Logycom JSC

Consolidated financial statements

31 December 2013

CONTENTS

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Independent auditors' report

To the Shareholders of Logycom JSC

We have audited the accompanying consolidated financial statements of Logycom JSC and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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Basis for qualified opinion

The Group did not disclose the ultimate shareholder of the Group, as it required under IAS 24 Related party disclosure.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Logycom JSC as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Aisulu Narbayeva
Auditor

Auditor Qualification Certificate No. 0000137
dated 21 October 1994

Evgeny Zhemaletdinov
General Director
Ernst and Young LLP

State Audit License for audit activities on
the territory of the Republic of Kazakhstan:
series МФЮ-2 No. 0000003 issued by
the Ministry of Finance of the Republic of Kazakhstan
on 15 July 2005

15 May 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

In thousands of Tenge	Note	2013	2012
ASSETS			
Non-current assets			
Property and equipment	5	**1,911,317**	1,991,741
Investment property	6	**65,811**	742,501
Intangible assets		**2,985**	2,311
Long-term receivables		**4,831**	4,831
		1,984,944	2,741,384
Current assets			
Inventory	7	**3,849,079**	7,020,732
Trade and other accounts receivable	8	**9,829,466**	5,539,504
Advances paid	9	**839,241**	2,361,447
VAT recoverable and other taxes prepaid		**9,028**	720,275
Corporate tax rate prepaid		**12,303**	10,088
Cash and cash equivalents	10	**509,208**	376,047
		15,048,325	16,028,093
TOTAL ASSETS		**17,033,269**	18,769,477
EQUITY AND LIABILITIES			
Charter capital	11	**1,385,514**	1,385,513
Revaluation reserve	11	**815,022**	829,377
Retained earnings		**1,438,634**	1,266,180
TOTAL EQUITY		**3,639,170**	3,481,070
Non-current liabilities			
Deferred tax liability	21	**253,545**	287,543
		253,545	287,543
Current liabilities			
Borrowings	12	**10,485,423**	5,698,827
Trade accounts payable	13	**620,327**	8,897,185
Income tax liabilities		**–**	27,674
Advances received	14	**1,844,131**	304,279
Other payables and accrued liabilities	15	**190,673**	72,899
		13,140,554	15,000,864
TOTAL LIABILITIES		**13,394,099**	15,288,407
TOTAL EQUITY AND LIABILITIES		**17,033,269**	18,769,477

Shvalov S.A.
President

Demidenko N.S.
Chief Accountant

The accounting policies and explanatory notes on pages 6 to 33 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

In thousands of Tenge	Note	2013	2012
Revenue	16	**24,847,054**	26,599,309
Cost of sales	17	**(22,636,919)**	(24,432,766)
Gross profit		**2,210,135**	2,166,543
General and administrative expenses	18	**(778,523)**	(648,984)
Selling expenses	19	**(509,517)**	(461,848)
Other operating income		**7,521**	1,819
Other operating expenses		**(904)**	(197)
Income from adjustment of fair value of investment property	6	**3,161**	83,052
Loss from adjustment of fair value of property and equipment		**–**	(6,313)
Loss from disposal of property and equipment, net		**(5,104)**	(1,396)
Operating profit		**926,769**	1,132,676
Net foreign exchange loss		**(46,470)**	(58,088)
Finance income		**7,795**	242
Finance costs	20	**(655,900)**	(556,818)
Gain on disposal of subsidiary	23	**1,580**	–
Profit before tax		**233,774**	518,012
Income tax expense	21	**(60,675)**	(103,635)
Profit for the year		**173,099**	414,377
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of property and equipment		**–**	(122,135)
Impact of income tax	21	**–**	24,427
Other comprehensive loss for the year, net of tax		**–**	(97,708)
Total comprehensive income for the year, net of tax		**173,099**	316,669
Earnings per share	11	**82.46**	197.39

Shvalov S.A.
President

Demidenko N.S.
Chief Accountant

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

In thousands of Tenge	Share capital	Retained earnings	Revaluation reserve	Total
At 1 January 2012 (unaudited)	1,385,513	873,596	934,682	3,193,791
Profit for the year	–	414,377	–	414,377
Revaluation of property and equipment, less deferred tax *(Note 5)*	–	–	(97,708)	(97,708)
Total comprehensive income	–	414,377	(97,708)	316,669
Amortisation of revaluation reserve *(Note 11)*	–	7,597	(7,597)	–
Dividends *(Note 11)*	–	(29,390)	–	(29,390)
As at 31 December 2012	1,385,513	1,266,180	829,377	3,481,070
Profit for the year	**–**	**173,099**	**–**	**173,099**
Total comprehensive income	**–**	**173,099**	**–**	**173,099**
Contribution to the charter capital	1	–	–	1
Amortisation of revaluation reserve *(Note 11)*	–	14,355	(14,355)	–
Dividends *(Note 11)*	–	(15,000)	–	(15,000)
At 31 December 2013	**1,385,514**	**1,438,634**	**815,022**	**3,639,170**

Shvalov S.A.
President

Demidenko N.S.
Chief Accountant

The accounting policies and explanatory notes on pages 6 to 33 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

In thousands of Tenge	Note	2013	2012
Operating activities			
Profit before tax		**233,774**	518,012
Adjustments to reconcile profit before tax to net cash flow:			-
Depreciation and amortization		**91,548**	78,575
Write-off of inventories to their net realizable value	7	**5,839**	1,675
Accrual / (recovery) of provision for doubtful debts	8, 9	**10,000**	(18,117)
Finance costs		**655,900**	556,818
Finance income		**(7,795)**	–
Unrealized foreign exchange loss		**46,470**	11,118
Loss from disposal of property and equipment		**5,104**	1,396
Income from revaluation of property, plant and equipment and adjustment of fair value of investment property		**(3,161)**	(76,739)
Income from sale of subsidiary	23	**(1,580)**	–
Working capital adjustments:			
Changes in inventories		**3,165,420**	(6,723,321)
Changes in trade receivables		**(4,307,438)**	413,144
Changes in advances paid		**1,521,223**	(1,666,544)
Changes in trade payable		**(8,017,279)**	7,632,756
Changes in advances received		**1,772,837**	(446,221)
Changes in other accounts payable and accrued liabilities		**215,089**	(462,998)
Changes in VAT recoverable and other taxes prepaid		**656,015**	(674,508)
Disposal of cash used in operating activities		**(3,958,034)**	(854,954)
Income tax paid		**(72,946)**	(48,827)
Interest paid on loans		**(638,113)**	(527,108)
Net cash flows used in operating activities		**(4,669,093)**	(1,430,889)
Investing activities:			
Purchase of property, plant and equipment		**(97,623)**	(168,507)
Purchase of investment property		**(17,924)**	(223,010)
Purchase of intangible assets		**(1,113)**	(1,504)
Proceeds from sale of property, plant and equipment		**45,877**	3,291
Proceeds from sale of investment property		**33,061**	
Proceeds from sale of subsidiary, net	23	**246**	–
Net cash outflows used in investing activities		**(37,476)**	(389,730)
Financing activities			
Proceeds from loans		**30,761,801**	13,085,948
Repayment of loans		**(25,907,072)**	(11,101,377)
Dividends paid	11	**(15,000)**	(27,921)
Equity issue	11	**1**	–
Net cash flows from financing activities		**4,839,730**	1,956,650
Net increase in cash and cash equivalents		**133,161**	136,031
Cash and cash equivalents, beginning		**376,047**	240,016
Cash and cash equivalents, ending	10	**509,208**	376,047

Shvalov S.A.
President

Demidenko Y.S.
Chief Accountant

The accounting policies and explanatory notes on pages 6 to 33 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. CORPORATE INFORMATION

Logycom JSC (hereinafter "the Company") was established on 20 November 1998 in accordance with the legislation of the Republic of Kazakhstan and operates based on the re-registration certificate of the Ministry of Justice of the Republic of Kazakhstan No. 22715-1910-AO dated 12 April 2005.

The registered office of the Company was located at the address: Republic of Kazakhstan, Almaty Baizakov Str., corner of Dzhandosov Str., 293/2.

The Company carries out activities related to sale and implementation of IT solutions, assembly and sale of IT equipment. The Company and its subsidiaries (hereinafter collectively referred to as "the Group") mentioned in *Note 2*, possess production capacities in Almaty and sell manufactured products mainly in the Republic of Kazakhstan.

The coupon bonds of the Company are placed at Kazakhstan Stock Exchange (KASE) and included into the list of dent securities without rating evaluation of the first subcategory of KASE.

As at 31 December 2013 the shareholders of the Company and shares of their participation are presented as follows:

	Citizenship	**2013**	2012
KS8 Holding B.V.	Netherlands	**100.00%**	–
Mr. Shvalov S.A.	Kazakhstan	–	81.44%
Mr. Krugov M.A.	Kazakhstan	–	18.56%
		100.00%	100.00%

On 11 April 2013 the company KS8 Holding B.V. acquired 100% of shares of the Group from previous shareholders.

These consolidated financial statements of the Group were approved for issue by the management of the Group on 15 May 2014.

2. BASIS OF PREPARATION

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

The consolidated financial statements have been prepared on a historical cost basis, except for the following investment property, land, buildings and constructions classified as property and equipment measured at fair value and. The consolidated financial statements are presented in Kazakhstan tenge ("tenge" or "KZT") and all values are rounded to the nearest thousands, except when otherwise indicated..

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2013. Control is achieved when the Group is exposed, or has the right, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee only if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group has directly disposed of the related assets or liabilities.

Subsidiaries

As at 31 December 2013 and 2012, the Group had shareholding ownership in the following subsidiary companies, which are included into the consolidated financial statements:

Name	Country of incorporation	Principal activities	Shareholding December 31 2013	Shareholding December 31 2012
LC Commerce LLP	Kazakhstan	Advertising and information services	**100%**	100%
Logycom LLP	Kazakhstan	Sale of computer equipment	**100%**	100%
Daneker Sala LLP	Kazakhstan	Sale of computer equipment	**100%**	–
Saikan LLP	Kazakhstan	Sale of computer equipment	**–**	100%

On 13 September 2013 the Group purchased 100% of controlling interest in Daneker Sala LLP. Cash consideration paid amounted to 150 thousand Tenge.

On 11 March 2013 the Group sold its 100% of controlling interest in Saikan LLP. Cash consideration received amounted to 300 thousand Tenge.

Assets and liabilities of subsidiaries at the date of purchase and sale and the result of the disposal are disclosed in *Note 23*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

The accounting policies of the Group adopted are consistent with those of the previous financial year, except for the following new and amended IFRS effective as at 1 January 2013:

- IFRS 10 *Consolidated Financial Statements* and IAS 27 *Separate Financial Statements*;
- FRS 11 *Joint Arrangements* and IAS 28 *Investment in Associates and Joint Ventures*;
- IFRS 12 *Disclosure of Interests in Other Entities*;
- IFRS 13 *Fair Value Measurement*;
- IAS 1 *Presentation of Items of Other Comprehensive Income* – Amendments to IAS 1;
- IAS 1 *Clarification of the Requirement for Comparative Information* (Amendment);
- IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* – Amendments to IFRS 7;
- IAS 19 *Employee Benefits* (revised 2011);
- IAS 36 *Impairment of Assets: Disclosures on Recoverable Amount for Non-financial Assets* (Amendments).

The nature and the impact of each new standards and amendments are described below:

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*.
IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11 eliminates the possibility of accounting for jointly controlled entities using the proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* and is effective for annual periods beginning on or after 1 January 2013.

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed – IAS 28 *Investments in Associates and Joint Ventures*. Revised standard describes the application of the equity method to investments in joint ventures in addition to associates. Amendment is effective for annual periods beginning on 1 January 2013.

The adoption of these standards and amendments did not have any impact on the financial position or performance of the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements to disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. While the Group does not have subsidiaries with material non-controlling interests, there are no unconsolidated structured subsidiaries. Application of IFRS 12 has not had an impact on the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures.* Some of these disclosures are specifically required for financial instruments under IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements. These requirements have not materially impacted the fair value measurements carried out by the Group.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net loss or gain on available-for-sale financial assets) have to be presented separately from items that will not be reclassified (for example, revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

IAS 1 Clarification of the Requirement for Comparative Information (Amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendment clarifies that the opening statement of financial position (as at 1 January 2012 in case of the Group) presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. As a result, the Group has not included comparative information in respect to the opening statement of financial position as at 1 January 2012. The amendments affect presentation only and have no impact on the Group's financial position or performance.

IFRS 7 Financial Instruments Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation.* The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments did not have any impact on the Group's financial position or performance.

IAS 19 Employee Benefits (Revised 2011)

The IFRS Board issued amendments to IAS 19 *Employee Benefits*, which become effective for annual periods beginning on or after 1 January 2013. The amendments make significant changes in accounting for employee benefits, in particular they remove the possibility of deferred recognition in plan assets and liabilities (corridor mechanism).

In addition, these amendments limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. The amendments had no impact on the consolidated financial statements of the Group.

IAS 36 Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets (Amendments)

These amendments remove unintended consequences for disclosures in accordance with IAS 36, associated with IFRS 13 coming into effect. In addition, these amendments require disclosure of information on asset's or CGU recoverable amount on which impairment loss was recognized or reimbursed during the reporting period. These amendments are applied retrospectively for annual periods beginning on or after 1 January 2014. The amendments are deemed to have no impact on the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015, in subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities(Amendments)

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IFRIC Interpretation 21 Levies (Interpretation of IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group has not notated its derivatives during the current period. These amendments are not expected to be relevant to the Group.

Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realized or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification (continued)

All other assets are classified as non-current. A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Foreign currency translation

The Group's consolidated financial statements are presented in tenge, which is also the parent company`s functional and presentation currency. For each entity the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group`s entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

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

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

The table below discloses spot exchange rates of tenge as at 31 December 2013 and 2012:

	31 December 2013	31 December 2012
US Dollar	**154.06**	**150.74**
Euro	**211.17**	**199.22**
Russian Rouble	**4.69**	**4.96**

Property and equipment

Property and equipment is stated at cost, except for land, buildings and constructions, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit and loss as incurred.

After initial recognition at acquisition cost, land, buildings and constructions are measured at fair value less accumulated depreciation and impairment losses.

Revaluation frequency is determined so as to avoid significant deviations between the fair value of revalued asset and its carrying amount. Accumulated depreciation as at the date of revaluation is eliminated against total carrying amount of an asset and the net amount is restated to the revalued asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Revaluation surplus is recorded within other comprehensive income and charged to increase of reserve for revaluation of assets included within equity except for its part, which reverses a loss from revaluation of the same asset recognized due to previously held revaluation within profit or loss. Revaluation loss is recognized in the statement of comprehensive income except for its part, which directly decreases its position revaluation on the same asset previously recognized within revaluation reserve.

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

	Years
Buildings and constructions	10-50
Machinery and equipment	3-14
Vehicles	3-10
Other	10-12

Land is not depreciated.

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

Construction in progress represents tangible fixed assets under construction and is measured at cost. This includes cost of construction and equipment and other direct costs. Construction in progress is not depreciated until relevant assets are completed and put into operational use.

Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to profit or loss in the period when such costs are incurred. Expenditures that have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of tangible fixed assets beyond its originally assessed standard performance are capitalized as an additional cost of fixed assets.

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

Investment property

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is recorded at fair value, which reflects market terms at the reporting date. Income or expense arising from change in the fair value of investment property is included within profit or loss for that reporting period, in which they occurred including the respective impact of profit tax. The fair value is determined annually by an accredited independent appraiser using the valuation model in accordance with recommendations of International Committee on Valuation Standards.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

Impairment losses are recognised in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

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

Financial assets

Initial recognition

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

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

The Group's financial assets include cash and cash equivalents, trade and other receivables.

Subsequent measurement

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised (i.e. removed from the Group's statement of financial position) when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

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

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in statement of comprehensive income. Interest income (recorded as finance income in the statement of comprehensive income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings.

Subsequent measurement

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

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of comprehensive income.

Trade and other accounts payable

Trade and other payables are measured at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and net amount is reported in the consolidated statement of financial position if there is a legal right to offset the recognized amounts and the Company intends to settle on a net basis, to realize the asset and settle the liability simultaneously.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments not traded at an active market, fair value is determined by using appropriate valuation methods. Such methods may include using recent arm's length market transactions, reference to the current fair value of similar instruments; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in *Note 25*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory

Inventories are valued at the lower of cost and net realizable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials: purchase cost on a weighted average basis;
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less from origination date.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

Provision for warranty repair

Provisions for costs associated with warranty liabilities are recognized when the products are sold or the services are rendered. Initial recognition is based on previous experience. Initial estimate of costs associated with warranty liabilities is reviewed annually.

Employee benefits

Social tax

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. Social tax is recognized as an expense when it occurs.

Pension deductions

The Group withholds up to 10% from the salary of its employees as contribution to designated pension funds. In accordance with requirements of the legislation, the Group is responsible for payment of retirement benefits on behalf of its employees. The Group has no present or future obligations to further benefit its employees upon their retirement.

Leases

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

Group as a lessee

Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight line basis over the lease term.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue from sales in the period in which they are earned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, irrespective of the period of payment. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, and sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in the majority of such arrangements. The following specific recognition criteria must be met before revenue is recognised:

Sale of goods

Revenue from sales of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

Rendering of services

Revenue from provision of services is recognized depending on the degree of work completion as at the reporting date on condition that the degree of completion and revenue may be reliably determined.

Income from lease

Revenue from operating lease of investment property is recorded based on a straight line basis over the term of lease and included within income in the consolidated statement of comprehensive income.

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of comprehensive income.

Expense recognition

Expenses are recognized for at the time the actual receipt of the related goods or services, regardless of when cash or its equivalent is paid, and are reported in the financial statements in the period to which they relate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to prepare it for use in accordance with the intentions or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occurred. Borrowing cost consist of interest and other costs that an entity incurs in connection with borrowing of funds.

Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the Republic of Kazakhstan.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes (continued)

Deferred income tax

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures, and disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of asset or liability affected in the future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Revaluation of property and equipment and investment property

The Group accounts for investment property at the fair value with changes in the fair value recognised in the consolidated statement of comprehensive income. Besides, the Group measures land, buildings and constructions within property and equipment based on the revaluation model with changes in the fair valued recognized within other comprehensive income. In 2013 and 2012 the Group engaged an independent appraiser for the purpose of determining the fair value of investment property as at 31 December 2013 and 2012 and recognized gain from the change in the fair value in the amount of 3,161 thousand Tenge (2012: 83,052 thousand Tenge) (*Note 6*). In 2012 the Group engaged an independent appraiser for the purpose of determining the fair value of land, buildings and construction which are classified as property and equipment and measured at fair value based on accounting policy. Accordingly, as at 31 December 2012 the Group recognized loss from revaluation of property and equipment, net of tax, in the amount of 97,708 thousand Tenge within other comprehensive income (*Note 11*). As at 31 December 2013 the Group did not perform the revaluation of property and equipment.

Land, buildings and constructions were measured based on market data using comparable prices adjusted for certain market factors (nature, location and condition of objects).

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. As of 31 December 2013 and 2013 the Group did not recognized the loss from impairment

The determination of impairment of property and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in the restructuring process, expectations of growth in the related industry, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The recoverable amount and the fair values are typically determined using a discounted cash flow method which incorporates reasonable market participant assumptions. The identification of impairment indicators, the estimation of future cash flows and the determination of fair values for assets (or group of assets) requires management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values.

Taxation

For the tax risks assessment, management considers probability of obligations related to tax positions for which the Group would not appeal on accruals made by tax authorities or does not believe in successful outcome of such appeal. Such estimates involve significant judgment and are subject to change as a result of changes in tax laws and regulations, expected outcomes from pending tax proceedings and outcome of ongoing tax inspections performed by tax authorities. Tax liabilities of the Group are disclosed in *Note 15* and contingent liabilities in *Note 24*.

Provisions

The Group makes provisions for doubtful trade receivables. Significant judgment is used to estimate doubtful debts. In estimating doubtful debts, historical and anticipated client performances are considered. Changes in the economy, industry, or specific customer characteristics may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As at 31 December 2013 the Group formed provisions for doubtful accounts in the amount of KZT 21,806 thousand (In 2012: KZT 11,806 thousand) (*Notes 8, 9*).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. PROPERTY AND EQUIPMENT

Movement in property and equipment for the year ended 31 December 2013 is presented below:

In thousands of Tenge	Land	Buildings and constructions	Equipment	Vehicles	Other	Construction in progress	Total
Cost or valuation							
At 1 January 2012	796,371	1,150,224	211,703	55,247	128,572	–	2,342,117
Additions	–	4,080	11,341	56,056	25,729	71,301	168,507
Transfers	–	180,031	(84,540)	–	(57,307)	(38,184)	–
Disposals	–	–	(1,327)	(9,112)	(3,741)	–	(14,180)
Revaluation	(442,074)	313,626	–	–	–	–	(128,448)
Elimination of accumulated depreciation as a result of property and equipment revaluation	–	(229,653)	–	–	–	–	(229,653)
At 31 December 2012	354,297	1,418,308	137,177	102,191	93,253	33,117	2,138,343
Additions	–	**2,706**	**36,452**	**10,474**	**13,939**	**33,803**	**97,374**
Transfers	–	**9,372**	**57,279**	**111**	**158**	**(66,920)**	–
Disposals	–	–	**(37,703)**	**(112,776)**	**(9,973)**	–	**(160,452)**
At 31 December 2013	**354,297**	**1,430,386**	**193,205**	–	**97,377**	–	**2,075,265**
Accumulated depreciation							
At 1 January 2012	–	148,780	66,756	28,625	63,176	–	307,337
Depreciation charge	–	39,734	19,684	10,317	8,676	–	78,411
Transfers	–	41,139	(17,877)	–	(23,262)	–	–
Disposals	–	–	(509)	(7,079)	(1,905)	–	(9,493)
Elimination of accumulated depreciation as a result of property and equipment revaluation	–	(229,653)	–	–	–	–	(229,653)
At 31 December 2012	–	–	68,054	31,863	46,685	–	146,602
Depreciation charge	**–**	**43,489**	**34,489**	**4,405**	**8,850**	**–**	**91,233**
Disposals	**–**	**–**	**(28,545)**	**(36,268)**	**(9,074)**	**–**	**(73,887)**
At 31 December 2013	**–**	**43,489**	**73,998**	**–**	**46,461**	**–**	**163,948**
Net book value							
As 31 December 2011	796,371	1,001,444	144,947	26,622	65,396	–	2,034,780
At 31 December 2012	354,297	1,418,308	69,123	70,328	46,568	33,117	1,991,741
At 31 December 2013	**354,297**	**1,386,897**	**119,207**	–	**50,916**	–	**1,911,317**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. PROPERTY AND EQUIPMENT (continued)

Land, buildings and construction were revalued as at 31 December 2012 by the accredited independent appraisers based on market data using comparable prices.

As a result of revaluation the Group recognized the decrease of carrying value of certain classes of fixed assets on the amount of KZT 122,135 thousand that was debited as a revaluation reserve, net of tax, in the amount of 97,708 thousand Tenge since it was related to previously recognized positive revaluation, and decrease of certain classes of fixed assets on the amount of KZT 6,313 thousand that was recognized in the consolidated statement of comprehensive income as a loss from revaluation of fixed assets. Also, as a result of revaluation, accumulated depreciation has been eliminated against gross value of property and equipment and net carrying amount has been reduced to revalued cost of property and equipment.

The carrying amount of each class of property and equipment, which would have been recognized in the consolidated financial statements, if property and equipment are stated at historical cost less accumulated depreciation and accumulated allowance for impairment is as follows:

In thousands of Tenge	Land	Buildings and con-structions	Equipment	Vehicle	Other	Con-struction-in-progress	Total
At 31 December 2012	**39,915**	**665,358**	**119,207**	**-**	**50,916**	**-**	**875,396**
At 31 December 2011	39,115	696,769	69,123	70,328	46,568	33,117	955,020

Disposals mainly represented by property and equipment, previously held by subsidiary, Saikan LLP. Saikan LLP was sold in 2013 *(Note 23)*.

As at 31 December 2013 certain items of property and equipment, net carrying amount of which was KZT 1,269,588 thousand (2012: KZT 1,671,571 thousand) were pledged as collateral under certain loans of the Group (*Note 12*).

As at 31 December 2013 property and equipment with the cost of KZT 24,449 thousand were fully depreciated (2012: KZT 23.997 thousand).

6. INVESTMENT PROPERTY

In thousands of Tenge	Land	Buildings and constructions	Total
Cost			
At 1 January 2012	82,351	354,088	436,439
Additions	34,319	188,691	223,010
Adjustment of fair value	(21,268)	104,320	83,052
At 31 December 2012	95,402	647,099	742,501
Additions	4,500	11,408	15,908
Adjustment of fair value	12,859	(9,698)	3,161
Disposals	(81,454)	(614,305)	(695,759)
At 31 December 2013	**31,307**	**34,504**	**65,811**

As at 31 December 2013certain items of investment property, carrying amount of which was KZT 27,445 thousand (2012: KZT 742,501 thousand) were pledged as collateral under certain loans of the Group *(Note 12)*.

Investment property is recorded at fair value, which was determined as a result of valuation performed by accredited independent appraisers of BEM Appraisals LLP as at 31 December 2013. The fair value of investment property items was determined based on market data using comparable prices adjusted for certain market factors.

Disposals mainly represented by investment property, previously held by subsidiary Saikan LLP. This investment property mainly comprised land plots and non-living space provided for rent. Saikan LLP was sold in 2013 *(Note 23)*.

In thousands of Tenge	**2013**	2012
Lease income from investment property	**18,821**	168,831
Direct operating expenses including repair and technical maintenance, which resulted in deriving of lease income	**(2,380)**	(151,948)
Net profit from investment property recorded at fair value	**16,441**	16,883

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INVENTORIES

As at 31 December inventory comprised:

In thousands of Tenge	2013	2012
Goods	**3,814,727**	6,988,285
Finished products	**27,457**	8,079
Materials	**11,468**	30,117
Work in progress	**7,631**	616
Less: provision for Write-off to net cost of sale	**(12,204)**	(6,365)
	3,849,079	7,020,732

The goods represent electronic equipment sold by the Group, electronic components, computers and components and radio and electronic devices. The goods serve as collateral under certain loans of the Group. Goods for sale with carrying amount of KZT 3,849,079 thousand were pledged as collateral under certain loans of the Group *(Note 12)*.

Changes in the provision for obsolete and illiquid inventories for the years ended 31 December are presented as follows:

In thousands of Tenge	2013	2012
As at 1 January	**(6,365)**	(4,690)
Accrual of provision for write-off of inventories to their net realizable value *(Note18)*	**(5,839)**	(1,675)
At 31 December	**(12,204)**	**(6,365)**

8. TRADE AND OTHER ACCOUNTS RECEIVABLES

As at 31 December trade receivables comprised the following:

In thousands of Tenge	2013	2012
Trade accounts receivable from third parties	**9,346,807**	2,782,825
Trade accounts receivable from related parties *(Note 22)*	**479,918**	2,748,991
Other accounts receivable	**21,569**	16,532
Less: allowance for doubtful debt	**(18,828)**	(8,844)
	9,829,466	5,539,504

As of 31 December 2013 trade accounts receivable from third parties comprised amounts due from National Information Systems JSC totalling KZT 4,246,807 thousand for IT equipment sold during 2013.

The movements in the allowance for doubtful debts were as follows for the years ended 31 December:

In thousands of Tenge	2013	2012
As at 1 January	**(8,844)**	(46,484)
(Accrual) /recovery of reserve *(Note 18)*	**(9,984)**	18,117
Write off	**–**	19,523
At 31 December	**(18,828)**	(8,844)

As at 31 December the ageing analysis of trade accounts receivable is as follows:

In thousands of Tenge	Total	Neither past due nor impaired	Past due but not impaired 1-3 months	3-6 months	6-9 months	9-12 months
2013	**9,829,466**	**9,243,874**	**584,607**	**248**	**635**	**102**
2012	5,539,504	5,515,839	10,705	5,186	-	7,774

At 31 December the Group's trade accounts receivable were denominated in various currencies as follows:

In thousands of Tenge	2013	2012
Tenge	**9,829,466**	5,343,361
RUR	**–**	188,430
US dollar	**–**	7,713
	9,829,466	5,539,504

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. ADVANCES PAID

As at 31 December advances paid comprised:

In thousands of Tenge	2013	2012
Advances paid for goods to third parties	**740,433**	235,619
Advances paid for services to third parties	**96,485**	18,401
Advances paid for goods to related parties *(Note 22)*	**5,301**	2,110,389
Less: impairment allowance	**(2,978)**	(2,962)
	839,241	2,361,447

As at December 31 2013 advance paid were mainly related to advances paid to Hewlett-Packard company and INGROSS LTD LLC in the amount of 414,028 thousand Tenge and 208,252 thousand Tenge, respectively, for the delivery of IT equipment. The delivery of the equipment will be completed in 2014.

As at 31 December 2012 advances paid were related to LC Trade LLP, related party, for the delivery of IT equipment in the amount of 2.110.389 thousand Tenge. The delivery of this equipment was fully completed by LC Trade LLP during 2013.

The movements in the allowance for doubtful debts were as follows for the years ended 31 December:

In thousands of Tenge	2013	2012
As at 1 January	**(2,962)**	(5,508)
(Accrual) / recovery of reserve *(Note 18)*	**(16)**	2,545
Write-off	**–**	1
At 31 December	**(2,978)**	(2,962)

10. CASH AND CASH EQUIVALENTS

As at 31 December, cash and cash equivalents comprised the following:

In thousands of Tenge	2013	2012
Cash in current bank accounts, Tenge	**505,974**	373,601
Cash on hand, Tenge	**3,234**	2,446
	509,208	**376,047**

As at 31 December 2013 and 2012 cash in bank are non-interest bearing.

11. CHARTER CAPITAL

As at 31 December 2013 the Group had 2,099,264 (2012: 2,099,263) authorized ordinary shares, which were fully paid. During 2013 the Group issued 1 ordinary share. The nominal value per ordinary share is 660 Tenge. Ordinary shareholders are entitled to dividends and a vote per a share at shareholders' meetings.

During 2013 the Group declared and paid dividends to shareholders in the amount of 15,000 thousand Tenge (2012: 29,390 thousand Tenge). Dividends per a share comprised 7.15 Tenge (2012:14.00 Tenge).

Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share are equal to basic earnings per share, as the Group does not have any dilutive potential ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations as at 31 December:

In thousands of Tenge	2013	2012
Net profit attributable to ordinary equity holders	**173,099**	414,377
Weighted average number of ordinary shares for basic earnings per share computation	**2,099,264**	2,099,263
Basic and diluted earnings per share, Tenge	**82.46**	197.39

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. CHARTER CAPITAL (continued)

In accordance with listing requirements of Kazakhstan Stock Exchange, the Group discloses total assets less total intangible assets, liabilities and preferred non-voting shares (in equity) dividing by the number of issued ordinary shares at the end of the year. As at 31 December 2013 this index was 1,732 Tenge (2012: 1,657 Tenge).

Provision for revaluation of property and equipment

Provision for revaluation of property and equipment was formed to record the results of regular revaluation of property and equipment with respect to certain groups of assets.

The movements in the revaluation reserve were as follows for the years ended 31 December:

In thousands of Tenge	**2013**	2012
At 1 January	**829,377**	934,682
Depreciation, net of deferred tax	**(14,355)**	(7,597)
Revaluation of property and equipment, less the effect of deferred income tax	–	(97,708)
At 31 December	**815,022**	829,377

12. BORROWINGS

In thousands of Tenge	Currency	Maturity date	Interest rate	**2013**	2012
Alpha Bank JSC	Tenge, US dollars	2014	8%-10%	**4,086,797**	2,068,726
Sberbank JSC	Tenge, US dollars	2014	7%-11.25%	**3,970,322**	558,192
Amsterdam Trade Bank JSC	US Dollars	2014	8.5%-9.5%	**2,089,998**	2,254,934
Bonds	Tenge	2014	11%	**338,306**	816,975
				10,485,423	5,698,827
Less amounts due for settlement within 12 months				**(10,485,423)**	(5,698,827)
Amounts due for settlement after 12 months				–	–

As at 31 December loans were presented in the following currencies:

In thousands of Tenge	**2013**	2012
Tenge	**6,431,713**	2,312,434
US dollar	**4,053,710**	3,386,393
	10,485,423	5,698,827

Alpha Bank JSC

On 13 September 2011 the Group entered into a general agreement for opening a credit facility totalling USD 10,000,000. In February 2013 supplement agreement to increase credit facility to USD 33,000,000 was signed.

The loan as at 31 December 2012 was fully repaid during 2013.

The loan obtained in 2013 is repayable on during 2014. The loan is collaterized by right of demand from proceeds in future under contracts with customers as well as certain property and investment property with carrying amount of KZT 435,487 thousand and KZT 27,445 thousand respectively.

The loan requires compliance of financial covenants. As of 31 December 2013 the Group did not meet these requirements. However, it timely notified the bank on non-compliance and the reasons. The Group received the letter from the bank, which states that no further sanctions related to violation will be held related to non-compliance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. BORROWINGS (continued)

Sberbank JSC

On 10 March 2011 the Group entered into a general agreement for opening a credit facility totalling KZT 7,300,000 thousand maturing on 10 September 2013. In August 2012 supplement agreement to increase credit facility to USD 11,593,225 was signed.

The loan as at 31 December 2012 was fully repaid during 2013.

The loan obtained in 2013 is repayable on during 2014. This loan is collaterized by property with carrying amount of KZT 834,101 thousand as well as proceeds under certain agreements with customers and for sale and inventory turnover.

Amsterdam Trade Bank JSC

On 25 July 2012 the Group entered into a loan agreement for a total amount of USD 15,000,000 to replenish working capital.

The loan as at 31 December 2012 was fully repaid during 2013.

The loan obtained in 2013 is repayable on during 2014. The loan is secured by certain property and investment property with carrying amount of KZT 435,487 thousand and KZT 27,445 thousand respectively, also goods with carrying amount of KZT 3,371,094 thousand.

Bonds payable

On 31 December 2008 the Group issued bonds amounting KZT 1,700,000 thousand. The bonds are repayable upon expiry of five years as from the issue date. The interest rate is fixed and equal to 11% p.a. The Group fully repaid its bond payable on 10 January 2014.

13. TRADE ACCOUNTS PAYABLE

As at 31 December 2013 and 2012 trade payables comprised the following:

In thousands of Tenge	2013	2012
Trade payables for goods and services to third parties	**620,327**	8,671,462
Trade payables for goods and services to related parties *(Note 22)*	–	225,723
	620,327	8,897,185

As at 31 December 2013 trade payables for goods and services mainly represented payables to third party for delivery of computer equipment and repair and rented technical maintenance services. As at 31 December 2013 total trade payables comprised payables to Microsoft Ireland Operations LTD in the amount of 301,260 thousand Tenge (2012: 62,995 thousand Tenge). Microsoft Ireland Operations LTD is one of the significant suppliers of licensed software to the Group.

As at 31 December 2012 trade accounts payable for goods and services to third parties was mainly represented by payables to WestCom Trade LLP in the amount of 7,940,922 thousand Tenge which was fully repaid during 2013.

As at 31 December 2013 and 2012, trade payables were not interest bearing.

As at 31 December, trade payables were denominated in the following currencies:

In thousands of Tenge	2013	2012
US dollar	**320,528**	120,583
Tenge	**211,518**	8,719,759
RUR	**51,000**	–
Euro	**37,281**	56,843
	620,327	8,897,185

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. ADVANCES RECEIVED

As at 31 December 2013 advances received were mainly represented by advances received from Reserve Centre of National Bank JSC in the amount of 1,652,610 thousand for goods, which are planned to be delivered in 2014 based on agreement terms.

15. OTHER PAYABLES AND ACCRUED LIABILITIES

As at 31 December 2013 and 2012 other payables and accrued liabilities comprise:

In thousands of Tenge	**2013**	2012
Taxes payable other than income tax	**135,189**	39,624
Provision on unused vacations	**30,270**	19,518
Provision for warranty repairs	**12,004**	13,134
Other	**13,210**	623
	190,673	72,899

As at 31 December 2013 and 2012, other current liabilities were mainly denominated in Tenge.

As at 31 December 2013 taxes payable other than income tax were mainly represented by withholding tax from non-resident for software development services in the amount of 122,667 thousand Tenge (2012: 27,674 thousand Tenge). These services were mainly purchased from Microsoft Ireland Operations LTD (Great Britain).

16. REVENUE

Revenue for the years ended 31 December 2013 and 2012 comprised the following:

In thousands of Tenge	**2013**	2012
Revenue from sales of IT equipment	**24,124,570**	26,416,500
Revenue from services rendered	**650,586**	14,144
Revenue from leases	**73,583**	168,831
Return of products sold	**(1,685)**	(166)
	24,847,054	26,599,309

Revenue from services rendered were mainly represented by configuration, installation and support of computer equipment services

For the year ended 31 December 2013, revenue from two significant customers, WestComTrade LLP and National Information Technologies LLP, amounted to 5,799,310 thousand Tenge (2012: 2,614,865 thousand Tenge) and 5,438,612 thousand Tenge (2012: 5,763,002 thousand Tenge), respectively, and represented revenue from sales of IT equipment and customer services.

17. COST OF SALES

Cost of sales for the years ended 31 December 2013 and 2012 comprised the following:

In thousands of Tenge	**2013**	2012
Cost of sales	**22,098,736**	23,661,181
Services of subcontractors on technical support and maintenance	**455,352**	718,499
Payroll and related taxes	**61,345**	63,393
Depreciation and amortization	**13,173**	4,840
Reversal of provision	**(1,129)**	(23,969)
Other	**9,442**	8,822
	22,636,919	24,432,766

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 December comprised the following:

In thousands of Tenge	**2013**	2012
Payroll and related taxes	**298,948**	248,270
Bank fees	**93,871**	100,079
Depreciation and amortization	**74,518**	72,029
Professional and advisory services	**46,857**	73,293
Taxes	**43,295**	31,476
Utilities	**39,809**	39,392
Lease of office premises	**23,879**	18,525
Sponsorship	**28,163**	2,457
Telecommunication	**24,050**	14,525
Repair and maintenance of property, plant and equipment	**23,350**	20,189
Fines and penalties	**6,538**	6,458
Accrual/ (reversal of provision) for doubtful debts (*Note 8, 9*)	**10,000**	(18,117)
Business trip expenses	**8,723**	18,996
Accrual of provision for write off of inventory to net realizable value (*Note 7*)	**5,839**	1,675
Other	**50,683**	19,737
	778,523	648,984

Commission of banks primarily represented commission related to organisation of tented guarantee for participation in tender purchases.

19. SELLING EXPENSES

Selling expenses for the years ended 31 December comprised the following:

In thousands of Tenge	**2013**	2012
Payroll and related taxes	**197,569**	104,040
Testing expenses	**134,914**	155,144
Transportation services	**57,620**	40,043
Business trip expenses	**29,277**	25,554
Professional services	**24,218**	38,860
Repair and maintenance	**16,497**	20,281
Advertising	**13,813**	35,855
Insurance	**13,678**	13,170
Telecommunication	**3,000**	13,466
Depreciation and amortization	**3,857**	1,706
Other	**15,074**	13,729
	509,517	461,848

Testing expenses represent pre-sale testing of computer equipment for fault conditions or defects.

20. FINANCE COSTS

In thousands of Tenge	**2013**	2012
Interest expense on borrowings	**(499,063)**	(452,109)
Interest on bonds	**(156,837)**	(104,709)
	(655,900)	(556,818)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. INCOME TAX

Income tax expenses comprised the following for the years ended 31 December:

In thousands of Tenge	**2013**	2012
Current income tax expense	**66,572**	64,153
Deferred tax (benefits)/ expenses	**(7,366)**	39,482
Adjustment of prior year current income tax recognized in the current period	**1,469**	–
	60,675	103,635

A reconciliation of income tax expense applicable to profit before income tax at the statutory income tax rate of 20% to current income tax expense was as follows for the years ended 31 December:

In thousands of Tenge	**2013**	2012
Profit before income tax	**233,774**	518,012
Statutory tax rate	**20%**	20%
Income tax expenses calculated at statutory rate	**46,755**	10,602
Non-deductible expenses	**13,920**	33
Income tax expenses	**60,675**	103,635

Deferred tax balances, calculated by applying the statutory tax rates in effect at the reporting date to the temporary differences between the basis of assets and liabilities and the amounts reported in the consolidated financial statements, are comprised of the following at 31 December:

In thousands of Tenge	**31 December 2013**	Charged to profit and loss	31 December 2012	Charged to profit and loss	Charged to provision for revaluation of property and equipment	31 December 2011
Deferred income tax asset						
Allowance for doubtful debts	**4,361**	(2,000)	2,361	6,936	–	9,297
Provision for unused vacations	**5,873**	(1,969)	3,904	(2,032)	–	1,872
Provision for guarantee repairs	**2,401**	226	2,627	4,794	–	7,421
Inventory provision	**2,442**	(1,169)	1,273	(335)	–	938
Other	**1,588**	(1,524)	64	4,133	–	4,197
Less: deferred tax assets less deferred tax liabilities	**(16,665)**	6,436	(10,229)	(13,496)	–	(23,725)
Deferred tax assets	**–**	–	–	–	–	–
Deferred income tax liabilities						
Property and equipment, intangible assets and investment property	**(270,210)**	(930)	(297,772)	25,986	(24,427)	(296,213)
Less: deferred tax assets less deferred tax liabilities	**16,665**	(6,436)	10,229	13,496	–	23,725
Deferred tax liabilities	**(253,545)**	(7,366)	(287,543)	39,482	(24,427)	(272,488)
(Expenses)/benefits on deferred income tax recognized within profit or loss		(7,366)		39,482		
Benefits on deferred income tax recognized within other comprehensive income					(24,427)	
Deferred tax liability, net at 31 December	**(253,545)**		(287,543)			(272,488)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. INCOME TAX (continued)

The deferred taxes on property and equipment, intangible assets and investment property represent differences between tax and book base of property and equipment, intangible assets and investment property due to different depreciation rates in tax and accounting books, and fair value adjustments as a result of revaluation and impairment of property and equipment and investment property.

Reconciliation of deferred tax liability, net

В тысячах тенге	**2013**	2012
As at 1 January	**(287,543)**	(272,488)
Income/(expenses) from income tax for reporting period, recognized in profit or loss	**7,366**	(39,482)
Disposal of subsidiary *(Note 23)*	**26,632**	–
Income/(expenses) from income tax for reporting period, recognized in other comprehensive income	**–**	24,427
As at 31 December	**(253,545)**	(287,543)

22. RELATED PARTY TRANSACTIONS

Related parties include the Group's key management personnel, enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by the Group's key management personnel, shareholders, entities under common control of ultimate controlling party (entities under common control).

Terms and conditions of transactions with related party

Transactions with related parties are made at terms agreed between the parties that are not necessarily market conditions. Outstanding balances at the year-end are unsecured, non-interest bearing and settlement occurs in cash.

As at 31 December 2013 and 2012 the Group did not recognize provisions for impairment of trade and other accounts receivable from related parties. This decision is taken based on valuation through examining the financial position of related parties and the market in which the related parties operate.

The balances with the related parties as at 31 December 2013 and 2012 were as follows:

In thousands of Tenge	Trade accounts receivable *(Note 8)*	Advances paid *(Note 9)*	Trade accounts payable *(Note 13)*	Advances paid
Entities under common control of majority shareholder				
At 31 December 2013	**479,918**	**5,301**	**–**	**135**
At 31 December 2012	2,748,991	2,110,389	225,723	–

Purchases and sales with related parties for the years ended 31 December 2013 and 2012 are as follows:

In thousands of Tenge	Revenue from sale of products	Income from rent	Purchases
Entities under common control of majority shareholder			
For 2013	**1,825,562**	**32,450**	**678,472**
For 2012	2,690,733	–	2,493,687

Compensation to key management personnel

In 2013 and 2012 management personnel consisted of 9 employees. Total compensation to key management personnel as well as related taxes included in payroll amounted to KZT 44,238 thousand for the year ended 31 December 2013 (2012: KZT 44,238 thousand). Compensation to key management personnel consists of contractual salary and performance bonuses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. DISPOSAL AND ACQUISITION OF SUBSIDIARIES

Disposal of subsidiary

On 11 March 2013 the Group sold its subsidiary Saikan LLP. Assets and liabilities of Saikan LLP at the date of disposal were provided as follows:

In thousands of Tenge	As at 11 March 2013
Non-current assets	
Property and equipment	43,671
Investment property	656,877
Intangible assets	124
	700,672
Current assets	
Inventories	394
Trade and other account receivables	7,492
Advances paid	967
VAT recoverable	55,232
Income tax prepaid	3,443
Cash and cash equivalents	54
	67,582
Total assets	**768,254**
Non-current liabilities	
Deferred tax liability (*Note 21*)	(26,632)
	(26,632)
Current liabilities	
Borrowings	(101,601)
Dividends payable	(134,000)
Trade account payables	(268,350)
Advances received	(232,985)
Other current liabilities	(5,966)
	(742,902)
Total liabilities	**(769,534)**
Total net liabilities	(1,280)
Cash receipt	300
Income from disposal	**1,580**

Cash flow movement:

In thousands of Tenge	2013
Disposed cash and cash equivalents	(54)
Received cash and cash equivalents	300
Net cash outflow from disposal of subsidiary	246

As a result of disposal the Group recognized income totalling KZT 1,580 thousand and reflected that income in the statement of comprehensive income

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. DISPOSAL AND ACQUISITION OF SUBSIDIARIES (continued)

Acquisition of subsidiary

On 13 September 2013 the Group purchased Daneker Sala LLP. The purchase was completed with the purpose of obtaining licenses to perform construction-assembly services and design and survey work services which are owned by Daneker Sala LLP. Accordingly, this purchase was treated as the purchase of an asset. Assets and liabilities of Daneker Sala LLP at the acquisition date were provided as follows:

In thousands of Tenge	As at 13 September 2013
Non-current assets	
Licenses	218
Current assets	
VAT recoverable	22
Cash and cash equivalents	4
Total assets	**244**
Current liabilities	
Trade accounts payable	12
Other current liabilities	82
Total liabilities	**94**
Total net assets	**150**

The purchase price amounted to 150 thousand Tenge.

24. COMMITMENTS AND CONTINGENCIES

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed additionally and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2013. As at 31 December 2013 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained except otherwise stated or in other way disclosed in this consolidated financial statement.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise borrowings and accounts payable. The main purpose of these financial liabilities is to raise finance for the Group's operations. The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk.

Currency risk

As a result of borrowings and trade accounts payable denominated in the US Dollars and Euro, the Group's consolidated statement of financial position can be affected significantly by movement in the US Dollar/Tenge and Euro/Tenge exchange rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Currency risk (continued)

The following table demonstrates the sensitivity to a reasonably possible changes in the US Dollar and Euro exchange rates, with all the variables held constant, of the Group's profit before income tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Group's equity.

	Increase/(decrease) in exchange rate	Effect on profit before tax
USD		
2013	**+30.00%**	**1,312,271**
	+10.00%	**437,424**
2012	+1.57%	(52,089)
	-1.57%	52,089
EUR		
2013	**+30.00%**	**11,184**
	+10.00%	**3,728**
2012	+10.77%	(6,125)
	-10.77%	6,125

Credit risk

The Group trades only with recognised, creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in *Note 8*.

The credit risk on cash and deposits is limited because the counteragents of the Group are banks with high credit ratings assigned by international rating agencies.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial instruments. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

The table below summarizes the Group's financial liabilities at 31 December based on contractual undiscounted repayment obligations:

Year ended 31 December 2013

In thousands of Tenge	**On demand**	**Less than 3 months**	**3-12 months**	**1-5 years**	**> 5 years**	**Total**
Trade accounts payable	–	**620,327**	–	–	–	**620,327**
Loans	–	**10,042,427**	**541,000**	–	–	**10,583,427**
	–	**10,662,754**	**541,000**	–	–	**11,203,754**

Year ended 31 December 2012

In thousands of Tenge	On demand	Less than 3 months	3-12 months	1-5 years	> 5 years	Total
Trade accounts payable	–	8,897,185	–	–	–	8,897,185
Loans	–	1,732,447	4,170,416	–	–	5,902,863
	–	10,629,632	4,170,416	–	–	14,800,048

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The main purpose of the Group capital management is to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholder through the optimisation of the debt and equity balance.

The Group manages its capital with consideration of changes in economic environment. In order to manage or modify its capital, the Group may modify payment of dividends to shareholders or return capital to shareholders or issue new shares.

During years ended 31 December 2013 and 2012 there were no changes in objectives, policies or processes of capital management.

The Group monitors capital using the gearing ratio, which represents net debt divided by total capital. The net debt includes all loans. Capital includes equity attributable to the equity holders of the Group.

The gearing ratio at the year-end was as follows:

In thousands of Tenge	**2013**	2012
Borrowings	**10,485,423**	5,698,827
Less cash and cash equivalents	**(509,208)**	(376,047)
Net debt	**9,976,215**	5,322,780
Equity	**3,639,170**	3,481,070
Debt to equity ratio	**2.74**	1.53

Fair value of financial instruments

As of 31 December 2013 and 2012, the carrying amount of cash and cash equivalents, trade receivables, trade payables and other current monetary assets and liabilities approximates their fair value due to the short-term maturity of these financial instruments. Interest-bearing loans and borrowings are stated at amortized costs which approximate their fair values.

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained below.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 – Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2 – Other techniques for which all inputs which have significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3 – Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value of financial instruments (continued)

The following table shows an analysis of financial instruments measured at fair value by level of their in the fair value hierarchy as at 31 December 2013:

31 December 2013	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets for which fair values are disclosed				
Cash and cash equivalents	509,208	–	–	509,208
Trade receivables	–	–	9,829,466	9,829,466
Liabilities for which fair values are disclosed				
Borrowings	–	–	10,485,423	10,485,423
Trade payables	–	–	620,327	620,327

26. OPERATING SEGMENT INFORMATION

Operating segments and geographical information

For management purposes the Group represents a business unit, which deals with sales of IT equipment (computers, interactive multimedia and server equipment) and maintenance services in Kazakhstan. This operating segment represents a single reporting segment.

The management analyses income and profit before tax in accordance with IFRS.

For the year ended 31 December 2013, revenue from two significant customers, WestComTrade LLP and National Information Technologies LLP, amounted to 5,799,310 thousand Tenge (2012: 2,614,865 thousand Tenge) and 5,438,612 thousand Tenge (2012: 5,763,002 thousand Tenge), respectively, and represented revenue from sales of IT equipment and customer services.

27. SUBSEQUENT EVENTS

On 11 February 2014 National Bank of Kazakhstan made a decision to cease further maintaining of the exchange rate of the Kazakhstan tenge to the US dollar and other major currencies on previous level, to reduce volume of exchange market intervention and decrease involvement in process of tenge exchange rate formation. The tenge exchange rate for one US dollar before and after devaluation comprised 155.56 tenge and 185.00 tenge, correspondingly.

On 10 January 2014 the Group has fully repaid its bonds.

During the subsequent period the Group has fully repaid its borrowings to banks as at 31 December 2013 and received additional short-term borrowings in the total amount of 13,642,882 thousand Tenge.