



Kazakhtelecom JSC
Consolidated Financial Statements

*For the year ended December 31, 2011
with Independent Auditors' Report*

CONTENTS

	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.....	8-50

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Kazakhtelecom JSC:

We have audited the accompanying consolidated financial statements of Kazakhtelecom JSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

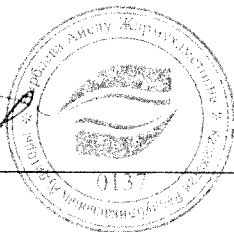
Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Aisulu Narbayeva

Aisulu Narbayeva
Auditor



Evgeny Zhemaletdinov

Evgeny Zhemaletdinov
General Director
Ernst & Young LLP

Auditor Qualification Certificate
No. 0000137 dated 21 October 1994

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

15 March 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2011


<i>In thousands of Tenge</i>	<i>Notes</i>	2011	2010
ASSETS			
Non-current assets			
Property, plant and equipment	7	227,346,757	216,627,854
Intangible assets	8	10,907,805	12,471,910
Advances paid for non-current assets	9	494,446	489,868
Investments in an associate	10	—	53,785,831
Deferred tax asset	33	179,464	158,951
Other non-current assets	12	8,721,087	6,331,438
		247,649,559	289,865,852
Current assets			
Inventories	13	4,257,621	5,155,291
Trade accounts receivable	14	16,018,529	11,180,975
Prepayments	15	483,810	585,413
Income tax prepaid		170,171	395,498
Other financial assets	16	535,686	379,868
Other current assets	17	6,475,695	4,975,909
Cash and short-term deposits	18	87,715,687	58,023,486
		115,657,199	80,696,440
Assets classified as held for sale	34	58,389,446	—
		174,046,645	80,696,440
TOTAL ASSETS		421,696,204	370,562,292
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	19	12,136,529	12,136,529
Treasury shares	19	(2,652,860)	(2,652,860)
Currency translation reserve	19	(15,997)	(9,921)
Other capital reserve	19	1,820,479	1,820,479
Retained earnings		271,629,837	227,330,496
		282,917,988	238,624,723
Non-controlling interests		(15,722)	(32,558)
Total equity		282,902,266	238,592,165

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

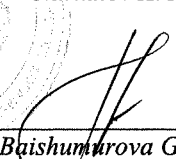
<i>In thousands of Tenge</i>	<i>Notes</i>	2011	2010
Non-current liabilities			
Borrowings	20	59,679,768	57,971,162
Finance lease liabilities	21	8,664,865	8,352,825
Deferred tax liability	33	11,319,543	12,531,442
Employee benefit liability	22	5,125,779	4,359,779
Debt component of preferred shares	19	1,099,620	1,099,620
Other non-current liabilities	23	4,598,899	3,873,216
		90,488,474	88,188,044
Current liabilities			
Borrowings	20	14,539,739	9,153,943
Current portion of finance lease liabilities	21	7,237,279	7,338,972
Current portion of employee benefit liability	22	330,013	289,262
Accounts payable	24	15,850,980	17,717,657
Advances received		2,643,992	2,371,086
Income tax payable		71,948	—
Other current liabilities	25	7,631,513	6,911,163
		48,305,464	43,782,083
		138,793,938	131,970,127
TOTAL EQUITY AND LIABILITIES		421,696,204	370,562,292

The accompanying notes on pages 8 to 50 are an integral part of these consolidated financial statements.

Chief Financial Director


Nurkatov A. A.

Chief Accountant


Baishumurova G. Zh.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2011

<i>In thousands of Tenge</i>	<i>Notes</i>	2011	2010*
Continuing operations			
Revenue	26	167,769,419	147,505,233
Compensation for provision of universal services in rural areas	27	5,574,617	5,226,471
		173,344,036	152,731,704
Cost of revenue	28	(124,077,903)	(111,018,306)
Gross profit		49,266,133	41,713,398
General and administrative expenses	29	(18,824,616)	(20,162,045)
Selling expenses	30	(4,567,717)	(4,346,038)
Operating profit		25,873,800	17,205,315
Finance costs	32	(9,257,214)	(9,430,941)
Finance income	32	3,298,105	2,180,401
Foreign exchange (loss) / gain, net		(160,858)	558,879
Loss from disposal of property, plant and equipment		(279,099)	(410,524)
Other income		1,783,468	1,659,366
Profit before tax from continuing operations		21,258,202	11,762,496
Income tax expense	33	(4,098,165)	(4,974,452)
Profit for the year from continuing operations		17,160,037	6,788,044
Discontinued operations			
Profit after tax for the year from discontinued operations	34	33,023,615	26,883,184
Profit for the year		50,183,652	33,671,228
Attributable to:			
Owners of the parent		50,166,816	34,219,652
Non-controlling interests		16,836	(548,424)
Other comprehensive income			
Exchange differences on translation of foreign operations		(6,076)	(7,211)
Income tax effect		—	—
Other comprehensive loss for the year, net of tax		(6,076)	(7,211)
Total comprehensive income for the year, net of tax		50,177,576	33,664,017
Attributable to:			
Owners of the parent		50,160,740	34,212,441
Non-controlling interest		16,836	(548,424)
		50,177,576	33,664,017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(continued)

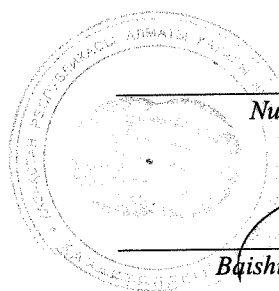
<i>In thousands of Tenge</i>	<i>Notes</i>	2011	2010*
Earnings per share			
Basic and diluted, profit for the year attributable to owners of the parent	19	4.440	3.032
Earnings per share for continuing operations			
Basic and diluted, profit for the year from continuing operations attributable to owners of the parent	19	1.524	658


* Certain amounts shown here do not correspond to the 2010 financial statements and reflect adjustments made as detailed in *Note 34*.

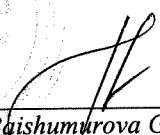
The accompanying notes on pages 8 to 50 are an integral part of these consolidated financial statements.

Chief Financial Director

Chief Accountant




Nurkatov A. A.


Baishumurova G. Zh.


CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2011


In thousands of Tenge	Attributable to owners of the parent						Non-controlling interests	Total equity
	Issued capital	Treasury shares	Foreign currency translation reserve	Other capital reserves	Retained earnings	Total		
	19		19	19				
At January 1, 2010	12,136,529	(2,652,860)	(2,710)	1,820,479	197,770,507	209,071,945	515,866	209,587,811
Profit for the year	—	—	—	—	34,219,652	34,219,652	(548,424)	33,671,228
Other comprehensive income	—	—	(7,211)	—	—	(7,211)	—	(7,211)
Total comprehensive income	—	—	(7,211)	—	34,219,652	34,212,441	(548,424)	33,664,017
Dividends (Note 19)	—	—	—	—	(4,659,663)	(4,659,663)	—	(4,659,663)
At December 31, 2010	12,136,529	(2,652,860)	(9,921)	1,820,479	227,330,496	238,624,723	(32,558)	238,592,165
Profit for the year	—	—	—	—	50,166,816	50,166,816	16,836	50,183,652
Other comprehensive income	—	—	(6,076)	—	—	(6,076)	—	(6,076)
Total comprehensive income	—	—	(6,076)	—	50,166,816	50,160,740	16,836	50,177,576
Dividends (Note 19)	—	—	—	—	(5,867,475)	(5,867,475)	—	(5,867,475)
At December 31, 2011	12,136,529	(2,652,860)	(15,997)	1,820,479	271,629,837	282,917,988	(15,722)	282,902,266

The accompanying notes on pages 8 to 50 are an integral part of these consolidated financial statements.

Chief Financial Director


 Nurkatov A. A.

Chief Accountant


 Baishymurova G. Zh.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2011

<i>In thousands of Tenge</i>	<i>Notes</i>	2011	2010*
Operating activities			
Profit before tax from continuing operations		21,258,202	11,762,496
Profit before tax from discontinued operations	34	33,023,615	26,883,184
Profit before tax		54,281,817	38,645,680
Adjustments for:			
Depreciation of property, plant and equipment	7	35,608,785	32,876,310
Amortization and impairment of intangibles assets	8	4,532,751	3,897,234
Share of profit of an associate (discontinued operations)	34	(33,023,615)	(26,038,892)
Change in deferred revenues		13,611	200,155
Change in employee benefit liability		806,751	1,023,571
Unrealized foreign exchange gain		223,190	(433,132)
Provision for doubtful debts	29	(207,367)	2,177,142
Provision for obsolete and slow moving inventories	29	415,781	582,260
Finance costs	32	9,257,214	9,430,941
Finance revenue	32	(3,298,105)	(2,180,401)
Gain on disposal of subsidiary		—	(178,320)
Loss from disposal of property, plant and equipment		279,099	410,524
Working capital adjustments:			
Increase in trade accounts receivable		(4,568,639)	(1,109,013)
Decrease in inventories		481,889	509,633
(Increase) / decrease in other current and non-current assets		(686,641)	2,612,882
Decrease / (increase) in prepayments		106,942	(142,745)
Increase in accounts payable		128,060	3,081,724
Increase in advances received		272,906	453,173
Increase in other current liabilities		761,506	1,458,575
Cash generated from operations		65,385,935	67,277,301
Dividends paid		(5,829,934)	(4,659,663)
Income taxes paid		(5,046,772)	(4,717,643)
Interest paid		(7,117,471)	(7,256,636)
Interest received		1,627,878	778,786
Net cash flows from operating activities		49,019,636	51,422,145

CONSOLIDATED CASH FLOW STATEMENT (continued)

<i>In thousands of Tenge</i>	<i>Notes</i>	2011	2010*
Investing activities			
Purchase of property, plant and equipment		(34,818,856)	(33,988,962)
Purchase of intangible assets		(2,925,595)	(1,583,211)
Proceeds from sale of property, plant and equipment		1,118,089	125,621
Dividends received from an associate		28,420,000	23,026,851
Proceeds from sale of subsidiary	34	—	10,957,895
Long-term loans to employees		(2,969,828)	(733,434)
Net cash flows used in investing activities		(11,176,190)	(2,195,240)
Financing activities			
Proceeds from borrowings		8,560,587	3,380,641
Repayment of borrowings		(9,166,805)	(8,934,306)
Repayment of finance lease liabilities		(7,609,006)	(7,358,963)
Net cash flows used in financing activities		(8,215,224)	(12,912,628)
Net increase in cash and cash equivalents		29,628,222	36,314,277
Effects of exchange rate changes on cash and cash equivalents		63,979	(21,431)
Cash and cash equivalents at January 1		58,023,486	21,730,640
Cash and cash equivalents at December 31	18	87,715,687	58,023,486

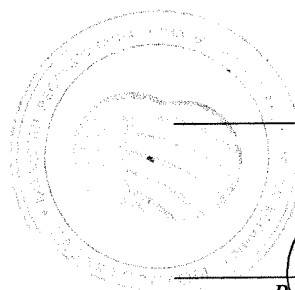
* Certain amounts shown here do not correspond to the 2010 financial statements and reflect adjustments made as detailed in *Note 34*.

Non-cash transactions are disclosed in *Note 35*.

The accompanying notes on pages 8 to 50 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, 2011

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, 2011 and 2010. The following lists the shareholders of the Company’s stock:

	2011	2010
Samruk-Kazyna	51.0%	51.0%
Bodam B. V.	16.9%	16.9%
ADR (The Bank of New York is a depositor)	12.7%	13.4%
Deran Services Limited	9.6%	9.6%
Kazkommertsbank	3.1%	—
LLP Optimus	—	3.0%
Other	6.7%	6.1%
	100%	100%

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 5* (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, 2011 and financial position as at that date for the Group.

The consolidated financial statements were authorised for issue on March 15, 2012 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.

The consolidated financial statements are presented in Kazakhstan Tenge (“Tenge”) and all values 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, 2011.

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, transactions, unrealised gains and losses resulting from intra-group transactions and dividends and are eliminated in full.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

- *IAS 24 Related Party Disclosures (amendment) effective 1 January 2011*
- *IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010*
- *IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011*
- *Improvements to IFRSs (May 2010)*

The adoption of the standards or interpretations is described below:

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these type of instruments.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements in Kazakhstan, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Improvements to IFRSs

In May 2010, the IASB issued its third 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 no impact on the financial position or performance of the Group.

- *IFRS 3 Business Combinations*: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
- *IFRS 7 Financial Instruments — Disclosures*: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The Group reflects the revised disclosure requirements in *Note 37*.
- *IAS 1 Presentation of Financial Statements*: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Group presents the analysis of each component of other comprehensive income in the consolidated statement of changes in equity.

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 3 Business Combinations* (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- *IFRS 3 Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- *IAS 27 Consolidated and Separate Financial Statements*
- *IAS 34 Interim Financial Statements*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- *IFRIC 13 Customer Loyalty Programmes* (determining the fair value of award credits)
- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the full impact of the amendments. The amendments become effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2011 or the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Group does not have any joint arrangements, and expects no effect of the adoption of the standard on its financial statements. This standard becomes effective for annual periods beginning on or after 1 January 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Foreign currency translation

The Group's 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 by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot 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 a 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, 2011	December 31, 2010
US Dollar	148.40	147.40
Euro	191.72	195.23
South Korean Won	0.13	0.13
Russian Ruble	4.61	4.84

The functional currency of the foreign operation of Signum LLC (Russia) and Online.kg JSC (Kyrgyzstan) is the Russian Ruble and Kyrgyz Som, respectively. On consolidation the assets and liabilities of foreign operations are translated into Tenge at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other comprehensive income.

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 their 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 principally 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 statement of comprehensive income, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, 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 statement of comprehensive income.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Group's 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 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 Group's share of profit of an associate is shown on the face of the income statement. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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 property, 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 at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred. The present value of the expected cost for the decommissioning of an 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	
Premises	50
Telecommunication equipment	10-20
Other	3-20
	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. The Group reassessed remaining useful lives of some equipment in 2010, refer to Note 4 for details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, 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 are their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure 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 the end of each reporting period. 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 assets.

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 5 to 14 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 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, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's CGU's to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations including impairment on inventories 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 other comprehensive income. In this case, the impairment is also recognised in other comprehensive income 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 estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the 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:

Associates

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

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as loans and receivables or held-to-maturity investments, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case financial assets recorded at fair value through profit or loss.

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

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables.

Subsequent measurement

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at 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 fees 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 for loans and in cost of sales or other operating expenses for receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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 fees 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.

Cash and short-term deposits

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.

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 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, or loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade and other payables, borrowings, financial guarantee contracts, and liability component of preferred shares.

Subsequent measurement

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

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 fees 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 issuance 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, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if,

- There is a currently enforceable legal right to offset the recognised amounts
- There is an intention to 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
- A 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 37*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, 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, even if that right is not explicitly specified in an arrangement.

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 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 recognised in finance costs in the income statement.

A leased asset is 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 operating expense in the income statement on a straight-line basis over the lease term.

Group as a lessor

Leases in which 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

General

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 some or all of 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. The expense relating to any provision is presented in the income statements net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, 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 that 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, if reissued, 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, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria 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 specific recognition criteria described below 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 telecommunication 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.

Sales of phone handsets and phone accessories

When the sale of handsets and related accessories, and the connection service do not represent a separate earning process and bundled with the telecommunication service arrangement in such a way that the commercial effect cannot be understood without reference to these transactions as a whole, the revenue should be recognized over the expected term of the customer relationship. The expected period of customer relationship is based on past history of churn, and industry practice.

Rental income

Rental income arising from operating leases of telecommunication channels is accounted for on a straight-line basis over the lease terms and included in revenue due to its operating nature.

Compensation for provision of universal services in rural areas

Compensation for provision of universal services is recognised where there is reasonable assurance that the compensation will be received and all attached 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, it is recognised as deferred income and released to income statement in equal amounts over the expected useful life of the related asset.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 asset. 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.

Income tax

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

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

Deferred tax

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, 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, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of deductible temporary differences associated with investments in subsidiaries, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax (continued)

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.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful life of property, plant and equipment and intangible assets

The Group assesses the remaining useful lives of items of property, plant and equipment and intangible assets with finite useful lives at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amounts of the carrying values of property, plant and equipment and intangible assets and on depreciation and amortization expenses recognized in profit or loss. In 2010, following the analysis of technological obsolescence, the Group reassessed the remaining useful lives of certain telecommunication equipment from 3-15 years to 1-2 years and of the software from 3-15 years to 0-3 years. The change in the remaining useful life resulted in an increase of depreciation and amortization expense for the year ended December 31, 2010 of 7,743,905 thousand Tenge.

Discontinued operations

In 2011 the Group announced its intention to sell its 49% share in GSM Kazakhstan OAO Kazakhtelecom LLP, its associate, to Sonera Holding B.V. The Board considered the associate met the criteria to be classified as held for sale as of December 31, 2011 for the following reasons:

- On December 21, 2011, Kazakhtelecom JSC concluded an agreement to sell its ownership in GSM Kazakhstan OAO Kazakhtelecom LLP to Sonera Holding B.V., a subsidiary of Swedish mobile operator Telia Sonera AB. GSM Kazakhstan OAO Kazakhtelecom LLP was the separate reportable operations segment of the Group.
- On February 1, 2012, the Group completed the sale for consideration of 1,519 million US Dollars (equivalent to 225,738,590 thousand Tenge).

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 as of December 31, 2010 for the following reasons:

- On December 14, 2009, Kazakhtelecom concluded an agreement to sell its ownership in Mobile Telecom-Service LLP to Tele2 Sverige AB, a Swedish mobile operator. Mobile Telecom-Service LLP was the separate reportable operations segment of the Group.
- On March 17, 2010 the Group completed the sale of Mobile Telecom-Service LLP for consideration of 76,000 thousand US Dollars (equivalent to 11,175,800 thousand Tenge). The gain on sale amounted to 178,320 thousand Tenge.

For more details on the discontinued operation refer to *Note 34*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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. The key assumptions used to determine the recoverable amount for the different CGUs, are further explained in *Note 8*.

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, 2011, allowances for doubtful accounts have been created in the amount of 8,501,925 thousand Tenge (2010: 9,269,210 thousand Tenge) (*Notes 12, 14, 15 and 17*).

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, 2011 average customer relationship period is assessed as 13 years for fixed telephony customers, 4 years for internet customers and 11-28 months for mobile and satellite telecommunications customers.

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, 2011 is disclosed in *Note 22*.

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, 2011 is 807,887 thousand Tenge (2010: 624,476 thousand Tenge) and the unrecognized deferred tax assets on accumulated tax losses at December 31, 2011 amounting to 3,950 thousand Tenge (2010: 67,991 thousand Tenge). Further details are contained in *Note 33*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. CONSOLIDATION

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

	Country of residence	Percentage ownership	
		2011	2010
Altel JSC	Kazakhstan	100.00%	100.00%
Nursat JSC	Kazakhstan	77.08%	77.08%
Radiotell LLP	Kazakhstan	100.00%	100.00%
Signum LLC	Russia	100.00%	100.00%
KT Cloud Lab LLP	Kazakhstan	100.00%	100.00%
VostokTelecom LLP	Kazakhstan	100.00%	100.00%
Association of internet –traffic exchange center	Kazakhstan	100.00%	100.00%
Online.kg JSC	Kyrgyzstan	100.00%	100.00%

6. 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 satellite 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 (discontinued operation).

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)

6. SEGMENTS INFORMATION (continued)

Year ended December 31, 2011

<i>In thousands of Tenge</i>	Wireline telecommu- nications	CDMA mobile telecommu- nications	Wireless telecommu- nications	GSM mobile telecommu- nications (disc. operation)	Other	Eliminations and adjustments	Group
Revenue							
External customers	159,630,937	12,196,738	1,509,407	—	6,954	—	173,344,036
Inter-segment	1,919,855	1,776,026	1,525,832	—	3,620,593	(8,842,306) ¹⁾	—
Total revenue	161,550,792	13,972,764	3,035,239	—	3,627,547	(8,842,306)	173,344,036
Results							
Depreciation and amortization	(35,301,699)	(1,611,993)	(662,353)	—	(721,678)	—	(38,297,723)
Impairment (<i>Note 8</i>)	—	(1,843,813)	—	—	—	—	(1,843,813)
Finance costs	(8,945,078)	(75,315)	(118,571)	—	(58,432)	(59,818) ²⁾	(9,257,214)
Finance income	3,295,257	13,329	68	—	85	(10,634) ²⁾	3,298,105
Income tax	(3,231,245)	(901,202)	18,089	—	16,193	—	(4,098,165)
Segment profit / (loss)	21,401,243	(198,881)	76,998	—	49,294	(70,452) ³⁾	21,258,202
Operating assets	361,402,556	17,372,787	4,822,950	58,389,446	6,088,551	(26,380,086)	421,696,204
Operating liabilities	128,107,493	6,666,680	2,842,563	—	3,038,784	(1,861,582)	138,793,938
Other disclosures							
Assets classified as held for sale	—	—	—	58,389,446	—	—	58,389,446 ⁴⁾
Capital expenditure	40,204,937	4,455,543	544,844	—	5,528,135	—	50,733,459

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. SEGMENTS INFORMATION (continued)

Year ended December 31, 2010

<i>In thousands of Tenge</i>	Wireline telecommu- nications	CDMA mobile telecommu- nications	Wireless telecommu- nications	GSM mobile telecommu- nications	Other	Eliminations and adjustments	Group
Revenue							
External customers	139,709,910	11,002,109	2,004,271	—	15,414	—	152,731,704
Inter-segment	1,715,152	1,784,222	810,820	—	2,375,750	(6,685,944) ¹⁾	—
Total revenue	141,425,062	12,786,331	2,815,091	—	2,391,164	(6,685,944)	152,731,704
Results							
Depreciation and amortization	(32,699,913)	(1,456,355)	(1,979,421)	—	(555,630)	—	(36,691,319)
Finance costs	(9,358,401)	(31,333)	(119,500)	—	(3,862)	82,155 ²⁾	(9,430,941)
Finance income	2,156,047	40,207	41,550	—	24,752	(82,155) ²⁾	2,180,401
Income tax	(6,042,273)	543,644	492,902	—	31,275	—	(4,974,452)
Segment profit / (loss)	11,471,868	2,422,850	(1,630,733)	—	13,325	(514,814) ³⁾	11,762,496
Operating assets	316,271,672	15,466,963	5,496,310	53,785,831	5,398,697	(25,857,181)	370,562,292
Operating liabilities	124,094,973	3,956,618	3,585,551	—	2,459,621	(2,126,636)	131,970,127
Other disclosures							
Investments in an associate (<i>Note 10</i>)	—	—	—	53,785,831	—	—	53,785,831
Capital expenditure	38,724,901	1,828,944	253,518	—	1,345,552	—	42,152,915 ⁴⁾

- 1) Inter-segment revenues are eliminated on consolidation.
- 2) Finance costs and income does not include inter-segment finance charges.
- 3) Segment operating profit does include profit from inter-segment sales.
- 4) Capital expenditure consists of additions of property, plant and equipment and intangible assets.

Reconciliation of profit

<i>In thousands of Tenge</i>	31 December 2011	31 December 2010
Segment profit	21,328,654	12,277,310
Other	(70,452)	(514,814)
Group profit	21,258,202	11,762,496

Reconciliation of assets:

<i>In thousands of Tenge</i>	31 December 2011	31 December 2010
Segment operating assets	448,076,290	396,419,473
Elimination of the Company's investments in subsidiaries	(23,915,296)	(23,837,046)
Elimination of intergroup balances of accounts receivable and payable	(2,464,790)	(2,020,135)
Group operating assets	421,696,204	370,562,292

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. SEGMENTS INFORMATION (continued)

Reconciliation of liabilities:

<i>In thousands of Tenge</i>	31 December 2011	31 December 2010
Segment operating liabilities	140,655,520	134,096,763
Deferred tax liabilities	603,208	(106,501)
Elimination of intergroup balances of accounts receivable and payable	(2,464,790)	(2,020,135)
Group operating liabilities	138,793,938	131,970,127

7. PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment for the year ended December 31, 2011 were as follows:

<i>In thousands of Tenge</i>	Land	Buildings and premises	Equipment	Other	Construction in progress	Total
Cost:						
At January 1, 2010	604,085	28,954,417	277,271,980	10,579,104	24,458,446	341,868,032
Additions	37,306	217,083	22,069,787	797,047	17,141,460	40,262,683
Internal transfers	20,715	2,637,635	11,302,637	169,003	(14,129,990)	—
Disposals	(3,362)	(312,089)	(4,707,891)	(325,247)	—	(5,348,589)
Transfers to intangible assets	—	—	—	—	(1,321,346)	(1,321,346)
At December 31, 2010	658,744	31,497,046	305,936,513	11,219,907	26,148,570	375,460,780
Additions	18,388	266,391	26,025,642	1,379,178	20,130,282	47,819,881
Internal transfers	(13,916)	2,200,428	16,138,086	144,127	(18,468,725)	—
Disposals	(10,573)	(126,034)	(3,740,540)	(269,451)	(24,321)	(4,170,919)
Transfers to intangible assets	—	—	—	—	(589,995)	(589,995)
At December 31, 2011	652,643	33,837,831	344,359,701	12,473,761	27,195,811	418,519,747
Accumulated depreciation and impairment:						
At January 1, 2010	—	6,426,772	117,135,868	5,959,830	24,321	129,546,791
Depreciation expense	—	1,217,092	30,488,336	1,170,882	—	32,876,310
Disposals	—	(81,880)	(3,213,879)	(294,416)	—	(3,590,175)
At December 31, 2010	—	7,561,984	144,410,325	6,836,296	24,321	158,832,926
Depreciation expense	—	1,191,069	33,180,284	1,148,267	89,165	35,608,785
Disposals	—	(32,346)	(2,962,883)	(249,171)	(24,321)	(3,268,721)
At December 31, 2011	—	8,720,707	174,627,726	7,735,392	89,165	191,172,990
Net book value:						
At January 1, 2010	604,085	22,527,645	160,136,112	4,619,274	24,434,125	212,321,241
At December 31, 2010	658,744	23,935,062	161,526,188	4,383,611	26,124,249	216,627,854
At December 31, 2011	652,643	25,117,124	169,731,975	4,738,369	27,106,646	227,346,757

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

At December 31, 2011, certain items of property, plant and equipment with a net carrying amount of 8,611,210 thousand Tenge (2010: 7,625,754 thousand Tenge) were pledged as security for some of the Group's borrowings (Note 20).

Borrowing costs of 16,613 thousand Tenge on loans obtained to finance the construction of property and equipment were capitalized during 2011 at an average capitalization rate of 6.18% (2010: 46,293 thousand Tenge at an average capitalization rate of 5.32%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

At December 31, 2011, the carrying value of equipment held under finance leases and included in property, plant and equipment amounted to 22,244,663 thousand Tenge (2010: 20,241,901 thousand Tenge). Additions during the year include 7,596,073 thousand Tenge (2010: 4,175,774 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, 2011 property, plant and equipment amounting to 58,951,625 thousand Tenge, were fully amortized (2010: 49,134,335 thousand Tenge).

8. INTANGIBLE ASSETS

The movements of intangible assets for the year ended December 31, 2011 were as follows:

<i>In thousands of Tenge</i>	Licenses and trademarks	Software	Other	Total
Cost:				
At January 1, 2010	13,774,610	11,139,673	1,791,441	26,705,724
Additions	249,235	1,640,696	303	1,890,234
Transfers from construction in progress	159,490	1,161,856	—	1,321,346
Disposals	(981)	(465,818)	—	(466,799)
Internal movements	306,591	(145,283)	(161,308)	—
At December 31, 2010	14,488,945	13,331,124	1,630,436	29,450,505
Additions	403,394	2,521,999	201	2,925,594
Transfers from construction in progress	404,474	185,521	—	589,995
Disposals	(36,671)	(672,216)	—	(708,887)
Internal movements	22,377	(22,377)	—	—
At December 31, 2011	15,282,519	15,344,051	1,630,637	32,257,207
Accumulated amortization and impairment:				
At January 1, 2010	6,631,247	6,120,849	955,786	13,707,882
Amortization expense	1,402,190	2,056,986	438,058	3,897,234
Disposals	(981)	(625,540)	—	(626,521)
At December 31, 2010	8,032,456	7,552,295	1,393,844	16,978,595
Amortization expense	650,913	2,019,705	70,273	2,740,891
Impairment	1,843,813	—	—	1,843,813
Disposals	(36,209)	(177,688)	—	(213,897)
At December 31, 2011	10,490,973	9,394,312	1,464,117	21,349,402
Net book value:				
At January 1, 2010	7,143,363	5,018,824	835,655	12,997,842
At December 31, 2010	6,456,489	5,778,829	236,592	12,471,910
At December 31, 2011	4,791,546	5,949,739	166,520	10,907,805

Licenses include those acquired through business combinations.

In 2011, the impairment loss of 1,843,813 thousand Tenge represented the write down of certain license in the CDMA mobile services segment to the recoverable amount. This was recognized in the consolidated income statement in the line item, "Cost of revenue". The recoverable amount was determined at the level of the CGU – Altel JSC, a subsidiary of the Group, and was based on value in use calculation using cash flow projections from financial budgets of the CGU. In determining value in use for the CGU, the cash flows were discounted at a rate of 11.61% on a pre-tax basis. The growth rate used to extrapolate the cash flows of the CGU beyond the five-year period was negative and equaled (5%). The declining growth rate reflects Management's estimate of the long-term average declining growth rate for CDMA mobile market in Kazakhstan due to more advanced mobile services standards and technologies available in the market.

As at December 31, 2011 intangible assets (mainly software) amounting to 4,454,057 thousand Tenge were fully amortized (2010: 4,432,580 thousand Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. ADVANCES PAID FOR NON-CURRENT ASSETS

At December 31, 2011 and 2010 advances paid for non-current assets comprised advances to contractors for the construction and supply of property, plant, and equipment (mainly telecommunication equipment).

10. INVESTMENTS IN AN ASSOCIATE

At December 31, 2011 the Group had a 49% interest (2010: 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>	2011	2010
Balance at January 1	53,785,831	48,130,939
Share in the associate's net profit	33,023,615	26,038,892
Dividends declared	(28,420,000)	(20,384,000)
Discontinued operations (Note 34)	(58,389,446)	—
Balance at December 31	—	53,785,831

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

<i>In thousands of Tenge</i>	2011	2010
Share of the associate's statement of financial position:		
Current assets	8,979,344	7,766,923
Non-current assets	61,525,953	59,685,441
Current liabilities	(9,917,802)	(11,091,260)
Non-current liabilities	(2,198,049)	(2,575,273)
Equity	58,389,446	53,785,831
Share of the associate's revenue and profit:		
Revenue	87,605,255	73,229,187
Profits	33,023,615	26,038,892

Amounts due to and from the associate at December 31, 2011 and 2010 and transactions with the associate for the years then ended are disclosed in the Note 36.

11. INVESTMENT PROPERTY

The movements in investment property were as follows for the year ended December 31, 2011:

<i>In thousands of Tenge</i>	2011	2010
Cost:		
At January 1	1,264,668	1,264,668
At December 31	1,264,668	1,264,668
Accumulated depreciation and impairment:		
At January 1	(1,264,668)	(1,264,668)
At December 31	(1,264,668)	(1,264,668)
Carrying amount:		
At January 1	—	—
At December 31	—	—

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

The impairment of 1,264,668 thousand Tenge represents the write down of the carrying value of the investment property to the recoverable amount. The recoverable amount was based on analysis of value in use and fair value less costs to sell and estimated to be zero as of December 31, 2011 and 2010 as it is unlikely that the Group will receive reimbursement for its construction costs either through sale of the office building or rent payments. However, these assumptions may change in the future. Management assessed fair value of the investment property as 1,663,992 thousand Tenge as of December 31, 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. OTHER NON-CURRENT ASSETS

Other non-current assets comprised the following at December 31, 2011:

<i>In thousands of Tenge</i>	2011	2010
Deferred connection costs	2,550,412	1,883,243
Long-term VAT recoverable	864,067	929,704
Long-term trade receivables	8,945,989	8,474,830
Long-term loans to employees	1,091,813	655,522
Long-term guarantee deposits placed	803,096	—
Other	150,913	73,342
	14,406,290	12,016,641
Less: Impairment allowance	(5,685,203)	(5,685,203)
	8,721,087	6,331,438

Long-term trade receivables as of December 31, 2011 represent receivables from Mobile Telecom-Service LLP, the former subsidiary of the Group (Note 34). The receivables were discounted at origination using the interest rate of 10% representing the market interest rate.

Long-term loans to employees are given for 1-10 years year term and are interest-free. The long term loans were discounted at the origination using market interest rates.

Long-term guarantee deposits placed represent deposits placed as a security for some of the Group's borrowings. Average interest rate for deposits was 4.55% per annum (Note 20).

At December 31, 2011 and 2010, other non-current assets were denominated in Tenge.

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

<i>In thousands of Tenge</i>	2011	2010
Impairment allowance at the beginning of the year	(5,685,203)	—
Charge for the year (Note 34)	—	(5,685,203)
Impairment allowance at the end of the year	(5,685,203)	(5,685,203)

The allowance was created against receivable from Mobile Telecom-Service LLP and charged to the results from discontinued operations in 2010 (Note 34).

13. INVENTORIES

Inventories comprised the following at December 31, 2011:

<i>In thousands of Tenge</i>	2011	2010
Spare parts	1,544,174	1,770,902
Cable materials	1,333,845	1,415,802
Other materials and supplies	1,264,062	1,307,577
Fuel	656,177	828,662
Goods for resale	459,454	530,115
	5,257,712	5,853,058
Less: Allowance for obsolete and slow-moving inventories	(1,000,091)	(697,767)
	4,257,621	5,155,291

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>	2011	2010
Allowance for obsolete and slow-moving inventories at the beginning of the year	(697,767)	(144,394)
Charge for the year	(415,781)	(582,260)
Write-offs	113,457	28,887
Allowance for obsolete and slow-moving inventories at the end of the year	(1,000,091)	(697,767)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable comprised the following at December 31, 2011:

<i>In thousands of Tenge</i>	2011	2010
Trade receivables	18,586,034	14,507,776
Less: Allowance for doubtful debts	(2,567,505)	(3,326,801)
	16,018,529	11,180,975

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

<i>In thousands of Tenge</i>	2011	2010
Allowance for doubtful debts at the beginning of the year	(3,326,801)	(1,412,060)
Recovery of / (provision) for the year	268,915	(2,143,476)
Write-offs	490,381	228,735
Allowance for doubtful debts at the end of the year	(2,567,505)	(3,326,801)

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
2011	16,018,529	13,689,618	1,743,175	442,185	66,296	77,255	—
2010	11,180,975	9,533,774	1,105,708	316,730	99,650	125,113	—

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

<i>In thousands of Tenge</i>	2011	2010
Tenge	14,856,812	8,470,406
US Dollars	994,606	2,710,569
Other	167,111	—
	16,018,529	11,180,975

15. PREPAYMENTS

Prepayments comprised the following at December 31, 2011:

<i>In thousands of Tenge</i>	2011	2010
Prepayments	493,840	623,632
Less: Impairment allowance	(10,030)	(38,219)
	483,810	585,413

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

<i>In thousands of Tenge</i>	2011	2010
Impairment allowance at the beginning of the year	(38,219)	(54,131)
Recovery for the year	5,339	116
Write-offs	22,850	15,796
Impairment allowance at the end of the year	(10,030)	(38,219)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. OTHER FINANCIAL ASSETS

Other financial assets comprised of bank deposits at December 31, 2011 and 2010.

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

As at December 31, 2011 Group's other financial assets were denominated in US dollars in the amount of 303,117 thousand Tenge (2010: 377,311 thousand Tenge) and Tenge in the amount of 232,569 thousand Tenge (2010: 2,557 thousand Tenge).

17. OTHER CURRENT ASSETS

Other current assets comprised the following at December 31, 2011:

<i>In thousands of Tenge</i>	2011	2010
VAT recoverable	1,238,448	991,868
Due from employees	1,120,281	847,220
Prepaid taxes other than income tax	793,485	594,803
Deferred expenses	1,527,761	1,098,617
Other receivables	688,630	509,282
Other	1,346,277	1,153,106
	6,714,882	5,194,896
Less: Impairment allowance	(239,187)	(218,987)
	6,475,695	4,975,909

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

<i>In thousands of Tenge</i>	2011	2010
Allowance at the beginning of the year	(218,987)	(289,650)
Charge for the year	(66,887)	(33,782)
Write-offs	46,687	104,445
Allowance at the end of the year	(239,187)	(218,987)

At December 31, 2011 and 2010 other current assets were primarily denominated in Tenge.

18. CASH AND SHORT-TERM DEPOSITS

Cash and short-term deposits comprised the following at December 31, 2011:

<i>In thousands of Tenge</i>	2011	2010
Cash in current bank accounts	68,136,616	44,258,361
Short-term deposits	19,534,679	13,723,039
Cash on hand	44,392	42,086
	87,715,687	58,023,486

Cash in current bank accounts earn interest at the weighted average rate of 2.6%. 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 5.7% per annum (2010: 4.7% per annum).

At December 31, 2011 cash and cash equivalents were denominated in various currencies as follows:

<i>In thousands of Tenge</i>	2011	2010
Tenge	71,061,978	41,141,381
US Dollars	16,547,360	15,783,734
Euro	65,756	188,849
Russian Rubles	39,086	906,610
Other	1,507	2,912
	87,715,687	58,023,486

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. EQUITY

Authorised share capital (number of shares)

	2011	2010
Ordinary shares	10,922,876	10,922,876
Preferred non-voting shares	1,213,653	1,213,653
	12,136,529	12,136,529

Issued and paid shares

	Number of shares		Thousands of Tenge		Total issued capital
	Ordinary shares	Preferred non-voting shares	Ordinary shares	Preferred non-voting shares	
As at January 1, 2010	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
As at December 31, 2010	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
As at December 31, 2011	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529

Treasury shares

	Number of shares		Thousands of Tenge	
	Ordinary shares	Preferred non-voting shares	Ordinary shares	Preferred non-voting shares
As at January 1, 2010	—	810,459	—	(2,652,860)
As at December 31, 2010	—	810,459	—	(2,652,860)
As at December 31, 2011	—	810,459	—	(2,652,860)

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. This cumulative annual dividend represents a financial liability which, based on discounted future cash flows, amounts to 1,099,620 thousand Tenge. This liability has been recorded in non-current liabilities as a debt component of preferred 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.

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 2011 and 2010 (*Note 32*). 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 in liabilities.

According to the decision made at the annual general shareholders meeting held on May 31, 2011, the Company declared additional dividends on preferred shares in the amount of 92,223 thousand Tenge and dividends on ordinary shares in the amount of 5,775,252 thousand Tenge (2010: 49,226 thousand Tenge and 4,610,437 thousand Tenge, respectively).

Dividends per share (ordinary and preferred) for 2011: 529 Tenge (2010: 422 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*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. EQUITY (continued)

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.

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

<i>In thousands of Tenge</i>	2011	2010
Net profit attributable to ordinary owners of the parent from continuing operations	17,143,201	7,336,468
Net profit attributable to ordinary owners of the parent from a discontinued operation	33,023,615	26,883,184
Net profit attributable to ordinary owners of the parent for basic and diluted earnings	50,166,816	34,219,652
Interest on debt component of preferred shares	120,957	120,957
Net profit attributable to ordinary and preferred owners of the parent for basic and diluted earnings	50,287,773	34,340,609
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	4,440	3,032

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 34*), the weighted average number of all shares for both basic and diluted amounts is as per the table above. The following table provides the profit figure used:

<i>In thousands of Tenge</i>	2011	2010
Net profit attributable to ordinary owners of the parent from a discontinued operation for basic and diluted earnings per share calculations	33,023,615	26,883,184

On 8 November 2010, the Kazakhstan Stock Exchange has enacted a requirement for disclosure of the total equity less total intangible assets, and less the preferred non-voting shares amount in equity divided by number of ordinary shares outstanding as at year end. As at December 31, 2011, that measure was 24,790 Tenge (2010: 20,590 Tenge). Another requirement for disclosure is the sum of the dividends payable to owners of preferred shares, preferred non-voting shares amount in equity and debt component of preferred shares, divided by number of preferred non-voting shares as at year end. As at December 31, 2011 that measure was 2,248 Tenge (2010: 1,933 Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

20. BORROWINGS

Borrowings comprised the following at December 31, 2011:

<i>In thousands of Tenge</i>	2011	2010
Fixed interest rate borrowings	15,884,874	10,943,004
Weighted average interest rate	6.27%	5.76%
Variable interest rate borrowings	58,334,633	56,182,101
Weighted average interest rate	8.24%	8.52%

At December 31, 2011 borrowings were denominated in various currencies as follows:

<i>In thousands of Tenge</i>	2011	2010
Tenge, payments indexed to exchange rate Tenge / US Dollar	46,591,485	46,358,023
US Dollar	19,862,228	17,400,670
Tenge	5,809,870	544,668
Won	1,562,259	1,705,709
EURO	392,626	1,115,077
Other	1,039	958
	74,219,507	67,125,105

Borrowings are repayable as follows:

<i>In thousands of Tenge</i>	2011	2010
Current portion	14,539,739	9,153,943
Maturity between 1 and 2 years	12,051,018	10,428,169
Maturity between 2 and 5 years	27,427,478	21,905,927
Maturity over 5 years	20,201,272	25,637,066
Total long-term portion	59,679,768	57,971,162

At December 31, 2011, certain items of property, plant and equipment with a net carrying amount of 8,611,210 thousand Tenge were pledged as security for some of the Group's borrowings (2010: 7,625,754 thousand Tenge) (Note 7).

At December 31, 2011, long-term guarantee deposits in amount of 803,096 thousand Tenge were placed in banks as a security for some of the Group's borrowings (Note 12).

At December 31, 2011 and 2010, Group's borrowings of 1,562,259 thousand Tenge and 1,691,528 thousand Tenge, respectively, were guaranteed by the Government of the Republic of Kazakhstan (Note 36).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. 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>	2011		2010	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within one year	8,951,380	7,237,279	8,877,523	7,338,972
After one year but not more than five years	10,110,527	8,664,865	9,435,956	8,352,825
After five years	—	—	—	—
Less: amounts representing interest charges	(3,159,763)	—	(2,621,682)	—
Present value of minimum lease payments	15,902,144	15,902,144	15,691,797	15,691,797
Less: amounts due for settlement within 12 months		(7,237,279)		(7,338,972)
Amounts due for settlement after 12 months		8,664,865		8,352,825

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 commitments are disclosed in Note 38.

22. 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, 2011:

<i>In thousands of Tenge</i>	2011	2010
Present value of defined benefit liability	5,455,792	4,649,041

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. EMPLOYEE BENEFIT LIABILITY (continued)

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>	2011	2010
Total liability at the beginning of the year	4,649,041	3,625,470
Current service cost	270,577	248,379
Interest cost	452,352	341,882
Benefits paid during the year	(779,865)	(613,381)
Actuarial loss recognised during the year	863,687	1,046,691
Total liability at the end of the year	5,455,792	4,649,041
Liability falling due within one year	330,013	289,262
Liability falling due after one year	5,125,779	4,359,779

Actuarial loss recognised for the year ended December 31, 2011 results primarily from changes in the assumptions relating to the discount rate and expected rate of future annual minimum salary increases. 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 1,586,616 thousand Tenge were recorded in the cost of revenue and general and administrative expenses within personnel costs (2010: 1,636,952 thousand Tenge) (Note 31).

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:

	2011	2010
Discount rate	9.42%	9.73%
The expected rate of future annual minimum salary increase	9.40%	9.00%

23. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities comprised the following at December 31, 2011:

<i>In thousands of Tenge</i>	2011	2010
Deferred connection revenue	4,147,152	2,986,328
Asset retirement obligations	217,542	196,161
Guarantees issued	112,754	393,858
Other	121,451	296,869
	4,598,899	3,873,216

In August 2009 and September 2008 the Group guaranteed an obligation of Skif City LLP, its lessor, unrelated party under loan agreements amounting to 51,425 thousand US Dollars and 66,677 thousand US Dollars, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. ACCOUNTS PAYABLE

Accounts payable comprised the following at December 31, 2011:

<i>In thousands of Tenge</i>	2011	2010
Accounts payable for services	8,275,905	7,964,869
Accounts payable for property, plant and equipment	7,043,577	9,038,314
Accounts payable for inventory	531,498	714,474
	15,850,980	17,717,657

At December 31, 2011 and 2010 accounts payable were not interest bearing.

At December 31, 2011 accounts payable were denominated in various currencies as follows:

<i>In thousands of Tenge</i>	2011	2010
Tenge	13,471,463	13,719,769
US Dollars	2,087,568	3,577,043
Euro	27,645	75,669
Other	264,304	345,176
	15,850,980	17,717,657

25. OTHER CURRENT LIABILITIES

Other current liabilities comprised the following at December 31, 2011:

<i>In thousands of Tenge</i>	2011	2010
Due to employees	1,973,489	1,648,996
Taxes payable other than income tax	1,869,985	1,597,212
Deferred connection revenue	1,796,010	1,846,910
Payable to pension funds	610,177	455,914
Dividends payable	469,823	421,764
Guarantees issued	281,105	469,890
Other	630,924	470,477
	7,631,513	6,911,163

At December 31, 2011 and 2010 other current liabilities were not interest bearing and were primarily denominated in Tenge.

26. REVENUE

Revenue for the year ended December 31, 2011 comprised the following:

<i>In thousands of Tenge</i>	2011	2010
Rendering of wireline and wireless phone services	73,700,254	73,452,884
Data transfer services	58,744,803	46,082,658
Interconnect	14,859,100	13,212,331
Rent of lines	10,712,082	9,701,593
Other	9,753,180	5,055,767
	167,769,419	147,505,233

27. 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 4th 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, 2011 totalled 5,574,617 thousand Tenge (2010: 5,226,471 thousand Tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. COST OF REVENUE

Cost of services provided for the year ended December 31, 2011 comprised the following:

<i>In thousands of Tenge</i>	2011	2010
Depreciation and amortization	39,655,503	35,838,816
Personnel costs (Note 31)	39,016,754	34,770,529
Repair and maintenance	13,757,500	12,643,297
Interconnect	12,808,615	13,010,139
Rent of channels	4,889,586	4,696,092
Fees for the right to provide telecom services	1,993,931	1,945,901
Security and safety	1,979,563	1,823,351
Rental of equipment	1,449,771	1,386,170
Fees for use of frequency range	661,130	615,929
Other	7,865,550	4,288,082
	124,077,903	111,018,306

29. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended December 31, 2011 comprised the following:

<i>In thousands of Tenge</i>	2011	2010
Personnel costs (Note 31)	10,563,454	9,991,702
Taxes other than income tax	2,242,439	1,928,700
Consulting services	1,297,831	902,771
Bank fees	661,799	615,770
(Recovery of) / bad debt expense (Notes 14, 15 and 17)	(207,367)	2,177,142
Depreciation and amortization	486,033	852,503
Provision for obsolete inventory (Note 13)	415,781	582,260
Materials	392,947	366,953
Business trips	320,610	264,073
Repair and maintenance	254,048	192,813
Trainings	236,764	139,334
Rental of equipment	146,942	148,286
Security and safety	112,321	152,362
Other	1,901,014	1,847,376
	18,824,616	20,162,045

30. SELLING EXPENSES

Selling expenses for the year ended December 31, 2011 comprised the following:

<i>In thousands of Tenge</i>	2011	2010
Marketing and advertising	2,598,686	2,426,960
Dealers commission	1,566,200	1,437,576
Other	402,831	481,502
	4,567,717	4,346,038

31. PERSONNEL COSTS

Personnel costs for the year ended December 31, 2011 comprised the following:

<i>In thousands of Tenge</i>	2011	2010
Payroll	43,692,201	39,280,206
Payroll related taxes	4,301,391	3,845,073
Employee benefits expense (Note 22)	1,586,616	1,636,952
	49,580,208	44,762,231

Split of personnel costs between cost of revenue and general and administrative expenses is presented in Notes 28 and 29, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. FINANCE COSTS / INCOME

Finance costs and income for the year ended December 31, 2011 comprised the following:

<i>In thousands of Tenge</i>	2011	2010
Finance costs:		
Interest on borrowings	5,351,025	6,272,078
Interest payable under finance leases	1,981,016	2,133,966
Discounting of long-term loans to employees	1,518,159	738,515
Interest on debt component of preferred shares (Note 19)	120,957	120,957
Discounting of other non-current assets (Note 12)	286,057	165,425
	9,257,214	9,430,941

<i>In thousands of Tenge</i>	2011	2010
Finance income:		
Income on current accounts	1,083,984	525,308
Interest income on bank deposits	979,209	890,782
Interest income on guarantees issued	507,646	341,068
Amortization of discount on long-term loans to employees	318,933	205,135
Amortization of discount on long-term trade receivables (Note 12)	408,333	218,108
	3,298,105	2,180,401

33. INCOME TAX

Income tax expense comprised the following for the year ended December 31, 2011:

<i>In thousands of Tenge</i>	2011	2010
Current income tax charge	5,330,577	4,891,295
Deferred tax benefit relating to origination and reversal of temporary differences	(1,232,412)	(2,757,628)
Deferred tax charge resulting from change in tax rate	—	2,840,785
	4,098,165	4,974,452

A reconciliation of income tax expense applicable to profit before income tax at the statutory income tax rate of 20% (2010: 20%) to current income tax expense was as follows for the year ended December 31, 2011:

<i>In thousands of Tenge</i>	2011	2010
Accounting profit before tax from continuing operations	21,258,202	11,762,496
Gain before tax from discontinued operations	33,023,615	26,883,184
Accounting profit before income tax	54,281,817	38,645,680
At statutory income tax rate of 20%	10,856,363	7,729,136
Non-taxable share of profit of an associate	(6,499,465)	(5,207,778)
Change in unrecognized deferred tax assets	(64,041)	(702,408)
Change in opening deferred tax resulting from change in tax rate	—	2,840,785
(Non-taxable gain) / non-deductible expenses	(194,692)	314,717
Total income tax expense	4,098,165	4,974,452

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. 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, 2011:

<i>In thousands of Tenge</i>	December 31, 2010	Consolidated profit and loss for 2011	December 31, 2011
Deferred tax assets			
Tax losses carry-forward	624,476	183,411	807,887
Deferred income	369,588	(4,676)	364,912
Employee benefits obligations	929,408	161,750	1,091,158
Bad debt allowance	1,305,345	(118,280)	1,187,065
Intangible assets	366,996	247,213	614,209
Discount on non-current assets	—	1,038,793	1,038,793
Other	392,179	(196,831)	195,348
Less: deferred tax assets offset with deferred tax liabilities	(3,829,041)	(1,290,867)	(5,119,908)
Deferred tax assets	158,951	20,513	179,464
Deferred tax liabilities			
Property, plant and equipment	16,050,266	(145,276)	15,904,990
Intangible assets	310,217	224,244	534,461
Less: deferred tax assets offset with deferred tax liabilities	(3,829,041)	(1,290,867)	(5,119,908)
Deferred tax liabilities	12,531,442	(1,211,899)	11,319,543
Deferred tax benefit		(1,232,412)	
Net deferred tax liabilities	12,372,491		11,140,079
Reflected in the statement of financial position as follows:			
Deferred tax assets	158,951		179,464
Deferred tax liability	(12,531,442)		(11,319,543)
Deferred tax liability, net	(12,372,491)		(11,140,079)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

33. INCOME TAX (continued)

<i>In thousands of Tenge</i>	Consolidated profit and loss for 2010					December 31, 2010, as stated in non-current liabilities
	December 31, 2009, as stated in non-current liabilities	December 31, 2009, as stated in liabilities of the disposal group	Origination or reversal of temporary difference	Effect of tax rate change	Derecognized at disposal of discontinued operation	
Deferred tax assets						
Tax losses carry-forward	—	13,875	624,476	—	(13,875)	624,476
Deferred income	306,420	—	1,247	61,921	—	369,588
Employee benefits obligations	578,553	—	204,315	146,540	—	929,408
Bad debt allowance	321,790	—	940,091	43,464	—	1,305,345
Intangible assets	56,976	—	134,597	175,423	—	366,996
Other	124,039	—	268,140	—	—	392,179
Less: deferred tax assets offset with deferred tax liabilities	(1,387,778)	(13,875)	(2,013,915)	(427,348)	13,875	(3,829,041)
Deferred tax assets	—	—	158,951	—	—	158,951
Deferred tax liabilities						
Property, plant and equipment	13,008,198	12,048	(226,065)	3,268,133	(12,048)	16,050,266
Intangible assets	668,914	2,260,152	(358,697)	—	(2,260,152)	310,217
Less: deferred tax assets offset with deferred tax liabilities	(1,387,778)	(13,875)	(2,013,915)	(427,348)	13,875	(3,829,041)
Deferred tax liabilities	12,289,334	2,258,325	(2,598,677)	2,840,785	(2,258,325)	12,531,442
Deferred tax (benefit) / expense	—	—	(2,757,628)	2,840,785	—	12,372,491
Net deferred tax liabilities	12,289,334	—	—	—	—	12,372,491
Reflected in the statement of financial position as follows:						
Deferred tax assets	—	—	—	—	—	158,951
Deferred tax liability – continuing operations	(12,289,334)	—	—	—	—	(12,531,442)
Deferred tax liability – discontinued operations (Note 34)	(2,258,325)	—	—	—	—	—
Deferred tax liability, net	(14,547,659)	—	—	—	—	(12,372,491)

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, 2011 amounted to 3,950 thousand Tenge (2010: 67,991 thousand Tenge).

In November 2010, the Government of the Republic of Kazakhstan approved amendments to the Tax Code effective January 1, 2011, in accordance to which the statutory income tax rates are set at 20% from 2011 and onwards. The Company'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:

<i>In thousands of Tenge</i>	2011	2010
Opening balance as of January 1	12,372,491	14,547,659
Origination and reversal of temporary differences	(1,232,412)	(2,757,628)
Change in opening deferred tax resulting from change in tax rate	—	2,840,785
Discontinued operation (Note 34)	—	(2,258,325)
Closing balance as of December 31	11,140,079	12,372,491

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. DISCONTINUED OPERATIONS

Disposal of GSM Kazakhstan (2011)

On December 21, 2011, Kazakhtelecom concluded an agreement to sell its 49% ownership in GSM Kazakhstan OAO Kazakhtelecom LLP to Sonera Holding B.V., a subsidiary of Swedish mobile operator Telia Sonera AB. The Board considered GSM Kazakhstan met the criteria to be classified as held for sale as of December 31, 2011 for the following reasons:

- On December 21, 2011, a sale-purchase agreement was signed stating the selling price of 1,519 million US Dollars.
- On February 1, 2012, the Group completed the sale for consideration of 1,519 million US Dollars

Investments in the associate were classified as assets available for sale as of December 31, 2011 in the consolidated statement of financial position, and share in associate's profit was classified as discontinued operation in the consolidated statement of comprehensive income for 2011 and 2010.

<i>In thousands of Tenge</i>	2011	2010
The carrying amount of the Group's investments in the associate, classified as held for sale	58,389,446	—
The share of the associate's profit classified as discontinued operation (Note 10)	33,023,615	26,038,892

Sale of Mobile Telecom-Service LLP (2010)

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. Mobile Telecom-Service was a separate financial segment of the Group. On March 17, 2010, the Group completed the sale transaction for 76,000 thousand USD (equivalent to 11,175,000 thousand Tenge). As a result, the gain from disposal comprised of 178,320 thousand Tenge.

The results of Mobile Telecom-Service LLP for the year ended December 31, 2010 are presented below:

<i>In thousands of Tenge</i>	2011	2010
Revenue	—	670,038
Cost of revenue	—	(614,472)
Gross profit	—	55,566
General and administrative expenses	—	(70,313)
Selling expenses	—	(73,558)
Operating loss	—	(88,305)
Finance costs	—	(126,930)
Finance income	—	1,467
Foreign exchange gain	—	925,599
Other loss	—	(45,859)
Profit before tax from a discontinued operation	—	665,972
Gain on sale of subsidiary	—	178,320
Income tax benefit	—	—
Profit for the year from a discontinued operation	—	844,292

The gain on sale of subsidiary comprised the following:

<i>In thousands of Tenge</i>	2011	2010
Consideration received from Tele2 AB	—	11,175,800
Net assets associated with disposal group as of the date of disposal	—	(1,890,643)
Provision for loss related to receivables from Mobile Telecom-Service LLP	—	(9,106,837)
Gain on sale	—	178,320

Cash inflow from sale:

<i>In thousands of Tenge</i>	2011	2010
Consideration received	—	11,175,800
Net cash disposed of with the discontinued operation	—	(217,905)
Net cash inflow	—	10,957,895

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. DISCONTINUED OPERATIONS (continued)

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

<i>In thousands of Tenge</i>	2011	2010
Operating	—	(271,317)
Investing	—	(67,769)
Financing	—	71,337
Net cash outflow	—	(267,749)

Provision for loss related to receivables from Mobile Telecom-Service LLP

Immediately before the classification of Mobile Telecom-Service LLP as a discontinued operation, the recoverable amount of receivables due from Mobile Telecom-Service LLP was equal its nominal value and amounted to 11,672,000 thousand Tenge. Following the classification, the carrying amount of the receivables was reduced to its recoverable amount, and further the recoverable amount was discounted to reflect the agreed deferred payment term. Consequently, long-term receivables amounted to 2,565,163 thousand Tenge.

35. NON-CASH TRANSACTIONS

During 2011, under finance lease agreements, the Group received telecommunication equipment with a value of 7,763,733 thousand Tenge (2010: 4,175,774 thousand Tenge). This transaction has been excluded from the consolidated statement of cash flows.

In 2011, 9,038,314 thousand Tenge was paid for property, plant and equipment purchased in the prior year (2010: 6,509,535 thousand Tenge). Property, plant and equipment of 7,043,577 thousand Tenge was purchased in 2011 but not paid by December 31, 2011 (2010: 9,038,314 thousand Tenge).

In 2011, the Group obtained a loan in the amount of 7,236,607 thousand Tenge from the Bank of China to finance purchases of fixed assets. According to the loan agreement, the bank transferred money directly to the supplier of equipment.

36. 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 member of the management board of Parent. BTA Bank JSC, Temirbank JSC and Alliance Bank JSC are related parties since they are controlled by Parent. Associate (discontinued operation) is represented by GSM Kazakhstan, a private entity not listed on any public exchange, in which the Group has a 49% interest (*Note 10*).

Related party transactions were made on terms agreed to between the parties. Purchases and sales transactions are made on market terms. 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, 2011 and 2010, the Group has not recorded any impairment of trade accounts receivables relating to amounts owned by related parties. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. RELATED PARTY TRANSACTIONS (continued)

Sales and purchases with related parties during the years ended December 31, 2011 and 2010 and the balances with related parties at December 31, 2011 and 2010 were as follows:

<i>In thousands of Tenge</i>	2011	2010
Sales of goods and services		
Parent	520,816	279,288
Parent-controlled entities	3,623,589	3,160,116
Associate (discontinued operation)	6,426,968	6,389,427
Purchases of goods and services		
Parent-controlled entities	1,665,595	1,623,476
Associate (discontinued operation)	4,632,072	4,738,547
Interest earned on financial assets		
Alliance Bank	97,331	—
Average interest rate on financial assets	0.01%	—
Interest incurred on borrowings		
Halyk Bank of Kazakhstan	—	7,628
Average interest rate on borrowings	—	13.75%
Development Bank of Kazakhstan	4,195,437	4,249,094
Average interest rate on borrowings	9.53%	9.51%
<i>In thousands of Tenge</i>	2011	2010
Cash and cash equivalents		
Alliance Bank	4,042,647	734,991
Halyk Bank of Kazakhstan	1,611,235	10,306,195
BTA Bank	1,446,095	560,029
Development Bank of Kazakhstan	12,690	—
Temirbank	96	—
Borrowings		
Development Bank of Kazakhstan	46,591,485	46,358,023
Trade and other receivables		
Parent	370,972	138,205
Parent-controlled entities	559,728	459,761
Associate (discontinued operation)	635,759	425,917
Accounts payable		
Parent-controlled entities	72,197	82,035
Associate (discontinued operation)	2,513,021	2,221,965

Total compensation to key management personnel in general and administrative expenses in the accompanying consolidated income statement amounted to 320,171 thousand Tenge and 272,900 thousand Tenge for the years ended December 31, 2011 and 2010, respectively. Compensation to key management personnel mainly consists of contractual salary and performance bonus based on operating results.

As discussed in *Note 27*, 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 20*, some of the Group's borrowings were guaranteed by the Government of the Republic of Kazakhstan.

Transactions with (purchases from) parent-controlled entities are mainly represented by transactions of the Group with NC Kazakhstan Temir Zholy JSC (railway services), KEGOK JSC (utilities), Kazpost JSC (postage services). The Group provides telecommunication services to Parent, parent-controlled entities and Associate.

37. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 Group'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.

In thousands of Tenge	2011		2010	
	Increase / decrease in basis points	Effect on profit before tax	Increase / decrease in basis points	Effect on profit before tax
US Dollar	+15	(84,031)	+100	(525,968)
	-15	84,031	-25	131,492
Euro	+15	(585)	+100	(11,107)
	-15	585	-25	2,777
Tenge	+15	—	+100	(4,613)
	-15	—	-25	1,153

* 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.

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.

In thousands of Tenge	2011		2010	
	Increase / decrease in exchange rate	Effect on profit before tax	Increase / decrease in exchange rate	Effect on profit before tax
US Dollar	+11%	(6,002,429)	+12%	(6,965,752)
	-11%	6,002,429	-12%	6,965,752
Euro	+16%	(57,892)	+17%	(47,309)
	-16%	57,892	-17%	47,309
Won	+16%	(255,117)	+17%	(284,001)
	-16%	255,117	-17%	284,001

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 Notes 12, 14. 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 cash on deposits, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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, 24% of the Group's debt will mature in less than one year at December 31, 2011 (2010: 21%) based on the carrying value of borrowings reflected in the financial statements, excluding discontinued operations.

The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2010 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
As of December 31, 2011						
Borrowings	—	7,350,375	10,340,115	59,345,893	17,057,411	94,093,794
Finance lease liabilities	—	2,627,439	6,395,429	10,307,113	—	19,329,981
Accounts payable	12,084,120	1,569,733	2,197,127	—	—	15,850,980
Debt component of preferred shares	—	—	108,971	338,077	652,572	1,099,620
Employee benefit liability	—	—	330,013	1,163,356	3,962,423	5,455,792
Other non-current liabilities	—	—	—	4,598,899	—	4,598,899
Other current liabilities	7,631,513	—	—	—	—	7,631,513
	19,715,633	11,547,547	19,371,655	75,753,338	21,672,406	148,060,579
As of December 31, 2010						
Borrowings	—	4,752,883	7,488,442	47,017,047	31,465,686	90,724,058
Finance lease liabilities	—	2,327,313	6,025,811	8,983,798	—	17,336,922
Accounts payable	13,507,196	1,754,592	2,455,869	—	—	17,717,657
Debt component of preferred shares	—	—	108,971	338,077	652,572	1,099,620
Employee benefit liability	—	—	254,509	1,018,035	3,376,497	4,649,041
Other non-current liabilities	—	—	—	3,873,216	—	3,873,216
Other current liabilities	6,911,163	—	—	—	—	6,911,163
	20,418,359	8,834,788	16,333,602	61,230,173	35,494,755	142,311,677

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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, 2011 and 2010.

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.

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

<i>In thousands of Tenge</i>	2011	2010
Borrowings	74,219,507	67,125,105
Accounts payable	15,850,980	17,717,657
Finance lease obligations	15,902,144	15,691,797
Net debt	105,972,631	100,534,559
Equity	282,902,266	238,592,165
Debt-to-equity ratio	0.37	0.42

Fair values

At December 31, 2011 and 2010 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.

38. 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, 2011 the Group had contractual commitments totaling 9,074,781 thousand Tenge (2010: 14,652,126 thousand Tenge) related mostly to the purchase of telecommunication equipment and construction of telecommunication network.

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>	2011	2010
Within one year	642,982	670,193
After one year but not more than five years	651,262	368,604
	1,294,244	1,038,797

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

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, 2011. As at December 31, 2011 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.

39. EVENTS AFTER THE REPORTING PERIOD

Since 6th of January 2012 Halyk Bank of Kazakhstan JSC and its subsidiaries- members of Halyk Group are not related parties of the Group.

On January 19, 2012 the Group made an installment payment under its Kazakhstan bonds obligations in the amount of 2,106,939 thousand Tenge.

On January 25, 2012, GSM Kazakhstan, the associate, declared dividends related to prior periods to be paid to the Group in the amount of 34,723,133 thousand Tenge during 2012.

On February 1, 2012, the Group completed the sale of its associate, GSM Kazakhstan, for consideration of 1,519 million US Dollars (equivalent to 225,738,590 thousand Tenge).