

KazTransCom

KazTransCom JSC

International Financial Reporting Standards

**Consolidated Financial Statements and
Independent Auditor's Report**

31 December 2010

(Translated from Russian original)



Contents

INDEPENDENT AUDITOR'S REPORT

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position	1
Consolidated Statement of Comprehensive Income	2
Consolidated Statement of Cash Flows	3
Consolidated Statement of Changes in Equity	4

Notes to the Consolidated Financial Statements:

1 KazTransCom JSC and Its Operations	5
2 Summary of Significant Accounting Policies	5
3 New Accounting Pronouncements	14
4 Financial Risk Management	18
5 Critical Accounting Estimates and Judgments in Applying Accounting Policies	22
6 Segment Information	23
7 Balances and Transactions with Related Parties	26
8 Property, Plant and Equipment	28
9 Intangible Assets	29
10 Financial Instruments by Categories	30
11 Credit Quality of Financial Assets	31
12 Inventories	31
13 Long-term Construction Contracts	32
14 Trade and Other Receivables	32
15 Cash and Cash Equivalents	33
16 Share Capital	34
17 Other Reserves	35
18 Borrowings	36
19 Provisions for Asset Retirement Obligations	38
20 Trade and Other Payables	39
21 Revenue	39
22 Cost of Sales	40
23 Other operating income	40
24 Distribution costs	40
25 General and Administrative Expenses	41
26 Finance Income	41
27 Finance Costs	41
28 Income Tax	41
29 Earnings per Share	44
30 Contingencies, Commitments and Operating Risks	45



INDEPENDENT AUDITOR'S REPORT (continued)

Page 2

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Almaty, Kazakhstan
21 March 2011

Approved by:

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

Signed by:

Azamat Konratbaev
Audit partner
(The Association of Chartered of
the Certified Accountants, Certificate
№ 00770863 dated 8 May 2003)

Signed by:

Inkarbekova Dana
Auditor in-charge
(Qualification certificate
№ 0000492 dated 18 January 2000)

Note:

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

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

21 March 2011

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 the 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

KazTransCom JSC
Consolidated Statement of Financial Position
(in thousands of Kazakhstani Tenge)

	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	8	7,092,320	6,355,846
Intangible assets	9	230,436	181,659
Financial assets available for sale	10	24,000	24,000
Deferred income tax assets	28	14,707	19,926
Long-term receivables		12,551	6,007
Other non-current assets		9,059	13,781
Total non-current assets		7,383,073	6,601,219
Current assets			
Inventories	12	731,830	767,930
Trade and other receivables	14	2,295,220	2,070,440
Loans to related and other parties	7	-	495,978
Prepayments to suppliers		252,546	266,926
Current income tax prepaid		139,842	-
Other current assets		43,672	76,726
Cash and cash equivalents	15	1,409,986	1,832,666
Total current assets		4,873,096	5,510,666
TOTAL ASSETS		12,256,169	12,111,885
EQUITY			
Share capital	16	46,662	47,419
Additional paid-in capital	16	7,009	7,009
Other reserves	17	7,455	7,455
Retained earnings		6,675,860	5,387,311
TOTAL EQUITY		6,736,986	5,449,194
LIABILITIES			
Non-current liabilities			
Borrowings	18	2,790,313	1,345,294
Deferred income tax liabilities	28	570,111	272,477
Provisions for asset retirement obligations	19	218,681	350,106
Total non-current liabilities		3,579,105	1,967,877
Current liabilities			
Borrowings	18	261,346	3,184,738
Trade payables	20	796,302	467,815
Interest payable	18	49,374	134,175
Current income tax payable		-	3,703
Other payables	20	825,117	904,383
Deferred income	13, 20	7,939	-
Total current liabilities		1,940,078	4,694,814
TOTAL LIABILITIES		5,519,183	6,662,691
TOTAL LIABILITIES AND EQUITY		12,256,169	12,111,885

Signed on behalf of Board of Directors on 21 March 2011.

Erzhanov A.S.
General Director

Kolupayeva E.V.
Chief Accountant

The accompanying notes on pages 5 to 47 are an integral part of these consolidated financial statements.

Translated from Russian original

KazTransCom JSC
Consolidated Statement of Comprehensive Income
(in thousands of Kazakhstani Tenge)

	Note	2010	2009
Revenue	21	10,759,526	9,494,874
Cost of sales	22	(6,221,358)	(5,802,110)
Gross profit		4,538,168	3,692,764
Other operating income	23	289,330	155,880
Distribution costs	24	(289,116)	(255,441)
General and administrative expenses	25	(1,469,339)	(1,281,580)
Other operating expenses		(13,085)	(48,566)
Operating profit		3,055,958	2,263,057
Finance income	26	121,581	755,814
Finance costs	27	(590,870)	(1,088,711)
Profit before income tax		2,586,669	1,930,160
Income tax expense	28	(674,415)	(371,302)
Profit for the year		1,912,254	1,558,858
Other comprehensive income for the year		-	-
Total comprehensive income for the year		1,912,254	1,558,858
Share of comprehensive income attributable to shareholders of the Company		1,912,254	1,558,858
Earnings per ordinary share, basic and diluted	29	782.83 Tenge	627.19 Tenge
Earnings per preferred share, basic and diluted	29	802.83 Tenge	647.19 Tenge

KazTransCom JSC
Consolidated Statement of Cash Flows
(in thousands of Kazakhstani Tenge)

	Note	2010	2009
Cash flows from operating activities			
Sales of goods, works, services		11,917,412	10,452,648
Advances received		335,475	300,994
Payments to suppliers for goods and services		(2,687,789)	(2,688,459)
Advances paid		(1,594,019)	(1,131,274)
Salaries and wages payable		(2,547,418)	(2,370,884)
Interest expense on borrowings		(509,618)	(431,817)
Corporate income tax paid		(516,596)	(331,110)
Other payments to budget		(1,480,172)	(1,240,005)
Other payments		(599,084)	(508,769)
Net cash from operating activities		2,318,191	2,051,324
Cash flows from investing activities			
Sale of property, plant and equipment		3,875	44,647
Acquisition of property, plant and equipment		(762,854)	(368,781)
Acquisition of intangible assets		(83,536)	(46,298)
Net cash used in investing activities		(842,515)	(370,432)
Cash flows from financing activities			
Proceeds from borrowings, including sale of bonds		1,717,285	1,535,660
Interests received		68,587	9,563
Repayment of borrowings, including repayment of bonds		(3,532,216)	(1,648,140)
Acquisition of own shares and related costs		(108,004)	(121,901)
Dividends paid	16	(92,104)	(3,143)
Other proceeds		48,096	-
Net cash used in financing activities		(1,898,356)	(227,961)
Net increase in cash and cash equivalents		(422,680)	1,452,931
Cash and cash equivalents at the beginning of the reporting period	15	1,832,666	379,735
Cash and cash equivalents at the end of the year	15	1,409,986	1,832,666

The accompanying notes on pages 5 to 47 are an integral part of these consolidated financial statements.

Translated from Russian original

KazTransCom JSC
Consolidated Statement of Changes in Equity
(in thousands of Kazakhstani tenge)

	Note	Share capital	Additional paid-in capital	Other reserves	Retained earnings	Total Equity
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		47,419	7,009	7,455	5,387,311	5,449,194
Comprehensive income for the year		-	-	-	1,912,254	1,912,254
Dividends declared	16	-	-	-	(516,458)	(516,458)
Treasury shares	16	(757)	-	-	(107,247)	(108,004)
Balance at 31 December 2010	16	46,662	7,009	7,455	6,675,860	6,736,986

The accompanying notes on pages 5 to 47 are an integral part of these consolidated financial statements.
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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 2010 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 CaspiyMunaiBailany 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 Bailany 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 2010 the Group had seven branches (31 December 2009: 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, according to principle of historical cost valuation with amendment on initial recognition of financial instruments by fair value. The main provisions of accounting policies used in preparation of these consolidated financial statements are discussed below. These principles were consistently applied in connection to all periods presented in financial statement, unless specified otherwise.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates as well as exercise of professional judgments in the process of application of the Group's accounting policy. 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 are significant for financial statements are disclosed in Note 5. Actual results can deviate from such accounting estimates.

2 Summary of Significant Accounting Policies (Continued)

2.2 Consolidation

Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

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 of the Group's entities 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 recognised in the statement of comprehensive income. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Exchange rate at the end of the period is defined as the rate used for translation and recording transactions and balances in foreign currency, on which the future cash flows represented by transactions and balances, could be realized if such cash flows occurred on the valuation date. On 31 December 2010 the official exchange rate of the Kazakhstan Stock Exchange used to recalculate the balances in foreign currency was 147.5 Tenge per US dollar 1 (31 December 2009: 148.46 Tenge per US dollar 1). Conversion of Tenge to other currencies is regulated by rules of currency restrictions and controls. Currently Tenge is not a freely convertible currency outside the Republic of Kazakhstan.

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 bringing 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.

	<u>Useful life (years)</u>
Buildings	10 – 50
Machinery and equipment	5 – 20
Vehicles	5 – 10
Other	3 – 10

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 reporting 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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other operating income / (expenses)" 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 recognise 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 recognised 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:

	<u>Useful life (years)</u>
Licenses	15
Accounting software	10
Other	20

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

At each reporting date the management assesses whether there is any indication of impairment of non-financial assets. If any such indication exists, the 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.

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 instruments

(a) Basic conditions of assessment

Financial instruments of the Group are carried at amortised cost as described below.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and less any impairment provision. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense are not presented separately and are included in the carrying values of related statement of financial position items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

(b) Classification of financial assets

Financial assets of the Group include loans and receivables and financial assets available for sale. Management determines the classification of its financial assets at initial recognition.

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 reporting period. These are classified as non-current assets. Loans and receivables in the Group's consolidated statement of financial position consist of trade and other receivables (note 14), loans to related and other parties (note 7) and cash and cash equivalents (note 15), and other non-current assets.

(c) Classification of financial liabilities

Group's financial liabilities are financial liabilities which are carried at amortised cost. Financial liabilities in the consolidated financial position include borrowings (note 18) and trade payables (note 20).

(d) Initial recognition of financial instruments

Financial assets and liabilities are initially recorded at fair value less transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

2 Summary of Significant Accounting Policies (Continued)

(e) Derecognition of financial asset

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

2.11 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.

2.12 Prepayment

Prepayments to suppliers are reported at cost less provision for doubtful debt. Prepayments to suppliers are classified as long-term, if the expected date of receipt of goods or services is more than one year, or if the payment of suppliers relate to assets that will be reflected in the account as long at initial recognition. The prepayment amount for the acquisition of the assets included in the carrying value when Group receive the control of these assets and it is probable that future economic benefits associated with them, will be received by the Group. Other prepayments are written off after receipt of goods or services. If there is an indication that the assets, goods or services will not be received, the carrying value of prepaid shall be reduced to the amount of provision and the related provision is recognised through profit or loss for the year.

2.13 Trade and other receivables

Trade receivables are recognised initially at fair value, afterwards recognised 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 one year 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 recognised in the statement of comprehensive income 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-discretionary). Dividends on such shares are recognised as interest expenses through profit or loss for the period.

2 Summary of Significant Accounting Policies (Continued)

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 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. Advances received are recorded in the amounts actually obtained from third parties.

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 recognised 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.

The Company capitalises borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs to be capitalised are assessed based on average cost of the Company's financing (weighted average interest on borrowings is applied to expenses incurred on a qualifying asset) except where the funds have been raised specially for acquisition of a qualifying asset. In such cases, actually incurred borrowing costs less investment income from temporary investment funds received from such special-purpose borrowings are capitalised.

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. 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 Summary of Significant Accounting Policies (Continued)

2.19 Value added tax

Value added tax ("VAT") related to sales is payable to state budget when goods are shipped or services are rendered. Input VAT is reclaimable against output VAT upon receipt of a tax invoice from a supplier. The tax legislation permits the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases unsettled at the reporting date is stated in the statement of financial position on net basis.

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.

2.21 Pension payments

The Group does not incur any expenses relating to the payment of pension and other retirement benefits to its employees. In accordance with the laws of the Republic of Kazakhstan Company keeps pension contributions from employees' salaries and transfers them to the state or private pension fund chosen by employee. After the retirement of employee liabilities of the Group are terminated, and all subsequent payments are made by public or private pension savings fund.

2.22 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.

2.23 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 profit or loss for the year. The amortisation of the discount is shown as a financing cost, rather than as an operating cost. When the asset achieves the end of its useful life all changes in liability are charged to profit or loss for the year.

2.24 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.

2 Summary of Significant Accounting Policies (Continued)

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.

2.25 Leases

(c) 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.

(d) 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.

2.26 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.

2.27 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.

3 New Accounting Pronouncements

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

- Classification of Rights Issues - Amendment to IAS 32 (issued on 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. Group considers that this revised standard did not have a material impact on the financial statements of the Group.
- 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.
- Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations:
 1. IFRS 1 was amended to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements.
 2. IFRS 1 was amended to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements.
 3. IFRS 1 was amended to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation.
 4. IFRS 3 was amended to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3.
 5. IFRS 3 was amended to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation.
 6. IFRS 3 was amended to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination.
 7. IFRS 7 was amended to clarify certain disclosure requirements.
 8. IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes.
 9. IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008).
 10. IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments.
 11. IFRIC 13 was amended to clarify measurement of fair value of award credits.

The Group does not expect the amendments to have any material effect on its consolidated financial statements.

3 New Accounting Pronouncements (Continued)

- Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group does not expect the amendments to have any material effect on its financial statements.
- Amendment to IFRS 12 Income Taxes (coming into effect for yearly periods, starting from January 1, 2012 or following this date and to be approved by EU). This amendment brings exemption to the existing principle of valuation of deferred tax assets or liabilities, arising from investment property estimated by fair value.
- Amendment to IFRS 1 First time adoption of International Financial Reporting Standards (coming into effect for yearly periods, starting from July 1, 2011 or following this date and to be approved by EU). This amendment represents guidance on how the companies should proceed with preparation of financial statements in accordance with IFRS following the period when the company could not conform to IFRS due to its functional currency's exposure to hyperinflation.
- Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, Financial Instruments: Disclosures. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Group does not expect the amendments to have any effect on its financial statements.
- Disclosures – Transfers of Financial Assets –The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognized but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group does not expect the amendment to have any effect on its financial statements.

(ii) Standards, amendments and interpretations effective in 2010 but not relevant to the Group's operations.

- IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or from 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 should be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 do not have an impact on this financial information, as Group does not make the distribution of non-monetary 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 did not have an impact on these consolidated financial statements.

3 New Accounting Pronouncements (Continued)

- 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 allows 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 has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised 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. The revised IFRS 3 did not have a material impact on these financial statements, as Group is not involved in merging the business.
- 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 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 Group does not expect the amendments to have any effect on its financial statements.
- 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 does not expect the amendments to have any 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 Group does not expect the amendments to have any effect on its financial statements.

3 New Accounting Pronouncements (Continued)

(iii) Standards, amendments and interpretations effective in 2010 and relevant to the Group's operations.

- 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 recognised 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. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the Annual Improvements to International Financial Reporting Standards, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have a material impact on these consolidated financial statements.
- 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 requires 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 previous standard required 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 has to be measured at its fair value. The revised IAS 27 did not have an impact on these consolidated financial statements.

(iv) Amendments and interpretations to existing standards which are not yet effective, and relevant to the Group's operations.

- 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. The Group plans to apply these changes from the 1 of January 2011.
- Amendment to IAS 1 Presentation of Financial Statements (issued in May 2010 as part of the annual improvement of IFRS). The amendment explains requirements to presentation and content of Statement of Changes in Equity. Comparison between beginning and ending book values for each component of capital has to be presented in Statement of Changes in Equity, while the content was simplified, as analysis of other comprehensive income by separate items of each component of capital is permitted to be presented in the notes to the financial statements.

3 New Accounting Pronouncements (Continued)

- 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:
 1. 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.
 2. 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.
 3. 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.
 4. 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, these new standards and interpretations did not have any significantly affect the Group's consolidated 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 analyse the Group's operations in order to detect risk events, analyse transaction risks and develop recommendations to decrease the Group's risks. The activities of the Committee have a recommendation nature.

Market risk

(a) 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 2010, if Tenge had weakened/strengthened by 10% against the US dollar with all other variables held constant, post-tax profit for the year ended 31 December 2010 would have been Tenge 4,889 thousand (2009: 20% Tenge 8,088 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 of Tenge in relation to US dollar for the year ended 31 December 2010 than similar period of 2009 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).

(b) *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 non-current 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 2010 and 2009, 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.

At 31 December 2010, 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 4,595 thousand (2009: Tenge 8,729 thousand) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(c) *Price risk*

The Group is not exposed to the price risk of equity securities, since The Group does not hold a portfolio of these securities.

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	31 December 2010	31 December 2009
Cash and cash equivalents	15	1,409,986	1,832,666
Trade and other receivables	14	2,295,220	2,070,440
Loans to related and other party	7	-	495,978
Long-term trade receivables		12,551	6,007
Total maximum exposure to the credit risk		3,717,757	4,405,091

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 2010, 80% of the Group's trade accounts receivable represents 12 debtors (31 December 2009: 12 debtors represent 85%).

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.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
At 31 December 2010			
Borrowings	544,937	3,418,281	25,251
Trade payables	796,302	-	-
Total financial liabilities	1,341,239	3,418,281	25,251
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
At 31 December 2009			
Borrowings	3,594,755	315,507	1,471,320
Trade payables	467,815	-	-
Total financial liabilities	4,062,570	315,507	1,471,320

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.

4 Financial Risk Management (Continued)

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.

	31 December 2010	31 December 2009
Total debt	3,051,659	4,530,032
Total capital	6,736,986	5,449,194
Gearing ratio	45%	83%

The Group management considers the level of gearing ratio at 31 December 2010 as optimal and reflecting the requirements of the industry.

The Group complied with all external requirements on capital during the year ended 31 December 2010. 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

The estimated fair value of fixed interest rate instruments with stated maturity, 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. Due to short-term nature the carrying amounts of trade payables, payables to related parties and borrowings approximate their fair values.

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 2010 is Tenge 4,587,440 thousand (31 December 2009: Tenge 3,938,928 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 2010 the carrying amount of provisions for asset retirement obligations was Tenge 218,681 thousand (2008: Tenge 350,106 thousand).

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. In addition in 2010 the Group's management reconsidered its obligations and intentions on cable communication line (CCL) dismantling, built inside of the protective polyethylene pipe (PPP) and concluded that due to absence of negative environmental effect of PPP the Group has no obligation for CCL dismantling, built inside of the PPP.

(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) *Initial recognition of transactions with related parties*

In the normal course of business the Group enters into transactions with related parties. In accordance with IAS 39, financial instruments must initially measured at fair value. In the absence of an active market for such operations in order to determine whether the operation of a market or a non-market interest rates professional judgment needed. The basis for judgment is pricing for similar types of transactions with third parties and analysis of effective interest rate. Transactions with related parties are reflected in note 7.

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

(d) Deferred income tax

Deferred income tax is calculated in relation to retained earnings received after the acquisition and other changes in subsidiaries' funds after the acquisition, except for the cases when the Group controls the subsidiary policy in relation to dividends and there is a possibility that temporary differences will not be offset in foreseeable future through dividends or other means.

(e) Inventories for resale

The Group classifies telecommunication equipment for resale as inventories, since this equipment is purchased for the purpose of installation into the fixed assets of the clients during the construction or maintenance of communication lines of the clients or resale. However, the Group may use certain equipment for own use as necessary including the construction of its communication network. In this case equipment is transferred to property, plant and equipment (Note 8), and used item is replaced with the same for resale. Accordingly, certain equipment at 31 December 2010, classified by management as current within inventories may be transferred to property, plant and equipment in 2011.

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.

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.

(a) Description of products and services from which each reportable segment derives its revenue

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 (Note 13).
- IT-outsourcing - applications installation, support and maintenance services.

(b) Factors that management used to identify the reportable segments

Segment financial information is reviewed by the Board of Directors of the Group, responsible for operational decision making. Such financial information is similar to the segment analysis provided internally to the Board of Directors of the Group. Management therefore applied the core principle of IFRS 8, *Operating Segments*, in determining which of the components should form the basis of operating segments.

(c) Measurement of operating segment profit or loss, assets and liabilities

The Board of Directors of the Group reviews financial information prepared based on International Financial Reporting Standards.

The Board of Directors of the Group evaluates performance of each segment based on gross profit.

Transactions between the operating segments are carried out based on normal commercial terms and conditions.

The headquarter is not an operating segment. Corporate profit and expenses, such as other income, distribution costs, general and administrative expenses, other expenses, finance income and costs are related to the headquarter and are not allocated between operating segments.

6 Segment Information (Continued)

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, trade receivables, and mainly exclude cash and cash equivalents, prepayments, financial assets available for sale 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.

(d) Information about reportable segment profit or loss, assets and liabilities

Segment information for the main reportable operating segments of the Group for 2010 and 2009 is set out below:

	Telecom- munication services	Equipment sales and maintenance	System integration	IT outsourcing	Headquarters	Group
2010						
Segment revenue	5,371,611	3,076,841	1,164,469	1,146,605	-	10,759,526
Cost of segment sales	(2,667,335)	(2,087,706)	(659,830)	(806,487)	-	(6,221,358)
Gross profit for segment	2,704,276	989,135	504,639	340,118	-	4,538,168
Other income					289,330	289,330
Administrative and other expenses					(1,771,540)	(1,771,540)
Finance income					121,581	121,581
Finance costs					(590,870)	(590,870)
Profit before income tax						2,586,669
Income tax expense						(674,415)
Profit for the year						1,912,254
31 December 2010						
Segment assets	8,436,065	782,958	232,969	894,762	-	10,346,754
Other unallocated assets					1,909,415	1,909,415
Total assets						12,256,169
Segment liabilities	1,127,585	170,206	108,603	491,019	-	1,897,413
Current and deferred tax liability					570,111	570,111
Other unallocated liabilities					3,051,659	3,051,659
Total liabilities						5,519,183
2010						
Capital expenditure	636,483	-	5,044	15,372	-	656,899
Depreciation and amortisation	681,387	-	1,917	14,793	-	698,097

6 Segment Information (Continued)

	Telecom- munication services	Equipment sales and maintenance	System integration	IT outsourcing	Headquarters	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	155,880
Administrative and other expenses					(1,585,587)	(1,585,587)
Finance income					755,814	755,814
Finance costs					(1,088,711)	(1,088,711)
Profit before income tax						1,930,160
Income tax expense						(371,302)
Profit for the year						1,558,858
31 December 2009						
Segment assets	7,370,933	659,651	563,350	1,151,038	-	9,744,972
Other unallocated assets					2,366,913	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	272,477
Other unallocated liabilities					4,530,032	4,530,032
Total liabilities						6,662,691
2009						
Capital expenditure	620,913	-	-	-	-	620,913
Depreciation and amortisation	732,406	-	-	14,367	-	746,773

6 Segment Information (Continued)

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

	31 December 2010		31 December 2009	
	Assets	Liabilities	Assets	Liabilities
Segment assets and liabilities	10,346,754	1,897,413	9,744,972	1,860,182
Non-current borrowings		2,790,313	-	1,345,294
Current borrowings		261,346	-	3,184,738
Deferred income tax	14,707	570,111	19,926	272,477
Cash and cash equivalents	1,409,986		1,832,666	-
Prepayments to suppliers	252,546		266,926	-
Current income tax prepaid	139,842		-	-
Financial assets available for sale	24,000		24,000	-
Other	68,334		223,395	-
Total	12,256,169	5,519,183	12,111,885	6,662,691

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 2010 and 31 December 2009 are detailed below.

At 31 December 2010 and 31 December 2009 the outstanding balances with related parties were as follows:

	Parent company - Rodnik LLP	Other related parties	Key management personnel
31 December 2010			
Other payables	-	-	228,450
31 December 2009			
Trade and other receivables	-	41	-
Other payables	-	-	170,855
Loans to related parties	422,079	-	-

Information on dividends declared and paid is disclosed in note 16.

7 Balances and Transactions with Related Parties (Continued)

The income and expense items with related parties for the years ended 31 December 2010 and 31 December 2009 were as follows:

	Parent company - Rodnik LLP	Other related parties	Key management personnel
2010			
Revenue	-	-	-
General and administrative expenses	-	-	275,465
Finance income	200	200	-
2009			
Revenue	-	175	-
General and administrative expenses	-	-	119,668
Finance income	45,625	-	-

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 for the year ended 31 December 2010 was Tenge 275,465 thousand (2009: Tenge 119,668 thousand). Directors classified as key management personnel include two positions (2009: two positions).

8 Property, Plant and Equipment

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

	Land and buildings	Telecom- munication equipment	Auto- transport	Others	Construction in progress/ Equipment to be installed	Total
Cost						
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
Additions	29,083	384,491	78,867	87,499	900,754	1,480,694
Transfers	27,920	749,618	1,478	7,483	(786,499)	-
Disposals	(500)	(24,811)	(26,072)	(14,661)	(78,270)	(144,314)
Cost at 31 December 2010	1,519,336	6,966,963	523,587	667,828	656,898	10,334,612
Accumulated Depreciation						
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
Depreciation charge	36,666	477,328	51,414	89,555	-	654,963
Transfers	-	366	(73)	(293)	-	-
Disposals	(225)	(16,908)	(24,234)	(13,690)	-	(55,057)
Balance at 31 December 2010	191,519	2,379,523	272,396	398,854	-	3,242,292
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
Carrying value at 31 December 2010	1,327,817	4,587,440	251,191	268,974	656,898	7,092,320

Additions of property, plant and equipment in the amount of Tenge 506,993 thousand for 2010 (2009: Tenge 251,101 thousand) are represented by transfers from inventories.

Vehicles include cars in financial lease with book value at Tenge 38,643 thousand as of 31 December 2010. 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 2010 part of buildings, land and equipment have been pledged to third parties as collateral for borrowings (Note 18).

In 2010 the Group capitalised borrowing costs in amount of Tenge 56,760 thousand (2009: Tenge 0) arising on financing attributable to the construction of main fiber-optic communication line. The capitalisation rate was 16%.

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 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 works under the contract are expected to be completed in the beginning of 2011. Operating management of works under the contract is exercised by the Work Group comprising representatives of each of the parties. At 31 December 2010 the Group had the following assets and liabilities under the contract:

	31 December 2010	31 December 2009
Construction in progress	285,269	77,850
Accounts payable	86,092	19,118

9 Intangible Assets

	Licenses	Software	Other	Total
Cost				
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
Additions	64,517	22,585	5,042	92,144
Reclassifications	-	136	(136)	-
Disposals	-	(211)	-	(211)
Cost at 31 December 2010	133,258	284,719	13,259	431,236
Accumulated amortisation				
Accumulated amortisation 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 amortisation at 31 December 2009	10,816	139,410	7,418	157,644
Depreciation charge	8,198	34,457	696	43,351
Reclassification	-	8	(8)	-
Disposals	-	(195)	-	(195)
Accumulated amortisation at 31 December 2010	19,014	173,680	8,106	200,800
Carrying value at 31 December 2008	35,288	100,365	16,735	152,388
Carrying value at 31 December 2009	57,925	122,799	935	181,659
Carrying value at 31 December 2010	114,244	111,039	5,153	230,436

10 Financial Instruments by Categories

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

31 December 2010	Note	Loans and receivables	Available-for-sale	Total
Assets as per statement of financial position				
Available-for-sale financial assets		-	24,000	24,000
Non-current receivables		12,551	-	12,551
Trade and other receivables	14	2,295,220	-	2,295,220
Cash and cash equivalents	15	1,409,986	-	1,409,986
Total		3,717,757	24,000	3,741,757
31 December 2010	Note		Other financial liabilities	Total
Liabilities as per statement of financial position				
Bonds, including interest payable	18		2,626,503	2,626,503
Bank loans, including interest payable	18		462,998	462,998
Trade payables	20		796,302	796,302
Finance lease liabilities, including interest payable	18		9,420	9,420
Preference shares	18		2,112	2,112
Total			3,897,335	3,897,335
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
Non-current receivables		6,007	-	6,007
Trade and other receivables	14	2,070,440	-	2,070,440
Loans to related and other parties	7	495,978	-	495,978
Cash and cash equivalents	15	1,832,666	-	1,832,666
Total		4,405,091	24,000	4,429,091
31 December 2009	Note		Other financial liabilities	Total
Liabilities as per statement of financial position				
Bonds, including interest payable	18		4,196,994	4,196,994
Bank loans, including interest payable	18		428,596	428,596
Trade payables	20		467,815	467,815
Finance lease liabilities, including interest payable	18		36,485	36,485
Preference shares	18		2,132	2,132
Total			5,132,022	5,132,022

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:

	31 December 2010	31 December 2009
Trade receivables		
Counterparties without external credit rating		
Group 1	283,318	104,904
Group 2	1,815,239	1,869,495
Group 3	28,823	31,185
Total trade receivables	2,127,380	2,005,584

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	31 December 2010	31 December 2009
Kazkommertsbank	Moody's	Ba3	925,420	519,765
BankCentrCredit	Moody's	Ba3	317,847	401,821
HSBC Bank Kazakhstan	Moody's	Aa3	90,331	288,948
Halyk Bank of Kazakhstan	Moody's	Ba2	66,246	434,302
Citibank	Moody's	A3	4,170	135,600
Kazinvestbank	Standard & Poors	B2	-	45,844
Other	-	-	2,430	3,022
Total cash at bank and short-term bank deposits			1,406,444	1,829,302
Total non-current receivables			12,551	6,007

Management of the Group estimates credit quality of financial assets available for sale and long-term accounts receivable as high.

12 Inventories

	31 December 2010	31 December 2009
Telecommunication equipment for resale	438,072	508,398
Raw materials	191,315	198,150
Spare tools and appliances under maintenance contracts	72,687	47,218
Spare parts	57,423	56,827
Provision for obsolescence	(27,667)	(42,663)
Total inventories	731,830	767,930

13 Long-term Construction Contracts

	31 December 2010	31 December 2009
Revenue recognised from long-term contract	1,164,469	1,111,887
Actual expenses incurred for long-term contract	(659,830)	(440,234)
Profit from long-term contract	504,639	671,653
Total bills issued	1,156,530	1,020,525
Deferred income	7,939	-

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

	31 December 2010	31 December 2009
Trade receivables	2,330,867	1,813,914
Receivables from construction contracts	74,435	311,571
Less: Provision for impairment of trade receivables	(110,082)	(55,045)
Total trade and other receivables	2,295,220	2,070,440

The carrying value of accounts receivable and other receivables, less impairment loss provision is expressed in the following currencies:

	31 December 2010	31 December 2009
Tenge	2,210,675	1,641,367
US Dollar	84,429	429,073
Euro	116	-
Total trade and other receivables	2,295,220	2,070,440

14 Trade and Other Receivables (Continued)

Below is presented the ageing analysis trade receivables:

	31 December 2010	31 December 2009
<i>Current and not impaired</i>		
Trade and other receivable	2,052,945	1,694,013
Construction contracts receivable	74,435	311,571
Total current and not impaired	2,127,380	2,005,584
<i>Past due and not impaired</i>		
From 3 to 6 months	98,076	20,915
From 6 months to 1 year	69,764	43,941
Total past and not impaired	167,840	64,856
<i>Impaired</i>		
More than a year	110,082	55,045
Total impaired	110,082	55,045
Less impairment provision	(110,082)	(55,045)
Total trade and other receivables	2,295,220	2,070,440

Management estimated the value of trade receivables with a maturity of less than one year has not decreased.

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

	2010	2009
At 1 January	55,045	19,201
Provision for receivables impairment	55,671	41,497
Accounts receivable write-off	(634)	(5,653)
At 31 December	110,082	55,045

Creation and release of provision for impaired receivables have been included in "administrative expenses" in the statement of comprehensive income (Note 24). 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

	31 December 2010	31 December 2009
Cash in deposit bank accounts in Tenge and foreign currency	570,374	951,847
Cash in bank in foreign currencies	464,721	129,250
Cash in bank in Tenge	369,560	717,892
Cash on hand	3,542	3,364
Letters of credit	-	28,184
Cash in transit	1,789	2,129
Total cash and cash equivalents	1,409,986	1,832,666

15 Cash and Cash Equivalents (Continued)

Cash and cash equivalents are denominated in following currencies:

	31 December 2010	31 December 2009
Tenge	842,086	1,703,416
US Dollar	529,499	106,194
Euro	37,367	20,257
Russian Rubble	1,034	2,799
Total cash and cash equivalents	1,409,986	1,832,666

In October 2010 the Group signed an agreement with Kazkommertsbank to open a deposit with interest rate of 2.5% p.a. Minimum balance until October 2011 on this deposit is Tenge 30,000 million.

16 Share Capital

(a) Ordinary shares

	Number of outstanding shares (in thousands)	Ordinary shares	Share premium	Total
At 31 December 2009	2,387	46,662	7,009	53,671
At 31 December 2010	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 number of outstanding ordinary shares is 2,387 thousand shares (31 December 2009: 2,387 thousand shares) with a par value of Tenge 20 per share (31 December 2009: 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 2010 the Group acquired 37,846 of its ordinary shares in the amount of Tenge 108,004 thousand which were recognised as treasury shares. At 31 December 2010 treasury shares include 53,995 ordinary shares of the Company (31 December 2009: 16,149 shares for total amount of Tenge 117,491 thousand), 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.

As at 31 December 2010 and 31 December 2009 the following shareholders owned more than 5% of issued and standing ordinary shares of the Company:

Shareholders	Number of ordinary shares 31 December 2010	Number of ordinary shares 31 December 2009	%	%
			31 December 2010	31 December 2009
Rodnik LLP	1,907,556	1,907,556	79.92	79.92
Telecom-Asia LLP	236,561	296,445	9.91	12.42
Total	2,144,117	2,204,001	89.83	92.34

16 Share Capital (Continued)

(b) Preference shares

The total authorised and issued number of preference shares is 115,738 shares (31 December 2009: 115,738 shares), of which the number of outstanding shares is 113,624 shares (31 December 2009: 113,624 shares) with a par value of Tenge 20 per share (31 December 2009: 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 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

On 22 November 2010 the special general meeting of shareholders of the Group dividends in the amount of 221.38 tenge per ordinary share and 221.38 tenge per preferred share were declared. Date of beginning payment of dividends on 2 December 2010.

Below are dividends declared and paid during the period:

	2010		2009	
	Ordinary shares	Preference shares	Ordinary shares	Preference shares
Dividends payable at 1 January	-	1,327	988	1,210
Dividends declared during the period	516,458	25,518	-	2,272
Dividends paid during the period	(66,188)	(25,916)	(988)	(2,155)
Dividends set-off with receivables of Rodnik LLP	(422,295)	-	-	-
Withholding income tax	(293)	(929)	-	-
Dividends payable at 31 December	27,682	-	-	1,327
Dividends per share declared during the period	221.38 Tenge	221.38 Tenge	-	20 Tenge

All dividends are declared and paid in Kazakhstani Tenge. Dividends on preference shares are included within finance costs (Note 26).

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 represented 15.6% of share capital.

18 Borrowings

	31 December 2010	31 December 2009
Bonds (a)	2,626,503	4,196,994
Secured bank loans (b)	462,998	428,596
Finance lease liabilities (c)	9,420	36,485
Cumulative irredeemable preference shares (Note 16)	2,112	2,132
Total borrowings	3,101,033	4,664,207

(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.

First emission of bonds was placed during the period from 13 November 2003 to 23 December 2004. Total issue discount was 165,235 thousand Tenge. On the 26 of July 2010 Group fully repaid the debt on the first bond issue in accordance with the repayment schedule, in the amount of Tenge 2,547,151 thousand.

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. 2,800,000 bonds were sold as at 31 December 2010 (31 December 2009: 1,300,000 bonds). The amount of cash received in 2010 for sale of bonds is equal to Tenge 1,387,598 thousand. 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 300,883 thousand (31 December 2009: 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 2010 was Tenge 147.5 per US Dollar 1 (31 December 2009: Tenge 148.46).

(b) *Bank loans*

Secured bank loans from Citibank denominated in US Dollars have interest rate of LIBOR plus 6.7%, and are revalued each month. Bank loans are repayable till January 2013 and their carrying value is Tenge 352,681 thousand. The loans are secured by the telecom equipment.

Loans from Kazkommertsbank are denominated in US Dollars and have interest rate of 12.5% and amount to Tenge 80,471 thousands repayable till January 2012. Tenge-denominated loans from Kazkommertsbank represent loans bearing fixed interest rate of 16%. Loans in the amount of Tenge 29,846 thousand are repayable till January 2012. The loans are secured by two office buildings, a plot of land, telecommunication equipment, and cash proceeds of the Group under the construction contract with Agip KCO.

On 31 December 2010 the amount of Tenge 1,643,326 thousand in credit lines with Citibank and Kazkommertsbank not used (31 December 2009: Tenge 173,728 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 1 and 2 years	Due between 2 and 5 years	Total
Minimum lease payments at 31 December 2010	6,577	4,129	-	10,706
Less: Deferred income	1,012	274	-	1,286
Present value of minimum lease payments at 31 December 2010	5,565	3,855	-	9,420
Minimum lease payments at 31 December 2009	29,262	5,303	4,672	39,237
Less: Deferred income	1,728	876	148	2,752
Present value of minimum lease payments at 31 December 2009	27,534	4,427	4,524	36,485

Leased assets with carrying amount disclosed in Note 8 are pledged under 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 leased assets (Note 28). Interest rates on finance lease are fixed and vary from 16% to 18%.

The Group's borrowings mature as follows:

	31 December 2010	31 December 2009
Borrowings due:		
- within 1 year	310,720	3,318,913
- between 1 and 5 years	2,790,313	1,345,294
Total borrowings	3,101,033	4,664,207

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

	31 December 2010	31 December 2009
Borrowings denominated in:		
- Kazakhstani Tenge	2,664,455	4,288,958
- US Dollar	436,578	375,249
Total borrowings	3,101,033	4,664,207

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

% per annum	31 December 2010		31 December 2009	
	Tenge	US Dollar	Tenge	US Dollar
Bonds	9.6-19	-	9.6-19	-
Secured bank loans	16	Libor + 6.7 – 12.5	16	Libor + 6.7
Finance lease liabilities	17-18	-	17-18	-

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.

18 Borrowings (Continued)

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

	Carrying amounts		Fair values	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Bonds	2,626,503	4,196,994	2,657,528	4,245,324
Secured bank loans	462,998	428,596	367,666	267,710
Finance lease liabilities	9,420	36,485	3,280	17,069
Cumulative irredeemable preference shares	2,112	2,132	2,112	2,132
Total borrowings	3,101,033	4,664,207	3,030,586	4,532,235

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"). This liability arose in the beginning of 2007 due to introduction of new environmental code in the Republic of Kazakhstan.

Below are changes in provisions for asset retirement obligations:

	2010	2009
Carrying amount at 1 January	350,106	404,194
Additions for new communication lines	-	240
Unwinding of the present value discount	26	29,842
Increase / (decrease) of obligation due to change in estimates	(155,232)	(84,170)
Carrying amount at 31 December	218,681	350,106

The amount of provision for asset retirement obligations was calculated using current prices (the prices effective at the reporting date) for expenditures to be incurred and then inflated using the forecast inflation rate effective for the period until the settlement of obligations. The discount rate used to calculate present value of the liability at 31 December 2010 was 3.7% per annum (31 December 2009: 6.8 % per annum), inflation rate - 5.2% per annum (31 December 2009: 7% per annum).

20 Trade and Other Payables

	31 December 2010	31 December 2009
Trade payables	796,302	467,815
Total financial liabilities	796,302	467,815
Provision for management compensation	228,450	170,855
Provision for unused vacation	209,425	304,996
Value added tax	155,268	158,615
Individual income tax payable	59,630	38,190
Payments to pension funds	43,251	37,946
Payables to employees	46,182	66,510
Dividends payable	27,682	1,327
Advances received	27,422	110,825
Deferred income	7,939	-
Corporate income tax	-	3,703
Other payables	27,807	15,119
Total trade and other payables	1,629,358	1,375,901

Trade payables of Tenge 116,627 thousand (31 December 2009: Tenge 56,596 thousand) are denominated in foreign currency, mainly in US dollars.

21 Revenue

	2010	2009
Technical maintenance	4,222,756	4,149,225
Line cable communication services	3,512,329	2,633,802
Revenue from construction contract	1,164,469	1,111,887
Satellite communication services	1,246,768	1,191,579
Local telephone and trunk communication services	370,390	264,539
Equipment installation and sales	242,823	148,757
Discounts	(9)	(4,915)
Total revenue	10,759,526	9,494,874

22 Cost of Sales

	2010	2009
Payroll expenses and personnel costs	2,349,685	2,446,834
Lease of communication facilities and other equipment	888,228	736,218
Equipment, materials and consumables	791,917	413,865
Depreciation and amortisation	644,768	697,161
Communication services	522,160	406,894
Independent contractors	514,044	697,388
Repair and maintenance expenses	261,705	172,995
Business trip expenses	79,585	67,916
Utilities	68,721	55,467
Transportation expenses	58,581	52,765
Other	41,964	54,607
Total cost of sales	6,221,358	5,802,110

23 Other operating income

	Прим.	2010	2009
Change in estimate in calculation of asset retirement obligation	19	155,232	83,482
Sale of other goods		89,777	-
Rent services		20,088	6,759
Other		24,233	65,639
Total other operating income		289,330	155,880

In 2010 the Group's management reconsidered its obligations and intentions on cable communication line (CCL) dismantling, built inside of the protective polyethylene pipe (PPP) and concluded that due to absence of negative environmental effect of PPP the Group has no obligation for CCL dismantling, built inside of the PPP. As capitalised asset reached the end of its useful life, changes in the liability were recognised in other operating income in accordance with the Group's accounting policy.

24 Distribution costs

	2010	2009
Payroll expenses and personnel costs	232,261	216,722
Marketing expenses	26,857	19,832
Communication services	5,910	4,569
Materials	4,400	3,071
Business trip expenses	4,104	2,287
Depreciation and amortisation expenses	1,808	1,695
Other	13,776	7,265
Total distribution costs	289,116	255,441

25 General and Administrative Expenses

	2010	2009
Payroll expenses and personnel costs	872,993	758,762
Taxes other than income tax	160,659	136,733
Third parties services	128,110	46,146
Bank charges	53,448	53,615
Depreciation and amortisation	50,920	49,986
Professional and consulting services	28,004	27,465
Business trip expenses	42,481	19,842
Doubtful debt provisions	55,671	42,017
Communication services	16,170	13,540
Rent	11,502	9,567
Materials	12,321	55,458
Reserve for obsolete inventory	(14,996)	-
Other	52,056	68,449
Total general and administrative expenses	1,469,339	1,281,580

26 Finance Income

	2010	2009
Bank interest income	73,619	-
Foreign exchange gains on bank deposits and accounts receivable	34,928	687,221
Other interest income	13,034	68,593
Total finance income	121,581	755,814

27 Finance Costs

	Note	2010	2009
Interest expenses		363,104	420,158
Unwinding of present value discount on bonds		127,738	50,192
Losses from exchange rate differences on borrowings		50,702	586,247
Preference share dividends		25,519	2,272
Unwinding of present value discount on asset retirement obligation	19	23,807	29,842
Total finance costs		590,870	1,088,711

28 Income Tax

Income tax expense comprises the following:

	2010	2009
Current tax	371,562	382,020
Deferred tax	297,634	355
Deferred tax (ERP Services LTD)	5,219	(11,073)
Income tax expenses for the year	674,415	371,302

28 Income Taxes (Continued)

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

	2010	2009
IFRS profit before tax	2,586,669	1,930,160
Theoretical tax charge at statutory rate 20% (2009: 20%).	517,334	386,032
Tax effect on non-deductible non-assessable items:		
- Effect of the difference between the statutory tax rate and tax rate effective during the period of reversal of the temporary differences and change in tax rates	117,458	(29,544)
- Effect of the difference between the statutory tax rate and tax rate effective during the period of reversal of the temporary differences and change in tax rates (ERP-Services LTD)	1,489	(797)
- Effect of prior year adjustment of tax base (Note 30)	21,264	-
- Other	16,870	15,611
Income tax expense for the year	674,415	371,302

28 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.

	31 December 2008	Charged to profit and loss	31 December 2009	Charged to profit and loss	31 December 2010
Tax effect of deductible temporary differences					
Impairment provision for receivables	2,062	8,947	11,009	9,216	20,225
Accruals	34,147	44,374	78,521	8,243	86,764
Accruals (ERP-Services LTD)	3,707	10,627	14,334	(3,877)	10,457
Bonds	5,455	4,583	10,038	15,510	25,548
Provisions for asset retirement obligations	46,736	23,128	69,864	(26,128)	43,736
Property, plant and equipment and intangible assets (ERP-Services LTD)	6,923	(1,331)	5,592	(1,342)	4,250
Gross deferred income tax asset	99,030	90,328	189,358	1,622	190,980
Tax effect of taxable temporary differences					
Property, plant and equipment and intangible assets	354,827	87,082	441,909	304,475	746,384
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	304,475	746,384
Recognised deferred income tax asset (ERP-Services LTD)	8,853	11,073	19,926	(5,219)	14,707
Recognised deferred income tax liability	272,122	355	272,477	297,634	570,111

At 31 December 2010 deferred tax asset of Tenge 8,617 thousand and deferred tax liability of Tenge 47,589 thousand are expected to be recovered within next 12 months (31 December 2009: Tenge 113,902 and 12,242 thousand, respectively)

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.

29 Earnings per Share

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 period for each class of shares. The remaining profit or loss is allocated to ordinary shares and preferred 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.

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

29 Earnings per Share (Continued)

Earnings per share are calculated as follows:

	31 December 2010	31 December 2009
Amount of shares		
Ordinary shares	2,387	2,387
Treasury shares	54	16
<i>Ordinary shares net of treasury shares</i>	<i>2,333</i>	<i>2,371</i>
Preferred shares	114	114
Treasury shares	7	3
<i>Preferred shares net of treasury shares</i>	<i>107</i>	<i>111</i>
Total number of shares	2,440	2,482
Profit for the year attributable to the Group's shareholders	1,912,254	1,558,858
Less:		
Minimum cumulative dividends on preferred shares	2,140	2,220
Retained earnings	1,910,116	1,556,638
Allocation to ordinary shareholders	1,826,353	1,487,022
Allocation to preferred shareholders	83,763	69,616
Retained Earnings	1,910,116	1,556,638
Basic earnings per share:		
Preferred shares		
Distributed earnings	20	20
Retained earnings	782.83	627.19
Total earnings per share	802.83	647.19
Ordinary shares		
Retained earnings	782.83	627.19

30 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.

30 Contingencies, Commitments and Operating Risks (Continued)

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 2010 the Group recognised no provision for potential tax liabilities (31 December 2009: nil). 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. 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.

On 17 November 2009 the President of the Republic of Kazakhstan approved new amendments and corrections to the Tax Code, Main amendments included: extension of the 20% CIT rate till 1 January 2013, and application of rate 17.5% in 2014 and 15% afterwards.

On 26 November 2010, the President of the Republic of Kazakhstan signed the "Law on amendments and addenda to some legislative acts of the Republic of Kazakhstan on issues of taxation", according to which the corporate income tax rate was fixed at 20 percent without changes in rates in subsequent years. Changes in rates of CIT influenced amount of deferred tax liability as of 31 December 2010 (Note 27).

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 laying. 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.

30 Contingencies, Commitments and Operating Risks (Continued)

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.

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 of low liquidity 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 years 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.