

**JSC “National Mining Company
“Tau-Ken Samruk”**

Financial Statements

*Year ended 31 December 2010
with Independent Auditors' Report*

CONTENTS

	Page
Independent Auditors' Report	
Financial Statements	
Statement of Comprehensive Loss	1
Statement of Financial Position.....	2
Statement of Cash Flows.....	3
Statement of Changes in Equity.....	4
Notes to the Financial Statements	5-18

INDEPENDENT AUDITORS' REPORT

To the shareholder of Joint Stock Company "National Mining Company "Tau-Ken Samruk":

We have audited the accompanying financial statements of Joint Stock Company "National Mining Company "Tau-Ken Samruk" (the "Company"), which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive loss, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 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.

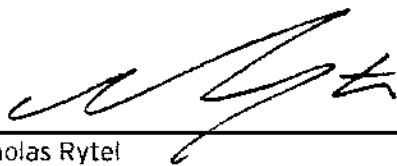
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

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

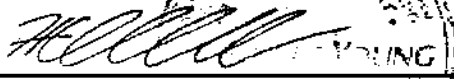
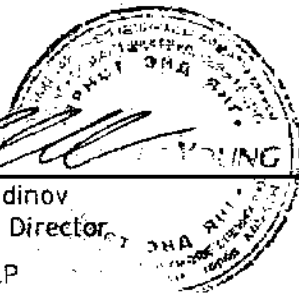
Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Joint Stock Company "National Mining Company "Tau-Ken Samruk" as at 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP



Nicholas Rytel
Audit Partner

Evgeny Zhemaletdinov
Auditor / General Director
Ernst & 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

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

10 March 2011

STATEMENT OF COMPREHENSIVE LOSS

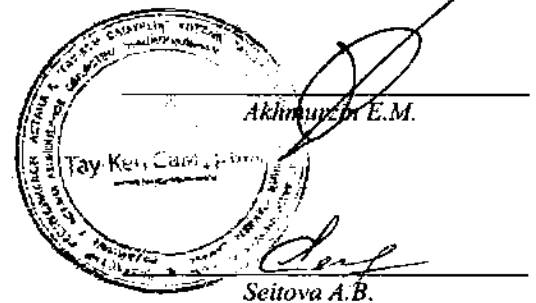
For the year ended 31 December 2010

<i>In thousands of Tenge</i>	Notes	2010	2009
Operating expenses	4	(625,146)	(458,950)
Loss from operations		(625,146)	(458,950)
Interest income on deposits		47,868	29,024
Other expenses, net		(38)	(19)
Loss before income tax		(577,316)	(429,945)
Income tax expense	5	(6,894)	(4,354)
Net loss for the year		(584,210)	(434,299)
Other comprehensive income for the year		-	-
Total comprehensive loss for the year, net of tax		(584,210)	(434,299)

The accounting policies and explanatory notes on pages 5 through 18 form an integral part of these financial statements.

Managing Director

Chief Accountant



Akhmetov E.M.

Seitova A.B.

STATEMENT OF FINANCIAL POSITION

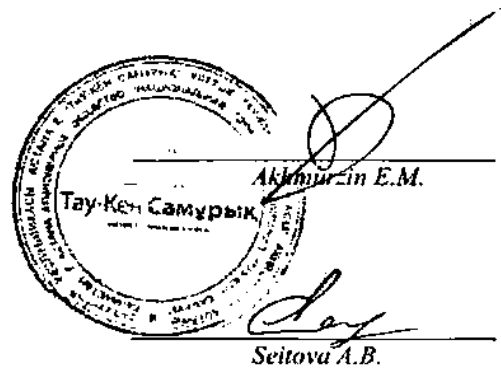
At 31 December 2010

<i>In thousands of Tenge</i>	Notes	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	6	23,109	29,702
Intangible assets	7	9,857	1,745
		32,966	31,447
Current assets			
Inventories		2,093	3,488
Prepaid expenses		6,038	4,116
Other current assets		1,613	1,861
Interest receivable		2,953	2,683
Cash and cash equivalents	8	2,407,050	1,527,179
		2,419,747	1,539,327
TOTAL ASSETS		2,452,713	1,570,774
EQUITY AND LIABILITIES			
Equity			
Share capital	9	3,436,960	1,936,960
Accumulated loss		(1,018,509)	(434,299)
		2,418,451	1,502,661
Current liabilities			
Other payables		6,857	37,771
Taxes payable		11,234	16,328
Due to employees		15,231	12,967
Other current liabilities		940	1,047
		34,262	68,113
TOTAL EQUITY AND LIABILITIES		2,452,713	1,570,774

The accounting policies and explanatory notes on pages 5 through 18 form an integral part of these financial statements.

Managing Director

Chief Accountant



Akhmerzin E.M.

Seitova A.B.

STATEMENT OF CASH FLOWS

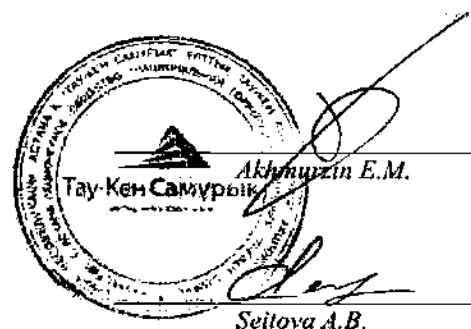
For the year ended 31 December 2010

<i>In thousands of Tenge</i>	Notes	2010	2009
Loss before income tax		(577,316)	(429,945)
Adjustments for:			
Depreciation and amortization	6, 7	7,872	2,364
Interest income on deposits		(47,868)	(29,024)
		(617,312)	(456,605)
Change in inventories		1,395	(3,488)
Change in prepaid expenses		(1,922)	(4,116)
Change in other current assets		248	(1,861)
Change in other payables		(30,914)	37,771
Change in taxes payable		(5,094)	16,328
Changes in due to employees		2,264	12,967
Change in other current liabilities		(107)	1,047
		(651,442)	(397,957)
Interest received		47,598	26,341
Income tax paid		(6,894)	(4,354)
Net cash flows used in operating activities		(610,738)	(375,970)
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(291)	(31,943)
Purchase of intangible assets	7	(9,100)	(1,868)
Net cash flows used in investing activities		(9,391)	(33,811)
Cash flows from financing activities			
Issuance of equity shares	9	1,500,000	1,936,960
Net cash flows provided by financing activities		1,500,000	1,936,960
Net increase in cash and cash equivalents		879,871	1,527,179
Cash and cash equivalents at the beginning of the year		1,527,179	-
Cash and cash equivalents at the end of the year	8	2,407,050	1,527,179

The accounting policies and explanatory notes on pages 5 through 18 form an integral part of these financial statements.

Managing Director

Chief Accountant



Akhmurzin E.M.
Seitova A.B.

STATEMENT OF CHANGES IN EQUITY

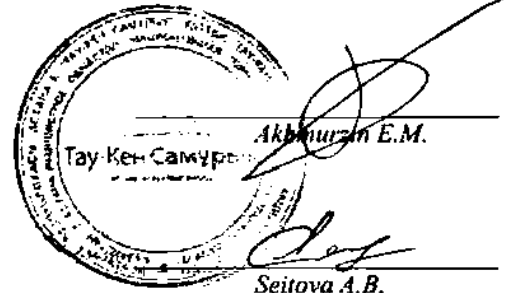
For the year ended 31 December 2010

<i>In thousands of Tenge</i>	Note	Share Capital	Accumulated loss	Total Equity
At 1 January 2009		—	—	—
Loss for the year		—	(434,299)	(434,299)
Total comprehensive loss for the year		—	(434,299)	(434,299)
Share issuance	9	1,936,960	—	1,936,960
At 31 December 2009		1,936,960	(434,299)	1,502,661
Loss for the year		—	(584,210)	(584,210)
Total comprehensive loss for the year		—	(584,210)	(584,210)
Share issuance	9	1,500,000	—	1,500,000
At 31 December 2010		3,436,960	(1,018,509)	2,418,451

The accounting policies and explanatory notes on pages 5 through 18 form an integral part of these financial statements.

Managing Director

Chief Accountant



A circular stamp of the company is positioned to the left of two signatures. The stamp contains the text "JSC 'National Mining Company 'Tau-Ken Samruk'" and "Tay Ken Camyp". The first signature is over a horizontal line and is labeled "Akbulirzin E.M.". The second signature is below the first and is labeled "Seitova A.B.".

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

National Mining Company "Tau-Ken Samruk" JSC ("the Company") is a Joint Stock Company established in accordance with the Resolution of the Government #10 dated 15 January 2009 and was registered as Joint Stock Company on 2 February 2009. The Company's office is located at Dinmukhamed Kunaev st. 12/1, Astana, Republic of Kazakhstan.

Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna") is the sole shareholder of the Company. The Government, represented by the State Assets and Privatization Committee of the Ministry of Finance is the sole shareholder of the Samruk-Kazyna.

The Company's major activities include, but are not limited to the following:

- Conducting activities in the sphere of exploration, development, production, processing and sale of solid minerals;
- Rehabilitation of Kazakhstan mineral resources;
- Development of Kazakhstan mining industry potential by implementation of technological innovation and enhancement of efficiency of state participation in subsurface use project implementation.

The accompanying financial statements were authorized for release by the Managing Director and Chief Accountant of the Company on 10 March 2011.

Political and Economic Environment

The Republic of Kazakhstan continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Kazakhstan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within the Republic of Kazakhstan. While the Kazakhstan Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Kazakhstan banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Company and its counterparties, which could affect the Company's financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Company's results and financial position in a manner not currently determinable.

2. BASIS OF PREPARATION

Statement of Compliance

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

The financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the Notes to these financial statements.

The financial statements are presented in Tenge and all values in these financial statements are rounded to the nearest thousands, except when otherwise indicated.

Foreign Currency Translation

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the statement of comprehensive income/loss.

Non-monetary items that are measured in items of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)**2. BASIS OF PREPARATION (continued)****Foreign Currency Translation (continued)**

The currency exchange rate of National Bank as of 31 December 2010 was 147.4 Tenge to 1 US Dollar. This rate was used to translate monetary assets and liabilities denominated in US Dollars as of 31 December 2010.

Significant Accounting Judgments and Estimates

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates.

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 discussed below:

Taxation

In assessing tax risks, management considers to be probable obligations the known areas of tax positions which the Company would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgment and the determination of expected outcomes from pending tax proceedings and current outcome of ongoing compliance audits by tax authorities.

Deferred Tax Assets

Deferred tax assets are recognized for all loss carry forwards, accrued liabilities and taxes to the extent that it is probable that taxable profit will be available, against which the losses and provisions can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and the level of future taxable profits together with future tax planning strategies. Further details are contained in Note 5.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. The initial cost of the fixed assets comprises its purchase price, including import duties and non-refundable taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is computed on a straight-line basis over the estimated useful lives. The estimated useful life of certain fixed assets is presented as follows:

	Years
Computers	5
Machinery and equipment	3-5
Other	3

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of comprehensive loss.

Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to expense in the period when such costs are incurred. The 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 (increase of useful life, capacity, etc.) are capitalized as an additional cost of fixed assets.

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

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment loss.

Intangible assets are amortised on a straight-line basis over 3 years.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial Assets***Initial Recognition and Measurement*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Company's financial assets include cash and cash equivalents.

Subsequent Measurement

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance cost in the statement of comprehensive income/loss.

The Company has not designated any financial assets upon initial recognition as at fair value through profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of comprehensive income/loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

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 amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income/loss. The losses arising from impairment are recognised in the statement of comprehensive income/loss in finance costs.

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The Company did not have any held-to-maturity investments during the years ended 31 December 2010 and 2009.

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial Assets (continued)***Subsequent Measurement (continued)*

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive loss in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating loss, or determined to be impaired, at which time the cumulative loss is recognised in the statement of comprehensive income/loss in finance costs and removed from the available-for-sale reserve.

The Company evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the Company may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and has the intent and ability to hold these assets for the foreseeable future or maturity. The reclassification to held to maturity is permitted only when the entity has the ability and intent to hold until the financial asset accordingly. The Company did not have any available-for-sale financial assets during the year ended 31 December 2010 and 2009.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

In that case, the Company 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 Company 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 Company could be required to repay.

Impairment

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that 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 where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be objectively related to an event occurring after the write-down. Such reversal is recorded as income in the financial statement of comprehensive income/loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*Non-financial Assets*

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company 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 to sell 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 sell, 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.

Impairment losses of continuing operations are recognised in the financial statement of comprehensive income/loss in those expense categories consistent with the function of the impaired asset.

For assets an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's 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 financial statement of comprehensive income/loss.

Financial Liabilities*Initial Recognition and Measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Company's financial liabilities include other payables.

Subsequent Measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Gains or losses on liabilities held for trading are recognised in the financial statement of comprehensive income/loss.

The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

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

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

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Financial Liabilities (continued)***Derecognition (continued)*

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 derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the financial statement of comprehensive income/loss.

Fair Value of Financial Instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Inventories

Inventories are valued at the lower of cost or net realizable value. The cost of inventories is accounted for on the first-in first-out basis.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

Provisions

Provisions are recognized when the Company 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.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Revenue and Expense Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reasonably measured. Revenue is recognised net of indirect taxes.

Interest Income

For all interest bearing financial assets, interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the financial statement of comprehensive income/loss.

Expenses

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

Income Tax

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Income Tax (continued)**

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

The carrying amount of the deferred income 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 income tax asset to be utilised, and when there is uncertainty regarding tax treatment of the differences under the tax law.

Deferred income tax assets and liabilities are measured at the rate that is expected to apply to the year when the asset is realised or the liability is settled, based on the tax rate (and tax law) that has been enacted or substantially enacted at the reporting date.

Deferred income tax assets and liabilities are set off if legally enforceable rights exist to set off current tax assets against current tax liabilities.

Other Taxes

The Company pays social tax to the budget of the Republic of Kazakhstan for its employees based on fixed 11% on the amount of salary in accordance with the tax legislation of the Republic of Kazakhstan.

The Company also withholds up to 10% limited to 112,140 Tenge in 2010 (2009:102,878 Tenge) from the salary of its employees as the employees' contribution to their designated pension funds. Under the legislation, employees are responsible for their retirement benefits and the Company has no present or future obligation to pay its employees upon their retirement.

Value Added Tax

The tax authorities permit the settlement of sales and purchases value added tax (VAT) on a net basis.

Value Added Tax Payable

VAT is payable to tax authorities upon collection of receivables from customers. VAT on purchases, which have been settled at the balance sheet date, is deducted from the amount payable. In addition, VAT related to sales which have not been collected at the balance sheet date is also included in the balance of VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT liability is maintained until the debtor is written off for tax purposes.

Value Added Tax Recoverable

VAT recoverable relates to purchases, which have not been settled at the balance sheet date. VAT recoverable is reclaimable against VAT related to sales upon payment for the purchases.

Contingent Assets and Contingent Liabilities

Contingent assets are not recognised in the financial statements. When the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

Contingent liabilities are not recognised in the financial statements, they are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Related Party Disclosures

Related parties include Samruk-Kazyna Group companies, entities controlled by key management personnel of Samruk-Kazyna Group companies and other entities controlled by the Government (Note 10).

Events After the Reporting Date

Post-year-end events that provide additional information about the Company's position at the reporting date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the Notes when material.

New and Amended Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010:

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****New and Amended Standards and Interpretations (continued)**

- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010;
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5 IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39;
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009;
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009;
- Improvements to IFRSs (May 2008);
- Improvements to IFRSs (April 2009).

The adoption of the standards or interpretations is described below:

IFRS 2 Share-based Payment (Revised): The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Company adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Company.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended): IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results. IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss.

Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The change in accounting policy did not have an impact on the financial position or performance of the Company.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items: The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company, as the Company has not entered into any such hedges.

IFRIC 17 Distribution of Non-cash Assets to Owners: This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on neither, the financial position nor performance of the Company.

Improvements to IFRSs

In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company.

Issued in May 2008

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:* clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment has no impact on the financial position nor financial performance of the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***Issued in April 2009*

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:* clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The amendment has no impact on the financial position nor financial performance of the Company;
- *IFRS 8 Operating Segments:* clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. The amendment has no impact on the financial position nor financial performance of the Company as the Company has no operating segments;
- *IAS 7 Statement of Cash Flows:* States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment has no impact to the presentation in the statement of cash flows;
- *IAS 36 Impairment of Assets:* The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Company as the Company has no goodwill.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

Issued in April 2009

- IFRS 2 Share-based Payment;
- IAS 1 Presentation of Financial Statements;
- IAS 17 Leases;
- IAS 34 Interim Financial Reporting;
- IAS 38 Intangible Assets;
- IAS 39 Financial Instruments: Recognition and Measurement;
- IFRIC 9 Reassessment of Embedded Derivatives;
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation.

4. OPERATING EXPENSES

<i>In thousands of Tenge</i>	2010	2009
Payroll and related expenses	476,312	335,783
Rent expenses	60,200	35,649
Taxes	26,406	2,667
Professional services and consulting fees	21,128	45,830
Subscription bonus	10,563	26,342
Business trips	7,439	4,919
Depreciation and amortization	7,872	2,365
Communication expenses	6,555	3,174
Other expenses	8,671	2,221
	625,146	458,950

NOTES TO THE FINANCIAL STATEMENTS (continued)**5. INCOME TAX EXPENSE**

As at 31 December 2010 and 2009, the Company is subject to income tax of the statutory rate of 20%.

<i>In thousands of Tenge</i>	2010	2009
Current income tax charge	(6,894)	(4,354)
Deferred income tax	-	-
	(6,894)	(4,354)

A reconciliation of corporate income tax expense applicable to loss before income tax at the statutory income tax rate to current income tax expense was as follows for the years ended 31 December 2010 and 2009:

<i>In thousands of Tenge</i>	2010	2009
Loss before income tax	(577,316)	(429,945)
Statutory tax rate	20%	20%
Income tax benefit at the statutory tax rate	(115,463)	(85,989)
Change in unrecognized deferred tax assets	142,694	69,601
Change in tax rate	(20,857)	20,857
Other	520	(115)
Income tax expense	6,894	4,354

As at 31 December components of deferred income tax assets and liabilities are as follows:

<i>In thousands of Tenge</i>	2010	2009
Deferred tax assets		
Loss carried forward	210,472	67,528
Accrued liabilities	3,586	3,472
	214,058	71,000
Deferred tax liabilities		
Property, plant and equipment	(1,763)	(1,399)
	(1,763)	(1,399)
Less unrecognized deferred tax asset	(212,295)	(69,601)
Net deferred corporate income tax	-	-

At 31 December 2010, the unrecognized deferred tax asset of 212,295 thousand Tenge (2009: 69,601 thousand Tenge) was related to the following:

- At 31 December 2010, the unrecognized deferred tax asset of 208,709 thousand Tenge (2009: 66,129 thousand Tenge) was related to tax loss incurred during 2010 and 2009. As these losses may be carried forward for 10 years and deducted against future taxable profits a temporary difference arises. Due to the uncertainty regarding availability of future taxable profits against which such deferred tax assets can be utilized the deferred tax asset related to this loss carry forward was not recognized.
- Unrecognised deferred tax asset of 3,586 thousand Tenge (2009: 3,472 thousand Tenge) was related to unused vacations and management compensation reserves accrued in 2010. As these provisions were not recorded in the Company's tax records a temporary difference arises. Due to the uncertainty regarding availability of future taxable profits, against which such deferred tax assets can be utilized, the deferred tax asset related to these reserves was not recognized.

NOTES TO THE FINANCIAL STATEMENTS (continued)**6. PROPERTY, PLANT AND EQUIPMENT**

<i>In thousands of Tenge</i>	Computers	Machinery and equipment	Others	Total
Cost at 1 January 2009:	–	–	–	–
Additions	20,353	4,085	7,505	31,943
31 December 2009	20,353	4,085	7,505	31,943
Accumulated depreciation:				
1 January 2009	–	–	–	–
Charge	(1,642)	(255)	(344)	(2,241)
31 December 2009	(1,642)	(255)	(344)	(2,241)
Net book value:				
1 January 2009	–	–	–	–
31 December 2009	18,711	3,830	7,161	29,702
Cost at 31 December 2009:	20,353	4,085	7,505	31,943
Additions	–	–	291	291
31 December 2010	20,353	4,085	7,796	32,234
Accumulated depreciation:				
1 January 2010	(1,642)	(255)	(344)	(2,241)
Charge	(4,071)	(830)	(1,983)	(6,884)
31 December 2010	(5,713)	(1,085)	(2,327)	(9,125)
Net book value:				
1 January 2010	18,711	3,830	7,161	29,702
31 December 2010	14,640	3,000	5,469	23,109

7. INTANGIBLE ASSETS*In thousands of Tenge*

Cost at 1 January 2009	–
Additions	1,868
Amortization charge	(123)
Carrying amount at 31 December 2009	1,745
Additions	9,100
Amortization charge	(988)
Carrying amount at 31 December 2010	9,857

Intangible assets mainly comprise of software applications.

8. CASH AND CASH EQUIVALENTS

<i>In thousands of Tenge</i>	2010	2009
Cash at bank in Tenge	852,050	184,970
Term deposits in Tenge	1,555,000	1,342,209
	2,407,050	1,527,179

Term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective term deposit rates between 0.5% - 6.5% (2009: 3% - 6.5%). Cash on current Tenge-denominated bank accounts are interest bearing with interest rate up to 2% (2009: 2%).

NOTES TO THE FINANCIAL STATEMENTS (continued)**9. SHARE CAPITAL**

Share capital of the Company was established through share issues, related to the cash contributions made by the sole shareholder of the Company, Samruk-Kazyna.

Movement in the share capital of the Company were as follows:

<i>In thousands of Tenge</i>	31 December 2010		31 December 2009	
	Number	Value	Number	Value
Ordinary shares	265,981	3,436,960	250,981	1,936,960
Total share capital	265,981	3,436,960	250,981	1,936,960

10. RELATED PARTY TRANSACTIONS

Related parties include key management personnel of the Company, entities in which a substantial interest in the voting power is owned, directly or indirectly, by the Company's key management personnel, Samruk-Kazyna Group companies (entities under common control) and entities controlled by the Government (other state-controlled entities).

Terms and Conditions of Transactions with Related Parties

Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates. The major transactions with related parties during the year ended 31 December 2010 and 2009 were as follows:

<i>In thousands of Tenge</i>	2010	2009
Purchases from related parties		
Entities under common control of Samruk-Kazyna	6,342	3,056
	6,342	3,056

Purchases from related parties under common control of Samruk-Kazyna mainly represents communication services purchased from Kazakhtelecom JSC in the amount of 5,660 thousand Tenge and Kazpochta JSC in the amount of 488 thousand Tenge.

<i>In thousands of Tenge</i>	2010	2009
Cash and deposits placed with related parties		
Entities under common control of Samruk-Kazyna	753,323	620,398
	753,323	620,398

<i>In thousands of Tenge</i>	2010	2009
Interest earned from related parties		
Entities under common control of Samruk-Kazyna	17,621	16,548
	17,621	16,548

As at 31 December 2010, the Company had total current cash accounts balance at and short-term deposits placed in Halyk Bank of Kazakhstan JSC amounting to 753,323 thousand Tenge and interest income on deposits for the period amounting 17,621 thousand Tenge.

Compensation to Key Management Personnel

Key management personnel comprise members of the Management Board totalling 5 persons and 2 Independent Directors as of 31 December 2010 (2009: 7). In 2010 total compensation to key management personnel of 66,023 thousand Tenge (2009: 49,723 thousand Tenge), comprised of salaries and other short-term benefits and was included in administrative expenses in the statement of comprehensive loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)**11. COMMITMENTS AND CONTINGENCIES****Taxation**

The various legislative acts and regulations are not always clearly written and their interpretation is subject to the opinions of local tax inspectors and officials of the Ministry of Finance. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual.

The current regime of penalties and interest related to unreported and discovered violations of Kazakhstan law are severe. Fines are generally 50% of any taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, fines and interest can amount to multiples of any unreported taxes.

The Company believes that it has paid or accrued all taxes that are applicable. Where practice concerning tax application is unclear, the Company has accrued tax liabilities based on management's best estimate. The Company's policy is to accrue contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable.

Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, fines and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2010. Although, such amounts are possible and may be material, it is the opinion of Company management that these amounts are either not probable, not reasonably determinable, or both.

The Company's operations and financial position may be affected by Kazakhstan political developments, including the application of existing and future legislation and tax regulations. The Company does not believe that these contingencies, as related to its operations, are any more significant than those of similar enterprises in Kazakhstan.

As at 31 December 2010 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Company's tax positions will be sustained.

Legal Action and Claims

In the ordinary course of business, the Company may be subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Company.

12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**Liquidity Risks**

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

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 summarises the maturity profile of the Company's financial liabilities at 31 December 2010 and 2009, based on contractual undiscounted payments.

<i>In thousands of Tenge</i>	On demand	1-3 months	3-12 months	1-5 years	> 5 years	Total
As of 31 December 2010						
Other payables	6,308	549	-	-	-	6,857
Other current liabilities	-	940	-	-	-	940
	6,308	1,489	-	-	-	7,797
As of 31 December 2009						
Other payables	36,231	1,540	-	-	-	37,771
Other current liabilities	1,047	-	-	-	-	1,047
	37,278	1,540	-	-	-	38,818

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Credit Risks**

The Company is subject to credit risks arising on other financial assets, which comprise cash and cash equivalents. The Company's exposure to credit risks arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Fair Value of Financial Instruments

The carrying amount of financial instruments approximates their fair value due to the short-term maturity of these instruments.

13. SUBSEQUENT EVENTS

There were no significant events after the reporting date.