Kazakhtelecom JSC

Consolidated financial statements

For the year ended 31 December 2012
with Independent auditors' report

Ernst & Young

ERNST & YOUNG

CONTENTS

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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 2012, 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.

Ernst & Young

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kazakhtelecom JSC and its subsidiaries as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Evgeny Zhemaletdinov
Auditor/General Director
Ernst and Young LLP

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

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

7 March 2013

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

In thousands of tenge	Notes	2012	2011
ASSETS			
Non-current assets			
Property and equipment	7	**257,308,842**	227,346,757
Intangible assets	8	**16,216,520**	10,907,805
Advances paid for non-current assets	9	**248,421**	494,446
Deferred tax asset	33	**108,151**	179,464
Other non-current assets	11	**15,383,368**	8,721,087
		289,265,302	247,649,559
Current assets			
Inventories	12	**4,692,179**	4,257,621
Trade accounts receivable	13	**17,411,450**	16,018,529
Prepayments	14	**809,544**	483,810
Income tax prepaid		**2,108,774**	170,171
Other financial assets	15	**45,234,299**	535,686
Other current assets	16	**6,271,461**	6,475,695
Cash and cash equivalents	17	**53,466,201**	87,715,687
		129,993,908	115,657,199
Assets classified as held for sale	34	**–**	58,389,446
		129,993,908	174,046,645
TOTAL ASSETS		**419,259,210**	421,696,204
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Charter capital	18	**12,136,529**	12,136,529
Treasury shares	18	**(6,019,715)**	(2,652,860)
Currency translation reserve	18	**(4,576)**	(15,997)
Other capital reserve	18	**1,820,479**	1,820,479
Retained earnings		**268,816,693**	271,629,837
		276,749,410	282,917,988
Non-controlling interests		**(1,911)**	(15,722)
Total equity		**276,747,499**	282,902,266

The accompanying notes on pages 7 to 46 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of tenge	Notes	2012	2011
Non-current liabilities			
Borrowings	19	**63,785,730**	59,679,768
Finance lease liabilities	20	**10,125,646**	8,664,865
Deferred tax liability	33	**12,537,430**	11,319,543
Employee benefit liability	21	**4,818,099**	5,125,779
Debt component of preferred shares	18	**894,065**	1,099,620
Other non-current liabilities	22	**4,470,476**	4,598,899
		96,631,446	90,488,474
Current liabilities			
Borrowings	19	**11,349,815**	14,539,739
Current portion of finance lease liabilities	20	**6,067,658**	7,237,279
Current portion of employee benefit liability	21	**354,137**	330,013
Accounts payable	23	**15,635,557**	15,850,980
Advances received		**3,387,458**	2,643,992
Income tax payable		**8,061**	71,948
Other current liabilities	24	**9,077,579**	7,631,513
		45,880,265	48,305,464
		142,511,711	138,793,938
TOTAL EQUITY AND LIABILITIES		**419,259,210**	421,696,204

Chief Financial Director

Nurkatov A. A.

Chief Accountant

Baishumurova G. Zh.

The accompanying notes on pages 7 to 46 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

In thousands of tenge	Notes	2012	2011
Continuing operations			
Revenue	25	**170,360,333**	167,769,419
Compensation for universal services provision in rural areas	26	**5,308,628**	5,574,617
		175,668,961	173,344,036
Cost of revenue	27	**(124,178,351)**	(124,077,903)
Gross profit		**51,490,610**	49,266,133
General and administrative expenses	28	**(14,177,146)**	(18,824,616)
Selling expenses	29	**(5,279,321)**	(4,567,717)
Operating profit		**32,034,143**	25,873,800
Finance costs	31	**(11,995,737)**	(9,257,214)
Finance income	31	**3,729,107**	3,298,105
Foreign exchange loss, net		**(942,478)**	(160,858)
Loss from disposal of property and equipment		**(489,646)**	(279,099)
Other income	32	**2,164,400**	1,783,468
Profit before tax from continuing operations		**24,499,789**	21,258,202
Income tax expense	33	**(4,352,741)**	(4,098,165)
Profit for the year from continuing operations		**20,147,048**	17,160,037
Discontinued operations			
Profit after tax for the year from discontinued operations	34	**201,996,328**	33,023,615
Profit for the year		**222,143,376**	50,183,652
Attributable to:			
Owners of the parent		**222,129,565**	50,166,816
Non-controlling interests		**13,811**	16,836
Other comprehensive income			
Exchange differences on translation of foreign operations		**11,421**	(6,076)
Other comprehensive loss for the year, net of tax		**11,421**	(6,076)
Total comprehensive income for the year, net of tax		**222,154,797**	50,177,576
Attributable to:			
Owners of the parent		**222,140,986**	50,160,740
Non-controlling interest		**13,811**	16,836
		222,154,797	50,177,576
Earnings per share			
Basic and diluted, profit for the year attributable to owners of the parent, tenge	18	**19,972.96**	4,440.00
Earnings per share for continuing operations			
Basic and diluted, profit for the year from continuing operations attributable to owners of the parent, tenge		**1,817.63**	1,524.28

Chief Financial Director

Nurkatov A. A.

Chief Accountant

Baishumurova G. Zh.

The accompanying notes on pages 7 to 46 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the parent							
In thousands of tenge	Charter capital	Treasury shares	Foreign currency translation reserve	Other capital reserves	Retained earnings	Total	Non-controlling interests	Total equity
	18	18	18	18				
At 1 January 2011	**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 18*)	–	–	–	–	(5,867,475)	(5,867,475)	–	(5,867,475)
At 31 December 2011	**12,136,529**	**(2,652,860)**	**(15,997)**	**1,820,479**	**271,629,837**	**282,917,988**	**(15,722)**	**282,902,266**
Profit for the year	–	–	–	–	222,129,565	222,129,565	13,811	222,143,376
Other comprehensive income	–	–	11,421	–	–	11,421	–	11,421
Total comprehensive income	**–**	**–**	**11,421**	**–**	**222,129,565**	**222,140,986**	**13,811**	**222,154,797**
Treasury shares purchased (*Note 18*)	–	(3,366,855)	–	–	–	(3,366,855)	–	(3,366,855)
Dividends (*Note 18*)	–	–	–	–	(224,942,709)	(224,942,709)	–	(224,942,709)
At 31 December 2012	**12,136,529**	**(6,019,715)**	**(4,576)**	**1,820,479**	**268,816,693**	**276,749,410**	**(1,911)**	**276,747,499**

Chief Financial Director — *Nurkatov A. A.*

Chief Accountant — *Baishumurova G. Zh.*

The accompanying notes on pages 7 to 46 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2012

In thousands of tenge	Notes	2012	2011
Operating activities			
Profit before tax from continuing operations		24,499,789	21,258,202
Profit before tax from discontinued operations	34	201,996,328	33,023,615
Profit before tax		226,496,117	54,281,817
Adjustments for:			
Depreciation of property and equipment	7	33,907,902	35,608,785
Amortization and impairment of intangibles assets	8	3,125,512	4,532,751
Share of profit of an associate (discontinued operations)	34	(1,962,663)	(33,023,615)
Change in deferred revenues		(1,112,158)	13,611
Change in employee benefit liability		(283,556)	806,751
Unrealized foreign exchange loss		964,356	223,190
Provision for doubtful debts	28	(5,367,195)	(207,367)
Provision for obsolete and slow moving inventories	28	22,246	415,781
Finance costs	31	11,995,737	9,257,214
Finance revenue	31	(3,729,107)	(3,298,105)
Gain on disposal of an associate	34	(200,033,665)	–
Loss from disposal of property and equipment		489,646	279,099
Working capital adjustments:			
Change in trade accounts receivable		(1,684,556)	(4,568,639)
Change in inventories		(456,804)	481,889
Change in other current and non-current assets		2,107,245	(686,641)
Change in prepayments		(339,583)	106,942
Change in accounts payable		(3,147,052)	128,060
Change in advances received		743,466	272,906
Change in other current liabilities		(288,047)	761,506
Cash generated from operations		61,447,841	65,385,935
Dividends paid		(222,008,044)	(5,829,934)
Income taxes paid		(5,066,897)	(5,046,772)
Interest paid		(7,570,620)	(7,117,471)
Interest received		1,737,038	1,627,878
Net cash flows (used in)/from operating activities		(171,460,682)	49,019,636
Investing activities			
Purchase of property and equipment		(49,899,788)	(34,818,856)
Purchase of intangible assets		(7,834,791)	(2,925,595)
Proceeds from sale of property and equipment		97,966	1,118,089
Deposits placed		(44,580,940)	–
Dividends received from an associate		34,723,134	28,420,000
Proceeds from sale of an associate	34	225,738,590	–
Long-term loans to employees		(5,284,894)	(3,078,131)
Loans received from employees		281,528	108,303
Financial aid returned		2,499	–
Net cash flows from/(used in) investing activities		153,243,304	(11,176,190)

The accompanying notes on pages 7 to 46 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT (continued)

In thousands of tenge	Notes	2012	2011
Financing activities			
Proceeds from borrowings		**2,021,036**	8,560,587
Repayment of borrowings		**(7,394,130)**	(9,166,805)
Repurchase of treasury shares		**(3,572,410)**	–
Repayment of finance lease liabilities		**(7,397,637)**	(7,609,006)
Net cash flows used in financing activities		**(16,343,141)**	(8,215,224)
Net (decrease)/increase in cash and cash equivalents		**(34,560,519)**	29,628,222
Effects of exchange rate changes on cash and cash equivalents		**311,033**	63,979
Cash and cash equivalents at 1 January		**87,715,687**	58,023,486
Cash and cash equivalents at 31 December	17	**53,466,201**	87,715,687

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

Chief Financial Director

Nurkatov A. A.

Chief Accountant

Baishumurova G. Zh.

The accompanying notes on pages 7 to 46 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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. The following lists the shareholders of the Company's stock as at 31 December:

	2012	2011
Samruk-Kazyna	**51.0%**	51.0%
Bodam B. V.	**16.9%**	16.9%
ADR (The Bank of New York is a depositor)	**11.1%**	12.7%
Deran Services Limited	**9.6%**	9.6%
Kazkommertsbank	**3.1%**	3.1%
Other	**8.3%**	6.7%
	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.

The consolidated financial statements were authorised for issue on 7 March 2013, 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 31 December 2012.

Subsidiaries are 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously 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 amendments to IFRS effective as of 1 January 2012:

- IAS 12 *Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets*
- IFRS 1 *First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters*
- IFRS 7 *Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements*

The adoption of the standards or interpretations is described below:

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

The amendment clarifies the determination of deferred tax on investment property measured at fair value and 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. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and had no effect on the Group's financial position, performance or its disclosures.

IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact to the Group.

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the users of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective

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

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

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and will have no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

IAS 19 Employee Benefits (Revised)

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 amendment becomes effective for annual periods beginning on or after 1 January 2013 will have no impact on the Group's financial position and performance.

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

As a consequence of the new IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates*, has been renamed to 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 revised standard becomes effective for annual periods beginning on or after 1 January 2013 and will have no impact on the Group's financial position, performance or its disclosures.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment will have no impact on the Group's financial position, performance or its disclosures.

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

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become 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 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 was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate 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 addresses 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 judgement 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. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

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. This standard will have no impact on the Group's financial position, performance or its disclosures.

IFRS 12 Disclosure of Interests in 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 will have no impact on the Group's financial position, performance or its disclosures.

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, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Group's financial position, performance or its disclosures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Annual Improvements May 2012

These improvements will not have an impact on the Group, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are 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 in the Republic of Kazakhstan. 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 official rate at the date of the transaction established by the Kazakhstan Stock Exchange (hereinafter – the "KASE") and published by the National Bank of the Republic of Kazakhstan (the "NBRK") rate of exchange ruling at the reporting date. All differences are recognized 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. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

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

	31 December 2012	31 December 2011
US dollar	**150.74**	148.40
Euro	**199.22**	191.72
South Korean won	**0.14**	0.13

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

The functional currency of the foreign operations 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

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. 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. The criteria for held for sale classification 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.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

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

Investment in an associate

The Group's investment in its associate, an entity in which the Group has significant influence, is accounted for using the equity method. Associate is a company over which the Group has a significant influence.

Under the equity method, the investment in the associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. 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. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, 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 or loss of an associate is shown on the face of the income statement. It represents profit or loss attributable to owners of the Company 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 impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of losses 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 and equipment

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

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

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

Land is not depreciated.

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

Construction-in-progress

Construction-in-progress represents property and equipment under construction and machinery and equipment awaiting installation and is stated at cost. Construction-in-progress includes cost of construction , equipment and other direct costs. When construction of such assets is completed or when the machinery and equipment are ready for their intended use, construction-in-progress is transferred to the appropriate category. Construction-in-progress is not depreciated.

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 and equipment up to the date of change in use.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is 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 period 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 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 that is consistent with the function of the intangible assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

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

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

	Years
Licenses and trademarks	7-20
Software	2-14
Other	2-15

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. Recoverable amount 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. When 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 no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for subsidiaries or other available fair value indicators.

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 periods 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 expense categories consistent with the function of the impaired asset, except for a property previously revalued when 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 to determine whether there is an indication that previously recognised impairment losses no longer exist or 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 assets have specific characteristics for impairment testing:

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as 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 cash equivalents, 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.

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 them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the 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 as finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs. The Group did not have any held-to-maturity investments during the years ended 31 December 2012 and 2011, except for deposits placed in banks.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less from the origination date.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since 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 observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

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 been 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 asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. 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 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 write-off is later recovered, the recovery is credited to finance costs in the income statement.

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 and, in the case of loans and borrowings, net of directly attributable transaction costs.

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

Subsequent measurement

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

Loans and 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 EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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.

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 is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the asset and settle the liability simultaneously.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.*

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

Group as a lessee

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, 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 an 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 basis 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. When 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 a provision is presented in the income statement net of any reimbursement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

General (continued)

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When 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.

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.

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 plan

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

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 Benefit.*

The obligation and cost of benefits under the Defined Benefit Plan 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 plan 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 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 is 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income is recorded using the EIR. EIR is the rate that exactly discounts the estimated future cash payments or receipts over 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, which is generally when shareholders approve the dividend.

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

- When the deferred income 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; and
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax (continued)

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 income 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 income 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 income tax assets is reviewed at each balance sheet 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 income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to 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 or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income 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.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances changed. The adjustment is either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it occurred during the measurement period or recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, 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 period. 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 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.

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 31 December 2011 for the following reasons:

- On 21 December 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 1 February 2012, the Group completed the sale for consideration of 1,519 million US dollars (equivalent to 225,738,590 thousand tenge).

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

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.

In 2012, following the change in its estimates, the Group reassessed impairment allowance recognized previously for long term receivables from Mobile Telecom-Service LLP. As a result of this reassessment, the Group reversed previously recognized impairment allowance in the amount of 5,685,203 thousand tenge.

As of 31 December 2012, allowances for doubtful accounts have been created in the amount of 3,001,346 thousand tenge (2011: 8,501,925 thousand tenge) (*Notes 11, 13, 14 and 16*).

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 31 December 2012 average customer relationship period is assessed as 13 years for fixed telephony customers, 5 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 31 December 2012 is disclosed in *Note 21*.

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 31 December 2012 is 721,758 thousand tenge (2011: 807,887 thousand tenge). There were no unrecognized tax losses carry-forward as at 31 December 2012 (2011: 3,950 thousand tenge). Further details are contained in *Note 33*.

5. CONSOLIDATION

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

	Country of residence	Percentage ownership 2012	2011
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%
Online.kg LLC	Kyrgyzstan	100.00%	100.00%

6. SEGMENT INFORMATION

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

- Wireline telecommunication services mainly provided by Kazakhtelecom JSC and Vostoktelecom LLP business units.
- CDMA and LTE mobile telecommunication services mainly provided by Altel JSC business unit.
- Satellite telecommunication services, including data transfer services mainly provided by Nursat JSC business unit.

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

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

Transfer prices between operating segments are on a basis similar to transactions with third parties.

Year ended 31 December 2012

In thousands of tenge	Wireline telecommunications	CDMA and LTE mobile telecommunications	Satellite telecommunications	Other	Eliminations and adjustments	Group
Revenue						
External customers	163,121,469	10,254,952	2,208,574	83,966	–	175,668,961
Inter-segment	1,671,542	1,764,477	1,208,828	564,941	(5,209,788)	–
Total revenue	164,793,011	12,019,429	3,417,402	648,907	(5,209,788)	175,668,961
Results						
Depreciation and amortization	(34,276,882)	(1,987,679)	(681,159)	(87,694)	–	(37,033,414)
Finance costs	(11,757,145)	(149,891)	(91,860)	(39)	3,198	(11,995,737)
Finance income	3,713,929	14,186	–	992	–	3,729,107
Recovery of bad debt expense	(5,490,235)	97,061	26,161	(182)	–	(5,367,195)
Income tax	(4,066,270)	(207,080)	(75,991)	(3,400)	–	(4,352,741)
Segment profit/(loss)	25,186,664	(812,202)	114,607	10,720	–	24,499,789
Operating assets	417,860,633	20,478,162	5,524,362	1,611,507	(26,215,454)	419,259,210
Operating liabilities	131,375,754	10,747,846	3,470,248	594,005	(3,676,142)	142,511,711
Other disclosures						
Capital expenditure	67,173,136	4,919,703	372,061	638,087	–	73,102,987

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. SEGMENT INFORMATION (continued)

Year ended 31 December 2011

In thousands of tenge	Wireline telecommu-nications	CDMA and LTE mobile telecommu-nications	Satellite telecommu-nications	Other	Eliminations and adjustments		Group	
Revenue								
External customers	159,630,301	12,196,738	1,509,407	7,590	–		173,344,036	
Inter-segment	1,547,636	1,776,026	1,525,832	345,494	(5,194,988)	1)	–	
Total revenue	161,177,937	13,972,764	3,035,239	353,084	(5,194,988)		173,344,036	
Results								
Depreciation and amortization	(35,953,670)	(1,611,993)	(662,353)	(69,707)	–		(38,297,723)	
Impairment (*Note 8*)	–	(1,843,813)	–	–	–		(1,843,813)	
Finance costs	(9,002,919)	(75,315)	(118,571)	(591)	(59,818)	2)	(9,257,214)	
Finance income	3,295,257	13,329	68	85	(10,634)	2)	3,298,105	
Recovery of bad debt expense	(349,242)	46,409	76,943	18,523	–		(207,367)	
Income tax	(3,236,013)	(901,202)	18,089	20,961	–		(4,098,165)	
Segment profit/(loss)	21,459,130	(198,881)	76,998	(8,593)	(70,452)	3)	21,258,202	
Operating assets	363,457,716	17,372,787	4,822,950	684,541	35,358,210		421,696,204	
Operating liabilities	130,141,748	6,666,680	2,842,563	78,429	(935,482)		138,793,938	
Other disclosures								
Assets classified as held for sale	–	–	–	–	58,389,446		58,389,446	
Capital expenditure	45,733,072	4,455,543	544,844	–	–		50,733,459	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 and equipment and intangible assets.

Reconciliation of profit

In thousands of tenge	**31 December 2012**	31 December 2011
Segment profit	**24,499,789**	21,328,654
Other	**–**	(70,452)
Group profit	**24,499,789**	21,258,202

Reconciliation of assets

In thousands of tenge	**31 December 2012**	31 December 2011
Segment operating assets	**445,474,664**	386,337,994
GSM Mobile Services – discontinued operations (*Note 34*)	**–**	58,389,446
Elimination of the Company's investments in subsidiaries	**(21,904,990)**	(21,492,546)
Elimination of intergroup balances of accounts receivable and payable	**(4,310,464)**	(1,538,690)
Group operating assets	**419,259,210**	421,696,204

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. SEGMENT INFORMATION (continued)

Reconciliation of liabilities

In thousands of tenge	**31 December 2012**	31 December 2011
Segment operating liabilities	**146,187,853**	139,729,420
Deferred tax liabilities	**634,322**	603,208
Elimination of intergroup balances of accounts receivable and payable	**(4,310,464)**	(1,538,690)
Group operating liabilities	**142,511,711**	138,793,938

7. PROPERTY AND EQUIPMENT

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

In thousands of tenge	Land	Buildings and constructions	Equipment	Other	Construction in progress	Total
Cost:						
At 1 January 2011	658,744	31,497,046	305,936,513	11,219,907	26,148,570	375,460,780
Additions	4,472	266,391	26,039,558	1,379,178	20,130,282	47,819,881
Internal transfers	–	2,200,428	16,124,170	144,127	(18,468,725)	–
Disposals	(10,573)	(126,034)	(3,740,540)	(269,451)	(24,321)	(4,170,919)
Transfers to intangible assets (*Note 8*)	–	–	–	–	(589,995)	(589,995)
At 31 December 2011	652,643	33,837,831	344,359,701	12,473,761	27,195,811	418,519,747
Additions	**16,272**	**217,255**	**32,220,192**	**1,331,289**	**31,261,915**	**65,046,923**
Internal transfers	**–**	**3,645,932**	**21,898,510**	**(839,911)**	**(24,704,531)**	**–**
Disposals	**(1,842)**	**(222,917)**	**(5,340,260)**	**(351,714)**	**(117,558)**	**(6,034,291)**
Transfers to intangible assets (*Note 8*)	**–**	**–**	**–**	**–**	**(378,379)**	**(378,379)**
At 31 December 2012	**667,073**	**37,478,101**	**393,138,143**	**12,613,425**	**33,257,258**	**477,154,000**
Accumulated depreciation and impairment:						
At 1 January 2011	–	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 31 December 2011	–	8,720,707	174,627,726	7,735,392	89,165	191,172,990
Depreciation expense	**–**	**1,462,629**	**31,242,979**	**1,221,165**	**–**	**33,926,773**
Disposals	**–**	**(85,908)**	**(4,760,333)**	**(323,121)**	**(85,243)**	**(5,254,605)**
At 31 December 2012	**–**	**10,097,428**	**201,110,372**	**8,633,436**	**3,922**	**219,845,158**
Net book value:						
At 31 December 2010	658,744	23,935,062	161,526,188	4,383,611	26,124,249	216,627,854
At 31 December 2011	652,643	25,117,124	169,731,975	4,738,369	27,106,646	227,346,757
At 31 December 2012	**667,073**	**27,380,673**	**192,027,771**	**3,979,989**	**33,253,336**	**257,308,842**

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

At 31 December 2012, certain property and equipment with a net carrying amount of 6,809,247 thousand tenge (2011: 8,611,210 thousand tenge) were pledged as security for some of the Group's borrowings (*Note 19*).

Borrowing costs of 78,986 thousand tenge on loans obtained to finance the construction of property and equipment were capitalized during 2012 at an average capitalization rate of 4.23% (2011: 16,613 thousand tenge at an average capitalization rate of 6.18%).

7. PROPERTY AND EQUIPMENT (continued)

At 31 December 2012, the carrying value of equipment held under finance leases and included in property and equipment amounted to 24,130,201 thousand tenge (2011: 22,244,663 thousand tenge). Additions during the year include 7,892,857 thousand tenge (2011: 7,596,073 thousand tenge) of property and equipment held under finance leases. Leased assets are pledged as security for the related finance leases.

As at 31 December 2012, property and equipment amounting to 108,675,442 thousand tenge, were fully amortized (2011: 98,126,667 thousand tenge).

8. INTANGIBLE ASSETS

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

In thousands of tenge	Licenses and trademarks	Software	Other	Total
Cost:				
At 1 January 2011	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 (*Note 7*)	404,474	185,521	–	589,995
Disposals	(36,671)	(672,216)	–	(708,887)
Internal movements	22,377	(22,377)	–	–
At 31 December 2011	15,282,519	15,344,051	1,630,637	32,257,207
Additions	**6,060,191**	**1,995,873**	**–**	**8,056,064**
Transfers from construction in progress (*Note 7*)	**98,641**	**279,738**	**–**	**378,379**
Disposals	**(260,135)**	**(157,236)**	**–**	**(417,371)**
Internal movements	**259,858**	**(259,858)**	**–**	**–**
At 31 December 2012	**21,441,074**	**17,202,568**	**1,630,637**	**40,274,279**
Accumulated amortization and impairment:				
At 1 January 2011	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 31 December 2011	10,490,973	9,394,312	1,464,117	21,349,402
Amortization expense	**1,150,959**	**1,920,605**	**53,948**	**3,125,512**
Disposals	**(260,135)**	**(157,020)**	**–**	**(417,155)**
At 31 December 2012	**11,381,797**	**11,157,897**	**1,518,065**	**24,057,759**
Net book value:				
At 31 December 2010	6,456,489	5,778,829	236,592	12,471,910
At 31 December 2011	4,791,546	5,949,739	166,520	10,907,805
At 31 December 2012	**10,059,277**	**6,044,671**	**112,572**	**16,216,520**

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 31 December 2012 intangible assets (mainly software) amounting to 5,317,884 thousand tenge were fully amortized (2011: 4,454,057 thousand tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. ADVANCES PAID FOR NON-CURRENT ASSETS

As at 31 December 2012 and 2011, advances paid for non-current assets comprised advances to contractors for the construction and supply of property and equipment (mainly telecommunication equipment).

10. INVESTMENT PROPERTY

The movement in investment property was as follows for the years ended 31 December:

In thousands of tenge	2012	2011
Cost:		
At January 1	**1,264,668**	1,264,668
At December 31	**1,264,668**	1,264,668
Accumulated 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 31 December 2012 and 2011, 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 2,326,537 thousand tenge as of 31 December 2012 (2011: 1,663,992 thousand tenge).

11. OTHER NON-CURRENT ASSETS

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

In thousands of tenge	2012	2011
Long-term trade receivables	**7,533,580**	8,945,989
Deferred connection costs	**3,224,292**	2,550,412
Long-term loans to employees	**2,460,464**	1,091,813
Long-term VAT recoverable	**1,222,787**	864,067
Long-term guarantee deposits placed	**808,806**	803,096
Other	**133,439**	150,913
	15,383,368	14,406,290
Less: Impairment allowance	**–**	(5,685,203)
	15,383,368	8,721,087

Long-term trade receivables as at 31 December 2012, represent receivables from Mobile Telecom-Service LLP, the former subsidiary of the Group sold in 2010. The receivables were discounted at origination date using the interest rate of 10% representing the market interest rate.

In 2012, following the change in its estimates, the Group reassessed impairment allowance recognized previously for long term receivables from Mobile Telecom-Service LLP. As a result of this reassessment, the Group reversed previously recognized impairment allowance in the amount of 5,685,203 thousand tenge.

Long-term loans to employees are interest free loans given for the period from one to ten years. The long term loans were discounted at origination using market interest rates. Repayment of long-term loans to employees is made through withholding of the amounts payable from the salaries of employees. Loans are secured by employees' apartments.

Long-term guarantee deposits placed represent deposits placed as a security for some of the Group's borrowings. Average interest rate for deposits was 1.47% per annum (*Note 19*).

At 31 December 2012 and 2011, other non-current assets were denominated in tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. OTHER NON-CURRENT ASSETS (continued)

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

In thousands of tenge	2012	2011
Impairment allowance at the beginning of the year	**(5,685,203)**	(5,685,203)
Recovery for the year	**5,685,203**	–
Impairment allowance at the end of the year	**–**	(5,685,203)

12. INVENTORIES

Inventories comprised the following at 31 December:

In thousands of tenge	2012	2011
Cable materials	**1,895,393**	1,333,844
Other materials and supplies	**1,302,237**	1,264,062
Spare parts	**939,978**	1,544,174
Fuel	**564,542**	656,177
Goods for resale	**480,887**	459,455
	5,183,037	5,257,712
Less: Allowance for obsolete and slow-moving inventories	**(490,858)**	(1,000,091)
	4,692,179	4,257,621

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

In thousands of tenge	2012	2011
Allowance for obsolete and slow-moving inventories at the beginning of the year	**(1,000,091)**	(697,767)
Charge for the year	**(22,246)**	(415,817)
Write-offs	**531,479**	113,493
Allowance for obsolete and slow-moving inventories at the end of the year	**(490,858)**	(1,000,091)

13. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable comprised the following at 31 December:

In thousands of tenge	2012	2011
Trade receivables	**20,027,562**	18,586,034
Less: Allowance for doubtful debts	**(2,616,112)**	(2,567,505)
	17,411,450	16,018,529

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

In thousands of tenge	2012	2011
Allowance for doubtful debts at the beginning of the year	**(2,567,505)**	(3,326,801)
(Charge) / recovery of for the year	**(291,635)**	268,915
Write-offs	**243,028**	490,381
Allowance for doubtful debts at the end of the year	**(2,616,112)**	(2,567,505)

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

			Past due but not impaired				
In thousands of tenge	Total	Neither past due nor impaired	<30 days	30-90 days	90-120 days	120-360 days	>360 days
2012	**17,411,450**	**15,292,136**	**1,323,221**	**587,012**	**137,800**	**71,281**	**–**
2011	16,018,529	13,689,618	1,743,175	442,185	66,296	77,255	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. TRADE ACCOUNTS RECEIVABLE (continued)

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

In thousands of tenge	2012	2011
Tenge	**16,472,611**	14,856,812
US dollars	**869,211**	994,606
Other	**69,628**	167,111
	17,411,450	16,018,529

14. PREPAYMENTS

Prepayments comprised the following at 31 December:

In thousands of tenge	2012	2011
Prepayments	**826,978**	493,840
Less: Impairment allowance	**(17,434)**	(10,030)
	809,544	483,810

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

In thousands of tenge	2012	2011
Impairment allowance at the beginning of the year	**(10,030)**	(38,219)
(Charge)/recovery for the year	**(13,849)**	5,339
Write-offs	**6,445**	22,850
Impairment allowance at the end of the year	**(17,434)**	(10,030)

15. OTHER FINANCIAL ASSETS

Other financial assets comprised the following at 31 December:

In thousands of tenge	2012	2011
Bank deposits	**44,580,940**	–
Interest receivable	**653,359**	535,686
	45,234,299	535,686

Bank deposits with maturities from 3 months were opened in a local bank and were earning interest at the weighted average rate of 5.26% per annum.

At 31 December, the Group's other financial assets were denominated in various currencies as follows:

In thousands of tenge	2012	2011
US dollars	**35,235,097**	303,117
Tenge	**9,999,202**	232,569
	45,234,299	535,686

16. OTHER CURRENT ASSETS

Other current assets comprised the following at 31 December:

In thousands of tenge	2012	2011
Due from employees	**1,784,315**	1,120,281
Deferred expenses	**1,609,475**	1,527,761
VAT recoverable	**1,168,940**	1,238,448
Prepaid taxes other than income tax	**492,721**	793,485
Other receivables	**677,460**	688,630
Other	**906,350**	1,346,277
	6,639,261	6,714,882
Less: Impairment allowance	**(367,800)**	(239,187)
	6,271,461	6,475,695

16. OTHER CURRENT ASSETS (continued)

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

In thousands of tenge	**2012**	2011
Allowance at the beginning of the year	**(239,187)**	(218,987)
Charge for the year	**(12,524)**	(66,887)
Write-offs	**(116,089)**	46,687
Allowance at the end of the year	**(367,800)**	(239,187)

At 31 December 2012 and 2011 other current assets were primarily denominated in tenge.

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following at 31 December 2012 and 2011:

In thousands of tenge	**2012**	2011
Cash on current bank accounts	**51,173,062**	68,136,616
Short-term deposits	**2,247,768**	19,534,679
Cash on hand	**45,371**	44,392
	53,466,201	87,715,687

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 5.83% per annum (2011: 5.7% per annum).

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

In thousands of tenge	**2012**	2011
Tenge	**29,833,383**	71,061,978
US dollars	**23,196,670**	16,547,360
Russian rubles	**430,951**	39,086
Euro	**2,252**	65,756
Other	**2,945**	1,507
	53,466,201	87,715,687

18. EQUITY

Authorised and issued shares

	Number of shares		Thousands of tenge		
	Ordinary shares	Preferred non-voting shares	Ordinary shares	Preferred non-voting shares	Total issued capital
As at 31 December 2010	10,922,876	1,213,653	10,922,876	1,213,653	**12,136,529**
As at 31 December 2011	10,922,876	1,213,653	10,922,876	1,213,653	**12,136,529**
As at 31 December 2012	**10,922,876**	**1,213,653**	**10,922,876**	**1,213,653**	**12,136,529**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. EQUITY (continued)

Treasury shares

	Number of shares		Thousands of tenge		
	Ordinary shares	Preferred non-voting shares	Ordinary shares	Preferred non-voting shares	Total
As at 31 December 2010 and 2011	–	810,459	–	2,652,860	**2,652,860**
Treasury shares purchased	287,533	113,335	4,671,255	1,398,306	**6,069,561**
Treasury shares sold	(100,845)	(37,965)	(2,088,088)	(614,618)	**(2,702,706)**
As at 31 December 2012	**186,688**	**885,829**	**2,583,167**	**3,436,548**	**6,019,715**

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 894,065 thousand tenge (2011: 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 earn a non-discretionary dividend of 300 tenge per share or 11% per annum in accordance with the Company's charter documents. Preferred shares are considered to be compound financial instruments, and accordingly the liability and equity components are presented separately in the consolidated statement of financial position. Dividends on preferred shares in the amount of 89,787 thousand tenge were accrued during the year ended 31 December 2012 (2011: 120,957 thousand tenge) and are treated as finance costs in the income statement. Present value of non-discounted future cash flows represents the liability component in liabilities.

According to the decision of the General Shareholders Meeting held on 8 May 2012, the Company declared additional dividends on preferred shares in the amount of 7,763,813 thousand tenge and dividends on ordinary shares in the amount of 217,178,896 thousand tenge (2011: 92,223 thousand tenge and 5,775,252 thousand tenge, respectively). Dividends per share (ordinary and preferred): 19,888 tenge (2011: 529 tenge).

In thousands of tenge	**2012**	2011
Dividends declared on ordinary shares	**217,178,896**	5,775,252
Dividends declared on preferred shares	**7,763,813**	92,223
	224,942,709	5,867,475
Withholding tax accrued	**(1,814,779)**	(110,439)
Dividends paid	**(222,008,044)**	(5,829,934)
Change in dividends payable	**1,209,673**	48,059

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. No reserve capital was transferred by shareholders in 2012 and 2011.

Earnings per share

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. EQUITY (continued)

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

In thousands of tenge	2012	2011
Net profit attributable to ordinary owners of the parent from continuing operations	**20,133,237**	17,143,201
Net profit attributable to ordinary owners of the parent from a discontinued operations	**201,996,328**	33,023,615
Net profit attributable to ordinary owners of the parent for basic and diluted earnings	**222,129,565**	50,166,816
Interest on debt component of preferred shares	**89,787**	120,957
Net profit attributable to ordinary and preferred owners of the parent for basic and diluted earnings	**222,219,352**	50,287,773
Weighted average number of all shares outstanding for basic and diluted earnings per share	**11,126,010**	11,326,070
Basic and diluted earnings per share, tenge	**19,972.96**	4,440.00

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:

In thousands of tenge	2012	2011
Net profit attributable to ordinary owners of the parent from a discontinued operation for basic and diluted earnings per share calculations	**201,996,328**	33,023,615

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 31 December 2012, that measure was 23,741 tenge (2011: 24,790 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 31 December 2012 that measure was 3,112 tenge (2011: 2,248 tenge).

19. BORROWINGS

Borrowings comprised the following at 31 December:

In thousands of tenge	2012	2011
Fixed interest rate borrowings	**12,928,056**	15,884,874
Weighted average interest rate	**6.36%**	6.27%
Variable interest rate borrowings	**62,207,489**	58,334,633
Weighted average interest rate	**8.10%**	8.24%

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

In thousands of tenge	2012	2011
Tenge, payments indexed to exchange rate tenge/US dollar	**47,401,708**	46,591,485
US dollar	**21,071,395**	19,862,228
Tenge	**4,998,812**	5,809,870
Won	**1,595,527**	1,562,259
EURO	**68,103**	392,626
Other	**–**	1,039
	75,135,545	74,219,507

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. BORROWINGS (continued)

Borrowings are repayable as follows:

In thousands of tenge	**2012**	2011
Current portion	**11,349,815**	14,539,739
Maturity between 1 and 2 years	**7,939,301**	12,051,018
Maturity between 2 and 5 years	**9,421,752**	27,427,478
Maturity over 5 years	**46,424,677**	20,201,272
Total long-term portion	**63,785,730**	59,679,768

At 31 December 2012, certain property and equipment with a net carrying amount of 6,809,247 thousand tenge were pledged as security for some of the Group's borrowings (2011: 8,611,210 thousand tenge) (*Note 7*).

At 31 December 2012, long-term guarantee deposits in amount of 808,806 thousand tenge were placed in banks as a security for some of the Group's borrowings (2011: 803,096 thousand Tenge) (*Note 11*).

At 31 December 2012 the Group's borrowings of 1,595,527 thousand tenge were guaranteed by the Government of the Republic of Kazakhstan (2011: 1,562,259 thousand Tenge) (*Note 36*).

20. LEASES

Finance leases

The Group has finance leases for various items of property 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:

	2012		2011	
In thousands of tenge	**Minimum lease payments**	**Present value of minimum lease payments**	Minimum lease payments	Present value of minimum lease payments
Within one year	**8,079,113**	**6,067,658**	8,951,380	7,237,279
After one year but not more than five years	**12,635,535**	**10,125,646**	10,110,527	8,664,865
After five years	**–**	**–**	–	–
Less: amounts representing interest charges	**(4,521,344)**	**–**	(3,159,763)	–
Present value of minimum lease payments	**16,193,304**	**16,193,304**	15,902,144	15,902,144
Less: amounts due for settlement within 12 months		**(6,067,658)**		(7,237,279)
Amounts due for settlement after 12 months		**10,125,646**		8,664,865

The amounts representing interest are based on effective interest rates from 12.5% to 29.6%.

Operating leases

The Group has entered into commercial leases on certain property 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*.

21. EMPLOYEE BENEFIT LIABILITY

State contribution plan

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 10% from the salaries of its employees as the employee contribution and transfers on behalf of employees to their personal accounts at cumulative pension funds. These amounts are part of payroll and expensed when they are incurred.

Defined benefit plan

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

The Defined Benefit Plan is unfunded.

The total liability for the Company's defined benefit plan comprised the following at 31 December:

In thousands of tenge	**2012**	2011
Present value of defined benefit liability	**5,172,236**	5,455,792

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

In thousands of tenge	**2012**	2011
Total liability at the beginning of the year	**5,455,792**	4,649,041
Current service cost	**238,423**	270,577
Interest cost	**498,392**	452,352
Benefits paid during the year	**(804,501)**	(779,865)
Actuarial (gain)/loss recognized during the year	**(215,870)**	863,687
Total liability at the end of the year	**5,172,236**	5,455,792
Liability falling due within one year	**354,137**	330,013
Liability falling due after one year	**4,818,099**	5,125,779

Actuarial loss recognised for the year ended 31 December 2012 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 520,945 thousand tenge were recorded in the cost of revenue and general and administrative expenses within personnel costs (2011: 1,586,616 thousand tenge) (*Note 30*).

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:

	2012	2011
Discount rate	**9.73%**	9.42%
The expected rate of future annual minimum salary increase	**7.88%**	9.40%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. OTHER NON-CURRENT LIABILITIES

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

In thousands of tenge	2012	2011
Deferred connection revenue	**3,883,165**	4,147,152
Asset retirement obligations	**553,309**	217,542
Guarantees issued	**–**	112,754
Other	**34,002**	121,451
	4,470,476	4,598,899

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

23. ACCOUNTS PAYABLE

Accounts payable comprised the following at 31 December:

In thousands of tenge	2012	2011
Accounts payable for property and equipment	**9,975,206**	7,043,577
Accounts payable for services	**5,372,137**	8,275,905
Accounts payable for inventory	**288,214**	531,498
	15,635,557	15,850,980

At 31 December 2012 and 2011 accounts payable were not interest bearing.

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

In thousands of tenge	2012	2011
Tenge	**13,395,937**	13,471,463
US dollars	**1,905,107**	2,087,568
Euro	**91,154**	27,645
Other	**243,359**	264,304
	15,635,557	15,850,980

24. OTHER CURRENT LIABILITIES

Other current liabilities comprised the following at 31 December:

In thousands of tenge	2012	2011
Due to employees	**2,837,900**	1,973,489
Deferred connection revenue	**1,703,433**	1,796,010
Dividends payable	**1,679,496**	469,823
Taxes payable other than income tax	**1,432,909**	1,869,985
Payable to pension funds	**555,449**	610,177
Guarantees issued	**112,755**	281,105
Other	**755,637**	630,924
	9,077,579	7,631,513

At 31 December 2012 and 2011, other current liabilities were not interest bearing and were primarily denominated in tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. REVENUE

Revenue for the year ended 31 December comprised the following:

In thousands of tenge	**2012**	2011
Rendering of wireline and wireless phone services	**70,715,198**	73,700,254
Data transfer services	**67,407,857**	58,744,803
Interconnect	**16,007,198**	14,859,100
Rent of lines	**9,671,510**	10,712,082
Other	**6,558,570**	9,753,180
	170,360,333	167,769,419

26. COMPENSATION FOR UNIVERSAL SERVICES PROVISION IN RURAL AREAS

According to the Resolution of the Government of the Republic of Kazakhstan No. 451, dated 31 March 2009, "On the approval of subsidies for telecommunication operators losses connected with the provision of universal telecommunication services in rural areas", the Group receives 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 31 December 2012 totalled 5,308,628 thousand tenge (2011: 5,574,617 thousand tenge).

27. COST OF REVENUE

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

In thousands of tenge	**2012**	2011
Personnel costs (*Note 30*)	**40,915,221**	39,016,754
Depreciation and amortization	**36,562,009**	39,655,503
Interconnect	**12,262,833**	12,808,615
Repair and maintenance	**7,404,389**	6,268,944
Materials	**6,803,653**	5,878,820
Rent of channels	**6,295,314**	4,889,586
Security and safety	**2,057,206**	1,979,563
Electricity	**1,874,414**	1,609,736
Fees for the right to provide telecom services	**1,722,447**	1,993,931
Rental of equipment	**1,691,914**	1,449,771
Fees for use of frequency range	**814,260**	661,130
Other	**5,774,691**	7,865,550
	124,178,351	124,077,903

28. GENERAL AND ADMINISTRATIVE EXPENSES

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

In thousands of tenge	**2012**	2011
Personnel costs (*Note 30*)	**11,614,134**	10,563,454
Taxes other than income tax	**2,410,639**	2,242,439
Consulting services	**1,113,021**	1,297,831
Social activities	**643,177**	561,920
Bank fees	**619,282**	661,799
Depreciation and amortization	**471,405**	486,033
Business trips	**467,315**	320,610
Materials	**365,169**	392,947
Insurance	**327,002**	273,821
Repair and maintenance	**299,710**	254,048
Trainings	**297,034**	236,764
Rental of equipment	**166,242**	146,942
Security and safety	**105,051**	112,321
Recovery of bad debt expense (*Notes 11, 13, 14 and 16*)	**(5,367,195)**	(207,367)
Provision for obsolete inventory (*Note 12*)	**22,246**	415,781
Other	**622,914**	1,065,273
	14,177,146	18,824,616

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. SELLING EXPENSES

Selling expenses for the year comprised the following:

In thousands of tenge	**2012**	2011
Marketing and advertising	**3,601,808**	2,598,686
Dealers commission	**1,231,278**	1,566,200
Other	**446,235**	402,831
	5,279,321	4,567,717

30. PERSONNEL COSTS

Personnel costs for the year comprised the following:

In thousands of tenge	**2012**	2011
Payroll	**47,392,195**	43,692,201
Payroll related taxes	**4,616,215**	4,301,391
Employee benefits expense (*Note 21*)	**520,945**	1,586,616
	52,529,355	49,580,208

Split of personnel costs between cost of revenue and general and administrative expenses is presented in *Notes 27 and 28*, respectively.

31. FINANCE COSTS/INCOME

Finance costs and income comprised the following:

In thousands of tenge	**2012**	2011
Finance costs:		
Interest on borrowings	**(5,757,963)**	(5,351,025)
Discounting of long-term loans to employees	**(2,297,270)**	(1,518,159)
Interest payable under finance leases	**(1,983,479)**	(1,981,016)
Discounting of other non-current assets *(Note 11)*	**(1,867,238)**	(286,057)
Interest on debt component of preferred shares (*Note 18*)	**(89,787)**	(120,957)
	(11,995,737)	(9,257,214)
Finance income:		
Interest income on bank deposits	**1,228,348**	979,209
Income on current accounts	**915,507**	1,083,984
Amortization of discount on long-term loans to employees	**852,243**	318,933
Amortization of discount on long-term trade receivables *(Note 11)*	**451,906**	408,333
Interest income on guarantees issued	**281,103**	507,646
	3,729,107	3,298,105

32. OTHER INCOME

Other income for the year comprised the following:

In thousands of tenge	**2012**	2011
Rent income	**1,621,345**	1,488,601
Other	**543,055**	294,867
	2,164,400	1,783,468

Rent income mainly represents rent of spaces designated for the installation of technological equipment by third parties.

33. INCOME TAX

Corporate income tax expense comprised the following:

In thousands of tenge	2012	2011
Current corporate income tax charge	**3,063,541**	5,330,577
Deferred tax expense/(benefit)	**1,289,200**	(1,232,412)
	4,352,741	4,098,165

The Group and its subsidiaries, other than Signum LLC and Online.kg LLC are subject to taxation in the Republic of Kazakhstan. Signum LLC is subject to taxation in the Russian Federation. Online.kg LLC, is subject to income tax in Kyrgyzstan.

The tax rate for the Group and its subsidiaries except for subsidiaries indicated above was 20% in 2012 and 2011.

A reconciliation of corporate income tax expense applicable to profit before income tax at the statutory income tax rate of 20% (2011: 20%) to current income tax expense was as follows for the year ended 31 December 2012:

In thousands of tenge	2012	2011
Profit before tax from continuing operations	**24,499,789**	21,258,202
Gain before tax from discontinued operations	**201,996,328**	33,023,615
Profit before income tax	**226,496,117**	54,281,817
At statutory income tax rate of 20%	**45,299,223**	10,856,363
Non-taxable gain on disposal of the investment in an associate	**(40,399,266)**	(6,499,465)
Change in unrecognized deferred tax assets	**(3,950)**	(64,041)
Non-taxable reversal of allowance on long term receivables	**(585,630)**	–
Non-deductible expenses	**100,775**	266,977
Non-taxable gain	**(58,411)**	(461,669)
Total income tax expense	**4,352,741**	4,098,165

Reversal of allowance on long term receivables represents reversal of allowance on MTS receivable made in 2012, which is not taxable under tax legislation in Kazakhstan (*Note 11*).

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

In thousands of tenge	31 December 2011	Statement of income 2012	31 December 2012
Deferred tax assets			
Tax losses carry-forward	807,887	**(86,129)**	**721,758**
Deferred income	364,912	**(209,822)**	**155,090**
Employee benefits obligations	1,091,158	**(56,711)**	**1,034,447**
Bad debt allowance	1,187,065	**(756,444)**	**430,621**
Intangible assets	614,209	**(571,221)**	**42,988**
Discount on non-current assets	1,038,793	**565,755**	**1,604,548**
Other	195,348	**333,246**	**528,594**
Less: deferred tax assets offset with deferred tax liabilities	(5,119,908)	**710,013**	**(4,409,895)**
Deferred tax assets	179,464	**(71,313)**	**108,151**
Deferred tax liabilities			
Property and equipment	15,904,990	**478,519**	**16,383,509**
Intangible assets	534,461	**29,355**	**563,816**
Less: deferred tax assets offset with deferred tax liabilities	(5,119,908)	**710,013**	**(4,409,895)**
Deferred tax liabilities	11,319,543	**1,217,887**	**12,537,430**
Deferred tax expense		**1,289,200**	
Net deferred tax liabilities	11,140,079		**12,429,279**
Reflected in the statement of financial position as follows:			
Deferred tax assets	179,464		**108,151**
Deferred tax liability	(11,319,543)		**(12,537,430)**
Deferred tax liability, net	(11,140,079)		**(12,429,279)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. INCOME TAX (continued)

In thousands of tenge	31 December 2010	Statement of income 2011	31 December 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 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)**

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. There were no unrecognized tax losses carry-forward as at 31 December 2012 (2011: 3,950 thousand tenge).

34. DISCONTINUED OPERATIONS

As at 31 December 2011, the Group had a 49% interest 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.

On 21 December 2011, Kazakhtelecom concluded an agreement to sell its 49% ownership in GSM Kazakhstan to Sonera Holdings B.V., a subsidiary of Swedish mobile operator Telia Sonera AB.

On 1 February 2012, the Group completed the sale of 49% ownership in GSM Kazakhstan for the consideration of 1,519 million of US dollars (equivalent to 225,738,590 thousand tenge). As a result, the gain from disposal comprised of 200,033,665 thousand tenge. The cash flows generated by the sale of the discontinued operation during 2012 have been considered in the cash flow statement as part of investing activities.

The movements in the investment in an associate balance were as follows:

In thousands of tenge	2012	2011
As at 1 January	**58,389,446**	53,785,831
Share of profit of an associate	**1,962,663**	33,023,615
Dividends declared	**(34,723,134)**	(28,420,000)
Discontinued operations	**(25,628,975)**	–
As at 31 December	**–**	58,389,446

The movements in dividends receivable from an associate were as follows:

In thousands of tenge	2012	2011
As at 1 January	**–**	–
Dividends declared	**34,723,134**	28,420,000
Cash received	**(34,723,134)**	(28,420,000)
As at 31 December	**–**	–

34. DISCONTINUED OPERATIONS (continued)

Discontinued operation comprised of the following during the year ended 31 December:

In thousands of tenge	**2012**	2011
Share of profit of an associate	**1,962,663**	33,023,615
Profit before tax from a discontinued operation	**1,962,663**	33,023,615
Gain on disposal	**200,033,665**	–
Income tax expense	**–**	–
Profit after tax for the period from a discontinued operation	**201,996,328**	33,023,615

Gain on disposal of the investment comprised the following:

In thousands of tenge	**2012**
Consideration received from Sonera Holdings B.V.	**225,738,590**
Net assets associated with disposal group as of the date of disposal	**(25,628,975)**
Forex gain	**(75,950)**
Gain on disposal	**200,033,665**

Earnings per share from a discontinued operation were as follows:

In tenge	**2012**	2011
Basic and diluted earnings per share, from a discontinued operation, tenge	18,155.32	2,915.72

35. NON-CASH TRANSACTIONS

In 2012, under finance lease agreements, the Group received telecommunication equipment with a value of 7,892,857 thousand tenge (2011:7,596,073 thousand tenge). This transaction has been excluded from the consolidated statement of cash flows.

In 2012, 7,043,577 thousand tenge was paid for property and equipment purchased in the prior year (2011: 9,038,314 thousand tenge). Property and equipment of 9,975,206 thousand tenge was purchased in 2012 but not paid by 31 December 2012 (2011: 7,043,577 thousand tenge).

In 2012, the Group obtained a loan in the amount of 4,900,021 thousand tenge from ICBC to finance purchases of the equipment (2011:7,236,607 thousand tenge). 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. Transactions with (purchases from) parent-controlled entities are mainly represented by transactions of the Group with NC Kazakhstan Temir Zholy JSC, NC KazMunayGaz JSC, KEGOC JSC, Kazpost JSC. The Group provides telecommunication services to Parent, parent-controlled entities and Associate.

BTA Bank JSC, Development 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, in which the Group had a 49% interest (*Note 34*). Since 6th of January 2012 Halyk Bank of Kazakhstan JSC and its subsidiaries- members of Halyk Group are not related parties of the Group.

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 31 December 2012 and 2011, 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 31 December 2012 and 2011 and the balances with related parties at 31 December 2012 and 2011, were as follows:

In thousands of tenge	**2012**	2011
Sales of goods and services		
Parent	**410,673**	520,816
Parent-controlled entities	**3,705,882**	3,623,589
Associate (discontinued operation)	**–**	6,426,968
Government bodies	**18,397,562**	13,565,152
Purchases of goods and services		
Parent-controlled entities	**2,053,178**	1,665,595
Associate (discontinued operation)	**–**	4,632,072
Government bodies	**157,153**	34,017
Interest earned on financial assets		
Alliance Bank	**116,634**	102,666
Average interest rate on financial assets	***4.26%***	*3.73%*
BTA Bank	**32,370**	23,828
Average interest rate on financial assets	***2.63%***	*2.32%*
Interest accrued on borrowings		
Development Bank of Kazakhstan	**4,409,635**	4,195,437
Average interest rate on borrowings	***9.65%***	*9.53%*

In thousands of tenge	**2012**	2011
Cash and cash equivalents		
Alliance Bank	**1,937,946**	4,042,647
Halyk Bank of Kazakhstan	**–**	1,611,235
BTA Bank	**1,252,564**	1,446,095
Development Bank of Kazakhstan	**8,043**	12,690
Temirbank	**85**	96
Borrowings		
Development Bank of Kazakhstan	**47,401,708**	46,591,485
Trade and other receivables		
Parent	**379,880**	370,972
Parent-controlled entities	**581,470**	559,728
Associate (discontinued operation)	**–**	635,759
Government bodies	**1,000,147**	373,849
Accounts payable		
Parent-controlled entities	**72,275**	72,197
Associate (discontinued operation)	**–**	2,513,021
Government bodies	**466,781**	311,065
Other non-current assets		
Long-term loans to key management personnel	**48,932**	38,884

Total compensation to key management personnel in general and administrative expenses in the accompanying consolidated income statement amounted to 657,521 thousand tenge and 320,171 thousand tenge for the years ended 31 December 2012 and 2011, respectively. Compensation to key management personnel includes salary stated in labor contracts and bonuses paid based on the results of the year.

As discussed in *Note 26*, 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 19*, some of the Group's borrowings for the amount of 1,595,527 thousand tenge were guaranteed by the Government of the Republic of Kazakhstan (2011: 1,562,259 thousand tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the 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	Increase/ decrease in basis points	Effect on profit before tax
2012	**+5**	**(30,098)**
	-5	**30,098**
2011	+15	(84,616)
	-15	84,616

* 1 basis point = 0.01%

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

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.

	2012		2011	
In thousands of tenge	**Increase/ decrease in exchange rate**	**Effect on profit before tax**	Increase/ decrease in exchange rate	Effect on profit before tax
US dollar	**+2%**	**(182,171)**	+11%	(6,002,429)
	-2%	**182,171**	-11%	6,002,429
Euro	**+11%**	**(15,308)**	+16%	(57,892)
	-11%	**15,308**	-16%	57,892
Won	**+11%**	**(171,838)**	+16%	(255,117)
	-11%	**171,838**	-16%	255,117

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept, and by monitoring exposures in relation to such limits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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 11, 13*. 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.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this 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, 19% of the Group's debt will mature in less than one year at 31 December 2012 (2011: 24%) 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 31 December 2012 based on contractual undiscounted payments.

In thousands of tenge	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 at 31 December 2012						
Borrowings	–	**5,532,861**	**9,208,894**	**36,724,129**	**56,658,990**	**108,124,874**
Finance lease liabilities	–	**2,315,510**	**5,763,603**	**12,635,535**	–	**20,714,648**
Accounts payable	**11,919,891**	**1,548,400**	**2,167,267**	–	–	**15,635,557**
Debt component of preferred shares	–	–	**89,787**	**483,828**	**120,957**	**694,572**
Employee benefit liability	–	–	**354,137**	**3,218,004**	**4,022,505**	**7,594,646**
Other financial liabilities	–	**5,385,788**	–	**587,311**	–	**5,973,099**
	11,919,891	**14,782,559**	**17,583,688**	**53,648,807**	**60,802,452**	**158,737,396**
As at 31 December 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	–	–	120,957	483,828	120,957	725,742
Employee benefit liability	–	–	330,013	3,119,460	3,899,325	7,348,798
Other financial liabilities		3,355,341	–	451,747	–	3,807,088
	12,084,120	14,902,888	19,383,641	73,708,041	21,077,693	141,156,383

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 31 December 2012 and 2011.

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:

In thousands of tenge	**2012**	2011
Borrowings	**75,135,545**	74,219,507
Accounts payable	**15,635,557**	15,850,980
Finance lease obligations	**16,193,304**	15,902,144
Net debt	**106,964,406**	105,972,631
Equity	**276,747,499**	282,902,266
Debt-to-equity ratio	**0.39**	0.37

Fair values

As at 31 December 2012 and 2011, 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 approximate 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 31 December 2012 the Group had contractual commitments totalling 15,966,601 thousand tenge (2011: 9,074,781 thousand tenge) related mostly to the purchase of telecommunication equipment and construction of telecommunication network.

Operating lease commitments – Group as lessee

The Group has entered into property lease contracts for office buildings and office space in different regions of Kazakhstan. Property lease contracts for office buildings have remaining lease terms of, an average, 1 year. The office space lease has a remaining lease term of five years with a renewal option included in the contract. There are no restrictions placed upon the Group by entering into this lease.

38. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Operating lease commitments – Group as lessee (continued)

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

In thousands of tenge	2012	2011
Within one year	**776,206**	642,982
After one year but not more than five years	**1,167,179**	651,262
	1,943,385	1,294,244

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 31 December 2012. As at 31 December 2012 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.

Guarantees

On 14 November 2009 the Group signed an agreement with Kazakhmys Plc, Parent and China Development Bank ("CDB") where the Group and Kazakhmys provided a 12 to 15 years guarantee to CDB for loans of the Parent. The Group's liability under the guarantee is capped at 300 million US dollars of principal plus 15% of any interest and any other duly payable costs and expenses. For this purpose, the Group and Parent signed an agreement on compensation of any amounts paid by Group arising from the guarantee agreement by the Parent.

39. SUBSEQUENT EVENTS

During February 2013, the Group paid advance payment in the amount of 110,100 thousand tenge to purchase the 100% stake in MaxCom LLP, Kazakhstani privately held entity providing telecommunication services in Kazakhstan.