



KazTransCom JSC

**International Financial Reporting
Standards**

**Consolidated Financial Statements and
Independent Auditor's Report**

31 December 2011

(Translated from Russian original)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of KazTransCom JSC

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

Note:

Our report has been prepared in English and in Russian. In all matters of interpretation of information, views or opinions, the Russian version of our report takes precedence over the English version.

PricewaterhouseCoopers LLP

34 Al-Farabi Ave., Building A, 4th floor, 050059, Almaty, Kazakhstan

T: +7 (727) 330-3200, F: +7 (727) 244 6868, www.pwc.com/kz



INDEPENDENT AUDITOR'S REPORT (Continued)

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

Opinion

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

Almaty, Kazakhstan
15 March 2011

Approved by:

Signed by:

Zhanbota T. Bekenov
Managing Director, PricewaterhouseCoopers LLP
(General State License from the Ministry of Finance
of the Republic of Kazakhstan
№ 0000005 dated 21 October 1999)

Inkarbekova Dana
Auditor in-charge
(Qualification certificate
№ 0000492 dated 18 January 2000)

Note:

Our report has been prepared in English and in Russian. In all matters of interpretation of information, views or opinions, the Russian version of our report takes precedence over the English version.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

15 March 2012

The accompanying consolidated financial statements were prepared by management, which is responsible for their integrity and objectivity. Management believes the consolidated financial statements, which require the use of certain estimates and judgments, fairly and accurately reflect the financial position, results of operations, and cash flows of JSC KazTransCom and its subsidiary company (the "Group") in accordance with the International Financial Reporting Standards.

Management of the Group maintains appropriate policies, procedures and systems of internal control to ensure its reporting practices and accounting and administrative procedures are appropriate, consistent, and undertaken at reasonable cost. These policies and procedures are designed to provide reasonable assurance that transactions are properly recorded and summarised so that reliable financial records and reports can be prepared and assets safeguarded.



Erzhanov A. S.
General Director



Kolupayeva E. V.
Chief Accountant

KazTransCom JSC
Consolidated Statement of Financial Position
(in thousands of Kazakhstani Tenge)

	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	8	7,973,414	7,092,320
Intangible assets	9	253,808	230,436
Financial assets available for sale	10	24,000	24,000
Deferred income tax assets	28	9,822	14,707
Long-term receivables		12,171	12,551
Other non-current assets		6,107	9,059
Total non-current assets		8,279,322	7,383,073
Current assets			
Inventories	12	1,029,356	731,830
Trade and other receivables	14	2,367,096	2,295,220
Prepayments to suppliers		217,605	252,546
Current income tax prepaid		102,259	139,842
Other current assets		89,439	43,672
Cash and cash equivalents	15	1,550,934	1,409,986
Total current assets		5,356,689	4,873,096
TOTAL ASSETS		13,636,011	12,256,169
EQUITY			
Share capital	16	46,662	46,662
Additional paid-in capital	16	7,009	7,009
Other reserves	17	7,455	7,455
Retained earnings		8,164,223	6,675,860
TOTAL EQUITY		8,225,349	6,736,986
LIABILITIES			
Non-current liabilities			
Borrowings	18	27,514	2,790,313
Deferred income tax liabilities	28	873,913	570,111
Provisions for asset retirement obligations	19	49,345	218,681
Total non-current liabilities		950,772	3,579,105
Current liabilities			
Borrowings	18	2,919,441	261,346
Trade payables	20	563,940	796,302
Interest payable	18	47,007	49,374
Current income tax payable		-	-
Other payables	20	929,502	825,117
Deferred income	13, 20	-	7,939
Total current liabilities		4,459,890	1,940,078
TOTAL LIABILITIES		5,410,662	5,519,183
TOTAL LIABILITIES AND EQUITY		13,636,011	12,256,169

Signed on behalf of Board of Directors on 15 March 2012.

Erzhanov A.S.
General Director

Kolupayeva E.V.
Chief Accountant

The accompanying notes on pages 5 to 44 are an integral part of these consolidated financial statements.
Translated from Russian original

KazTransCom JSC
Consolidated Statement of Comprehensive Income
(in thousands of Kazakhstani Tenge)

	Note	2011	2010
Revenue	21	11,520,431	10,759,526
Cost of sales	22	(6,617,658)	(6,221,358)
Gross profit		4,902,773	4,538,168
Other operating income	23	283,437	289,330
Distribution costs	24	(394,432)	(289,116)
General and administrative expenses	25	(1,352,102)	(1,469,339)
Other operating expenses		(16,637)	(13,085)
Operating profit		3,423,039	3,055,958
Finance income	26	56,485	121,581
Finance costs	27	(509,914)	(590,870)
Profit before income tax		2,969,610	2,586,669
Income tax expense	28	(641,589)	(674,415)
Profit for the year		2,328,021	1,912,254
Other comprehensive income for the year		-	-
Total comprehensive income for the year		2,328,021	1,912,254
Share of comprehensive income attributable to shareholders of the Company		2,328,021	1,912,254
Earnings per ordinary share, basic and diluted	29	953.78 Tenge	782.83 Tenge
Earnings per preferred share, basic and diluted	29	973.78 Tenge	802.83 Tenge

KazTransCom JSC
Consolidated Statement of Cash Flows
(in thousands of Kazakhstani Tenge)

	Note	2011	2010
Cash flows from operating activities			
Sales of goods, works, services		12,580,199	11,917,412
Advances received		117,802	335,475
Payments to suppliers for goods and services		(3,401,245)	(2,687,789)
Advances paid		(1,146,717)	(1,594,019)
Salaries and wages payable		(2,898,359)	(2,547,418)
Interest expense on borrowings		(291,596)	(509,618)
Corporate income tax paid		(317,108)	(516,596)
Other payments to budget		(1,584,212)	(1,480,172)
Other payments		(720,482)	(599,084)
Net cash from operating activities		2,338,28	2,318,19
Cash flows from investing activities			
Sale of property, plant and equipment		3,315	3,875
Acquisition of property, plant and equipment		(1,047,778)	(762,854)
Acquisition of intangible assets		(48,649)	(83,536)
Net cash used in investing activities		(1,093,112)	(842,515)
Cash flows from financing activities			
Proceeds from borrowings, including sale of bonds		38,767	1,717,285
Interests received		21,948	68,587
Repayment of borrowings, including repayment of bonds		(281,103)	(3,532,216)
Acquisition of own shares and related costs		-	(108,004)
Dividends paid	16	(883,834)	(92,104)
Other proceeds		-	48,096
Net cash used in financing activities		(1,104,222)	(1,898,356)
Net increase/(decrease) in cash and cash equivalents		140,94	(422,680)
Cash and cash equivalents at the beginning of the reporting period	15	1,409,986	1,832,666
Cash and cash equivalents at the end of the year	15	1,550,934	1,409,986

The accompanying notes on pages 5 to 44 are an integral part of these consolidated financial statements.
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KazTransCom JSC
Consolidated Statement of Changes in Equity
(in thousands of Kazakhstani tenge)

	Note	Share capital	Additional paid-in capital	Other reserves	Retained earnings	Total Equity
Balance at 31 December 2009		47,419	7,009	7,455	5,387,311	5,449,194
Comprehensive income for the year		-	-	-	1,912,254	1,912,254
Dividends declared	16	-	-	-	(516,458)	(516,458)
Treasury shares	16	(757)	-	-	(107,247)	(108,004)
Balance at 31 December 2010	16	46,662	7,009	7,455	6,675,860	6,736,986
Comprehensive income for the year		-	-	-	2,328,021	2,328,021
Dividends declared	16	-	-	-	(839,658)	(839,658)
Treasury shares	16	-	-	-	-	-
Balance at 31 December 2011	16	46,662	7,009	7,455	8,164,223	8,225,349

The accompanying notes on pages 5 to 44 are an integral part of these consolidated financial statements.
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1 KazTransCom JSC and Its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2011 for KazTransCom JSC (the "Company") and its subsidiary (together referred to as the "Group" or "KazTransCom Group").

The Company was incorporated on 1 August 2001 as an open joint stock company in accordance with the legislation of the Republic of Kazakhstan. The Company is a successor of CaspiyMunaiBailanys OJSC incorporated in Atyrau Region of the Republic of Kazakhstan on 1 February 1999. In 2001 the Company signed an agreement with Aktubneftesvyaz OJSC (Aktobe) and Bailanys OJSC (Pavlodar) on legal merger with the Company and reorganization of those companies into the Company's branches. 1 January 2004 is the date of the Company's transition to IFRS. On 8 September 2004 the Company was reregistered into a joint stock company.

In 2006 the Company acquired 100% of shares of ERP-Service KazTransCom LLP. ERP-Service LLP supplies ERP systems and other software as well as provides the services in the sphere of information technologies and other services related to maintenance.

Based on the foundation agreements, the Group is ultimately owned and jointly controlled by Mr. Nalibayev A.Z. and Mrs. Sagdiyeva R.M. who are the owners of Rodnik INC LLP (the "Parent company").

Principal activity. The Group's principal activity is provision of telecommunication services in the Republic of Kazakhstan. The Group carries out its activities on the basis of General license issued by the Agency of the Republic of Kazakhstan on Informatisation and Communication on 14 October 2004. The Company is a member of National Telecommunication Association of the Republic of Kazakhstan. Currently the integrated management system of JSC KazTransCom includes four systems based on four ISO International Standards:

- Quality Management (ISO 9001:2008) since 2004; recertification audit conducted in 2004 and 2009;
- Management of occupational safety (OHSAS 18001:2007) since 2005; recertification audit conducted in 2008 and 2011;
- Environmental Management (ISO 14001:2004) since 2005; recertification audit conducted in 2008 and 2011;
- Information Security Management System (ISO/IEC 27001:2005) since 2011

The Group's main clients are: KazMunaiGas National Company, KazTransOil JSC, Intergas Central Asia JSC, Agip Kazakhstan North Caspian Operating Company N.B.

Registered address and place of business. The Company's registered address is: 69/204A, Rodostovets Street, Almaty, Republic of Kazakhstan.

As at 31 December 2011 and 31 December 2010 the Group had seven branches in the Republic of Kazakhstan located in Aktobe, Pavlodar, Atyrau, Uralsk, Almaty, Aktau and Astana and the representative office in Russia.

2 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, according to principle of historical cost valuation with amendment on initial recognition of financial instruments by fair value. The main provisions of accounting policies used in preparation of these consolidated financial statements are discussed below. These principles were consistently applied in connection to all periods presented in financial statement, unless specified otherwise.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates as well as exercise of professional judgments in the process of application of the Group's accounting policy. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions

and estimates are significant for financial statements are disclosed in Note 5. Actual results can deviate from such accounting estimates.

2.2 Consolidation

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.

The purchase method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

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 Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

2.3 Segment reporting

Operating 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.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kazakhstani Tenge ("Tenge"), which is the functional of the Group's entities and presentation currency of the Group.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Exchange rate at the end of the period is defined as the rate used for translation and recording transactions and balances in foreign currency, on which the future cash flows represented by transactions and balances, could be realized if such cash flows occurred on the valuation date. On 31 December 2011 the official exchange rate of the Kazakhstan Stock Exchange used to recalculate the balances in foreign currency was 148.42 Tenge per US dollar 1 (31 December 2010: 147.5 Tenge per US dollar 1). Conversion of Tenge to other currencies is regulated by rules of currency restrictions and controls. Currently Tenge is not a freely convertible currency outside the Republic of Kazakhstan.

2 Summary of Significant Accounting Policies (Continued)

2.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss. Cost of property, plant and equipment as at 1 January 2004, i.e. IFRS transition date is determined on the basis of their fair value at the above date.

Cost includes all costs directly attributable to acquisition of respective asset. The cost of self-constructed assets includes the cost of materials, direct labour and all other costs directly attributable to bringing an asset to working condition for intended use, and costs for dismantling and relocation of an asset and land plot recovery. Costs for acquisition of software directly attributable to functional purpose of the appropriate equipment are capitalised to cost of such equipment.

Costs related to replacement of part of an item of property, plant and equipment, are recognised within the carrying amount of such an item, if it is probable that the Group will receive the future economic benefits and reasonable estimate of cost of such part is possible. Costs of minor repairs and maintenance of items of property, plant and equipment are recognised through profit or loss as incurred.

If an item of property, plant and equipment consists of separate components with different useful lives, each of them is stated as separate item (significant component) of property, plant and equipment.

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 Group companies' 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 statement of comprehensive income. An impairment loss recognised for an asset in prior years 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.

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. Leased assets are depreciated within shorter of two periods: lease period and useful life.

	<u>Useful life (years)</u>
Buildings	10 – 50
Machinery and equipment	5 – 20
Vehicles	5 – 10
Other	3 – 10

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 were 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 reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other operating income / (expenses)" in the statement of comprehensive income.

2 Summary of Significant Accounting Policies (Continued)

2.6 Construction contracts

The Group has a range of contracts on construction of telecommunication networks. Contract costs are recognised when incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably, and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that they have been agreed with the customer and are capable of being reliably measured. The Group uses the "percentage-of-completion method" to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the completion of a physical proportion of the contract work up to the balance sheet date as a percentage of total physical contract works.

The Group presents as trade receivable the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings.

Progress billings not yet paid by customers and retention are included within "trade and other receivables". The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed recognised profits determined by the percentage-of-completion method.

2.7 Accounting for jointly controlled assets

The Group is engaged in a joint construction of main fiber-optic communication line. Each participant of shared construction owns its share and obtains control over its share of future economic benefits through its share in the jointly controlled communication line. Jointly controlled communication line represents jointly controlled asset rather than joint venture. In respect of its share the Group recognises its share of asset, its share of liabilities, any income from sale or use of its share of the asset and costs incurred in connection with the use of its share of jointly controlled asset.

2.8 Intangible assets

All of the Group's intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Acquired computer software and licenses are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Intangible assets are amortised using the straight-line method over their useful lives:

	<u>Useful life (years)</u>
Licenses	15
Accounting software	10
Other	20

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.

2 Summary of Significant Accounting Policies (Continued)

2.9 Impairment of non-financial assets

At each reporting date the management assesses whether there is any indication of impairment of non-financial assets. 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 statement of comprehensive income. An impairment loss recognised for an asset in prior years 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.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial instruments

(a) Basic conditions of assessment

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.

(b) Classification of financial assets

Financial assets of the Group include loans and receivables and financial assets available for sale. 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. Loans and receivables in the Group's consolidated statement of financial position consist of trade and other receivables (note 14), loans to related and other parties (note 7) and cash and cash equivalents (note 15), and other non-current assets.

(c) Classification of financial liabilities

Group's financial liabilities are financial liabilities which are carried at amortised cost. Financial liabilities in the consolidated financial position include borrowings (note 18) and trade payables (note 20).

(d) 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.

2 Summary of Significant Accounting Policies (Continued)

(e) Derecognition of financial asset

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.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventory is assigned using first-in-first-out method (FIFO). Cost of finished goods and production in process comprises costs of materials, delivery to current location, direct labour costs, other direct costs, and corresponding proportion of overhead costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

2.12 Prepayment

Prepayments to suppliers are reported at cost less provision for doubtful debt. Prepayments to suppliers are classified as long-term, if the expected date of receipt of goods or services is more than one year, or if the payment of suppliers relate to assets that will be reflected in the account as long at initial recognition. The prepayment amount for the acquisition of the assets included in the carrying value when Group receive the control of these assets and it is probable that future economic benefits associated with them, will be received by the Group. Other prepayments are written off after receipt of goods or services. If there is an indication that the assets, goods or services will not be received, the carrying value of prepaid shall be reduced to the amount of provision and the related provision is recognised through profit or loss for the year.

2.13 Trade and other receivables

Trade receivables are recognised initially at fair value, afterwards recognised at amortised cost calculated by using effective interest rate method, offset for impairment provision. A provision for impairment of trade 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 the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than one year overdue - in accordance with the Company's accounting policy, which envisages grading of bad debt levels) are considered indicators that the trade receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within "general and administrative expenses". 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. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are debited with negative sign against "general and administrative expenses" in the statement of comprehensive income.

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities less than three months.

2.15 Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

Preference shares are classified as liabilities, if they are subject to mandatory redemption on a specific date or upon shareholders' choice, or if dividends are obligatory (non-discretionary). Dividends on such shares are recognised as interest expenses through profit or loss for the period.

2 Summary of Significant Accounting Policies (Continued)

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.16 Trade payables

Trade payables are accrued when the counterparty performed its obligations under the contract. Trade payables are recognised initially at fair value and subsequently are recorded at amortised cost using effective interest rate method. Advances received are recorded in the amounts actually obtained from third parties.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Preferred shares, which are mandatory redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the statement of comprehensive income as interest expense.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs, including interest costs on borrowings, to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

The Company capitalises borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs to be capitalised are assessed based on average cost of the Company's financing (weighted average interest on borrowings is applied to expenses incurred on a qualifying asset) except where the funds have been raised specially for acquisition of a qualifying asset. In such cases, actually incurred borrowing costs less investment income from temporary investment funds received from such special-purpose borrowings are capitalised.

2.18 Current and deferred income tax

In the consolidated financial statements the income tax is reflected in accordance with Kazakhstani legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of comprehensive income, unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and past periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided in full using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

2 Summary of Significant Accounting Policies (Continued)

2.19 Value added tax

Value added tax ("VAT") related to sales is payable to state budget 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 reporting date is stated in the statement of financial position on net basis.

2.20 Employee benefits

Wages, salaries, contributions to the pension funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services, kindergarten services, etc.) are accrued in the year in which the associated services are rendered by the employees of the Group.

2.21 Pension payments

The Group does not incur any expenses relating to the payment of pension and other retirement benefits to its employees. In accordance with the laws of the Republic of Kazakhstan Company keeps pension contributions from employees' salaries and transfers them to the state or private pension fund chosen by employee. After the retirement of employee liabilities of the Group are terminated, and all subsequent payments are made by public or private pension savings fund.

2.22 Provisions

Provisions for environmental restoration and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.23 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.

Other movements in the provisions for asset retirement obligations, including costs, resulting from new disturbance, updated cost estimates, changes to the estimated lives of operations and revisions to discount rates are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

The amortisation or "unwinding" of the discount applied in establishing the net present value of provisions is charged to profit or loss for the year. The amortisation of the discount is shown as a financing cost, rather than as an operating cost. When the asset achieves the end of its useful life all changes in liability are charged to profit or loss for the year.

2.24 Revenue recognition

Revenue is stated on accrual basis in the amount of revenue from sales less provided discounts and taxes, related to sales turnovers. Revenue is determined by fair value of the consideration received or receivable. Sales are shown net of VAT and discounts.

2 Summary of Significant Accounting Policies (Continued)

Revenues from sales of telecommunication equipment are recognised at the point of transfer of risks and rewards of ownership of the equipment, normally when the equipment is shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the equipment is passed to the customer at the destination point.

Call out revenue is recognised based on the actual airtime used by a subscriber. All the Group's subscribers are served on post-paid basis.

Revenues from providing an access to Internet network are stated on the basis of actual traffic used by a subscriber. The Internet users are served both on the prepaid and post-paid basis.

Sales of consulting services and installation services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

2.25 Leases

(c) 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.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

(d) Finance lease liabilities

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

2.26 Dividend distribution

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

2.27 Earnings per share

Preference shares are neither redeemable, nor considered to be participating shares with respect with the distribution of dividends. Ordinary share dividends cannot exceed preference share dividends. Thus, preference shares are compound instruments with equity component. The preference shares give their holders the right to participate in general shareholders' meetings without voting rights and to participate with voting rights when considering the issue in relation to reorganization and liquidation of the Company, when considering the issue of restriction of rights of preference shareholders, and also if dividends on preference shares are not paid in full in three months from the date of expiry of the period set for payment of such dividends. As a result, preference shares get voting rights without conversion to ordinary shares at the moment when dividends of preference shares are not paid in full in three months from the date of expiry of the period set for payment of such dividends until the dividends are paid.

3 New Accounting Pronouncements

(i) The following new standards and interpretations became effective for the Group from 2011

- *Amendment to IAS 24, Related Party Disclosures* (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The revision did not have impact on the financial statements.
- *Improvements to International Financial Reporting Standards* (issued in May 2010 and effective from 1 January 2011).
- *Other revised standards and interpretations effective for the current period.*

(ii) Certain new standards and interpretations have been issued, and which the Company 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.
- 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 Company and the timing of its adoption by the Group.
- *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. The Group is currently assessing the impact of the new standard on its financial statements.
- *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 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 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. The Group is currently assessing the impact of the new standard on its 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. The Group is currently assessing the impact of the new standard on its financial statements.

The Group is also currently assessing the impact of the following new standard on its financial statements:

- *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).*
- *Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012).*
- *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).*
- *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).*
- *IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).*
- *Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013).*
- *Other revised standards and interpretations.*

4 Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program 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 derivatives for risk hedging.

In April 2008 pursuant to the resolution of the Board of Directors and for the purpose of more effective risk management the Group established a Risk Committee under the Board of Directors. The principal activity of the Committee is to analyse the Group's operations in order to detect risk events, analyse transaction risks and develop recommendations to decrease the Group's risks. The activities of the Committee have a recommendation nature.

4 Financial Risk Management (Continued)

Market risk

(a) Currency risk

The Group operates in Kazakhstan.

The Group does not operate internationally, thus, the significant part of the Group's transactions are carried out in Tenge. The Group has some financial instruments denominated in US dollar. They include some accounts receivable and accounts payable, long-term borrowings and corporate bonds payable. Unsecured bonds depend on increase of exchange rate of US dollar to Tenge; if US dollar exchange rate increases, bonds payable increase accordingly. If exchange rate of US dollar to Tenge does not increase, bonds payable are not adjusted. The Group does not hedge such financial instruments, since the management does not consider currency risk as significant.

At 31 December 2011, if Tenge had weakened/strengthened by 10% against the US dollar with all other variables held constant, post-tax profit for the year ended 31 December 2011 would have been Tenge 78,986 thousand (2010: 10% Tenge 4,889 thousand) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated trade receivables and foreign exchange losses/gains on translation of US dollar-denominated borrowings. Profit was more sensitive to movement of Tenge in relation to US dollar for the year ended 31 December 2011 than similar period of 2010 because of the increased amount of US-dollar denominated borrowings. Changes in exchange rates do not affect the Group's equity, since the Group does not have any financial instruments accounted for within equity.

(b) Interest rate risk

Since the Group does not have any significant interest-bearing assets, the Group's incomes are mainly independent from changes in interest rates.

The Group's interest rate risk arises from non-current borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2011 and 2010, the Group's borrowings at variable rate were denominated in US dollars.

The Group's policy is to regulate interest expenses using combination of debt with fixed and variable interest rates. In accordance with the Group's policy, from 40% to 60% of borrowings should be at fixed interest rate. Additionally, the Group's policy envisages when signing the loan agreement to set the Group's right to refuse to an increase of interest rates and possibility to accelerated repayment of borrowings without imposition of penalties to the Group.

At 31 December 2011, if interest rates on US dollar-denominated borrowings at that date had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been Tenge 4,224 thousand (2010: Tenge 4,595 thousand) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(c) Price risk

The Group is not exposed to the price risk of equity securities, since The Group does not hold a portfolio of these securities.

Credit risk

Credit risk is managed at Group level. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

The table below shows maximum exposure of the Group to credit risk:

	Note	31 December 2011	31 December 2010
Cash and cash equivalents	15	1,550,934	1,409,986
Trade and other receivables	14	2,367,096	2,295,220
Long-term trade receivables		12,171	12,551
Total maximum exposure to the credit risk		3,930,201	3,717,757

The Group has policies in place to ensure that sales of services are made to customers with an appropriate credit history. If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, corporate customers department assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Sales to customers are done on a post-paid basis and settled in cash. The Group management checks unsettled accounts receivable analysis by terms due and traces unpaid balances. The customers with unpaid balances are not provided with telecommunication services until full settlement. The Management provided a settlement terms analysis and other information on credit risk in the Note 14. At 31 December 2011, 75% of the Group's trade accounts receivable represents 12 debtors (31 December 2010: 12 debtors represent 80%).

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default. The ratings and balances with major banks at the balance sheet date are presented in Note 11.

Liquidity risk

The Group exercises control over risk of cash shortage using long term (5 years) and short term (annual, quarterly and monthly) forecasts of future cash flows from operating activities. The Group has developed a number of internal regulations aimed to adopt control procedures of record keeping and making payments, and also regulations on operational budget settlement. The Group's aim is to maintain the balance between continuing financing and flexibility using bank overdrafts, bank loans, bonds, preference shares, finance lease and instalment contracts.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
At 31 December 2011			
Borrowings	3,133,235	51,880	2,296
Trade payables	563,940	-	-
Total financial liabilities	3,697,175	51,880	2,296
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
At 31 December 2010			
Borrowings	544,937	3,418,281	25,251
Trade payables	796,302	-	-
Total financial liabilities	1,341,239	3,418,281	25,251

Capital risk management

The Group's main objective when managing capital is to ensure stable credibility and normal level of capital adequacy for the Group's operations and maximum increase of return for shareholders. The Group manages capital structure and changes it in accordance with the changes in the economy. To maintain or adjust capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to

shareholders or issue new shares. Optimal structure of capital is formed through combination of borrowing and capital financing to decrease cost of capital.

The Group monitors capital on the basis of the gearing ratio. The Group's strategy is to optimise its gearing ratio by combination of equity financing from its shareholder and external borrowings. This ratio is determined as total debt divided by total capital, and is considered as optimal if it does not exceed 200%. Total debt is determined as "borrowings" as shown in the statement of financial position. Total capital is determined as "total equity" as shown in the statement of financial position.

	31 December 2011	31 December 2010
Total debt	2,946,955	3,051,659
Total capital	8,225,349	6,736,986
Gearing ratio	36%	45%

The Group management considers the level of gearing ratio at 31 December 2011 as optimal and reflecting the requirements of the industry.

The Group complied with all external requirements on capital during the year ended 31 December 2011. Such requirements are provided in the Group's loan agreements, whereby the Group's equity should amount to not less than Tenge 1,700,000 thousand.

Fair value estimation

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 and respective valuation methods.

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 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.

Cash and cash equivalents are carried at amortised cost which approximates current fair value due to their short term nature (less than 3 months). Due to the short-term nature of other receivables, their carrying amounts approximate fair values.

Liabilities carried at amortised cost

The estimated fair value of fixed interest rate instruments, 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. The carrying amounts of trade payables and borrowings approximate their fair value.

Financial instruments carried at actual cost

Available-for-sale investments, which include unquoted equity securities in mass media industry, are stated at actual cost. Investee companies did not publish the latest financial information on their operations. There is no active market for such investments, nor any recent transactions with such investments which could be the basis for determination of fair value. Additionally, future cash flows discounting method provides the wide range of possible indicators of fair value related to uncertainty of future cash flows in this industry. However, management believes, that it is unlikely that the fair value at the year-end would significantly differ from their carrying amount.

5 Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on the Groups 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. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

(a) *Useful lives of property, plant and equipment and intangible assets*

Management estimates economic useful lives of property, plant and equipment and intangible assets as well as depreciation and amortisation rates. The management's estimates are based on estimated useful life during which the Group plans to obtain the economic benefits. Duration of such estimated period can significantly change depending on the results of scientific and technical and innovation activities and actions of competitors in the sphere of high technologies and communication services. Carrying amount of assets for which the judgements have the significant effect (equipment) as at 31 December 2011 is Tenge 5,508,469 thousand (31 December 2010: Tenge 4,587,440 thousand) (Note 8). The management increases depreciation rates for those items, which useful lives are less than their prior determined useful lives, as well as fully or partially write off the obsolete items through disposal or sales. The useful lives are reviewed at each reporting year-end, but not less than once a year.

(b) *Asset retirement obligation provision*

Due to Environmental Code of the Republic of Kazakhstan, the Group has a legal liability on dismantling and land reclamation upon decommissioning of communication lines. Provisions are made on the basis of net present value of dismantling and reclamation costs as liability arises from the previous activities. Provision for asset retirement obligations are estimated on the basis of the Group's interpretation of the current environmental legislation of the Republic of Kazakhstan and respective program for liquidation of consequences of the Group's operations on the covered area estimated by the Group on the basis of feasibility and engineer studies in accordance with the current technical rules and norms for reclamation. Asset retirement obligations are subject to potential changes in environmental legislation and its interpretation. As at 31 December 2011 the carrying amount of provisions for asset retirement obligations was Tenge 49,345 thousand (2010: Tenge 218,681 thousand).

In 2009, management of the Group reconsidered its obligations and intentions on fiber-optic communication line dismantling (FOCL) and concluded that due to opinions of state expertise on absence of negative environmental effect, the Group has no obligation for FOCL dismantling. In addition in 2011 the Group's management reconsidered its obligations and intentions on cable communication line (CCL) dismantling, built inside of the protective polyethylene pipe (PPP) and concluded that due to absence of negative environmental effect of PPP the Group has no obligation for CCL dismantling, built inside of the PPP.

(c) *Revenue recognition*

Significant judgment is required to determine revenue from contracts for provision of services and construction contracts. Key uncertainty areas include:

- Estimation of probability that variation will be approved by the clients;
- Estimation of revenue expected from variation orders and costs required for completion of services; and
- Review of execution of works to determine the percentage of completion.

(d) *Initial recognition of transactions with related parties*

In the normal course of business the Group enters into transactions with related parties. In accordance with IAS 39, financial instruments must initially measured at fair value. In the absence of an active market for such operations in order to determine whether the operation of a market or a non-market interest rates professional judgment needed. The basis for judgment is pricing for similar types of transactions with third parties and analysis of effective interest rate. Transactions with related parties are reflected in note 7.

5 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

(d) Deferred income tax

Deferred income tax is calculated in relation to retained earnings received after the acquisition and other changes in subsidiaries' funds after the acquisition, except for the cases when the Group controls the subsidiary policy in relation to dividends and there is a possibility that temporary differences will not be offset in foreseeable future through dividends or other means.

(e) Inventories for resale

The Group classifies telecommunication equipment for resale as inventories, since this equipment is purchased for the purpose of installation into the fixed assets of the clients during the construction or maintenance of communication lines of the clients or resale. However, the Group may use certain equipment for own use as necessary including the construction of its communication network. In this case equipment is transferred to property, plant and equipment (Note 8), and used item is replaced with the same for resale. Accordingly, certain equipment at 31 December 2011, classified by management as current within inventories may be transferred to property, plant and equipment in 2012.

6 Segment Information

Starting from 1 January 2009, the Group prepares its segment analysis in accordance with IFRS 8, Operating segments, which replaced IAS 14, Segment reporting.

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Board of Directors of the Group.

(a) Description of products and services from which each reportable segment derives its revenue

The Group is organised on a basis of four main operating segments:

- Telecommunication services – cable and satellite communication services as well as land telephone communication and related repair services.
- Maintenance – equipment design, development, supply, installation for telecommunication platforms, and network and equipment maintenance.
- System integration – design, construction, certification and commissioning of communication objects and telecommunication systems under long-term contract with Agip KCO (Note 13).
- IT-outsourcing - applications installation, support and maintenance services.

(b) Factors that management used to identify the reportable segments

Segment financial information is reviewed by the Board of Directors of the Group, responsible for operational decision making. Such financial information is similar to the segment analysis provided internally to the Board of Directors of the Group. Management therefore applied the core principle of IFRS 8, *Operating Segments*, in determining which of the components should form the basis of operating segments.

(c) Measurement of operating segment profit or loss, assets and liabilities

The Board of Directors of the Group reviews financial information prepared based on International Financial Reporting Standards.

The Board of Directors of the Group evaluates performance of each segment based on gross profit.

Transactions between the operating segments are carried out based on normal commercial terms and conditions.

The headquarter is not an operating segment. Corporate profit and expenses, such as other income, distribution costs, general and administrative expenses, other expenses, finance income and costs are related to the headquarter and are not allocated between operating segments.

6 Segment Information (Continued)

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, trade receivables, and mainly exclude cash and cash equivalents, prepayments, financial assets available for sale and income tax balances. Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and intangible assets.

(d) *Information about reportable segment profit or loss, assets and liabilities*

Segment information for the main reportable operating segments of the Group for 2011 and 2010 is set out below:

	Telecom- munication services	Equipment sales and maintenance	System integration	IT outsourcing	Headquarters	Group
2011						
Segment revenue	6,396,696	3,199,618	1,132,51	791,529	-	11,520,431
Cost of segment sales	(3,455,979)	(2,249,868)	(291,896)	(619,915)	-	(6,617,658)
Gross profit for segment	2,940,717	949,750	840,69	171,614	-	4,902,773
Other income					283,437	283,437
Administrative and other expenses					(1,763,171)	(1,763,171)
Finance income					56,485	56,485
Finance costs					(509,914)	(509,914)
Profit before income tax						2,969,610
Income tax expense						(641,589)
Profit for the year						2,328,021
31 December 2011						
Segment assets	9,919,919	924,522	238,60	550,862	-	11,633,908
Other unallocated assets					2,002,103	2,002,103
Total assets						13,636,011
Segment liabilities	1,187,283	146,488	134,81	121,147		1,589,794
Current and deferred tax liability					873,913	873,913
Other unallocated liabilities					2,946,955	2,946,955
Total liabilities						5,410,662
2011						
Capital expenditure	405,899					405,899
Depreciation and amortisation	793,774		2,847	16,802		813,423

6 Segment Information (Continued)

	Telecom- munication services	Equipment sales and maintenance	System integration	IT outsourcing	Headquarters	Group
2010						
Segment revenue	5,371,611	3,076,841	1,164,41	1,146,605	-	10,759,526
Cost of segment sales	(2,667,335)	(2,087,706)	(659,830)	(806,487)	-	(6,221,358)
Gross profit for segment	2,704,276	989,135	504,63	340,118	-	4,538,168
Other income					289,330	289,330
Administrative and other expenses					(1,771,540)	(1,771,540)
Finance income					121,581	121,581
Finance costs					(590,870)	(590,870)
Profit before income tax						2,586,669
Income tax expense						(674,415)
Profit for the year						1,912,254
31 December 2010						
Segment assets	8,436,065	782,958	232,96	894,762	-	10,346,754
Other unallocated assets					1,909,415	1,909,415
Total assets						12,256,169
Segment liabilities	1,127,585	170,206	108,6	491,019	-	1,897,413
Current and deferred tax liability					570,111	570,111
Other unallocated liabilities					3,051,659	3,051,659
Total liabilities						5,519,183
2010						
Capital expenditure	636,483	-	5,044	15,372	-	656,899
Depreciation and amortisation	681,387	-	1,917	14,793	-	698,097

6 Segment Information (Continued)

Segment assets and liabilities are reconciled to the Group's assets and liabilities of as follows:

	31 December 2011		31 December 2010	
	Assets	Liabilities	Assets	Liabilities
Segment assets and liabilities	11,652,494	1,589,794	10,346,754	1,897,413
Non-current borrowings	-	27,514	-	2,790,313
Current borrowings	-	2,919,441	-	261,346
Deferred income tax	9,822	873,913	14,707	570,111
Cash and cash equivalents	1,550,934	-	1,409,986	-
Prepayments to suppliers	217,605	-	252,546	-
Current income tax prepaid	102,259	-	139,842	-
Financial assets available for sale	24,000	-	24,000	-
Other	78,897	-	68,334	-
Total	13,636,011	5,410,662	12,256,169	5,519,183

Geographical segments. The Group's assets are mainly concentrated in the Republic of Kazakhstan, and the main part of the Group's profits is generated from transactions in the Republic of Kazakhstan.

7 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 parent company and immediate controlling party is Rodnik INC LLP. The Group's ultimate controlling parties are disclosed in Note 1.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2011 and 31 December 2010 are detailed below.

At 31 December 2011 and 31 December 2010 the outstanding balances with related parties were as follows:

	Parent company - RodnikINCLLP	Other related parties	Key management personnel
31 December 2011			
Accounts receivable	-	2,507	-
Other payables	-	26,856	182,412
31 December 2010			
Other payables	-	-	228,450

Information on dividends declared and paid is disclosed in note 16.

7 Balances and Transactions with Related Parties (Continued)

The income and expense items with related parties for the years ended 31 December 2011 and 31 December 2010 were as follows:

	Parent company - Rodnik LLP	Other related parties	Key management personnel
2011			
Revenue	-	25,862	-
General and administrative expenses	-	-	272,797
Finance income	-	-	-
2010			
General and administrative expenses	-	-	275,465
Finance income	200	200	-

Compensation to management for their services at permanent positions of executive management consists of contractual amount of salary and performance bonus depending on the results of the Group's business activities. Total management compensation included into personnel costs in the statement of comprehensive income for the year ended 31 December 2011 was Tenge 272,797 thousand (2010: Tenge 275,465 thousand). Directors classified as key management personnel include three positions (2010: two positions).

8 Property, Plant and Equipment

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

	Land and buildings	Telecom-munication equipment	Auto-transport	Others	Construction in progress/ Equipment to be installed	Total
Cost						
Cost at 31 December 2009	1,462,833	5,857,665	469,314	587,507	620,913	8,998,232
Additions	29,083	384,491	78,867	87,499	900,754	1,480,694
Transfers	27,920	749,618	1,478	7,483	(786,499)	-
Disposals	(500)	(24,811)	(26,072)	(14,661)	(78,270)	(144,314)
Cost at 31 December 2010	1,519,336	6,966,963	523,587	667,828	656,898	10,334,612
Additions	38,094	442,300	61,239	126,338	1,010,081	1,678,052
Transfers	20,852	661,918	-	551,688	(1,234,458)	-
Disposals	(192)	(331,824)	(8,983)	(25,720)	(26,622)	(393,341)
Cost at 31 December 2011	1,578,090	7,739,357	575,843	1,320,134	405,899	11,619,323
Accumulated Depreciation						
Balance at 31 December 2009	155,078	1,918,737	245,289	323,282	-	2,642,386
Depreciation charge	36,666	477,328	51,414	89,555	-	654,963
Transfers	-	366	(73)	(293)	-	-
Disposals	(225)	(16,909)	(24,234)	(13,691)	-	(55,059)
Balance at 31 December 2010	191,519	2,379,521	272,397	398,853	-	3,242,290
Depreciation charge	38,440	535,758	59,657	128,729	-	762,584
Transfers	-	(357,171)	-	357,171	-	-
Disposals	(43)	(327,220)	(8,437)	(23,265)	-	(358,965)
Balance at 31 December 2011	229,916	2,230,888	323,617	861,488	-	3,645,909
Carrying value at 31 December 2009	1,307,755	3,938,928	224,025	264,225	620,913	6,355,846
Carrying value at 31 December 2010	1,327,817	4,655,876	251,190	200,276	656,898	7,092,321
Carrying value at 31 December 2011	1,348,174	5,508,469	252,226	458,646	405,899	7,973,414

Vehicles include cars in financial lease with book value at Tenge 14,122 thousand as of 31 December 2011. At the end of lease term for each of the lease agreements, the Group has a right to redeem the respective cars at favourable price. The leased cars represent the collateral for lease liabilities.

At 31 December 2011 part of buildings, land and equipment have been pledged to third parties as collateral for borrowings (Note 18).

In 2011 the Group capitalised borrowing costs in amount of Tenge 18,145 thousand (2010: Tenge 56,760 thousand) arising on financing attributable to the construction of main fiber-optic communication line. The capitalisation rate was 14%.

8 Property, Plant and Equipment (Continued)

On 25 May 2009 the Group signed a contract with ASTEL JSC, Arna JSC and Alma-TV JSC regarding the joint financing of project to construct a main fiber-optic communication line on Almaty-Khorgos site with the aim to hook to China Telecommunications Corporation main lines. The parties agreed to subsequently own this main FOCL on the basis of common shared ownership. Each participant of shared construction owns 25% of the main FOCL, has an equal voting power and finances 25% of costs under the contract. Subsequently Briz and Co. LLP substituted Arna JSC under the contract. The finalization and put into use of constructions under the contract are expected to be completed in the beginning of 2012. Operating management of works under the contract is exercised by the Work Group comprising representatives of each of the parties. At 31 December 2011 the Group had the following assets and liabilities under the contract:

	31 December 2011	31 December 2010
Construction in progress	42,221	285,269
Accounts payable	9,451	86,092

9 Intangible Assets

	Licenses	Software	Other	Total
Cost				
Cost at 31 December 2009	68,741	262,209	8,353	339,303
Additions	64,517	22,585	5,042	92,144
Reclassification	-	136	(136)	-
Disposals	-	(211)	-	(211)
Cost at 31 December 2010	133,258	284,719	13,259	431,236
Additions	24,589	52,390	-	76,979
Reclassifications	-	-	-	-
Disposals	(4,285)	(71,930)	(1,145)	(77,360)
Cost at 31 December 2011	153,562	265,179	12,114	430,855
Accumulated amortisation				
Accumulated amortisation at 31 December 2009	10,816	139,410	7,418	157,644
Depreciation charge	8,198	34,457	696	43,351
Reclassification	-	8	(8)	-
Disposals	-	(195)	-	(195)
Accumulated amortisation at 31 December 2010	19,014	173,680	8,106	200,800
Depreciation charge	14,031	36,102	706	50,839
Reclassification	-	-	-	-
Disposals	(2,435)	(71,349)	(808)	(74,592)
Accumulated amortisation at 31 December 2011	30,610	138,433	8,004	177,047
Carrying value at 31 December 2009	57,925	122,799	935	181,659
Carrying value at 31 December 2010	114,244	111,039	5,153	230,436
Carrying value at 31 December 2011	122,952	126,746	4,110	253,808

10 Financial Instruments by Categories

The reconciliation between balance sheet accounts and categories of financial instruments is presented below:

31 December 2011	Note	Loans and receivables	Available-for-sale	Total
Assets as per statement of financial position				
Available-for-sale financial assets		-	24,000	24,000
Non-current receivables		12,171	-	12,171
Trade and other receivables	14	2,367,096	-	2,367,096
Cash and cash equivalents	15	1,550,934	-	1,550,934
Total		3,930,201	24,000	3,954,201
31 December 2011	Note		Other financial liabilities	Total
Liabilities as per statement of financial position				
Bonds, including interest payable	18		2,767,162	2,767,162
Bank loans, including interest payable	18		220,975	220,975
Trade payables	20		563,940	563,940
Finance lease liabilities, including interest payable	18		3,713	3,713
Preference shares	18		2,112	2,112
Total			3,557,902	3,557,902
31 December 2010	Note	Loans and receivables	Available-for-sale	Total
Assets as per statement of financial position				
Available-for-sale financial assets		-	24,000	24,000
Non-current receivables	14	12,551	-	12,551
Trade and other receivables	7	2,295,220	-	2,295,220
Cash and cash equivalents	15	1,409,986	-	1,409,986
Total		3,717,757	24,000	3,741,757
31 December 2010	Note		Other financial liabilities	Total
Liabilities as per statement of financial position				
Bonds, including interest payable	18		2,626,503	2,626,503
Bank loans, including interest payable	18		462,998	462,998
Trade payables	20		796,302	796,302
Finance lease liabilities, including interest payable	18		9,420	9,420
Preference shares	18		2,112	2,112
Total			3,897,335	3,897,335

11 Credit Quality of Financial Assets

None of the Group's clients has external credit rating. Only banks, where the Group places its cash and short-term deposits, have external credit ratings. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates:

	31 December 2011	31 December 2010
Trade receivables		
Counterparties without external credit rating		
Group 1	228,651	283,318
Group 2	1,958,172	1,815,239
Group 3	25,840	28,823
Total current and not impaired	2,212,663	2,127,380

Group 1 – new clients (less than 6 months).

Group 2 – existing customers (more than 6 months) with no defaults in the past.

Group 3 – existing customers (more than 6 months) with some defaults in the past. All defaults were fully provided.

Cash at bank and short-term bank deposits

	Rating Agency	Rating	31 December 2011	31 December 2010
Kazkommertsbank	Moody's	Ba3	1,179,238	925,420
BankCentrCredit	Moody's	B1	91,199	317,847
HSBC Bank Kazakhstan	Standard & Poors	BBB	91,925	90,331
Halyk Bank of Kazakhstan	Moody's	Ba2	162,419	66,246
Citibank	Standard & Poors	A	3,210	4,170
Other	-	-	17,778	2,430
Total cash at bank and short-term bank deposits			1,545,769	1,406,444
Total non-current receivables			12,171	12,551

Management of the Group estimates credit quality of financial assets available for sale and long-term accounts receivable as high.

12 Inventories

	31 December 2011	31 December 2010
Telecommunication equipment for resale	649,151	438,072
Raw materials	213,745	191,315
Spare tools and appliances under maintenance contracts	126,842	72,687
Spare parts	46,208	57,423
Provision for obsolescence	(6,590)	(27,667)
Total inventories	1,029,356	731,830

13 Long-term Construction Contracts

	31 December 2011	31 December 2010
Revenue recognised from long-term contract	1,132,588	1,164,469
Actual expenses incurred for long-term contract	(291,896)	(659,830)
Profit from long-term contract	840,692	504,639
Total bills issued	1,132,588	1,156,530
Deferred income	-	7,939

In 2003 the Group signed the long-term contract for construction of telecommunication system for Agip KCO. The Group uses percentage of completion method to determine the respective amounts for recognition in the appropriate period. Completion stage is determined based on actual works executed under contract before the reporting date in the form of percentage of total scope of works.

14 Trade and Other Receivables

	31 December 2011	31 December 2010
Trade receivables	1,991,456	2,330,867
Receivables from construction contracts	402,524	74,435
Less: Provision for impairment of trade receivables	(26,884)	(110,082)
Total trade and other receivables	2,367,096	2,295,220

The carrying value of accounts receivable and other receivables, less impairment loss provision is expressed in the following currencies:

	31 December 2011	31 December 2010
Tenge	1,930,214	2,210,675
US Dollar	434,185	84,421
Euro	2,697	116
Total trade and other receivables	2,367,096	2,295,220

14 Trade and Other Receivables (Continued)

Below is presented the ageing analysis trade receivables:

	31 December 2011	31 December 2010
<i>Current and not impaired</i>		
Trade and other receivable	1,810,139	2,052,945
Construction contracts receivable	402,524	74,435
Total current and not impaired	2,212,663	2,127,380
<i>Past due and not impaired</i>		
From 3 to 6 months	15,716	98,076
From 6 months to 1 year	138,849	69,764
Total past and not impaired	154,565	167,840
<i>Impaired</i>		
More than a year	26,752	110,082
Total impaired	26,752	110,082
Less impairment provision	(26,884)	(110,082)
Total trade and other receivables	2,367,096	2,295,220

Management estimated the value of trade receivables with a maturity of less than one year has not decreased.

Movements on the Group provision for impairment of trade receivables are as follows:

	2011	2010
At 1 January	110,082	55,045
Provision for receivables impairment	(14,163)	55,671
Accounts receivable write-off	(69,035)	(634)
At 31 December	26,884	110,082

Creation and release of provision for impaired receivables have been included in "administrative expenses" in the statement of comprehensive income (Note 24). Amounts charged to the impairment provision account are generally written off when there is no expectation of recovering additional cash.

Other classes within trade and other receivables do not contain impaired assets.

15 Cash and Cash Equivalents

	31 December 2011	31 December 2010
Cash in bank	889,079	834,281
Cash in deposit bank accounts in Tenge and foreign currency	656,690	570,374
Cash on hand	5,165	3,542
Cash in transit	-	1,789
Total cash and cash equivalents	1,550,934	1,409,986

15 Cash and Cash Equivalents (Continued)

Cash and cash equivalents are denominated in following currencies:

	31 December 2011	31 December 2010
Tenge	972,111	842,086
US Dollar	566,307	529,499
Euro	12,485	37,367
Russian Rubble	31	1,034
Total cash and cash equivalents	1,550,934	1,409,986

16 Share Capital

(a) Ordinary shares

	Number of outstanding shares (in thousands)	Ordinary shares	Share premium	Total
At 31 December 2011	2,387	46,662	7,009	53,671
At 31 December 2010	2,387	46,662	7,009	53,671

As at 31 December 2011 and 2010 the total number of authorised shares is 3,000 thousand shares and number of outstanding ordinary shares is 2,387 thousand shares with a par value of Tenge 20 per share. All issued ordinary shares are fully paid. Each ordinary share carries one vote.

Share premium represents the excess of contributions received over the nominal value of shares issued.

In 2010 the Group acquired 37,846 of its ordinary shares in the amount of Tenge 108,004 thousand which were recognised as treasury shares. At 31 December 2011 treasury shares include 53,995 ordinary shares of the Company (31 December 2010: 53,995 shares for total amount of Tenge 108,004 thousand), owned by the wholly owned subsidiary of the Group. These ordinary shares carry voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares owned by companies within the Group are effectively controlled by management of the Group.

As at 31 December 2011 and 31 December 2010 the following shareholders owned more than 5% of issued and standing ordinary shares of the Company:

Shareholders	Number of ordinary shares 31 December 2011	Number of ordinary shares 31 December 2010	% 31 December 2011	% 31 December 2010
Rodnik INC LLP	1,907,556	1,907,556	79.92	79.92
Telecom-Asia LLP	236,561	236,561	9.91	9.91
Total	2,144,117	2,144,117	89.83	89.83

16 Share Capital (Continued)

(b) Preference shares

The total authorised and issued number of preference shares is 115,738 shares (31 December 2010: 115,738 shares), of which the number of outstanding shares is 113,624 shares (31 December 2010: 113,624 shares) with a par value of Tenge 20 per share (31 December 2010: 20 Tenge per share). All issued preference shares are fully paid.

The preference shares are not convertible or redeemable, but guarantee annual cumulative dividends in the amount of not less than 10% of nominal value of shares, but not less than dividends due to holders of ordinary shares.

In case of liquidation, the holders of preference shares are the first to receive any declared unpaid dividends. Then all holders of ordinary and preference shares participate in distribution of remaining assets on equal basis.

Preference shares are included in borrowings (Note 18).

(c) Dividends

Below are dividends declared and paid during the period:

	2011		2010	
	Ordinary shares	Preference shares	Ordinary shares	Preference shares
Dividends payable at 1 January	27,682	-	-	1,327
Dividends declared during the period	839,658	38,048	516,458	25,518
Dividends paid during the period	(847,172)	(36,662)	(66,188)	(25,916)
Dividends set-off with receivables of Rodnik INC LLP	-	-	(422,295)	-
Withholding income tax	273	(1,386)	(293)	(929)
Dividends payable at 31 December	20,441	-	27,682	-
Dividends per share declared during the period	359.92 Tenge	359.92 Tenge	221.38 Tenge	221.38 Tenge

All dividends are declared and paid in Kazakhstani Tenge. Dividends on preference shares are included within finance costs (Note 27).

17 Other Reserves

In accordance with its Charter, the Company should create general loss reserve in the amount of not less than 15% of its authorised share capital. In 2001 in accordance with the Company shareholders' decision, reserve was created in the amount of Tenge 7,455 thousand, which represented 15.6% of share capital.

18 Borrowings

	31 December 2011	31 December 2010
Bonds (a)	2,767,162	2,626,503
Secured bank loans (b)	220,975	462,998
Finance lease liabilities (c)	3,713	9,420
Cumulative irredeemable preference shares	2,112	2,112
Total borrowings	2,993,962	3,101,033

(a) *Unsecured indexed bonds in US Dollar*

On 25 July 2003 the Company registered 3,000,000,000 unsecured US Dollar indexed bonds with par value of Tenge 1 each. Maturity date for these bonds is 25 July 2010. Annual coupon rate is 8%, which is set for the entire period.

Coupons are payable on 25 July and 25 January of each year. Indexation of bonds relates to increase of exchange rate of US Dollar to Tenge; if US Dollar exchange rate increases, indexed amounts should be paid. If US Dollar exchange rate does not increase, payable amount will not be adjusted.

First emission of bonds was placed during the period from 13 November 2003 to 23 December 2004. Total issue discount was 165,235 thousand Tenge. On the 26 of July 2010 Group fully repaid the debt on the first bond issue in accordance with the repayment schedule, in the amount of Tenge 2,547,151 thousand.

On 17 June 2009 the Company registered the second issue of 3,000,000 unsecured US Dollars indexed bonds with par value of Tenge 1,000 each. Trades for the bonds were opened on 14 September 2009. 2,800,000 bonds were sold as at 31 December 2010 (31 December 2009: 1,300,000 bonds). The amount of cash received in 2010 for sale of bonds is equal to Tenge 1,387,598 thousand. Maturity date for these bonds is 1 July 2012. Annual coupon rate is 10%, which is set for the entire period. There were not additional sales of bonds during 2011, terms and conditions have not been changed.

Coupons are payable on 1 March, 1 July and 1 November of each year. Indexation of bonds relates to increase of exchange rate of US Dollar to Tenge; if US Dollar exchange rate increases, indexed amounts should be paid. If US Dollar exchange rate does not increase, payable amount will not be adjusted. The upper limit of indexation ratio is 1.2.

As at 31 December 2011 and 2010 total issue discount was Tenge 300,883 thousand. The exchange rate as at the date of bond trade opening was Tenge 150.92 per USD 1. The exchange rate used in transactions at 31 December 2011 was Tenge 148.42 per US Dollar 1 (31 December 2010: Tenge 147.50).

(b) *Bank loans*

Secured bank loans from Citibank denominated in US Dollars have interest rate of LIBOR plus 6.7%, and are revalued each month. Bank loans are repayable till January 2013 and their carrying value is Tenge 352,681 thousand. The loans are secured by the telecom equipment.

On 31 December 2011 the amount of Tenge 1,813,693 thousand in credit lines with Citibank and Kazkommertsbank not used (31 December 2010: Tenge 1,643,326 thousand).

18 Borrowings (Continued)

(c) Finance lease liabilities

Below are minimum lease payments on finance lease and their present value:

	Due in 1 year	Due between 1 and 2 years	Due between 2 and 5 years	Total
Minimum lease payments at 31 December 2011	3,713	-	-	3,713
Less: Deferred income	273	-	-	273
Present value of minimum lease payments at 31 December 2011	3,440	-	-	3,440
Minimum lease payments at 31 December 2010	6,577	4,129	-	10,706
Less: Deferred income	1,012	274	-	1,286
Present value of minimum lease payments at 31 December 2010	5,565	3,855	-	9,420

Leased assets with carrying amount disclosed in Note 8 are pledged under finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default. Finance lease liabilities are secured by leased assets. Interest rates on finance lease are fixed and vary from 16% to 18%.

The Group's borrowings mature as follows:

		31 December 2011	31 December 2010
Borrowings due:	- within 1 year	2,966,448	310,720
	- between 1 and 5 years	27,514	2,790,313
Total borrowings		2,993,962	3,101,033

The Group's borrowings are denominated in currencies as follows:

		31 December 2011	31 December 2010
Borrowings denominated in:	- Kazakhstani Tenge	2,772,985	2,664,455
	- US Dollar	220,977	436,578
Total borrowings		2,993,962	3,101,033

The effective interest rates at the reporting date were as follows:

% per annum	31 December 2011		31 December 2010	
	Tenge	US Dollar	Tenge	US Dollar
Bonds	10	-	9.6-19	-
Secured bank loans	16	Libor + 6.7	16	Libor+6.7
Finance lease liabilities	17-18	-	17-18	-

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

18 Borrowings (Continued)

The carrying amounts and fair values of borrowings are as follows:

	Carrying amounts		Fair values	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Bonds	2,767,162	2,626,503	2,737,166	2,657,528
Secured bank loans	220,975	462,998	175,475	367,666
Finance lease liabilities	3,713	9,420	1,947	3,280
Cumulative irredeemable preference shares	2,112	2,112	2,112	2,112
Total borrowings	2,993,962	3,101,033	2,916,700	3,030,586

The fair value of short-term borrowings approximates their carrying amounts, since effect of discounting is insignificant. Fair value of bonds is determined by multiplying the number of issued bonds at the reporting date by quoted market price received from the Kazakhstan Stock Exchange ("KASE").

19 Provisions for Asset Retirement Obligations

The Group has an obligation to dismantle and restore a landfill site after decommissioning of cable communication line ("CCL"). This liability arose in the beginning of 2007 due to introduction of new environmental code in the Republic of Kazakhstan.

Below are changes in provisions for asset retirement obligations:

	2011	2010
Carrying amount at 1 January	218,681	350,106
Additions for new communication lines	-	-
Unwinding of the present value discount	26	23,807
Increase / (decrease) of obligation due to change in estimates	(172,498)	(155,232)
Carrying amount at 31 December	49,345	218,681

The amount of provision for asset retirement obligations was calculated using current prices (the prices effective at the reporting date) for expenditures to be incurred and then inflated using the forecast inflation rate effective for the period until the settlement of obligations. The discount rate used to calculate present value of the liability at 31 December 2011 was 9.42% per annum (31 December 2010: 3.7 % per annum), inflation rate - 6% per annum (31 December 2010: 5.2% per annum).

20 Trade and Other Payables

	31 December 2011	31 December 2010
Trade payables	563,940	796,302
Total financial liabilities	563,940	796,302
Provision for unused vacation	266,854	209,425
Provision for management compensation	182,412	228,450
Value added tax	198,960	155,268
Individual income tax payable	45,693	59,630
Payments to pension funds	48,855	43,251
Payables to employees	78,855	46,182
Dividends payable	20,441	27,682
Advances received	65,782	27,422
Deferred income	-	7,939
Other payables	21,650	27,807
Total trade and other payables	1,493,442	1,629,358

Trade payables of Tenge 83,171 thousand (31 December 2010: Tenge 116,627 thousand) are denominated in foreign currency, mainly in US dollars.

21 Revenue

	2011	2010
Line cable communication services	4,862,006	3,512,329
Technical maintenance	3,925,168	4,222,747
Revenue from construction contract	1,132,588	1,164,469
Satellite communication services	966,923	1,246,768
Local telephone and trunk communication services	350,213	370,390
Equipment installation and sales	283,533	242,823
Total revenue	11,520,431	10,759,526

22 Cost of Sales

	2011	2010
Payroll expenses and personnel costs	2,915,466	2,349,685
Communication services	888,185	522,160
Lease of communication facilities and other equipment	764,960	888,228
Depreciation and amortisation	764,205	644,768
Equipment, materials and consumables	415,788	791,917
Repair and maintenance expenses	285,697	261,705
Independent contractors	273,260	514,044
Transportation expenses	109,173	58,581
Utilities	80,649	68,721
Business trip expenses	76,991	79,585
Other	43,284	41,964
Total cost of sales	6,617,658	6,221,358

23 Other operating income

	Прим.	2011	2010
Income from fixed assets disposal and change in estimate in calculation of asset retirement obligation	19	172,498	155,232
Sale of other goods		62,697	89,777
Rent services		14,024	20,088
Other		34,218	24,233
Total other operating income		283,437	289,330

In 2010 the Group's management reconsidered its obligations and intentions on cable communication line (CCL) dismantling, built inside of the protective polyethylene pipe (PPP) and concluded that due to absence of negative environmental effect of PPP the Group has no obligation for CCL dismantling, built inside of the PPP. As capitalised asset reached the end of its useful life, changes in the liability were recognised in other operating income in accordance with the Group's accounting policy. In 2011 the Group sold the significant part of CCL and recognised the income from the decrease in corresponding asset retirement obligations.

24 Distribution costs

	2011	2010
Payroll expenses and personnel costs	290,661	232,261
Marketing expenses	59,249	26,857
Communication services	7,869	5,910
Depreciation and amortisation expenses	1,087	1,808
Material	4,882	4,400
Business trip expenses	2,706	4,104
Other	27,978	13,776
Total distribution costs	394,432	289,116

25 General and Administrative Expenses

	2011	2010
Payroll expenses and personnel costs	741,500	872,993
Taxes other than income tax	204,836	160,659
Third parties services	66,439	128,110
Bank charges	50,174	53,448
Depreciation and amortisation	48,129	50,920
Professional and consulting services	111,776	28,004
Business trip expenses	32,206	42,481
Doubtful debt provisions	(14,163)	55,671
Reserve for obsolete inventory	(21,076)	(14,996)
Communication services	14,557	16,170
Rent	17,270	11,502
Materials	16,282	12,321
Other	84,172	52,056
Total general and administrative expenses	1,352,102	1,469,339

26 Finance Income

	2011	2010
Bank interest income	23,466	73,619
Foreign exchange gains on bank deposits and accounts receivable	33,019	34,928
Other interest income	-	13,034
Total finance income	56,485	121,581

27 Finance Costs

	Note	2011	2010
Interest expenses		294,251	363,104
Unwinding of present value discount on bonds		140,216	127,734
Losses from exchange rate differences on borrowings		34,236	50,704
Preference share dividends		38,049	25,514
Unwinding of present value discount on asset retirement obligation	19	3,162	23,807
Total finance costs		509,914	590,871

28 Income Tax

Income tax expense comprises the following:

	2011	2010
Current tax	332,902	371,562
Deferred tax	303,802	297,634
Deferred tax (ERP Service KazTransCom LLP)	4,885	5,219
Income tax expenses for the year	641,589	674,415

28 Income Taxes (Continued)

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

	2011	2010
IFRS profit before tax	2,969,610	2,586,669
Theoretical tax charge at statutory rate 20% (2010: 20%).	593,922	517,334
Tax effect on non-deductible non-assessable items:		
- Effect of the difference between the statutory tax rate and tax rate effective during the period of reversal of the temporary differences and change in tax rates	-	117,458
- Effect of the difference between the statutory tax rate and tax rate effective during the period of reversal of the temporary differences and change in tax rates (ERP-Services LTD)	-	1,489
- Effect of prior year adjustment of tax base (Note 30)	-	21,264
- Other non deductible expenses	47,667	16,870
Income tax expense for the year	641,589	674,415

28 Income Taxes (Continued)

Differences between IFRS and Kazakhstan 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 temporary differences is recorded at the tax rate applicable when deferred tax assets are realised or liabilities settled.

	31 December 2009	Charged to profit and loss	31 December 2010	Charged to profit and loss	31 December 2011
Tax effect of deductible temporary differences					
Impairment provision for receivables	11,009	9,216	20,225	(18,866)	1,359
Accruals	78,521	8,243	86,764	3,451	90,215
Accruals (ERP-Service KazTransCom LLP)	14,334	(3,877)	10,457	(1,561)	8,896
Bonds	10,038	15,510	25,548	2,495	28,043
Provisions for asset retirement obligations	69,864	(26,128)	43,736	(33,867)	9,869
Property, plant and equipment and intangible assets (ERP-Service KazTransCom LLP)	5,592	(1,342)	4,250	(3,324)	926
Gross deferred income tax asset	189,358	1,622	190,980	(51,672)	139,308
Tax effect of taxable temporary differences					
Property, plant and equipment and intangible assets	441,909	304,475	746,384	257,015	1,003,399
Gross deferred income tax liability	441,909	304,475	746,384	257,015	1,003,399
Recognised deferred income tax asset (ERP-Service KazTransCom LLP)	19,926	(5,219)	14,707	(4,885)	9,822
Recognised deferred income tax liability	272,477	297,634	570,111	303,802	873,913

At 31 December 2011 deferred tax asset of Tenge 66,847 thousand and deferred tax liability of Tenge 5,849 thousand are expected to be recovered within next 12 months (31 December 2010: Tenge 8,617 and 47,589 thousand, respectively)

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

29 Earnings per Share

To calculate basic and diluted earnings per share the profit or loss attributable to the ordinary shareholders is adjusted by the amount of dividends declared in the period for each class of shares. The remaining profit or loss is allocated to ordinary shares and preferred shares to the extent that each instrument shares in earnings as if all the profit or loss for the reporting period had been distributed. The total amount of profit or loss allocated to each class of shares is divided by the weighted-average number of outstanding shares to which the earnings are allocated to determine the earnings per share for the instrument.

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

29 Earnings per Share (Continued)

Earnings per share are calculated as follows:

	31 December 2011	31 December 2010
Amount of shares		
Ordinary shares	2,387	2,387
Treasury shares	54	54
<i>Ordinary shares net of treasury shares</i>	2,333	2,333
Preferred shares	116	116
Treasury shares	10	10
<i>Preferred shares net of treasury shares</i>	106	106
Total number of shares	2,439	2,439
Profit for the year attributable to the Group's shareholders	2,328,021	1,912,254
Less:		
Minimum cumulative dividends on preferred shares	2,114	2,114
Retained earnings	2,325,907	1,910,140
Allocation to ordinary shareholders	2,225,079	1,827,335
Allocation to preferred shareholders	100,828	82,805
Retained Earnings	2,325,907	1,910,116
Basic earnings per share:		
Preferred shares		
Distributed earnings	20	20
Retained earnings	953.78	782.83
Total earnings per share	973.78	802.83
Ordinary shares		
Retained earnings	953.78	782.83

30 Contingencies, Commitments and Operating Risks

Political and economic situation in Kazakhstan. The economy of Kazakhstan continues to display the 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.

Furthermore, the sector of communication services in Kazakhstan is still impacted by political, legislative, fiscal and regulatory developments. 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 Company's control.

30 Contingencies, Commitments and Operating Risks (Continued)

The financial condition and future operations of the Group may be adversely affected by continued economic difficulties related mainly to the developing countries. Management is unable to predict the extent and duration of the economic difficulties, nor appraise the impact, if any, on these financial statements.

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. According to the management's view at present there are no current legal proceedings or other outstanding claims, which could significantly affect the financial position or operations of the Group.

Tax legislation. Kazakhstan tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The management of the Company believes that it correctly interprets respective regulations of legislation, and that Company's position in relation to tax, currency and customs legislation will be successfully protected in case of any dispute.

During the period of 2008-2009 there were changes in tax code that set the gradual decrease in the CIT, VAT and other taxes rates after 2011 and 2013. However, in November 2010 the Government cancelled those changes. Changes in rates of CIT influenced amount of deferred tax liability as of 31 December 2010 (Note 28).

Insurance policies. Insurance services market in Kazakhstan is at the development stage and many forms of insurance which are common in other countries of the world are not yet available in the Republic of Kazakhstan. The Group does not have complete insurance protection in regard to its production facilities, losses, resulted from business disruption, or liabilities to third parties due to damage caused to real estate or environment as a result of accidents or the Group's activities. Until the Group obtains the adequate insurance protection, there is a risk that loss or damage of certain assets can have significant adverse impact on the activities and financial position of the Group.

Environmental matters. The enforcement of environmental regulation in the Republic of Kazakhstan is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations related to usage of land for telecommunication networks laying. As obligations are determined, they are recognised immediately in the financial statements (Note 19). Estimates can change in case of additional environmental analysis and revision of current program for restoration and equipment dismantlement.

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and early repayment. The Group's management believes that the Group is in compliance with borrowings covenants.

30 Contingencies, Commitments and Operating Risks (Continued)

Recent volatility in global and financial markets. The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in local and international stock markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the Republic of Kazakhstan, the United States of America, Western Europe, Russia and elsewhere. Indeed the full extent of the impact of the ongoing crisis is proving to be impossible to anticipate or completely guard against.

Whilst there have been improvements in the economic situation in the Republic of Kazakhstan in recent years, its economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the use 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. The recent global financial crisis has had a severe effect on the economy of the Republic of Kazakhstan and the financial situation in the financial, banking and corporate sectors significantly deteriorated since mid-2008. In 2010-2011, the Kazakhstani economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of Tenge against major foreign currencies, and increased liquidity levels in the banking sector.

Additionally, the telecommunication sector 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 Company's control.

The financial condition and future operations of the Company 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, or quantify the impact, if any, on these financial statements. However, despite the measures undertaken, management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.