



**Kcell** GSM Kazakhstan LLP OAO Kazakhtelecom

**IAS 34 Interim Financial Reporting  
Interim Consolidated Financial Statements and  
Report on Review of Interim Consolidated Financial  
Statements**

**30 June 2012**



## **Report on review of interim consolidated financial statements**

To the Board of Directors and Owners of GSM Kazakhstan LLP OAO Kazakhtelecom

### ***Introduction***

We have reviewed the accompanying interim consolidated statement of financial position of GSM Kazakhstan LLP OAO Kazakhtelecom and its subsidiaries (the 'Group') as at 30 June 2012 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with International Accounting Standards 34 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

### ***Scope of review***

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial statements performed by the independent auditor of the entity'. A review of interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not present fairly, in all material respects the financial position of the Group as at 30 June 2012, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Accounting Standards 34 'Interim Financial Reporting'.

*PricewaterhouseCoopers LLP*

Almaty, Kazakhstan  
24 September 2012

---

*PricewaterhouseCoopers LLP*  
34 Al-Farabi Ave., Building A, 4th floor, 050059 Almaty, Kazakhstan  
T: +7 (727) 298 0448, F: +7 (727) 298 0252, [www.pwc.com/kz](http://www.pwc.com/kz)

---

## Contents

### REVIEW REPORT

### INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Interim Consolidated Statement of Financial Position .....	1
Interim Consolidated Statement of Comprehensive Income .....	2
Interim Consolidated Statement of Changes in Equity .....	3
Interim Consolidated Statement of Cash Flows .....	4

### Notes to the Interim Consolidated Financial Statements

1	The Group and its Operations .....	5
2	Basis of Preparation and Significant Accounting Policies .....	5
3	Critical Accounting Estimates, and Judgements in Applying Accounting Policies .....	12
4	New Accounting Pronouncements .....	13
5	Segment Information .....	16
6	Balances and Transactions with Related Parties .....	17
7	Property, Plant and Equipment .....	20
8	Intangible Assets .....	21
9	Other Non-Current Assets .....	22
10	Trade and Other Receivables .....	22
11	Charter Capital .....	24
12	Trade and Other Payables .....	25
13	Deferred Revenue .....	25
14	Revenues .....	25
15	Expenses by Nature .....	26
16	Taxes .....	26
17	Contingencies and Commitments .....	28
18	Financial Risk Management .....	31
19	Fair Value of Financial Instruments .....	34
20	Subsequent Events .....	34

# GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

## Interim Consolidated Statement of Financial Position

<i>In thousands of Kazakhstani Tenge</i>	Note	30 June 2012 Unaudited	31 December 2011 Audited
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	104,953,724	100,371,648
Intangible assets	8	17,606,747	18,433,691
Other non-current assets	9	6,165,552	6,759,364
<b>Total non-current assets</b>		<b>128,726,023</b>	<b>125,564,703</b>
<b>Current assets</b>			
Inventories		1,346,714	1,836,256
Trade and other receivables	10	17,855,511	14,032,421
Due from related parties	6	37,427	2,196,784
Cash and cash equivalents		863,242	1,352,996
<b>Total current assets</b>		<b>20,102,894</b>	<b>19,418,457</b>
<b>TOTAL ASSETS</b>		<b>148,828,917</b>	<b>144,983,160</b>
<b>EQUITY</b>			
Charter capital	11	3,914,895	3,914,895
Retained earnings		29,885,105	116,337,563
<b>TOTAL EQUITY</b>		<b>33,800,000</b>	<b>120,252,458</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liability	16	4,033,335	3,990,934
Other non-current liabilities		494,881	494,881
<b>Total non-current liabilities</b>		<b>4,528,216</b>	<b>4,485,815</b>
<b>Current liabilities</b>			
Trade and other payables	12	102,948,066	11,733,602
Due to related parties	6	442,676	380,946
Deferred revenues	13	5,749,866	7,183,871
Taxes payable		1,360,093	946,468
<b>Total current liabilities</b>		<b>110,500,701</b>	<b>20,244,887</b>
<b>TOTAL LIABILITIES</b>		<b>115,028,917</b>	<b>24,730,702</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>148,828,917</b>	<b>144,983,160</b>

Approved for issue and signed on behalf of the Management on \_\_\_\_\_

Vaysel Aral  
Chief Executive Officer



Baurzhan Ayazbaev  
Chief Financial Officer

The accompanying notes on pages 5 to 35 are an integral part of these interim consolidated financial statements

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

### Interim Consolidated Statement of Comprehensive Income

<i>In thousands of Kazakhstani Tenge</i>	Note	Six months ended	
		30 June 2012 Unaudited	30 June 2011 Unaudited (restated)
Revenue	14	85,780,222	83,790,197
Cost of sales	15	(36,905,093)	(30,712,930)
<b>Gross profit</b>		<b>48,875,129</b>	<b>53,077,267</b>
Selling and marketing expenses	15	(7,220,634)	(8,851,688)
General and administrative expenses	15	(5,104,290)	(5,082,065)
Other operating income		247,238	17,050
Other operating expenses		(80,725)	(112,284)
<b>Operating profit</b>		<b>36,716,718</b>	<b>39,048,280</b>
Finance income		79,649	344,471
<b>Profit before income tax</b>		<b>36,796,367</b>	<b>39,392,751</b>
Income tax expense	16	(7,371,386)	(7,765,933)
<b>Profit for the period</b>		<b>29,424,981</b>	<b>31,626,818</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the period</b>		<b>29,424,981</b>	<b>31,626,818</b>
<b>Earnings per share (Kazakhstani Tenge), basic and diluted</b>	11	<b>147.12</b>	<b>158.13</b>

Profit and total comprehensive income for both Interim periods is fully attributable to the Company's owners.

The accompanying notes on pages 5 to 35 are an integral part of these interim consolidated financial statements

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

### Interim Consolidated Statement of Changes in Equity

<i>In thousands of Kazakhstani Tenge</i>	<b>Charter capital</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>Balance at 1 January 2011</b>	<b>3,914,895</b>	<b>107,479,459</b>	<b>111,394,354</b>
Total comprehensive income for the period	-	31,626,818	31,626,818
Dividends declared (Note 11)	-	(28,000,000)	(28,000,000)
<b>Balance at 30 June 2011 (unaudited)</b>	<b>3,914,895</b>	<b>111,106,277</b>	<b>115,021,172</b>
<b>Balance at 1 January 2012</b>	<b>3,914,895</b>	<b>116,337,563</b>	<b>120,252,458</b>
Total comprehensive income for the period	-	29,424,981	29,424,981
Dividends declared (Note 11)	-	(115,877,439)	(115,877,439)
<b>Balance at 30 June 2012 (unaudited)</b>	<b>3,914,895</b>	<b>29,885,105</b>	<b>33,800,000</b>

The accompanying notes on pages 5 to 35 are an integral part of these interim consolidated financial statements

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

### Interim Consolidated Statement of Cash Flows

<i>In thousands of Kazakhstani Tenge</i>	Note	Six months ended	
		June 2012 Unaudited	June 2011 Unaudited
<b>Cash flows from operating activities</b>			
Net Income		29,424,981	31,626,818
Adjustments for:			
Depreciation of property, plant and equipment	7	9,448,124	9,613,353
Amortisation of intangible assets	8	1,907,193	1,973,577
Income taxes	16	(1,031,673)	(278,754)
Impairment of trade receivables	10	101,744	94,575
Losses less gains on disposal of property, plant and equipment and intangible assets		88,906	6,690
<b>Operating cash flows before working capital changes</b>		<b>39,939,275</b>	<b>43,036,259</b>
Trade and other receivables		(2,876,842)	(2,644,870)
Prepayments under Kcell Express programme		-	278,285
Due from related parties		2,159,357	(639,862)
Inventories		489,542	(273,276)
Taxes payable		439,707	313,160
Trade and other payables		1,289,740	3,345,681
Due to related parties		61,730	78,168
Deferred revenues		(1,434,005)	(1,644,115)
Restricted cash		(78,898)	7,440
<b>Net cash from operating activities</b>		<b>39,969,606</b>	<b>41,856,870</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(13,446,396)	(13,439,967)
Purchase of intangible assets		(1,080,249)	(1,625,891)
<b>Net cash used in investing activities</b>		<b>(14,526,645)</b>	<b>(15,065,858)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	11	(25,932,715)	(14,000,000)
<b>Net cash used in financing activities</b>		<b>(25,932,715)</b>	<b>(14,000,000)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(489,754)</b>	<b>12,791,012</b>
Cash and cash equivalents at beginning of the period		1,352,996	5,244,869
<b>Cash and cash equivalents at end of the period</b>		<b>863,242</b>	<b>18,035,881</b>

The accompanying notes on pages 5 to 35 are an integral part of these interim consolidated financial statements

# GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

## Notes to the Interim Consolidated Financial Statements – 30 June 2012

### 1 The Group and its Operations

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") for the six-month period ended 30 June 2012 for GSM Kazakhstan LLP OAO Kazakhtelecom (the "Company") and its subsidiaries (together referred to as the "Group").

The Company is a subsidiary of Fintur Holdings B.V., and was formed to design, construct and operate a cellular telecommunications network in the Republic of Kazakhstan, using the GSM (Global System for Mobile Communications) standard. The Company was established as a limited liability partnership on 1 June 1998 with short name, GSM Kazakhstan LLP. As disclosed in Note 11 prior to 2 February 2012 the Company was owned 51 percent by Fintur Holdings B.V. ("Fintur" or parent company) and 49 percent by Kazakhtelecom JSC ("Kazakhtelecom"). Owners of Fintur are TeliaSonera Finland Oyj ("TeliaSonera") and Turkcell Iletisim Hizmetleri A.S. ("Turkcell") holding 58.55 percent and 41.45 percent, respectively. On 2 February 2012 the 49% stake in the Company owned by Kazakhtelecom was sold directly to Sonera Holding B.V. ("Sonera"), which is entity under common control of TeliaSonera. The Group's ultimate parent and ultimate controlling party is TeliaSonera.

In an auction arranged by the Republic of Kazakhstan in June 1998, the Group obtained a non-exclusive general license for 15 years to provide mobile telephone services in accordance with GSM standard 900 (GSM-900). The Group started its commercial activity in 1999 through direct sales and a network of distributors. The Group provides cellular services throughout most of the territory of the Republic of Kazakhstan. At present, the Group is one of three GSM cellular phone carriers operating in the Kazakhstani market. The Group operates under its own brands, Kcell (postpaid and paid-in-advance subscribers) and Activ (prepaid subscribers).

In 2008, the Group accepted an offer from the government of the Republic of Kazakhstan to acquire additional 5 MHz radiofrequencies in the range of 1800 MHz. On 26 August 2008, the competent authority approved an addendum to the Group's operating GSM license. The revised license provides the Group with a right to operate both GSM-900 and GSM-1800 networks. Under revised terms, the Group committed to provide all locations with population over 1,000 people with mobile services using GSM-900 and GSM-1800 standards until 31 December 2012.

The Company acquired KT-Telecom LLP ("KT-Telecom") in 2008 and AR-Telecom LLP ("AR-Telecom") in 2007. The purpose of these acquisitions was to obtain WiMAX licenses (Note 8). In 2009, KT-Telecom and AR-Telecom commenced their operating activities; accordingly the Group started to prepare consolidated financial statements since 2009 (Note 2). In 2010, WiMAX services were launched in Astana and Atyrau under WLL licenses. Subsequently in 2011, the ownership of WLL licenses have been transferred to the Company.

On 1 December 2010, the Group launched 3G services in Astana and Almaty based on the temporary permission. On 25 December 2010, the competent authority signed an addendum to the existing GSM license, which provides the Group with a right to operate 3G network. The addendum requires the Group to provide all locations with population over 10,000 people with mobile services using UMTS/WCDMA standards until 1 January 2015 (Note 8).

On 1 July 2011 the Ministry of Communication and Information of Kazakhstan extended the Company's general license from initial 15 years to unlimited period of time.

The Company's registered address is 100, Samal-2, Almaty, Republic of Kazakhstan. The head office is located at Timiryazeva street, 2, Almaty, Republic of Kazakhstan.

### 2 Basis of Preparation and Significant Accounting Policies

#### *Basis of preparation*

These interim consolidated financial statements for the six-month period ended 30 June 2012 have been prepared in accordance with IAS 34 under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these interim consolidated financial statements are set out below and consistent with those of the previous financial year except for accounting for income taxes. These interim consolidated financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements, unless otherwise stated (refer to Note 4, New Accounting Pronouncements).

The preparation of interim consolidated financial statements in conformity with International Financial Reporting Standards ("IFRS") requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the interim consolidated financial statements are disclosed in Note 3. Actual results could differ from those estimates.



## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

### Notes to the Interim Consolidated Financial Statements – 30 June 2012

#### 2 Basis of Preparation and Significant Accounting Policies (Continued)

##### *Foreign currency translation*

###### *(i) Functional and presentation currency*

All amounts in these interim consolidated financial statements are presented in thousands of Kazakhstani Tenge ("Tenge"), unless otherwise stated.

Functional currency is the currency of the primary economic environment in which the entity operates. The functional currency of each of the Group entities is Tenge.

###### *(ii) Transactions and balances*

Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction established by National Bank of the Republic of Kazakhstan. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the profit and loss for the year.

At 30 June 2012 the principal rate of exchange of the NBRK used for translating foreign currency balances was USD 1 = Tenge 149.42 (31 December 2011: USD 1 = Tenge 148.40). Exchange restrictions and currency controls exist relating to converting Tenge into other currencies. At present, Tenge is not a freely convertible currency in most countries outside of the Republic of Kazakhstan.

##### *Consolidated financial statements*

Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Group and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

##### *Property, plant and equipment*

###### *(i) Recognition and subsequent measurement*

Property, plant and equipment are stated at cost, less accumulated depreciation and any provision for impairment. Cost comprises construction cost or purchase price, including import duties and non-refundable taxes, and any directly attributable costs of bringing the asset to working condition and location for its intended use. Any trade discounts and rebates are deducted in arriving at the construction cost or purchase price.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Construction in progress is carried at cost. Upon completion, assets are transferred to buildings and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

###### *(ii) Depreciation*

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	<u>Useful lives in years</u>
Buildings	10 to 25
Radio equipment, switches and transmission devices	4 to 8
Other	4 to 8

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

Notes to the Interim Consolidated Financial Statements – 30 June 2012

### 2 Basis of Preparation and Significant Accounting Policies (Continued)

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the period when the asset is retired.

#### (iii) Impairment

At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the profit or loss for the period. An impairment loss recognised for an asset in prior periods is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

#### Intangible assets

The Group's operating GSM license (GSM-900 and GSM-1800 and 3G) and the additional right for the radiofrequency (GSM-1800), as disclosed in Notes 1 and 8, are recorded at cost and are amortised on a straight-line basis over the estimated economic useful life of the license / right.

The economic useful life of the original GSM license and 3G license is estimated by management at 15 years. The useful life is the initial license term and in line with the management assessment of the development of communication technology. The economic useful life of the additional right for the radiofrequencies (GSM-1800) is estimated by management at 5 years, which is the term of the right.

Other intangible assets are amortised over their estimated useful lives as follows:

	Useful lives in years
Computer software and software license rights	4 to 8
Other telecom licences	10
Other	8 to 10

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

When the Group acquires a group of assets that does not constitute a business, it allocates the cost of the group between the individual identifiable assets in the group based on their relative fair values at the date of acquisition. At the acquisition the Group accounted for AR-Telecom and KT-Telecom (Note 8) as the acquisitions of a group of intangible assets rather than businesses. Accordingly, the costs of acquisitions of those entities were allocated to the costs of acquired assets.

#### Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

#### Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

Notes to the Interim Consolidated Financial Statements – 30 June 2012

---

### 2 Basis of Preparation and Significant Accounting Policies (Continued)

#### *Trade and other receivables*

Trade and other financial receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the statement of comprehensive income. When a trade receivable is uncollectible, it is written off against the provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income. The primary factor that the Group considers whether a receivable is impaired is its overdue status.

Prepaid taxes, deferred expenses and advances to suppliers are stated at actual amounts paid less provision for impairment.

#### *Prepayments*

Prepayments are carried at cost less any provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the period.

#### *Cash and cash equivalents*

Cash and cash equivalents include cash in hand and deposits held at call with banks with original maturities of three months or less and are subject to insignificant risk of change in value. Cash and cash equivalents are carried at amortised cost using the effective interest method. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the end of the reporting period are included in other non-current assets.

#### *Charter capital*

Assets contributed to charter capital are recognised at fair value at the time of contribution. Any excess of the fair value of assets contributed over the nominal value of charter capital contribution upon its legal registration is credited directly to equity under the heading of share premium.

#### *Dividends*

Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note.

#### *Value added tax*

Value added tax ("VAT") related to sales is payable to tax authorities when goods are shipped or services are rendered. Input VAT is reclaimable against output VAT upon receipt of a tax invoice from a supplier. The tax legislation permits the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases unsettled at the end of the reporting period is stated in the statement of financial position on a net basis.

#### *Trade and other payables*

Trade and other financial payables are accrued when the counterparty performed its obligations under the contract. The Group recognises trade payables at fair value. Subsequently, trade payables are carried at amortised cost using the effective interest method.

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

Notes to the Interim Consolidated Financial Statements – 30 June 2012

### 2 Basis of Preparation and Significant Accounting Policies (Continued)

#### *Provisions for liabilities and charges*

Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

#### *Asset retirement obligations*

Estimated costs of dismantling and removing an item of property, plant and equipment (asset retirement obligations) are added to the cost of an item of property plant and equipment when incurred either when an item is acquired or as the item is used during a particular period for purposes other than to produce inventories during that period. Changes in the measurement of an existing asset retirement obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate adjust the cost of the related asset in the current period.

#### *Revenue recognition*

Revenue is recorded on an accrual basis at the sales value, adjusted for discounts granted and VAT. Revenue is measured at the fair value of the consideration received or receivable.

Revenue is categorised as follows voice services, data services, value added services, and other revenues.

Voice service includes call out revenue, interconnect fees, roaming revenues charged to the Group's subscribers for roaming in other wireless operators' network, and revenues charged to other wireless operators for non-Group subscribers using the Group's network.

Data services include revenues from GRPS, WAP services and other data services.

Value added services consists of SMS, MMS, infoservices and providing content of third parties, fax and voice mail services.

Other revenues include sales of handsets to distributors and subscribers, rental of transmission lines to other operators.

#### *(i) Call out revenue*

Call out revenue is recognised based on the actual airtime used by the subscribers. Prepayments received for call out revenue are not recognised as revenue until the related service has been provided to the subscriber or it was expired.

#### *(ii) Interconnect revenues and costs*

The Group charges interconnect per minute fees and fixed monthly payments to other local wireless and fixed line operators for calls originated outside and terminated within the Group's network. The Group recognises such revenues when the services are provided. The Group is charged interconnect per minute fees and fixed monthly payments by other local wireless and fixed line operators for calls originated within the Group's network and terminated outside of the network. The Company recognises such costs when the services are provided.

#### *(iii) Data revenue*

The data service is recognised when a service is used by a subscriber based on actual data volume traffic.

#### *(iv) Roaming revenues charged to the Group's subscribers*

Roaming revenue from the Group's subscribers for roaming in other operators' network is charged based on information provided by other operators to the Group.

## **GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM**

### **Notes to the Interim Consolidated Financial Statements – 30 June 2012**

---

#### **2 Basis of Preparation and Significant Accounting Policies (Continued)**

##### *(iv) Roaming fees charged to other wireless operators*

The Group charges roaming per minute fees to other wireless operators for non-company subscribers utilising the Group's network. The Group recognises such revenues when the services are provided.

##### *(v) Value added services*

Value added services mainly consists of content provided by third parties, different infoservices, fax and voice mail. When invoicing end-customer for third party content service, amounts collected on behalf of the principle are excluded from revenue.

##### *vii) Deferred revenue*

Prepayments received for communication services are recorded as deferred revenue. The Group recognises revenue when the related service has been provided to the subscriber.

##### **Sales commission to dealers and distributors**

The Company sells payment scratch cards, sim cards, and handsets using various distributors and dealers. The Company pays a certain commission to distributors and dealers depending on the number of payment scratch cards, sim cards or handset sold. The commission is recorded when the item is sold to subscriber as an expense in the statement of comprehensive income.

##### **Payroll expenses and related contributions**

Wages, salaries, paid annual leave and sick leave, bonuses, and other benefits are accrued in the period in which the associated services are rendered by the employees of the Group.

##### **Pension payments**

The Group does not incur any expenses in relation to provision of pensions or other post-employment benefits to its employees. In accordance with the legal requirements of the Republic of Kazakhstan, the Group withholds pension contributions from employee salaries and transfers them into state or private pension funds on behalf of its employees. Upon retirement of employees, all pension payments are administered by the pension funds directly.

##### **Income taxes**

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year.

##### **Segment reporting**

Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. The chief operating decision-maker has been identified as the Company's CEO. The Group determined the Group's operations as a single reporting segment.

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

Notes to the Interim Consolidated Financial Statements – 30 June 2012

### 2 Basis of Preparation and Significant Accounting Policies (Continued)

#### *Changes in presentation*

Where necessary, corresponding figures have been adjusted to conform to the presentation of the current period amounts.

- a) In 2011 the Group's management changed its view on treatment of distributors' commission expenses related to sale of scratch cards to subscribers. The management believes that the distributors act as agent in selling scratch cards to subscribers without assuming the risks and rewards of ownership of the goods and services. Accordingly, the distributors' commission should not be deducted from the revenue. Comparative information is restated to reflect change in presentation as presented below.

<b>Effect of the reclassification on the Statement of Comprehensive Income</b>	<b>Effect in six month 2011</b>
Increase in revenue	1,430,625
Increase in selling and marketing expenses	1,430,625
<b>Change in total comprehensive income for the period</b>	<b>"</b>

- b) In 2011, the Group's management changed the presentation of expenses recognized in profit or loss from classification based on their nature to classification based on their function since the Group believes that "by function" presentation of expenses is consistent with the industry practice and provides reliable and more relevant information about the Group's financial performance.

As the restatements did not have an impact on the consolidated statement of financial position of the Group, the Management did not present the consolidated statements of the financial position as of 1 January 2011.

#### *Financial Instruments*

##### *(i) Key measurement terms*

Financial instruments of the Group are carried at amortised cost as described below.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and less any impairment provision. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense are not presented separately and are included in the carrying values of related statement of financial position items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

##### *(ii) Classification of financial assets*

Financial assets of the Group include loans and receivables only. The management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise restricted cash (Note 9), trade receivables (Note 10), due from related parties (Note 6), and cash and cash equivalents in the statement of financial position.

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

Notes to the Interim Consolidated Financial Statements – 30 June 2012

### 2 Basis of Preparation and Significant Accounting Policies (Continued)

#### (iii) Classification of financial liabilities

Financial liabilities of the Group include financial liabilities carried at amortised cost. The Group's financial liabilities comprise trade and other financial payables (Note 12), and due to related parties (Note 6).

#### (iv) Initial recognition of financial instruments

Financial assets and liabilities are initially recorded at fair value less transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

#### (v) Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

### 3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect amounts recognised in the interim consolidated financial statements and carrying amounts of assets and liabilities within the next financial period. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. In preparing these interim consolidated financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the interim consolidated financial statements for the year ended 31 December 2011, with the exception of changes in estimates that are required in determining the provision for income taxes. Judgements that have the most significant effect on the amounts recognised in these interim consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial period include:

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

Management determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and intangible assets. This estimate is based on projected period over which the Group expects to consume economic benefits from the asset. It could change significantly as a result of technical innovations and competitor actions in a high-tech and competitive mobile industry. Carrying amount of assets most affected by judgements (radio judgement, switches and transmission devices) amounted to 57,867,027 thousand Tenge (Note 7) as of 30 June 2012 (31 December 2011: 51,300,430 thousand Tenge). Management will increase the depreciation charge where useful lives are less than previously assessed estimated lives, or it will write-off or write-down technically obsolete assets that have been abandoned or sold.

The management assesses the useful life of telecommunication licenses based on technology development and legal terms of the license agreements. The useful life of GSM and 3G license is assessed as estimated by the management as 15 years.

The useful lives are reviewed at least at each reporting date.

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

Notes to the Interim Consolidated Financial Statements – 30 June 2012

### 3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

#### *Debt vs. equity*

In accordance with the Company's foundation agreement, an owner in the Company has a right to withdraw and demand redemption of its interest in the Company. The General Meeting of owners of the Company determines whether the redemption will be in cash, other financial assets or in non-financial assets. This put option could mean that owners' equity interests in the Company give rise to a financial liability in accordance with IAS 32, Financial Instruments: Disclosures and Presentation, because the Company has an obligation to purchase its own equity instruments. The decision about the form of redemption (either financial assets or non-financial assets) is in the scope and competence of the General Meeting of owners. The management believes that the General Meeting of owners could be viewed as having a dual nature - it is the Company's highest governing body and at the same time it represents owners which are separate from the Company. Management believes that the General Meeting represents the highest governing body of the Company and, therefore, it is at the Company's discretion to define the form of the redemption when an owner exercises the put option. As a result, the management is of the view that owners' equity interests in the Company do not give rise to a financial liability as the Company does not have an unconditional obligation to deliver cash or another financial asset. Under IFRS, liabilities are not recognised for executory contracts to deliver non-financial assets in exchange for entity's own shares, unless such contracts become onerous. Therefore, owners' interests are classified in these interim consolidated financial statements as equity.

Should this view be called into question and the different view be taken with respect to the interpretation of the role of the General Meeting, the equity of 33,800,000 thousand Tenge would be classified as a non-current financial liability as of 30 June 2012 (31 December 2011: 120,252,458 thousand Tenge).

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

At the end of each reporting period management assesses whether there is any indication of impairment of non-financial assets. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. Calculation of value in use requires application of estimated data and professional judgment from management, which are considered reasonable in the existing circumstances.

In accordance with the accounting policy, for the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Management determined the whole telecommunication network of the Group as one cash-generating unit. Telecom licenses and other intangible assets, including WLL licenses, do not generate independent cash flows and are assessed for impairment together with the related network assets. Total carrying value of the cash generating unit as of 30 June 2012 is 122,500,471 thousand Tenge (31 December 2011: 118,805,339 thousand Tenge).

Management has considered whether there are any indications of impairment of property, plant and equipment and intangible assets as of 30 June 2012 and 31 December 2011 and concluded that no impairment indications existed at these dates.

### 4 New Accounting Pronouncements

The following new standards and interpretations became effective for the Group from 1 January 2012:

**Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (Issued in October 2010 and effective for annual periods beginning on or after 1 July 2011).** The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment does not have any material effect on the Group's interim consolidated financial statements.

**Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (Issued in December 2010 and effective for annual periods beginning on or after 1 July 2011).** The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The



## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

### Notes to the Interim Consolidated Financial Statements – 30 June 2012

#### 4 New Accounting Pronouncements (Continued)

exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position.

The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes. The amendment does not have any material effect on the Group's interim consolidated financial statements.

**Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012).** The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, Income Taxes – Recovery of Revalued Non-Depreciable Assets, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, Property, Plant and Equipment, was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The amendment does not have any material effect on the Group's interim consolidated financial statements.

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later and which the Group has not early adopted.

**IFRS 9, Financial Instruments: Classification and Measurement.** IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

### Notes to the Interim Consolidated Financial Statements – 30 June 2012

#### 4 New Accounting Pronouncements (Continued)

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

**IFRS 10, Consolidated Financial Statements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)**, replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the new standard on its interim consolidated financial statements.

**IFRS 11, Joint Arrangements, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)**, replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.

**IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)**, applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the new standard on its interim consolidated financial statements.

**IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013)**, aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the new standard on its interim consolidated financial statements.

**IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013)**, was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements.

**IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013)**. The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.

**Amendments to IAS 1, Presentation of Financial Statements, (issued June 2011, effective for annual periods beginning on or after 1 July 2012)**, changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statements of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

### Notes to the Interim Consolidated Financial Statements – 30 June 2012

#### 4 New Accounting Pronouncements (Continued)

*Amended IAS 19, Employee Benefits, (issued in June 2011, effective for periods beginning on or after 1 January 2013)*, makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income.

*Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013)*. The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

*Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014)*. The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendment, the impact on the Group and the timing of its adoption by the Group.

*Other revised standards and interpretations*. The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, the amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, and IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine", which considers when and how to account for the benefits arising from the stripping activity in mining industry, will not have any impact on these consolidated financial statements.

Unless otherwise described above, these new standards, interpretations and improvements are not expected to significantly affect the Group's consolidated financial statements.

#### 5 Segment Information

The Group identifies Group's operations as a single reportable segment.

The Group provides mobile communication services in Kazakhstan. The Group identifies the segment in accordance with the criteria set in IFRS 8 and based on the way the operations of the Group are regularly reviewed by the chief operating decision maker to analyse performance and allocate resources among business units of the Group.

The chief operating decision-maker (CODM) has been determined as the Company's CEO. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined a single operating segment being mobile communication services based on these internal reports data.

Within the segment all business component demonstrates similar economic characteristics and are alike as follows:

- providing mobile communication services to prepaid subscribers;
- providing mobile communication services to postpaid and paid-in-advance subscribers.

The chief operating decision-maker assesses the performance of the operating segment based on a measure of Revenue, EBITDA, EBIT, and Profit for the year. The Group defines EBITDA as Profit before income tax, finance income and costs, depreciation, and amortisation. The Group defines EBIT as Profit before tax, finance income and finance costs. The Group's definition of EBITDA and EBIT may differ from that of other companies.

The accounting policies used for segments are the same as accounting policies applied for these interim consolidated financial statements as described in Note 2.

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

### Notes to the Interim Consolidated Financial Statements – 30 June 2012

#### 5 Segment Information (Continued)

The segment information for the six months ended 30 June 2012 and a reconciliation of segment's measures of profit and loss to profit for the six months period is provided as follows:

<i>In thousands of Kazakhstani Tenge</i>	Six months ended 30 June 2012	Six months ended 30 June 2011
Revenue	85,780,222	83,790,197
EBITDA	48,072,035	50,635,210
Depreciation, and amortisation	(11,355,317)	(11,586,930)
EBIT	36,716,718	39,048,280
Finance income	79,649	344,471
Finance cost	-	-
Profit before income tax	36,796,367	39,392,751
Profit for the period	29,424,981	31,626,818

The Group's revenue for each service is presented in the Note 14. All revenue is attributable to the customers in Kazakhstan. The Group's business is not materially impacted by seasonality factors.

All non-current assets other than financial instruments and deferred tax assets are located in Kazakhstan.

#### 6 Balances and Transactions with Related Parties

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Group's ultimate controlling party is TeliaSonera (Note 1). Entities of TeliaSonera group include entities under common control and associates of TeliaSonera.

Prior to 2 February 2012 related parties also included entities under control or joint control of the government of the Republic of Kazakhstan which controls Kazakhtelecom. Accordingly, the balances of Kazakhtelecom as at 30 June 2012 were included in trade payables and trade receivables. Transactions with the state owned entities are not disclosed when they are made in the ordinary course of business with terms consistently applied to all public and private entities: i) when they are not individually significant; ii) where mobile services are rendered at the standard terms available to all subscribers; or iii) where there is no choice of supplier such as electricity transmission services, telecommunications, etc.

Amounts due from related parties at 30 June 2012 and 31 December 2011 are as follows:

<i>In thousands of Kazakhstani Tenge</i>	30 June 2012	31 December 2011
Kazakhtelecom (owner prior to 2 February 2012)	-	2,156,411
Turkcell (owner of parent)	4,932	10,536
Entities of TeliaSonera group	32,495	29,837
	Interconnect and transmission	-
	Roaming	10,536
	Roaming	29,837
<b>Total due from related parties</b>	<b>37,427</b>	<b>2,196,784</b>

Amounts due from related parties are neither past due nor impaired. It represents receivables from related parties for roaming services. These entities do not have credit ratings assigned but their reliability is determined by the Group on the basis of long-term cooperation. These companies represent those companies which have a good credit history. The Group's management believes that due from related parties in the amount of 37,427 thousand Tenge will be fully repaid in 2012.

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

### Notes to the Interim Consolidated Financial Statements – 30 June 2012

#### 6 Balances and Transactions with Related Parties (Continued)

Amounts due to related parties as at 30 June 2012 and 31 December 2011 are as follows:

<i>In thousands of Kazakhstani Tenge</i>		30 June 2012	31 December 2011
Fintur Holding B.V. (parent)	Technical assistance	387,853	349,724
Turkcell (owner of parent)	Roaming	29,028	6,138
TeliaSonera (ultimate parent)	Roaming	12,811	6,229
Kazakhtelecom (owner prior to 2 February 2012)	Interconnect and transmission	-	831
Entities of TeliaSonera group	Roaming	12,984	18,024
<b>Total due to related parties</b>		<b>442,676</b>	<b>380,946</b>

The income items with related parties for the six months ended 30 June 2012 and 2011 were as follows:

<i>In thousands of Kazakhstani Tenge</i>		2012	2011
<i>Revenues</i>			
Kazakhtelecom (owner prior to 2 February 2012)	Interconnect	232,297	1,674,422
Turkcell (owner of parent)	Roaming	24,813	28,831
Entities of TeliaSonera group	Roaming	66,402	80,155
<b>Total revenues – related parties</b>		<b>323,512</b>	<b>1,783,408</b>

The expense items with related parties for the six months ended 30 June 2012 and 2011 were as follows:

<i>In thousands of Kazakhstani Tenge</i>		2012	2011
<i>Operating expenses</i>			
Kazakhtelecom (owner prior to 2 February 2012)	Interconnect and transmission	538,025	2,438,321
Turkcell (owner of parent)	Roaming	55,477	51,184
Fintur Holding B.V. (parent)	Technical assistance	34,463	48,823
Telia Sonera (ultimate parent)	Roaming	10,503	806
Entities of TeliaSonera group	Roaming	130,640	108,641
<b>Total expenses – related parties</b>		<b>769,108</b>	<b>2,647,775</b>

The Group has an interconnect contract with Kazakhtelecom dated 1 March 1999 ("Interconnect contract"). Kazakhtelecom charges the Group for outgoing local and international PSTN calls and transit traffic from the Group's networks. The Group charges Kazakhtelecom for incoming calls to GSM networks from PSTN and international and local transit traffic through the equipment of Kazakhtelecom. Additionally, the Group has entered into transmission contracts with Kazakhtelecom, dated 26 February 1999 and 18 January 2000, under which the Group leases international digital communication channels and digital duplex communication channels in Kazakhstan.

The contracts are valid for one year from the contract date. If neither of the parties has declared its intention to discontinue the contract thirty days prior to expiry of this term, the contract automatically prolongs for one year. The cancellation of the contract can take place thirty days after receipt of written notice by either of the parties.

The Group has a dependency on operations with Kazakhtelecom, which is the national telecommunications operator. The majority of transmission channels leased by the Group are rented from Kazakhtelecom.

On 22 December 2010, the Group signed a Telecommunication Services Agreement (the "Agreement") with Kazakhtelecom and amended it in December 2011. Based on this agreement the Group fixed the capacity and the annual costs of lease of digital transparent communication channels and IP VPN network except for the international channels and in-city channels till the year 2020. The Agreement is non-cancellable till 31 December 2015.

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

Notes to the Interim Consolidated Financial Statements – 30 June 2012

### 6 Balances and Transactions with Related Parties (Continued)

The Group has also roaming agreements with Latvijas Mobilais Telefons SIA ("Latvijas Mobilais"), Omnitel Telecommunication Networks ("Omnitel"), Sonera Carrier Networks Ltd. ("Sonera Carrier"), Sonera Corporation, Tella Mobile AB Finland ("Tella Mobile"), the subsidiaries of TellaSonera, Megafon and Estonian Mobile Telephone Group ("Estonian Mobile"), the associates of TellaSonera, Turkcell, and Fintur's subsidiaries, which are as follows: Azercell Telecom B.M. ("Azercell"), Geocell Ltd. ("Geocell"), Moldcell Ltd. ("Moldcell"), Tella Denmark, NetCom ASA (Tella NetCom Holding AS), TOV Astellit ("TOV Astellit"), Indigo Tajikistan ("Indigo Tajikistan"), Coscom LLC and Spice Nepal Pvt. Ltd. ("Spice Nepal Pvt. Ltd.") under which they earn and incur certain revenues and costs. Since these revenues and costs occur continually, the balances between them are normally settled by means of mutual set-off.

In January 2003 the Group entered into a Technical and Management Support Agreement ("TMS Agreement") with Fintur. In accordance with TMS Agreement, Fintur provides the Group with technical and management assistance.

#### Dividends

The Group has declared dividends during 2012 that have not been fully repaid at the balance sheet date (Note 11 and 12).

<i>In thousands of Kazakhstani Tenge</i>	30 June 2012	31 December 2011
Fintur Holding B.V. (parent)	50,526,344	-
Sonera (owner)	22,056,812	-
<b>Total dividends payable to related parties</b>	<b>72,583,156</b>	-

#### Directors' compensation

Compensation paid to directors for their services in full time executive management positions is made up of a contractual salary, performance bonus depending on financial performance of the Group, share based compensation, and other compensation in form of reimbursement of apartment rent expenses from the Group and parent companies. Total directors' compensation included in staff costs in the statements of comprehensive income is equal to 139,430 thousand Tenge for the six months ended 30 June 2012 (six months ended 30 June 2011: 121,392 thousand Tenge). Directors classified as key management personnel include three positions for the six months ended 30 June 2012 and 2011.

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

Notes to the Interim Consolidated Financial Statements – 30 June 2012

### 7 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

<i>In thousands of Kazakhstani Tenge</i>	Freehold land	Buildings	Radio equipment, switches and transmission devices	Other	Construction in progress	Total
Cost at 1 January 2011	655,455	13,528,338	112,811,815	15,330,937	16,299,687	158,626,232
Accumulated depreciation	-	(2,826,206)	(56,624,432)	(10,175,116)	-	(69,625,754)
<b>Carrying amount at 1 January 2011</b>	<b>655,455</b>	<b>10,702,132</b>	<b>56,187,383</b>	<b>5,155,821</b>	<b>16,299,687</b>	<b>89,000,478</b>
Additions	42,436	774,360	8,869	1,230,941	12,033,087	14,089,693
Transfers	-	465,876	3,874,352	55,748	(4,395,976)	-
Disposals	-	-	(6,512)	(178)	-	(6,690)
Depreciation charge	-	(392,830)	(7,947,781)	(1,272,742)	-	(9,613,353)
Cost at 30 June 2011	697,891	14,768,605	115,762,089	16,577,465	23,936,798	171,742,848
Accumulated depreciation	-	(3,219,067)	(63,645,778)	(11,407,875)	-	(78,272,720)
<b>Carrying amount at 30 June 2011</b>	<b>697,891</b>	<b>11,549,538</b>	<b>52,116,311</b>	<b>5,169,590</b>	<b>23,936,798</b>	<b>93,470,128</b>
Cost at 31 December 2011	1,939,630	22,646,420	123,271,626	18,715,928	22,055,614	188,629,218
Accumulated depreciation	-	(3,526,658)	(71,971,196)	(12,759,716)	-	(88,257,570)
<b>Carrying amount at 31 December 2011</b>	<b>1,939,630</b>	<b>19,119,762</b>	<b>51,300,430</b>	<b>5,956,212</b>	<b>22,055,614</b>	<b>100,371,648</b>
Additions	60,425	3,050,731	1,625,521	1,199,699	8,182,730	14,119,106
Transfers	-	907,507	12,426,442	303,673	(13,637,622)	-
Disposals	-	-	(11,699)	(3,192)	(74,015)	(88,906)
Depreciation charge	-	(620,126)	(7,473,667)	(1,354,331)	-	(9,448,124)
Cost at 30 June 2012	2,000,055	26,557,922	137,462,110	19,790,366	16,526,707	202,337,160
Accumulated depreciation	-	(4,100,048)	(79,595,083)	(13,688,305)	-	(97,383,436)
<b>Carrying amount at 30 June 2012</b>	<b>2,000,055</b>	<b>22,457,874</b>	<b>57,867,027</b>	<b>6,102,061</b>	<b>16,526,707</b>	<b>104,953,724</b>

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

Notes to the Interim Consolidated Financial Statements – 30 June 2012

### B Intangible Assets

<i>In thousands of Kazakhstani Tenge</i>	GSM network license and right	Computer software and software rights	Other telecom licenses	Other	Total
Cost at 1 January 2011	14,462,162	12,601,920	3,317,778	6,575	30,388,435
Accumulated amortisation	(6,080,379)	(5,236,611)	(758,981)	(3,020)	(12,078,991)
<b>Carrying amount at 1 January 2011</b>	<b>8,381,783</b>	<b>7,365,309</b>	<b>2,558,797</b>	<b>3,555</b>	<b>18,309,444</b>
Additions	-	1,263,484	-	-	1,263,484
Disposals (net)	-	-	-	-	-
Amortisation charge	(823,889)	(983,587)	(165,889)	(212)	(1,973,577)
Cost at 30 June 2011	14,462,162	13,867,657	3,317,778	6,575	31,654,172
Accumulated amortisation	(6,904,268)	(6,222,451)	(924,870)	(3,232)	(14,054,821)
<b>Carrying amount at 30 June 2011</b>	<b>7,557,894</b>	<b>7,645,206</b>	<b>2,392,908</b>	<b>3,343</b>	<b>17,599,351</b>
Cost at 31 December 2011	14,462,162	15,739,232	3,317,778	3,998	33,523,170
Accumulated amortisation	(7,162,028)	(6,835,396)	(1,090,759)	(1,296)	(15,089,479)
<b>Carrying amount at 31 December 2011</b>	<b>7,300,134</b>	<b>8,903,836</b>	<b>2,227,019</b>	<b>2,702</b>	<b>18,433,691</b>
Additions	102,417	977,832	-	-	1,080,249
Disposals (net)	-	-	-	-	-
Amortisation charge	(475,926)	(1,265,334)	(165,889)	(44)	(1,907,193)
Cost at 30 June 2012	14,564,579	16,548,506	3,317,778	3,998	34,434,861
Accumulated amortisation	(7,637,954)	(7,932,172)	(1,256,648)	(1,340)	(16,828,114)
<b>Carrying amount at 30 June 2012</b>	<b>6,926,625</b>	<b>8,616,334</b>	<b>2,061,130</b>	<b>2,658</b>	<b>17,606,747</b>

The original GSM network license (GSM-900) was provided by the State Committee of Telecommunications and Information of the Republic of Kazakhstan for a fee in amount of 4.5 billion Tenge and was valid for 15 years, commencing June 1998. In July 2011 the license was extended for unlimited period. On 28 August 2008, the Group obtained radiofrequency band of 5 MHz spectrum (receipt/transit) in the range of 1800 MHz under the existing GSM network license (Note 1) for the amount of 2.5 billion Tenge. The acquired frequencies were capitalised as intangible assets within "GSM network license and rights" category.

The Group acquired two dormant local entities AR-Telecom LLP ("AR-Telecom") in 2007 and KT-Telecom LLP ("KT-Telecom") in 2008. The purpose of these acquisitions was to obtain non-term WLL licenses and other related telecom licenses held by AR-Telecom and KT-Telecom that provide a right to organise wireless radio-access networks and data transfer services on the territory of Kazakhstan. The acquisitions of these entities were accounted for as acquisitions of group of assets (licenses) rather than businesses. The acquired licenses were included in category "other telecom licenses" within intangible assets. Management estimated their economic useful life at 10 years.

On 25 December 2010, the Group received a right to operate 3G network by utilising radiofrequency band of 20 MHz (receipt/transit) in the range of 1920-1980 MHz and 2110-2170 MHz. The radiofrequencies were provided in the form of addendum to the existing GSM license. The acquisition cost was 5 billion Tenge. Management changed estimate on the useful life of the right to operate 3G network from 8 years to 15 years in August 2011 based on changes in legal terms of the original GSM license. The change resulted in amortisation charge decrease for the six month period ended 30 June 2012 compared to the prior period.



## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

### Notes to the Interim Consolidated Financial Statements – 30 June 2012

#### 9 Other Non-Current Assets

<i>In thousands of Kazakhstani Tenge</i>	30 June 2012	31 December 2011
Restricted cash	98,062	19,164
<b>Total financial assets</b>	<b>98,062</b>	<b>19,164</b>
Prepayments for property, plant and equipment	6,067,490	6,740,200
<b>Total other non-current assets</b>	<b>6,165,552</b>	<b>6,759,364</b>

#### 10 Trade and Other Receivables

<i>In thousands of Kazakhstani Tenge</i>	30 June 2012	31 December 2011
Trade receivables from distributors	4,090,173	5,324,152
Trade receivables for interconnect services	2,393,942	1,989,370
Trade receivables from subscribers	2,353,242	1,789,144
Trade receivables from roaming operators	665,527	540,696
Less: provision for impairment of trade receivables	(762,224)	(669,224)
<b>Total financial assets</b>	<b>8,740,660</b>	<b>8,974,138</b>
Advances to suppliers	6,031,811	3,380,910
Prepaid taxes	2,183,878	1,023,630
Deferred expenses	540,578	358,410
VAT recoverable	-	278,895
Other receivables	358,586	18,438
<b>Total trade and other receivables</b>	<b>17,855,511</b>	<b>14,032,421</b>

The Group classifies its accounts receivable into four classes: trade receivables from distributors, trade receivables from subscribers, trade receivables from roaming operators and trade receivables for interconnect services.

Trade and other receivables are denominated in currencies as follows:

<i>In thousands of Kazakhstani Tenge</i>	30 June 2012	31 December 2011
Tenge	8,075,133	8,433,442
US dollar	665,527	540,696
<b>Total financial assets</b>	<b>8,740,660</b>	<b>8,974,138</b>

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

Notes to the Interim Consolidated Financial Statements – 30 June 2012

### 10 Trade and Other Receivables (Continued)

Provision for impairment of trade receivables relates to trade receivables from subscribers and distributors. The ageing analysis of trade receivables is as follows:

<i>In thousands of Kazakhstani Tenge</i>	30 June 2012	31 December 2011
<i>Total neither past due nor impaired</i>	7,083,392	8,374,522
<i>Past due but not impaired</i>		
due for 1 month	701,926	224,326
due for 2 months	494,786	127,138
due for 3 months	139,917	100,439
due for 4 to 6 months	184,038	73,172
due for more than 6 months	136,601	74,541
<i>Total past due but not impaired</i>	1,657,268	599,616
<i>Impaired</i>		
30 to 60 days	8,314	6,692
60 to 90 days	15,528	11,160
90 to 120 days	10,077	6,403
120 to 150 days	13,203	12,913
150 to 200 days	26,953	14,849
over 200 days	679,149	617,127
<i>Total impaired</i>	762,224	669,224
<i>Provision for impairment of trade receivables</i>	(762,224)	(669,224)
<b>Total financial assets</b>	<b>8,740,660</b>	<b>8,974,138</b>

The main factors which the Group takes into account when considering the issue on impairment of receivables are their past due status and collectability. As a result, the Group presented the above aging analysis of receivables. Impairment of receivables was assessed based on past due status of such receivables.

Neither past due nor impaired receivables represent receivables from companies and subscribers with no credit ratings assigned but their reliability is determined by the Company on the basis of long-term cooperation. These companies represent those companies which have a good credit history. The Company's management believes that neither past due nor impaired receivables in the amount of 7,083,392 thousand Tenge will be fully repaid within twelve months after the reporting date.

Reconciliation of movements in the financial assets impairment provisions:

<i>In thousands of Kazakhstani Tenge</i>	
At 1 January 2011	752,338
Charge for the period	94,575
Receivables written off during the period as uncollectible	(233,175)
<b>At 30 June 2011</b>	<b>613,738</b>
At 1 January 2012	669,224
Charge for the period	101,744
Receivables written off during the period as uncollectible	(8,744)
<b>At 30 June 2012</b>	<b>762,224</b>

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

### Notes to the Interim Consolidated Financial Statements – 30 June 2012

#### 11 Charter Capital

The ownership of the Company is as follows:

	30 June 2012	31 December 2011
Fintur	51 percent	51 percent
Sonera	49 percent	-
Kazakhtelecom	-	49 percent

On 1 July 2012 General Meeting of Participants of GSM Kazakhstan approved a conversion of the Company from Limited Liability Partnership to Joint Stock Company with 200,000,000 common shares to be transferred to the Company's participants proportionally to their ownership percentage (Note 20). For the purpose of these interim consolidated financial statements, earnings per share ('EPS') is calculated by dividing net profit for the period attributable to owners of the Group by the number of common shares approved by the Company's participants, i.e. EPS for six months ended 30 June 2012 and 30 June 2011 was calculated as if the Group had 200,000,000 common shares outstanding during those periods.

<i>In thousands of Kazakhstani Tenge</i>	30 June 2012	30 June 2011
Profit for the period attributable to equity shareholders	29,424,981	31,626,818
Number of common shares	200,000,000	200,000,000
Earnings per share (Kazakhstani Tenge), basic and diluted	147.12	158.13

Dividends declared and paid during the periods were as follows:

<i>In thousands of Kazakhstani Tenge</i>	
<b>Dividends payable at 1 January 2011</b>	-
Dividends declared during the period	28,000,000
Dividends paid during the period	(14,000,000)
<b>Dividends payable at 30 June 2011</b>	<b>14,000,000</b>
<b>Dividends payable at 1 January 2012</b>	-
Dividends declared during the period	115,877,439
Dividends paid during the period	(25,932,715)
<b>Dividends payable at 30 June 2012</b>	<b>89,944,724</b>

The dividends in the amount of 70,863,538 thousand Tenge declared on 25 January 2012 are payable by four equal tranches each payable no later than the four successive calendar quarter following the completion of sale by Kazakhtelecom to Sonera of 49% participatory interest.

The dividends in amount of 45,013,901 thousand Tenge declared on 30 June 2012 are payable no later than 31 December 2012. As agreed by the shareholders, if there are insufficient funds available by that date the amount of remaining unpaid dividends shall be paid no later than 30 June 2013.

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

Notes to the Interim Consolidated Financial Statements – 30 June 2012

### 12 Trade and Other Payables

<i>In thousands of Kazakhstani Tenge</i>	30 June 2012	31 December 2011
Trade payables	10,158,258	9,283,506
Dividends payable	80,044,724	-
<b>Total financial liabilities</b>	<b>100,102,982</b>	<b>9,283,506</b>
Accrued bonuses to employees	2,776,705	2,411,223
Other payables	68,379	38,873
<b>Total trade and other payables</b>	<b>102,948,066</b>	<b>11,733,602</b>

Trade and other payables are denominated in currencies as follows:

<i>In thousands of Kazakhstani Tenge</i>	30 June 2012	31 December 2011
Tenge	97,654,990	7,419,896
US dollar	2,152,936	125,813
Euro	295,056	1,737,797
<b>Total financial liabilities</b>	<b>100,102,982</b>	<b>9,283,506</b>

### 13 Deferred Revenue

<i>In thousands of Kazakhstani Tenge</i>	30 June 2012	31 December 2011
Deferred revenue from pre-paid subscribers	2,931,797	4,331,827
Deferred revenue from paid-in-advanced subscribers	2,818,089	2,852,044
<b>Total deferred revenue</b>	<b>5,749,866</b>	<b>7,183,871</b>

### 14 Revenues

<i>In thousands of Kazakhstani Tenge</i>	Six months ended 30 June 2012	Six months ended 30 June 2011 (restated)
Voice service	69,239,403	69,007,264
Data service	8,359,485	6,810,735
Value added services	7,282,921	7,099,429
Other revenues	898,413	272,769
<b>Total revenues</b>	<b>85,780,222</b>	<b>83,790,197</b>

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

### Notes to the Interim Consolidated Financial Statements – 30 June 2012

#### 15 Expenses by Nature

Operating expenses are presented on the face of the statements of comprehensive income using a classification based on the functions "Cost of sales", "Selling and marketing expenses" and "General and administrative expenses". Total expenses by function were distributed by nature as follows:

<i>In thousands of Kazakhstani Tenge</i>	Six months ended 30 June 2012	Six months ended 30 June 2011 (restated)
Interconnect fees and expenses	12,396,159	7,810,941
Depreciation of property, plant and equipment and amortisation of intangible assets	11,355,317	11,586,930
Network maintenance expenses	5,432,492	5,085,321
Transmission rent	4,309,217	3,873,109
Frequency usage charges and taxes other than on income	2,901,314	2,906,792
Cost of SIM card, scratch card, start package sales and handsets	1,569,490	975,825
Sales commissions to dealers and distributors and advertising expenses	4,946,498	6,725,608
Staff costs	3,682,670	3,429,102
Others	2,636,860	2,253,055
<b>Total expenses</b>	<b>49,230,017</b>	<b>44,646,683</b>

Amortization and depreciation by function were as follows:

<i>In thousands of Kazakhstani Tenge</i>	Six months ended 30 June 2012	Six months ended 30 June 2011
Cost of sales	10,148,096	10,152,114
General and administrative expenses	1,207,221	1,434,816
<b>Total depreciation of property, plant and equipment and amortisation of intangible assets</b>	<b>11,355,317</b>	<b>11,586,930</b>

#### 16 Taxes

##### Income taxes

Income tax expense comprises the following:

<i>In thousands of Kazakhstani Tenge</i>	Six months ended 30 June 2012	Six months ended 30 June 2011
Current income tax	7,328,985	7,811,149
Deferred income tax	42,401	(45,216)
<b>Total income tax expense</b>	<b>7,371,386</b>	<b>7,765,933</b>

The Group paid current income tax during six months ended 30 June 2012 in amount of Tenge 8,403,059 thousands (six months ended 30 June 2011: Tenge 8,044,687 thousands).

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

### Notes to the Interim Consolidated Financial Statements – 30 June 2012

#### 16 Taxes (Continued)

Reconciliation between the expected and the actual taxation charge is provided below:

<i>In thousands of Kazakhstani Tenge</i>	Six months ended 30 June 2012	Six months ended 30 June 2011
<b>IFRS profit before tax</b>	<b>36,796,367</b>	<b>39,392,751</b>
Theoretical tax charge at statutory rate of 20 percent (2011: 20 percent)	7,359,273	7,878,550
Non-deductible expenses	39,772	84,797
Other	(27,659)	(197,414)
<b>Income tax expense</b>	<b>7,371,386</b>	<b>7,765,933</b>

Differences between IFRS and Kazakhstani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rates which are expected to be applied to the periods when the temporary difference will reverse.

<i>In thousands of Kazakhstani Tenge</i>	1 January 2012	Charged/(credited) to profit or loss	30 June 2012
<b>Tax effects of deductible temporary differences</b>			
Deferred revenue	879,627	(293,268)	586,359
Other	346,237	61,523	407,760
<b>Gross deferred tax asset</b>	<b>1,225,864</b>	<b>(231,745)</b>	<b>994,119</b>
<b>Tax effect of taxable temporary differences</b>			
Property, plant and equipment	5,033,096	(98,188)	4,934,908
Intangible assets	183,702	(91,156)	92,546
<b>Gross deferred tax liability</b>	<b>5,216,798</b>	<b>(189,344)</b>	<b>5,027,454</b>
Less offsetting with deferred tax assets	(1,225,864)	231,745	(994,119)
<b>Recognised deferred tax liability, net</b>	<b>3,990,934</b>	<b>42,401</b>	<b>4,033,335</b>

As of 30 June 2012 deferred tax asset of 994,119 thousand Tenge and deferred tax liability of 408,439 thousand Tenge are expected to be recovered/settled within next 12 months.

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

### Notes to the Interim Consolidated Financial Statements – 30 June 2012

#### 16 Taxes (Continued)

Comparative movements for six-month period ended 30 June 2011 is detailed below:

<i>In thousands of Kazakhstani Tenge</i>	1 January 2011	Charged/(credited) to profit or loss	30 June 2011
<b>Tax effects of deductible temporary differences</b>			
Deferred revenue	919,658	(314,186)	605,472
Other	399,835	(168,404)	231,431
<b>Gross deferred tax asset</b>	<b>1,319,493</b>	<b>(482,590)</b>	<b>836,903</b>
<b>Tax effect of taxable temporary differences</b>			
Property, plant and equipment	5,176,048	(485,549)	4,690,499
Intangible assets	229,777	(42,258)	187,519
<b>Gross deferred tax liability</b>	<b>5,405,825</b>	<b>(527,807)</b>	<b>4,878,018</b>
Less offsetting with deferred tax assets	(1,319,493)	482,590	(836,903)
<b>Recognised deferred tax liability, net</b>	<b>4,086,332</b>	<b>(45,217)</b>	<b>4,041,115</b>

#### 17 Contingencies and Commitments

##### *Political and economic conditions in Kazakhstan*

The economy in the Republic of Kazakhstan continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country and a low level of liquidity of debt and equity securities in the markets.

Additionally, the telecommunication sector in Kazakhstan is impacted by political, legislative, fiscal and regulatory developments in Kazakhstan. The prospects for future economic stability in Kazakhstan are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments, which are beyond the Group's control.

The financial condition and future operations of the Group may be adversely affected by continued economic difficulties that are characteristic of an emerging market. Management is unable to predict the extent and duration of the economic difficulties, nor quantify the impact, if any, on these consolidated financial statements.

##### *Legal proceedings*

The Group is party to certain legal proceedings arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding that, upon final disposition, will have a material adverse effect on the financial position of the Group.

##### *Taxation*

Kazakhstani tax legislation and practice is in a state of continuous development and therefore is subject to varying interpretations and frequent changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Group may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest. Tax periods remain open to retroactive review by the tax authorities for five years.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 30 June 2012 no provision for potential tax liabilities had been recorded (31 December 2011: nil).

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

Notes to the Interim Consolidated Financial Statements – 30 June 2012

---

### 17 Contingencies and Commitments (Continued)

#### *Government investigations*

##### *i) Roaming threshold investigation*

In 2010, the Company was subject to an investigation by the Agency of Competition Protection of the Republic of Kazakhstan (the "Agency") related to alleged infringement of the antimonopoly legislation by GSM operators of CIS countries.

On 3 July 2010, the Agency filed a protocol based on respective conclusion to an administrative court charging the Company with impingement of consumers' rights by setting threshold for the subscribers' minimum cash balance to access roaming services.

The claimed penalty amount was 15,783,472 thousand Tenge calculated as 10% of the Company's total revenues generated from 1 January 2009 to 31 March 2010.

After several claims and counterclaims filed during 2010, the Company was able to defend its position and conclusion of the Agency was cancelled by the judgment of court of cassation entered into legal force immediately.

The Agency filed a claim to higher court instances and in August 2011, the Supreme Court returned the case to the first instance for additional investigation. On 24 August 2012, the Almaty Administrative Court ruled in favour of the Company and terminated the proceedings. The Agency is, however, entitled to file a petition to Prosecutor's Office of Almaty or General Prosecutor's Office seeking reinstatement of the case via Prosecutor's Office or General Prosecutor's Office protest.

The Company believes it will be able to defend its position as it believes that setting such threshold for prepaid subscribers was in line with market terms and is not considered to be expression of dominant position of the Company. The Company's management believes that current legislation does not contain any restrictions on setting the thresholds for access to roaming services. Accordingly, no provision has been recorded in these interim consolidated financial statements as of 30 June 2012 (31 December 2011: nil).

##### *ii) Roaming tariffs investigation*

The Agency has also performed an examination of the Company's roaming tariffs for the period from 1 January 2009 to 31 March 2010. Based on the results of the examination, in November 2010, the Agency issued a protocol on administrative violation alleging the Company in misuse of its dominant position through setting overstated roaming tariffs for subscribers from the Russian Federation. The Agency applied to administrative court to initiate the administrative case.

The claim amount was 15,783,472 thousand Tenge, calculated as 10% of the Company's total revenues generated during the examined period, plus revenues from roaming services for the year 2009 of 2,554,940 thousand Tenge.

After several claims and counterclaims filed during 2010, the Company was able to defend its position and conclusion of the Agency was cancelled by the judgment of court of cassation entered into legal force immediately.

In February 2011, the court of first instance ruled in favour of the Group with respect to the investigation of roaming tariffs. The Agency filed a claim to higher court instances and in January 2012, the Supreme Court returned the case to the first instance court for additional investigation.

On 1 March 2012, Specialized Inter District Administrative Court of Almaty ruled to terminate the administrative case against the Company initiated pursuant to article 147.3 of RK COA for lack of elements of offense. Even though the Agency has a right to appeal through the General Prosecutor's Office, the Company believes that it has not violated any laws and regulations with respect to roaming tariffs.

The Company has been consistently reducing its roaming tariffs recently and taking other measures in this respect. Management is confident that the Company's position will be fully sustained. Accordingly, no provisions have been recorded in those interim consolidated financial statements as of 30 June 2012 (31 December 2011: nil).



## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

### Notes to the Interim Consolidated Financial Statements – 30 June 2012

#### 17 Contingencies and Commitments (Continued)

##### iii) Preliminary examination of relationships with cash payments service companies

The Company has received the Resolution of the Agency on preliminary examination of the antimonopoly legislation violation dated 22 June 2012. In accordance with the Resolution the Agency considers charging the Company with violation of the antimonopoly legislation in respect of relationships with cash payments service companies, which primarily operate self-service terminals.

According to the current legislation, the potential penalty amount for such infringement is 10% of the Company's total revenues generated for the period under consideration, which is going to be determined by the Agency, plus confiscation of monopoly income gained in result of monopolistic activity for not more than one year.

As the Company has received only the Resolution on preliminary inspection, which does not constitute any further legal proceedings and used for decision making of the Agency for further actions whether to initiate detailed investigation or not. The management believes that no provision should be recorded in these interim consolidated financial statements as of 30 June 2012.

##### Capital expenditure commitments

At 30 June 2012, the Group has contractual capital expenditure commitments in respect of property, plant and equipment approximating 2,435,735 thousand Tenge (31 December 2011: 2,608,078 thousand Tenge), mostly related to purchase of telecommunications equipment from Ericsson and ZTE Corporation.

##### Non-cancellable lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

<i>In thousands of Kazakhstani Tenge</i>	<b>30 June 2012</b>	<b>31 December 2011</b>
Not later than 1 year	4,181,000	4,162,000
From 1 to 2 years	4,250,000	4,200,000
From 2 to 3 years	4,300,000	4,300,000
Later than 3 years	2,150,000	4,300,000
<b>Total non-cancellable lease commitments</b>	<b>14,881,000</b>	<b>16,962,000</b>

Non-cancellable lease agreement is represented by the Telecommunication Services Agreement on lease of transparent communication channels and IP VPN network with Kazakhtelecom (Note 6).

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

### Notes to the Interim Consolidated Financial Statements – 30 June 2012

#### 18 Financial Risk Management

##### *Financial risk factors*

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk), liquidity risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments to hedge risk exposures.

Risk management is carried out by management under policies approved by the management committee. The management committee provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk.

##### *Credit risk*

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales on credit terms and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk by class of assets is as follows:

<i>In thousands of Kazakhstani Tenge</i>	Note	30 June 2012	31 December 2011
Cash and cash equivalents	11	863,242	1,352,996
Trade receivables	10	8,740,660	8,974,138
Due from related parties	6	37,427	2,196,784
Restricted cash	9	98,062	19,164
<b>Total maximum exposure to credit risk</b>		<b>9,739,391</b>	<b>12,543,082</b>

The Group has policies in place to ensure that sales of products and services are made to customers and distributors with an appropriate credit history. If corporate customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer taking into account its financial position, past experience and other factors. The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Customers that fail to settle their liabilities for mobile services provided are disconnected until the debt is paid. Management provides ageing and other information about credit risk in Note 10. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount of trade receivables exposed to credit risk. The Group has no significant concentrations of credit risk since the customers portfolio is diversified among a large number of customers, both individuals and companies. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

Notes to the Interim Consolidated Financial Statements – 30 June 2012

### 18 Financial Risk Management (Continued)

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default. The Group accepts only those banks in Kazakhstan that have highest ratings by international rating agencies. The table below shows the rating and balances with major banks at the reporting date:

<i>In thousands of Kazakhstani Tenge</i>	Rating agency	Rating	30 June 2012	31 December 2011
Kazkommertsbank	Moody's	Ba3 - (long-term)	592,713	622,279
Citibank London	Moody's	A3 - (long-term)	139,465	173,015
Citibank Kazakhstan	Not rated	-	43,656	1,846
Bank Pozitiv Kazakhstan	Not rated	-	41,350	63,851
Bank CenterCredit	Moody's	B1 - (long-term)	32,756	32,417
SberBank Kazakhstan	Moody's	Ba2 (long-term)	30,554	31,091
Halyk Savings Bank of Kazakhstan	Moody's	Ba2 (long-term)	12,223	23,241
BTA Bank	Moody's	Caa2 - (short-term)	2,819	4,645
RBS Kazakhstan	Not rated	-	1,934	19,616
Other	Not rated	-	5,341	6,317
<b>Total balances with banks</b>			<b>902,811</b>	<b>978,318</b>

#### *Foreign exchange risk*

The majority of the Group's purchases of property, plant and equipment and inventories, as well as certain services such as roaming are denominated in US Dollars. Hence, the major concentration of foreign exchange risk arises from the movement of the US Dollar against the Tenge. Due to undeveloped market of financial instruments in Kazakhstan, the management does not hedge the Group's foreign exchange risk.

At 30 June 2012, if the US Dollar had weakened/strengthened by 10% percent against Tenge with all other variables held constant, after-tax profit for six-month period ended 30 June 2012 would have been higher / lower by 107,794 thousand Tenge (six-month period ended 30 June 2011: 211,844 thousand Tenge higher / lower), mainly as a result of foreign exchange gains / losses on translation of US Dollar denominated bank balances, receivables and payables. Profit is less sensitive to movement in Tenge / US Dollar exchange rates at 30 June 2012 than at 30 June 2011 because of the decreased amount of US Dollar denominated trade and other payables at 30 June 2012.

During six months ended 30 June 2012, the Group had foreign exchange losses less gains in amount of 55,742 thousand Tenge (six month ended 30 June 2011: 80,522 thousand Tenge).

#### *Cash flow and fair value Interest rate risk*

As the Group has no significant interest-bearing liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group does not have floating interest bearing assets and liabilities as of 30 June 2012.

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

### Notes to the Interim Consolidated Financial Statements – 30 June 2012

#### 18 Financial Risk Management (Continued)

##### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash. Due to the dynamic nature of the underlying businesses, the Group's treasury aims to maintain flexibility in funding by keeping sufficient cash available.

The table below shows liabilities at 30 June 2012 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the reporting date.

The maturity analysis of financial liabilities at 30 June 2012 is as follows:

<i>In thousands of Kazakhstani Tenge</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Total
<b>Liabilities</b>				
Trade payables	9,008,005	1,039,927	110,326	10,158,258
Dividends payable	9,499,054	17,715,884	62,729,700	89,944,724
Due to related parties	437,282	5,394	-	442,676
<b>Total future payments</b>	<b>18,944,341</b>	<b>18,761,205</b>	<b>62,840,112</b>	<b>100,545,658</b>

The Group is committed to pay dividends in total amount of 89,944,724 thousand Tenge as at 30 June 2012 (Note 11). The shareholders agreed the dividends to be payable in accordance with schedule in Note 11. The Group is currently in the process of negotiation of a credit facility from Citigroup Global Markets Limited and The Royal Bank of Scotland in amount of 30 billion Tenge (Note 20). The Group plans to attract another credit facility from a local bank in amount of 15 billion Tenge. Management believes that the payments of the rest of the dividends and other financial liabilities will be financed by cash flows from operating activities and that the Group will be able to meet its obligations as they fall due.

Comparative maturity analysis of financial liabilities at 31 December 2011 is detailed below:

<i>In thousands of Kazakhstani Tenge</i>	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	Total
<b>Liabilities</b>				
Trade payables	7,426,804	1,671,031	185,671	9,283,506
Due to related parties	380,946	-	-	380,946
<b>Total future payments</b>	<b>7,807,750</b>	<b>1,671,031</b>	<b>185,671</b>	<b>9,664,452</b>

## **GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM**

### **Notes to the Interim Consolidated Financial Statements – 30 June 2012**

---

#### **18 Financial Risk Management (Continued)**

##### ***Capital management***

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to owners, return capital to owners, issue new capital and sell assets to reduce debt.

#### **19 Fair Value of Financial Instruments**

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

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

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of cash and cash equivalents, trade receivables and due from related parties approximate fair values due to their short-term maturities.

##### ***Financial liabilities carried at amortised cost***

The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Carrying amounts of trade payables and due to related parties approximate fair values due to their short term maturities.

#### **20 Subsequent Events**

##### ***Conversion of the Company to from Limited Liability to Joint Stock Company***

On 1 July 2012 General Meeting of Participants of GSM Kazakhstan approved a conversion of the Company from Limited Liability Partnership to Joint Stock Company with 200,000,000 common shares to be transferred to Fintur and Sonera (hereinafter Conversion) proportionally to their ownership percentage (Note 11). The meeting has also approved change of the Company's name to Kcell JSC.

Pursuant to Kazakh law, upon Conversion, total equity as of the date of conversion will become charter capital of the Group and cease to be available for distribution to shareholders.

On 27 August 2012 the Ministry of Justice registered the Company as a Joint Stock Company.

##### ***Appointment letter on up to 30 billion Tenge loan facility***

On 31 August 2012 Citigroup Global Markets Limited and The Royal Bank of Scotland plc (the "Bookrunners") from one side and the Company from other side signed the Appointment Letter. According to the Appointment Letter, the Bookrunners are prepared to arrange a term loan up to 30 billion Tenge on the terms of a fixed interest rate of 4.6% per annum and the maturity of twelve months, with an extension of up to an additional twelve months. The term loan is subject to certain conditions precedent such as a comfort letter from TeliaSonera AB and other.

## GSM KAZAKHSTAN LLP OAO KAZAKHTELECOM

### Notes to the Interim Consolidated Financial Statements – 30 June 2012

#### 20 · Subsequent Events (Continued)

##### *Acquisitions and Investments*

On 26 August 2012, Sonera and the Company entered into a memorandum of understanding (the "Buy and Sell MoU"), under which the Company has the right to require Sonera to sell to it, and Sonera has the right to require the Company to acquire from it, all participatory interests owned by Sonera in KazNet Media I.L.P ("KazNet") together with all rights and obligations of Sonera under a framework agreement to buy all the participatory interests in the charter capital of KazNet (refer to "WIMAX Business Acquisition by Sonera" below) and all the participatory interests owned by Sonera in Rodnik Inc LLP ("Rodnik") together with all rights and obligations of Sonera under the agreements to buy participatory interests in the charter capital of Rodnik (refer to "Investment in Rodnik Inc LLP by Sonera").

Subject to satisfaction of the applicable conditions, each of Sonera and the Company is entitled to exercise its option at any time starting from 9 months after the date of the planned offering of global depositary receipts and listing on local stock exchange. The purchase price that the Company will pay to Sonera for the acquisition resulting from the exercise of the option will be the amount of net cost incurred by Sonera in connection with the corresponding investments and acquisition transactions (as the case may be) plus interest accrued on such amount.

Sonera has the right to terminate the Buy and Sell MoU at any time by serving a written notice to the Company.

Unless otherwise agreed by Sonera and the Company, exercise of option is conditional upon Fintur having consented to, authorised or voted in favour of the acquisition to be made by the Company as a result of the exercise of such right. In addition, completion of the acquisition contemplated by the exercise of options is subject to law, regulation and any requisite approvals.

The exercise of option and purchase of participatory rights in KazNet and Rodnik will be considered by the Group as one business combination transaction. However, as the exercise period starts 9 months after the date of the planned offering of global depositary receipts and listing on local stock exchange and certain precondition is still to be met management cannot assess the financial impact of the business combination.

##### *1. WIMAX Business Acquisition by Sonera*

On 13 August 2012, Sonera entered into a framework agreement with a third party to buy all the participatory interests in the charter capital of KazNet for a total consideration of US\$170 million. The purchase price payable under this framework agreement is subject to adjustments to be made based on the value of frequency licences and telecommunications equipment and the amount of net debt and working capital of the KazNet group as at completion of the purchase.

As a condition precedent to Sonera's purchase of the participatory interests in KazNet, KazNet will acquire two limited liability partnerships in Kazakhstan, namely Aksoran LLP ("Aksoran") and Instaphone LLP ("Instaphone"). Aksoran and Instaphone each holds certain radio frequency permits that are capable of being deployed for the operation of a WIMAX business in Kazakhstan. Once formed, the KazNet group will own and operate a WIMAX business in Kazakhstan. The sale and purchase of KazNet under this framework agreement is also conditional upon anti-trust clearance in Kazakhstan and upon KazNet, Aksoran and Instaphone obtaining radio frequency permits that provide a certain agreed level of frequency coverage in Kazakhstan, together with all other requisite permits required by law to secure such radio frequency permits. Further, the sale and purchase of KazNet is also conditional inter alia upon completion of the purchase of the 25% participatory interests in Rodnik by Sonera.

##### *2. Investment in Rodnik Inc LLP by Sonera*

Sonera negotiates an agreement with a third party to acquire 25% of the participatory interests in the charter capital of Rodnik. Rodnik owns 79.92% of the total share capital of KazTransCom JSC ("KTC").

The purchase price for acquisition is US\$20 million, subject to adjustments to be made based on the amount of net debt of Rodnik and KTC at the time the acquisition is completed.

On 13 August 2012, Sonera entered in a call option agreement with a third party under which Sonera has a call option to acquire another 75% participatory interest in Rodnik. Pursuant to the terms of that call option agreement, the call option exercise price will be calculated based on fair market value of the participatory interest in Rodnik.

Completion of the proposed purchase of the participatory interests in Rodnik is subject to regulatory and other approvals in Kazakhstan.

Exercise of the framework agreement is further conditional upon Kazakhstan government having announced the timing, conditions and criteria for the implementation of the LTE rollout programme in Kazakhstan and is subject to law, regulation and any requisite approvals.

Процуровано и процуировано  
на 38 (тридцати восьми)

Шеста

