

OJSC KazTransCom

FINANCIAL STATEMENTS
(in accordance with Kazakhstani
Accounting Standards)
FOR THE YEAR ENDED DECEMBER 31, 2002

OJSC “KazTransCom”

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INDEPENDENT AUDITORS' REPORT

To the shareholders of OJSC "KazTransCom":

We have audited the accompanying balance sheet of OJSC "KazTransCom" (the "Company") as at December 31, 2002 and the related statements of operations, cash flows and changes in the owners' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International and Kazakhstan Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and the results of its operations and cash flows for the year then ended in conformity with Kazakhstani Accounting Standards.

Without qualifying our opinion, we draw attention to the Note 18 to the financial statements, which states that the financial statements of the companies, merged with OJSC "KazTransCom", are included in the financial statements of OJSC "KazTransCom" only from the date of merger (see Note 18). Consequently, the statement of operations and cash flows for the year ended 2001, include information on financial position of merged companies and the results of their operations only from the date of merger. Results of operations and financial position of merged companies are not included in the relevant statements before the date of merger, because Kazakhstani Accounting Standards do not have a Standard on merger of companies.

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Nurtaza Baitenov

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May 16, 2003
Almaty

Deloitte
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Tohmatsu

OJSC “KazTransCom”

BALANCE SHEET AS AT DECEMBER 31, 2002 (in thousands of Kazakhstan Tenge)

	Notes	2002	2001
ASSETS			
LONG-TERM ASSETS			
Intangible assets, net	3	69,205	17,080
Fixed assets, net	4	<u>1,706,475</u>	<u>1,301,177</u>
Total long term assets		1,775,680	1,318,257
CURRENT ASSETS			
Inventories	5	285,668	110,195
Accounts receivable, net	6	592,023	312,706
Other accounts receivable, net	7	54,258	374,975
Cash		<u>100,271</u>	<u>96,675</u>
Total current assets		<u>1,032,220</u>	<u>894,551</u>
TOTAL ASSETS		<u>2,807,900</u>	<u>2,212,808</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY			
Share capital	8	42,100	42,100
Additional unpaid capital		814,080	835,619
Reserve capital	9	7,455	7,455
Retained earnings		<u>754,836</u>	<u>459,874</u>
Total shareholders' equity		1,618,471	1,345,048
LONG-TERM LIABILITIES			
Long term loans	10	479,719	339,758
Deferred tax liability	17	<u>54,008</u>	<u>-</u>
Total long-term liabilities		<u>533,727</u>	<u>339,758</u>

OJSC “KazTransCom”

BALANCE SHEET (continued) AS AT DECEMBER 31, 2002 (in thousands of Kazakhstan Tenge)

	Notes	2002	2001
CURRENT LIABILITIES			
Current portion of long-term loans	10	299,859	113,253
Accounts payable		228,255	352,033
Settlements with budget	11	90,606	33,943
Dividends payable	19	8,446	7,893
Other accounts payable and accrued liabilities		<u>28,536</u>	<u>20,880</u>
Total current liabilities		<u>655,702</u>	<u>528,002</u>
Total liabilities		<u>1,189,429</u>	<u>867,760</u>
TOTAL LIABILITIES AND SHAREHOLDER' EQUITY		<u>2,807,900</u>	<u>2,212,808</u>
CONTINGENCIES	20	-	-

On behalf of the Company:

Zhunusov B. A.
General Director

May 16, 2003
Almaty

Shaymagambetova L. T.
Chief Accountant

May 16, 2003
Almaty

Notes on pages 8-19 are an integral part of the financial statements.

OJSC “KazTransCom”

STATEMENT OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2002 (in thousands of Kazakhstan Tenge)

	Notes	2002	2001
OPERATING REVENUES	12	2,529,169	1,019,383
COST OF SERVICES PROVIDED	13	<u>(1,273,571)</u>	<u>(715,912)</u>
GROSS PROFIT		1,255,598	303,471
GENERAL AND ADMINISTRATIVE SELLING EXPENSES	14	(783,923)	(308,125)
INTEREST EXPENSES		<u>(76,966)</u>	<u>-</u>
INCOME / (LOSS) FROM OPERATIONS		394,709	(4,654)
OTHER LOSS / INCOME FROM NON-OPERATING ACTIVITIES			
Other income	15	38,938	22,744
Other expenses	16	<u>(61,727)</u>	<u>(37,039)</u>
Total other loss from non-operating activities		<u>(22,789)</u>	<u>(14,295)</u>
INCOME / (LOSS) BEFORE INCOME TAX EXPENSE		<u>371,920</u>	<u>(18,949)</u>
INCOME TAX EXPENSE	17	<u>(116,125)</u>	<u>(24,446)</u>
NET INCOME / (LOSS)		<u><u>255,795</u></u>	<u><u>(43,395)</u></u>

On behalf of the Company:

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General Director

May 16, 2003
Almaty

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Chief Accountant

May 16, 2003
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OJSC “KazTransCom”

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2002 (in thousands of Kazakhstan Tenge)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income / (loss) before income tax expense	371,920	(18,949)
Adjustments to reconcile net income before income tax expense to net cash provided by operating activities		
Depreciation and amortization	145,798	98,496
Allowance for doubtful receivables	86,555	22,148
Interest expense	76,966	-
Loss on disposal of fixed assets and intangible assets	180	8,718
Operating income before changes in working capital	681,419	110,413
Changes in operating assets and liabilities:		
(Increase) in accounts receivable and other accounts receivable	(61,226)	(576,441)
(Increase) in inventories	(175,473)	(25,466)
(Decrease) / increase in accounts payable	(123,778)	336,943
Increase / (decrease) in other accounts payable and accrual liabilities	16,468	(2,432)
Cash generated from / (used in) operations	337,410	(156,983)
Interest paid	(72,762)	(7,766)
Income tax paid	(18,470)	(11,596)
Net cash provided / (used in) by operating activities	246,178	(176,345)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets and intangible assets	(576,827)	(431,883)
Proceeds from disposal of fixed assets and intangible assets	15,268	7,709
Proceeds from disposal of investments	-	72
Proceeds of cash on merger of companies (Notes 18)	-	11,473
Net cash used in investing activities	(561,559)	(412,629)

OJSC “KazTransCom”

STATEMENT OF CASH FLOWS (continued) FOR THE YEAR ENDED DECEMBER 31, 2002 (in thousands of Kazakhstan Tenge)

	2002	2001
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	480,445	453,011
Repayment of borrowing	(153,878)	-
Dividends paid	(7,590)	(1,463)
Net cash provided by financing activities	<u>318,977</u>	<u>451,548</u>
NET CHANGE IN CASH	3,596	(137,426)
CASH AT THE BEGINNING OF THE YEAR	96,675	234,101
CASH AT THE END OF THE YEAR	<u><u>100,271</u></u>	<u><u>96,675</u></u>

On behalf of the Company:

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General Director

May 16, 2003
Almaty

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May 16, 2003
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OJSC “KazTransCom”

STATEMENT OF CHANGES IN OWNERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2002 (in thousands of Kazakhstan Tenge)

	Share capital	Reserve capital	Additional unpaid capital	Retained earnings	Total
Balance at January 1, 2001	17,312	4,328	335,057	229,715	586,412
Shares issued on merger of OJSC “Aktubneftesvyaz”	3,953	-	-	-	3,953
Shares issued on merger of OJSC “Baylanys”	20,835	-	-	-	20,835
Net loss for the year	-	-	-	(43,395)	(43,395)
Transfer of fixed assets revaluation	-	-	(174,668)	174,668	-
Merger of OJSC “Aktubneftesvyaz”	-	3,019	107,624	22,332	132,975
Merger of OJSC “Baylanys”	-	108	567,606	80,310	648,024
Dividends	-	-	-	(3,756)	(3,756)
Balance at December 31, 2001	42,100	7,455	835,619	459,874	1,345,048
Net income for the year	-	-	-	255,795	255,795
Transfer of fixed assets revaluation	-	-	(47,309)	47,309	-
Fixed assets revaluation	-	-	25,770	-	25,770
Dividends	-	-	-	(8,142)	(8,142)
Balance at December 31, 2002	42,100	7,455	814,080	754,836	1,618,471

On behalf of the Company:

Zhunusov B. A.
General Director

May 16, 2003
Almaty

Shaymagambetova L. T.
Chief Accountant

May 16, 2003
Almaty

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OJSC “KazTransCom”

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2002 (in thousands of Kazakhstan Tenge)

1. NATURE OF THE BUSINESS AND LEGAL STATUS

Nature of the business

Open Joint Stock Company “KazTransCom” (“KazTransCom” or the “Company”) (till June 2001 - OJSC “KazTransSvyaz”), established in accordance with laws of the Republic of Kazakhstan, is assignee of OJSC “KaspiyMunayBaylans”, registered by Administration of Justice in Atyrau region on February 1, 1999. The Company is domiciled and operates in the Republic of Kazakhstan.

The main activities of the Company are to provide production & technical services communication to oil extraction and transportation companies on the territory of the Republic of Kazakhstan. On March 12 and June 8, 2001, the Company has signed agreements with OJSC “Aktubneftesvyaz” (Aktubinsk) and OJSC “Baylans” (Pavlodar), respectively, on their merger with the Company and transformation to the branches of the Company. As of 31 December 2002, the Company consisted of eight branches located in the west, south, east and central of Kazakhstan.

On average, the Company employed 1,173 and 769 people during 2002 and 2001, respectively.

The domicile of the Company is: Republic of Kazakhstan, 480012, Almaty, Baitursyn-uly St., 46.

The legal address of the Company is: Republic of Kazakhstan, Atyrau, 5th kilometer of Uralsk highway, Mahambet region.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Applicable accounting standards and basis of presentation

The Company maintains its accounting records in accordance with the accounting rules and regulations promulgated by the Republic of Kazakhstan. These financial statements have been prepared in accordance with Kazakhstani Accounting Standards effective January 1, 1997 and are denominated in thousands of Kazakh tenge.

Use of estimates

The preparation of the financial statements requires the use of reasonable assumptions and estimates. These assumptions and estimates affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses of the reporting year. Due to uncertainty inherent in such estimates, actual results could differ from those estimates.

Going concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

The accompanying financial statements do not include possible adjustments, which may arise if the Group will not be able to operate on a going concern basis.

Foreign currency transactions

The Company's functional currency is Kazakhstani tenge (tenge or KZT). Foreign currency transactions are recorded in the financial statements in tenge using the exchange rate as at the date of transaction. Exchange gains and losses on transactions in foreign currencies completed during the year are reflected in the statement of operations. Monetary assets and liabilities denominated in foreign currencies are recorded in the financial statements using exchange rates at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are recorded in the financial statements using exchange rates prevailing at the date of the transaction.

Fixed assets and intangible assets

Fixed assets and intangible assets used in operations are recorded at historical cost. Fixed assets acquired or used before January 1, 1997, are recorded in the financial statements at historical cost indexed in accordance with the resolutions of the Government of the Republic of Kazakhstan ("RK"), as at January 1 every year. Fixed assets and intangible assets, acquired after January 1, 1997, are recorded at historical cost. Historical cost includes actual expenses on purchase and construction, as well as other expenses necessary to bring the asset into operation.

Depreciation of fixed assets and amortization of intangible assets is computed using the straight-line method over the estimated useful lives of three to fifty years. Useful lives of fixed assets and intangible assets are as follows:

Buildings and constructions	25-50 years
Equipment	10-35 years
Vehicles	5-15 years
Other fixed assets	3-15 years
Software	5 years

Depreciation is not calculated on fully amortized fixed assets and on fixed assets temporary not in use.

Gains and losses on disposal of fixed assets are included in other income in the statement of operations of the Company.

Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost is determined on the FIFO method. Cost includes purchase price, transport and handling costs and allocation of overhead costs. Net realizable value is based on the estimated selling price less selling and transportation costs.

Accounts receivable

Accounts receivable are stated at face value, less an allowance for uncollectable amounts.

Cash

Cash comprises of cash on hand, current accounts and short-term deposit accounts in bank.

Revenue and expense recognition

Revenues are recognized when services are rendered to customers. Expenses are recognized in the same period as the revenues that match such expenses.

Income tax

Current taxes are calculated in accordance with the requirements of the Tax Code of the Republic of Kazakhstan and are based on the results reported in the statement of operations prepared under KAS after adjustments for tax purposes.

The Company determines income tax expense using the liability method whereby the deferred tax is calculated on the expected income tax effects of temporary differences and is reported as deferred tax liability or asset. Deferred tax assets are recorded to the extent that there is a reasonable expectation that the assets will be realized.

Merger of companies

Merger of companies is recorded in the financial statements using the uniting of interests method. Uniting of interests is a business combination in which the shareholders of the combining companies combine control over the whole, or effectively whole, of their net assets and operations to achieve a continuing mutual sharing in the risks and benefits attaching to the combined entity such that neither party can be identified as the acquirer.

Financial statements of the companies merged with OJSC “KazTransCom” are included in the financial statements of OJSC “KazTransCom” only from the date of merger. Consequently, the statement of operations and cash flows for the year ended 2001, include information on financial position of merged companies and the results of their operations only from the date of merger. Results of operations and financial position of merged companies are not included in the relevant statements before the date of merger, because Kazakhstani Accounting Standards do not have a standard on merger of companies (see Note 18).

Retirement benefit costs

Employees of the Company receive pension benefits in accordance with the legislation of the Republic of Kazakhstan. Contributions to accumulating pension funds in amount of 10 % are withheld from the salary of the Company’s employees.

Reclassifications

Certain prior period amounts have been reclassified to comply with the presentation in 2002.

3. INTANGIBLE ASSETS, NET

	2002	2001
Cost		
Balance at beginning of the year	17,911	382
Additions	58,023	17,618
Disposals	-	(89)
Balance at end of the year	<u>75,934</u>	<u>17,911</u>
Accumulated amortization		
Balance at beginning of the year	831	54
Charge for the year	5,898	815
Disposals	-	(38)
Balance at end of the year	<u>6,729</u>	<u>831</u>
Net book value at end of the year	<u>69,205</u>	<u>17,080</u>

4. FIXED ASSETS, NET

	Land	Buildings and constructions	Equipment	Vehicles	Other	Construction in progress	Total
Cost							
As at December 31, 2001	-	287,909	1,880,426	227,979	86,825	17,229	2,500,368
Additions	453	49,174	291,598	76,406	125,832	7,254	550,717
Revaluation	-	40,447	-	-	-	-	40,447
Disposals	-	(4,083)	(65,023)	(24,295)	(1,393)	-	(94,794)
As at December 31, 2002	453	373,447	2,107,001	280,090	211,264	24,483	2,996,738
Accumulated depreciation							
As at December 31, 2001	-	110,060	889,686	164,881	34,564	-	1,199,191
Charge for the year	-	8,496	84,327	23,641	23,436	-	139,900
Revaluation	-	14,677	-	-	-	-	14,677
Disposals	-	(457)	(38,203)	(23,860)	(985)	-	(63,505)
As at December 31, 2002	-	132,776	935,810	164,662	57,015	-	1,290,263
Net Book Value as at December 31, 2002	453	240,671	1,171,191	115,428	154,249	24,483	1,706,475
Net Book Value as at December 31, 2001	-	177,849	990,740	63,098	52,261	17,229	1,301,177

On March 12 and June 8, 2001, the Company has signed merger agreements with OJSC “Aktubneftesvyaz” (Aktubinsk) and OJSC “Baylanys” (Pavlodar), respectively (see Note 18). In accordance with the agreements, the Company obtained all rights, assets and liabilities of the merged companies.

Fixed assets of the Company in the amount of 443,013 and 357,193 thousand tenge (at cost) are pledged under the loan from OJSC “Kazkommertsbank” as at December 31, 2002 and December 31, 2001, respectively (see Note 10).

Fixed assets in the amount of 443,339 thousand tenge and 37,362 thousand tenge were fully amortized as at December 31, 2002 and 2001, respectively.

5. INVENTORIES

	2002	2001
Materials	143,395	91,242
Spare parts	35,418	9,160
Goods	106,855	9,793
	<u>285,668</u>	<u>110,195</u>

6. TRADE ACCOUNTS RECEIVABLE, NET

	2002	2001
Accounts receivable	185,783	309,815
Accounts receivable from related parties	491,905	156,642
Allowance for doubtful debt	(85,665)	(153,751)
	<u>592,023</u>	<u>312,706</u>

The related parties are represented by the companies-members of the CJSC NC “KazMunaiGas” group.

Accounts receivable of the Company in the amount of 408,312 thousand tenge are pledged under the loan from OJSC “Alliance Bank” as at December 31, 2002 (see Note 10) (2001 - zero).

7. OTHER ACCOUNTS RECEIVABLE, NET

	2002	2001
Other receivables	22,295	286,485
Advances paid	62,552	115,509
Allowance for doubtful debt	(30,589)	(27,019)
	<u>54,258</u>	<u>374,975</u>

8. SHARE CAPITAL

	2002	2001
Ordinary voting shares (authorized, issued and fully paid; par value 20 tenge)	39,785	39,785
Preferred non-voting shares (authorized, issued and fully paid; par value 20 tenge)	2,315	2,315
	<u>42,100</u>	<u>42,100</u>

Movements in share capital:

Ordinary shares:

	Quantity	Amount
Balance at January 1, 2001	779,057	15,581
Shares issued on merger of OJSC "Aktubneftesvyaz"	177,848	3,557
Shares issued on merger of OJSC "Baylanys"	1,032,345	20,647
Balance at December 31, 2001	<u>1,989,250</u>	<u>39,785</u>
Balance at December 31, 2002	<u>1,989,250</u>	<u>39,785</u>

Preferred shares:

	Quantity	Amount
Balance at January 1, 2001	86,562	1,731
Shares issued on merger of OJSC "Aktubneftesvyaz"	19,761	396
Shares issued on merger of OJSC "Baylanys"	9,415	188
Balance at December 31, 2001	<u>115,738</u>	<u>2,315</u>
Balance at December 31, 2002	<u>115,738</u>	<u>2,315</u>

Shareholders of the Company, who own ordinary shares, as at December 31 are as follows:

	2002		2001	
	Quantity	%	Quantity	%
CJSC NC "KazMunayGas"	993,615	49.9492%	993,615	49.9492%
OJSC "Souz-Invest"	1,012	0.0509%	1,012	0.0509%
CJSC "Rodnik"	994,623	49.9999%	994,623	49.9999%
	<u>1,989,250</u>	<u>100%</u>	<u>1,989,250</u>	<u>100%</u>

Share capital of the Company consists of ordinary voting shares and preferred non-voting shares. Par value of common and preferred shares is 20 tenge. Each ordinary share carries an equal voting right. The preferred shares rank higher in dividend and liquidation rights but do not have voting rights.

9. RESERVE CAPITAL

In accordance with the legislation of the Republic of Kazakhstan effective August 1998, the Company should create a reserve for losses in the amount of not less than 15% of share capital. In 2001 in accordance with the shareholder's decision, the Company created the reserve in the amount of 7,455 thousand tenge, which is 17.7% of share capital as at December 31, 2002.

10. LOANS

	Interest rate	2002	2001
OJSC "Kazkommertsbank"	12%	719,578	453,011
OJSC "Alliance Bank"	12%	60,000	-
		<u>779,578</u>	<u>453,011</u>

OJSC "Kazkommertsbank" – The loan indebtedness amounted to 4,624 thousand US dollars (719,578 thousand tenge) and 3,016 thousand US dollars (453,011 thousand tenge) as at December 31, 2002 and 2001, respectively. Fixed assets of the Company in the amount of 443,013 thousand tenge and 357,193 thousand tenge (at cost) are pledged under the loans from Kazkommertsbank as at December 31, 2002 and 2001, respectively (see Note 4).

During 2002 and 2001, the interest accrual amounted to 82,822 thousand tenge and 17,134 thousand tenge, respectively and the interest capitalization amounted to 5,856 thousand tenge and 17,134 thousand tenge, respectively. During 2002 and 2001, the interest paid was 72,762 thousand tenge and 7,766 thousand tenge, respectively.

In 2002 and 2001 Kazkommertsbank issued in favour of the Company guarantees totaling 33,387 thousand tenge and 1,445 thousand tenge, respectively.

OJSC "Alliance Bank" – As at December 31, 2002 the loan indebtedness amounted to 60,000 thousand tenge (2001 – nil). The account receivable of the Company in the amount of 408,312 thousand are pledged under the loan from Alliance Bank as at December 31, 2002 (2001 – nil) (see Note 6).

During 2002 the interest accrual amounted to 100 thousand tenge (2001 – nil).

The following table reflects maturity date of borrowings:

	2002	2001
Within one year	299,859	113,253
From two till five years	479,719	339,758
	<u>779,578</u>	<u>453,011</u>

11. SETTLEMENTS WITH BUDGET

	2002	2001
Corporate income tax	61,068	17,421
Value Added Tax	17,032	1,546
Property tax	6,893	3,014
Other taxes	5,613	11,962
	<u>90,606</u>	<u>33,943</u>

12. OPERATING REVENUES

	2002	2001
Communication services	2,136,972	696,523
Sale of communication equipment	379,799	320,322
Other revenues	12,398	2,538
	<u>2,529,169</u>	<u>1,019,383</u>

13. COST OF SERVICES PROVIDED

	2002	2001
Payroll	439,142	146,645
Materials	260,140	352,647
Rent of communication devices, channels, technical facilities	148,705	41,458
Depreciation of fixed assets and amortization of intangible assets	119,566	90,430
Communication	94,147	14,102
Social and pension taxes	81,005	30,631
Utilities	25,350	18,439
Other expenses	105,516	21,560
	<u>1,273,571</u>	<u>715,912</u>

14. GENERAL AND ADMINISTRATIVE SELLING EXPENSES

	2002	2001
Payroll	196,076	72,694
Informational and consultation services	165,386	14,797
Bad debt expenses	86,555	22,148
Social and pension taxes	42,008	28,135
Communication	29,658	13,589
Business trips	29,075	15,689
Depreciation of fixed assets and amortization of intangible assets	26,232	8,066
Materials	23,342	14,673
Tax expenses	15,141	20,171
Repairs and maintenance of fixed assets	13,297	3,764
Advertisement expenses	13,233	3,099
Bank commission to open credit line	11,372	7,078
Bonuses to employees	9,695	20,859
Bank commissions	8,683	9,940
Management service fees	2,145	3,698
Other operational expenses and accruals	112,025	49,725
	<u>783,923</u>	<u>308,125</u>

15. OTHER INCOME

	2002	2001
Gain on disposal of fixed assets	18,728	6,464
Income from sale of goods and services to employees	2,723	12,599
Foreign exchange gain	4,917	955
Other income	12,570	2,726
	<u>38,938</u>	<u>22,744</u>

16. OTHER EXPENSES

	2002	2001
Loss on disposal of fixed assets	18,908	23,677
Foreign exchange loss	33,542	8,688
Other expenses	9,277	4,674
	<u>61,727</u>	<u>37,039</u>

17. TAXATION

Income tax expense in the statements of operations is as follows:

	2002	2001
Deferred income tax expense	54,008	-
Current income tax expense	62,117	24,446
Income tax expense	<u>116,125</u>	<u>24,446</u>

Deferred tax has been provided on the following temporary differences:

	2002	2001
Deferred tax asset		
Allowance for doubtful debts	105,804	186,372
Cost of inventory	-	17,097
Accrued liabilities	5,026	26,534
	<u>110,830</u>	<u>230,003</u>
Statutory tax rate	30%	30%
Deferred tax assets	<u>33,249</u>	<u>69,001</u>
Deferred tax liability		
Net book value of fixed assets	289,708	44,876
Net book value of intangible assets	1,149	(41,322)
	<u>290,857</u>	<u>3,554</u>
Statutory tax rate	30%	30%
Deferred tax liability	<u>87,257</u>	<u>1,066</u>
Net deferred tax (liability) / assets	(54,008)	67,935
Allowance for deferred tax assets	-	(67,935)
Net deferred tax (liability) / tax asset	<u>(54,008)</u>	<u>-</u>

Fixed assets of OJSC “Baylanys” were revaluated on its merger with the Company as at August 1, 2001. The potential tax effect related to the revaluation was 117,574 thousand tenge. During the reporting period of 2002 and 2001, potential tax effect decreased by 19,328 thousand tenge and 4,444 thousand tenge, respectively, as a result of amortization of the difference between financial and tax bases of fixed assets due to fixed asset revaluation, and amounted to 98,426 thousand tenge and 113,130 thousand tenge at the end of the respective periods.

Reconciliation of income tax from the statutory rate of 30% to actual income tax provided for the years ended December 31, 2002 and 2001, is as follows:

	2002	2001
Net income / (loss) before taxes	<u>371,920</u>	<u>(18,949)</u>
Tax at statutory rate of 30%	111,576	(5,685)
Tax amount on non-deductible expenses / (non-taxable income)	72,484	(6,745)
Change in the allowance for deferred tax asset	(67,935)	36,876
Income tax expense	<u><u>116,125</u></u>	<u><u>24,446</u></u>

Taxes are payable based on the Company's financial statements prepared in accordance with the laws of the Republic of Kazakhstan. Certain expenditures recorded in the statement of operations are not deductible for Kazakhstan tax purposes and others are only deductible in future periods. Normally, for these future deductible expenses, a deferred tax asset is recorded. The statutory tax rate in Kazakhstan is 30%. The tax charge for the year ended December 31, 2002 is disproportionate to the income before tax due to expenses included in the statement of operations and disallowable for Kazakhstan corporate income tax purposes.

18. MERGERS

To increase the volume of activities of the Company in providing communications to oil extraction and oil transportation companies on the territory of the Republic of Kazakhstan, there were two mergers during the year:

a) On March 12, 2001 the Company has signed a merger agreement with OJSC "Aktubneftesvyaz" (Aktubinsk). The latter then became Aktubinsk branch of the Company.

At the date of merger, 100% of ordinary shares of both companies belonged to the same shareholder. Therefore, the financial statements of the merged companies were combined line-by-line.

	March 12, 2001
Fixed assets, net	122,092
Intangible assets, net	25
Inventories	11,511
Cash	2,796
Advances paid	10,065
Accounts payable	(7,562)
Dividends payable	(2,000)
Share capital	(3,953)
Additional unpaid capital	(107,624)
Reserve capital	(3,019)
Retained earnings	(22,332)

The merger was executed by issue of 177,848 ordinary and 19,761 preferred shares, exchanged for shares of OJSC "Aktubneftesvyaz" in ratio 1 to 1.

b) On June 8, 2001 the Company has signed a merger agreement with OJSC “Baylanys” (Pavlodar). The latter then became Pavlodar branch of the Company. The transfer act was signed on August 1, 2001. Assets and liabilities, presented below, were combined with that of the Company by uniting of interests method.

	August 1, 2001
Fixed assets, net	610,210
Intangible assets, net	98
Inventories	10,122
Accounts receivable, net	46,399
Cash	8,677
Advances paid	3,341
Accounts payable	(9,978)
Dividends payable	(10)
Share capital	(20,835)
Additional unpaid capital	(567,606)
Reserve capital	(108)
Retained earnings	(80,310)

The merger was executed by issue of 1,032,345 ordinary and 9,415 preferred shares, exchanged for the shares of OJSC “Baylanys” in ratio 5 to 1.

The financial statements of the companies merged with OJSC “KazTransCom” are included in the financial statements of OJSC “KazTransCom” only from the date of merger. Consequently, the statement of operations and cash flows for the year ended 2001, include information on financial position of merged companies and the results of their operations only from the date of merger (see Note 2).

19. DIVIDENDS

Dividends in the amount of 2.9297 and 5.9 tenge on ordinary share and 20 tenge on preferred share were accrued for 2002 and 2001, respectively.

20. CONCENTRATION OF BUSINESS RISKS AND CONTINGENCES

Purchase commitments – As of December 31, 2002 the Company entered into purchase commitments to buy fixed assets for the amount of 174,904 thousand tenge.

Operating environment – The Company's principal business activities are within the Republic of Kazakhstan. Laws and regulations affecting businesses operating in the Republic of Kazakhstan are subject to rapid changes and the Company's assets and operations could be at risk due to negative changes in the political and business environment.

Tax contingencies – Kazakh tax authorities are increasingly directing their attention to the business community as a result of the overall economic Kazakh environment. In respect of this, the local and national tax environment in the Republic of Kazakhstan is constantly changing and subject to inconsistent application, interpretation, and enforcement. Non-compliance with the Republic of Kazakhstan laws and regulations can lead to the imposition of severe penalties and interest.

Future tax examinations could raise issues or assessments, which are contrary to the Company's tax filings. Such assessments could include taxes, penalties and interest, and these amounts could be material. While the Company believes it has complied with local tax legislation, there have been many new tax and foreign currency laws and related regulations introduced in recent years, which are not always clearly written.

21. PENSIONS AND RETIREMENT PLANS

Employees of the Company receive pension benefits in accordance with the laws and regulations of the Republic of Kazakhstan. The Company was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

22. RELATED PARTIES

The Company provided telecommunication services and technical support for connection channels and also sold equipment to:

CJSC “KazTransOil” in the amount of 914,683 thousand tenge and 401,591 thousand tenge in 2002 and 2001, respectively.

CJSC “Intergas Central Asia” in the amount of 965,478 thousand tenge and 309,404 thousand tenge in 2002 and 2001, respectively.

CJSC “Embamunaigas” in the amount of 17,058 thousand tenge and 24,476 thousand tenge in 2002 and 2001, respectively.

CJSC “KazakhOil-Aktobe” in the amount of 5,931 thousand tenge and 1,849 thousand tenge in 2002 and 2001, respectively.

Other companies, members of ZAO NC “KazMunaiGas” group, in the amount of 32,753 thousand tenge and 2,142 thousand tenge in 2002 and 2001, respectively.

CJSC “NC “Transport of Oil and Gas” rendered management services to the Company for the amount of 2,145 thousand tenge and 3,698 thousand tenge in 2002 and 2001, respectively.

In 2002 the Company accrued dividends to CJSC NC “KazMunaiGas” in the amount 2,933 thousand tenge from the earnings of 2001.