



**Kazakhtelecom JSC**  
Consolidated Financial Statements

*For the year ended December 31, 2009  
with Independent Auditors' Report*

# CONTENTS

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Page

Independent Auditors' Report

**Consolidated Financial Statements**

Consolidated Statement of Financial Position .....	1-2
Consolidated Statement of Comprehensive Income .....	3-4
Consolidated Statement of Changes in Equity .....	5
Consolidated Statement of Cash Flows .....	6-7
Notes to the Consolidated Financial Statements .....	8-51

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Kazakhtelecom JSC:

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

### *Management's Responsibility for the Financial Statements*

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

### *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 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 auditors' 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 auditors consider 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young LLP*  
Ernst & Young LLP

*Aisulu Narbayeva*  
Aisulu Narbayeva  
Auditor



Auditor Qualification Certificate  
No. 0000137 dated 21 October 1994

19 March 2010

*Evgeny Zhemaletdinov*  
Evgeny Zhemaletdinov  
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



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at December 31, 2009

<i>In thousands of Tenge</i>	<i>Notes</i>	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	212,321,241	207,476,457
Intangible assets	9	12,997,842	34,372,170
Advances paid for non-current assets	11	609,102	1,722,051
Investments in an associate	12	48,130,939	44,604,223
Deferred tax asset	35	–	84,454
Other non-current assets	14	4,589,790	4,450,320
		<b>278,648,914</b>	<b>292,709,675</b>
<b>Current assets</b>			
Inventories	15	5,220,451	5,272,248
Trade accounts receivable	16	12,412,264	12,318,802
Prepayments	17	442,668	533,274
Income tax prepaid		693,005	1,956,531
Other financial assets	18	3,105,818	3,542,495
Other current assets	19	4,431,849	6,449,551
Cash and cash equivalents	20	21,730,640	12,110,515
		<b>48,036,695</b>	<b>42,183,416</b>
Assets classified as held for sale	36	38,766,757	–
		<b>86,803,452</b>	<b>42,183,416</b>
<b>TOTAL ASSETS</b>		<b>365,452,366</b>	<b>334,893,091</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	21	12,136,529	34,936,441
Treasury shares	21	(2,652,860)	(2,652,860)
Currency translation reserve	21	(2,710)	(21,365)
Other capital reserve	21	1,820,479	1,820,479
Retained earnings		197,770,507	153,140,000
		<b>209,071,945</b>	<b>187,222,695</b>
<b>Non-controlling interests</b>		<b>515,866</b>	<b>4,892,752</b>
<b>Total equity</b>		<b>209,587,811</b>	<b>192,115,447</b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)**

<i>In thousands of Tenge</i>	<i>Notes</i>	<b>2009</b>	<b>2008</b>
<b>Non-current liabilities</b>			
Borrowings	22	61,869,778	70,700,761
Finance lease liabilities	23	11,599,156	8,697,367
Deferred tax liability	35	12,289,334	14,326,668
Employee benefit liability	24	3,343,782	2,921,198
Debt component of preferred shares	21	1,099,620	1,099,620
Other non-current liabilities	25	3,906,221	5,979,772
		<b>94,107,891</b>	<b>103,725,386</b>
<b>Current liabilities</b>			
Borrowings	22	8,963,886	9,663,656
Current portion of finance lease liabilities	23	7,063,001	4,384,282
Current portion of employee benefit liability	24	281,688	251,260
Accounts payable	26	12,210,135	18,363,114
Advances received		1,917,913	2,355,854
Other current liabilities	27	5,734,862	4,034,092
		<b>36,171,485</b>	<b>39,052,258</b>
Liabilities directly associated with the assets classified as held for sale	36	25,585,179	-
		<b>61,756,664</b>	<b>39,052,258</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>365,452,366</b>	<b>334,893,091</b>

*The accompanying notes on pages 8 to 51 are an integral part of these consolidated financial statements*

Chief Financial Director

Chief Accountant



*Nurkatov A. A.*

*Baishumurova G. Zh.*

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended December 31, 2009

<i>In thousands of Tenge</i>	<i>Notes</i>	<b>2009</b>	<b>2008</b>
<b>Continuing operations</b>			
Revenue	28	138,827,563	134,063,637
Compensation for provision of universal services in rural areas	29	5,138,485	4,386,282
		143,966,048	138,449,919
Cost of revenue	30	(92,735,361)	(100,315,106)
<b>Gross profit</b>		<b>51,230,687</b>	<b>38,134,813</b>
General and administrative expenses	31	(15,745,624)	(19,752,780)
Selling expenses	32	(3,671,476)	(4,935,368)
<b>Operating profit</b>		<b>31,813,587</b>	<b>13,446,665</b>
Share of profit of an associate	12	21,166,716	17,554,988
Foreign exchange (loss) / gain, net		(16,934,595)	194,532
Finance costs	34	(6,902,961)	(5,110,972)
Finance income	34	1,663,621	740,340
Loss from disposal of property, plant and equipment		(387,101)	(635,365)
Impairment loss	13	-	(1,127,585)
Other income		712,562	1,533,502
<b>Profit before tax from continuing operations</b>		<b>31,131,829</b>	<b>26,596,105</b>
Income tax (expense) / benefit	35	(3,236,379)	3,293,864
<b>Profit for the year from continuing operations</b>		<b>27,895,450</b>	<b>29,889,969</b>
<b>Discontinued operations</b>			
Loss after tax for the year from discontinued operations	36	(5,069,329)	(414,465)
<b>Profit for the year</b>		<b>22,826,121</b>	<b>29,475,504</b>
Attributable to:			
Equity holders of the parent		27,317,945	31,390,453
Non-controlling interests		(4,491,824)	(1,914,949)
<b>Other comprehensive income</b>			
Foreign currency translation		18,655	(17,344)
<b>Other comprehensive income / (loss) for the year, net of tax</b>		<b>18,655</b>	<b>(17,344)</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>22,844,776</b>	<b>29,458,160</b>
Attributable to:			
Equity holders of the parent		27,336,600	31,373,109
Non-controlling interest		(4,491,824)	(1,914,949)
		22,844,776	29,458,160

# **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME** **(continued)**

<i>In thousands of Tenge</i>	<i>Notes</i>	<b>2009</b>	<b>2008</b>
<b>Earnings per share</b>			
Basic and diluted, profit for the year attributable to equity holders of the parent	21	<b>2,423</b>	2,782
<b>Earnings per share for continuing operations</b>			
Basic and diluted, profit for the year from continuing operations attributable to equity holders of the parent	21	<b>2,870</b>	2,819

Certain numbers shown here do not correspond to the 2008 financial statements and reflect reclassifications made as detailed in *Note 36*.

*The accompanying notes on pages 8 to 51 are an integral part of these consolidated financial statements.*

Chief Financial Director

Chief Accountant



*Nurkatov A. A.*

*Baishumurova G. Zh.*

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended December 31, 2009

In thousands of Tenge	Notes	Attributable to equity holders of the parent					Total	Non-controlling interests	Total equity
		Issued capital	Treasury shares	Currency translation reserve	Other capital reserves	Retained earnings			
		21		21	21				
At January 1, 2008		34,936,441	(2,652,860)	(4,021)	1,820,479	127,798,918	161,898,957	5,337,702	167,236,659
Profit for the year		-	-	-	-	31,390,453	31,390,453	(1,914,949)	29,475,504
Other comprehensive income		-	-	(17,344)	-	-	(17,344)	-	(17,344)
Total comprehensive income		-	-	(17,344)	-	31,390,453	31,373,109	(1,914,949)	29,458,160
Change in ownership interests of subsidiaries		-	-	-	-	-	-	1,469,999	1,469,999
Dividends	21	-	-	-	-	(6,049,371)	(6,049,371)	-	(6,049,371)
At December 31, 2008		34,936,441	(2,652,860)	(21,365)	1,820,479	153,140,000	187,222,695	4,892,752	192,115,447
Profit for the year		-	-	-	-	27,317,945	27,317,945	(4,491,824)	22,826,121
Other comprehensive income		-	-	18,655	-	-	18,655	-	18,655
Total comprehensive income		-	-	18,655	-	27,317,945	27,336,600	(4,491,824)	22,844,776
Transfer of monetary loss	21	(22,799,912)	-	-	-	22,799,912	-	-	-
Change in ownership interests of subsidiaries	6	-	-	-	-	(114,938)	(114,938)	114,938	-
Dividends	21	-	-	-	-	(5,372,412)	(5,372,412)	-	(5,372,412)
At December 31, 2009		12,136,529	(2,652,860)	(2,710)	1,820,479	197,770,507	209,071,945	515,866	209,587,811

The accompanying notes on pages 8 to 51 are an integral part of these consolidated financial statements

Chief Financial Director

Chief Accountant



Nurkatov A.A.

Baishumurova G. Zh.

**CONSOLIDATED CASH FLOW STATEMENT**

For the year ended December 31, 2009

<i>In thousands of Tenge</i>	<i>Notes</i>	<b>2009</b>	<b>2008</b>
<b>Operating activities</b>			
Profit before tax from continuing operations		31,131,829	26,596,105
Loss before tax from discontinued operations	36	(5,233,192)	(3,241,496)
Profit before tax		25,898,637	23,354,609
Adjustments for:			
Depreciation of property, plant and equipment	8	22,750,360	19,356,575
Amortization and impairment of intangibles assets	9, 10	3,211,774	13,471,870
Depreciation and impairment of investment property	13	–	1,137,573
Share of profit of an associate	12	(21,166,716)	(17,554,988)
Change in deferred revenues		263,324	1,755,073
Change in employee benefit liability		453,012	87,851
Unrealized foreign exchange gain		20,787,722	(1,689,044)
Provision for doubtful debts	31	365,829	851,878
Provision for obsolete and slow moving inventories		153,539	123,729
Finance costs	34	7,789,867	6,089,217
Finance revenue	34	(1,704,841)	(799,120)
Loss from disposal of property, plant and equipment		579,962	635,365
<b>Working capital adjustments:</b>			
(Increase) / decrease in trade accounts receivable		(441,084)	441,607
Increase in inventories		(101,742)	(636,137)
Increase in other current and non-current assets		(935,941)	(4,229,008)
Decrease in prepayments		126,873	189,806
Increase in accounts payable		2,709,570	3,884,640
(Decrease) / increase in advances received		(440,926)	123,027
Increase in other current liabilities		28,171	398,969
<b>Cash generated from operations</b>		<b>60,327,390</b>	<b>46,993,492</b>
Dividends paid		(5,332,743)	(6,160,102)
Income taxes paid		(1,574,391)	(5,128,532)
Interest paid		(6,514,877)	(6,361,417)
Interest received		595,041	546,368
<b>Net cash flows from operating activities</b>		<b>47,500,420</b>	<b>29,889,809</b>

**CONSOLIDATED CASH FLOW STATEMENT (continued)**

<i>In thousands of Tenge</i>	<i>Notes</i>	<b>2009</b>	<b>2008</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(33,271,680)	(41,281,597)
Purchase of intangible assets		(3,766,619)	(6,094,147)
Proceeds from sale of property, plant and equipment		872,305	1,055,111
Dividends received from an associate		12,740,000	9,800,000
Capital contribution by minority shareholder		–	1,469,999
Long-term loans to employees		(340,329)	(610,872)
<b>Net cash flows used in investing activities</b>		<b>(23,766,323)</b>	<b>(35,661,506)</b>
<b>Financing activities</b>			
Proceeds from issuance of bonds		45,500,000	–
Proceeds from borrowings		9,000,929	7,078,170
Repayment of borrowings		(61,558,299)	(8,705,665)
Repayment of finance lease liabilities		(6,498,548)	(3,161,237)
<b>Net cash flows used in financing activities</b>		<b>(13,555,918)</b>	<b>(4,788,732)</b>
Net increase in cash and cash equivalents		10,178,179	(10,560,429)
Effects of exchange rate changes on cash and cash equivalents		(558,054)	915,240
Cash and cash equivalents at January 1		12,110,515	21,755,704
<b>Cash and cash equivalents at December 31</b>	<b>20</b>	<b>21,730,640</b>	<b>12,110,515</b>

Non-cash transactions are disclosed in *Note 37*.

*The accompanying notes on pages 8 to 51 are an integral part of these consolidated financial statements.*

Chief Financial Director

Chief Accountant



*Nurkatov A. A.*

*Baishumurova G. Zh.*

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended December 31, 2009

**1. CORPORATE INFORMATION**

Kazakhtelecom JSC (the “Company” or “Kazakhtelecom”) was established in June 1994 by the decree of the Cabinet of Ministers of the Republic of Kazakhstan as a national joint stock company and in February 1996 it was reorganized as an open joint stock company (joint stock company from March 2004).

The Company is incorporated, domiciled and operates in the Republic of Kazakhstan. The legal address of the Company is: 31 Abay street, Astana, 010000, Republic of Kazakhstan.

The Company is controlled by the Government of the Republic of Kazakhstan through National Welfare Fund “Samruk-Kazyna” (“Samruk-Kazyna” or the “Parent”), which owned 51% of the Company’s controlling stock as of December 31, 2009 and 2008. The following lists the shareholders of the Company’s stock:

	2009	2008
Samruk-Kazyna	51.0%	51.0%
Bodam B. V.	16.9%	16.9%
ADR (The Bank of New York is a depositor)	14.6%	15.4%
Deran Services Limited	9.6%	2.3%
LLP Optimus	3.0%	–
Public (Kazakhstan Stock Exchange)	0.7%	3.5%
Kazkommertsbank	0.1%	7.4%
Other	4.1%	3.5%
	100.0%	100.0%

The Company is included in the register of natural monopolists in relation to transit traffic services provided to telecommunication operators, public switch telecommunication network (“PSTN”) connection services provided to third party telecommunication operators, and leasing of phone channels to telecommunication operators for connection to PSTN.

The Company and its subsidiaries listed in *Note 6* (together the “Group”) have a significant share of the fixed line communication market, including local, long-distance intercity and international telecommunication services (including CIS and non-CIS countries); and provides also rent of lines, data transfer services and wireless communication services.

These financial statements present, on a consolidated basis, the financial performance for the year ended December 31, 2009 and financial position as at that date for the Group.

The consolidated financial statements were authorised for issue on March 19, 2010 by Management of the Company.

**2. BASIS OF PREPARATION**

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

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

These consolidated financial statements are presented in Kazakhstan Tenge (“Tenge”) and all monetary amounts are rounded to the nearest thousand Tenge except when otherwise indicated.

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2009.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of subsidiary, without a change of control, is accounted for as an equity transaction.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 2. BASIS OF PREPARATION (continued)

#### Basis of consolidation (continued)

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

#### *Basis of consolidation prior to 1 January 2009*

In comparison to the above mentioned requirements which were applied on a prospective basis, the following differences applied:

- Non-controlling interests represented the portion of profit or loss and net assets that were not held by the Group and were presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the parent shareholders' equity. Acquisitions of non-controlling interests were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

#### Operating environment of the Group

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 Kazakhstan. While the Kazakhstani government has introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt for Kazakhstan banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Changes in accounting policy and disclosure

The accounting policies adopted are consistent with those of the previous financial year, except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009:

- *IFRS 2 Share-based Payment: Vesting Conditions and Cancellations effective 1 January 2009*
- *IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010 (early adopted)*
- *IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009 (early adopted) including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39*
- *IFRS 7 Financial Instruments: Disclosures effective 1 January 2009*
- *IFRS 8 Operating Segments effective 1 January 2009*
- *IAS 1 Presentation of Financial Statements effective 1 January 2009*
- *IAS 23 Borrowing Costs (Revised) effective 1 January 2009*
- *IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation effective 1 January 2009*
- *IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009 (early adopted)*
- *IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement effective for periods ending on or after 30 June 2009*
- *IFRIC 13 Customer Loyalty Programmes effective 1 July 2008*
- *IFRIC 16 Hedges of a Net Investment in a Foreign Operation effective 1 October 2008*
- *IFRIC 18 Transfers of Assets from Customers effective 1 July 2009 (early adopted)*
- *Improvements to IFRSs (May 2008)*
- *Improvements to IFRSs (April 2009, early adopted)*

When the adoption of the standard or interpretation is deemed to have an impact on the consolidated financial statements or performance of the Group, its impact is described below:

#### *IFRS 8 Operating Segments*

IFRS 8 replaced IAS 14 *Segment Reporting* upon its effective date. The Group concluded that the operating segments determined in accordance with IFRS 8 are different from the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in *Note 7*, including the related revised comparative information.

#### *IAS 1 Presentation of Financial Statements*

The revised standard separates owner and non-owner changes in equity. The consolidated statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one single statement.

#### *IAS 23 Borrowing Costs*

The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group has early adopted *IAS 23 Borrowing Costs (Revised)* as of January 1, 2009. The revised IAS 23 requires the Group to capitalize borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Adoption of this standard had no effect on the financial performance and position of the Group. It did however give rise to additional disclosure, including revisions to accounting policies.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Improvement 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 Group.

*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 did not have any impact on the financial position or performance of the Group.

*IFRS 8 Operating Segment Information:* 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 clarification did not have any impact on the financial position and performance of the Group.

*IAS 1 Presentation of Financial Statements:* Assets and liabilities classified as held for trading in accordance with *IAS 39 Financial Instruments: Recognition and Measurement* are not automatically classified as current in the statement of financial position. The Group does not have assets or liabilities classified as held for trading hence the improvement did not have any impact on the financial position and performance of the Group.

*IAS 7 Statement of Cash Flows:* Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment did not have any impact on the presentation in the consolidated statement of cash flows.

*IAS 16 Property, Plant and Equipment:* Replaces the term “net selling price” with “fair value less costs to sell”. The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

*IAS 18 Revenue:* The Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

- Has primary responsibility for providing the goods or service
- Has inventory risk
- Has discretion in establishing prices
- Bears the credit risk

The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition accounting policy has been updated accordingly.

*IAS 20 Accounting for Government Grants and Disclosures of Government Assistance:* Loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates. This amendment did not impact the Group as the governmental subsidies received by the Group are not loans.

*IAS 23 Borrowing Costs:* The definition of borrowing costs is revised to consolidate the two types of items that are considered components of ‘borrowing costs’ into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

*IAS 36 Impairment of Assets:* When discounted cash flows are used to estimate ‘fair value less cost to sell’ additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate ‘value in use’. This amendment had no immediate impact on the consolidated financial statements of the Group, because the recoverable amount is currently estimated using value in use.

*IAS 38 Intangible Assets:* Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because such expenses were expensed when incurred.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Improvements to IFRSs (continued)

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 Group:

- *IFRS 2 Share-based Payment*
- *IFRS 7 Financial Instruments: Disclosures*
- *IAS 8 Accounting Policies, Change in Accounting Estimates and Error*
- *IAS 10 Events after the Reporting Period*
- *IAS 19 Employee Benefits*
- *IAS 27 Consolidated and Separate Financial Statements*
- *IAS 28 Investments in Associates*
- *IAS 31 Interest in Joint Ventures*
- *IAS 34 Interim Financial Reporting*
- *IAS 38 Intangible Assets*
- *IAS 39 Financial Instruments: Recognition and Measurement*
- *IAS 40 Investment Properties*
- *IFRIC 9 Reassessment of Embedded Derivatives*
- *IFRIC 16 Hedge of a Net Investment in a Foreign Operation*

#### Standards issued but not yet effective

The following IFRS, IFRIC interpretations and improvements to IFRS are not yet in effect for the year ended December 31, 2009:

- *IFRS 3R Business Combinations*
- *IAS 27 Consolidated and Separate Financial Statements - amendment*
- *IFRIC 17 Distributions of Non-cash Assets to Owners*
- *IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements*
- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*
- *IFRS 9 Financial Instruments*
- *IAS 24 Related Party Disclosures – amendment*
- *IFRS 1 First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*
- *IFRS 2 Group cash-settled share-based payments transactions*
- *IAS 39 Eligible hedged items*
- *IFRIC 18 Transfer of Assets from Customers*
- *IAS 32 Classifications of rights issues*
- *Improvements to IFRSs (April 2009)*

Management does not expect the above standards and interpretations to have a material impact on the Group's financial position or results of operations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Foreign currency translation

The consolidated financial statements are presented in Tenge, which is the functional currency of the Company and its major subsidiaries. Tenge is the currency of the primary economic environment in which the Company and its major subsidiaries operate. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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 income statement.

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

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

The following table summarises the foreign currency exchange rates for Tenge:

	December 31, 2009	December 31, 2008
US Dollar	148.36	120.77
Euro	212.84	170.89
South Korean Won	0.13	0.10
Russian Ruble	4.92	4.11

#### Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated income statement of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from income and expenses from continuing activities, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the income statement.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

#### Investment in an associate

The Group's investment in its associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes directly and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of associate is shown on the face of the income statement.

The financial statements of the associate and of the parent company cover the same operating period. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property, plant and equipment

Plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

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

	Years
Buildings	50
Premises	10-20
Telecommunication equipment	3-20
Other	3-20

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

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

#### Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria set out in IAS 40 are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment loss. Depreciation is computed on a straight-line basis over the useful life, which is estimated to be 50 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

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

#### Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expense is reflected in the income statement in the year in which the expenditure is incurred.

The useful lives of intangible assets other than goodwill are assessed to be finite.

Intangible assets with finite lives are amortised over the estimated useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense for intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Intangible assets (continued)

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Intangible assets consist primarily of telecommunication licenses, trademarks and software. Telecommunication licenses and trademarks are amortized on a straight-line basis within the estimated useful lives of 20 years for licenses and 7-9 years for trademarks. Other intangible assets are amortized on a straight-line basis over their estimated useful lives, generally from five to fourteen years.

#### Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs 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 income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets excluding goodwill, 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 Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot 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 income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

#### *Goodwill*

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

#### *Associates*

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss of the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the recoverable amount of the associate and the carrying value and recognises the amount in the income statement.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investments and other 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, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets on initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the settlement date, which is the date that the investment is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at 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 income statement. The losses arising from impairment are recognised in the income statement in finance costs.

##### *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group 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 EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

#### Impairment of financial assets

The Group 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.

##### *Financial assets carried at amortised cost*

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment of financial assets (continued)

##### *Financial assets carried at amortised cost (continued)*

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

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

#### Financial liabilities

##### *Borrowings*

All loans and borrowings are initially recognised at fair value and directly attributable transaction costs, and have not been designated "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 income statement 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 income statement.

##### *Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issue of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortization.

##### *Liability component of preferred shares*

The component of the preferred shares that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. The corresponding minimal guaranteed dividends on those shares are charged as interest expense in the income statement. On initial recognition, the fair value of the liability component is determined by discounting expected future cash flows at a market interest rate for a comparable debt instrument. The fair value of the equity component on initial recognition is assigned the residual amount after deducting from the initial carrying amount of the instrument as a whole the fair value determined for the liability component. Subsequently, the liability component is measured according to the same principles used for subordinated debt, and the equity component is not remeasured in subsequent years.

##### *Trade and other payables*

Liabilities for trade and other amounts payable are recognized at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Derecognition of financial assets and liabilities

##### *Financial assets*

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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 Group’s continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

##### *Financial liabilities*

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement

#### Offsetting of financial instruments

Financial assets and financial liabilities are only offset and reported at the net amount in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### 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.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in *Note 39*.

#### Inventories

Inventories are valued at the lower of cost or net realisable value. Costs comprise charges incurred in bringing inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. The same cost formula is used for all inventories having a similar nature and use. All inventories are valued on the weighted-average cost basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Cash and cash equivalents

Cash and short term deposits in the statement of financial position comprise cash at banks and on hand and short term deposits with an original maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short term deposits as defined above, net of outstanding bank overdrafts.

#### Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

For arrangements entered into prior to January 1, 2005, the date of inception is deemed to be January 1, 2005 in accordance with the transitional requirements of IFRIC 4.

#### *Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

#### *Group as a lessor*

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

#### Provisions

#### *Other provisions*

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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.

#### *Asset retirement obligation (decommissioning)*

Site restoration provisions are made in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure (mainly base stations and platforms for the base stations, and radio relay towers), removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs. The provision is discounted and the unwinding of the discount is expensed as incurred and recognized in the income statement as a finance cost. At the time of establishing the provision, a corresponding asset is capitalized where it gives rise to a future benefit and depreciated over useful life of the corresponding assets. The provision is reviewed on an annual basis for changes in cost estimates, discount rates or operating life.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Employee benefits

##### *Social tax*

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. Social tax is expensed as incurred.

##### *Defined contribution scheme*

The Group withholds up to 10% 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 Group has no present or future obligation to further compensate its employees upon their retirement, except as provided below.

##### *Defined benefit scheme*

In accordance with the Collective Agreement the Company provides certain long-term and retirement benefits to certain employees (the "Defined Benefit Scheme").

Long-term benefits are paid to employees upon completion of a certain number of years of service whereas retirement benefits represent one-off payments paid upon retirement in accordance with the Collective Agreement. Both items vary according to the employee's average salary and length of service.

The Group recognises actuarial gains and losses arising from the reassessment of the employee benefit liability in the period they are identified and recognises benefit costs and obligations based on estimates determined in accordance with IAS 19 "Employee benefits".

The obligation and cost of benefits under the Defined Benefit Scheme are determined using the projected unit credit method. This method considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The cost of providing benefits is charged to the income statement, so as to attribute the total benefit cost over the service lives of employees in accordance with the benefit formula of the plan. This obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest on government bonds where the currency and terms of these bonds are consistent with the currency and estimated terms of the defined benefit obligation.

The defined benefit scheme is unfunded.

#### Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

#### Dividends

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

#### Revenue recognition

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

##### *Rendering of services*

The Group's revenues are principally derived from the provision of local, domestic long distance and international long distance telephone services which consist of (i) usage charges for telephone services, which vary depending on the day, the time of the day, distance and duration of the telephone call, (ii) a monthly telephone service fee, (iii) service activation and installation fees, (iv) provision of internet and data services, and (v) interconnection fees from domestic and foreign telecommunications operators.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Revenue recognition (continued)

##### *Rendering of services (continued)*

The Group records service revenues over the periods they are earned as follows:

- (i) Revenues derived from wireline and wireless phone services are recognised as the services are provided;
- (ii) Monthly telephone service fees are recognised in the month in which the telephone services are provided to customers;
- (iii) Upfront fees received for activation of connection to the wireline and wireless network that do not represent a separate earnings process and are deferred and recognised over the expected period of the customer relationship. The expected period of the customer relationship is based on past history of customer period and industry practice;
- (iv) Revenue from provision of data transfer services are recognised when the services are provided to customers;
- (v) Interconnection fees from domestic and foreign telecommunications operators are recognised when the services are rendered as measured by the actual minutes of traffic processed.

##### *Compensation for provision of universal services in rural areas*

Compensation for provision of universal services is recognised at its fair value where there is reasonable assurance that the compensation will be received and all attaching conditions will be complied with. When the compensation relates to an expense item, it is recognised as income over the period necessary to match the compensation on a systematic basis to the costs that it is intended to compensate. Where the compensation relates to an asset, the fair value is credited to a deferred income account and is released to the statement of operations over the expected useful life of the relevant asset by equal annual instalments.

Compensation related to income is presented separately in the income statement within revenues from operating activities.

##### *Interest income*

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

##### *Dividends*

Revenue is recognised when the Group's right to receive the payment is established.

#### Expense recognition

Expenses are recognized as incurred and are reported in the consolidated financial statements in the period to which they relate on the accrual basis.

##### *Connection cost*

The Group defers connection costs incurred and attributable to the related deferred revenue over the expected period of the customer relationship.

##### *Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Income tax

##### *Current income tax*

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

Current income tax relating to items recognised directly in equity is recognised in equity and not in consolidated income statement.

##### *Deferred tax*

Deferred 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 financial reporting purposes.

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

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

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

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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.

#### *Discontinued operations*

In 2009 the Board of Directors announced its decision to dispose Mobile Telecom-Service LLP, the subsidiary. The Board considered the subsidiary met the criteria to be classified as held for sale for the following reasons:

- Mobile Telecom-Service LLP is available for immediate sale in its current condition.
- On December 14, 2009, Kazakhtelecom concluded an agreement to sell its ownership in the subsidiary to Tele2 Sverige AB, a Swedish mobile operator. The sales-purchase agreement contains certain conditions, which should be fulfilled before the transaction is considered final. In accordance with the sales-purchase agreement, the transaction is to be closed by March 31, 2010.

For more details on the discontinued operation refer to *Note 36*.

#### *Impairment of non-financial assets*

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

#### *Allowances*

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the financial statements. As of December 31, 2009, allowances for doubtful accounts have been created in the amount of 1,755,841 thousand Tenge (2008: 2,073,415 thousand Tenge) (*Notes 16, 17 and 19*).

#### *Fair value of financial instruments*

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

#### *Connection fees*

Upfront fees received for activation and connection to the wireline and wireless network that do not represent a separate earning process are deferred and recognized over the expected period of the customer relationship. In making its judgments, management considered the detailed criteria for the recognition of revenues from connection fees set out in IAS 18, industry practice and the Group's historical churn rate. As at December 31, 2009 average customer relationship period is assessed as 14 years for fixed telephony customers, 5 years for internet customers and 18-27 months for mobile telephony customers.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

#### *Finance lease – Group as lessee*

The Group has entered into leases with respect to certain telecommunication equipment. The Group has determined that the lease transfers substantially all the risks and rewards incidental to ownership of this equipment and, therefore, the lease is classified as a finance lease.

#### *Employee benefit liability*

The Group uses actuarial valuation method for measurement of the present value of defined employee benefit liability and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, etc.) as well as financial assumptions (discount rate, future salary increases). Due to the long term nature of these benefits, such estimates are subject to significant uncertainty. The employee benefit liability at December 31, 2009 is disclosed in *Note 24*.

#### *Deferred tax assets*

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognized deferred tax assets on accumulated tax losses at December 31, 2009 is amounting to 13,875 thousand Tenge (2008: 41,247 thousand Tenge) and the unrecognized deferred tax assets on accumulated tax losses at December 31, 2009 amounting to 2,967,217 thousand Tenge (2008: 1,699,241 thousand Tenge). Further details are contained in *Note 35*.

#### *Taxation*

In assessing tax and legal risks, management considers to be probable obligations the known areas of tax or legal positions which the Group would not appeal or does not believe it could successfully appeal, if assessed by tax or legal authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, the determination of expected outcomes from pending tax or legal proceedings and the outcome of ongoing compliance audits by tax authorities. Group's tax and legal obligations and contingencies related to taxation or legal proceeding are detailed in *Note 40*.

### 5. RECLASSIFICATIONS

Certain reclassifications have been made to the previous year consolidated statement of financial position and consolidated statement of cash flows in order to conform to the current year presentation.

<i>In thousand Tenge</i>	<i>Amount</i>
<b>Consolidated statement of financial position as at December 31, 2008</b>	
<i>Reclassification of treasury shares from issued capital</i>	2,652,860
<b>Consolidated statement of cash flows for the year ended December 31, 2008</b>	
<i>Reclassification of effects of exchange rate changes on cash and cash equivalents from operating activities</i>	915,240

The above reclassifications had no impact on net profit, total comprehensive income or equity.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 6. CONSOLIDATION

The following significant subsidiaries have been included in these consolidated financial statements:

	Country of residence	Percentage ownership	
		2009	2008
Altel JSC	Kazakhstan	100.00%	100.00%
Nursat JSC	Kazakhstan	77.08%	95.68%
Mobile Telecom-Service LLP	Kazakhstan	51.00%	51.00%
Radiotell LLP	Kazakhstan	100.00%	100.00%
Signum LLC	Russia	100.00%	100.00%
KepterTelecom JSC	Kazakhstan	100.00%	100.00%
VostokTelecom LLP	Kazakhstan	100.00%	100.00%
Association of internet –traffic exchange center	Kazakhstan	100.00%	100.00%

In 2009, the Group received a notification from the Committee of State property and privatization of the Ministry of Finance of the Republic of Kazakhstan (the "Committee"), on denunciation of the sale-purchase agreement in accordance with the terms of the agreement and return of 18.6% interest in Nursat JSC previously acquired from the Committee by the Group (Mobile Telecom-Service LLP).

### 7. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the organizational structure of the Group. The Group has four reportable operating segments as follows:

- Provision of wireline telecommunication services as represented by Kazakhtelecom business unit.
- Provision of mobile telecommunication services in CDMA standard as represented by Altel business unit.
- Provision of wireless telecommunication services, including data transfer services as represented by Nursat business unit.
- Provision of mobile telecommunication services in GSM standard as represented by GSM Kazakhstan business unit.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 7. SEGMENTS INFORMATION (continued)

Year ended December 31, 2009

<i>In thousands of Tenge</i>	Wireline telecommu- nications	CDMA mobile services	Wireless telecommu- nications	GSM mobile services	Other	Eliminations and adjustments	Group
<b>Revenue</b>							
External customers	129,446,732	11,339,436	3,013,384	-	166,496	-	143,966,048
Inter-segment	3,890,969	1,824,050	325,854	-	69,000	(6,109,873) <sup>1)</sup>	-
<b>Total revenue</b>	<b>133,337,701</b>	<b>13,163,486</b>	<b>3,339,238</b>	<b>-</b>	<b>235,496</b>	<b>(6,109,873)</b>	<b>143,966,048</b>
<b>Results</b>							
Depreciation and amortization	(22,375,723)	(978,184)	(701,756)	-	(205,998)	(277,378) <sup>2)</sup>	(24,539,039)
Share of profit of an associate	-	-	-	21,166,716	-	-	21,166,716
Finance costs	(6,683,307)	(101,115)	(127,595)	-	(3,882)	12,938 <sup>3)</sup>	(6,902,961)
Finance income	1,600,748	61,341	11,401	-	284	(10,153) <sup>3)</sup>	1,663,621
Income tax	(2,950,917)	(426,740)	(13,176)	-	(7,872)	162,326 <sup>4)</sup>	(3,236,379)
<b>Segment profit / (loss)</b>	<b>14,215,574</b>	<b>2,323,989</b>	<b>(1,107,831)</b>	<b>21,166,716</b>	<b>50,311</b>	<b>(5,516,930) <sup>5)</sup></b>	<b>31,131,829</b>
<b>Operating assets</b>	<b>292,747,204</b>	<b>9,058,279</b>	<b>5,714,806</b>	<b>50,773,790</b>	<b>3,777,924</b>	<b>(35,386,394)</b>	<b>326,685,609</b>
<b>Operating liabilities</b>	<b>121,502,195</b>	<b>4,237,875</b>	<b>3,686,716</b>	<b>-</b>	<b>1,757,666</b>	<b>(905,076)</b>	<b>130,279,376</b>
<b>Other disclosures</b>							
Investments in an associate	-	-	-	48,130,939	-	-	48,130,939
Capital expenditure	39,260,864	1,867,743	510,435	-	2,742,379	-	44,381,421 <sup>6)</sup>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 7. SEGMENTS INFORMATION (continued)

Year ended December 31, 2008

<i>In thousands of Tenge</i>	Wireline telecommu- nications	CDMA mobile services	Wireless telecommu- nications	GSM mobile services	Eliminations and Other adjustments	Group
<b>Revenue</b>						
External customers	123,822,939	9,208,379	4,549,407	–	869,194	138,449,919
Inter-segment	4,696,205	1,859,983	1,004,529	–	– (7,560,717) <sup>1)</sup>	–
<b>Total revenue</b>	<b>128,519,144</b>	<b>11,068,362</b>	<b>5,553,936</b>	<b>–</b>	<b>869,194 (7,560,717)</b>	<b>138,449,919</b>
<b>Results</b>						
Depreciation and amortization	(17,911,449)	(842,848)	(622,609)	–	(33,429) (1,248,192) <sup>2)</sup>	(20,658,527)
Impairment of Intangible assets	–	(3,854,236)	(2,921,769)	–	(1,489,579) –	(8,265,584)
Impairment of investment property	(1,127,585)	–	–	–	– –	(1,127,585)
Share of profit of an associate	–	–	–	17,554,988	– –	17,554,988
Finance costs	(4,982,439)	(134,905)	(35,364)	–	(1,176) 42,912 <sup>3)</sup>	(5,110,972)
Finance income	736,549	2,691	1,100	–	– <sup>3)</sup>	740,340
Income tax	2,178,687	(624,754)	(7,824)	–	(586) 1,748,341 <sup>4)</sup>	3,293,864
<b>Segment profit / (loss)</b>	<b>10,446,042</b>	<b>1,266,489</b>	<b>(154,608)</b>	<b>17,554,988</b>	<b>(40,437) (2,476,369) <sup>5)</sup></b>	<b>26,596,105</b>
<b>Operating assets</b>	<b>261,988,909</b>	<b>8,549,754</b>	<b>6,754,182</b>	<b>47,544,223</b>	<b>2,341,553 (30,662,833)</b>	<b>296,515,788</b>
<b>Operating liabilities</b>	<b>113,229,696</b>	<b>5,626,599</b>	<b>3,637,592</b>	<b>–</b>	<b>894,542 (7,649,931)</b>	<b>115,738,498</b>
<b>Other disclosures</b>						
Investments in an associate	–	–	–	44,604,223	– –	44,604,223
Capital expenditure	53,881,077	2,472,303	1,665,504	–	678,900 –	58,697,784 <sup>6)</sup>

1) Inter-segment revenues are eliminated on consolidation.

2) Depreciation and amortization does not include depreciation charge recognised on group level.

3) Finance costs and income does not include inter-segment finance charges.

4) Income tax does not include deferred tax charges occurring on consolidation.

5) Segment operating profit does include profit from inter-segment sales.

6) Capital expenditure consists of additions of property, plant and equipment and intangible assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 8. PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment for the year ended December 31, 2009 were as follows:

<i>In thousands of Tenge</i>	Land	Buildings and premises	Equipment	Other	Construction in progress	Total
<b>Cost:</b>						
At January 1, 2008	564,342	20,931,684	211,042,726	9,157,428	30,121,100	271,817,280
Additions	16,623	583,178	11,475,539	1,236,414	42,667,562	55,979,316
Internal transfers	1,401	4,026,880	33,558,067	359,916	(37,946,264)	-
Disposals	(148)	(257,226)	(4,934,787)	(316,335)	(69,402)	(5,577,898)
At December 31, 2008	582,218	25,284,516	251,141,545	10,437,423	34,772,996	322,218,698
Additions	12,993	259,844	28,836,294	952,065	12,910,983	42,972,179
Internal transfers	11,523	3,631,353	13,432,615	247,478	(17,322,969)	-
Disposals	(2,649)	(193,013)	(5,841,401)	(449,509)	-	(6,486,572)
Discontinued operations (Note 36)	-	(28,283)	(10,297,073)	(608,353)	(5,902,564)	(16,836,273)
At December 31, 2009	604,085	28,954,417	277,271,980	10,579,104	24,458,446	341,868,032
<b>Accumulated depreciation and impairment:</b>						
At January 1, 2008	-	4,865,949	89,517,280	4,803,512	93,723	99,280,464
Depreciation charge	-	656,349	17,649,497	1,050,729	-	19,356,575
Disposals	-	(66,977)	(3,502,751)	(255,668)	(69,402)	(3,894,798)
At December 31, 2008	-	5,455,321	103,664,026	5,598,573	24,321	114,742,241
Depreciation charge	-	1,034,740	20,630,042	1,085,578	-	22,750,360
Disposals	-	(63,289)	(5,070,543)	(403,001)	-	(5,536,833)
Discontinued operations (Note 36)	-	-	(2,087,657)	(321,320)	-	(2,408,977)
At December 31, 2009	-	6,426,772	117,135,868	5,959,830	24,321	129,546,791
<b>Net book value:</b>						
At December 31, 2008	582,218	19,829,195	147,477,519	4,838,850	34,748,675	207,476,457
At December 31, 2009	604,085	22,527,645	160,136,112	4,619,274	24,434,125	212,321,241

Construction in progress primarily represents construction of network and telecommunication equipment under installation.

At December 31, 2009, certain items of property, plant and equipment with a net carrying amount of 9,568,571 thousand Tenge (2008: 9,674,088 thousand Tenge) were pledged as security for some of the Group's borrowings (Note 22).

Borrowing costs of 96,936 thousand Tenge on loans obtained to finance the construction of property and equipment were capitalized during 2009 at an average capitalization rate of 7.81% (2008: 478,594 thousand Tenge at an average capitalization rate of 6.38%).

At December 31, 2009, the carrying value of equipment held under finance leases and included in property, plant and equipment amounted to 20,760,974 thousand Tenge (2008: 15,660,252 thousand Tenge). Additions during the year include 8,193,683 thousand Tenge (2008: 8,130,206 thousand Tenge) of property, plant and equipment held under finance leases. Leased assets are pledged as security for the related finance leases.

As at December 31, 2009 property, plant and equipment amounting to 38,736,328 thousand Tenge were fully amortized (2008: 29,934,939 thousand Tenge).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 9. INTANGIBLE ASSETS

The movements of intangible assets for the year ended December 31, 2009 were as follows:

<i>In thousands of Tenge</i>	<b>Licenses and trademarks</b>	<b>Software</b>	<b>Other</b>	<b>Total</b>
<b>Cost:</b>				
At January 1, 2008	32,472,303	8,661,058	1,940,435	43,073,796
Additions	3,487,168	2,600,559	6,420	6,094,147
Disposals	(85,557)	(13,753)	(5,981)	(105,291)
At December 31, 2008	35,873,914	11,247,864	1,940,874	49,062,652
Additions	402,903	3,171,026	192,690	3,766,619
Disposals	(697,876)	(362,020)	–	(1,059,896)
Discontinued operations (Note 36)	(18,730,086)	(2,917,197)	(47,700)	(21,694,983)
<b>At December 31, 2009</b>	<b>16,848,855</b>	<b>11,139,673</b>	<b>2,085,864</b>	<b>30,074,392</b>
<b>Accumulated amortization and impairment:</b>				
At January 1, 2008	3,202,866	3,740,410	35,760	6,979,036
Amortization charge	1,834,143	1,120,349	774,993	3,729,485
Impairment	4,079,876	–	–	4,079,876
Disposals	(79,152)	(12,789)	(5,974)	(97,915)
At December 31, 2008	9,037,733	4,847,970	804,779	14,690,482
Amortization charge	1,330,463	1,518,704	362,607	3,211,774
Disposals	(506,320)	(83,060)	–	(589,380)
Discontinued operations (Note 36)	(71,632)	(162,765)	(1,929)	(236,326)
<b>At December 31, 2009</b>	<b>9,790,244</b>	<b>6,120,849</b>	<b>1,165,457</b>	<b>17,076,550</b>
<b>Net book value:</b>				
At December 31, 2008	26,836,181	6,399,894	1,136,095	34,372,170
<b>At December 31, 2009</b>	<b>7,058,611</b>	<b>5,018,824</b>	<b>920,407</b>	<b>12,997,842</b>

Licenses include those acquired through business combinations.

During the year ended December 31, 2008 an impairment loss of 4,079,876 thousand Tenge represented the write down of certain licenses in the segments of Altel, Nursat and other business units and Mobile Telecom-Service, the discontinued operation, to the recoverable amount. This has been recognized in the income statement in the line items "Cost of revenue" and "Discontinued operation". The recoverable amounts were based on value in use and were determined at the level of the following cash-generating units:

<i>Segment</i>	<b>Impairment loss, in thousand Tenge</b>
CDMA mobile services	1,682,493
Wireless telecommunications	1,155,535
Other	1,113,506
	3,951,534
Discontinued operation (Note 36)	
GSM mobile services	128,342
<b>Total</b>	<b>4,079,876</b>

As at December 31, 2009 intangible assets (mainly software) amounting to 3,342,207 thousand Tenge were fully amortized (2008: 2,257,866 thousand Tenge).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 10. GOODWILL

The movements of goodwill for the year ended December 31, 2009 were as follows:

<i>In thousands of Tenge</i>	2009	2008
At January 1, net of impairment	–	5,662,509
Additions	–	–
Disposals	–	–
Impairment	–	(5,662,509)
<b>At December 31, net of impairment</b>	<b>–</b>	<b>–</b>

Goodwill acquired through business combinations and allocated to individual cash-generating units were impaired as at December 31, 2008 as follows:

<i>Segment</i>	Impairment loss, in thousand Tenge
CDMA mobile services	2,171,743
Wireless telecommunications	1,766,234
Other	376,073
	<b>4,314,050</b>
Discontinued operation (Note 36)	
GSM mobile services	1,348,459
<b>Total</b>	<b>5,662,509</b>

Goodwill impairment losses have been recognised in the income statement in the line items “Cost of revenue” and “Discontinued operation” in 2008.

### 11. ADVANCES PAID FOR NON-CURRENT ASSETS

At December 31, 2009 advances paid for non-current assets comprised advances to contractors for the construction and supply of property, plant, and equipment (mainly telecommunication equipment).

### 12. INVESTMENTS IN AN ASSOCIATE

At December 31, 2009 the Group had a 49% interest (2008: 49%) in LLP GSM Kazakhstan OAO Kazakhtelecom (“GSM Kazakhstan”), which is engaged in the provision of mobile telecommunication services in the GSM standard in Kazakhstan. GSM Kazakhstan is a private entity that is not listed on any public exchange.

The movements in the investments in the associate were as follows:

<i>In thousands of Tenge</i>	2009	2008
Balance at January 1	44,604,223	37,829,235
Share in the associate's net profit	21,166,716	17,554,988
Dividends declared	(17,640,000)	(10,780,000)
<b>Balance at December 31</b>	<b>48,130,939</b>	<b>44,604,223</b>

The following table illustrates summarised financial information of the Group's investment in GSM Kazakhstan:

<i>In thousands of Tenge</i>	2009	2008
<b>Share of the associate's statement of financial position:</b>		
Current assets	7,434,456	6,941,974
Non-current assets	56,027,574	52,049,001
Current liabilities	(13,201,349)	(13,021,346)
Non-current liabilities	(2,129,742)	(1,365,406)
<b>Equity</b>	<b>48,130,939</b>	<b>44,604,223</b>
<b>Share of the associate's revenue and profit:</b>		
Revenue	62,275,734	59,609,244
Profits	21,166,716	17,554,988
<b>Carrying amount of the investment</b>	<b>48,130,939</b>	<b>44,604,223</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 12. INVESTMENTS IN AN ASSOCIATE (continued)

Amounts due to and from the associate at December 31, 2009 and 2008 and transactions with the associate for the years then ended are disclosed in the *Note 38*.

### 13. INVESTMENT PROPERTY

Movements in investment property were as follows for the year ended December 31, 2009:

<i>In thousands of Tenge</i>	2009	2008
<b>Cost:</b>		
At January 1	1,250,621	1,250,621
Additions	–	–
Disposals	–	–
<b>At December 31</b>	<b>1,250,621</b>	<b>1,250,621</b>
<b>Accumulated depreciation and impairment:</b>		
At January 1	(1,250,621)	(113,048)
Depreciation charge	–	(9,988)
Impairment	–	(1,127,585)
<b>At December 31</b>	<b>(1,250,621)</b>	<b>(1,250,621)</b>
<b>Carrying amount:</b>		
At January 1	–	1,137,573
At December 31	–	–

Investment property represents an office building constructed for the purposes of renting to Government related entities.

During the year ended December 31, 2008, an impairment loss of 1,127,585 thousand Tenge represented the write down of the carrying value of the investment property to the recoverable amount. This has been recognized in the consolidated income statement below “operating profit” line which is consistent with the function of the impaired asset. The recoverable amount is based on value in use and estimated to be zero as of December 31, 2009 and 2008 as it is unlikely that the Group will receive reimbursement for its construction costs in either way through purchase of the office building or rent payments. However, these assumptions may change in the future.

### 14. OTHER NON-CURRENT ASSETS

Other non-current assets comprised the following at December 31, 2009:

<i>In thousands of Tenge</i>	2009	2008
Deferred connection costs	1,739,972	1,997,313
Long-term VAT recoverable	1,630,653	1,216,333
Long-term trade receivables	689,290	514,405
Long-term loans to employees	455,468	462,729
Other	74,407	259,540
	<b>4,589,790</b>	<b>4,450,320</b>

At December 31, 2009 and 2008, other non-current assets were denominated in Tenge.

### 15. INVENTORIES

Inventories comprised the following at December 31, 2009:

<i>In thousands of Tenge</i>	2009	2008
Spare parts	1,851,633	1,742,335
Cable materials	1,379,134	1,236,046
Other materials and supplies	1,138,118	1,221,156
Fuel	724,472	829,609
Goods for resale	271,488	402,563
	<b>5,364,845</b>	<b>5,431,709</b>
Less: Allowance for obsolete and slow-moving inventories	(144,394)	(159,461)
	<b>5,220,451</b>	<b>5,272,248</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### (continued)

#### 15. INVENTORIES (continued)

The movements in the allowance for obsolete and slow-moving inventories were as follows for the years ended December 31:

<i>In thousands of Tenge</i>	2009	2008
Allowance for obsolete and slow-moving inventories at the beginning of the year	(159,461)	(185,600)
Charge for the year	(153,539)	(123,729)
Write-offs	168,606	149,868
Allowance for obsolete and slow-moving inventories at the end of the year	(144,394)	(159,461)

As at December 31, 2009 the Group has not pledged inventories as collateral to secure Group's loans (2008: 322,472 thousand Tenge) (Note 22).

#### 16. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable comprised the following at December 31, 2009:

<i>In thousands of Tenge</i>	2009	2008
Trade receivables	13,824,324	14,044,829
Less: Allowance for doubtful debts	(1,412,060)	(1,726,027)
	12,412,264	12,318,802

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

<i>In thousands of Tenge</i>	2009	2008
Allowance for doubtful debts at the beginning of the year	(1,726,027)	(1,240,492)
Charge for the year	(330,434)	(738,012)
Write-offs	644,401	252,477
Allowance for doubtful debts at the end of the year	(1,412,060)	(1,726,027)

As at December 31, the ageing analysis of trade receivables is as follows:

<i>In thousands of Tenge</i>	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-90 days	90-120 days	120-360 days	>360 days
2009	12,412,264	10,744,223	969,824	439,336	83,216	175,665	-
2008	12,318,802	10,098,469	1,145,432	554,288	149,636	370,977	-

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

<i>In thousands of Tenge</i>	2009	2008
Tenge	9,587,219	9,705,654
US Dollars	2,825,045	2,613,148
	12,412,264	12,318,802

#### 17. PREPAYMENTS

Prepayments comprised the following at December 31, 2009:

<i>In thousands of Tenge</i>	2009	2008
Prepayments	496,799	635,725
Less: Impairment allowance	(54,131)	(102,451)
	442,668	533,274



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 17. PREPAYMENTS (continued)

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

<i>In thousands of Tenge</i>	2009	2008
Impairment allowance at the beginning of the year	(102,451)	(195,473)
Recovery for the year	35,464	9,169
Write-offs	12,856	83,853
Impairment allowance at the end of the year	(54,131)	(102,451)

At December 31, 2009 and 2008 prepayments were denominated primarily in Tenge.

### 18. OTHER FINANCIAL ASSETS

Short-term financial assets comprised the following at December 31, 2009:

<i>In thousands of Tenge</i>	2009	2008
Dividends receivable (Note 12)	2,642,851	2,940,000
Bank deposits	462,967	602,495
	<b>3,105,818</b>	<b>3,542,495</b>

Dividends receivable represent the declared dividends from an associate (Note 12).

Bank deposits with maturities from 3 to 12 months were opened in a local bank and were earning interest at weighted average rate of 10.5% per annum.

As at December 31, 2009 and 2008 Group's other financial assets were denominated in Tenge.

### 19. OTHER CURRENT ASSETS

Other current assets comprised the following at December 31, 2009:

<i>In thousands of Tenge</i>	2009	2008
VAT recoverable	659,484	2,659,509
Due from employees	664,169	643,692
Prepaid taxes other than income tax	784,631	475,500
Deferred expenses	746,909	457,581
Other	1,866,306	2,458,206
	<b>4,721,499</b>	<b>6,694,488</b>
Less: allowance for doubtful receivables	(289,650)	(244,937)
	<b>4,431,849</b>	<b>6,449,551</b>

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

<i>In thousands of Tenge</i>	2009	2008
Allowance for doubtful debts at the beginning of the year	(244,937)	(228,702)
Charge for the year	(51,457)	(123,035)
Write-offs	6,744	106,800
Allowance for doubtful debts at the end of the year	(289,650)	(244,937)

At December 31, 2009 and 2008 other current assets were primarily denominated in Tenge.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following at December 31, 2009:

<i>In thousands of Tenge</i>	2009	2008
Cash in current bank accounts	15,608,488	4,985,617
Short-term deposits	6,021,547	7,067,625
Cash on hand	100,605	57,273
	<b>21,730,640</b>	<b>12,110,515</b>

Cash in current bank accounts earn interest at weighted average rate of 1%. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the weighted average short-term deposit rate of 7.8% per annum (2008: 9.1% per annum).

At December 31, 2009 cash and cash equivalents were denominated in various currencies as follows:

<i>In thousands of Tenge</i>	2009	2008
Tenge	14,937,602	11,531,908
US Dollars	6,775,669	333,229
Russian Rubles	8,155	156,476
Euro	9,214	88,902
	<b>21,730,640</b>	<b>12,110,515</b>

### 21. EQUITY

*Authorised share capital (number of shares)*

	2009	2008
Ordinary shares	10,922,876	10,922,876
Preferred non-voting shares	1,213,653	1,213,653
	<b>12,136,529</b>	<b>12,136,529</b>

*Issued and paid shares*

	Number of shares		Thousands of Tenge		Inflation adjustment	Total issued capital
	Ordinary shares	Preferred non-voting shares	Ordinary shares	Preferred non-voting shares		
As at January 1, 2008	10,922,876	1,213,653	10,922,876	1,213,653	22,799,912	34,936,441
As at December 31, 2008	10,922,876	1,213,653	10,922,876	1,213,653	22,799,912	34,936,441
Transfer of monetary loss	-	-	-	-	(22,799,912)	(22,799,912)
<b>As at December 31, 2009</b>	<b>10,922,876</b>	<b>1,213,653</b>	<b>10,922,876</b>	<b>1,213,653</b>	<b>-</b>	<b>12,136,529</b>

*Transfer of the monetary loss*

During years of hyperinflation the nominal share capital was increased to reflect the effect of hyperinflation and the consequent monetary loss was charged to the income statement. As a consequence, the share capital is no longer carried at, nor does it reflect, the statutory (historical) cost. Management has decided to re-establish the share capital of the Company at the statutory carrying value, as a result of which the accumulated monetary loss has been taken out of retained earnings and offset against the IFRS share capital. This does not involve a change in the net assets of the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 21. EQUITY (continued)

#### *Treasury shares*

	Number of shares		Thousands of Tenge	
	Ordinary shares	Preferred non-voting shares	Ordinary shares	Preferred non-voting shares
As at January 1, 2008	–	810,459	–	(2,652,860)
As at December 31, 2008	–	810,459	–	(2,652,860)
<b>As at December 31, 2009</b>	–	<b>810,459</b>	–	<b>(2,652,860)</b>

The Company paid 2,652,860 thousand Tenge for 810,459 preferred shares and the difference between the initial placement value of these shares and the cost of their purchase amounted to 1,842,401 thousand Tenge.

#### *Preferred shares*

Preferred stockholders are entitled to priority rights for participation in dividends and in any case are entitled, at the discretion of the Company's shareholders, to an annual cumulative dividend of 300 Tenge per share, but not less than per share dividends paid to the holders of common stock. Preferred shareholders receive the right to vote if the general meeting of shareholders considers decisions restricting rights of preferred shareholders, decisions on reorganization or liquidation of the Company and if dividends on preferred shares are not paid within three months after a specified payment date. As of December 31, 2009 and 2008, the debt component of preferred stock amounted to 1,099,620 thousand Tenge.

#### **Dividends**

The preferred shares pay a non-discretionary dividend of 300 Tenge per share in accordance with the Company's charter documents and are considered to be compound financial instruments, and accordingly the liability and equity components are presented separately in the consolidated statement of financial position. Prescribed dividends in the amount of 120,957 thousand Tenge were accrued in 2009 and 2008 (*Note 34*). This dividend represents the interest with the effective rate of 11% on the debt component and is expensed in the income statement. Present value of non-discounted future cash flows represents the liability component.

According to the decision made at the annual general shareholders meeting held on September 4, 2009, the Company declared additional dividends on preferred shares in the amount of 74,599 thousand Tenge and dividends on ordinary shares in the amount of 5,297,813 thousand Tenge (2008: 98,699 thousand Tenge and 5,950,672 thousand Tenge, respectively).

Dividends per share (ordinary and preferred) for 2009: 485 Tenge (2008: 545 Tenge).

#### **Currency translation reserve**

The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of the subsidiaries, whose functional currency is not Tenge and whose financial statements are included in these consolidated financial statements in accordance with the accounting policy disclosed in *Note 3*.

#### **Other capital reserve**

According to the Company's Charter, the Company created a reserve capital which is equal to 15% of the authorized share capital. This reserve was created from the appropriation of the retained earnings.

#### **Earnings per share**

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent (after adjusting for the after-tax amount of dividends on preferred shares) by the weighted average number of ordinary and preferred shares outstanding during the year.

Diluted earnings per share are equal to basic earnings per share, as the Group does not have any dilutive potential ordinary shares.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 21. EQUITY (continued)

#### Earnings per share (continued)

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

<i>In thousands of Tenge</i>	2009	2008
Net profit attributable to ordinary equity holders of the parent from continuing operations	32,387,274	31,804,918
Loss attributable to ordinary equity holders of the parent from a discontinued operation	(5,069,329)	(414,465)
Net profit attributable to ordinary equity holders of the parent for basic and diluted earnings	27,317,945	31,390,453
Interest on debt component of preferred shares	120,957	120,957
Net profit attributable to ordinary and preferred equity holders of the parent for basic and diluted earnings	27,438,902	31,511,410
Weighted average number of all shares outstanding for basic and diluted earnings per share	11,326,070	11,326,070
Basic and diluted earnings per share, Tenge	2,423	2,782

There have been no other transactions involving ordinary shares between the reporting date and the date of completion of these financial statements.

To calculate earnings per share amounts for the discontinued operation (*Note 36*), the weighted average number of ordinary shares for both basic and diluted amounts is as per the table above. The following table provides the loss figure used:

<i>In thousands of Tenge</i>	2009	2008
Net loss attributable to ordinary equity holders of the parent from a discontinued operation for basic and diluted earnings per share calculations	(5,069,329)	(414,465)

### 22. BORROWINGS

Borrowings comprised the following at December 31, 2009:

<i>In thousands of Tenge</i>	2009	2008
Fixed interest rate borrowings	9,625,400	2,195,320
Weighted average interest rate	6.07%	5.24%
Variable interest rate borrowings	61,208,264	78,169,097
Weighted average interest rate	8.57%	6.18%

At December 31, 2009 borrowings were denominated in various currencies as follows:

<i>In thousands of Tenge</i>	2009	2008
US Dollar	20,502,817	61,320,117
Tenge, payments indexed to exchange rate Tenge / US Dollar	45,414,550	-
EURO	2,034,905	13,973,091
Tenge	1,108,463	3,641,468
Won	1,772,053	1,418,725
Other	876	11,016
	70,833,664	80,364,417

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 22. BORROWINGS (continued)

Borrowings are repayable as follows:

<i>In thousands of Tenge</i>	2009	2008
Current portion	8,963,886	9,663,656
Maturity between 1 and 2 years	5,311,995	48,823,255
Maturity between 2 and 5 years	30,788,905	16,317,750
Maturity over 5 years	25,768,878	5,559,756
<b>Total long-term portion</b>	<b>61,869,778</b>	<b>70,700,761</b>

At December 31, 2009, certain items of property, plant and equipment with a net carrying amount of 9,568,571 thousand Tenge were pledged as security for some of the Group's borrowings (2008: 9,674,088 thousand Tenge) (Note 8).

As at December 31, 2009 the Group has not pledged inventories as collateral to secure the Group's loans (2008: 322,472 thousand Tenge) (Note 15).

At December 31, 2009 and 2008, Group's borrowings of 1,772,053 thousand Tenge and 1,418,725 thousand Tenge, respectively, were guaranteed by the Government of the Republic of Kazakhstan.

### 23. LEASES

#### *Finance leases*

The Group has finance leases for various items of property, plant and equipment, primarily telecommunication equipment. These leases transfer the ownership over the leased assets to the Group upon the end of the lease term. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments comprised the following:

<i>In thousands of Tenge</i>	2009		2008	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within one year	8,887,985	7,063,001	5,998,756	4,384,282
After one year but not more than five years	13,088,174	11,599,156	10,084,108	8,697,367
After five years	-	-	-	-
Less: amounts representing finance charges	(3,314,002)	-	(3,001,215)	-
<b>Present value of minimum lease payments</b>	<b>18,662,157</b>	<b>18,662,157</b>	<b>13,081,649</b>	<b>13,081,649</b>
Less: amounts due for settlement within 12 months		(7,063,001)		(4,384,282)
<b>Amounts due for settlement after 12 months</b>		<b>11,599,156</b>		<b>8,697,367</b>

The amounts representing interest are based on effective interest rates from 11.3% to 15%.

#### *Operating leases*

The Group has entered into commercial leases on certain property, plant and equipment, primarily buildings and premises. These leases have an average life of 1 year with renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. Operating lease obligations are disclosed under Note 40.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 24. EMPLOYEE BENEFIT LIABILITY

#### State Contribution Scheme

The Group pays social tax according to the current statutory requirements in the Republic of Kazakhstan. Social tax and payroll are expensed as incurred.

The Group also withholds and contributes 10% from the salaries of its employees as the employee contribution to their cumulative pension funds. These amounts are expensed when they are incurred.

#### Defined Benefit Scheme

Employee benefit liability under this scheme are payable in accordance with a labour union agreement concluded between the Company and its employees.

The Defined Benefit Scheme is unfunded.

The total liability for the Company's Defined Benefit Scheme comprised the following at December 31, 2009:

<i>In thousands of Tenge</i>	2009	2008
Present value of defined benefit liability	3,625,470	3,172,458

A reconciliation of the present value of the defined benefit liability with specified payments is as follows for the years ended December 31:

<i>In thousands of Tenge</i>	2009	2008
Total liability at the beginning of the year	3,172,458	3,084,607
Current service cost	192,655	146,657
Interest cost	293,452	259,724
Benefits paid during the year	(474,500)	(420,731)
Actuarial loss recognised during the year	441,405	102,201
Total liability at the end of the year	3,625,470	3,172,458
Liability falling due within one year	281,688	251,260
Liability falling due after one year	3,343,782	2,921,198

Actuarial loss recognised for the year ended December 31, 2009 results primarily from changes in the assumptions relating to the discount rate. In determining the appropriate discount rate, Management considers the interest rate of highly rated corporate bonds in the respective currency.

Current service cost, interest cost, and actuarial loss in the aggregate amount of 927,512 thousand Tenge were recorded in the consolidated income statement within personnel costs (2008: 508,582 thousand Tenge) (*Note 33*).

There were no unrecognized actuarial losses or past service costs.

The estimates of the Company's liability were made on the basis of the published statistical data regarding mortality and the actual Company's data concerning the number, age, gender and years of employee service. Other principal assumptions used in determining benefit obligations for the Company's plan are shown below:

	2009	2008
Discount rate	9.43%	9.25%
The expected rate of future annual minimum salary increases	6.00%	6.00%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 25. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities comprised the following at December 31, 2009:

<i>In thousands of Tenge</i>	2009	2008
Deferred connection revenue	2,843,922	3,772,719
Guarantees issued	688,042	686,675
Asset retirement obligations	159,139	480,905
Other provisions	215,118	1,039,473
	<b>3,906,221</b>	<b>5,979,772</b>

In August 2009 and September 2008 the Group guaranteed an obligation of Skif City LLP, its lessor and unrelated party, under loan agreements amounting to 51,425 thousand USD and 66,677 thousand USD respectively. A fair value of the guarantees issued was calculated based on a market price for similar instruments.

Provision for asset retirement obligations has been recognized for cost of restoring sites and premises to their original condition.

### 26. ACCOUNTS PAYABLE

Accounts payable comprised the following at December 31, 2009:

<i>In thousands of Tenge</i>	2009	2008
Accounts payable for property, plant and equipment	6,509,535	10,736,369
Accounts payable for services	5,302,856	7,007,261
Accounts payable for inventory	397,744	619,484
	<b>12,210,135</b>	<b>18,363,114</b>

At December 31, 2009 and 2008 accounts payable were not interest bearing.

At December 31, 2009 accounts payable were denominated in various currencies as follows:

<i>In thousands of Tenge</i>	2009	2008
Tenge	6,985,495	11,602,303
US Dollars	4,656,580	5,737,434
Euro	328,558	617,914
Other	239,502	405,463
	<b>12,210,135</b>	<b>18,363,114</b>

### 27. OTHER CURRENT LIABILITIES

Other current liabilities comprised the following at December 31, 2009:

<i>In thousands of Tenge</i>	2009	2008
Deferred connection revenue	1,294,182	-
Due to employees	1,340,160	1,371,066
Taxes payable other than income tax	966,441	744,989
Payable to pension funds	496,519	394,023
Dividends payable	421,768	393,722
Guarantees issued	516,774	332,666
Other	699,018	797,626
	<b>5,734,862</b>	<b>4,034,092</b>

At December 31, 2009 and 2008 other current liabilities were not interest bearing.

At December 31, 2009 and 2008 other current liabilities were primarily denominated in Tenge.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 28. REVENUE

Revenue for the year ended December 31, 2009 comprised the following:

<i>In thousands of Tenge</i>	2009	2008
Rendering of wireline and wireless phone services	72,757,577	73,296,875
Data transfer services	36,426,121	27,340,711
Interconnect	14,172,809	14,334,573
Rent of lines	9,806,360	11,726,254
Other	5,664,696	7,365,224
	<b>138,827,563</b>	<b>134,063,637</b>

### 29. COMPENSATION FOR PROVISION OF UNIVERSAL SERVICES IN RURAL AREAS

According to the Resolution of the Government of the Republic of Kazakhstan #1039, dated October 7, 2004 "On the approval of subsidies for telecommunication operators losses connected with the provision of universal telecommunication services in rural areas", beginning from 4<sup>th</sup> quarter of 2004, the Group has started receiving government subsidies as compensation for operators' losses for the provision of telephony services to socially important destinations. There are no unfulfilled conditions or contingencies attached to these subsidies. The amount of subsidy for the year ended December 31, 2009 totalled 5,138,485 thousand Tenge (2008: 4,386,282 thousand Tenge).

### 30. COST OF REVENUE

Cost of services provided for the year ended December 31, 2009 comprised the following:

<i>In thousands of Tenge</i>	2009	2008
Personnel costs (Note 33)	31,815,230	28,828,776
Depreciation and amortization	23,430,527	19,715,406
Impairment of intangible assets and goodwill (Note 9, 10)	—	9,742,385
Interconnect	12,749,025	11,434,832
Repair and maintenance	12,234,063	11,189,619
Rent of channels	4,284,903	6,963,990
Fees for the right to provide telecom services	1,755,045	3,922,235
Security and safety	1,767,264	1,551,417
Rental of equipment	1,335,403	1,083,083
Fees for use of frequency range	561,690	534,850
Other	2,802,211	5,348,513
	<b>92,735,361</b>	<b>100,315,106</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 31. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended December 31, 2009 comprised the following:

<i>In thousands of Tenge</i>	2009	2008
Personnel costs (Note 33)	9,213,210	8,796,077
Taxes other than income tax	1,802,782	2,331,078
Depreciation and amortization	1,108,512	943,121
(Reversal of provision) / provision for litigation costs	(1,039,473)	1,039,473
Consulting services	642,320	783,334
Bank fees	570,791	542,278
Materials	388,186	509,421
Bad debt expense (Notes 16, 17 and 19)	346,537	851,878
Business trips	215,276	342,811
Repair and maintenance	180,099	479,805
Security and safety	160,712	134,101
Provision for obsolete inventory (Note 15)	153,539	123,729
Rental of equipment	141,926	223,750
Trainings	93,827	216,004
Other	1,767,380	2,435,920
	<b>15,745,624</b>	<b>19,752,780</b>

### 32. SELLING EXPENSES

Selling expenses for the year ended December 31, 2009 comprised the following:

<i>In thousands of Tenge</i>	2009	2008
Marketing and advertising	1,746,983	2,995,407
Dealers commission	831,712	1,329,821
Other	1,092,781	610,140
	<b>3,671,476</b>	<b>4,935,368</b>

### 33. PERSONNEL COSTS

Personnel costs for the year ended December 31, 2009 comprised the following:

<i>In thousands of Tenge</i>	2009	2008
Payroll	36,052,298	33,527,409
Payroll related taxes	4,048,630	3,588,862
Employee benefits expense (Note 24)	927,512	508,582
	<b>41,028,440</b>	<b>37,624,853</b>

### 34. FINANCE (COSTS) / INCOME

Finance costs and income for the year ended December 31, 2009 comprised the following:

<i>In thousands of Tenge</i>	2009	2008
<b>Finance costs:</b>		
Interest on borrowings	4,115,285	3,261,499
Finance charges payable under finance leases	2,399,460	1,136,737
Discounting of long-term loans to employees	149,162	587,169
Interest on debt component of preferred shares (Note 21)	120,957	120,957
Discounting of long-term trade receivables (Note 14)	110,821	-
Unwinding of discount on provisions (Note 25)	7,276	4,610
	<b>6,902,961</b>	<b>5,110,972</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 34. FINANCE (COSTS) / INCOME (continued)

<i>In thousands of Tenge</i>	2009	2008
<b>Finance income:</b>		
Interest income on bank deposits	693,349	546,386
Interest income on guarantees issued	541,485	162,436
Amortization of discount on long-term loans to employees	182,800	–
Other	245,987	31,518
	<b>1,663,621</b>	<b>740,340</b>

### 35. INCOME TAX

Income tax expense comprised the following for the year ended December 31, 2009:

<i>In thousands of Tenge</i>	2009	2008
Current income tax charge	2,767,071	3,281,023
Deferred tax (benefit) / charge relating to origination and reversal of temporary differences	(307,080)	4,257,350
Deferred tax charge / (benefit) resulting from change in tax rate	776,388	(10,832,237)
	<b>3,236,379</b>	<b>(3,293,864)</b>

A reconciliation of income tax expense applicable to profit before income tax at the statutory income tax rate of 20% (2008: 30%) to current income tax expense was as follows for the year ended December 31, 2009:

<i>In thousands of Tenge</i>	2009	2008
Accounting profit before tax from continuing operations	31,131,829	26,596,105
Loss before tax from discontinued operations	(5,233,192)	(3,241,496)
<b>Accounting profit before income tax</b>	<b>25,898,637</b>	<b>23,354,609</b>
At statutory income tax rate of 20% (2008: 30%)	5,179,728	7,006,383
Non-taxable share of profit of an associate	(4,233,343)	(5,266,496)
Change in unrecognized deferred tax assets	1,739,610	2,081,580
Change in opening deferred tax resulting from change in tax rate	836,677	(13,299,060)
Impairment of goodwill	–	1,698,753
Impairment of investment property	–	338,276
(Non-taxable income) / Non-deductible expenses	(450,156)	1,319,669
<b>Total income tax expense</b>	<b>3,072,516</b>	<b>(6,120,895)</b>
Income tax reported in the consolidated income statement	3,236,379	(3,293,864)
Income tax attributable to a discontinued operation ( <i>Note 36</i> )	(163,863)	(2,827,031)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 35. INCOME TAX (continued)

Deferred tax balances, calculated by applying the statutory tax rates in effect at the reporting date to the temporary differences between the basis of assets and liabilities and the amounts reported in the consolidated financial statements, are comprised of the following at December 31, 2009:

*In thousands of Tenge*

	Consolidated income statement for 2009				December 31, 2009, as stated in liabilities of the disposal group	December 31, 2009, as stated in non-current liabilities
	December 31, 2008	Origination or reversal of temporary difference	Effect of the change in tax rate	Discontinued operation (Note 36)		
<b>Deferred tax assets</b>						
Tax losses carry-forward	41,247	(41,247)	-	13,875	(13,875)	-
Deferred income	305,208	(16,480)	17,692	-	-	306,420
Employee benefits obligations	488,661	60,121	29,771	-	-	578,553
Bad debt allowance	203,692	90,252	27,846	-	-	321,790
Intangible assets	67,927	89,033	(99,984)	-	-	56,976
Other	234,223	(117,004)	6,820	-	-	124,039
Less: deferred tax assets offset with deferred tax liabilities	(1,256,504)	-	(145,149)	-	13,875	(1,387,778)
<b>Deferred tax assets</b>	<b>84,454</b>	<b>64,675</b>	<b>(163,004)</b>	<b>13,875</b>	<b>-</b>	<b>-</b>
<b>Deferred tax liabilities</b>						
Property, plant and equipment	11,713,120	564,022	756,194	(13,090)	(12,048)	13,008,198
Intangible assets	3,857,752	(794,127)	2,339	(136,898)	(2,260,152)	668,914
Other	12,300	(12,300)	-	-	-	-
Less: deferred tax assets offset with deferred tax liabilities	(1,256,504)	-	(145,149)	-	13,875	(1,387,778)
<b>Deferred tax liabilities</b>	<b>14,326,668</b>	<b>(242,405)</b>	<b>613,384</b>	<b>(149,988)</b>	<b>(2,258,325)</b>	<b>12,289,334</b>
Deferred tax (benefit) / expense		(307,080)	776,388	(163,863)	-	-
<b>Net deferred tax liabilities</b>	<b>14,242,214</b>				<b>(2,258,325)</b>	<b>12,289,334</b>
Reflected in the statement of financial position as follows:						
Deferred tax assets	84,454				-	-
Deferred tax liability – continuing operations	(14,326,668)				-	(12,289,334)
Deferred tax liability – discontinued operations (Note 36)	-				(2,258,325)	-
<b>Deferred tax liability net</b>	<b>(14,242,214)</b>				<b>(2,258,325)</b>	<b>(12,289,334)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 35. INCOME TAX (continued)

In thousands of Tenge

	Consolidated income statement for 2008				December 31, 2008
	December 31, 2007	Origination or reversal of temporary difference	Effect of the change in tax rate	Discontinued operation (Note 36)	
<b>Deferred tax assets</b>					
Tax losses carry-forward	173,263	(152,463)	(9,940)	30,387	41,247
Deferred income	50,598	532,622	(278,012)	-	305,208
Employee benefits obligations	925,382	26,355	(463,076)	-	488,661
Bad debt allowance	689,098	(314,665)	(170,741)	-	203,692
Property, plant and equipment	356,870	(356,870)	-	-	-
Intangible assets	41,585	(10,720)	37,062	-	67,927
Other	188,275	158,954	(113,006)	-	234,223
Less: deferred tax assets offset with deferred tax liabilities	(1,715,863)	-	459,359	-	(1,256,504)
<b>Deferred tax assets</b>	<b>709,208</b>	<b>(116,787)</b>	<b>(538,354)</b>	<b>30,387</b>	<b>84,454</b>
<b>Deferred tax liabilities</b>					
Property, plant and equipment	17,387,890	5,292,378	(10,928,889)	(38,259)	11,713,120
Intangible assets	8,655,480	(1,144,431)	(894,912)	(2,758,385)	3,857,752
Other	25,833	(7,384)	(6,149)	-	12,300
Less: deferred tax assets offset with deferred tax liabilities	(1,715,863)	-	459,359	-	(1,256,504)
<b>Deferred tax liabilities</b>	<b>24,353,340</b>	<b>4,140,563</b>	<b>(11,370,591)</b>	<b>(2,796,644)</b>	<b>14,326,668</b>
Deferred tax (benefit) / expense		4,257,350	(10,832,237)	(2,827,031)	
<b>Net deferred tax liabilities</b>	<b>23,644,132</b>				<b>14,242,214</b>
Reflected in the statement of financial position as follows:					
Deferred tax assets	709,208				84,454
Deferred tax liability – continuing operations	(24,353,340)				(14,326,668)
<b>Deferred tax liability net</b>	<b>(23,644,132)</b>				<b>(14,242,214)</b>

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The unrecognized deferred tax assets on accumulated tax losses at December 31, 2009 amounting to 2,967,217 thousand Tenge (2008: 1,699,241 thousand Tenge).

In November 2009 the government of the Republic of Kazakhstan approved amendments to the tax code effective January 1, 2009, in accordance to which the statutory income tax rates are changed to 20% during the years from January 1, 2010 till January 1, 2013, 17.5% – from January 1, 2013 till January 1, 2014, and 15% – from January 1, 2014 onwards. The Group's calculation of deferred tax and income tax expense reflects these changes in the tax law.

The movements in the net deferred tax liability were as follows for the years ended December 31:

In thousands of Tenge	2009	2008
Opening balance as of January 1	14,242,214	23,644,132
Origination and reversal of temporary differences	(307,080)	4,257,350
Change in opening deferred tax resulting from change in tax rate	776,388	(10,832,237)
Discontinued operation (Note 36)	(163,863)	(2,827,031)
<b>Closing balance as of December 31</b>	<b>14,547,659</b>	<b>14,242,214</b>

The temporary differences associated with investments in an associate for which deferred tax liability has not been recognized aggregate to 13,863,792 thousand Tenge (2008: 12,805,777 thousand Tenge).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 36. DISCONTINUED OPERATION

On December 14, 2009 Kazakhtelecom concluded an agreement to sell its shares in the subsidiary Mobile Telecom-Service LLP to Tele2 Sverige AB, a Swedish mobile operator. The sales-purchase agreement contains certain conditions, which should be fulfilled before the transaction is considered final. In accordance with the sales-purchase agreement, the transaction is to be closed by March 31, 2010. As at December 31, 2009, Mobile Telecom-Service LLP was classified as a disposal group held for sale and as a discontinued operation.

The results of Mobile Telecom-Service LLP for the year are presented below:

<i>In thousands of Tenge</i>	2009	2008
Revenue	4,759,384	3,836,427
Cost of revenue	(4,189,670)	(4,656,284)
Gross loss	569,714	(819,857)
General and administrative expenses	(546,177)	(609,798)
Selling expenses	(841,249)	(1,435,181)
Operating loss	(817,712)	(2,864,836)
Finance costs	(886,906)	(978,245)
Finance income	41,220	58,780
Foreign exchange (loss) / gain	(3,517,805)	383,183
Other (loss) / income	(51,989)	159,622
<b>Loss before tax from a discontinued operation</b>	<b>(5,233,192)</b>	<b>(3,241,496)</b>
Income tax benefit	163,863	2,827,031
<b>Loss after tax for the year from a discontinued operation</b>	<b>(5,069,329)</b>	<b>(414,465)</b>

The major classes of assets and liabilities of Mobile Telecom-Service LLP classified as held for sale as at December 31 are as follows:

<i>In thousands of Tenge</i>	2009	2008
<b>Assets</b>		
Property plant and equipment (Note 8)	14,427,296	-
Intangible assets (Note 9)	21,458,657	-
VAT recoverable	1,635,720	-
Cash and cash equivalents	485,654	-
Other	759,430	-
<b>Assets classified as held for sale</b>	<b>38,766,757</b>	<b>-</b>
<b>Liabilities</b>		
Interest bearing loans	(19,626,108)	-
Accounts payable	(2,801,397)	-
Deferred tax liability (Note 35)	(2,258,325)	-
Other	(899,349)	-
<b>Liabilities directly associated with assets classified as held for sale</b>	<b>(25,585,179)</b>	<b>-</b>
<b>Net assets directly associated with disposal group</b>	<b>13,181,578</b>	<b>-</b>

The net cash flows incurred by Mobile Telecom-Service LLP are as follows:

<i>In thousands of Tenge</i>	2009	2008
Operating	(312,889)	(1,159,869)
Investing	(24,445)	(4,391,376)
Financing	(561,109)	5,401,920
<b>Net cash outflow</b>	<b>(898,443)</b>	<b>(149,325)</b>

Earnings per share:

<i>In thousands of Tenge</i>	2009	2008
Basic and diluted, from discontinued operation	(556)	(37)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 37. NON-CASH TRANSACTIONS

During 2009, under finance lease agreements the Group received telecommunication equipment with a value of 8,193,683 thousand Tenge (2008: 8,130,206 thousand Tenge). This transaction has been excluded from the consolidated statement of cash flows.

During 2009, the Group capitalized interest on bank loans of 96,936 thousand Tenge to property, plant and equipment (2008: 478,594 thousand Tenge). This transaction has been excluded from the consolidated statement of cash flows.

During 2009 the Group recognized provision for asset retirement obligations amounting to 213,448 thousand Tenge (2008: 239,000 thousand Tenge) as an addition to equipment. This transaction has been excluded from the consolidated statement of cash flows.

During 2009, the Group recognised a guarantee issued by the Company to its lessor, a third party, with fair value of 773,795 thousand Tenge (2008: 549,694 thousand Tenge) as an addition to equipment received under finance lease. This transaction has been excluded from the consolidated statement of cash flows.

During 2009, in accordance with the terms of loan agreements, there were no payments directly to the Group's suppliers of property, plant and equipment (2008: 6,286,585 thousand Tenge). These cash flows have been excluded from the consolidated statement of cash flows.

In 2009 921,240 thousand Tenge was paid for property, plant and equipment purchased in prior year. Property, plant and equipment of 2,325,240 thousand Tenge was purchased in 2009, but not paid by December 31, 2009.

### 38. RELATED PARTY TRANSACTIONS

The category 'parent-controlled entities' comprises entities controlled by the Parent, except for banks, controlled by the Parent. Halyk Bank of Kazakhstan is a related party due to the bank being controlled by a member of the management board of the Parent, who was appointed on November 3, 2008. BTA Bank is a related party since it is controlled by the Parent, which acquired 75% of issued shares on February 2, 2009. Kazkommertsbank became a related party on May 15, 2009 after the purchase of 21.2% of the bank's ordinary shares by the Parent was completed.

#### 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. Outstanding balances at the year-end are unsecured, short-term and settlement occurs in cash, except as discussed below.

For the year ended December 31, 2009 and 2008, the Group has not recorded any impairment of trade accounts receivables relating to amounts owned by related parties. During the year 2008, an impairment loss of 1,127,585 thousand Tenge represented the write down of the carrying value of the investment property used by Government related entities to the recoverable amount (*Note 13*). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Sales and purchases with related parties during the years ended December 31, 2009 and 2008 and the balances with related parties at December 31, 2009 and 2008 were as follows:

<i>In thousands of Tenge</i>		Sales to related parties	Purchases from related parties	Due from related parties	Due to related parties
Parent	2009	—	—	4,812	—
	2008	17,289	—	2,824	—
Parent-controlled entities	2009	2,178,029	1,674,208	445,799	58,838
	2008	3,921,655	1,190,812	995,905	52,839
Associate ( <i>Note 12</i> )	2009	6,890,468	5,836,599	3,097,924	110,785
	2008	9,865,396	5,904,455	3,513,322	1,934,611

Total compensation in general and administrative expenses in the accompanying consolidated income statement amounted to 230,690 thousand Tenge and 245,253 thousand Tenge for the years ended December 31, 2009 and 2008, respectively. Compensation to key management personnel mainly consists of contractual salary and performance bonus based on operating results.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 38. RELATED PARTY TRANSACTIONS (continued)

As discussed in *Note 29*, the Government of the Republic of Kazakhstan provides certain subsidies to the Group for provision of universal services in rural areas.

As discussed in *Note 22*, some of the Group's borrowings were guaranteed by the Government of the Republic of Kazakhstan.

As at December 31, 2009, the Group had total current cash accounts balance in JSC Halyk Bank of Kazakhstan amounting to 6,713,357 thousand Tenge and outstanding loans payable in the amount of 306,936 thousand Tenge (*Note 22*). The Group earned interest amounting to 71,213 thousand Tenge and incurred interest expense amounting to 50,866 thousand Tenge in operations with JSC Halyk Bank of Kazakhstan. As at December 31, 2009, the Group had total current cash accounts balance at and deposits placed in JSC Kazkommertsbank amounting to 5,961,393 thousand Tenge, and outstanding loans payable in amount of 4,698,967 thousand Tenge. The Group earned interest amounting to 104,713 thousand Tenge and incurred interest expense amounting to 301,191 thousand Tenge in operations with JSC Kazkommertsbank. As at December 31, 2009, the Group had total current cash accounts balance in JSC BTA Bank amounting to 44,168 thousand Tenge.

### 39. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments consist of bank borrowings, lease liabilities, cash and short-term deposits as well as accounts receivable and accounts payable. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and credit risk. The Group further monitors the market risk and liquidity risk arising from all financial instruments.

#### Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term borrowings with floating interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before income tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

<i>In thousands of Tenge</i>	2009		2008	
	Increase / decrease in basis points	Effect on profit before tax	Increase / decrease in basis points	Effect on profit before tax
US Dollar	+100	(573,507)	+55	(321,602)
	-25	143,377	- 55	321,602
Euro	+100	(20,256)	+55	(75,512)
	-25	5,064	- 55	75,512
Tenge	+100	(10,555)	+55	(19,692)
	-25	2,639	- 55	19,692

\* 1 basis point = 0.01%

#### Currency risk

As a result of significant borrowings, lease liabilities and accounts payable, cash and cash equivalents and accounts receivable denominated in the US Dollars, Euro and South Korean Won, the Group's consolidated statement of financial position can be affected significantly by movement in the US Dollar / Tenge, Euro / Tenge and Won / Tenge exchange rates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 39. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### Currency risk (continued)

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

<i>In thousands of Tenge</i>	2009		2008	
	Increase / decrease in exchange rate	Effect on profit before tax	Increase / decrease in exchange rate	Effect on profit before tax
US Dollar	+10%	(9,883,683)	+25%	(20,607,715)
	-15%	14,825,522	+40%	(33,182,790)
Euro	+10%	(237,268)	+22%	(3,229,579)
	-15%	355,901	+36%	(5,284,767)
Won	+10%	(177,205)	+10%	(141,873)
	-15%	265,808	+20%	(283,745)

#### Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency, and securities, all of which are exposed to general and specific market movements. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing appropriate margin and collateral requirements.

#### Credit risk

The Group trades only with recognised, creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in *Note 16*. There are no significant concentrations of credit risk within the Group.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and other financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Group had cash held on current accounts in banks that required restructuring in order to continued as a going concern as of December 31, 2009: cash held on current accounts of JSC BTA Bank amounted to 44,168 thousand Tenge and in JSC Alliance Bank amounted to 270,980 thousand Tenge.

#### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and finance leases. The Group's policy is that not more than 30% of borrowings should mature in the next 12 month period. 27% of the Group's debt will mature in less than one year at December 31, 2009 (2008: 29%) based on the carrying value of borrowings reflected in the financial statements, excluding discontinued operations.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 39. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2008 based on contractual undiscounted payments.

<i>In thousands of Tenge</i>	On demand	Due later than one month but not later than three months	Due later than three month but not later than one year	Due later than one year but not later than five years	Due after five years	Total
<b>As of December 31, 2009</b>						
Borrowings	-	3,636,971	9,561,879	55,313,086	30,861,552	99,373,488
Finance lease liabilities	-	2,391,278	6,496,707	13,088,174	-	21,976,159
Accounts payable	9,308,493	1,209,178	1,692,464	-	-	12,210,135
Debt component of preferred shares	-	-	108,971	338,077	652,572	1,099,620
Employee benefit liability	-	-	198,474	793,896	2,633,100	3,625,470
Other non-current liabilities	-	-	-	3,906,221	-	3,906,221
Other current liabilities	5,734,862	-	-	-	-	5,734,862
	<b>15,043,355</b>	<b>7,237,427</b>	<b>18,058,495</b>	<b>73,439,454</b>	<b>34,147,224</b>	<b>147,925,955</b>
<b>As of December 31, 2008</b>						
Borrowings	1,006,562	2,556,772	8,067,386	71,473,009	5,953,566	89,057,295
Finance lease liabilities	-	1,499,689	4,499,067	10,084,108	-	16,082,864
Accounts payable	8,583,248	7,887,672	1,892,194	-	-	18,363,114
Debt component of preferred shares	-	-	108,971	338,077	652,572	1,099,620
Employee benefit liability	-	-	251,260	751,206	2,169,992	3,172,458
Other non-current liabilities	-	-	-	5,979,772	-	5,979,772
Other current liabilities	4,034,092	-	-	-	-	4,034,092
	<b>13,623,902</b>	<b>11,944,133</b>	<b>14,818,878</b>	<b>88,626,172</b>	<b>8,776,130</b>	<b>137,789,215</b>

#### Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount.

Cash flow requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise. The management of the Group believes that any possible fluctuations of future cash flows associated with a monetary financial instrument will not have material impact on the Group's operations.

#### Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the holders of ordinary shares, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2009 and 2008.

The Group monitors capital using a debt-to-equity ratio, which is net debt divided by total capital. The Group's policy is to keep the ratio not greater than 1.0. The Group includes within net debt interest bearing loans and borrowings, trade accounts payable and finance lease liabilities. Capital includes equity attributable to the equity holders of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 39. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### Capital management (continued)

The debt-to-equity ratio at the year end was as follows:

<i>In thousands of Tenge</i>	2009	2008
Borrowings	70,833,664	80,364,417
Trade accounts payable	12,210,135	18,363,114
Finance lease obligations	18,662,157	13,081,649
<b>Net debt</b>	<b>101,705,956</b>	<b>111,809,180</b>
Equity	209,587,811	192,115,447
<b>Debt-to-equity ratio</b>	<b>0.49</b>	<b>0.58</b>

#### Fair values

At December 31, 2009 and 2008 the carrying values of the Group's monetary assets and liabilities approximated their estimated fair values.

The carrying amount of cash and cash equivalents, trade accounts receivable, trade accounts payable and other current monetary assets and liabilities approximates their fair value due to the short-term maturity of these financial instruments. Interest-bearing loans and borrowings are stated at amortized costs which approximate their fair values.

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

### 40. COMMITMENTS AND CONTINGENT LIABILITIES

#### Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of telecommunication equipment. As at December 31, 2009 the Group had contractual commitments totaling 13,044,405 thousand Tenge (2008: 7,558,214 thousand Tenge) related mostly to the purchase of telecommunication equipment and construction of telecommunication network.

#### Sale commitment

As discussed in *Note 36* Kazakhtelecom concluded an agreement to sell its shares in the subsidiary Mobile Telecom-Service LLP to Tele2 Sverige AB, a Swedish mobile operator. The sales-purchase agreement contains certain conditions, which should be fulfilled before the transaction is considered final. In accordance with the sales-purchase agreement, the transaction is to be closed by March 31, 2010.

#### Operating lease commitments - Group as lessee

In September 2008 the Group has entered into lease of an office space. This lease has a life of five years with a renewal option included in the contract. There are no restrictions placed upon the Group by entering into this lease.

Future minimum rentals payable under non-cancellable operating lease are as follows:

<i>In thousands of Tenge</i>	2009	2008
Within one year	670,193	658,098
After one year but not more than five years	1,038,797	1,505,542
	<b>1,708,990</b>	<b>2,163,640</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 40. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

#### Finance lease commitments – Group as lessee

The Group has finance lease for telecommunication equipment. Future minimum lease payments under the finance lease are disclosed in *Note 23*.

#### License commitments

Under the terms of certain licenses on the provision of wireless telecom services, the Group has certain obligations in terms of coverage area of the Group's network. The Group is obliged to expand the cellular telecommunication coverage to the regions along the major highways and small-sized towns and urban-type communities of the Republic of Kazakhstan. The Group's management believes that the Group is in compliance with the terms of the licenses.

#### Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. In addition, management believes that international agreements, under which the Group works with non-residents residing in International Telecommunication Union, and which provide for certain tax exemptions, have a priority over national tax legislation. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2009. As at December 31, 2009 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained.

### 41. EVENTS AFTER THE REPORTING PERIOD

On February 24, 2010 Kazakhtelecom announced plans to sell its stake in Nursat JSC. The expected date of transaction is not certain.

In 2010, the Group made an instalment payments under its loan from ABN AMRO bank N.V. Stockholm Branch in the amount of 3,585 thousand Euro.

On March 17, 2010 the Group completed the sale of Mobile Telecom-Service LLP, the subsidiary (*Note 36*), for consideration of 76,000 thousand US Dollars.