-Leasing" funds at the same rate.

Thus, the fortes of "KAZAGROFINANCE" JSC include the following:

- Implementation of State programs aimed at support agricultural producers by "KAZAGROFINANCE" JSC;
- Annual increase of subsidies of agricultural industrial sector of the Republic of Kazakhstan;
- Credit and leasing policy, held by "KAZAGROFINANCE" JSC allows to draw agricultural producers on the most favorable conditions for them (the low interest rate, term of leasing - up to 8 years, convenient repayment frequency, leased property insurance);
- Presence of branches and representative offices of "KAZAGROFINANCE" JSC in all regions of the Republic of Kazakhstan;
- Cooperation with the leading republican and foreign manufacturers of agricultural machinery (production association "Minsk Tractor Plant", "Agromashholding" JSC, "John Deere", "Kazakhstantractor" JSC, "Kharkov Tractor Plant" JSC, "CNH BELGIUM N.V" JSC, "CLAAS" firm and many others);
- Collaboration with the leading insurance organizations of the Republic of Kazakhstan allows to insure leased equipment on the most favorable conditions.

Corporate
management



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The corporate management in the Company is regulated by the Corporate Management Code, approved by the decision of the only shareholder in May 23, 2006.

"KAZAGROFINANCE" JSC considers the corporate management as an instrument of effectiveness increase of the Company's activity, reputation strengthening and expenses decrease for capital raising. The Company considers an appropriate system of corporate management as its contribution in support the rule of law in the Republic of Kazakhstan and the factor, determining its place in the modern economy and society in general.

The Company's Corporate Management is based on justice, fairness, responsibility, transparency, professionalism and competence. Effective corporate management structure includes respect of rights and interests of all stakeholders in the Company's activities and contribution to the success of the Company, including increasing its value, maintaining financial stability and profitability.

The corporate management structure of "KAZAGROFINANCE" JSC includes:

- The only shareholder;
- The Board of Directors;
- The Board;
- Internal audit department;
- Credit committee.

The presence of risk management systems (Financial risk management department) and internal control (Internal audit department) in "KAZAGROFINANCE" JSC construct the basis of adequate system of management, providing the Company's usage of the methods of risk control, providing effective definition, estimation and limitation of risks, taking into account type and amount of transactions held by us. Both of these departments report to the Board of the Directors of the Company.

The Financial risk management department is responsible for introducing and implementing procedures related to risk management, in order to provide independent process of monitoring of compliance with the principles and risk management policy of the Company.

The risk management process includes definition, measuring, control and monitoring of risks, which the Company takes while implementing its activities, on permanent basis. The risk management is carried out through the imposition of restriction and limit settings for each type of risk, insurance, diversification, creation of reserves. In addition, within the risk management process, roles and responsibilities are distributed among all departments of the Company.

In turn, the Internal audit department is a part of constant monitoring of the internal control system of the bank and internal capital estimation procedure, since the internal audit provides an independent estimation of adequacy and compliance with the internal policies and procedures of the bank. The Internal audit department assists the administration and the Board of the Directors of the Company in effective and efficient performance of its duties.

The main responsibilities of the Internal audit department are:

- Inspection and estimation of adequacy and effectiveness of the internal control system;
- Inspection of applying and effectiveness of risk management procedures and risk estimation methodology;
- Inspection of management systems and financial information, including electronic information system and electronic banking services;
- Inspection of accuracy and reliability of accounting records and financial statements;
- Inspection of the means of preserving assets;
- Inspection of bank system on its capital evaluation in connection with its risk assessment;
- Estimation of effectiveness of operations;
- Testing both transactions and functioning of specific internal control procedures;
- Inspection of systems established to ensure compliance with legal and regulatory requirements, codes of conduct and conducting techniques and procedures;
- Testing reliability and timeliness of financial statement;
- Implementation of special inspections;

Thus, risk estimation and control of all operations of the Company allow to minimize much all risks, connected with the activities of "KAZAGROFINANCE" JSC, what ultimately gives the positive dynamics of quality of the loan portfolio.



Membership of the Board of Directors of "KAZAGROFINANCE" JSC:

1. Asylzhan Sarybayevich Mamytbekov – Chairman of the Board of Directors of "KAZAGROFINANCE" JSC – Chairman of the Board of "NATIONAL HOLDING "KAZAGRO" JSC;
2. Berik Tursynbekovich Beisengaliyev – Member of the Board of Directors of "KAZAGROFINANCE" JSC – Deputy Chairman of the Board of "NATIONAL MANAGING HOLDING "KAZAGRO" JSC;
3. Nurlybek Tulebayevich Malelov – Member of the Board of Directors of "KAZAGROFINANCE" JSC – Member of the Board of "NATIONAL MANAGING HOLDING "KAZAGROFINANCE" JSC;
4. Yerkegali Serikovich Yedenbayev – Independent Director;
5. Adylkhan Aitkazynovich Kenzhebeyev – Independent Director;
6. Dulat Nulyevich Aitzhanov – Member of the Board of Directors of "KAZAGROFINANCE" JSC – Chairman of the Board of "KAZAGROFINANCE" JSC.

The Board of "KAZAGROFINANCE" JSC:

1. Dulat Nulyevich Aitzhanov – Chairman of the Board of "KAZAGROFINANCE" JSC;
2. Esmukhmet Barambayevich Spanov – Deputy Chairman of the Board of "KAZAGROFINANCE" JSC;
3. Dauren Sabitovich Makhazhanov – Deputy Chairman of the Board of "KAZAGROFINANCE" JSC;
4. Erbol Dzhumabayevich Umraliyev – Managing Director of "KAZAGROFINANCE" JSC;
5. Kairat Abugaliyevich Umertayev – Managing Director of "KAZAGROFINANCE" JSC;
6. Kairat Galimzhanovich Naizabekov – Managing Director of "KAZAGROFINANCE" JSC.

Quality management system.

In August, 2008 "KAZAGROFINANCE" JSC obtained an international Certificate of conformity of quality management system, according to ISO 9001:2000 requirements for banking lending and leasing operations.

The leading American company in sphere of implementing the QMS "Moody International" certified QMS for conformity with international standard ISO 9001:2000.

Further "Moody International" as the certification body, monitors development of quality management system in "KAZAGROFINANCE" JSC and conducts annual supervisory audits to confirm compliance with QMS requirements of standard ISO 9001:2000.

In August, 2009 the auditors of "Moody International" successfully held the supervisory audit of QMS in "KAZAGROFINANCE" JSC. The auditors of "Moody International" confirmed that the quality management system in "KAZAGROFINANCE" JSC, aimed at realization of banking lending and leasing operations, has been implemented and operated successfully.

In connection with establishing of the new version of the international standard ISO 9001:2008 in November, 2008, in "KAZAGROFINANCE" JSC since 2010 a transition to the new version of the international standard ISO 9001:2008 will be implemented, through changes in the documented procedures of QMS.

Personnel and social policy. Charitable aid.

The Company's Personnel Policy is aimed at the long-term Personnel Management, which major goal is full and in-time satisfaction of the Company's demands in the labour forces of necessary quality and quantity within the certain timeframe. The qualified, initiative, high-motivated, aimed at the intensive qualitative work employees are considered to be as the major assets of the Company and the most important resource of the competitiveness.

The main goal of the Personnel Policy are the establishment and improvement of the effective Personnel Management System based on attraction, development and motivation of the highly qualified employees for performance of the Company's strategic goals.

The basis of the Personnel Policy's implementation is the availability of the effective organizational and optimal personnel structures. For the purpose of attraction of the highly qualified specialists for the work in the Company the typical qualification requirements to each specific position are drawn. Search and selection of the highly qualified personnel are being carried out in accordance with the requirements to the qualification degree and professional competence of the candidates, solely on the basis of their professional skills, which can be useful when working in the Company's team.

The high professional level of the employees is maintained and exercised in the system of continuous education and advance training through the retraining and advance training of the employees by means of subsequent perfection of the current knowledge and skills.

Establishment and development of the effective system of the personnel motivation and encouragement are ensuring the direct and sustainable interest of each employee in achievement of the personal labour activity efficiency being targeted and improvement of its results. The Company's employees work on creation of the positive image in the Company, as well as in the mutual relations with the other organizations, state and other bodies, facilitate the promotion of the community spirit, education and advocacy of the corporativity and the positive social and psychological atmosphere in the Company's team.

Key trends of the Social Policy of the employees of "KazAgroFinance" JSC

The Company's Social Policy is aimed at the development of the social and economic conditions for the employees within the framework of implementation of their constitutional rights in accordance with the legislation of the Republic of Kazakhstan.

The Social Policy ensures the high level of the social protection of the employees, creates the conditions for their profitable activity and obtaining of the appropriate compensations, provides the opportunities for the professional, individual and career development and, thus, promotes the interest in the long-term, effective and fruitful mutual relations of the Company and employees, which result is achievement of the high labour efficiency.

The purpose of the Company's Social Policy is the development of the social trend of the Company, the subsequent increasing of the living standards of the employees, providing of the common availability of the main social benefits and, first of all, the favourable psychological climate in the team.

The Company's Management provides the social and other guarantees for the employees: implementation of the Labour Legislation of the Republic of Kazakhstan; work place in accordance with the Safety Requirements; mandatory insurance of the civil liability of the employer for causing of the personal injury to the employee when performing his duties; voluntary medical insurance; labour leave with pay; payment of the material assistance to the employees at birth (adopting) of a child, marriage of the employee or death of the husband (wife) of the employee or close relatives; time-bonus remuneration system; compensatory payments when involving the employees on weekends and holidays; payment when the employees are on the business trips; opportunity of the professional education and advance training.

The successful implementation of the Social Policy promotes increasing of the Company's competitiveness and strengthening of the image as the responsible employer and social-directed organization.

Charitable aid

The plan of 2009 included the provision of charitable and sponsorship aid to the amount of 5 000 000 tenge, in fact the expenses for these aims for different organizations amounted to 5 058 693 tenge, including:

- On the eve of the International Women's Day, March 8, and the holiday "Nauryz meiramy" the charitable aid was provided to the municipal administration, the branch of "Kazakh Blind Association" AS, Astana city;
- For organizing and conducting the II Astana economic forum the sponsorship aid was provided to "Economic Research Institute" JSC;
- Participation in the charity project "I have a heart", held by the initiative group "Wind of changes" with support of "Zhas Zhurek" AS to help children with congenital heart disease, requiring urgent operations;
- It was carried out targeted sponsorship to the Public Fund "Olzhas Suleimenov Center of orphans and disabled", etc.

The decision of the Board of "KAZAGROFINANCE" JSC is that the Orphanage № 2, located in Uryupinka village, Akkol district, is defined as the sponsored orphanage of "KAZAGROFINANCE" JSC. During the year the Company periodically provided various assistance to the orphanage, presented gifts, provided funds for technical equipment and repairs.

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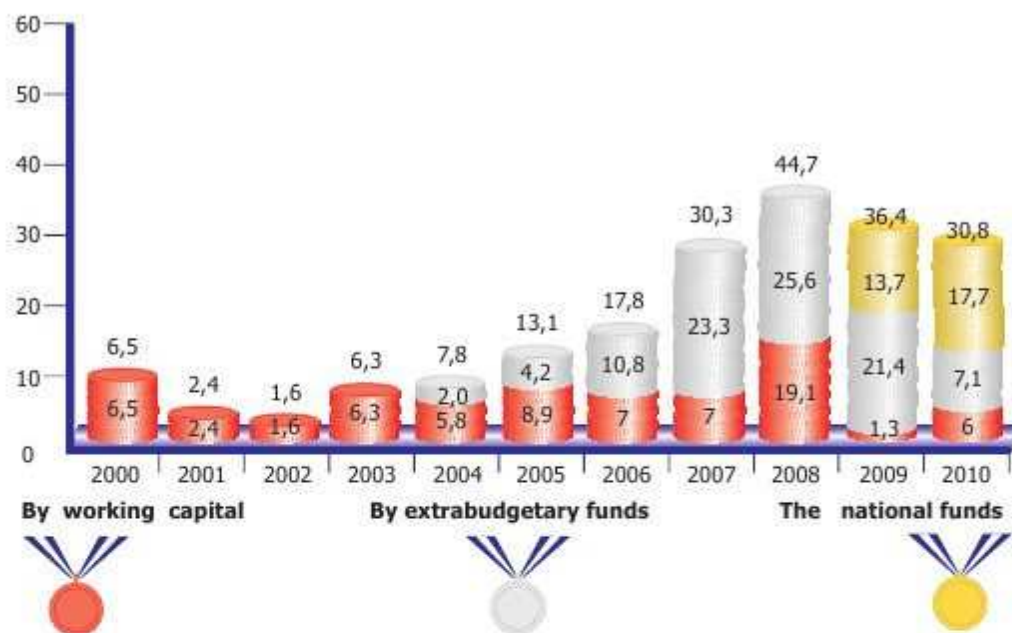
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Achievements of 2009.
The significance
of the Company
for the country.
Description of
major projects



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Total since the moment of establishment of "KAZAGROFINANCE" JSC more than 5000 leasing agreements and loan agreements were concluded, the amount of investments of which is 167,0 milliards tenge. In 2009 financial support was provided to about 600 economic entities of the country.



Within support of subjects of the agricultural industrial sector of the Republic of Kazakhstan in 2009 "KAZAGROFINANCE" JSC concluded the contracts to the amount of 36 427, 9 million tenge, including leasing agreements to the amount of 33 482,6 million tenge, contracts by crediting to the amount of 2 945, 3 million tenge.

By these funds the purchases of 1 363 units of various agricultural machinery to the total amount of 19 749,2 million tenge was financed, including 375 units of tractors, 690 units of combine harvesters, 111 units of seeders and 187 units of other agricultural machinery. As well 59 units of special equipment to the total amount of 1 242,9 million tenge and 8 units of equipment for agricultural products processing to the total amount of 692,1 million tenge were purchased.

Large volumes of machinery delivered to the regions is the fact of that approximately 2,1 million hectares of land were seeded with sowing complexes, purchased through "KAZAGROFINANCE" JSC, what is about 10 % of the total crop area of the Republic of Kazakhstan (21,4 million hectares). 6,5 million hectares were harvested by our combine-harvesters, what is 31% of the total harvested area of the Republic of Kazakhstan.

Implementation of investment projects.

Basing on decisions accepted by the Head of the State and the Government on implementation of investment projects funded by the National Fund, the Board of Directors of "NATIONAL HOLDING KAZAGRO" under the guidance of the Deputy Prime Minister of the Republic of Kazakhstan U. E. Shukeev identified 11 specific areas and limits of their funding, where the mentioned projects would be implemented. There also subsidiary companies were identified, which would finance these projects.

"KAZAGROFINANCE" JSC was defined as an operator of six investment directions. This is a networking and development of: 1) dairy farms; 2) greenhouses; 3) poultry farms; 4) vegetable storages; 5) fruit and vegetable productions with application of drip irrigation technology and 6) organization of assembly of agricultural machinery. The source of investment for these projects is the National Fund of the Republic of Kazakhstan.

The basic principles of implementation of investment projects are, first of all, publicity of selection. That is, all reports on holding and completion of a selection are published in Kazakh and Russian languages in the media distributed all over the country, among them republic and regional newspapers, preparation for publication is held at the district level and on our corporate site.

In addition, all filed applications, regardless of the result of their consideration by the Company and "NATIONAL HOLDING KAZAGRO" are sent to the Public Commission, which makes the final decision. Additionally, the results of the decision of the Public Commission for each project are also published in mass-media. The Public Commission consists of, besides the official representatives of the Company, the Managing Director of the Holding, the Ministry of Agriculture of the Republic of Kazakhstan, representatives of associations and deputies, what allows examining every project fully and objectively.

The openness of the selection, which means everybody without any exception, can apply for the participation in the selection.

The transparency of the selection is a normative regulation of all procedures of the selection, common rules and requirements for all participants, and also review of all applications by the Public Commission.

These principles are aimed, first of all, at avoiding any appearance of corruption.

The Company also developed requirements referred both to potential borrowers and to projects under implementation, and, depending on investment direction the **specific requirements** were taken into account.

Common requirements for all potential borrowers are: availability of capacity and ability to pay; absence of tax debt for a period exceeding three months; absence of procedures of reorganization, liquidation, bankruptcy of a company, and any restrictions on business activities; absence of overdue accounts payable and negative credit history. A borrower also must have a sufficient deposit base or other resources for minimizing risks of bad loans and guarantee of fulfillment of obligations on financing received from the Company. For confirmation of the authorized body it is necessary to obtain the consent of shareholders and founders of the borrower of getting financing in "KAZAGROFINANCE" JSC.

The possibility of the borrower's self-financing of at least 15 % of project costs, the availability of material and technical base and qualified personnel are obligatory.

The important point is that the borrower has experience in a sphere, which he plans to obtain financing in.

As mentioned before, the requirements are exposed not only to borrowers, but also to planned projects. Implementing investment projects, the Company focuses on creation of efficient, profitable productions, capable to bring promptly finished products, competitive in price and in quality to the food markets.

Therefore, project should be aimed at establishment of new and expansion of existing production with increase of volume of products, where the modern technologies will be used and all environmental safety standards will be complied. At the same time we can not ignore such important factors, as the efficiency of indicators of investment projects, profitability and adequate payback period of the project. In order to increase the proportion of Kazakhstan content in the production of goods and providing of services we insist on possibility of preferential usage of goods, work and services of local producers by borrowers.

As for the requirements for projects in certain areas, it should be noted that, we, first of all, pay attention to the use of advanced technologies in each area. It is essential that implementation of investment projects would allow to solve at least some of the current problems, which the agricultural sector face with. For example, in the dairy industry it is small productivity of milch livestock, significant imbalance in milk production and uneven loading of processing manufactures, substantial imports of dairy products reaching 70-80%.

Therefore, the main requirements for projects on construction of dairy farm will be introduction of advanced technology, in our case, loose-technology containing and milking and use of highly productive pedigree livestock.

Implementing projects on creation of modern poultry farms of meat line, primarily the problems of Kazakhstan import dependence on poultry meat are solved. A priority will be given to the projects involving introduction of advanced technologies of floor and cage containing of poultry. Projects on establishment of a network of greenhouses, vegetable storages and productions for cultivating fruits and vegetables with use of drip irrigation technology will be aimed, first of all, to solving the problems of supply of fruits and vegetables for the population at affordable prices in the off-season period, decrease of imports of fruits and vegetables, and secondly, on formation of reserves of fruits and vegetables products around our major cities.

So the Company will consider the projects only with use of modern advanced technologies.

The principal condition for financing projects on assembly technique is the necessity of partial or complete use of local manpower.

In 2009 one project was financed in this sphere. It is the assembly of "Belarus" tractors on the basis of the plant of "SemAZ" JSC. The implementation of this project will allow providing farmers with necessary seeding, tillage, harvesting machinery; improving the competitiveness of native products; reducing of import dependence on CIS and other countries. Additionally new jobs will be created with annual increase with enlargement of nomenclature and volumes of production. There will be a possibility for establishing a technical base for a practical training of students of higher education institutions and vocational schools; and introduction of native patent developments into production. The establishment of assembly production will allow providing affordable cost of machinery by reducing transport expenses, tax preferences in the form of VAT exemption and reducing corporate income tax. The implementation of these projects involves the expansion of business cooperation between Kazakhstan and Belarus. Undoubtedly, all these factors have a positive impact on the development of the national machinery industry.

It is clear that, at first glance it seems that there are too many demands made against borrowers and projects, however, considering the Company's 10-year-experience, failure of any of these conditions would bring undesirable results for both the Company and its borrowers.

Nevertheless, the profitable terms of financing have caused great interest of agricultural producers for the contest: **these are leasing and loan at 6 % APR, a grace period for up to 2 years and payment of principal once a year.** As practice show, these terms make financial burden much easier for our borrowers and allow expending funds on other needs.

Since the beginning of 2009 under this program "KAZAGROFINANCE" JSC has already begun funding 14 projects.

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Financing of large dairy farms

"RZA" JSC – construction of the dairy farm for 660 heads of cattle in Kyzylorda region, worth 1 694,8 million tenge. The suppliers of equipment for the dairy farm are the company MAS Agro (Netherlands).

"ICE" LLP – construction of the dairy farm for 1100 heads of cattle in Aktobe region, worth 3 136,2 million tenge. The supplier of equipment for the dairy farm is the company Van Der Ploeg International B.V. (Netherlands).

"Sadchikovckoe" LLP – construction of the dairy farm for 400 heads of cattle in Kostanay region, worth 806,2 million tenge. The supplier of equipment is the company Agralis GmbH, the supplier of cattle is the company Hunland Trade Kft (Hungary).

Construction and commissioning of these farms are planned in 2010. The implementation of these projects will increase the proportion of pedigree cattle, milk production, will ensure the adequacy of milk consumption in different regions, will reduce import dependence much. Among other things, the important factor is creating of 300 new additional jobs.

Financing of poultry farms

"Ordabasy Kus" LLP – establishing of the poultry farm on breeding, slaughtering and meat processing of turkey in South Kazakhstan region, worth 3 802,2 million tenge. The productive capacity of the poultry farm is 4 800 tones of poultry meat a year. The supplier of equipment is "M.A.D. Developing Agricultural Projects" LTD (Israel).

The project is unique in Kazakhstan for growing turkey and its processing. During the operation it is planned to establish 500 jobs, including 250 – for local residents, 230 – for oralmans.

"Broiler poultry farm Zhas Kanat" LLP – modernization of existing poultry farm – establishing of complex of broiler meat closed-loop production with deep processing in Kostanay region, worth 692,2 million tenge. The productive capacity of the poultry farm is 1 880 tones of poultry meat a year. The supplier of equipment is "CROWN CENTRAL ASIA" LLP, Almaty (the producers are Big Dutchman (Germany), Crown Worldwide (USA), Pas Reform B.V. (Netherlands)).

"Komsomolskaya Poultry Farm" LLP – development of existing poultry farm in Kostanay region, worth 2 939,9 million tenge. The productive capacity of the poultry farm is 12 000 tones of poultry meat a year. The supplier of equipment is Lorenz Trading (Germany). The producers are: Farmer Automatic (Germany), Schmidt-Seeger GmbH (Germany), EMF Lebensmitteltechnik – Anlagenbau GmbH (Germany), EMKA (Belgium).

"Health food" LLP – establishing of the poultry farm in Karaganda region, worth 1 619,4 million tenge. The productive capacity of the poultry farm is 5 000 tones of poultry meat a year. The supplier of equipment is "Techna" Ltd. PA (Ukraine), "Medicus-M" LLP (Kazakhstan), "Khorolskii mechanical plant" OJSC (Ukraine).

"Ust-Kamenogorsk poultry farm" JSC – modernization of existing production in East Kazakhstan region, worth 2 643,5 million tenge. The suppliers of equipment are the companies Big Dutchman (Germany), Pas Reform (Netherlands).

Totally during the operation of the poultry farms it is projected to establish more than 600 jobs.

Financing of greenhouses

"Green technology" LLP – the greenhouse complex on 3 hectares in Karaganda region, worth 979,1 million tenge. The productive capacity is more than 1 700 tones of vegetables a year. The supplier of equipment is "Agrisovgaz" Ltd. (Russia).

"Greenhouse technologies of Kazakhstan" LLP – the greenhouse complex on 3,56 hectares in Akmola region, worth 1 049,1 million tenge. The productive capacity is : for 2010 – more than 700 tones of vegetables a year, for 2010 – more than 1 800 tones of vegetables a year. The suppliers of equipment are: the company "Agrisovgaz" Ltd. (Russia), Agrotech-Didam B.V (Holland).

"Green House – Green House" LLP – establishing of the greenhouse complex on 4 hectares in Almaty region, worth 1 140,9 million tenge. The productive capacity is more than 3 000 tones of vegetables a year. The supplier of equipment is the company "Agrisovgaz" (Russia).

Totally as a result of project implementation it is projected to create about 160 new jobs.

Financing of vegetable storages

"Irtysh-TANur plus" LLP – establishing of the vegetable storage for 3000 tones of potato storage in East Kazakhstan region, worth 139,5 million tenge. The supplier of equipment is the company MAS Agro. As a result of project implementation it is projected to establish 16 new jobs.

Financing of production of assembly of agricultural machinery

"SemAZ" LLP – organization of assembling production of tractors "Belarus" in East Kazakhstan region, worth 1 215,1 million tenge. The productive capacity is: in 2009 – at least 300 units of machinery, in 2016 – up to 875 units of machinery. There will be established about 114 new jobs.

Financing of fruits and vegetables production with use of drip irrigation technology

Under development of fruits and vegetables cluster by the Company in 2009 financing of the project "Atyrau Agro Onimderi" in Atyrau region was begun, worth 148,2 million tenge, for fruits and vegetables production with use of drip irrigation on 39 hectares. For this project the drip irrigation system from the company "ILMARK" (Israel) and the drip tube from the company "Kogersin" LLP were purchased. The productive capacity is 2 460 tones of fruits and vegetables a year.

The introduction of technologies with use of drip irrigation will allow providing optimal water-air balance of soil, water savings, increasing yield by 50-70%, increasing production of fruits and vegetables products.

The implementation of this project on drip irrigation in Atyrau region will allow providing jobs for 10 persons.

Also the Company took part in the reporting period in establishing of food zones around Almaty and Astana. The project of establishing of food zone is realized under the order of the President of the Republic of Kazakhstan.

In 2009 within the establishing of the food zones around Almaty, 22 farms applied to "KAZAGROFINANCE" JSC to the total amount of 25,1 milliard tenge, including the Credit Committee approved applications of 2 farms to the amount of 1,3 milliard tenge. The funds are used for financing of development of fish farming, establishing of greenhouse complex.

Within the implementation of the food zone program around Astana, 36 farms applied to the Company to the total amount 33,1 milliard tenge, including the Credit Committee approved applications of 9 farms to the amount of 6,0 milliard tenge, 8 farms and the Company signed leasing/loan agreements to the amount of 3,3 milliard tenge.

The funds are used for financing of poultry farms construction and development, establishing of greenhouse complexes, purchasing mill equipment, as well as equipment for refining oil and fat products. The implementation of these programs allow providing the major cities of Kazakhstan and the surrounding area of food products, essential foodstuffs, to reduce selling prices and to reduce partially import dependence of these regions.

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The main
financial results of
"KAZAGROFINANCE" JSC



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In 2009 the total income of "KAZAGROFINANCE" JSC is 13 147,37 million tenge, while the expenses are incurred to the amount of 12 059,47 million tenge. Careful planning of financial activities and the expenses optimization during the year contributed to the improvement of their structure. The Company's income for primary activities (related to the remuneration) increased by 19,15 %, due to the growth of attracted investment, the income from provided financial leasing has increased by 76,01 %, and the income from provided loans has increased by 3,93 % in 2009 compared with 2008.

In the income structure of "KAZAGROFINANCE" JSC in 2009 the greatest income is income related to the remuneration, including for leasing – 27,2 %, for provided loans – 23,1 %.

The Company's expenses in 2009 amounted to 12 059,47 million tenge and increased by 85,64 % in comparison with 2008.

In the expenses structure in 2009 the greatest expenses are expenses on revaluation of foreign currency – 49,6 %, expenses on received loans are 16,3 %, expenses on reserves (provisions) are 10,7 %.

The dynamics of income and expenditure of "KAZAGROFINANCE" JSC.

	2008 year	2009 year	2009 in % as compared to 2008
Income	7 772,49	13 147,37	69,2
Expenditures	6 496,08	12 059,47	85,6
	million tenge	million tenge	%

Financial result. Key financial indicators.

The dynamics of the key financial indicators of the Company's activity during the last years is stably tended to increasing that can be proved by the audit results conducted by the Audit Company "Ernst & Young".

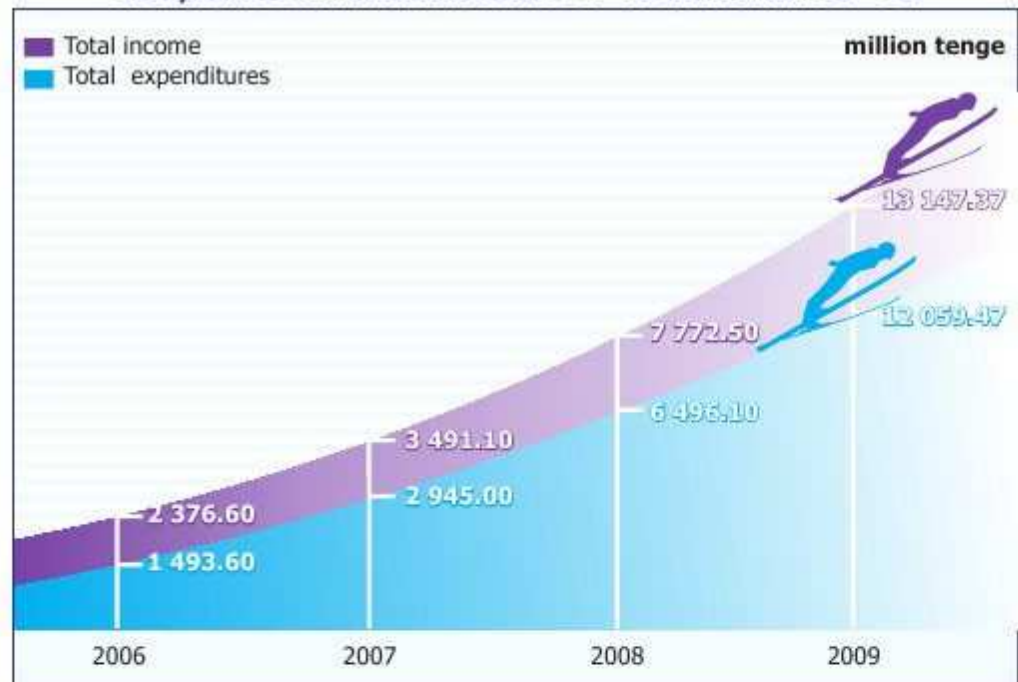
The dynamics of the key financial indicators, million tenge.

Indicators	2006	2007	2008	2009
Assets	34 391,9	56 023,2	86 668,7	105 331,9
Own capital, including	22 159,6	29 296,4	47 400,1	50 999,7
Chartered capital	21 825,6	28 825,6	47 150,2	48 450,2
Liabilities	12 232,3	26 726,7	39 268,6	54 332,2
Total income	2 376,6	3 491,0	7 772,5	13 147,4
Total expenditures	1 493,6	2 944,9	6 496,1	12 059,5
Net income	883,0	546,1	1 276,4	1 087,9
Return On Assets (ROA), %	2,99	1,21	1,79	1,13
Return On Equity (ROE), %	4,79	2,12	3,33	2,21

Rate of return (profitability) of assets ROA is one of the most important indicators for characteristics of effective use of assets of any company. "KAZAGROFINANCE" JSC has sufficiently low indicator of return on assets in comparison with other financial organizations, what connected with specificity of activities of the company, statutory purpose of which is defined not as high return on assets, but soft-term financing of the agricultural sector of the Republic.

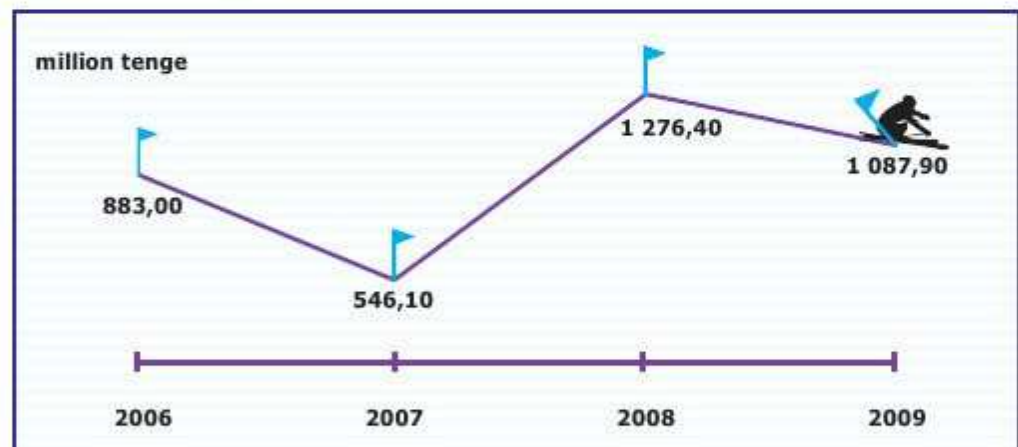
In this regard, the level of the Company's profitability on principal activities is predetermined by the establishing of low (subsidized) interest rate on leasing of agricultural producers.

The dynamics of financial indicators of "KAZAGROFINANCE" JCS



Dynamics of net income

As a result of the activities for 2009 "KAZAGROFINANCE" JSC got positive financial result - net income to the amount of 1 087,9 million tenge.



In comparison with 2008 net income of "KAZAGROFINANCE" JSC of 2009 decreased by 14,8 %. Reducing of net income was due to increasing of expenses on revaluation of foreign currency: in comparison with 2008 these expenses increased by 2 441,2 %.

In general, for the last 4 years positive growth dynamics of the Company's income, that was a result of that net income of "KAZAGROFINANCE" JSC for 2009 increased 1,23 times in comparison with 2006.

Estimation of financial stability and solvency of the Company

The financial condition of the Company also may be estimated by analyzing of indicators of availability of own financial resources (stability ratios), and ability of timely mobilization of assets for performance of its obligations (liquidity ratios).

Stability ratios:

Indicators	Recommended value	2007	2008	2009
Financial independence ratio (share of equity in the balance) = (Own capital) / (Balance Sheet)	≥ 0.5	0.5	0.5	0.5
Financial stress ratio (proportion of debt in the balance) = (Debt) / (Balance sheet)	≤ 0.5	0.9	0.5	0.5
Debt ratio (Gearing) = (Debt) / (Equity)	0.67	0.9	0.8	1.1
Self-financing ratio (Gearing) = (Equity) / (Debt)	≥ 1.0	1.0	1.2	0.9
Coverage of working capital ratio (Share of working capital in current assets)	≥ 0.1	0.6	0.3	0.4
Mobility ratio (Proportion of own funds in equity)	≥ 0.5	1.0	1.0	1.0

The financial independence is maintained at the recommended level of 0,5, reflecting an acceptable level of dependence on external sources of funding. The financial stress ratio, also characterizing the degree of borrowings, remains within recommended limits.

The increase of debt ratio and lowering of self-financing ratio should be evaluated from the position of strengthening of State support, implementing within the program of favorable long-term financing of agriculture, funded by the National Fund. Taking into account the changing of structure of borrowed funds, when the share of borrowings by the National Fund is increased, tendency of behavior of mentioned ratios is acceptable. The mobility ratio is stable due to annual investments in charter capital by the only shareholder.

Liquidity ratios:

Indicators	Recommended value	2007	2008	2009
Absolute liquidity ratio, equal the ratio of funds and short-term investments to current liabilities	≥ 0.2	0.21	0.57	0.64
Quick (Urgent) ratio, equal the ratio of highly liquid current assets to current passives	0.5 - 0.8	2.03	3.04	3.52
Current ratio (coverage), equal the ratio of current assets to current liabilities	1.5 - 2.5	2.10	2.47	2.88

Liquidity ratios have always been characterized as a high level of reserve, what is quite proved taking into account high degree of risk related to agriculture. The company's status determines the focus on the agricultural sector without possibility of diversification in other economical spheres. The socially oriented investment provides favorable terms for projects of State importance, characterized by a long lag time between investment of funds and their returning due to lasting period of commissioning of investment objects. The policy of liquidity management is built according to seasonal dependence of financial assets movement, as well as the limited range of possible operations with financial instruments, the maximum mobilization of financial resources for effective realization of State programs for support of agriculture.

Future prospects
of the Company.
Plans for 2008



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"KAZAGROFINANCE" JSC in 2010 is planning to invest in the agricultural sector of the Republic about 30,8 milliard tenge, including 17,7 milliard tenge – the funds of the National Fund.

The funds are provided for financing the purchase of agricultural and special machinery, processing equipment, as well as for implementation of investment projects in the agricultural industrial sector.

The expected effect of infusion of funds of the National Fund in development of the agricultural industrial sector would help to establish new high-technology industries in the countryside, which will be equipped with technological equipment of world leading producers, with use of modern advanced technologies, with a full production cycle.

Thus, within the allocated funds from the National Fund it is planned to establish:

- two plants for assembly of agricultural machinery with productive capacity of up to 3 000 units of various machinery a year,
- nine dairy farms with milk production up to 73 000 tones,
- establishment of six poultry farms with capacity of 30 000 tones and more of meat,
- establishment of greenhouse complexes in the area over 60 hectares, with total capacity of 36 000 tones of fruits and vegetables,
- vegetable storage network with storage capacity of more than 75 000 tones,
- as well as development of fruits and vegetables production with use of drip irrigation , with capacity of more than 530 000 tones of products.

Financing of these spheres will continue gradually to reduce import dependence and shortage of imported goods, namely: whole milk by 15,4 %, poultry meat by 20 %, fruits and vegetables by 24,2 %, reducing shortage of storage facilities by 23 %, and also creating of more than 2 000 new jobs.

Thus, the Company will continue to implement consequently the task of full-fledged financial institution and a true partner for the agricultural sector of the Republic, creating essential conditions for further development of the countryside, providing of food security of the country, production of competitive products with organization of new jobs.

Also in 2010 within the meeting the growing needs in some important industrial crops it is planned expanding the list of crops for cultivation with use of drip irrigation system. These crops include: soybean, rape, cotton, sugar beet and others.

In addition to the developing of volumes of investment by funds of the National Fund of the Republic of Kazakhstan for the implementation of investment projects in agricultural industrial sector, the objectives of "KAZAGROFINANCE" JSC in the sphere of quality for 2010 are:

1. Improving the quality of provided services by inputting automated analytical program for analyzing projects in the first quarter of 2010;
 2. Raising funds from sources of export financing to the amount of \$ 30 million from the Islamic Development Bank and Eur 9 million from Lendesbank Berlin;
 3. Automation of business-processes of record-keeping, preparing the report information for 2010;
 4. Further development of quality management system through teaching basic principles of quality management system in accordance with the requirements of standard ISO 9001:2008 for the employees of "KAZAGROFINANCE" JSC and internal auditors of quality management system in the first half of 2010;
 5. Studying and improving of the State language in "KAZAGROFINANCE" JSC during 2010.
- Achieving goals in the sphere of quality will be accomplished by:
- Continuous improving, quality improvement and expansion of the structure of services provided by "KAZAGROFINANCE" JSC;
 - Organizing, support and improvement of personnel training system in "KAZAGROFINANCE" JSC;
 - Understanding of authorities and responsibilities of the personnel, involved in quality management sphere;
 - Conducting external and internal audits, ongoing monitoring of each element of management system;
 - Focus on consumers of credit and leasing services, understanding and meeting needs of agricultural producers.

Helpful information



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List of major suppliers

Supplier	Machinery	
	Country	Machinery
«Agromashholding» JSC	Kazakhstan	Combine-harvesters Yenisei and Yesil
«Tselinselmash Astana» LLP	Kazakhstan	Tillage Seeder Cultivator CKC- 2,1M
«Avanguard-Agro» LLP NGO	Kazakhstan	Sprayers ОПШУ - 25A
«Agrotechmash» LLP	Kazakhstan	Tractor "Kazakhstanets" K 744 P1
«SemAZ» LLP	Kazakhstan	Tractors «Belarus-80.1», «Belarus-82.1» and «Belarus-1221.2»
«Don Mar» LLP	Kazakhstan	Reaper roll «Don Mar»
«Trading house Belarus Tractor» LLP	Kazakhstan	«Belarus-892», «Belarus-952» and «Belarus-1025»
«Agricultural Machinery Plant» LLP	Kazakhstan	
Selikanov IE	Kazakhstan	
«Combine Plant «Rostselmash» Ltd.	Russia	Combines Vector, Akros
«CLOVER» Ltd.	Russia	Bale baler "Tukan"
«Agromashholding» Ltd.	Russia	Rice-harvesters
«Agro» Ltd.	Russia	Crop systems «Kuzbass»
«Sibzavod» Ltd.	Russia	Seeders SKP – 2,1,couplers, connectors
«Leasing Company «Agrosibleasing» CJSC	Russia	Cultivating agricultural machinery
"Voronezhselmash" OJSC	Russia	
CT Agro GmbH	Germany	Tractors Xerion
CLAAS Global Sales GmbH	Germany	Combines CLAAS
AGROTEC INTERNATIONAL AG	Germany	Agricultural machinery
CANAM Engines GmbH	Germany	Tractors Buhler Versatile + Seeders Bourgault
CanAgro Exports Inc.	Canada	Agricultural machinery
Eurasia Group AG	Switzerland	Agricultural machinery for SPC «Otyrar» LLP
Agrotecnica S.r.l.	Italy	Agricultural machinery
«S.Ordzhonikidze Kharkov Tractor Plant» OJSC	Ukraine	Tractors KTP
IP Consult (International) Ltd.	Gibraltar	Agricultural machinery
«Supply Company Chervona Zirka» CJSC	Ukraine	Seeders and cultivators
«AGROIMPORT PLUS» Ltd.	Ukraine	Tractors XTA
«A.N. Bondarenko» SB	Ukraine	Agricultural machinery
Berdianskie zhatki OJSC	Ukraine	
«Bobruiskagromash» OJSC	Belarus	
Poultry Farm Equipment		
«ZUCAMI» S.L.	Spain	
Ten Elsen GmbH & Co KG	Germany	
"PA TEKHNA" LTD	Ukraine	
Big Dutchman International GmbH	Germany	
Lorenz HANDELS GmbH HOLZ – METELL - MASCHINEN	Germany	
M.A.D. Agricultural Projects	Israel	

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Pas Reform B.V.	Netherlands	
"Khorolskii mechanical plant" OJSC	Ukraine	
Greenhouses and drip irrigation system equipment		
Yamco Yadpaz Industries Ltd	Israel	
Dalsem Horticultural Projects B.V.	Netherlands	
"Agrisovgaz" LTD	Russia	
Agrotech-Didam B.V.	Netherlands	
Netafm Ltd	Israel	
NaanDan Jain Irrigation SC Ltd	Israel	
Mills		
«ANA ULUSLARARASI GIDA, TURIZM, INSAAT SAN. ve DIS TIC. LTD STI.»	Turkey	
Ozenir Dis Ticaret A.S.	Turkey	
GENC DEGIRMEN MAKINALARI SANAYI VE TICARET ANONIM SİRKET	Turkey	
Dairy Farms		
Agralis GmbH	Germany	
DeLaval Export Service AB	Sweden	
"Bratslav-KZ" LLP	Kazakhstan	
Flandrus s.p.r.l.	Belgium	
Van der Ploeg International B.V.	Netherlands	
MAS Agro (Ivanhoe Invest b.v.)	Netherlands	
HIMEL Maschinen GmbH & Co. KG	Germany	
Livestock		
Hunland Trade Kft.	Hungary	
Klinger GmbH		
Vegetable Storages Equipment		
MAS Agro (Ivanhoe Invest b.v.)	Netherlands	
AGROTEC INTERNATIONAL AG	Germany	
Other Equipment		
EMF Lebensmitteltechnik-Anlagenbau GmbH	Germany	Equipment for pigs slaughter line
REVENT PRAHA s.r.o.	Czech	Equipment for bread and bakery products production
OHMI Engineering GmbH	Germany	Adsorption refining line
TECALIT S.R.L	Italy	Short-cut pasta production line
Hartmann Lebensmitteltechnik Anlagenbau GmbH	Germany	Milk processing equipment
Tetra Pak Service S.A.	Switzerland	
EXIMA e.K.	Germany	Meat processing equipment

International financial partners

Banks:

- «**Rabobank International**» (Utrecht, the Netherlands)
- «**Bank Gesellschaft Berlin AG**» (Berlin, Germany)
- «**ABN AMRO Bank**» (Chicago, the USA)
- «**ABN AMRO Bank N.V.**» (Amsterdam, the Netherlands)
- «**NATEXIS BANQUES POPULAIRES**» (Paris, France)
- «**Landes Bank Berlin**» (Stuttgart, Berlin, Germany)
- «**Societe Generale**» (Canada)
- Islamic Development Bank** (hereinafter - IDB)

Insurance Agencies:

- Hermes** (Germany)
- OND** (Belgium)
- US Eximbank** (the USA)
- SACE** (Italy)
- SIMEST** (Italy)

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