

Risk in an entrepreneurial activity

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Introduction

The market presents the best, charitable entrepreneurship environment, entrepreneurship - this is the most characteristic quality and properties of market relations. Entrepreneurship is being developed in different forms in the Republic of Kazakhstan. The activities divided into industrial, commercial, financial. It also divided by the size of business – small, average and large, and by character of the property – private and joint. It can be separated by the organizational form to individual and collective (companies, societies). The original legally organized form of the entrepreneurial enterprises is production cooperatives.

The new impulse was given with Decrees of the President of the Republic of Kazakhstan to the development of entrepreneurship: «About additional measures on realization of the state guarantees of freedom of the entrepreneurial business» from June, 14th, 1996 No 3036; «About measures on strengthening the state support of activation the development, of small businesses» from March, 6th, 1997 No 3398 and «About protection of the rights of citizens and the legal persons on freedom of entrepreneurial business» from April, 27th, 1998 No 3928.

So business gains strength, covering all new areas of economy and social layers. Its successful development can occur at availability of such necessary conditions, as a private property, freedom of economic activities. Concerning economic freedom, above the businessman can tower only the law and its established restrictions. In conditions of the market state regulation is mainly turned into an establishment of norms of realization entrepreneurial business and to tax system. All rest is defined by the producer and the consumer, their wishes, and to some extent develops at random.

It is necessary to pay for economic freedom. In fact to freedom of one businessman accompanies at the same time freedom of other businessmen which are free to buy or not to buy its production, to offer for it own prices, to sell it in determined prices, to dictate the conditions of transaction. Thus it is normally, that first of all, person with whom have to enter in economic relations aspires to the

own benefit, and benefit of one can become damage for others. Besides this, the businessman-competitor tries to supplant his opponent from the market. Consequently, want that or do not want, but mastering business, we should interact with uncertainty and heightened risk. The task of the businessman consists not in looking for business with obviously expected result, but the business without risk.

According to V.I. Dal, business means to decide, to dare to make any new business, to start doing something significant. Business risk is the risk arising at any kinds of entrepreneurial business, connected with production the goods and services, its realization; commodity-money and financial operations; commerce, and also realization of scientific and technical projects.

The risk is inherent in any area of human activity that is connected with set of conditions and the factors affected on a positive outcome of decisions accepted by people. Experience in the development of all countries shows that stagnation in economic system caused by ignoring or underestimation of economic risk to in development of tactics and strategy of economic policy, acceptance of specific decisions inevitably holds the progress of a society, scientific and technical progress. Significant growth of the unprofitable enterprises allows making the conclusion that it isn't possible to manage business without taking into account a risk factor; it is difficult to have good results in real conditions. It is impossible to create the effective mechanism of functioning of the enterprise on the basis of the concept without risk managing. So, it is necessary to consider primary goals of the analysis of the risk: determining a risk level, i.e. area of its function on an estimated scale; an establishment of size of risk; comparison size of risk to a level of security of industrial system.

The topicality of this subject is difficult to overestimating. Business develops with huge paces not only in Kazakhstan, but also all over the world. So, the real businessman should not aspire to avoid risk and to know its reasonable limits, to be guided not only by common sense, but also by the economic analysis of a degree of risk.

Business constantly develops and solving one problem businessmen

constantly faced with another. In these conditions there is an ambiguity and uncertainty in reception of an expected result, hence, the degree of enterprise risk increases also. This subject matter is interesting for this reason. Though, business cannot exist practically without risk in the activity, it doesn't take predominating, but takes honorable and very important place in a rate of the economic theory.

For writing this work are used textbooks, periodicals, also normative and legislative documents. Essences of enterprise risk, types of risk, which can arise at carrying out entrepreneurial business and ways whereby it is possible to overcome or decrease a degree of risks are considered. At the end of term paper are made conclusion.

Chapter 1. Theoretical bases and conception of business risks

1.1 Entrepreneurial risk: the origins and essence

Realization of business is related to risk in any way, that acceptable to name it economic or entrepreneurial. Finding out origins and causes of such risk, it's possible to clarify methods of risk evaluation and ways of avoidance.

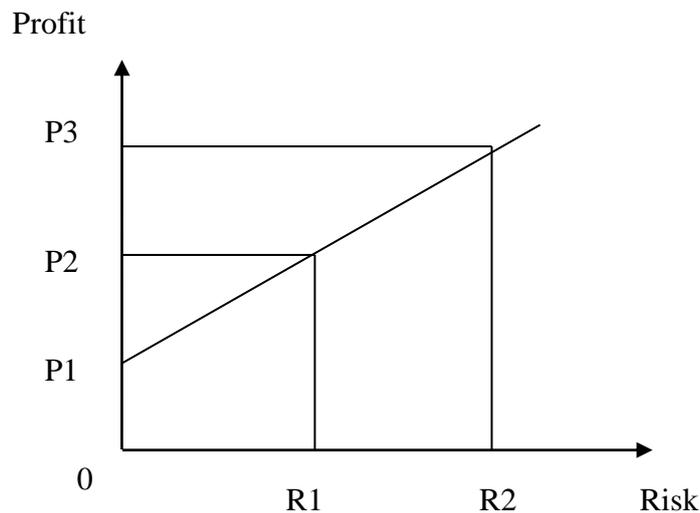
Entrepreneurial risk has an objective basis because of uncertain impact on an external environment in relation to the entrepreneurial firm. The external environment includes the objective economic, social, political and other conditions in the network of which the employer exercise direction and he had to adapt to these changes.

Business is always jointed with uncertainty of economic conditions, which is derived from the inconstancy of supply and demand for goods, money, factors of production, from various spheres of capital and a variety of capital investment spheres from limited knowledge about the areas of business and commerce and many other circumstances. Uncertainty of the situation have an impact on the absence of clarity in defining the objectives, criteria and indicators to assess (changes in public needs and consumer demand, the emergence of technical and technological developments, changing market conditions, unpredictable natural phenomena).

Occurrence of enterprise risk is the reverse side of economic freedom of businessmen, an original payment for it. To freedom of one businessman accompanies simultaneously freedom of other businessmen, hence, in process of development of market relations will amplify uncertainty and entrepreneurial risk. Thereby, it is rather difficult to eliminate uncertainty of the present and the future of enterprise activity, as uncertainty is an element of the objective validity; therefore the risk is inherent in business at any sphere of activity.

Many decisions have to take under complete uncertainty in business, when you need to choose areas of action from several possibilities the realization of

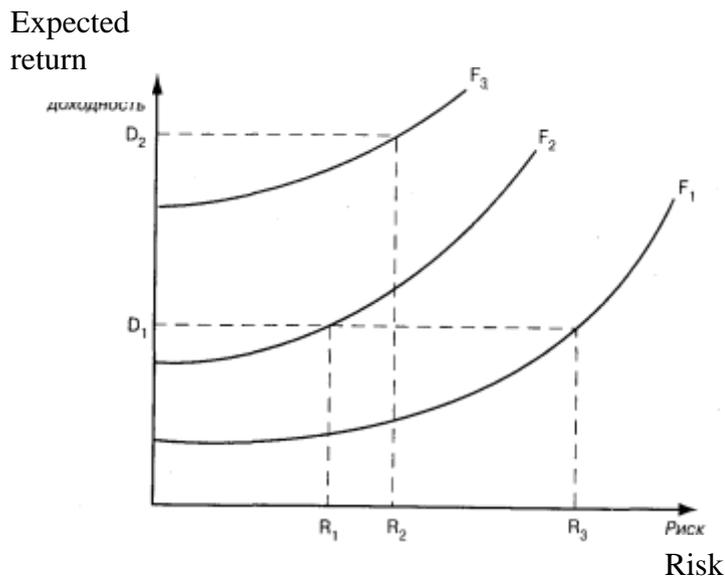
which is difficult to predict. If risks are not taken into account in the economic terms, then they become on the one hand a source of losses, and on the other - profits. It is possible to choose the decisions containing less of risk, while there will be less profit.



Graph 1. Dependence of profit on risk evaluation¹

As follows from graph 1 that zero risk provides the lowest income (0; P1), and at the highest risk $R = R2$ the profit has the highest value $P = P3$ ($P3 > P2 > P1$). It is impossible to eliminate uncertainty of the future of an entrepreneurial activity, as it is an element of the objective reality. The risk is inherent in business and is an integral part of its economic life. The principle decision on accepting of the risk project depends on businessman, making the decision, on its preferences between expected return (profitability) of means put in this project and their reliability which in turn is understood as non-risk, probability of reception of incomes. This map assumes also accounting of several utility levels for the businessman. In figure is shown the general view of the similar map of preferences.

¹ ABC of enterprises: Textbook/Under the editorship Raizberg B.G. – M.Economic– 1995.



Map of risk preference.2

Curves have a positive slope on the map of risk preference. The curves represented in figure called “curve of equal preferences” or “curves with indifference”. Each of them shows the points of equal – prefer pair of efficiency expectation and risk of the decision for the businessman at the given level of its satisfaction. Acceptable levels of satisfaction (utility) may be several. In this figure there are three, the lowest of all acceptable is level F1, the most high is F3. F1 level is lower than the F2, so in the first case (for F1) the amount of risk R3 is greater than the risk of R1 at the same expected profitability solutions. Map of risk preference should be built by entrepreneur or by outside experts. It should be based on data analysis of decisions taken earlier.

The consequence of risk shown up most often in the form of financial losses or the inability to obtain expected profits, the risk is not only undesirable results. In certain versions of business projects exists not only danger of not achieving the intended result, but also the probability to exceed the expected profit. This is the entrepreneurial risk, which is characterized by a combination of the possibility of achievement as unwanted results and favourable deflection from planed results.

1.2 The concept of risk

First of all, it is necessary to determine the original, basic concept of "risk" and its classification for further consideration of the entrepreneurial risk. The notion of risk is used in a wide range of sciences. Law sees risk in connection with its legality. Catastrophe theory applies the term to describe accidents and natural disasters. Research of risk analysis can be found in the literature on psychology, medicine, philosophy; each examination of risk is based on the subject of study of the science and, of course, relies on its own approaches and methods. This diversity of risk studies is explained by many aspects of this phenomenon.

In the domestic, economic science is not essentially generally accepted theoretical principles of entrepreneurial risk, not actually developed risk assessment methods as applied to various industrial situations and types of business, there are no recommendations on ways and means of reducing and preventing risk. Although it should be noted that in recent years scientific work appeared, in which are the issues of planning, economic activity of commercial organizations, the relationship between demand and supply issues, such as: "risks in modern business" (authors); Rajzberg's B.G. monograph, "ABC Enterprise" monograph of Pervozvansk A.A. and Pervozvansk T.N. called "financial market: calculation and risk", etc.

Some specific interest is comparative consideration of classical and neoclassical theory of entrepreneurial risk and economic appendix. In the study of business profit, such representatives of classical theory J. Mill, I.U. Senior recognized the percentage of entrepreneurial revenue (as share in capital), wages of businessman and a pay for risk (as compensation for the possible risk associated with business activities).

In the classical theory of entrepreneurial risk the last is identified with the mathematical expectation of losses that may occur as a result of the selected solution. In this theory the risk is explained as the damage caused by the implementation of this decision. In the 30 years of our century economists A.

Marshall and A. Pigo developed framework of neoclassical theories for business risk. The foundations of this theory are: entrepreneur is working in conditions of uncertainty and profit which is a casual variable, the transaction is governed by two criteria:

- The size of the expected profit;
- The size of its possible fluctuations.

Entrepreneur's behavior, according to neoclassical theory made from the concept of marginal utility. This means that if you have two variants, for example, capital investments with the same expected profit then employer elects variant with fewer fluctuations in the expected profit. If you accept a small number of decisions of the same type, you cannot expect that deviations equalize mutually from the expected profit. That is why an entrepreneur, which is making a decision, should take into account fluctuations of income and choose the variant that gives the same result and characterized by fewer variations. According to neoclassical theory, for entrepreneur less interesting the profits associated with possible variations.

The works of the Hungarian economists T. Bachkai, D. Mossen and others continued further development of the neoclassical theory of risk. They see the essence of risk in the possibility of deviation from aims for achievement of it was made decision.

The problem of risk “has matured” enough in our country. However, now, as noted by A. Algin, a list of literature about the risk unfortunately poor, fundamental research, essentially, absent. The case is limited to a few journals and newspaper articles mostly the essay nature. The problem has not received proper explanation and practice managers.

B. Abchuk and a. Algin defines risk as the activity or action on “the removal of uncertainty”. L. Rastrigin and B. Rajzberg define risk as "damage, possible losses, according to the classical theory of entrepreneurial risk. Analysis of the many definitions of risk allows identifying the main points that are specific to risky situations, such as:

- Accidental character of events that determines which of the possible

outcomes is realized in practice;

- The availability of alternative solutions;
- Is it known or it is possible to determine the probability of outcomes and

expected results;

- The probability of loss;
- The possibility to obtain an additional profit.

Thus, the category of "risk" can be defined as the risk potential danger, the probable loss of resources or deficiency of revenue compared to their expected value-oriented management of resources in the enterprise activity.³ In other words, the risk is the threat that the employer has incurred losses in the form of additional spending or receives revenues below those at which he had expected. Under the business understood risks arising in all types of business activities related to the production of goods and services; inventory money and financial operations; commerce, as well as the implementation of scientific-technical projects.

1.3 The classification of business risk

The complexity of the classification of business risk is their diversity. In addition, economic and political development poses new risks in the modern world that are difficult to determine and assess quantitatively. In the economic literature on entrepreneurship, there is no system of classification of the business risk. First of all it must select the types of risks, grouping them according to certain characteristics. Based on the sources of risk should be distinguished:

- the risk associated with business activities;
- the risk associated with individual entrepreneur;
- the risk associated with a shortage of information on the status of the

external environment.

By origins of business risks can be divided into external and internal.⁴ The

³ The course of the economy: Raizberg. BA - Moscow: UNITY - 1997.

⁴ Arkhipov A.P. The insurance business risks in business. "finance". 2002. - No2. - p.51-53

source of external risks is the external environment in relation to the business firm. The entrepreneur cannot influence on them, he can only anticipate and take them into his activities. It is about the unforeseen changes in legislation; the volatility of the political regime in the country. Internal risks arise in the case of ineffective management, mistaken marketing policy, and as a result of internal abuse. It is the human risks associated with the professional staff of entrepreneurial firms.

On the level of decision-making single out: macroeconomic (global) risk and risk at the level of individual firms (local). In terms of duration in time business risks can be divided into short-term and constant. The short-term include the risks that threaten the entrepreneur in the course of known duration. For example, the transport risk is when losses occur during the carriage of goods or the risk of non-payment on a specific transaction. The constant risks include risks that right along threaten business activities in a given geographical area or in a particular economic sector, for example, the risk of non-payment in the country with the imperfect legal system or risk of the destruction of buildings in the area of seismic risk.

It should be also provided an admissible, critical and catastrophic risk 5. Admissible risk is a threat of "total loss of profit from realization of a project or business as a whole. In this case losses are possible, but their size is less than the expected business profits.

Critical risk associated with risk of losses in the amount of costs incurred for the implementation of the business activity or transaction. The first degree critical risk is the threat of getting zero income, but claims compensation of entrepreneur material costs. The second degree critical risk is the possibility of losses in the amount of total cost of the business.

Catastrophic risk is characterized by the threat of losses in an amount equal to or greater than all the property state of the entrepreneur. Catastrophic risk usually leads to bankruptcy business firms.

On the level of legality single out: justified (lawful) and unjustified

(unlawful) risks⁶. To differentiate between justified and unjustified entrepreneurial risk, in the first place should consider the fact that the boundary between different types of business in different sectors of the economy is different.

All business risks can also divide into two major groups according with insurance: insured and non-insured. Risk insurance is a probable event or set of events, in case of which carry out insurance. Depending on the source of the risk of insurance risks are divided into two groups:

-risks connected with the manifestation of elemental forces (weather conditions, earthquakes, floods, etc.);

-risks connected with purposeful human actions.

But if the losses as a result of the insured risk is covered by insurance companies, a losses as a result of the non-insure risk is reimbursed from the own means of entrepreneurial firms.

It should be selected two other large groups of risks: statistical (simple) and dynamic (speculative). Peculiarity of statistical risk is that they always carry the losses of business. The loss for entrepreneurial firms tends to mean losses for society as a whole.

In compliance with the cause of the loss of statistical risks, they can be divided into the following groups:

- expected losses as a result of negative actions of natural disasters (fire, water, earthquakes, hurricanes, etc.) on the assets of the firm;

- expected losses due to criminal acts;

- expected losses due to an adverse legislation for entrepreneurial companies (losses related with direct seizure of property or with the inability to recover compensation from the perpetrator caused by imperfection of the legislation);

- expected losses caused by third persons threat of property, which leads to the forced stop actions of the main producer or consumer;

- losses as a result of death, or disability of key employees, or a main owner of the business firms (because of the difficulty of the placement of personnel, as

⁶ Arkhipov A.P. The insurance business risks in business.//finance. – 2002. - No 2. –p. 53-55.

well as problems with the transfer of ownership).

Unlike the statistical risk, the dynamic risk carries either a loss or profit for entrepreneurial firms. Therefore, they can be described as "speculative".

There are also existed risks, classification of which is based on the separation of risks on the nature of the activities with which they are associated. They are: political risk, production risk, commercial risk, financial risk, technical risk, branch-wise risks and innovation risk.

1.4 Types of losses

To assess the probability of losses specified on unexpected variant developments, first of all, we should to know all types of losses related to business and be able to calculate them. By natural desire to evaluate each of the types of losses quantitatively and be able to bring them together, unfortunately is impossible to do always. Losses which occur in the business, advisable to separate into material, labour, financial, loss of time, special types of losses.

Material losses appear in additional costs, which were not provided by business project or direct loss of property, equipment, products, raw materials, energy, etc. There are some units of measure against to each of these types of losses. More suitably the measuring material loss in the same units as it measured the quantity of this type of material resources, i.e. in the physical units of weight, volume, area, etc.

However, bringing losses together, that measured in different units and express their by one unit, does not seem possible. Therefore it is inevitable to calculated losses in value terms and in monetary units. Having an assessment of expected losses for each several types of material resources in value terms, it is possible bringing them together, by following regulation of actions with random quantities and their probabilities.

Labour losses are the loss of working time due to unexpected developments. The direct measurement of labour losses is expressed in man hours, days or hours

of work time. Transfer of labour losses in value, the monetary value is obtained by multiplying the hours at cost (price) one hour.

Financial loss is the direct monetary damages arising from unforeseen payments, payment a fine, loss of money and capital issues. In addition, the financial loss caused by deficiency or non-reception of money provided by the sources, also by repayment of debts, non-payment of its products, reducing revenue due to lower prices on sold products and services.

Special kinds of monetary damage linked to inflation, changes in exchange rates of monetary unit, additional legitimate withdrawal of cash of the enterprises to the State (national, local) budget. Along with the final, irrevocable losses, there are temporary financial losses resulting from the blockage of exchange, the late issuance, suspension of payment of debts.

Loss of time exists when entrepreneurial process is slower than was scheduled. Direct evaluation is delaying hours, days, and months in obtaining the intended result. To assess the loss of time in cost measuring, it should be established in which losses of revenue, profits of business can cause incidental loss of time.

Special kinds of losses are the form of threat to the health and lives of the people, to the environment and the prestige of the entrepreneur, as well as other unfavourable social, moral and psychological effects. Special kinds of losses are often extremely difficult to determine in quantitative and value terms. Analyzing the losses listed above, it is necessary to divide the probable losses on determinative and incidental, on the basis of the overall assessment of their value.

Incidental losses can be excluded in the quantification of the level of risk for determining the business risk. If concerned losses have one type that knowingly “repress” others either on size or on occurrence probability, then can only accept this type of loss from quantitative assessment of the level of risk into account.

Also there are losses from the impact of unforeseen political factors. Such losses engender political risk. It takes the form of unexpected due to political considerations and changes in business conditions, which creates unfavourable

background for the entrepreneur and thus can lead to increased costs and loss of profits.

Typical sources of such risk are increasing tax rates, the introduction of compulsory assessments, change of contractual terms, the transformation of forms and relations of property, alienation of property and cash means for political reasons. The amount of potential losses and defined by their level of risk in this case it is very difficult to predict. Unforeseen loss caused by natural disasters, theft and racketeering is closed with it.

Entrepreneur losses take a special place, which is caused by unconscientiousness or insolvency of companions. Risk to be cheated in a transaction or face insolvency debtor, irrevocability of debt, unfortunately quite real.

Chapter 2. The analysis of enterprise activity

2.1 A brief economic characteristic of entrepreneurial risks on an example of joint-stock company "Kazakhtelecom"

“Kazakhtelecom” JSC is one of the largest companies in our country. It carries out business in the territory of the Republic of Kazakhstan. It provides services to local, intercity, international telephone, data transmission and telecommunications, mobile radiotelephone services on broadcast television and audio programs on the basis of the general license issued by the Agency of the Republic of Kazakhstan for Informatization & Communication ABA No. 000001 from May 28, 2004 year. For more detailed acquaintance with the company should look at Table 1, which presents key indicators of the financial statements of “Kazakhtelecom” on December 31, 2008. (All data using from Appendix 1)

By analysis Table 1, should pay closer attention to the fact that the owned capital of the company is taken great percent (191 072 136 TG). This shows the stability of “Kazakhtelecom” as compared with many companies that have difficult situation as a result depending on the borrowing costs.

It should also pay attention to the stable payment of dividends on ordinary share in this period. This ratio shows that the company will keep a stable dividends payment on ordinary share in the future, fully corresponding to expectations of less risky investors, thereby justifying the right dividend policy.

The generally accepted principles of financial analysis provide comparability of financial statements at the current and previous periods. Horizontal analysis is the departure in examining of these statements, which includes the count changes at value and percentage terms from year to year⁷. Percentage change is calculated as follows:

$$\text{Percentage change} = \frac{\text{sum of changes}}{\text{measures for last year}}$$

⁷ <http://www.cfin.ru/finanalysis/>

Financial indicators for the 2006 year are used as a base. Horizontal analysis of the profit and loss of the company is a key moment in the disclosure of its financial situation.

In table 2 is shown a horizontal analysis (value in percentage) of the profit and loss statement of "Kazakhtelecom". By analysis Table 2, can reveal big changes in financial situation of the company during 2007 and 2008. (All data using from Appendix 1)

Positive dynamics presents fact that the income from sales of products and services increased by 11.99% in 2007, and further 24.70% in 2008, relatively to indicators 2006 year. This is because JSC "Kazakhtelecom" put on the market new products (Megaline, Neo, etc.) in recent years, which were widely spread among the population of our country.

However, the growth of the gross profit was negative in 2007, compared with the 2006 year. In 2008, there was a slight improvement and profit growth, compared with the 2006 year. Despite the increase in income from the sale of the company, this fact is due to increased cost of sales goods and services.

The company costs increased significantly to counterbalance an increase in revenue from financing: the cost increased by 219% and 96.84%; administration costs increased 14.43% and 22.19%; financing costs increased by 54.35% 30.32%; other expenditures increased by 41.12% and 2317.96% in 2007 and 2008, respectively on indicators 2006 year.

In the end, the total profit has suffered significant losses despite the income increases. In 2007 decrease of total profits was 17.65%, while in 2008 this indicator was equal to 61.04%.

Vertical analysis is one of the most important factors of the financial accountability of the company in the financial restructuring or optimization of management decisions⁸. The whole part is equal to 100% in the vertical analysis: in the statement of expenditure and income (income statement) - income from sales. Then calculate the unit weight of each component, which is calculated as

⁸ <http://www.cfin.ru/finanalysis/>

follows:

Unit weight of component = Account of component *100 / Income from sales

Table 3 shows the vertical analysis of the profit and losses “Kazakhtelecom” for 2006-2008 years. This analysis is useful to compare the importance of a particular group their sources across several years. Although during these periods there were an increase the cost of products and services, the GP remained a high enough percent level.

By analysis of the expenditures of the company period, should pay attention to a smart unit weight of administrative costs that averaged 14.76% in 2006-2008 years. This is because this type of services needs a large number of administrative staff, which provided by the company. Total profit was 29.47% in 2006, 21.67% in 2007, 9.21% in 2008. Significant reduction of total profits can be explained by both to the increased cost of sales goods and services and the increased expenditures in sales and a sharp jump at companies other expenditures in 2008 year. The ratio of income from sales had risen from 0.78% in 2007 till to 12.03% in 2008 year. (All data using from Appendix 1)

In the end, might say that, despite the significant reduction of total profit for the year 2008, it should be noted that the company's undistributed aggregate income remains a high sufficient level.

Analysis of financial ratios is an integral part of the analysis of financial statements of the company. Thus, the analysis of financial ratios can be divided into several parts, such as: Assessment profitability indicators; Analysis of capital structure, Analysis of dividend policies; Assessment of Net Working Capital, Current financial needs; Analysis of liquidity ratios.

A) Assessment profitability indicators of JSC "Kazakhtelecom" are presented in table 4. At all indicators of profitability has been some decline during this period (2006-2008).

Table 4

Years	2006	2007	2008
Return on assets	0,14	0,09	0,04
Return on equity	0,24	0,17	0,07
Net Earnings per share	3,06	2,52	1,18
Price-earnings ratio	13,07	14,70	11,86
Market-to-book ratio	3,16	2,42	0,80

$$Ra = P / A * 100 \%$$

$$ROE = NP/Own\ capital * 100 \%$$

B) Analysis of the company's capital structure is shown in Table 5. Degree of financial leverage increased from 1.08 to 1.24 in the given periods that is caused by an increase in the active part of the companies balance. However, this increase is negligible, because all of the level of financial leverage abides by one.

Table 5

Years	2006	2007	2008
Degree of financial leverage	1,08	1,11	1,24

C) Analysis of dividend policy of “Kazakhtelecom” is shown in Table 6 over the period 2006-2008. At the end of 2008, the company issued 12922876 common shares and 403194 privileged shares.

It should be noted that, the value of dividend payment ratio increased despite a decline in total profits. This corresponds to a stable policy of payment of dividends on common shares. However, price-dividend ratio has fallen significantly during this period.

Table 6. Analysis of the dividend policy in 2006-2008

Years	2006	2007	2008
Dividend payoff ratio	0,13	0,20	0,45
Dividends per share	398,21	498,99	535,00
Price-dividend ratio	100,45	74,15	26,17

D) Assessment of Net Working Capital and the assessment of current liquidity ratio of the company are shown in Table 7. It should be noted that, despite the fact that in 2006, the company was deficit of money, in 2007 and 2008 the company has been able to improve their situation. Thus, a surplus of money was more than 5 million at the end of 2008. Current liquidity ratio also improved during the period, so that it slightly exceeded the standards and amounted to 1.19 by the end of 2008.

Table 7. Calculation and assessment of net working capital, current financial needs, the Current liquidity ratio for 2006-2008

Years	2006	2007	2008
Net working capital	-23338256	12078950	6892186
Current financial needs	11882224	606029	1694743
Surplus (shortage) of money	-35220480	11472921	5197443
Current liquidity ratio	0,58	1,35	1,19

$NWC = \text{current assets} - \text{current liabilities}$

$CLR = \text{Current ratio} / \text{Current liquidity}$

Comparative balance sheet from collecting information listed above.

Positive factors	Negative factors
A large amount of capital invested in fixed means, which is the main base for further growth and development	Increase in cost of selling goods and services.
The low level of financial leverage, making it more independent and self-dependent in the decision-making process.	Increased or instability of values of the expenditures in given period.
The requalification of sources of financing assets with short-term to long-term. This will mitigate the effects of a possible default of company clients later on economic crisis.	Decrease of total profits from 2006 to 2008 year almost 2.5 times.
Current liquidity ratio was at normal during three years: from 2006 till 2009 years	
Stable payment of dividends to holders of common shares that determines the company as reliable	

2.2 Risk assessment and its indicators

Risk assessment is one of the stages of risk analysis. Risk assessment is, in general, the process of determining the probability of origin risk factors- specific events or situations that can negatively affect on development and achievement planned results. Thus, to each possible risk factor is assigned a value in the risk assessment process, which determines the expediency of realization a project or solution.

Analysis of the literature shows the aim (destination) of risk assessment, the possibility of obtaining the necessary information, also time, financial or other resources can vary significantly that entrepreneurs or managers considered acceptable for this work. That is why the existing approaches, specific methodology and presentation of information on risk assessment are very various. In particular, there are quantitative and qualitative risk assessments.

Qualitative approach is detailed and consistent consideration of the substantive factors, uncertainties, and ends with the formation causes of major risks. Method of qualitative risk assessment outwardly seems very simple as descriptive, but essentially it should lead analyst-researcher to quantitative result – valuation of identified risks, their negative effects and "stabilization" activities.⁹ Thus, the main objective of the qualitative approach to identify possible risks inherent in this object that is in accordance with one of the classifications in the previous section. In addition, defines and describes the causes and factors affecting on the level of this type of risk. This is the first. Secondly, it is needed to describe and provide valuation of possible damage from the risk, and thirdly, to propose a system of non-risk events, before calculated it cost parameter.

Quantitative approach to risk analysis is to identify a characteristic

⁹ Risks in modern business. Loboda P.G. Grabovoj S.N. and others -M.: "Alane", 1994. p.61.

parameter of risk situations, expressed in observed quantity. 10 This risk assessment is not only diversity, but also the complexity of the submission in scores, percentage of the expected damage (monetary, physical units) in absolute terms and per unit of capital invested, with average values of the potential losses of critical zones, and other risks.

In practice, it is quite difficult to show a clear boundary between qualitative and quantitative approaches to risk analysis, because almost every method combines the descriptive and rated components.

Modern economics offers variety approaches of grouping of methods of analysis and risk assessment. The analysis of existing methods identified the following main approaches to the process (appendix 2):

- Descriptive
- Statistics
- Probabilistic
- Normative

SWOT-analysis.

The most common method of describing risks is the SWOT analysis, consisting in the analysis of the strengths and weaknesses of the enterprises, as well as the threats and opportunities in the external environment. This method combines both internal management analysis and assessment of the external environment of the enterprise.

SWOT- abbreviation of English words Strength, Weakness, Opportunity, Threat. This qualitative approach, based on a comparison ("weighting") opposite qualities of the enterprise (project):

1. What are the strengths of the analyzed object? Which of its constituents are more developed, advanced compared to other companies? (For example, the experience of personnel, the availability of the production capacity, the ability to apply this technology, etc.).

2. Which of the components and elements are weak, poor, insufficient? (For

example, the absence of finances sources, a vague impression of the market, the ignorance of the basic needs of the users).

3. What additional opportunities arise during and after realization of the decisions? It is necessary to take into account not only materialized benefits-income, and those results that create the framework conditions (opportunities) for further development of the enterprise (e.g., infrastructure development projects).

4. What factors may prevent the successful realization of the project or make it impossible, absurd? (For example, the implementation of the innovation project will fail if the project leader or main developer goes away from the project, or there will be strong competition).

In relation to risk analysis SWOT analysis is recommended to conduct as follows:

1. Describe the external environment of the enterprise in terms of its threats and opportunities by using the methods of analysis of external environment, for example, using the Porter's model analysis of the competition.

2. Define the internal characteristics of enterprises using the methods of management review (McKinsey's system, Porter's "the chain of values", Omae's approach).

3. Using the tools of portfolio analysis (matrix McKinsey-General Electric, Arthur D. Little (ADL/LC) or 3D scheme of Abel) to synthesize the information received and processed during external and internal analysis. In the capacity of obvious case of the results of the analysis can be used table (appendix 3) proposed by V.D. Markova and S.A.Kuznetsova¹¹.

4. The results of the qualitative analysis formulated in the form of a SWOT analysis (fig 4), allowing to clearly oppose the strengths and weaknesses of the project, its opportunities and threats.

As a result of the SWOT analysis developed activities to overcome or avoid the most serious weaknesses and confrontation or to avoid the most severe threats.

¹¹ Markova V.D., Kuznetsova S.A. Strategic management: a course of lectures. -M.: INFRA-M; Novosibirsk, 1999. P.105.

Figure 4

SWOT analysis table

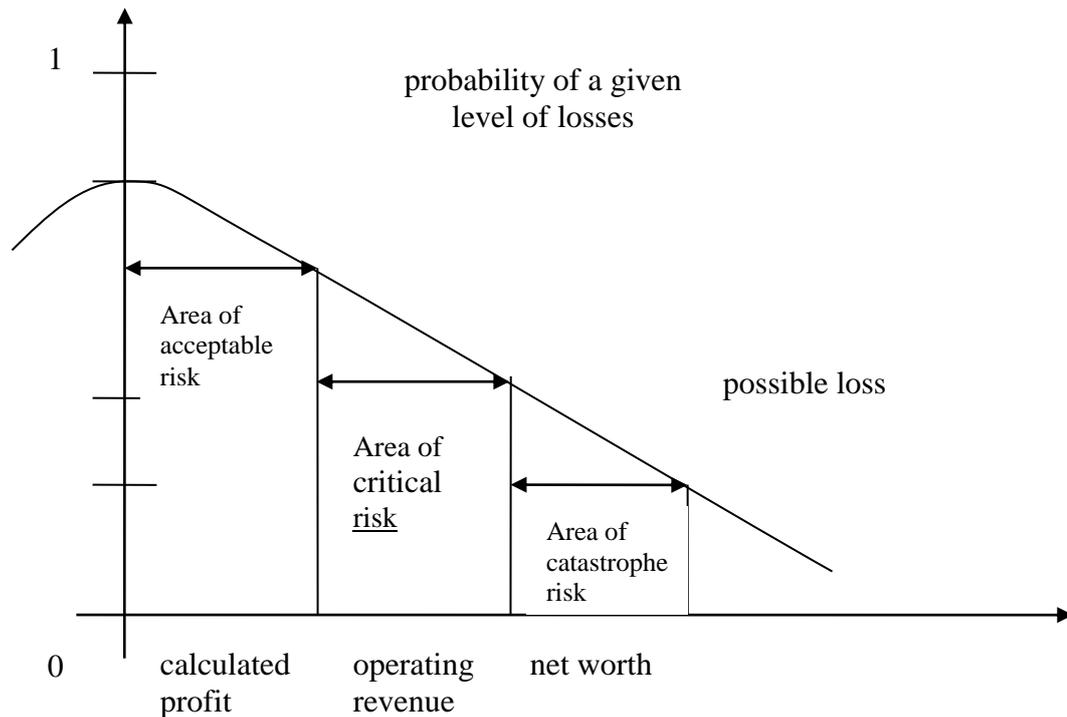
Strength	Weakness
The availability of the production capacity	The uncertainty of financing sources
Staff experience	Unstudied market
Knowledge of technologies Availability of competitors	Weak risk study
Opportunities	Threat
Access to other markets	The emergence of a strong competitor
Attraction of other suppliers	Changing the conditions of importation of materials on the country's territory

Risk curve.

The choice of the optimal ways of influence on the specific risks intends the necessity of working out the principles of estimation of financial risks and gives an opportunity to mould the general strategy of management of all the complex of the risks of the organization. The basis of an assessment of the financial risk is finding the dependencies between certain sizes of the losses and the probability of their occurrence. This relationship is shown in probability curve of origin a certain level of losses (risk curve)¹².

Risk curve using different methods: statistical; analysis of the suitability of costs; judgmental method; the analog approach; analytical treatment.

¹²The Article "Methodology of assessment financial risks". Hahonova I.I.



The risk assessment consists in the analysis sensitivity of financial results to changes in basic parameters of activity in conditions of uncertainty variability of the market situation, as efficiency of management decisions are always linked to the risk of deviations of actual data from the planned data. This is a qualitative approach to measuring risk.

Valuation of unsystematic risk of the enterprises is carried out in the following areas:

- nature of business;
- external environment;
- quality control;
- the nature of the activities;
- sustainability work, stability;
- financial condition.¹³

In practice for risk assessment most frequently used expert (qualitative) methods based on subjective evaluation of expected performance. For example, the

¹³ The Article “Methodology of assessment financial risks” Hahonova I.I.

financial condition of enterprise experts can evaluate by dividing into high, medium, and low risk in terms of the following.

A) Using of credit:

- the risk level is high, if the company cannot undertake current activities without the using of borrowed funds;
- the average level of risk, if the business requires investment credits for development, business expansion;
- the low level of risk, when the company did not resort to credit or use them occasionally.

B) The level of own working capital:

- high risk, if there are problems (shortage of) their own working capital;
- the average risk- working capital financed by equity to total assets ratio is normative;
- risk low-working capital financed by equity to total assets ratio is above normative.

C) Asset Liquidity:

- high level of risk associated with large above-standard raw materials inventory, finished products in stock, arrears of interest.

D) Probability of bankruptcy:

- high;
- exists;
- low.

E) Profitability:

- low profitability compared to industry average means, higher risk.

F) Accounts receivable:

- 60% of current assets, the period of circulation of more than 180 days – high risk;
- 40-60% of current assets, the period of circulation of less than 30 days

– medium risk;

- less than 40% of current assets, turnover of less than 30 days period is low.

G) Investments in enterprises:

- If the share of financial investments in assets is great and return on assets lower profitability of main activities, therefore, the enterprise was engaged in risky speculations, not justify waiting of high incomes.

If it is not possible to quantified risk event (for example, damage linked to the image), then use the following characteristics:

"Very low risk" means that this event can not significantly affect on the achievement of the fundamental objectives of the enterprise;

"Low risk"-possible losses can and should be prevented through appropriate measures;

"High risk"-the objectives of the enterprise as a result of events will be made late, despite all the measures taken;

"Very high risk" is an offensive venture events threatened the achievement of the objectives, and will therefore have to revise, amend, adapt to external changes.

In the process of building a risk management system must comply with the general principle, building control systems: the cost of building and contents of the system shall not exceed the benefits of its operation (including in the form of avoided losses).

2.3 Possible types of risk in the “Kazakhtelecom” activity

By analysis of all information represented in the tables, it is possible to select specific groups of risks to the company is incurred. In the entrepreneurship of “Kazakhtelecom” may experience the following risk groups: strategic risks, financial risks, legal risks and operational risks.

Strategic risk is the risk of losses due to changes or mistakes in defining or

realization strategy and the development of the company, changing political environment, regional market conditions and other external factors of a systemic nature. These include new technologies that can render products obsolete, and sudden shifts in customer tastes that could redefine industry. If company not thinking about strategic risk, it may be putting company in danger.

To escape this fate, apply powerful countermeasures for each form of strategic risk. For example, to protect against dangerous shifts in customer preferences, gather and analyze proprietary information to detect signs of change. Then conduct fast, cheap experiments to identify attractive offerings for different customer micro segments.

Financial risks are the amount of chance that is present with any type of financial investment (with the structure of capital, reduced profitability, currency fluctuations, credit risk, market risk, liquidity risk). For example fluctuations in currency exchange rates can significantly affect financial result. Currency risk emerges in individual sales if the invoicing currency is different from the currency of the manufacturing costs. Changes in currency exchange rates may also affect the cost competitiveness of products in the long-term, if manufacturing costs and those of competitors are in different currencies. One of the most important risks of entrepreneur activity in market economy is a credit risk. It is associated with the possibility of failure, by their financial obligations to the investor as a result of the using external debts to finance activities of the firm. Thus, credit risk arises from business cooperation with his creditors: Bank and other financial and credit organizations; contractors: suppliers and intermediaries, as well as shareholders.

Legal risk is risk from uncertainty due to legal actions or uncertainty in the applicability or interpretation of contracts, laws or regulations. For example due to non-compliance with the requirements of the legislation of the Republic of Kazakhstan, in relations with non-residents of Kazakhstan– the laws of other States, as well as internal rules and procedures.

Operational risk is the risk of loss due to defects or errors in the implementation of the internal processes made by staff (including risks),

information systems and technologies, as well as external events. Business environment is experiencing continuous internal and external changes, which may affect its future operational result. There is also internal change in the form of information technology infrastructure makeovers, which if successful, shall improve their capability to provide enhanced service to customers, and vice versa.

Among the most important causes are:

- possible decrease in estimated production volume;
- increase material and other costs;
- increased payments to the (government) budget, taxes;
- the prospect of non-receipt or late receipt of money for the products selling;
- refusal of the buyer from received and paid products;
- derail an agreement on investments and other.

Analysis of the financial statements of "Kazakhtelecom" indicates that the company has a great potential for further development.

However, by the long-term predictions "Kazakhtelecom" is a monopolist in the Kazakhstan market in the sphere of telecommunications. And despite a slight deterioration in financial indicators during the crisis, are predicted the widening of the company's clientele, also the introduction a number of major infrastructure projects, new technologies and the telephone network of villages and the development of broadband Internet access.

Chapter3. The main directions and ways to reduce risk

3.1 The basic ways of the risks reduction

Activities of the enterprise are always connected with risk. Management task of the enterprise is to reduce this risk. The employer must take into account the objective and subjective factors in making decisions involve risk. Someone, who makes decision linked to the risk, should have such qualities as originality of thinking, aggressiveness, self-sufficiency, etc. Most psychologists believe that disposition to risk or its denial is not the properties of the personality trait. Attitude to risk is determined mainly by the external environment or some individual and psychological characteristics, such as aggressiveness or level of anxiety, stress. At once, psychological research has shown that most of the other personality traits, such as selfishness, conformism, etc, do not affect on decision-making relating to risk.

To organize a profitable business in present-day conditions, an entrepreneur should have good training, as well as the necessary knowledge in the field of economy, politics, psychology, law, organization of production and be able to collaborate with scientists, experts on marketing, and the owners of capital. Overseas specialists possess such qualifications reputed as the business potential of the country. In decision-making can be occurred information overload, then deciding in time can prevent saturated flow of information about the environment or the shortage of information (typical, a normal situation for decision-making related to the risk of getting the results). Information overload blocks work on the decision-making, give rise to its complication.

Marginal cases of decisions involving risk are reinsurance and adventurism. In reinsurance the risk is reduced to zero, adventurism leads to the greatest possible risk. Reinsurance could lead to understated effect, adventurism to non- reception of planned result due to excessive risk. It is necessary an optimal solution, which should contain a reasonable calculation of the risk. It should take advantage of

scientific prediction. Valid risk is almost always useful. It improves the efficiency of business activities.

The decision is the basis of the control, best-way choice of action from several eventual. Under optimal solution should understand something that is between good and best. Optimal solution must correspond to the conditions of production, fit for work and acceptable to it, as well as to provide a small degree of risk and achievement of project results. The best solution is to achieve the main result by entrepreneur's own labour.

Entrepreneur may prevent or reduce risk substantially through leasing, conclusion of a contract on off-take, rendering of service, transportation and storage of products. In terms of leasing a substantial part of the risk of anientisement or loss can be entrusted to the renter by special clauses in the contract (finance lease). At the conclusion of contracts of sale of goods or services, an advantage pass to the buyer or ambassador in purchasing which provided responsibility of producer for defects in the product in the course of exploitation or replacement of unsound goods. So the risk is the responsibility of the manufacturer.

The mutual risk of parties entering into the contract occurs in transporting or storing the goods. The drop in prices during transportation or storage of products and related loss incur its producer. At the same time, the material loss during storage or transport of products entrust on transport or other organizations carrying out this storage or transportation.

Making the right decision is the success of an entrepreneur because it significantly reduces risk and enables you to get high eventual result. Managerial decisions must follow the rules, the main of which were formulated by the American sociologist M. Rubinstein¹⁴:

1. Try to get an idea of the problem as a whole, before you go into the details.
2. Do not make decisions, until do not consider possible variants.

¹⁴ Gorfinkel V.J. Course of business. –M.: "Finance" 1997, P.308.

3. Hesitate – even the generally accepted truth should evoke distrust, don't be afraid to refute them.

4. Try to look at facing you problems from many views, even if the chances of success seem minimal.

5. Look for the model or its analogy that help us to understand better the problem. Use schemes and diagrams. They will catch on a complex and extensive problem literally at a quick glance.

6. Ask questions as much as you can your selves and partners. Properly asked question may sometimes radically change the contents of the response.

7. Do not satisfy by the first solution that comes to mind. Try to find its weaknesses. Try to find other solutions to this problem and compare them with the first.

8. Talk to someone about problems, before the making of the final decision.

9. Don't ignore your intuition. The leading role of logical thinking in the analysis of the problems is unquestionable, but cannot be minimized and value of intuition.

10. Remember that everyone looks at life and emergent challenges with it's especially point of view.

3.2 Methods for reducing the risks

Different methods are using to reduce the risk: diversification, insurance, limitation, reservation of means for unforeseen expenditures, risk allocation, getting more information about the forthcoming election and results.

Diversification means reducing risk by investing in a variety of assets. If the asset values do not move up and down in perfect synchrony, a diversified portfolio will have less risk than the weighted average risk of its constituent assets, and often less risk than the least risky of its constituents. Therefore, any risk-averse investor will diversify to at least some extent, with more risk-averse investors diversifying more completely than less risk-averse investors. Enterprise, bear losses on one

activity, can make a profit at the expense of the other spheres of activity. Diversification permits to increase sustainability of companies to changes in business environment. The best is the simultaneous financing of 10-15 projects which allows break up the risk. In reserve for possible additional payments in the later stages of the development of an enterprise company holds 10-20 per cent of the Fund. To further reduction of the risk, practice joint-finance projects by several private firms "risk capital".

Insurance is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. Property insurance can have the following form: insurance risk contracting the building, equipment insurance, cargo insurance, etc. Accident insurance includes: insurance civil liability and professional liability insurance. Hedging are used widely, it is one of the type of insurance.¹⁵ It is insurance prices from the risk of any unwanted drop for manufacturer or disadvantages for the consumer. On the objectives and operation technique, hedging divided in hedging of selling, i.e. the transaction by producer or owner of the goods, for the insurance of futures reducing prices on goods selling, either have already available or have not produced yet, but provided for compulsory delivery in given period of time; purchase hedging, i.e. the transaction a futures contract by consumer or seller with the aim insurance of increasing the price of purchase the product that in the future will be required.

Limitation involves setting limit, i.e., certain amount of expenditure, the sale of goods on credit, amount on deposit of capital (investment), etc.

Reservation of means for covering expenditure involves establishing the ratio between potential risk and the size of the expenditure required to overcome the consequences of those risks. This method of risk typically uses to perform a variety of projects. In general, the reserve is used to fund additional work, compensation for unexpected changes of material and labour costs, overheads and other costs arising in the implementation of the project.

¹⁵ Dyuisembayev K.Sh. Audit and analysis of financial statements. -Almaty: Қарзhy-Қаразhat, 1998. p.512.

Allocation of risk involves division of risk between project participants. Growth in the size and duration of investment, the introduction of new technologies, high dynamic of external environment increases the risk of project. Way-division of the risk is operation of factoring. In practice, foreign banks development factoring operations relates mainly to the need for each supplier in the accelerated receipt of payments that were questionable. Usually in these situations, there is risk claims payer. Bank, repaid such a claim from the supplier may suffer losses. Factoring operations belong to the high-risk operations. The size of the commission depends on the degree of risk (to the level of "questionable" redeemable debt), and the duration of the contract deferment. In some cases it comes down to 20% of the amount of payment.

Any management decision is made in situations where the results are undefined and information limited. Therefore, the more information the better preconditions to make the best prediction and reduce risk. Cost information is calculated as the difference between the expected value of any activities when there is full information and expected value, when the information is incomplete.

Risks affect on various aspects of the enterprise and, as a rule, influence are negative. Especially harmful an attendance and influence factor of risk on the company that have crisis already. Work to stabilize the situation, should to start with risk management. For example, to develop and introduce economically advisable for business advices and activities aimed at reducing financial losses associated with risk.

Any company interested in reducing potential losses related to economic risk, should decide for themselves several problems:

- Assess the possible losses associated with economic risks;
- Decide whether it leaves a certain risks, i. e. whether respond on them itself, abandon on them or transfers some or full responsibility on others;
- Firm should to elaborate a program management, whose main objective is to reduce potential losses (for those risks or the part of the risks that it leaves itself).

To summing up all above, it can be drawn a conclusion that there are three main principle of risk-reduction in the common business practice:

- Not to risk more than the capital permits;
- Don't forget the consequences of the risk;
- Don't run the risk much for the sake of the small.

Conclusion

Finally it is possible to conclude that the enterprise inseparably linked with risk. With a business risk understand the probability of occurrence of an undesirable event, where the last one is understood as an unfavourable event for the net profit of the enterprise. It should be noted that the circle of risks is very broad and varied in today's business.

In modern economy are making additional elements of uncertainty in entrepreneurial activities that extends the zones of risky situations with more and more economic environment. In these cases arise the ambiguity and uncertainty in the expected end results, and therefore increase the degree of risk business. And, despite technological progress, the risk does not have a tendency to shrink. Entrepreneurship is constantly developing and solving some problem entrepreneurs constantly faces new ones.

These circumstances predetermine the actuality of research nature of the entrepreneurial risk and require further efforts aimed at the constant adjustment of the definitions of this the most difficult concept.

Significant potential of the risk is in the internal enterprise activity, peculiarities of organization of its production and financial management. The greater risk lies in the existing enterprise system making incorrect and sometimes disastrous solutions for enterprise. The less attention is being paid to the perspective analysis and planning of its activity, compatibility with the socio-economic and socio-political environment, the higher degree of risk. Therefore, accounting, research, and then manage both external and internal risks must become one of the most important tasks in modern conditions of the management of enterprises applying for successful operation. Managing business risk — is a critical goal in the activity of any enterprise.

For better understanding of the theoretical part of this topic, consideration was given to analyses the business risk in the enterprise - JSC "Kazakhtelecom". In the end has been achieved the goals, notably:

- analysis of the current financial situation of the JSC "Kazakhtelecom"
- examination of possible risks in the enterprise
- development of measures to improve enterprise management technologies.

On the basis of the analysis of financial condition of enterprise risk and the methods used for risk decrease, developed recommendations to improve risk management system, such as: the need in usage of insurance, reservation of means, limitation in managing receivables.

In total, it is advisable to conduct a study to determine the exact number of production, study of possible actions of competitors and customers' preferences.

However, by the long-term predictions "Kazakhtelecom" is a monopolist in the Kazakhstan market in the sphere of telecommunications. And despite a slight deterioration in financial indicators during the crisis, are predicted the widening of the company's clientele, also the introduction a number of major infrastructure projects, new technologies and the telephone network of villages and the development of broadband Internet access.

Contrary to beliefs, risks in business are also needed, as profit. Without them, entrepreneurship as a tool for economic development will not be able to perform its functions. The risks are executed "natural selection" among the people, who want to become successful businessmen. Without this, it is impossible to imagine anything other than the chaos in the business environment. Imagine what would happen if everyone can open their own business without the probability of bankruptcy. That would be? Yes, nothing. Business simply will lose its value and will cease to be a source of profit, which is very badly affect on the economies. Therefore economical activity should be a survival-of-the-fittest environment.

As a rule, the most exposed to risk young entrepreneurs. Lack of experience, knowledge, relationships – all this will play a role. And a businessman that has gotten over the difficulties in the beginning of the road has all chances of further success.

To unexpected circumstances it needs to be prepared in advance. Need to

understand a simple truth. The secret of success businessman is not in the ability to avoid the risk and the ability to correctly manage. That is why in the business is so important self-confidence.

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Appendix 1

Consolidated financial statement of “Kazakhtelecom” on 2006-2008 years (in thousands of KZT)

	2006	2007	2008
Income from sales goods and services	114087741	127762125	142263079
Cost of sales goods and services	64 608 214	78632254	91804127
GP	49479527	49129871	50458952
Financing income	227 779	226788	799121
Other income	2 513 771	3257952	2520162
Expenditures on sales goods and services	1 993 599	3924254	6359539
Administration costs	16 831 275	19260777	20565759
Financing expenditures	3 496 391	4556487	5396713
Other expenditures	707 834	998909	17115141
Profit share/(loss) of organizations, considerate on equity participation method	13 699 800	15927555	17911828
Profit (loss) since continuous activity period	42 891 778	39801739	22252911
Profit (loss) before taxation	42891778	39801739	22252911
Expenditures on corporation income tax	9 262 366	9471397	6026018
Total profit (loss) over a period of time before deduction minority interest	33629412	30330342	16226893
Minority interest	4 729	2639894	3127132
Total income(loss) over a period of time	33624683	27690448	13099761

Table1. Main indicators of financial accountability of “Kazakhtelecom” on December 31, 2008.

Indicator	in th.KZT/pieces
Total current assets	42 641 788
Total long-term assets	287 781 840
Total current liability	35 749 602
Total long-term assets	103 601 890
Total capital	191 072 136
Income from sales	142 263 079
Cost of sales	91 804 127
Other operating income	21 231 111
Administration and other costs	49 437 152
Expenditures on corporation income tax	6 026 018
Minority interest	3 127 132

Total income over a period of time	13 099 761
Quantity of common stock	10 922 876
Gain on one common share	1,18
One common share dividend	0,535
Quantity of privileged share	403 194
One privileged share dividend	0,51

Table 2. Horizontal analysis of the profit and loss “Kazakhtelecom” JSC for 2007-2008 years (base year-2006 year)

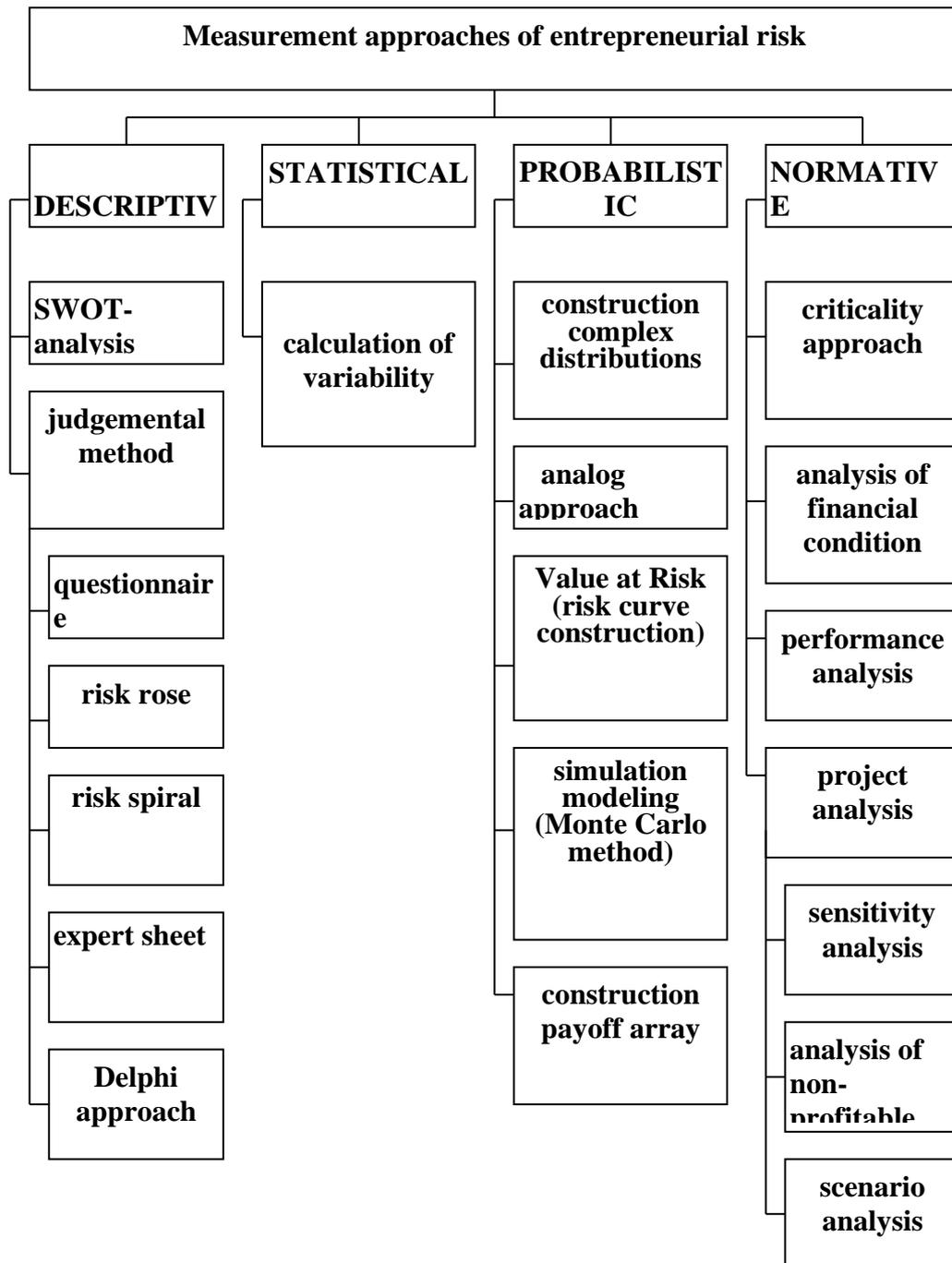
	2007/2006	2008/2006
Income from sales goods and services	11,99%	24,70%
Cost of sales goods and services	21,71%	42,09%
GP	-0,71%	1,98%
Financing income	-0,44%	250,83%
Other income	29,60%	0,25%
Expenditures on sales goods and services	96,84%	219,00%
Administration costs	14,43%	22,19%
Financing expenditures	30,32%	54,35%
Other expenditures	41,12%	2317,96%
Profit share/(loss) of organizations, considerate on equity participation method	16,26%	30,75%
Profit (loss) since continuous activity period	-7,20%	-48,12%
Profit (loss) before taxation	-7,20%	-48,12%
Expenditures on corporation income tax	2,26%	-34,94%
Total profit (loss) over a period of time before deduction minority interest	-9,81%	-51,75%
Minority interest	55723,51%	66026,71%
Total income(loss) over a period of time	-17,65%	-61,04%

Table 3. Vertical analysis of the profit and loss of “Kazakhtelecom” for 2006-2008 years

	2006	2007	2008
Income from sales goods and services	100,00%	100,00%	100,00%
Cost of sales goods and services	56,63%	61,55%	64,53%
GP	43,37%	38,45%	35,47%
Financing income	0,20%	0,18%	0,56%
Other income	2,20%	2,55%	1,77%
Expenditures on sales goods and services	1,75%	3,07%	4,47%
Administration costs	14,75%	15,08%	14,46%
Financing expenditures	3,06%	3,57%	3,79%

Other expenditures	0,62%	0,78%	12,03%
Profit share/(loss) of organizations, considerate on equity participation method	12,01%	12,47%	12,59%
Profit (loss) since continuous activity period	37,60%	31,15%	15,64%
Profit (loss) before taxation	37,60%	31,15%	15,64%
Expenditures on corporation income tax	8,12%	7,41%	4,24%
Total profit (loss) over a period of time before deduction minority interest	29,48%	23,74%	11,41%
Minority interest	0,00%	2,07%	2,20%
Total income(loss) over a period of time	29,47%	21,67%	9,21%

Appendix 2



Appendix 3

Factors of market attractiveness and strategic situation of business

Market attractiveness	Business strategic situation
Market performance	
<ul style="list-style-type: none"> • market size • growth rates of market • geographic market advantages • dynamics of prices, the price elasticity of demand • scope of key market segments • market cycle • other opportunities and threats the industry environment 	<ul style="list-style-type: none"> • share of the market -controlled be the firm • growth rates of strategic business units • competitiveness of the company • performance of the product range • the effectiveness of the marketing system
Competitive factors	
<ul style="list-style-type: none"> • the level of competition in the market • trends in the number of competitors • the advantages of industry leaders • sensitivity to substitutes goods 	<ul style="list-style-type: none"> • market share for the three main competitors • the capacity of the company and its competitive advantages
Financial and economic factors	
<ul style="list-style-type: none"> • barriers to entry and exit from the industry • the level of capacity utilization • industrial profitability • structure of industry costs 	<ul style="list-style-type: none"> • the level of firm capacity utilization • the level of profitability of the company • the level of technological development • the cost structure of firms
Socio-psychological factors	
<ul style="list-style-type: none"> • social environment • Organization of business 	<ul style="list-style-type: none"> • corporate culture • staff performance • company image