KazTransCom JSC

International Financial Reporting Standards

Consolidated Financial Statements and Auditor's Report

31 December 2009

(Translated from Russian original)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of JSC Kaztranscom

We have audited the accompanying financial statements of JSC Kaztranscom (the "Company") and its subsidiary (together referred to as the 'Group') which comprise the consolidated statement of financial position as of 31 December 2009 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Our report has been prepared in Russian and in English. In all matters of interpretation of information, views or opinions, the Russian version of our report takes precedence over the English version.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLC

Almaty, Kazakhstan
15 March 2010

Approved by:

Bekenov Zhanbota
General Director of PricewaterhouseCoopers LLP
(General State License of Ministry of Finance of the Republic of Kazakhstan №0000005 dated 21 October 1999)

Signed by:

Inkarbekova Dana
Auditor in charge
(Qualified Auditor's Certificate #0000492 dated 18 January 2000)

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

15 March 2010

The accompanying consolidated financial statements were prepared by management, which is responsible for their integrity and objectivity. Management believes the consolidated financial statements, which require the use of certain estimates and judgments, fairly and accurately reflect the financial position, results of operations, and cash flows of JSC KazTransCom and its subsidiary company (the "Group") in accordance with International Financial Reporting Standards.

Management of the Group maintains appropriate policies, procedures and systems of internal control to ensure its reporting practices and accounting and administrative procedures are appropriate, consistent, and undertaken at reasonable cost. These policies and procedures are designed to provide reasonable assurance that transactions are properly recorded and summarised so that reliable financial records and reports can be prepared and assets safeguarded.

Erzhanov A.S.
General Director

Kolupayeva E.V.
Chief Accountant

Translated from Russian original

	Note	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	8	6,355,846	6,680,957
Intangible assets	9	181,659	152,388
Financial assets available for sale	11	24,000	24,000
Deferred income tax assets	26	19,926	8,853
Long-term trade receivables		6,007	3,737
Other non-current assets		13,781	18,720
Loans to related parties		-	150,000
Total non-current assets		**6,601,219**	**7,038,655**
Current assets			
Inventories	12	767,930	466,758
Trade and other receivables	14	2,070,440	1,908,535
Prepayments to suppliers		266,926	237,531
Current income tax prepayments		-	141,672
Other current assets		76,726	45,381
Cash and cash equivalents	15	1,832,666	379,735
Loans to related parties	7	495,978	164,408
Total current assets		**5,510,666**	**3,344,020**
TOTAL ASSETS		**12,111,885**	**10,382,675**
EQUITY			
Share capital	16	47,419	47,742
Additional paid-in capital	16	7,009	7,009
Retained earnings		5,387,311	3,945,621
Other reserves	17	7,455	7,455
TOTAL EQUITY		**5,449,194**	**4,007,827**
LIABILITIES			
Non-current liabilities			
Borrowings	18	1,345,294	3,137,221
Deferred income tax liabilities	26	272,477	272,122
Provisions for asset retirement obligations	19	350,106	404,194
Total non-current liabilities		**1,967,877**	**3,813,537**
Current liabilities			
Borrowings	18	3,184,738	1,312,667
Trade payables	20	467,815	497,690
Interest payable	20	134,175	133,676
Other payables	20	908,086	525,916
Deferred income	13	-	91,362
Total current liabilities		**4,694,814**	**2,561,311**
TOTAL LIABILITIES		**6,662,691**	**6,374,848**
TOTAL LIABILITIES AND EQUITY		**12,111,885**	**10,382,675**

Approved for issue and signed on behalf of management on 15 March 2010.

Erzhanov A.S.
General Director

Kolupayeva E.V.
Chief Accountant

The accompanying notes on pages 5 to 44 are an integral part of these consolidated financial statements.
Translated from Russian original

	Note	2009	2008
Revenue	21	9,494,874	8,597,195
Cost of sales	22	(5,802,110)	(5,668,271)
Gross profit		**3,692,764**	**2,928,924**
Other income		155,880	24,676
Distribution costs		(255,441)	(279,777)
General and administrative expenses	23	(1,281,580)	(1,240,496)
Other expenses		(48,566)	(18,764)
Operating profit		**2,263,057**	**1,414,563**
Finance income	24	755,814	72,641
Finance costs	25	(1,088,711)	(533,157)
Profit before income tax		**1,930,160**	**954,047**
Income tax expense	26	(371,302)	(5,502)
Profit for the year		**1,558,858**	**948,545**
Other comprehensive income		-	-
Total comprehensive income for the year		**1,558,858**	**948,545**
Share of comprehensive income attributable to shareholders		1,558,858	948,545
Earnings per ordinary share, basic and diluted	27	**632 Tenge**	**379 Tenge**

	Note	2009	2008
Cash flows from operating activities			
Sales of goods, works, services		10,452,648	9,293,758
Advances received		300,994	88,324
Payments to suppliers for goods and services		(2,688,459)	(2,674,641)
Advances paid		(1,131,274)	(1,207,473)
Salaries and wages payable		(2,370,884)	(2,247,080)
Interest expense on borrowings		(431,817)	(377,040)
Corporate income tax paid		(331,110)	(193,755)
Other payments to budget		(1,240,005)	(1,152,597)
Other payments		(508,769)	(599,377)
Net cash from operating activities		**2,051,324**	**930,119**
Cash flows from investing activities			
Disposal of property, plant and equipment		44,647	2,275
Acquisition of property, plant and equipment		(368,781)	(1,099,933)
Acquisition of intangible assets		(46,298)	(6,909)
Net cash used in investing activities		**(370,432)**	**(1,104,567)**
Cash flows from financing activities			
Proceeds from borrowings		1,535,660	1,897,106
Interest received		9,563	-
Other proceeds		-	2,304
Repayment of borrowings		(1,648,140)	(1,856,491)
Acquisition of own shares and related costs		(121,901)	-
Dividends paid	16	(3,143)	(74,304)
Net cash from financing activities		**(227,961)**	**(31,385)**
Net increase/(decrease) in cash		1,452,931	(205,833)
Cash and cash equivalents at the beginning of reporting period	15	379,735	585,568
Cash and cash equivalents at the end of reporting period	15	**1,832,666**	**379,735**

	Note	Share capital	Additional paid-in capital	Other reserves	Retained earnings	Total Equity
Balance at 31 December 2007		**47,742**	**7,009**	**7,455**	**2,997,076**	**3,059,282**
Comprehensive income for the year		-	-	-	948,545	948,545
Balance at 31 December 2008		**47,742**	**7,009**	**7,455**	**3,945,621**	**4,007,827**
Comprehensive income for the year		-	-	-	1,558,858	1,558,858
Treasury shares	16	(323)	-	-	(117,168)	(117,491)
Balance at 31 December 2009	**16**	**47,419**	**7,009**	**7,455**	**5,387,311**	**5,449,194**

1 KazTransCom JSC and Its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2009 for KazTransCom JSC (the "Company") and its subsidiary (together referred to as the "Group" or "KazTransCom" Group).

The Company was incorporated on 1 August 2001 as an open joint stock company in accordance with the legislation of the Republic of Kazakhstan. The Company is a successor of CaspiyMunaiBailanys OJSC incorporated in Atyrau Region of the Republic of Kazakhstan on 1 February 1999. In 2001 the Company signed an agreement with Aktubneftesvyaz OJSC (Aktobe) and Bailanys OJSC (Pavlodar) on legal merger with the Company and reorganization of those companies into the Company's branches. 1 January 2004 is the date of the Company's transition to IFRS. On 8 September 2004 the Company was reregistered into a joint stock company.

In 2006 the Company acquired 100% of shares of ERP-Services LTD. ERP-Services LTD supplies ERP systems and other software as well as provides the services in the sphere of information technologies and other services related to maintenance.

Based on the foundation agreements, the Group is ultimately owned and jointly controlled by Mr. Nalibayev A.Z. and Mrs. Sagdiyeva R.M. who are the owners of Rodnik LLP (the "Parent company").

Principal activity. The Group's principal activity is provision of telecommunication services in the Republic of Kazakhstan. The Group carries out its activities on the basis of General license issued by the Agency of the Republic of Kazakhstan on Informatisation and Communication on 14 October 2004. The Company is a member of National Telecommunication Association of the Republic of Kazakhstan. In 2004 the Company obtained the ISO 9001 certificate.

The Group's main clients are: KazMunaiGas National Company, KazTransOil JSC, Intergas Central Asia JSC, Agip Kazakhstan North Caspian Operating Company N.B.

Registered address and place of business. The Company's registered address is: 69/204A, Rodostovets Street, Almaty, Republic of Kazakhstan.

As at 31 December 2009 the Group had seven branches (2008: seven branches) in the Republic of Kazakhstan located in Aktobe, Pavlodar, Atyrau, Uralsk, Almaty, Aktau and Astana and the representative office in Russia.

2 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by property, plant and equipment revaluation within transition to IFRS to determine deemed cost. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates can lead to significant adjustment of carrying amounts of assets and liabilities during the following year are disclosed in Note 5.

2 Summary of Significant Accounting Policies (Continued)

2.2 Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statement of comprehensive income.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated but an impairment indicator of the asset transferred is considered. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kazakhstani Tenge ("Tenge"), which is the functional and presentation currency of the Group.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

2 Summary of Significant Accounting Policies (Continued)

2.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss. Cost of property, plant and equipment as at 1 January 2004, i.e. IFRS transition date is determined on the basis of their fair value at the above date.

Cost includes all costs directly attributable to acquisition of respective asset. The cost of self-constructed assets includes the cost of materials, direct labour and all other costs directly attributable to brining an asset to working condition for intended use, and costs for dismantling and relocation of an asset and land plot recovery. Costs for acquisition of software directly attributable to functional purpose of the appropriate equipment are capitalised to cost of such equipment.

Costs related to replacement of part of an item of property, plant and equipment, are recognised within the carrying amount of such an item, if it is probable that the Group will receive the future economic benefits and reasonable estimate of cost of such part is possible. Costs of minor repairs and maintenance of items of property, plant and equipment are recognised through profit or loss as incurred.

If an item of property, plant and equipment consists of separate components with different useful lives, each of them is stated as separate item (significant component) of property, plant and equipment.

At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the Group companies' management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statement of comprehensive income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Leased assets are depreciated within shorter of two periods: lease period and useful life.

	Useful life (years)
Buildings	25 – 50
Machinery and equipment	5 – 35
Vehicles	5 – 10
Other	3 – 15

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other (losses)/gains" in the statement of comprehensive income.

2 Summary of Significant Accounting Policies (Continued)

2.6 Construction contracts

The Group has a range of contracts on construction of telecommunication networks. Contract costs are recognised when incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably, and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that they have been agreed with the customer and are capable of being reliably measured. The Group uses the "percentage-of-completion method" to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the completion of a physical proportion of the contract work up to the balance sheet date as a percentage of total physical contract works.

The Group presents as trade receivable the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognized profits (less recognised losses) exceed progress billings.

Progress billings not yet paid by customers and retention are included within "trade and other receivables". The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed recognised profits determined by the percentage-of-completion method.

2.7 Accounting for jointly controlled assets

The Group is engaged in a joint construction of main fiber-optic communication line. Each participant of shared construction owns its share and obtains control over its share of future economic benefits through its share in the jointly controlled communication line. Jointly controlled communication line represents jointly controlled asset rather than joint venture. In respect of its share the Group recognises its share of asset, its share of liabilities, any income from sale or use of its share of the asset and costs incurred in connection with the use of its share of jointly controlled asset.

2.8 Intangible assets

All of the Group's intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Acquired computer software and licenses are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Intangible assets are amortised using the straight-line method over their useful lives:

	Useful life (years)
Licenses	10
Accounting software	5
Other	5

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

2 Summary of Significant Accounting Policies (Continued)

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

The Group classifies its financial assets in the following categories: loans and receivables, financial assets available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position (Note 2, pars. 13 and 14). Information on impairment of trade and other receivables is disclosed in Note 2, par. 13.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the financial asset.

Available-for-sale financial assets are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income as "gains and losses from investment securities".

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognized in the income statement on equity instruments are not reversed through the statement of comprehensive income.

2 Summary of Significant Accounting Policies (Continued)

2.11 Financial liabilities

The Group classifies its financial liabilities in "Other financial liabilities" category. Other financial liabilities are recognized at amortised cost by applying effecting interest rate method.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventory is assigned using first-in-first-out method (FIFO). Cost of finished goods and production in process comprises costs of materials, delivery to current location, direct labour costs, other direct costs, and corresponding proportion of overhead costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

2.13 Trade and other receivables

Trade receivables are recognised initially at fair value, afterwards recognized at amortised cost calculated by using effective interest rate method, offset for impairment provision. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 180 days overdue - in accordance with the Company's accounting policy, which envisages grading of bad debt levels) are considered indicators that the trade receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within "general and administrative expenses". The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are debited with negative sign against "general and administrative expenses" in the statement of comprehensive income.

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities less than three months.

2.15 Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

Preference shares are classified as liabilities, if they are subject to mandatory redemption on a specific date or upon shareholders' choice, or if dividends are obligatory (non-discretional). Dividends on such shares are recognised as interest expenses through profit or loss for the period.

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.16 Trade and other payables

Trade payables are accrued when the counterparty performed its obligations under the contract. Trade payables are recognised initially at fair value and subsequently are recorded at amortised cost using effective interest rate method.

2 Summary of Significant Accounting Policies (Continued)

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Preferred shares, which are mandatory redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognized in the statement of comprehensive income as interest expense.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs, including interest costs on borrowings, to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

2.18 Current and deferred income tax

In the consolidated financial statements the income tax is reflected in accordance with Kazakhstani legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of comprehensive income, unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and past periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided in full using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

2.19 Value added tax

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

2.20 Employee benefits

Wages, salaries, contributions to the pension funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services, kindergarten services, etc.) are accrued in the year in which the associated services are rendered by the employees of the Group.

2 Summary of Significant Accounting Policies (Continued)

2.21 Provisions

Provisions for environmental restoration and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.22 Asset retirement obligations

Estimated costs of dismantling and removing an item of property, plant and equipment (asset retirement obligations) are added to the cost of an item of property plant and equipment when incurred either when an item is acquired or as the item is used during a particular period for purposes other than to produce inventories during that period.

Other movements in the provisions for asset retirement obligations, including costs, resulting from new disturbance, updated cost estimates, changes to the estimated lives of operations and revisions to discount rates are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

The amortisation or "unwinding" of the discount applied in establishing the net present value of provisions is charged to the statement of comprehensive income in each accounting period. The amortisation of the discount is shown as a financing cost, rather than as an operating cost.

2.23 Revenue recognition

Revenue is stated on accrual basis in the amount of revenue from sales less provided discounts and taxes, related to sales turnovers. Revenue is determined by fair value of the consideration received or receivable. Sales are shown net of VAT and discounts.

Revenues from sales of telecommunication equipment are recognised at the point of transfer of risks and rewards of ownership of the equipment, normally when the equipment is shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the equipment is passed to the customer at the destination point.

Call out revenue is recognised based on the actual airtime used by a subscriber. All the Group's subscribers are served on post-paid basis.

Revenues from providing an access to Internet network are stated on the basis of actual traffic used by a subscriber. The Internet users are served both on the prepaid and post-paid basis.

Sales of consulting services and installation services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

2.24 Leases

(a) Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

2 Summary of Significant Accounting Policies (Continued)

(b) Finance lease liabilities

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

2.25 Dividend distribution

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

2.26 Earnings per share

Preference shares are neither redeemable, nor considered to be participating shares with respect with the distribution of dividends. Ordinary share dividends cannot exceed preference share dividends. Thus, preference shares are compound instruments with equity component. The preference shares give their holders the right to participate in general shareholders' meetings without voting rights and to participate with voting rights when considering the issue in relation to reorganization and liquidation of the Company, when considering the issue of restriction of rights of preference shareholders, and also if dividends on preference shares are not paid in full in three months from the date of expiry of the period set for payment of such dividends. As a result, preference shares get voting rights without conversion to ordinary shares at the moment when dividends of preference shares are not paid in full in three months from the date of expiry of the period set for payment of such dividends until the dividends are paid.

For the purpose of calculating earnings per share, it is considered that there are two classes of shares: ordinary shares and preference shares. To calculate basic and diluted earnings per share the profit or loss attributable to the ordinary shareholders is adjusted by the amount of dividends declared in the year for each class of shares. The remaining profit or loss is allocated to ordinary shares and preference shares to the extent that each instrument shares in earnings as if all the profit or loss for the reporting period had been distributed. The total amount of profit or loss allocated to each class of shares is divided by the weighted-average number of outstanding shares to which the earnings are allocated to determine the earnings per share for the instrument.

3 New Accounting Pronouncements

(i) Standards, amendments and interpretations to existing standards that are not yet effective and not relevant to the Group's operations.

- IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss for the year when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

- IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group's financial statements.

- "Classification of Rights Issues" - Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

- IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group does not expect the amended standard to have a material effect on its financial statements.

- Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Group's financial statements as the Group does not apply hedge accounting.

- IAS 19 «Equity instrument repayment of liabilities» (effective for annual periods beginning on or after 1 July 2009). IAS 19 clarifies accounting methods when a company performs renegotiation of debt liabilities where a liability is retired through issue of own equity instruments, in result the liabilities are repaid by equity instruments issuing from the debtor to the creditor. Profit or loss is recognized in the statement of comprehensive income at a fair value of equity instruments compared with debt carrying amount.

- IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs will be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. IFRS 3 is not relevant to the Group as it does not expect a business combination to occur.

3 New Accounting Pronouncements (Continued)

- IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its financial statements.

- Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group does not expect the amendments to have any material effect on its financial statements

- Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Group's financial statements.

- Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

- Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognized asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its financial statements.

- IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

    a) Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

3 New Accounting Pronouncements (Continued)

b) An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

c) All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

d) While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

(ii) Standards, amendments and interpretations effective in 2009 but not relevant to the Group's operations.

- Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment. The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment did not have an impact on these financial statements.

- Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment. The amendment clarified that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment did not have an impact on these financial statements.

- IFRIC 15, Agreements for the Construction of Real Estate. The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognize revenue on such transactions. The amendment did not have any material impact on these financial statements.

- Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment, issued in May 2008. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognized in profit or loss for the year rather than as a recovery of the investment. The amendment did not have an impact on these financial statements.

- Embedded derivatives – Amendments to IAS 9 and IAS 39, issued in March 2009 (effective for annual periods ending on or after 30 June 2009). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for.

- IFRIC 16, Hedges of a Net Investment in a Foreign Operation. The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 did not have an impact on these financial statements.

3 New Accounting Pronouncements (Continued)

- The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009) is a self-contained standard, tailored to the needs and capabilities of smaller businesses. Many of the principles of full IFRS for recognizing and measuring assets, liabilities, income and expense have been simplified, and the number of required disclosures have been simplified and significantly reduced. The IFRS for SMEs may be applied by entities which publish general purpose financial statements for external users and do not have public accountability. The Group is not eligible to apply the IFRS for SMEs.

- IFRIC 13, Customer Loyalty Programmes. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The amendment did not have an impact on these financial statements.

Unless otherwise described above, these new standards and interpretations did not have any significantly affect the Group's financial statements.

(iii) Standards, amendments and interpretations effective in 2009 and relevant to the Group's operations.

- IAS 1, Presentation of Financial Statements, revised in September 2007. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Group has elected to present [a single statement of comprehensive income] [a separate income statement and a statement of comprehensive income]. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Group's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

- IFRS 8, Operating Segments. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. IRFS 8 had an impact on segment reporting of the Group, but had no impact on recognition or assessment of any transactions and balances.

- IAS 23, Borrowing Costs, revised in March 2007. The main change is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Borrowing costs that are 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 (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalization is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method. IAS 23 revised does not have any impact on financial statement of the Group since the Group has recognized borrowing costs related to qualified assets in cost of such assets.

3 New Accounting Pronouncements (Continued)

- Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments did not have an impact on the Group's financial statements.

- Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements.

Unless otherwise described above, these new standards and interpretations did not have any significantly affect the Group's financial statements.

4 Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use derivatives for risk hedging.

In April 2008 pursuant to the resolution of the Board of Directors and for the purpose of more effective risk management the Group established a Risk Committee under the Board of Directors. The principal activity of the Committee is to analyze the Group's operations in order to detect risk events, analyze transaction risks and develop recommendations to decrease the Group's risks. The activities of the Committee have a recommendation nature.

Currency risk

The Group operates in Kazakhstan.

The Group does not operate internationally, thus, the significant part of the Group's transactions are carried out in Tenge. The Group has some financial instruments denominated in US Dollar. They include some accounts receivable and accounts payable, long-term borrowings and corporate bonds payable. Unsecured bonds depend on increase of exchange rate of US Dollar to Tenge; if US Dollar exchange rate increases, bonds payable increase accordingly. If exchange rate of US Dollar to Tenge does not increase, bonds payable are not adjusted. The Group does not hedge such financial instruments, since the management does not consider currency risk as significant.

4 Financial Risk Management (Continued)

At 31 December 2009, if the currency had weakened/strengthened by 20% against the US dollar with all other variables held constant, post-tax profit for the year would have been Tenge 8,088 thousand (2008: Tenge 1,220 thousand) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated trade receivables and foreign exchange losses/gains on translation of US dollar-denominated borrowings. Profit was more sensitive to movement in US dollar exchange rates in 2009 than 2008 because of the increased amount of US-dollar denominated borrowings. Changes in exchange rates do not affect the Group's equity, since the Group does not have any financial instruments accounted for within equity.

On 4 February 2009 the National Bank of the Republic of Kazakhstan stopped supporting exchange rate of Tenge in regard to foreign currencies. Tenge devaluated by 23% in respect of USD and KASE closing day Tenge-USD exchange rate made up Tenge 150.03 per USD 1 (31 December 2008: Tenge 120.77 per USD 1).

Interest rate risk

Since the Group does not have any significant interest-bearing assets, the Group's income and operating cash flows are mainly independent from changes in interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2009 and 2008, the Group's borrowings at variable rate were denominated in US dollars.

The Group's policy is to regulate interest expenses using combination of debt with fixed and variable interest rates. In accordance with the Group's policy, from 40% to 60% of borrowings should be at fixed interest rate. Additionally, the Group's policy envisages when signing the loan agreement to set the Group's right to refuse to an increase of interest rates and possibility to accelerated repayment of borrowings without imposition of penalties to the Group.

Instability of financial markets led to increase of interest rates in the first half of 2009 in average by 3%, and accordingly, the Group's profit decreased by Tenge 1,545 thousand.

At 31 December 2009, if interest rates on KZT-denominated borrowings had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been Tenge 8,729 thousand (2008: Tenge 5,956 thousand) lower/higher. Changes in interest rates will not affect the equity, since the Group does not have any financial instruments, accounted for within equity.

At 31 December 2009, if interest rates on US dollar-denominated borrowings at that date had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been Tenge 4,322 thousand (2008: Tenge 1,622 thousand) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings

Credit risk

Credit risk is managed at Group level. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

The table below shows maximum exposure of the Group to credit risk:

	Note	2009	2008
Trade and other receivables	14	2,070,440	1,908,535
Cash and cash equivalents	15	1,832,666	379,735
Loans to related party	7	495,978	314,408
Long-term trade receivables		6,007	3,737
Total maximum exposure to the credit risk		**4,405,091**	**2,606,415**

4 Financial Risk Management (Continued)

The Group has policies in place to ensure that sales of services are made to customers with an appropriate credit history. If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, corporate customers department assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Sales to customers are done on a post-paid basis and settled in cash. The Group management checks unsettled accounts receivable analysis by terms due and traces unpaid balances. The customers with unpaid balances are not provided with telecommunication services until full settlement. The Management provided a settlement terms analysis and other information on credit risk in the Note 14. At 31 December 2009, 85% of the Group's trade accounts receivable represents 12 debtors (2008: 11 debtors represent 86%).

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default. The ratings and balances with major banks at the balance sheet date are presented in Note 11.

Liquidity risk

The Group exercises control over risk of cash shortage using long term (5 years) and short term (annual, quarterly and monthly) forecasts of future cash flows from operating activities. The Group has developed a number of internal regulations aimed to adopt control procedures of record keeping and making payments, and also regulations on operational budget settlement. The Group's aim is to maintain the balance between continuing financing and flexibility using bank overdrafts, bank loans, bonds, preference shares, finance lease and instalment contracts.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2009				
Borrowings	3,594,755	315,507	1,471,320	-
Trade and other payables	467,815	-	-	-
	4,062,570	**315,507**	**1,471,320**	**-**

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2008				
Borrowings	1,602,799	3,312,980	-	-
Trade and other payables	631,366	-	-	-
	2,234,165	**3,312,980**	**-**	**-**

Capital risk management

The Group's main objective when managing capital is to ensure stable credibility and normal level of capital adequacy for the Group's operations and maximum increase of return for shareholders. The Group manages capital structure and changes it in accordance with the changes in the economy. To maintain or adjust capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. Optimal structure of capital is formed through combination of borrowing and capital financing to decrease cost of capital.

The Group monitors capital on the basis of the gearing ratio. The Group's strategy is to optimise its gearing ratio by combination of equity financing from its shareholder and external borrowings. This ratio is determined as total debt divided by total capital, and is considered as optimal if it does not exceed 200%. Total debt is determined as "borrowings" as shown in the statement of financial position. Total capital is determined as "total equity" as shown in the statement of financial position.

	2009	2008
Total debt	4,530,032	4,449,888
Total capital	5,449,194	4,007,827
Gearing ratio	83%	111%

4 Financial Risk Management (Continued)

The Group management considers the level of gearing ratio at 31 December 2009 as optimal and reflecting the requirements of the industry.

The Group complied with all external requirements on capital during 2009 and 2008. Such requirements are provided in the Group's loan agreements, whereby the Group's equity should amount to not less than Tenge 1,700,000 thousand.

Fair value estimation

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Group using available market information and respective valuation methods.

However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial assets carried at amortised cost

Cash and cash equivalents are carried at amortised cost which approximates current fair value due to their short term nature (less than 3 months). Due to the short-term nature of other receivables, their carrying amounts approximate fair values.

Liabilities carried at amortised cost

The estimated fair value of fixed interest rate instruments, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The carrying amounts of trade payables and borrowings approximate their fair value.

Financial instruments carried at actual cost

Available-for-sale investments, which include unquoted equity securities in mass media industry, are stated at actual cost. Investee companies did not publish the latest financial information on their operations. There is no any active market for such investments, nor any recent transactions with such investments which could be the basis for determination of fair value. Additionally, future cash flows discounting method provides the wide range of possible indicators of fair value related to uncertainty of future cash flows in this industry. However, management believes, that it is unlikely that the fair value at the year-end would significantly differ from their carrying amount.

5 Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on the Groups management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

(a) Useful lives of property, plant and equipment and intangible assets

Management estimates economic useful lives of property, plant and equipment and intangible assets as well as depreciation and amortisation rates. The management's estimates are based on estimated useful life during which the Group plans to obtain the economic benefits. Duration of such estimated period can significantly change depending on the results of scientific and technical and innovation activities and actions of competitors in the sphere of high technologies and communication services. Carrying amount of assets for which the judgements have the significant effect (equipment) as at 31 December 2009 is Tenge 3,938,928 thousand (2008: Tenge 4,028,859 thousand) (Note 8). The management increases depreciation rates for those items, which useful lives are less than their prior determined useful lives, as well as fully or partially write off the obsolete items through disposal or sales. The useful lives are reviewed at each reporting year-end, but not less than once a year.

(b) Asset retirement obligation provision

Due to new Environmental Code of the Republic of Kazakhstan adopted in 2007, the Group has a legal liability on dismantling and land reclamation upon decommissioning of communication lines. Provisions are made on the basis of net present value of dismantling and reclamation costs as liability arises from the previous activities. Provision for asset retirement obligations are estimated on the basis of the Group's interpretation of the current environmental legislation of the Republic of Kazakhstan and respective program for liquidation of consequences of the Group's operations on the covered area estimated by the Group on the basis of feasibility and engineer studies in accordance with the current technical rules and norms for reclamation. Asset retirement obligations are subject to potential changes in environmental legislation and its interpretation. As at 31 December 2009 the carrying amount of provisions for asset retirement obligations was Tenge 350,106 thousand (2008: Tenge 404,194 thousand).

(c) Revenue recognition.

Significant judgment is required to determine revenue from contracts for provision of services and construction contracts. Key uncertainty areas include:

- Estimation of probability that variation will be approved by the clients;
- Estimation of revenue expected from variation orders and costs required for completion of services; and
- Review of execution of works to determine the percentage of completion.

(d) Derivatives

Embedded derivative on bonds is valued according to the Black-Scholes model. In previous periods derivative value was insignificant. However, as a result of exchange rate volatility, derivative value can increase in future. According to management's valuation, as of 31 December 2009 derivative value is insignificant.

(e) *Impairment of property, plant and equipment*

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. Calculation of value in use requires application of estimated data and professional judgment from management, which are considered reasonable in the existing circumstances.

According to IAS 36, one of the impairment indicators is significant change having negative impact on the Group, which occurred during the period or is expected to occur in the nearest future in technological, market, economical and legal conditions, which the Group operates in, or in the market, which the assets is intended for. Accordingly, the recent economic crisis has led to the necessity to carry out an impairment test in respect of the Group's assets as at 31 December 2009.

5 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

Management assessed the recoverable amount of the Group's property, plant and equipment based on the assessment of expected future cash inflows and outflows from use of assets, discount rates and other indicators. At 31 December 2009 the recoverable amount of the Group's property, plant and equipment exceeds their carrying amount and, accordingly, the Group did not recognise any impairment loss in these consolidated financial statements.

6 Segment Information

Starting from 1 January 2009, the Group prepares its segment analysis in accordance with IFRS 8, Operating segments, which replaced IAS 14, Segment reporting. Comparatives were adjusted to conform to the presentation of current period amounts.

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Board of Directors of the Group.

The Group is organised on a basis of four main operating segments:

- Telecommunication services – cable and satellite communication services as well as land telephone communication and related repair services.
- Maintenance – equipment design, development, supply, installation for telecommunication platforms, and network and equipment maintenance.
- System integration – design, construction, certification and commissioning of communication objects and telecommunication systems under long-term contract with Agip KCO (Note13).
- IT-outsourcing - applications installation, support and maintenance services.

Transactions between the operating segments are on normal commercial terms and conditions. Internal charges between segments have been reflected in the performance of each operating segment.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash, and mainly exclude investments and income tax balances. Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and intangible assets.

6 Segment Information (Continued)

Segment information for the main reportable operating segments of the Group for the years ended 31 December 2009 and 2008 is set out below:

	Telecom-munication services	Equipment sales and maintenance	System integration	IT outsourcing	Group
2009					
Segment revenue	4,202,847	2,740,469	1,111,887	1,439,671	9,494,874
Cost of segment sales	(2,491,618)	(1,798,300)	(440,234)	(1,071,958)	(5,802,110)
Gross profit for segment	1,711,229	942,169	671,653	367,713	3,692,764
Other income					155,880
Administrative and other expenses					(1,585,587)
Finance income					755,814
Finance costs					(1,088,711)
Profit before income tax					1,930,160
Income tax expense					(371,302)
Profit for the year					1,558,858
Segment assets	7,370,933	659,651	563,350	1,151,038	9,744,972
Other unallocated assets					2,366,913
Total assets					12,111,885
Segment liabilities	1,221,586	142,511	54,224	441,861	1,860,182
Current and deferred tax liability					272,477
Other unallocated liabilities					4,530,032
Total liabilities					6,662,691
Capital expenditure	620,913	-	-	-	620,913
Depreciation and amortisation	732,406	-	-	14,367	746,773

6 Segment Information (Continued)

	Telecom-munication services	Equipment sales and maintenance	System integration	IT outsourcing	Group
2008					
Segment revenue	3,868,926	2,393,186	589,241	1,745,842	8,597,195
Cost of segment sales	(2,419,512)	(1,665,328)	(211,075)	(1,372,356)	(5,668,271)
Gross profit for segment	1,449,414	727,858	378,166	373,486	2,928,924
Other income					24,676
Administrative and other expenses					(1,539,037)
Finance income					72,641
Finance costs					(533,157)
Profit before income tax					954,047
Income tax expense					(5,502)
Profit for the year					948,545
Segment assets	7,744,098	371,761	455,547	758,972	9,330,378
Other unallocated assets					1,052,297
Total assets					10,382,675
Segment liabilities	1,448,319	-	17,728	186,791	1,652,838
Current and deferred tax liability					272,122
Other unallocated liabilities					4,449,888
Total liabilities					6,374,848
Capital expenditure	781,776	-	-	-	781,776
Depreciation and amortisation	625,287	-	-	18,049	643,336

Segment assets and liabilities are reconciled to the Group's assets and liabilities of as follows:

	2009		2008	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Segment assets/liabilities	9,744,972	1,860,182	9,330,378	1,652,838
Long-term borrowings	-	1,345,294	-	3,137,221
Current borrowings	-	3,184,738	-	1,312,667
Deferred income tax	-	272,477	-	272,122
Cash	1,832,666	-	379,735	-
Prepayments to suppliers	266,926	-	237,531	-
Current income tax	-	-	141,672	-
Investments	24,000	-	24,000	-
Other	243,321	-	269,359	-
Total	**12,111,885**	**6,662,691**	**10,382,675**	**6,374,848**

Geographical segments. The Group's assets are mainly concentrated in the Republic of Kazakhstan, and the main part of the Group's profits is generated from transactions in the Republic of Kazakhstan.

7 Balances and Transactions with Related Parties

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Group's parent company and immediate controlling party is Rodnik LLP. The Group's ultimate controlling parties are disclosed in Note 1.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2009 and 2008 are detailed below.

At 31 December 2009 and 2008 the outstanding balances with related parties were as follows:

	Parent company - Rodnik LLP	Other major shareholders - Telecom-Asia LLP	Other related parties
31 December 2009			
Trade and other receivables	-	-	41
Loans to related parties	422,079	73,899	-
31 December 2008			
Trade and other receivables	-	-	169
Loans to related parties	314,408	-	-

The income and expense items with related parties for the years ended 31 December 2009 and 31 December 2008 were as follows:

	Parent company - Rodnik LLP	Other major shareholders - Telecom-Asia LLP	Other related parties
2009			
Revenue	-	-	175
Finance income	45,625	9,298	-
2008			
Revenue	-	-	2,163
Finance income	6,650	-	-

Compensation to management for their services at permanent positions of executive management consists of contractual amount of salary and performance bonus depending on the results of the Group's business activities. Total management compensation included into personnel costs in the statement of comprehensive income in 2009 was Tenge 119,668 thousand (2008: Tenge 104,088 thousand).

8 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

Cost	Land and buildings	Telecom-munication equipment	Auto-transport	Others	Construction in progress/ Equipment to be installed	Total
Cost at 31 December 2007	**1,227,565**	**3,957,037**	**422,629**	**299,032**	**1,537,384**	**7,443,647**
Additions	171,113	141,900	47,019	255,502	680,840	1,296,374
Transfers	46,017	1,312,252	531	31,300	(1,390,100)	-
Disposals	(383)	(11,432)	(12,925)	(23,888)	(46,347)	(94,975)
Cost at 31 December 2008	**1,444,312**	**5,399,757**	**457,254**	**561,946**	**781,777**	**8,645,046**
Additions	846	189,567	26,500	61,988	177,527	456,428
Transfers	17,675	326,346	3,900	(30,373)	(317,548)	-
Disposals	-	(58,005)	(18,340)	(6,054)	(20,843)	(103,242)
Cost at 31 December 2009	**1,462,833**	**5,857,665**	**469,314**	**587,507**	**620,913**	**8,998,232**
Accumulated Depreciation						
Balance at 31 December 2007	**86,636**	**958,792**	**158,425**	**153,511**	**-**	**1,357,364**
Depreciation charge	32,491	421,539	55,481	133,825	-	643,336
Disposals	(205)	(9,433)	(11,459)	(15,514)	-	(36,611)
Balance at 31 December 2008	**118,922**	**1,370,898**	**202,447**	**271,822**	**-**	**1,964,089**
Depreciation charge	36,156	563,611	55,144	55,996	-	710,907
Disposals	-	(15,772)	(12,302)	(4,536)	-	(32,610)
Balance at 31 December 2009	**155,078**	**1,918,737**	**245,289**	**323,282**	**-**	**2,642,386**
Carrying value at 31 December 2007	**1,140,929**	**2,998,245**	**264,204**	**145,521**	**1,537,384**	**6,086,283**
Carrying value at 31 December 2008	**1,325,390**	**4,028,859**	**254,807**	**290,124**	**781,777**	**6,680,957**
Carrying value at 31 December 2009	**1,307,755**	**3,938,928**	**224,025**	**264,225**	**620,913**	**6,355,846**

Vehicles include cars in financial lease. At the end of lease term for each of the lease agreements, the Group has a right to redeem the respective cars at favourable price. The leased cars represent the collateral for lease liabilities.

At 31 December 2009 buildings, land and equipment carried at Tenge 785,768 thousand (2008: Tenge 1,263,689 thousand) have been pledged to third parties as collateral for borrowings. Refer to Note 18.

During 2009 borrowing costs for the amount of Tenge 3,069 thousand were capitalised within costs for equipment and construction in progress (2008: Tenge 27,268 thousand).

8 Property, Plant and Equipment (Continued)

On 25 May 2009 the Group signed a contract with ASTEL JSC, Arna JSC and Alma-TV JSC regarding the joint financing of project to construct a main fiber-optic communication line ("FOCL") on Almaty-Khorgos site with the aim to hook to China Telecommunications Corporation main lines. The parties agreed to subsequently own this main FOCL on the basis of common shared ownership. Each participant of shared construction owns 25% of the main FOCL, has an equal voting power and finances 25% of costs under the contract. Subsequently Briz and Co. LLP substituted Arna JSC under the contract. The estimated cost of contract is Tenge 1,200,000 thousand, VAT exclusive. The works under the contract are expected to be completed in the middle of 2010. Operating management of works under the contract is exercised by the Work Group comprising representatives of each of the parties. At 31 December 2009 the Group had the following assets and liabilities under the contract:

Construction in progress	77,850
Accounts payable	19,118

9 Intangible Assets

	Licenses	Software	Other	Total
Cost at 31 December 2007	**20,391**	**130,375**	**26,614**	**177,380**
Additions	23,990	85,926	50	109,966
Disposals	(2,691)	(10,132)	(320)	(13,143)
Cost at 31 December 2008	**41,690**	**206,169**	**26,344**	**274,203**
Additions	27,051	37,835	269	65,155
Reclassification	-	18,260	(18,260)	-
Disposals	-	(55)	-	(55)
Cost at 31 December 2009	**68,741**	**262,209**	**8,353**	**339,303**
Accumulated amortization at 31 December 2007	**4,781**	**98,644**	**4,476**	**107,901**
Depreciation charge	2,901	12,535	5,245	20,681
Disposals	(1,280)	(5,375)	(112)	(6,767)
Accumulated amortization at 31 December 2008	**6,402**	**105,804**	**9,609**	**121,815**
Depreciation charge	4,414	29,991	1,461	35,866
Reclassification	-	3,652	(3,652)	-
Disposals	-	(37)	-	(37)
Accumulated amortization at 31 December 2009	**10,816**	**139,410**	**7,418**	**157,644**
Carrying value at 31 December 2007	**15,610**	**31,731**	**22,138**	**69,479**
Carrying value at 31 December 2008	**35,288**	**100,366**	**16,734**	**152,388**
Carrying value at 31 December 2009	**57,925**	**122,799**	**935**	**181,659**

10 Financial Instruments by Categories

The reconciliation between balance sheet accounts and categories of financial instruments is presented below:

31 December 2009	Note	Loans and receivables	Available-for-sale	Total
Assets as per statement of financial position				
Available-for-sale financial assets		-	24,000	**24,000**
Trade and other receivables	14	2,070,440	-	**2,070,440**
Loans to related parties	7	495,978	-	**495,978**
Cash and cash equivalents	15	1,832,666	-	**1,832,666**
Total		**4,399,084**	**24,000**	**4,423,084**

31 December 2009	Note	Other financial liabilities	Total
Liabilities as per statement of financial position			
Bonds	18	4,196,994	**4,196,994**
Bank loans	18	428,596	**428,596**
Trade accounts payable	20	467,815	**467,815**
Finance lease liabilities	18	36,485	**36,485**
Preference shares	18	2,132	**2,132**
Total		**5,132,022**	**5,132,022**

31 December 2008	Note	Loans and receivables	Available-for-sale	Total
Assets as per statement of financial position				
Available-for-sale financial assets	14	-	24,000	**24,000**
Trade and other receivables		1,908,535	-	**1,908,535**
Loans to related parties	15	314,408	-	**314,408**
Cash and cash equivalents		379,735	-	**379,735**
Total		**2,602,678**	**24,000**	**2,626,678**

31 December 2008	Note	Other financial liabilities	Total
Liabilities as per statement of financial position			
Bonds	18	2,944,241	2,944,241
Bank loans	18	1,454,348	1,454,348
Trade accounts payable	20	497,690	497,690
Interest payable	18	133,676	133,676
Finance lease liabilities	18	49,031	49,031
Preference shares	18	2,268	2,268
Total		**5,081,254**	**5,081,254**

11 Credit Quality of Financial Assets

None of the Group's clients has external credit rating. Only banks, where the Group places its cash and short-term deposits, have external credit ratings. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates:

	2009	2008
Trade receivables		
Counterparties without external credit rating		
Group 1	104,904	122,347
Group 2	1,934,351	1,749,593
Group 3	31,185	36,595
Total trade receivables	**2,070,440**	**1,908,535**

Group 1 – new clients (less than 6 months).
Group 2 – existing customers (more than 6 months) with no defaults in the past.
Group 3 – existing customers (more than 6 months) with some defaults in the past. All defaults were fully provided.

Cash at bank and short-term bank deposits

	Rating Agency	Rating	2009	2008
Kazkommertsbank	Moody's	Ba3	519,765	123,637
Halyk Bank of Kazakhstan	Moody's	Ba2	434,302	28,162
BankCentrCredit	Moody's	Ba3	401,821	-
HSBC Bank Kazakhstan	Moody's	Aa3	288,948	4,955
Citibank	Moody's	A1	135,600	135,717
Kazinvestbank	Standard & Poors	B-	45,844	44,212
Other	-	-	893	34,198
Total cash at bank and short-term bank deposits			**1,827,173**	**370,881**
Equity securities available-for-sale				
Rauan Media Group JSC			24,000	24,000

12 Inventories

	2009	2008
Telecommunication equipment for resale	508,398	231,282
Spare tools and appliances under maintenance contracts	47,218	-
Raw materials	198,150	164,633
Spare parts	56,827	70,843
Provision for obsolescence	(42,663)	-
Total inventories	**767,930**	**466,758**

13 Long-term Construction Contracts

	2009	2008
Revenue recognised from long-term contract	1,111,887	589,241
Actual expenses incurred for long-term contract	(440,234)	(211,075)
Profit from long-term contract	671,653	378,166
Total bills issued	1,020,525	560,786
Deferred income	-	91,362

In 2003 the Group signed the long-term contract for construction of telecommunication system for Agip KCO. The Group uses percentage of completion method to determine the respective amounts for recognition in the appropriate period. Completion stage is determined based on actual works executed under contract before the reporting date in the form of percentage of total scope of works.

14 Trade and Other Receivables

	2009	2008
Trade receivables	1,813,914	1,520,076
Receivables from construction contracts	311,571	407,660
Less impairment loss provision	(55,045)	(19,201)
Total trade and other receivables	**2,070,440**	**1,908,535**

Trade receivables of Tenge 429,043 thousand (2008: Tenge 479,469 thousand) net of impairment loss provisions are denominated in foreign currency, mainly in US dollars

Provided below are aging of trade accounts receivable:

	2009	2008
Up to 3 months	2,005,584	1,883,062
3 to 6 months	20,915	25,473
6 months to 1 year	43,941	-
Total trade and other receivables	**2,070,440**	**1,908,535**

According to management, the value of trade accounts receivable with payment term less than 6 months has not decreased.

As of 31 December 2009, trade receivables repayable after 6 months of Tenge 55,045 thousand (2008: Tenge 19,201 thousand) were impaired and provided for. The amount of the provision was Tenge 55,045 thousand as of 31 December 2009 (2008: Tenge 19,201 thousand). The ageing of these receivables is as follows:

	2009	2008
Up to 3 months	-	-
More than 6 months	55,045	19,201
	55,045	**19,201**

14 Trade and Other Receivables (Continued)

Movements on the Group provision for impairment of trade receivables are as follows:

	2009	**2008**
At 1 January	19,201	42,919
Provision for receivables impairment	41,497	12,089
Accounts receivable write-off	(5,653)	(35,807)
At 31 December	**55,045**	**19,201**

Creation and release of provision for impaired receivables have been included in “administrative expenses” in the statement of comprehensive income (Note 23). Amounts charged to the impairment provision account are generally written off when there is no expectation of recovering additional cash.

Other classes within trade and other receivables do not contain impaired assets.

15 Cash and Cash Equivalents

	2009	**2008**
Cash on hand	3,364	8,854
Cash in transit	2,129	-
Cash in bank in Tenge	717,892	247,380
Cash in bank in foreign currencies	129,250	3,472
Letters of credit	28,184	-
Cash in deposit bank accounts	951,847	120,029
Total cash and cash equivalents	**1,832,666**	**379,735**

16 Share Capital

(a) Ordinary shares

	Number of outstanding shares (in thousands)	**Ordinary shares**	**Share premium**	**Total**
At 31 December 2008	2,387	47,742	7,009	54,751
At 31 December 2009	2,387	47,419	7,009	54,428

The Company’s share capital was contributed by the shareholders in the form of property, plant and equipment. The shareholders have a right for dividends and distribution of any capital in Tenge.

The total number of authorised shares is 3,000 thousand shares and outstanding number of ordinary shares is 2,387 thousand shares (2008: 2,387 thousand shares) with a par value of Tenge 20 per share (2008: Tenge 20 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

Share premium represents the excess of contributions received over the nominal value of shares issued.

In 2009 the Group acquired 16,149 of its ordinary shares amounted to Tenge 117,491 thousand which was recognised as treasury shares. At 31 December 2009 treasury shares include 16,149 ordinary shares of the Company (2008: 0 shares), owned by the wholly owned subsidiary of the Group. These ordinary shares carry voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares owned by companies within the Group are effectively controlled by management of the Group.

16 Share Capital (Continued)

As at 31 December 2009 and 2008 the following shareholders owned more than 5% of issued and placed ordinary shares of the Company:

Shareholders	Number of ordinary shares in 2009	Number of ordinary shares in 2008	% 2009	% 2008
Rodnik LLP	1,907,556	1,907,556	79.92	79.92
Telecom-Asia LLP	296,445	191,606	12.42	8.03
	2,204,001	**2,099,162**	**92.34**	**87.95**

(b) Preference shares

The total authorised and issued number of preference shares is 115,738 shares (2008: 115,738 shares), of which the number of outstanding shares is 113,624 shares (2008: 113,624 shares) with a par value of Tenge 20 per share (2008: Tenge 20 per share). All issued preference shares are fully paid.

The preference shares are not convertible or redeemable, but guarantee annual cumulative dividends in the amount of not less than 10% of nominal value of shares, but not less than dividends due to holders of ordinary shares. In case of non-payment of dividends on preference shares, preference shares obtain voting right until the next annual general shareholders meeting. Dividends are cumulative. Preference shares obtain voting right also in case of consideration of issues, related to the holders of preference shares, including issues of reorganisation or liquidation of the Company.

In case of liquidation, the holders of preference shares are the first to receive any declared unpaid dividends. Then all holders of ordinary and preference shares participate in distribution of remaining assets on equal basis.

Preference shares are included in borrowings (Note 18).

(c) Dividends

Below are dividends declared and paid during the year:

	2009		2008	
	Ordinary shares	**Preference shares**	**Ordinary shares**	**Preference shares**
Dividends payable at 1 January	988	1,210	70,508	4,023
Dividends declared during the year	-	2,272	-	2,272
Dividends paid during the year	(988)	(2,155)	(69,485)	(4,819)
Dividends offset to accounts receivable	-	-	(35)	(266)
Dividends payable at 31 December	**-**	**1,327**	**988**	**1,210**
Dividends per share declared during the year	**-**	**20.00**	**-**	**20.00**

All dividends are declared and paid in Kazakhstani Tenge. Dividends on preference shares are included within finance costs (Note 25).

17 Other Reserves

In accordance with its Charter, the Company should create general loss reserve in the amount of not less than 15% of its authorised share capital. In 2001 in accordance with the Company shareholders' decision, reserve was created in the amount of Tenge 7,455 thousand, which represents 15.6% of share capital as at 31 December 2009 (2008: Tenge 7,455 thousand - 15.6% of share capital).

18 Borrowings

	2009	2008
Bonds (a)	4,196,994	2,944,241
Secured bank loans (b)	428,596	1,454,348
Finance lease liabilities (c)	36,485	49,031
Cumulative irredeemable preference shares (Note 16)	2,132	2,268
Total borrowings	**4,664,207**	**4,449,888**

(a) Unsecured indexed bonds in US Dollar

On 25 July 2003 the Company registered 3,000,000,000 unsecured US Dollar indexed bonds with par value of Tenge 1 each. Maturity date for these bonds is 25 July 2010. Annual coupon rate is 8%, which is set for the entire period.

Coupons are payable on 25 July and 25 January of each year. Indexation of bonds relates to increase of exchange rate of US Dollar to Tenge; if US Dollar exchange rate increases, indexed amounts should be paid. If US Dollar exchange rate does not increase, payable amount will not be adjusted.

Bonds were placed during the period from 13 November 2003 to 23 December 2004. Total issue discount was 165,235 thousand Tenge. Exchange rate as at the bonds placement dates varied from Tenge 147.56 to Tenge 136.16 for 1 US Dollar. It was impracticable to determine the fair value of financial instruments to adjust bond rates, since as at 31 December 2006 and 2005 Tenge rate decreased in comparison with US Dollar rate. Exchange rate used in transaction as at 31 December 2009 was Tenge 148.46 to 1 US Dollar.

On 17 June 2009 the Company registered the second issue of 3,000,000 unsecured US Dollars indexed bonds with par value of Tenge 1,000 each. Trades for the bonds were opened on 14 September 2009. 1,300,000 bonds were sold as at 31 December 2009. Maturity date for these bonds is 1 July 2012. Annual coupon rate is 10%, which is set for the entire period.

Coupons are payable on 1 March, 1 July and 1 November of each year. Indexation of bonds relates to increase of exchange rate of US Dollar to Tenge; if US Dollar exchange rate increases, indexed amounts should be paid. If US Dollar exchange rate does not increase, payable amount will not be adjusted. The upper limit of indexation ratio is 1.2.

Total issue discount was Tenge 188,481 thousand. The exchange rate as at the date of bond trade opening was Tenge 150.92 per USD 1. The exchange rate used in transactions at 31 December 2009 was Tenge 148.46 per USD 1 (2008: Tenge 120.77).

(b) Bank loans

Secured bank loans from Citibank are denominated in US Dollars and have interest rate of LIBOR plus 6.7%, and are revalued each month. Bank loans are repayable till December 2012 and their carrying value is Tenge 197,422 thousand. The loans are secured by the equipment with carrying value of Tenge 325,044 thousand. Loans from Kazkommertsbank are denominated in US Dollars and have interest rate of 16% and amount to Tenge 39,609 thousands repayable till January 2012.

Tenge-denominated loans from Kazkommertsbank represent loans bearing fixed interest rate of 16%. Loans in the amount of Tenge 191,565 thousand are repayable till January 2012. The loans are secured by two office buildings, a plot of land and telecommunication equipment with total carrying value of Tenge 360,921 thousand.

18 Borrowings (Continued)

(c) Finance lease liabilities

Below are minimum lease payments on finance lease and their present value:

	Due in 1 year	Due between 2 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2009	**29,262**	**5,303**	**4,672**	**39,237**
Less: Deferred revenue	1,728	876	148	2,752
Present value of minimum lease payments at 31 December 2009	**27,534**	**4,427**	**4,524**	**36,485**
Minimum lease payments at 31 December 2008	**34,609**	**19,704**	**2,866**	**57,179**
Less: Deferred revenue	5,951	1,918	279	8,148
Present value of minimum lease payments at 31 December 2008	**28,658**	**17,786**	**2,587**	**49,031**

Leased assets with carrying amount disclosed in Note 8 are pledged for finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default. Finance lease liabilities are secured by lease assets (Note 28). Interest rates on finance lease are fixed and range from 17% to 18%.

The Group's borrowings mature as follows:

		2009	2008
Borrowings due:	- within 1 year	3,318,913	1,312,667
	- between 1 and 5 years	1,345,294	3,137,221
	- after 5 years	-	-
Total borrowings		**4,664,207**	**4,449,888**

The Group's borrowings are denominated in currencies as follows:

		2009 г.	2008 г.
Borrowings denominated in:	- Kazakhstani Tenge	4,288,958	3,876,501
	- US Dollars	375,249	573,387
Total borrowings		**4,664,207**	**4,449,888**

The effective interest rates at the reporting date were as follows:

	31 December 2009		31 December 2008	
% p.a.	Tenge	US Dollars	Tenge	US Dollars
Bonds	9.6-19	-	9.60	-
Secured bank loans	16	Libor + 6.7%	16-18	Libor + 4.5%
Finance lease liabilities	17-18	-	16-18	-

18 Borrowings (Continued)

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

The carrying amounts and fair values of borrowings are as follows:

	Carrying amounts		Fair values	
	2009	**2008**	**2009**	**2008**
Bonds	4,196,994	2,944,241	4,245,324	2,652,243
Secured bank loans	428,596	1,454,348	267,710	1,454,348
Finance lease liabilities	36,485	49,031	17,069	49,031
Cumulative irredeemable preference shares	2,132	2,268	2,132	2,268
Total borrowings	**4,664,207**	**4,449,888**	**4,532,235**	**4,157,890**

The fair value of short-term borrowings approximates their carrying amounts, since effect of discounting is insignificant. Fair value of bonds is determined by multiplying the number of issued bonds at the reporting date by quoted market price received from the Kazakhstan Stock Exchange ("KASE").

19 Provisions for Asset Retirement Obligations

The Group has an obligation to dismantle and restore a landfill site after decommissioning of cable communication line ("CCL") in 2010. This liability arose in the beginning of 2007 due to introduction of new environmental code in the Republic of Kazakhstan. In 2009, management of the Group reconsidered its obligations and intentions on fiber-optic communication line dismantling (FOCL) and concluded that due to opinions of state expertise on absence of negative environmental effect, the Group has no obligation for FOCL dismantling. Below are changes in provisions for asset retirement obligations:

		2009	**2008**
Carrying amount at the beginning of the year		**404,194**	**451,036**
Additions for new communication lines		240	48,815
Unwinding of the present value discount	25	29,842	64,628
Reduction of obligation due to change in estimates		(84,170)	(160,285)
Carrying amount at the end of the year		**350,106**	**404,194**

Income resulted from decrease in asset retirement obligations due to change in estimates is included within "other income" in consolidated statement of comprehensive income.

20 Trade and Other Payables

		2009	**2008**
Trade payables		467,815	497,690
Provision for unused vacation		304,996	79,664
Provision for management compensation		170,855	90,000
Value added tax		158,615	71,375
Interest payable		134,175	133,676
Advances received		110,825	10,131
Payables to personnel		66,510	172,076
Individual income tax payable		38,190	38,738
Payments to pension funds		37,946	40,773
Dividends payable	16	1,327	2,198
Other payables		18,822	20,961
Total trade and other payables		**1,510,076**	**1,157,282**

Trade payables of Tenge 56,596 thousand (2008: Tenge 43,165 thousand) are denominated in foreign currency, mainly in US dollars.

21 Revenue

		2009	2008
Maintenance		4,149,225	3,455,945
Line cable communication services		2,633,802	2,111,603
Satellite communication services		1,191,579	1,172,577
Revenue from construction contract	13	1,111,887	589,241
Local telephone and trunk communication services		264,539	228,334
Equipment installation and sales		148,757	1,040,171
Discounts		(4,915)	(676)
Total revenue		**9,494,874**	**8,597,195**

22 Cost of Sales

	2009	2008
Payroll expenses and personnel costs	2,446,834	2,288,997
Lease of communication facilities and other equipment	736,218	590,778
Independent contractors	697,388	380,947
Depreciation and amortization	697,161	602,280
Equipment, materials and consumables	413,865	991,721
Communication services	406,894	413,183
Repair and maintenance expenses	172,995	157,497
Business trip expenses	67,916	94,570
Utilities	55,467	51,151
Transportation expenses	52,765	47,677
Other	54,607	49,470
Total cost of sales	**5,802,110**	**5,668,271**

23 General and Administrative Expenses

	2009	2008
Payroll expenses and personnel costs	758,762	750,929
Taxes other than income tax	136,733	106,963
Materials	55,458	11,142
Bank charges	53,615	54,442
Depreciation and amortization	49,986	39,351
Third parties services	46,146	51,300
Doubtful debt provisions	42,017	12,089
Professional and advisory services	27,465	24,406
Business trip expenses	19,842	44,974
Communication services	13,540	12,544
Rent	9,567	14,606
Other	68,449	117,750
Total general and administrative expenses	**1,281,580**	**1,240,496**

24 Finance Income

	2009	2008
Foreign exchange gains on bank deposits and accounts receivable	687,221	55,986
Other interest income	68,593	16,655
Total finance income	**755,814**	**72,641**

25 Finance Costs

	Note	2009	2008
Losses from exchange rate differences on loans and borrowings		586,247	58,179
Interest expenses		473,419	428,322
Unwinding of present value discount	19	29,842	64,628
Preference share dividends		2,272	2,272
Unwinding of present value discount on loans to employees		-	7,024
Less: capitalized borrowing costs	8	(3,069)	(27,268)
Total finance costs		**1,088,711**	**533,157**

The Group capitalised borrowing costs arising on financing directly attributable to the construction of telecommunication networks in the Western Kazakhstan. The capitalisation rate was 9.6% (2008: 9.6%).

26 Income Tax

Income tax expense comprises the following:

	2009	2008
Current tax	382,020	175,220
Deferred tax (ERP Services LTD)	(11,073)	12,102
Deferred tax	355	(181,820)
Income tax expenses for the year	**371,302**	**5,502**

Reconciliation between the expected and the actual tax charge is provided below:

	2009	2008
IFRS profit before tax	**1,930,160**	**950,047**
Theoretical tax charge at statutory rate 20% (2008: 30%).	386,032	285,014
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Effect of change in tax rate	(29,544)	(276,005)
- Effect of change in tax rate (ERP-Services LTD)	(797)	6,962
- Effect of prior year adjustment of tax base	-	(56,068)
- Non-deductible expenses	15,611	45,599
Income tax expense for the year	**371,302**	**5,502**

26 Income Taxes (Continued)

Differences between IFRS and Kazakhstan statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in temporary differences is recorded at the tax rate applicable when deferred tax assets are realised or liabilities settled. With regard to changes in the Tax Code of the Republic of Kazakhstan, starting from 1 January 2013 income tax rate will be equal to 17.5%, from 1 January 2014 and thereafter – 15% (2008: 30%).

	31 December 2008	Charged/ (credited) to profit or loss	31 December 2009
Tax effect of deductible temporary differences			
Impairment provision for receivables	2,062	8,947	11,009
Accruals	3,921	(1,600)	2,321
Accruals (ERP-Services LTD)	3,707	10,627	14,334
Bonds	5,455	4,583	10,038
Provisions for liabilities and charges	30,226	45,974	76,200
Provisions for asset retirement obligations	46,736	23,128	69,864
Property, plant and equipment and intangible assets (ERP-Services LTD)	6,923	(1,331)	5,592
Gross deferred income tax asset	**99,030**	**90,328**	**189,358**
Tax effect of taxable temporary differences			
Property, plant and equipment and intangible assets	354,827	87,082	441,909
Impairment provision for receivables (ERP-Services LTD)	1,778	(1,778)	-
Accruals	5,694	(5,694)	-
Gross deferred income tax liability	**362,299**	**79,610**	**441,909**
Recognised deferred income tax asset (ERP-Services LTD)	**8,853**	**11,073**	**19,926**
Recognised deferred income tax liability	**272,122**	**355**	**272,477**

26 Income Taxes (Continued)

	31 December 2007	Charged/ (credited) to profit or loss	31 December 2008
Tax effect of deductible temporary differences			
Impairment provision for receivables	12,876	(10,814)	2,062
Accruals	2,367	1,554	3,921
Accruals (ERP-Services LTD)	3,419	288	3,707
Bonds	9,695	(4,240)	5,455
Provisions for liabilities and charges	11,577	18,649	30,226
Provisions for asset retirement obligations	47,072	(336)	46,736
Property, plant and equipment and intangible assets (ERP-Services LTD)	17,536	(10,613)	6,923
Gross deferred income tax asset	**104,542**	**(5,512)**	**99,030**
Tax effect of taxable temporary differences			
Property, plant and equipment and intangible assets	537,422	(182,595)	354,827
Impairment provision for receivables (ERP-Services LTD)	-	1,778	1,778
Accruals	107	5,587	5,694
Gross deferred income tax liability	**537,529**	**(175,230)**	**362,299**
Recognised deferred income tax assets (ERP-Services LTD)	**20,955**	**(12,102)**	**8,853**
Recognised deferred income tax liability	**453,942**	**(181,820)**	**272,122**

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

27 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

Earnings per share are calculated as follows:

	2009 г.	2008
Amount of shares		
Ordinary shares	2,387	2,387
Preferred shares	113	113
Total number of shares	**2,500**	**2,500**
Profit for the year attributable to the Group's shareholders	1,558,858	948,545
Less:		
Additional dividends on preferred shares declared during the year	2,272	2,272
Retained earnings	**1,556,586**	**946,273**
Allocation to ordinary shareholders	1,486,228	903,501
Allocation to preferred shareholders	70,358	42,772
	1,556,586	**946,273**
Basic earnings per share:		
Preferred shares		
Distributed earnings	20.11	20.11
Retained earnings	632.00	378.51
Total earnings per share	**652.11**	**398.62**
Ordinary shares		
Distributed earnings	-	-
Retained earnings	632.00	378.51
Total earnings per share	**632.00**	**378.51**

28 Contingencies, Commitments and Operating Risks

Political and economic situation in Kazakhstan. The economy of Kazakhstan continues to display the characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country and a low level of liquidity of debt and equity securities in the markets.

Furthermore, the sector of communication services in Kazakhstan is still impacted by political, legislative, fiscal and regulatory developments. The prospects for future economic stability in Kazakhstan are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments, which are beyond the Company's control.

The financial condition and future operations of the Group may be adversely affected by continued economic difficulties related mainly to the developing countries. Management is unable to predict the extent and duration of the economic difficulties, nor appraise the impact, if any, on these financial statements.

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. According to the management's view at present there are no current legal proceedings or other outstanding claims, which could significantly affect the financial position or operations of the Group.

Tax legislation. Kazakhstan tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The management of the Company believes that it correctly interprets respective regulations of legislation, and that Company's position in relation to tax, currency and customs legislation will be successfully protected in case of any dispute.

Accordingly, as at 31 December 2009 the Group recognised no provision for potential tax liabilities (31 December 2008: no provision). The Group management believes that no material losses will be incurred in respect of current and potential tax claims in excess of amounts provided in these financial statements.

On 10 December 2008 President of the Republic of Kazakhstan signed the new Tax Code effective from 1 January 2009, as well as respective regulating legal acts envisaged by Code. The key changes include: reduction of the CIT rate from 30 percent to 20 percent in the financial year 2009, 17.5 percent in 2010, and 15 percent in 2011; of the VAT rate to from 13% to 12%; introduction of fixed rate of social tax in the value of 11%; increase of property tax rate from 1% to 1.5% in respect of the tax base represented exclusively by immovable property, and other changes. In accordance with the Law of the Republic of Kazakhstan dated 16 November 2009, an amendment to suspend application of the Tax Code in the part of corporate income tax rate till 1 January 2014 has been accepted, according to which the following corporate income tax rates will be applied during the suspension period: from 1 January 2009 to 1 January 2013 - the rate of 20% and from 1 January 2013 to 1 January 2014 the rate of 17.5%. Changes in corporate income tax rates had an impact on amounts of recognised deferred income tax liabilities at 31 December 2009 (Note 26).

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2009	**2008**
Less than 1 year	9,567	6,714
Total operating lease commitments	**9,567**	**6,714**

The Group rents several buildings and equipment under operating lease agreements. Lease agreements are usually signed initially for a period of one year with further prolongation. Usually, lease payments are increased annually to reflect the market prices. Operating lease costs recognized within 'administrative expenses' are Tenge 9,567 thousand (2008: Tenge 6,714 thousand).

28 Contingencies, Commitments and Operating Risks (Continued)

Assets pledged and restricted. At 31 December 2009 the Group had the following assets pledged as collateral:

	2009		2008	
	Assets pledged	Related liability	Assets pledged	Related liability
Property, plant and equipment	785,768	428,596	1,263,689	627,959
Total	**785,768**	**428,596**	**1,263,689**	**627,959**

Property, plant and equipment are pledged as collateral for all credit lines. As at 31 December 2009, Tenge 173,728 thousand for such credit lines have not been drawn. (As at 31 December 2008: Tenge 965,986 thousand) (Note 8).

Insurance policies. Insurance services market in Kazakhstan is at the development stage and many forms of insurance which are common in other countries of the world are not yet available in the Republic of Kazakhstan. The Group does not have complete insurance protection in regard to its production facilities, losses, resulted from business disruption, or liabilities to third parties due to damage caused to real estate or environment as a result of accidents or the Group's activities. Until the Group obtains the adequate insurance protection, there is a risk that loss or damage of certain assets can have significant adverse impact on the activities and financial position of the Group.

Environmental matters. The enforcement of environmental regulation in the Republic of Kazakhstan is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations related to usage of land for telecommunication networks. As obligations are determined, they are recognised immediately in the financial statements (Note 19). Estimates can change in case of additional environmental analysis and revision of current program for restoration and equipment dismantlement.

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and early repayment. The Group's management believes that the Group is in compliance with borrowings covenants.

Recent volatility in global and financial markets. The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in local and international stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the Republic of Kazakhstan, the United States of America, Western Europe, Russia and elsewhere. Indeed the full extent of the impact of the ongoing crisis is proving to be impossible to anticipate or completely guard against.

28 Contingencies, Commitments and Operating Risks (Continued)

The volume of wholesale financing has significantly reduced recently. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

The situation may affect the Group's debtors which could in turn impact their ability to settle their payables. Deteriorating financing conditions may also have an impact on management's cash flow forecasts and assessment of the impairment of non-financial assets. Taking into consideration available information, management believes that changes in expected cash flows are properly considered in reduction of fair values.

In 2008-2009, the Group has undertaken a range of steps to optimize costs and detect internal reserves for more effective allocation of resources used, both human and technological. For the purpose of addressing potential environmental changes more effectively, the Board of Directors strengthened control over the Group's operations.

However, despite the measures undertaken, management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.