

**Kazakhtelecom JSC**  
Consolidated Financial Statements

*For the year ended December 31, 2010  
with Independent Auditors' Report*

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Kazakhtelecom JSC:

We have audited the accompanying financial statements of Kazakhtelecom JSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

### *Auditors' Responsibility*

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

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

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

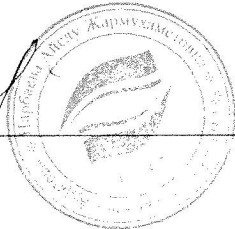
**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young LLP*

*Aisulu Narbayeva*

Aisulu Narbayeva  
Auditor



*Evgeny Zhemaletdinov*

Evgeny Zhemaletdinov  
General Director  
Ernst & Young LLP



Auditor Qualification Certificate  
No. 0000137 dated 21 October 1994

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

18 March 2011

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at December 31, 2010


<i>In thousands of Tenge</i>	<i>Notes</i>	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	<b>216,627,854</b>	212,321,241
Intangible assets	8	<b>12,471,910</b>	12,997,842
Advances paid for non-current assets	9	<b>489,868</b>	609,102
Investments in an associate	10	<b>53,785,831</b>	48,130,939
Deferred tax asset	33	<b>158,951</b>	-
Other non-current assets	12	<b>6,331,438</b>	4,589,790
		<b>289,865,852</b>	278,648,914
<b>Current assets</b>			
Inventories	13	<b>5,155,291</b>	5,220,451
Trade accounts receivable	14	<b>11,180,975</b>	12,412,264
Prepayments	15	<b>585,413</b>	442,668
Income tax prepaid		<b>395,498</b>	693,005
Other financial assets	16	<b>379,868</b>	3,105,818
Other current assets	17	<b>4,975,909</b>	4,431,849
Cash and cash equivalents	18	<b>58,023,486</b>	21,730,640
		<b>80,696,440</b>	48,036,695
Assets classified as held for sale	34	-	38,766,757
		<b>80,696,440</b>	86,803,452
<b>TOTAL ASSETS</b>		<b>370,562,292</b>	<b>365,452,366</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital	19	<b>12,136,529</b>	12,136,529
Treasury shares	19	<b>(2,652,860)</b>	(2,652,860)
Currency translation reserve	19	<b>(9,921)</b>	(2,710)
Other capital reserve	19	<b>1,820,479</b>	1,820,479
Retained earnings		<b>227,330,496</b>	197,770,507
		<b>238,624,723</b>	209,071,945
<b>Non-controlling interests</b>		<b>(32,558)</b>	515,866
<b>Total equity</b>		<b>238,592,165</b>	<b>209,587,811</b>

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

<i>In thousands of Tenge</i>	<i>Notes</i>	<b>2010</b>	<b>2009</b>
<b>Non-current liabilities</b>			
Borrowings	20	57,971,162	61,869,778
Finance lease liabilities	21	8,352,825	11,599,156
Deferred tax liability	33	12,531,442	12,289,334
Employee benefit liability	22	4,359,779	3,343,782
Debt component of preferred shares	19	1,099,620	1,099,620
Other non-current liabilities	23	3,873,216	3,906,221
		<b>88,188,044</b>	<b>94,107,891</b>
<b>Current liabilities</b>			
Borrowings	20	9,153,943	8,963,886
Current portion of finance lease liabilities	21	7,338,972	7,063,001
Current portion of employee benefit liability	22	289,262	281,688
Accounts payable	24	17,717,657	12,210,135
Advances received		2,371,086	1,917,913
Other current liabilities	25	6,911,163	5,734,862
		<b>43,782,083</b>	<b>36,171,485</b>
Liabilities directly associated with the assets classified as held for sale	34	-	25,585,179
		<b>131,970,127</b>	<b>155,864,555</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>370,562,292</b>	<b>365,452,366</b>

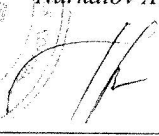
*The accompanying notes on pages 8 to 50 are an integral part of these consolidated financial statements*

Chief Financial Director



Nurkatov A. A.

Chief Accountant



Baishumurova G. Zh.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended December 31, 2010

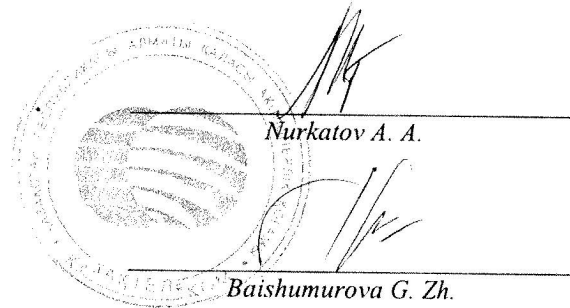
<i>In thousands of Tenge</i>	<i>Notes</i>	<b>2010</b>	<b>2009</b>
<b>Continuing operations</b>			
Revenue	26	147,505,233	138,827,563
Compensation for provision of universal services in rural areas	27	5,226,471	5,138,485
		<b>152,731,704</b>	<b>143,966,048</b>
Cost of revenue	28	(111,018,306)	(92,735,361)
<b>Gross profit</b>		<b>41,713,398</b>	<b>51,230,687</b>
General and administrative expenses	29	(20,162,045)	(15,745,624)
Selling expenses	30	(4,346,038)	(3,671,476)
<b>Operating profit</b>		<b>17,205,315</b>	<b>31,813,587</b>
Share of profit of an associate	10	26,038,892	21,166,716
Finance costs	32	(9,430,941)	(6,902,961)
Finance income	32	2,180,401	1,663,621
Foreign exchange gain / (loss), net		558,879	(16,934,595)
Loss from disposal of property, plant and equipment		(410,524)	(387,101)
Other income		1,659,366	712,562
<b>Profit before tax from continuing operations</b>		<b>37,801,388</b>	<b>31,131,829</b>
Income tax expense	33	(4,974,452)	(3,236,379)
<b>Profit for the year from continuing operations</b>		<b>32,826,936</b>	<b>27,895,450</b>
<b>Discontinued operations</b>			
Gain / (loss) after tax for the year from discontinued operations	34	844,292	(5,069,329)
<b>Profit for the year</b>		<b>33,671,228</b>	<b>22,826,121</b>
Attributable to:			
Equity holders of the parent		34,219,652	27,317,945
Non-controlling interests		(548,424)	(4,491,824)
<b>Other comprehensive income</b>			
Foreign currency translation		(7,211)	18,655
<b>Other comprehensive (loss) / income for the year, net of tax</b>		<b>(7,211)</b>	<b>18,655</b>
<b>Total comprehensive income for the year, net of tax</b>		<b>33,664,017</b>	<b>22,844,776</b>
Attributable to:			
Equity holders of the parent		34,212,441	27,336,600
Non-controlling interest		(548,424)	(4,491,824)
		<b>33,664,017</b>	<b>22,844,776</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

<i>In thousands of Tenge</i>	<i>Notes</i>	<b>2010</b>	<b>2009</b>
<b>Earnings per share</b>			
Basic and diluted, profit for the year attributable to equity holders of the parent	19	<b>3,032</b>	2,423
<b>Earnings per share for continuing operations</b>			
Basic and diluted, profit for the year from continuing operations attributable to equity holders of the parent	19	<b>2,957</b>	2,870

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

Chief Financial Director



*Nurkatov A. A.*

*Baishumurova G. Zh.*

Chief Accountant

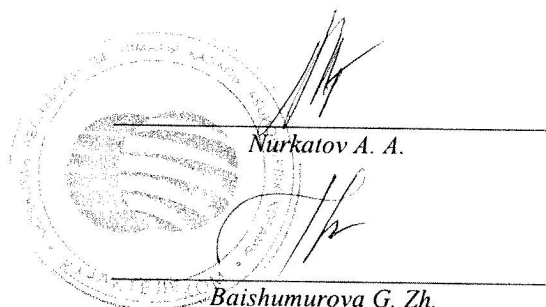
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended December 31, 2010

In thousands of Tenge	Attributable to equity holders of the parent						Total	Non- controlling interests	Total equity
	Issued capital	Treasury shares	Currency translation reserve	Other capital reserves	Retained earnings				
Notes	19		19	19					
At January 1, 2009	34,936,441	(2,652,860)	(21,365)	1,820,479	153,140,000	187,222,695	4,892,752	192,115,447	
Profit for the year	-	-	-	-	27,317,945	27,317,945	(4,491,824)	22,826,121	
Other comprehensive income	-	-	18,655	-	-	18,655	-	18,655	
<b>Total</b> comprehensive income	-	-	18,655	-	27,317,945	27,336,600	(4,491,824)	22,844,776	
Transfer of monetary loss	19 (22,799,912)	-	-	-	22,799,912	-	-	-	
Change in ownership interests of subsidiaries	-	-	-	-	(114,938)	(114,938)	114,938	-	
Dividends	19 -	-	-	-	(5,372,412)	(5,372,412)	-	(5,372,412)	
At December 31, 2009	12,136,529	(2,652,860)	(2,710)	1,820,479	197,770,507	209,071,945	515,866	209,587,811	
Profit for the year	-	-	-	-	34,219,652	34,219,652	(548,424)	33,671,228	
Other comprehensive income	-	-	(7,211)	-	-	(7,211)	-	(7,211)	
<b>Total</b> comprehensive income	-	-	(7,211)	-	34,219,652	34,212,441	(548,424)	33,664,017	
Dividends	19 -	-	-	-	(4,659,663)	(4,659,663)	-	(4,659,663)	
At December 31, 2010	12,136,529	(2,652,860)	(9,921)	1,820,479	227,330,496	238,624,723	(32,558)	238,592,165	

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

Chief Financial Director



Nurkatov A. A.

Baishumurova G. Zh.

Chief Accountant

**CONSOLIDATED CASH FLOW STATEMENT**

For the year ended December 31, 2010

<i>In thousands of Tenge</i>	<i>Notes</i>	<b>2010</b>	<b>2009</b>
<b>Operating activities</b>			
Profit before tax from continuing operations		<b>37,801,388</b>	31,131,829
Gain / (loss) before tax from discontinued operations	34	<b>844,292</b>	(5,233,192)
Profit before tax		<b>38,645,680</b>	25,898,637
Adjustments for:			
Depreciation of property, plant and equipment	7	<b>32,876,310</b>	22,750,360
Amortization and impairment of intangibles assets	8	<b>3,897,234</b>	3,211,774
Share of profit of an associate	10	<b>(26,038,892)</b>	(21,166,716)
Change in deferred revenues		<b>200,155</b>	263,324
Change in employee benefit liability		<b>1,023,571</b>	453,012
Unrealized foreign exchange (gain) / loss		<b>(433,132)</b>	20,787,722
Provision for doubtful debts	29	<b>2,177,142</b>	365,829
Provision for obsolete and slow moving inventories	13	<b>582,260</b>	153,539
Finance costs	32	<b>9,430,941</b>	7,789,867
Finance revenue	32	<b>(2,180,401)</b>	(1,704,841)
Gain on disposal of subsidiary		<b>(178,320)</b>	-
Loss from disposal of property, plant and equipment		<b>410,524</b>	579,962
<b>Working capital adjustments:</b>			
Increase in trade accounts receivable		<b>(1,109,013)</b>	(441,084)
Decrease / (increase) in inventories		<b>509,633</b>	(101,742)
Decrease / (increase) in other current and non-current assets		<b>2,612,882</b>	(935,941)
(Increase) / decrease in prepayments		<b>(142,745)</b>	126,873
Increase in accounts payable		<b>3,081,724</b>	2,709,570
Increase / (decrease) in advances received		<b>453,173</b>	(440,926)
Increase in other current liabilities		<b>1,458,575</b>	28,171
<b>Cash generated from operations</b>			
Dividends paid		<b>67,277,301</b>	60,327,390
Income taxes paid		<b>(4,659,663)</b>	(5,332,743)
Interest paid		<b>(4,717,643)</b>	(1,574,391)
Interest received		<b>(7,256,636)</b>	(6,514,877)
		<b>778,786</b>	595,041
<b>Net cash flows from operating activities</b>			
		<b>51,422,145</b>	47,500,420

**CONSOLIDATED CASH FLOW STATEMENT (continued)**

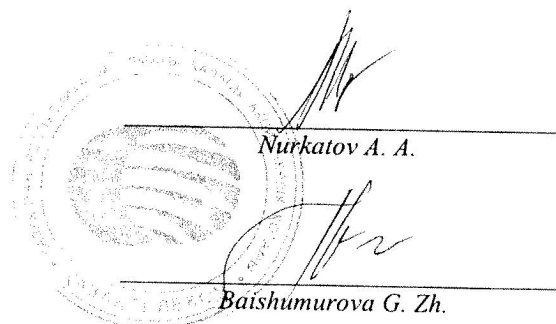
<i>In thousands of Tenge</i>	<i>Notes</i>	2010	2009
<b>Investing activities</b>			
Purchase of property, plant and equipment		(33,988,962)	(33,271,680)
Purchase of intangible assets		(1,583,211)	(3,766,619)
Proceeds from sale of property, plant and equipment		125,621	872,305
Dividends received from an associate		23,026,851	12,740,000
Proceeds from sale of subsidiary		10,957,895	-
Long-term loans to employees		(733,434)	(340,329)
<b>Net cash flows used in investing activities</b>		<b>(2,195,240)</b>	<b>(23,766,323)</b>
<b>Financing activities</b>			
Proceeds from issuance of bonds		-	45,500,000
Proceeds from borrowings		3,380,641	9,000,929
Repayment of borrowings		(8,934,306)	(61,558,299)
Repayment of finance lease liabilities		(7,358,963)	(6,498,548)
<b>Net cash flows used in financing activities</b>		<b>(12,912,628)</b>	<b>(13,555,918)</b>
Net increase in cash and cash equivalents		36,314,277	10,178,179
Effects of exchange rate changes on cash and cash equivalents		(21,431)	(558,054)
Cash and cash equivalents at January 1		21,730,640	12,110,515
<b>Cash and cash equivalents at December 31</b>	18	<b>58,023,486</b>	<b>21,730,640</b>

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

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

Chief Financial Director

Chief Accountant



Nurkatov A. A.

Baishumurova G. Zh.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended December 31, 2010

**1. CORPORATE INFORMATION**

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

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

The Company is controlled by the Government of the Republic of Kazakhstan through National Welfare Fund “Samruk-Kazyna” (“Samruk-Kazyna” or the “Parent”), which owned 51% of the Company’s controlling stock as of December 31, 2010 and 2009. The following lists the shareholders of the Company’s stock:

	2010	2009
Samruk-Kazyna	51.0%	51.0%
Bodam B. V.	16.9%	16.9%
ADR (The Bank of New York is a depositor)	13.4%	14.6%
Deran Services Limited	9.6%	9.6%
LLP Optimus	3.0%	3.0%
Other	6.1%	4.9%
	<b>100%</b>	<b>100.0%</b>

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

The Company and its subsidiaries listed in *Note 5* (together the “Group”) have a significant share of the fixed line communication market, including local, long-distance intercity and international telecommunication services (including CIS and non-CIS countries); and provides also rent of lines, data transfer services and wireless communication services.

These financial statements present, on a consolidated basis, the financial performance for the year ended December 31, 2010 and financial position as at that date for the Group.

The consolidated financial statements were authorised for issue on March 18, 2011 by Management of the Company.

**2. BASIS OF PREPARATION**

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

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

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

**Basis of consolidation***Basis of consolidation from 1 January 2010*

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2010.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 2. BASIS OF PREPARATION (continued)

#### Basis of consolidation (continued)

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

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

If the Group loses control over a subsidiary, it:

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

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

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to 1 January 2009, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2009 were not reallocated between NCI and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 January 2009 have not been restated.

#### **Operating environment of the Group**

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### New and amended standards and interpretations

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

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

The adoption of the standards or interpretations is described below:

#### *IFRS 2 Share-based Payment (Revised)*

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

#### *IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)*

*IFRS 3 (Revised)* introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. The Group did not have any business combinations, so these changes did not have an impact on the financial position or performance of the Group.

*IAS 27 (Amended)* requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) did not have an impact on the financial position or performance of the Group.

#### *IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items*

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

#### *IFRIC 17 Distribution of Non-cash Assets to Owners*

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position nor performance of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### Improvements to IFRSs

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

*Issued in May 2008*

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

*Issued in April 2009*

*IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:* clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The amendment is applied prospectively and has no impact on the financial position nor financial performance of the Group.

*IFRS 8 Operating Segments:* clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in Note 6.

*IAS 7 Statement of Cash Flows:* States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. The amendment had no impact on the Group's financial statements.

*IAS 36 Impairment of Assets:* The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

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

*Issued in April 2009*

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

#### Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

*IAS 24 Related Party Disclosures (Amendment)*

The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### Standards issued but not yet effective (continued)

##### *IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)*

The amendment to IAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

##### *IFRS 9 Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of this interpretation will have no effect on the consolidated financial statements of the Group.

##### *IFRIC 14 Prepayments of a minimum funding requirement (Amendment)*

The amendment to IFRIC 14 is effective for annual periods beginning on or after January 1, 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

##### *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the consolidated financial statements of the Group.

#### Improvements to IFRSs (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either July 1, 2010 or January 1, 2011.

- *IFRS 3 Business Combinations*
- *IFRS 7 Financial Instruments: Disclosures*
- *IAS 1 Presentation of Financial Statements*
- *IAS 27 Consolidated and Separate Financial Statements*
- *IFRIC 13 Customer Loyalty Programmes*

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

#### Foreign currency translation

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

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the income statement.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### Foreign currency translation (continued)

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

	December 31, 2010	December 31, 2009
US Dollar	147.40	148.36
Euro	195.23	212.84
South Korean Won	0.13	0.13
Russian Ruble	4.84	4.92

The functional currency of the foreign operation of Signum LLC (Russia) and «Online.kg» JSC (Kyrgyzstan) is the Russian Ruble and Kyrgyz Som, respectively. As at the reporting date, the assets and liabilities of this subsidiary are translated into the presentation currency of the Group (Tenge) at the rate of exchange ruling at the reporting date and its income statement is translated at the weighted average exchange rates for the year.

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

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

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

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

#### Investment in an associate

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

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

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

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

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

#### Property, plant and equipment

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### Property, plant and equipment (continued)

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

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

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

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate. The Group reassessed remaining useful lives of some equipment in 2010, refer to *Note 4* for details.

#### Investment properties

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

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in period of derecognition.

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

#### Intangible assets

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

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

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

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

Intangible assets consist primarily of telecommunication licenses, trademarks and software. Telecommunication licenses and trademarks are amortized on a straight-line basis within the estimated useful lives of 20 years for licenses and 7-9 years for trademarks. Other intangible assets are amortized on a straight-line basis over their estimated useful lives, generally from five to fourteen years. The Group reassessed remaining useful lives of certain other intangible assets, refer to *Note 4* for details.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

Impairment losses of continuing operations including impairment on inventories are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

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

#### *Goodwill*

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

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

#### *Associates*

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss 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.

#### Investments and other financial assets

##### *Initial recognition and measurement*

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### Investments and other financial assets (continued)

##### *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.

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

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

#### Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### Financial liabilities

##### *Borrowings*

All loans and borrowings are initially recognised at fair value and directly attributable transaction costs, and have not been designated “as at fair value through profit or loss”.

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

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

##### *Financial guarantee contracts*

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

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

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

##### *Trade and other payables*

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

#### Derecognition of financial assets and liabilities

##### *Financial assets*

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### Derecognition of financial assets and liabilities (continued)

##### *Financial liabilities*

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

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

#### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### Fair value of financial instruments

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

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

#### Cash and cash equivalents

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

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

#### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

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

#### *Group as a lessee*

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### Leases (continued)

##### *Group as a lessee (continued)*

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

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

##### *Group as a lessor*

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

#### Provisions

##### *General*

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

If the effect of the time value of money is material, provisions are discounted the using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

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

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

#### Employee benefits

##### *Social tax*

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

##### *Defined contribution scheme*

The Group withholds up to 10% from the salary of its employees as the employees' contribution to their designated pension funds. Under the legislation, employees are responsible for their retirement benefits and the Group has no present or future obligation to further compensate its employees upon their retirement, except as provided below.

##### *Defined benefit scheme*

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### Employee benefits (continued)

##### *Defined benefit scheme (continued)*

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

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

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

The defined benefit scheme is unfunded.

#### Treasury shares

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

#### Dividends

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

#### Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

##### *Sales of phone handsets and phone accessories*

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

##### *Rendering of services*

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### Revenue recognition (continued)

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

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

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

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

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

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

##### *Interest income*

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

##### *Dividends*

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

#### Expense recognition

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

#### Connection cost

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

#### Borrowing costs

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### Income tax

##### *Current income tax*

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

Current income tax relating to items recognised directly in equity is recognised in equity and not in consolidated income statement. 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 at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

#### *Useful life of property, plant and equipment and intangible assets*

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

#### *Discontinued operations*

In 2009 the Board of Directors announced its decision to dispose Mobile Telecom-Service LLP, the subsidiary. The Board considered the subsidiary met the criteria to be classified as held for sale as of December 31, 2010 for the following reasons:

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

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

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

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

#### *Allowances*

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the financial statements. As of December 31, 2010, allowances for doubtful accounts have been created in the amount of 3,584,007 thousand Tenge (2009: 1,755,841 thousand Tenge) (*Notes 14, 15 and 17*).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### *Fair value of financial instruments*

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

#### *Connection fees*

Upfront fees received for activation and connection to the wireline and wireless network that do not represent a separate earning process are deferred and recognized over the expected period of the customer relationship. In making its judgments, management considered the detailed criteria for the recognition of revenues from connection fees set out in IAS 18, industry practice and the Group's historical churn rate. As at December 31, 2010 average customer relationship period is assessed as 16 years for fixed telephony customers, 8 years for internet customers and 18-28 months for mobile telephony customers.

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

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

#### *Employee benefit liability*

The Group uses actuarial valuation method for measurement of the present value of defined employee benefit liability and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, etc.) as well as financial assumptions (discount rate, future salary increases). Due to the long term nature of these benefits, such estimates are subject to significant uncertainty. The employee benefit liability at December 31, 2010 is disclosed in *Note 22*.

#### *Deferred tax assets*

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognized deferred tax assets on accumulated tax losses at December 31, 2010 is 624,476 (2009: 13,875 thousand Tenge) and the unrecognized deferred tax assets on accumulated tax losses at December 31, 2010 amounting to 67,991 thousand Tenge (2009: 2,967,217 thousand Tenge). Further details are contained in *Note 33*.

#### *Taxation*

In assessing tax and legal risks, management considers to be probable obligations the known areas of tax or legal positions which the Group would not appeal or does not believe it could successfully appeal, if assessed by tax or legal authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, the determination of expected outcomes from pending tax or legal proceedings and the outcome of ongoing compliance audits by tax authorities. Group's tax and legal obligations and contingencies related to taxation or legal proceeding are detailed in *Note 38*.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 5. CONSOLIDATION

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

	Country of residence	Percentage ownership	
		2010	2009
Altel JSC	Kazakhstan	100.00%	100.00%
Nursat JSC	Kazakhstan	77.08%	77.08%
Mobile Telecom-Service LLP	Kazakhstan	-	51.00%
Radiotell LLP	Kazakhstan	100.00%	100.00%
Signum LLC	Russia	100.00%	100.00%
KepterTelecom JSC	Kazakhstan	100.00%	100.00%
VostokTelecom LLP	Kazakhstan	100.00%	100.00%
Association of internet –traffic exchange center	Kazakhstan	100.00%	100.00%
«Online.kg» JSC	Kyrgyzstan	100.00%	-

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

### 6. OPERATING SEGMENT INFORMATION

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 6. SEGMENTS INFORMATION (continued)

Year ended December 31, 2010

<i>In thousands of Tenge</i>	Wireline telecommu- nications	CDMA mobile services	Wireless telecommu- nications	GSM mobile services	Eliminations and Other adjustments	Group
<b>Revenue</b>						
External customers	139,709,910	11,002,109	2,004,271	-	15,414	152,731,704
Inter-segment	1,715,152	1,784,222	810,820	-	2,375,750 (6,685,944) <sup>1)</sup>	-
<b>Total revenue</b>	<b>141,425,062</b>	<b>12,786,331</b>	<b>2,815,091</b>	<b>-</b>	<b>2,391,164 (6,685,944)</b>	<b>152,731,704</b>
<b>Results</b>						
Depreciation and amortization	(32,699,913)	(1,180,227)	(692,592)	-	(492,073) (1,626,514) <sup>2)</sup>	(36,691,319)
Share of profit of an associate	-	-	-	26,038,892	-	26,038,892
Finance costs	(9,358,401)	(31,333)	(119,500)	-	(3,862) 82,155 <sup>3)</sup>	(9,430,941)
Finance income	2,156,047	40,207	41,550	-	24,752 (82,155) <sup>3)</sup>	2,180,401
Income tax	(6,042,273)	(724,360)	235,536	-	18,563 1,538,082 <sup>4)</sup>	(4,974,452)
<b>Segment profit / (loss)</b>	<b>17,528,054</b>	<b>2,699,368</b>	<b>(343,904)</b>	<b>26,038,892</b>	<b>76,887 (8,197,909) <sup>5)</sup></b>	<b>37,801,388</b>
<b>Operating assets</b>	<b>316,271,672</b>	<b>10,752,030</b>	<b>5,496,310</b>	<b>53,785,831</b>	<b>4,546,726 (20,290,277)</b>	<b>370,562,292</b>
<b>Operating liabilities</b>	<b>124,094,973</b>	<b>3,956,618</b>	<b>3,585,551</b>	<b>-</b>	<b>2,459,621 (2,126,636)</b>	<b>131,970,127</b>
<b>Other disclosures</b>						
Investments in an associate	-	-	-	53,785,831	-	53,785,831
Capital expenditure	40,910,467	1,828,944	253,518	-	1,345,552	44,338,481 <sup>6)</sup>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 6. SEGMENTS INFORMATION (continued)

Year ended December 31, 2009

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

- 1) Inter-segment revenues are eliminated on consolidation.
- 2) Depreciation and amortization does not include depreciation charge recognised on group level.
- 3) Finance costs and income does not include inter-segment finance charges.
- 4) Income tax does not include deferred tax charges occurring on consolidation.
- 5) Segment operating profit does include profit from inter-segment sales.
- 6) Capital expenditure consists of additions of property, plant and equipment and intangible assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 7. PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment for the year ended December 31, 2010 were as follows:

<i>In thousands of Tenge</i>	Land	Buildings and premises	Equipment	Other	Construction in progress	Total
<b>Cost:</b>						
At January 1, 2009	582,218	25,284,516	251,141,545	10,437,423	34,772,996	322,218,698
Additions	12,993	259,844	28,836,294	952,065	12,910,983	42,972,179
Internal transfers	11,523	3,631,353	13,432,615	247,478	(17,322,969)	-
Disposals	(2,649)	(193,013)	(5,841,401)	(449,509)	-	(6,486,572)
Discontinued operations (Note 34)	-	(28,283)	(10,297,073)	(608,353)	(5,902,564)	(16,836,273)
At December 31, 2009	604,085	28,954,417	277,271,980	10,579,104	24,458,446	341,868,032
Additions	37,306	217,083	22,069,787	797,047	15,820,114	38,941,337
Internal transfers	20,715	2,637,635	11,302,637	169,003	(14,129,990)	-
Disposals	(3,362)	(312,089)	(4,707,891)	(325,247)	-	(5,348,589)
<b>At December 31, 2010</b>	<b>658,744</b>	<b>31,497,046</b>	<b>305,936,513</b>	<b>11,219,907</b>	<b>26,148,570</b>	<b>375,460,780</b>
<b>Accumulated depreciation and impairment:</b>						
At January 1, 2009	-	5,455,321	103,664,026	5,598,573	24,321	114,742,241
Depreciation charge	-	1,034,740	20,630,042	1,085,578	-	22,750,360
Disposals	-	(63,289)	(5,070,543)	(403,001)	-	(5,536,833)
Discontinued operations (Note 34)	-	-	(2,087,657)	(321,320)	-	(2,408,977)
At December 31, 2009	-	6,426,772	117,135,868	5,959,830	24,321	129,546,791
Depreciation charge	-	1,217,092	30,488,336	1,170,882	-	32,876,310
Disposals	-	(81,880)	(3,213,879)	(294,416)	-	(3,590,175)
<b>At December 31, 2010</b>	<b>-</b>	<b>7,561,984</b>	<b>144,410,325</b>	<b>6,836,296</b>	<b>24,321</b>	<b>158,832,926</b>
<b>Net book value:</b>						
At January 1, 2009	582,218	19,829,195	147,477,519	4,838,850	34,748,675	207,476,457
At December 31, 2009	604,085	22,527,645	160,136,112	4,619,274	24,434,125	212,321,241
<b>At December 31, 2010</b>	<b>658,744</b>	<b>23,935,062</b>	<b>161,526,188</b>	<b>4,383,611</b>	<b>26,124,249</b>	<b>216,627,854</b>

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

At December 31, 2010, certain items of property, plant and equipment with a net carrying amount of 7,625,754 thousand Tenge (2009: 9,568,571 thousand Tenge) were pledged as security for some of the Group's borrowings (Note 20). At December 31, 2010, certain unpaid items of property, plant and equipment with a net carrying amount of 1,715,423 thousand Tenge (2009: 1,110,539 thousand Tenge) were pledged as security for some of the Group's payables.

Borrowing costs of 46,293 thousand Tenge on loans obtained to finance the construction of property and equipment were capitalized during 2010 at an average capitalization rate of 5.32% (2009: 96,936 thousand Tenge at an average capitalization rate of 7.81%).

At December 31, 2010, the carrying value of equipment held under finance leases and included in property, plant and equipment amounted to 20,241,901 thousand Tenge (2009: 20,760,974 thousand Tenge). Additions during the year include 4,175,774 thousand Tenge (2009: 8,193,683 thousand Tenge) of property, plant and equipment held under finance leases. Leased assets are pledged as security for the related finance leases.

As at December 31, 2010 property, plant and equipment amounting to 49,134,335 thousand Tenge, were fully amortized (2009: 38,736,328 thousand Tenge).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 8. INTANGIBLE ASSETS

The movements of intangible assets for the year ended December 31, 2010 were as follows:

<i>In thousands of Tenge</i>	<b>Licenses and trademarks</b>	<b>Software</b>	<b>Other</b>	<b>Total</b>
<b>Cost:</b>				
At January 1, 2009	35,873,914	11,247,864	1,940,874	49,062,652
Additions	402,903	3,171,026	192,690	3,766,619
Disposals	(697,876)	(362,020)	–	(1,059,896)
Discontinued operations (Note 34)	(21,804,331)	(2,917,197)	(342,123)	(25,063,651)
At December 31, 2009	13,774,610	11,139,673	1,791,441	26,705,724
Additions	409,856	3,073,343	303	3,483,502
Disposals	(2,112)	(736,609)	–	(738,721)
Internal movements	306,591	(145,283)	(161,308)	–
<b>At December 31, 2010</b>	<b>14,488,945</b>	<b>13,331,124</b>	<b>1,630,436</b>	<b>29,450,505</b>
<b>Accumulated amortization and impairment:</b>				
At January 1, 2009	9,037,733	4,847,970	804,779	14,690,482
Amortization charge	1,330,463	1,518,704	362,607	3,211,774
Disposals	(506,320)	(83,060)	–	(589,380)
Discontinued operations (Note 34)	(3,230,629)	(162,765)	(211,600)	(3,604,994)
At December 31, 2009	6,631,247	6,120,849	955,786	13,707,882
Amortization charge	1,402,190	2,056,986	438,058	3,897,234
Disposals	(981)	(625,540)	–	(626,521)
<b>At December 31, 2010</b>	<b>8,032,456</b>	<b>7,552,295</b>	<b>1,393,844</b>	<b>16,978,595</b>
<b>Net book value:</b>				
At January 1, 2009	26,836,181	6,399,894	1,136,095	34,372,170
At December 31, 2009	7,143,363	5,018,824	835,655	12,997,842
<b>At December 31, 2010</b>	<b>6,456,489</b>	<b>5,778,829</b>	<b>236,592</b>	<b>12,471,910</b>

Licenses include those acquired through business combinations.

As at December 31, 2010 intangible assets (mainly software) amounting to 4,432,580 thousand Tenge were fully amortized (2009: 3,342,207 thousand Tenge).

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

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

### 10. INVESTMENTS IN AN ASSOCIATE

At December 31, 2010 the Group had a 49% interest (2009: 49%) in LLP GSM Kazakhstan OAO Kazakhtelecom (“GSM Kazakhstan”), which is engaged in the provision of mobile telecommunication services in the GSM standard in Kazakhstan. GSM Kazakhstan is a private entity that is not listed on any public exchange.

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

<i>In thousands of Tenge</i>	<b>2010</b>	<b>2009</b>
Balance at January 1	<b>48,130,939</b>	44,604,223
Share in the associate's net profit	<b>26,038,892</b>	21,166,716
Dividends declared	<b>(20,384,000)</b>	(17,640,000)
<b>Balance at December 31</b>	<b>53,785,831</b>	48,130,939

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 10. INVESTMENTS IN ASSOCIATES (continued)

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

<i>In thousands of Tenge</i>	2010	2009
<b>Share of the associate's statement of financial position:</b>		
Current assets	7,766,923	7,434,456
Non-current assets	59,685,441	56,027,574
Current liabilities	(11,091,260)	(13,201,349)
Non-current liabilities	(2,575,273)	(2,129,742)
<b>Equity</b>	<b>53,785,831</b>	<b>48,130,939</b>
<b>Share of the associate's revenue and profit:</b>		
Revenue	73,229,187	62,275,734
Profits	26,038,892	21,166,716
<b>Carrying amount of the investment</b>	<b>53,785,831</b>	<b>48,130,939</b>

Amounts due to and from the associate at December 31, 2010 and 2009 and transactions with the associate for the years then ended are disclosed in the *Note 36*.

### 11. INVESTMENT PROPERTY

Movements in investment property were as follows for the year ended December 31, 2010:

<i>In thousands of Tenge</i>	2010	2009
<b>Cost:</b>		
At January 1	1,264,668	1,250,621
Additions	-	14,047
<b>At December 31</b>	<b>1,264,668</b>	<b>1,264,668</b>
<b>Accumulated depreciation and impairment:</b>		
At January 1	(1,264,668)	(1,250,621)
Impairment	-	(14,047)
<b>At December 31</b>	<b>(1,264,668)</b>	<b>(1,264,668)</b>
<b>Carrying amount:</b>		
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 1,127,585 thousand Tenge represents the write down of the carrying value of the investment property to the recoverable amount. This has been recognized in the consolidated income statement below "operating profit" line which is consistent with the function of the impaired asset. The recoverable amount was based on value in use and estimated to be zero as of December 31, 2010 and 2009 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.

### 12. OTHER NON-CURRENT ASSETS

Other non-current assets comprised the following at December 31, 2010:

<i>In thousands of Tenge</i>	2010	2009
Deferred connection costs	1,883,243	1,739,972
Long-term VAT recoverable	929,704	1,630,653
Long-term trade receivables	8,474,830	689,290
Long-term loans to employees	655,522	455,468
Other	73,342	74,407
	12,016,641	4,589,790
Less: Impairment allowance	(5,685,203)	-
	6,331,438	4,589,790

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 12. OTHER NON-CURRENT ASSETS (continued)

Long-term trade receivables as of December 31, 2010 represent receivables from Mobile Telecom-Service LLP, the former subsidiary of the Group (Note 34). The receivables were discounted at origination using the interest rate of 10% representing the market interest rate.

At December 31, 2010 and 2009, other non-current assets were denominated in Tenge.

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

<i>In thousands of Tenge</i>	2010	2009
Impairment allowance at the beginning of the year	-	-
Charge for the year (Note 34)	(5,685,203)	-
Write-offs	-	-
Impairment allowance at the end of the year	(5,685,203)	-

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

### 13. INVENTORIES

Inventories comprised the following at December 31, 2010:

<i>In thousands of Tenge</i>	2010	2009
Spare parts	1,770,902	1,851,633
Cable materials	1,415,802	1,379,134
Other materials and supplies	1,307,577	1,138,118
Fuel	828,662	724,472
Goods for resale	530,115	271,488
	5,853,058	5,364,845
Less: Allowance for obsolete and slow-moving inventories	(697,767)	(144,394)
	5,155,291	5,220,451

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

<i>In thousands of Tenge</i>	2010	2009
Allowance for obsolete and slow-moving inventories at the beginning of the year	(144,394)	(159,461)
Charge for the year	(582,260)	(153,539)
Write-offs	28,887	168,606
Allowance for obsolete and slow-moving inventories at the end of the year	(697,767)	(144,394)

### 14. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable comprised the following at December 31, 2010:

<i>In thousands of Tenge</i>	2010	2009
Trade receivables	14,507,776	13,824,324
Less: Allowance for doubtful debts	(3,326,801)	(1,412,060)
	11,180,975	12,412,264

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

<i>In thousands of Tenge</i>	2010	2009
Allowance for doubtful debts at the beginning of the year	(1,412,060)	(1,726,027)
Charge for the year	(2,143,476)	(330,434)
Write-offs	228,735	644,401
Allowance for doubtful debts at the end of the year	(3,326,801)	(1,412,060)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 14. TRADE ACCOUNTS RECEIVABLE (continued)

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

<i>In thousands of Tenge</i>	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-90 days	90-120 days	120-360 days	>360 days
2010	11,180,975	9,533,774	1,105,708	316,730	99,650	125,113	-
2009	12,412,264	10,744,223	969,824	439,336	83,216	175,665	-

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

<i>In thousands of Tenge</i>	2010	2009
Tenge	8,470,406	9,587,219
US Dollars	2,710,569	2,825,045
	11,180,975	12,412,264

### 15. PREPAYMENTS

Prepayments comprised the following at December 31, 2010:

<i>In thousands of Tenge</i>	2010	2009
Prepayments	623,632	496,799
Less: Impairment allowance	(38,219)	(54,131)
	585,413	442,668

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

<i>In thousands of Tenge</i>	2010	2009
Impairment allowance at the beginning of the year	(54,131)	(102,451)
Recovery for the year	116	35,464
Write-offs	15,796	12,856
Impairment allowance at the end of the year	(38,219)	(54,131)

### 16. OTHER FINANCIAL ASSETS

Short-term financial assets comprised the following at December 31, 2010:

<i>In thousands of Tenge</i>	2010	2009
Bank deposits	379,868	462,967
Dividends receivable	-	2,642,851
	379,868	3,105,818

Dividends receivable represent the unpaid dividends declared from an associate.

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

As at December 31, 2010 and 2009 Group's other financial assets were denominated in Tenge.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 17. OTHER CURRENT ASSETS

Other current assets comprised the following at December 31, 2010:

<i>In thousands of Tenge</i>	2010	2009
VAT recoverable	991,868	659,484
Due from employees	847,220	664,169
Prepaid taxes other than income tax	594,803	784,631
Deferred expenses	1,098,617	746,909
Other	1,662,388	1,866,306
	<b>5,194,896</b>	<b>4,721,499</b>
Less: Impairment allowance	(218,987)	(289,650)
	<b>4,975,909</b>	<b>4,431,849</b>

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

<i>In thousands of Tenge</i>	2010	2009
Allowance at the beginning of the year	(289,650)	(244,937)
Charge for the year	(33,782)	(51,457)
Write-offs	104,445	6,744
Allowance at the end of the year	<b>(218,987)</b>	<b>(289,650)</b>

At December 31, 2010 and 2009 other current assets were primarily denominated in Tenge.

### 18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following at December 31, 2010:

<i>In thousands of Tenge</i>	2010	2009
Cash in current bank accounts	44,258,361	15,608,488
Short-term deposits	13,723,039	6,021,547
Cash on hand	42,086	100,605
	<b>58,023,486</b>	<b>21,730,640</b>

Cash in current bank accounts earn interest at weighted average rate of 1%. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the weighted average short-term deposit rate of 4.7% per annum (2009: 7.8% per annum).

At December 31, 2010 cash and cash equivalents were denominated in various currencies as follows:

<i>In thousands of Tenge</i>	2010	2009
Tenge	41,141,381	14,937,602
US Dollars	15,783,734	6,775,669
Russian Rubles	188,849	8,155
Euro	906,610	9,214
Other	2,912	-
	<b>58,023,486</b>	<b>21,730,640</b>

### 19. EQUITY

*Authorised share capital (number of shares)*

	2010	2009
Ordinary shares	10,922,876	10,922,876
Preferred non-voting shares	1,213,653	1,213,653
	<b>12,136,529</b>	<b>12,136,529</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 19. EQUITY (continued)

#### Issued and paid shares

	Number of shares		Thousands of Tenge			Total issued capital
	Ordinary shares	Preferred non-voting shares	Ordinary shares	Preferred non-voting shares	Inflation adjustment	
As at January 1, 2009	10,922,876	1,213,653	10,922,876	1,213,653	22,799,912	34,936,441
Transfer of monetary loss	-	-	-	-	(22,799,912)	(22,799,912)
As at December 31, 2009	10,922,876	1,213,653	10,922,876	1,213,653	-	12,136,529
<b>As at December 31, 2010</b>	<b>10,922,876</b>	<b>1,213,653</b>	<b>10,922,876</b>	<b>1,213,653</b>	<b>-</b>	<b>12,136,529</b>

#### Transfer of the monetary loss

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

#### Treasury shares

	Number of shares		Thousands of Tenge	
	Ordinary shares	Preferred non-voting shares	Ordinary shares	Preferred non-voting shares
As at January 1, 2009	-	810,459	-	(2,652,860)
As at December 31, 2009	-	810,459	-	(2,652,860)
<b>As at December 31, 2010</b>	<b>-</b>	<b>810,459</b>	<b>-</b>	<b>(2,652,860)</b>

#### Preferred shares

Preferred stockholders are entitled to priority rights for participation in dividends and in any case are entitled, at the discretion of the Company's shareholders, to an annual cumulative dividend of 300 Tenge per share, but not less than per share dividends paid to the holders of common stock. This cumulative annual dividend represents a financial liability which, based on discounted future cash flows, amounts to 1,099,620 thousand Tenge. This liability has been recorded in non-current liabilities as a debt component of preferred stock. Preferred shareholders receive the right to vote if the general meeting of shareholders considers decisions restricting rights of preferred shareholders, decisions on reorganization or liquidation of the Company and if dividends on preferred shares are not paid within three months after a specified payment date.

#### Dividends

The preferred shares pay a non-discretionary dividend of 300 Tenge per share in accordance with the Company's charter documents and are considered to be compound financial instruments, and accordingly the liability and equity components are presented separately in the consolidated statement of financial position. Prescribed dividends in the amount of 120,957 thousand Tenge were accrued in 2010 and 2009 (Note 32). This dividend represents the interest with the effective rate of 11% on the debt component and is expensed in the income statement. Present value of non-discounted future cash flows represents the liability component in liabilities.

According to the decision made at the annual general shareholders meeting held on June 14, 2010, the Company declared additional dividends on preferred shares in the amount of 49,226 thousand Tenge and dividends on ordinary shares in the amount of 4,610,437 thousand Tenge (2009: 74,599 thousand Tenge and 5,297,813 thousand Tenge, respectively).

Dividends per share (ordinary and preferred) for 2010: 422 Tenge (2009: 485 Tenge).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 19. EQUITY (continued)

#### Currency translation reserve

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

#### Other capital reserve

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

#### Earnings per share

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

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

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

<i>In thousands of Tenge</i>	2010	2009
Net profit attributable to ordinary equity holders of the parent from continuing operations	33,375,360	32,387,274
Net profit / (loss) attributable to ordinary equity holders of the parent from a discontinued operation	844,292	(5,069,329)
Net profit attributable to ordinary equity holders of the parent for basic and diluted earnings	34,219,652	27,317,945
Interest on debt component of preferred shares	120,957	120,957
Net profit attributable to ordinary and preferred equity holders of the parent for basic and diluted earnings	34,340,609	27,438,902
Weighted average number of all shares outstanding for basic and diluted earnings per share	11,326,070	11,326,070
Basic and diluted earnings per share, Tenge	3,032	2,423

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 ordinary shares for both basic and diluted amounts is as per the table above. The following table provides the loss figure used:

<i>In thousands of Tenge</i>	2010	2009
Net profit / (loss) attributable to ordinary equity holders of the parent from a discontinued operation for basic and diluted earnings per share calculations	844,292	(5,069,329)

On 8 November 2010, Kazakhstan Stock Exchange has enacted a requirement for disclosure of the total equity less total intangible assets (*Note 8*), and less the preferred non-voting shares amount in equity divided by number of ordinary shares outstanding as at year end. As at December 31, 2010, that measure was 20,590 Tenge (2009: 17,887 Tenge). Another requirement is for disclosure of the sum of the dividends payable to owners of preferred shares, preferred non-voting shares amount in equity and debt component of preferred shares, divided by number of preferred non-voting shares as at year end. As at December 31, 2010 that measure was 1,933 Tenge (2009: 1,921 Tenge).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 20. BORROWINGS

Borrowings comprised the following at December 31, 2010:

<i>In thousands of Tenge</i>	2010	2009
Fixed interest rate borrowings	10,943,004	9,625,400
<i>Weighted average interest rate</i>	5.76%	6.07%
Variable interest rate borrowings	56,182,101	61,208,264
<i>Weighted average interest rate</i>	8.52%	8.57%

At December 31, 2010 borrowings were denominated in various currencies as follows:

<i>In thousands of Tenge</i>	2010	2009
Tenge, payments indexed to exchange rate Tenge / US Dollar	46,358,023	45,414,550
US Dollar	17,400,670	20,502,817
Won	1,705,709	1,772,053
EURO	1,115,077	2,034,905
Tenge	544,668	1,108,463
Other	958	876
	<b>67,125,105</b>	<b>70,833,664</b>

Borrowings are repayable as follows:

<i>In thousands of Tenge</i>	2010	2009
Current portion	9,153,943	8,963,886
Maturity between 1 and 2 years	10,428,169	5,311,995
Maturity between 2 and 5 years	21,905,927	30,788,905
Maturity over 5 years	25,637,066	25,768,878
Total long-term portion	<b>57,971,162</b>	<b>61,869,778</b>

At December 31, 2010, certain items of property, plant and equipment with a net carrying amount of 7,625,754 thousand Tenge were pledged as security for some of the Group's borrowings (2009: 9,568,571 thousand Tenge) (*Note 7*).

At December 31, 2010 and 2009, Group's borrowings of 1,691,528 thousand Tenge and 1,772,053 thousand Tenge, respectively, were guaranteed by the Government of the Republic of Kazakhstan.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 21. LEASES

#### *Finance leases*

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

<i>In thousands of Tenge</i>	2010		2009	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within one year	8,877,523	7,338,972	8,887,985	7,063,001
After one year but not more than five years	9,435,956	8,352,825	13,088,174	11,599,156
After five years	-	-	-	-
Less: amounts representing interest charges	(2,621,682)	-	(3,314,002)	-
<b>Present value of minimum lease payments</b>	<b>15,691,797</b>	<b>15,691,797</b>	<b>18,662,157</b>	<b>18,662,157</b>
Less: amounts due for settlement within 12 months		(7,338,972)		(7,063,001)
<b>Amounts due for settlement after 12 months</b>		<b>8,352,825</b>		<b>11,599,156</b>

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

#### *Operating leases*

The Group has entered into commercial leases on certain property, plant and equipment, primarily buildings and premises. These leases have an average life of 1 year with renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. Operating lease obligations are disclosed in *Note 38*.

### 22. EMPLOYEE BENEFIT LIABILITY

#### State Contribution Scheme

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

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

#### Defined Benefit Scheme

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

The Defined Benefit Scheme is unfunded.

The total liability for the Company's Defined Benefit Scheme comprised the following at December 31, 2010:

<i>In thousands of Tenge</i>	2010	2009
Present value of defined benefit liability	4,649,041	3,625,470

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 22. EMPLOYEE BENEFIT LIABILITY (continued)

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

<i>In thousands of Tenge</i>	2010	2009
Total liability at the beginning of the year	3,625,470	3,172,458
Current service cost	248,379	192,655
Interest cost	341,882	293,452
Benefits paid during the year	(613,381)	(474,500)
Actuarial loss recognised during the year	1,046,691	441,405
Total liability at the end of the year	4,649,041	3,625,470
Liability falling due within one year	289,262	281,688
Liability falling due after one year	4,359,779	3,343,782

Actuarial loss recognised for the year ended December 31, 2010 results primarily from changes in the assumptions relating to the discount rate and expected rate of future annual minimum salary increases. In determining the appropriate discount rate, Management considers the interest rate of highly rated corporate bonds in the respective currency.

Current service cost, interest cost, and actuarial loss in the aggregate amount of 1,636,952 thousand Tenge were recorded in the cost of revenue and general and administrative expenses within personnel costs (2009: 927,512 thousand Tenge) (Note 31).

There were no unrecognized actuarial losses or past service costs.

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

	2010	2009
Discount rate	9.73%	9.43%
The expected rate of future annual minimum salary increases	9.00%	6.00%

### 23. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities comprised the following at December 31, 2010:

<i>In thousands of Tenge</i>	2010	2009
Deferred connection revenue	2,986,328	2,843,922
Guarantees issued	393,858	688,042
Asset retirement obligations	196,161	159,139
Other	296,869	215,118
	<b>3,873,216</b>	<b>3,906,221</b>

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 24. ACCOUNTS PAYABLE

Accounts payable comprised the following at December 31, 2010:

<i>In thousands of Tenge</i>	2010	2009
Accounts payable for property, plant and equipment	9,038,314	6,509,535
Accounts payable for services	7,964,869	5,302,856
Accounts payable for inventory	714,474	397,744
	<b>17,717,657</b>	<b>12,210,135</b>

At December 31, 2010 and 2009 accounts payable were not interest bearing.

At December 31, 2010 accounts payable were denominated in various currencies as follows:

<i>In thousands of Tenge</i>	2010	2009
Tenge	13,719,769	6,985,495
US Dollars	3,577,043	4,656,580
Euro	75,669	328,558
Other	345,176	239,502
	<b>17,717,657</b>	<b>12,210,135</b>

### 25. OTHER CURRENT LIABILITIES

Other current liabilities comprised the following at December 31, 2010:

<i>In thousands of Tenge</i>	2010	2009
Deferred connection revenue	1,846,910	1,294,182
Due to employees	1,648,996	1,340,160
Taxes payable other than income tax	1,597,212	966,441
Payable to pension funds	455,914	496,519
Dividends payable	421,764	421,768
Guarantees issued	469,890	516,774
Other	470,477	699,018
	<b>6,911,163</b>	<b>5,734,862</b>

At December 31, 2010 and 2009 other current liabilities were not interest bearing and were primarily denominated in Tenge.

### 26. REVENUE

Revenue for the year ended December 31, 2010 comprised the following:

<i>In thousands of Tenge</i>	2010	2009
Rendering of wireline and wireless phone services	73,452,884	72,757,577
Data transfer services	46,082,658	36,426,121
Interconnect	13,212,331	14,172,809
Rent of lines	9,701,593	9,806,360
Other	5,055,767	5,664,696
	<b>147,505,233</b>	<b>138,827,563</b>

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

According to the Resolution of the Government of the Republic of Kazakhstan #1039, dated October 7, 2004 "On the approval of subsidies for telecommunication operators losses connected with the provision of universal telecommunication services in rural areas", beginning from 4th quarter of 2004, the Group has started receiving government subsidies as compensation for operators' losses for the provision of telephony services to socially important destinations. There are no unfulfilled conditions or contingencies attached to these subsidies. The amount of subsidy for the year ended December 31, 2010 totalled 5,226,471 thousand Tenge (2009: 5,138,485 thousand Tenge).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 28. COST OF REVENUE

Cost of services provided for the year ended December 31, 2010 comprised the following:

<i>In thousands of Tenge</i>	2010	2009
Personnel costs (Note 31)	34,770,529	31,815,230
Depreciation and amortization	35,838,816	23,430,527
Interconnect	13,010,139	12,749,025
Repair and maintenance	12,643,297	12,234,063
Rent of channels	4,696,092	4,284,903
Fees for the right to provide telecom services	1,945,901	1,755,045
Security and safety	1,823,351	1,767,264
Rental of equipment	1,386,170	1,335,403
Fees for use of frequency range	615,929	561,690
Other	4,288,082	2,802,211
	<b>111,018,306</b>	<b>92,735,361</b>

### 29. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended December 31, 2010 comprised the following:

<i>In thousands of Tenge</i>	2010	2009
Personnel costs (Note 31)	9,991,702	9,213,210
Bad debt expense (Notes 14, 15 and 17)	2,177,142	346,537
Taxes other than income tax	1,928,700	1,802,782
Consulting services	902,771	642,320
Depreciation and amortization	852,503	1,108,512
Reversal of provision for litigation costs	-	(1,039,473)
Bank fees	615,770	570,791
Materials	366,953	388,186
Business trips	264,073	215,276
Repair and maintenance	192,813	180,099
Security and safety	152,362	160,712
Rental of equipment	148,286	141,926
Trainings	139,334	93,827
Provision for obsolete inventory (Note 13)	582,260	153,539
Other	1,847,376	1,767,380
	<b>20,162,045</b>	<b>15,745,624</b>

### 30. SELLING EXPENSES

Selling expenses for the year ended December 31, 2010 comprised the following:

<i>In thousands of Tenge</i>	2010	2009
Marketing and advertising	2,426,960	1,746,983
Dealers commission	1,437,576	831,712
Other	481,502	1,092,781
	<b>4,346,038</b>	<b>3,671,476</b>

### 31. PERSONNEL COSTS

Personnel costs for the year ended December 31, 2010 comprised the following:

<i>In thousands of Tenge</i>	2010	2009
Payroll	39,280,206	36,523,926
Payroll related taxes	3,845,073	3,577,002
Employee benefits expense (Note 22)	1,636,952	927,512
	<b>44,762,231</b>	<b>41,028,440</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 32. FINANCE COSTS / INCOME

Finance costs and income for the year ended December 31, 2010 comprised the following:

<i>In thousands of Tenge</i>	2010	2009
<b>Finance costs:</b>		
Interest on borrowings	6,272,078	4,115,285
Interest payable under finance leases	2,133,966	2,399,460
Discounting of long-term loans to employees	738,515	149,162
Interest on debt component of preferred shares (Note 19)	120,957	120,957
Discounting of other non-current assets (Note 12)	165,425	110,821
Unwinding of discount on provisions (Note 23)	-	7,276
	<b>9,430,941</b>	<b>6,902,961</b>
<b>Finance income:</b>		
Interest income on bank deposits	890,782	693,349
Interest income on guarantees issued	341,068	541,485
Amortization of discount on long-term loans to employees	205,135	182,800
Amortization of discount on long-term trade receivables (Note 12)	218,108	-
Other	525,308	245,987
	<b>2,180,401</b>	<b>1,663,621</b>

### 33. INCOME TAX

Income tax expense comprised the following for the year ended December 31, 2010:

<i>In thousands of Tenge</i>	2010	2009
Current income tax charge	4,891,295	2,767,071
Deferred tax benefit relating to origination and reversal of temporary differences	(2,757,628)	(307,080)
Deferred tax charge resulting from change in tax rate	2,840,785	776,388
	<b>4,974,452</b>	<b>3,236,379</b>

A reconciliation of income tax expense applicable to profit before income tax at the statutory income tax rate of 20% (2009: 20%) to current income tax expense was as follows for the year ended December 31, 2010:

<i>In thousands of Tenge</i>	2010	2009
Accounting profit before tax from continuing operations	37,801,388	31,131,829
Gain / (loss) before tax from discontinued operations	844,292	(5,233,192)
<b>Accounting profit before income tax</b>	<b>38,645,680</b>	<b>25,898,637</b>
At statutory income tax rate of 20%	7,729,136	5,179,728
Non-taxable share of profit of an associate	(5,199,468)	(4,233,343)
Change in unrecognized deferred tax assets	(702,408)	1,739,610
Change in opening deferred tax resulting from change in tax rate	2,840,785	836,677
Non-taxable expenses / (income)	306,407	(450,156)
<b>Total income tax expense</b>	<b>4,974,452</b>	<b>3,072,516</b>
Income tax reported in the consolidated income statement	4,974,452	3,236,379
Income tax attributable to a discontinued operation (Note 34)	-	(163,863)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 33. INCOME TAX (continued)

Deferred tax balances, calculated by applying the statutory tax rates in effect at the reporting date to the temporary differences between the basis of assets and liabilities and the amounts reported in the consolidated financial statements, are comprised of the following at December 31, 2010:

In thousands of Tenge

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 33. INCOME TAX (continued)

In thousands of Tenge

	Consolidated profit and loss for 2009				December 31, 2009, as stated in liabilities of the disposal group	December 31, 2009, as stated in non-current liabilities
	December 31, 2008	Origination or reversal of temporary difference	Effect of the change in tax rate	Discontinued operation (Note 34)		
<b>Deferred tax assets</b>						
Tax losses carry-forward	41,247	(41,247)	-	13,875	(13,875)	-
Deferred income	305,208	(16,480)	17,692	-	-	306,420
Employee benefits obligations	488,661	60,121	29,771	-	-	578,553
Bad debt allowance	203,692	90,252	27,846	-	-	321,790
Intangible assets	67,927	89,033	(99,984)	-	-	56,976
Other	234,223	(117,004)	6,820	-	-	124,039
Less: deferred tax assets offset with deferred tax liabilities	(1,256,504)	-	(145,149)	-	13,875	(1,387,778)
<b>Deferred tax assets</b>	<b>84,454</b>	<b>64,675</b>	<b>(163,004)</b>	<b>13,875</b>	<b>-</b>	<b>-</b>
<b>Deferred tax liabilities</b>						
Property, plant and equipment	11,713,120	564,022	756,194	(13,090)	(12,048)	13,008,198
Intangible assets	3,857,752	(794,127)	2,339	(136,898)	(2,260,152)	668,914
Other	12,300	(12,300)	-	-	-	-
Less: deferred tax assets offset with deferred tax liabilities	(1,256,504)	-	(145,149)	-	13,875	(1,387,778)
<b>Deferred tax liabilities</b>	<b>14,326,668</b>	<b>(242,405)</b>	<b>613,384</b>	<b>(149,988)</b>	<b>(2,258,325)</b>	<b>12,289,334</b>
Deferred tax (benefit) / expense		(307,080)	776,388	(163,863)	-	-
<b>Net deferred tax liabilities</b>	<b>14,242,214</b>				<b>(2,258,325)</b>	<b>12,289,334</b>
Reflected in the statement of financial position as follows:						
Deferred tax assets	84,454				-	-
Deferred tax liability – continuing operations	(14,326,668)				-	(12,289,334)
Deferred tax liability – discontinued operations (Note 34)	-				(2,258,325)	-
<b>Deferred tax liability net</b>	<b>(14,242,214)</b>				<b>(2,258,325)</b>	<b>(12,289,334)</b>

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. The unrecognized deferred tax assets on accumulated tax losses at December 31, 2010 amounted to 67,991 thousand Tenge (2009: 2,967,217 thousand Tenge).

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

Further, in November 2010 the Government of the Republic of Kazakhstan approved amendments to the tax code effective January 1, 2011, in accordance to which the statutory income tax rates are changed to flat rate of 20% permanently to all future periods. The Group's calculation of deferred tax and income tax expenses reflect these changes in the tax law.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 33. INCOME TAX (continued)

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

<i>In thousands of Tenge</i>	2010	2009
Opening balance as of January 1	14,547,659	14,242,214
Origination and reversal of temporary differences	(2,757,628)	(307,080)
Change in opening deferred tax resulting from change in tax rate	2,840,785	776,388
Discontinued operation (Note 34)	(2,258,325)	(163,863)
<b>Closing balance as of December 31</b>	<b>12,372,491</b>	<b>14,547,659</b>

The temporary differences associated with investments in an associate for which deferred tax liability has not been recognized aggregate to 10,373,506 thousand Tenge (2009: 6,931,896 thousand Tenge).

### 34. DISCONTINUED OPERATION

On December 14, 2009 Kazakhtelecom concluded an agreement to sell its shares in the subsidiary Mobile Telecom-Service LLP to Tele2 Sverige AB, a Swedish mobile operator. Mobile Telecom-Service was a separate financial segment of the Group.

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

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

<i>In thousands of Tenge</i>	2010	2009
Revenue	670,038	4,759,384
Cost of revenue	(614,472)	(4,189,670)
Gross profit	55,566	569,714
General and administrative expenses	(70,313)	(546,177)
Selling expenses	(73,558)	(841,249)
Operating loss	(88,305)	(817,712)
Finance costs	(126,930)	(886,906)
Finance income	1,467	41,220
Foreign exchange gain / (loss)	925,599	(3,517,805)
Other loss	(45,859)	(51,989)
<b>Gain / (loss) before tax from a discontinued operation</b>	<b>665,972</b>	<b>(5,233,192)</b>
Gain on sale of subsidiary	178,320	
Income tax benefit (Note 33)	-	163,863
<b>Gain / (loss) after tax for the year from a discontinued operation</b>	<b>844,292</b>	<b>(5,069,329)</b>

The gain on sale of subsidiary was comprised from the following:

<i>In thousands of Tenge</i>	2010
Consideration received from Tele2 AB	11,175,800
Net assets associated with disposal group as of the date of disposal	(1,890,643)
Provision for loss from restructuring of receivables from MTS	(9,106,837)
<b>Gain on sale</b>	<b>178,320</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 34. DISCONTINUED OPERATIONS (continued)

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

<i>In thousands of Tenge</i>	2010	2009
<b>Assets</b>		
Property plant and equipment, net (Note 7)	-	14,427,296
Intangible assets, net (Note 8)	-	21,458,657
VAT recoverable	-	1,635,720
Cash and cash equivalents	-	485,654
Other	-	759,430
<b>Assets classified as held for sale</b>	-	<b>38,766,757</b>
<b>Liabilities</b>		
Interest bearing loans	-	(19,626,108)
Accounts payable	-	(2,801,397)
Deferred tax liability (Note 33)	-	(2,258,325)
Other	-	(899,349)
<b>Liabilities directly associated with assets classified as held for sale</b>	-	<b>(25,585,179)</b>
<b>Net assets directly associated with disposal group</b>	-	<b>13,181,578</b>

As Mobile Telecom-Service LLP was sold before December 31, 2010, assets and liabilities of disposal group classified as held for sale as of December 31, 2009 are no longer reflected in the consolidated statement of financial position.

Cash inflow from sale:

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

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

<i>In thousands of Tenge</i>	2010	2009
Operating	(271,317)	(312,889)
Investing	(67,769)	(24,445)
Financing	71,337	(561,109)
<b>Net cash outflow</b>	<b>(267,749)</b>	<b>(898,443)</b>
<b>Earnings per share:</b>	<b>2010</b>	<b>2009</b>
Basic and diluted earnings per share, from discontinued operation, Tenge	75	(448)

### 35. NON-CASH TRANSACTIONS

During 2010, under finance lease agreements the Group received telecommunication equipment with a value of 4,175,774 thousand Tenge (2009: 8,193,683 thousand Tenge). This transaction has been excluded from the consolidated statement of cash flows.

During 2010, the Group capitalized interest on bank loans of 46,293 thousand Tenge to property, plant and equipment (2009: 96,936 thousand Tenge). This transaction has been excluded from the consolidated statement of cash flows.

During 2010 the Group recognized provision for asset retirement obligations amounting to 32,065 thousand Tenge (2009: 213,448 thousand Tenge) as an addition to equipment. This transaction has been excluded from the consolidated statement of cash flows.

In 2010, 6,509,535 thousand Tenge was paid for property, plant and equipment purchased last year. Property, plant and equipment of 9,038,314 thousand Tenge was purchased in 2010 but not paid by December 31, 2010.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 36. RELATED PARTY TRANSACTIONS

The category 'parent-controlled entities' comprises entities controlled by the Parent, except for banks controlled by the Parent. Halyk Bank of Kazakhstan is a related party due to the bank being controlled by member of the management board of Parent. BTA Bank JSC and Alliance Bank JSC are related parties since they are controlled by Parent. Associate is represented by GSM Kazakhstan, private entity not listed on any public exchange in which the Group has a 49% interest (*Note 10*). Parent company has lost significant influence over JSC Kazkommertsbank in the beginning of 2010 (2009: Parent company controlled the bank through 21.2% ownership of ordinary shares), as in the beginning of 2010 an option became exercisable between the Parent company and major shareholders of the bank, which granted other shareholders the right to acquire shares owned by the Parent company.

Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates. Outstanding balances at the year-end are unsecured, short-term and settlement occurs in cash, except as discussed below.

For the year ended December 31, 2010 and 2009, 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.

Sales and purchases with related parties during the years ended December 31, 2010 and 2009 and the balances with related parties at December 31, 2010 and 2009 were as follows:

<i>In thousands of Tenge</i>	2010	2009
<b>Sales of goods and services</b>		
Parent	279,288	–
Parent-controlled entities	3,160,116	2,178,029
Associate	6,389,427	6,890,468
<b>Purchases of goods and services</b>		
Parent-controlled entities	1,623,476	1,674,208
Associate	4,738,547	5,836,599
<b>Interest earned on financial assets</b>		
Halyk Bank of Kazakhstan	–	71,213
<i>Average interest rate on deposits</i>	–	7%
Kazkommertsbank	–	104,713
<i>Average interest rate on deposits</i>	–	9%
<b>Interest incurred on borrowings</b>		
Halyk Bank of Kazakhstan	7,628	50,866
<i>Average interest rate on borrowings</i>	13.75%	14.2%
Development Bank of Kazakhstan	4,249,094	642,722
<i>Average interest rate on borrowings</i>	9.51%	9.42%
Kazkommertsbank	–	301,191
<i>Average interest rate on borrowings</i>	–	5%
<i>In thousands of Tenge</i>	2010	2009
<b>Cash and cash equivalents</b>		
Halyk Bank of Kazakhstan	10,306,195	6,713,357
Alliance Bank	734,991	–
BTA Bank	560,029	44,168
Kazkommertsbank	–	5,961,393
<b>Borrowings</b>		
Halyk Bank of Kazakhstan	–	306,936
Development Bank of Kazakhstan	46,358,023	45,414,550
Kazkommertsbank	–	4,698,967
<b>Trade and other receivables</b>		
Parent	138,205	4,812
Parent-controlled entities	459,761	445,799
Associate	425,917	3,097,924
<b>Accounts payable</b>		
Parent-controlled entities	82,035	58,838
Associate	2,221,965	110,785

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 36. RELATED PARTY TRANSACTIONS (continued)

Total compensation to key management personnel in general and administrative expenses in the accompanying consolidated income statement amounted to 272,900 thousand Tenge and 230,690 thousand Tenge for the years ended December 31, 2010 and 2009, respectively. Compensation to key management personnel mainly consists of contractual salary and performance bonus based on operating results.

As discussed in *Note 27*, the Government of the Republic of Kazakhstan provides certain subsidies to the Group for provision of universal services in rural areas.

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

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

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

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

#### Interest rate risk

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

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

<i>In thousands of Tenge</i>	2010		2009	
	Increase / decrease in basis points	Effect on profit before tax	Increase / decrease in basis points	Effect on profit before tax
US Dollar	+100	(525,968)	+100	(573,507)
	-25	131,492	-25	143,377
Euro	+100	(11,107)	+100	(20,256)
	-25	2,777	-25	5,064
Tenge	+100	(4,613)	+100	(10,555)
	-25	1,153	-25	2,639

\* 1 basis point = 0.01%

#### Currency risk

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### Currency risk (continued)

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

<i>In thousands of Tenge</i>	2010		2009	
	Increase / decrease in exchange rate	Effect on profit before tax	Increase / decrease in exchange rate	Effect on profit before tax
US Dollar	+12%	(6,965,752)	+10%	(9,883,683)
	-12%	6,965,752	-15%	14,825,522
Euro	+17%	(47,309)	+10%	(237,268)
	-17%	47,309	-15%	355,901
Won	+17%	(284,001)	+10%	(177,205)
	-17%	284,001	-15%	265,808

#### Credit risk

The Group trades only with recognised, creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in *Note 14*. There are no significant concentrations of credit risk within the Group.

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

#### Liquidity risk

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and finance leases. The Group's policy is that not more than 30% of borrowings should mature in the next 12 month period, 21% of the Group's debt will mature in less than one year at December 31, 2010 (2009: 27%) based on the carrying value of borrowings reflected in the financial statements, excluding discontinued operations.

The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2010 based on contractual undiscounted payments.

<i>In thousands of Tenge</i>	On demand	Due later than one month but not later than three months	Due later than three month but not later than one year	Due later than one year but not later than five years	Due after five years	Total
<b>As of December 31, 2010</b>						
Borrowings	-	4,752,883	7,488,442	47,017,047	31,465,686	90,724,058
Finance lease liabilities	-	2,327,313	6,025,811	8,983,798	-	17,336,922
Accounts payable	13,507,196	1,754,592	2,455,869	-	-	17,717,657
Debt component of preferred shares	-	-	108,971	338,077	652,572	1,099,620
Employee benefit liability	-	-	254,509	1,018,035	3,376,497	4,649,041
Other non-current liabilities	-	-	-	3,873,216	-	3,873,216
Other current liabilities	6,911,163	-	-	-	-	6,911,163
	20,418,359	8,834,788	16,333,602	61,230,173	35,494,755	142,311,677

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### Liquidity risk (continued)

<i>In thousands of Tenge</i>	On demand	Due later than one month but not later than three months	Due later than three months but not later than one year	Due later than one year but not later than five years	Due after five years	Total
As of December 31, 2009						
Borrowings	-	3,636,971	9,561,879	55,313,086	30,861,552	99,373,488
Finance lease liabilities	-	2,391,278	6,496,707	13,088,174	-	21,976,159
Accounts payable	9,308,493	1,209,178	1,692,464	-	-	12,210,135
Debt component of preferred shares	-	-	108,971	338,077	652,572	1,099,620
Employee benefit liability	-	-	198,474	793,896	2,633,100	3,625,470
Other non-current liabilities	-	-	-	3,906,221	-	3,906,221
Other current liabilities	5,734,862	-	-	-	-	5,734,862
	15,043,355	7,237,427	18,058,495	73,439,454	34,147,224	147,925,955

#### Cash flow risk

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

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

#### Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the holders of ordinary shares, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2010 and 2009.

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

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

<i>In thousands of Tenge</i>	2010	2009
Borrowings	67,125,105	70,833,664
Accounts payable	17,717,657	12,210,135
Finance lease obligations	15,691,797	18,662,157
<b>Net debt</b>	<b>100,534,559</b>	<b>101,705,956</b>
Equity	238,592,165	209,587,811
<b>Debt-to-equity ratio</b>	<b>0.42</b>	<b>0.49</b>

#### Fair values

At December 31, 2010 and 2009 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### Fair values (continued)

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

### 38. COMMITMENTS AND CONTINGENT LIABILITIES

#### Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of telecommunication equipment. As at December 31, 2009 the Group had contractual commitments totaling 14,652,126 thousand Tenge (2009: 13,044,405 thousand Tenge) related mostly to the purchase of telecommunication equipment and construction of telecommunication network.

#### Operating lease commitments - Group as lessee

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

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

<i>In thousands of Tenge</i>	2010	2009
Within one year	670,193	670,193
After one year but not more than five years	368,604	1,038,797
	<b>1,038,797</b>	<b>1,708,990</b>

#### License commitments

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

#### Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. In addition, management believes that international agreements, under which the Group works with non-residents residing in International Telecommunication Union, and which provide for certain tax exemptions, have a priority over national tax legislation. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2010. As at December 31, 2010 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained.

### 39. EVENTS AFTER THE REPORTING PERIOD

On January 19, 2011 the Group made an installment payment under its Kazakhstan bonds obligations in the amount of 2,157,303 thousand Tenge.