



**Kazakhtelecom JSC**  
Consolidated Financial Statements

*Year ended December 31, 2007  
with Independent Auditors' Report*

# CONTENTS

---

	Page
Independent Auditors' Report	
<b>Consolidated Financial Statements</b>	
Consolidated Balance Sheet.....	1-2
Consolidated Income Statement .....	3
Consolidated Statement of Cash Flow .....	4-5
Consolidated Statement of Changes in Equity.....	6
Notes to the Consolidated Financial Statements .....	7-47

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Kazakhtelecom JSC:

We have audited the accompanying consolidated financial statements of Kazakhtelecom JSC and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young LLP*

March 20, 2008



**CONSOLIDATED BALANCE SHEET**

As at December 31, 2007

<i>In thousands of Tenge</i>	Notes	2007	2006
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	172,536,816	131,939,797
Intangible assets	10	36,094,760	33,058,253
Advances paid for non-current assets	11	1,901,696	3,579,970
Goodwill	12	5,662,509	6,958,087
Investments in an associate	13	37,829,235	34,837,680
Investment property	14	1,300,048	1,413,096
Deferred tax asset	36	709,208	-
Other non-current assets	15	3,228,001	2,655,336
		<b>259,262,273</b>	<b>214,442,219</b>
<b>Current assets</b>			
Inventories	16	4,759,840	4,471,555
Trade accounts receivable	17	13,498,421	12,939,095
Advances paid	18	713,911	892,862
Income tax prepaid		109,022	127,357
Other financial assets	19	2,822,497	-
Other current assets	20	2,530,620	2,287,051
Cash and cash equivalents	21	21,755,704	4,405,289
		<b>46,190,015</b>	<b>25,123,209</b>
<b>TOTAL ASSETS</b>		<b>305,452,288</b>	<b>239,565,428</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	22	32,283,581	32,283,581
Currency translation reserve	22	(4,021)	11,982
Other capital reserve	22	1,820,479	1,820,479
Retained earnings		127,798,918	100,878,054
		<b>161,898,957</b>	<b>134,994,096</b>
<b>Minority interests</b>		<b>5,337,702</b>	<b>204,305</b>
<b>Total equity</b>		<b>167,236,659</b>	<b>135,198,401</b>

**CONSOLIDATED BALANCE SHEET (continued)**

As at December 31, 2007

<i>In thousands of Tenge</i>	<i>Notes</i>	<b>2007</b>	<b>2006</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	23	<b>68,392,736</b>	23,463,718
Finance lease liabilities	24	<b>5,142,601</b>	2,403,610
Deferred tax liability	36	<b>24,353,340</b>	19,436,341
Employee benefit liability	25	<b>2,921,619</b>	1,665,229
Debt component of preferred shares	22	<b>1,099,620</b>	1,099,620
Other non-current liabilities	26	<b>2,194,648</b>	1,242,447
		<b>104,104,564</b>	49,310,965
<b>Current liabilities</b>			
Interest bearing loans and borrowings	23	<b>8,602,608</b>	34,856,464
Current portion of finance lease liabilities	24	<b>2,970,079</b>	1,128,694
Current portion of employee benefit liability	25	<b>162,988</b>	91,276
Trade accounts payable	27	<b>15,627,135</b>	6,608,993
Advances received		<b>2,253,160</b>	1,303,232
Other current liabilities	28	<b>4,495,095</b>	11,067,403
		<b>34,111,065</b>	55,056,062
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>305,452,288</b>	239,565,428

Signed and authorized for issue on behalf of the Management of Kazakhtelecom JSC

Chief Financial Director

Nurkatov A. A.

Chief Accountant

Baishumurova G. Zh.

*The accounting notes on pages 7 to 47 are an integral part of these consolidated financial statements.*

**CONSOLIDATED INCOME STATEMENT**

For the year ended December 31, 2007

<i>In thousands of Tenge</i>	Notes	2007	2006
Revenue	29	125,042,358	110,561,661
Compensation for provision of universal services in rural areas	30	2,719,767	3,350,906
		127,762,125	113,912,567
Cost of revenue	31	(78,632,254)	(65,145,985)
Gross profit		49,129,871	48,766,582
General and administrative expenses	32	(19,260,777)	(17,486,238)
Selling expenses	33	(3,924,254)	(2,267,057)
<b>Operating profit</b>		<b>25,944,840</b>	<b>29,013,287</b>
Share of profit of an associate	13	15,927,555	13,921,472
Finance costs	35	(4,556,487)	(3,673,231)
Foreign exchange gain / (loss)		1,471,304	(145,716)
Finance revenue		226,788	231,884
Loss from disposal of property, plant and equipment		(144,344)	(145,563)
Other income		932,083	930,648
<b>Profit before income tax</b>		<b>39,801,739</b>	<b>40,132,781</b>
Income tax expense	36	(9,471,397)	(4,871,662)
Profit for the year		<b>30,330,342</b>	<b>35,261,119</b>
<b>Profit for the year attributable to:</b>			
Equity holder of the parent		32,970,236	35,259,192
Minority interests		(2,639,894)	1,927

**Earnings per share**

Basic and diluted, for profit for the year attributable to ordinary equity holders of the parent	22	3,009	3,220
--	----	-------	-------

Signed and authorized for issue on behalf of the Management of Kazakhtelecom JSC

Chief Financial Director

Nurkatov A. A.

Chief Accountant

Baishumurova G. Zh.

*The accounting notes on pages 7 to 47 are an integral part of these consolidated financial statements.*

**CONSOLIDATED CASH FLOW STATEMENT**

For the year ended December 31, 2007

<i>In thousands of Tenge</i>	2007	2006
<b>Operating activities</b>		
Profit before income tax	39,801,739	40,132,781
Adjustments for:		
Depreciation and amortization	19,251,271	15,937,466
Share of profit of an associate	(15,927,555)	(13,921,472)
Finance costs	4,556,487	3,673,231
Change in employee benefit liability	1,328,102	38,731
Unrealized foreign exchange gain	(1,268,502)	(409,898)
Provision for doubtful debts	768,327	1,534,770
Write-down of inventories to net realizable value	394,446	49,261
Impairment of property, plant and equipment and intangible assets	232,060	9,468
Finance revenue	(226,788)	(231,884)
Loss from disposal of property, plant and equipment	144,344	276,446
Gain on sale of 49% of MTS shares	(100,324)	-
<b>Working capital adjustments:</b>		
Increase in trade accounts receivable	(1,062,134)	(996,798)
(Increase) / decrease in inventories	(682,731)	241,021
(Increase) / decrease in other current and non-current assets	(845,812)	231,884
Decrease in advances paid	30,639	-
Increase / (decrease) in other current liabilities	1,700,907	(343,029)
Increase / (decrease) in trade accounts payable	1,594,464	(3,234,670)
Increase in advances received	949,928	-
<b>Cash generated from operations</b>	<b>50,638,868</b>	<b>42,987,308</b>
Dividends paid	(5,916,581)	(4,941,242)
Income taxes paid	(5,664,533)	(5,673,515)
Interest paid	(4,128,374)	(3,008,643)
<b>Net cash flows from operating activities</b>	<b>34,929,380</b>	<b>29,363,908</b>

**CONSOLIDATED CASH FLOW STATEMENT (continued)**

For the year ended December 31, 2007

<i>In thousands of Tenge</i>	2007	2006
<b>Investing activities</b>		
Investment in bank deposits	(455,081)	-
Proceeds from redemption of short-term financial investments	-	695,699
Acquisition of subsidiaries, net of cash acquired	(9,728,712)	(19,532,469)
Proceeds from change in ownership interests of subsidiaries	9,169,193	-
Purchase of property, plant and equipment	(40,575,531)	(29,358,436)
Purchase of intangible assets	(5,360,038)	(1,256,143)
Dividends received from an associate	10,976,000	6,074,389
Proceeds from sale of property, plant and equipment	1,654,448	418,490
<b>Net cash flows used in investing activities</b>	<b>(34,319,721)</b>	<b>(42,958,470)</b>
<b>Financing activities</b>		
Proceeds from borrowings	42,688,153	55,373,945
Repayment of borrowings	(23,436,531)	(36,259,484)
Repayment of finance lease liabilities	(2,510,866)	(3,976,320)
<b>Net cash flows from financing activities</b>	<b>16,740,756</b>	<b>15,138,141</b>
<b>Net increase in cash and cash equivalents</b>	<b>17,350,415</b>	<b>1,543,579</b>
<b>Cash and cash equivalents at January 1</b>	<b>4,405,289</b>	<b>2,861,710</b>
<b>Cash and cash equivalents at December 31 (Note 21)</b>	<b>21,755,704</b>	<b>4,405,289</b>

In 2007, under finance lease agreements the Group received telecommunication equipment with a value of 6,720,760 thousand Tenge (2006: 3,688,248 thousand Tenge). This transaction has been excluded from this consolidated statement of cash flows.

In 2007, the Group capitalized interest on bank loans of 755,368 thousand Tenge to property, plant and equipment (2006: 97,898 thousand Tenge). This transaction has been excluded from this consolidated statement of cash flows.

As at December 31, 2007 the Group recognized provision for asset retirement obligations amounting to 226,615 thousand Tenge (2006: nil) as an addition to equipment. This transaction has been excluded from this consolidated statement of cash flows.

As at December 31, 2007, the Group recognised a guarantee issued by the Company to its lessor, a third party, with fair value of 632,083 thousand Tenge (2006: nil) as an addition to equipment received under finance lease. This transaction has been excluded from this consolidated statement of cash flows.

Signed and authorized for issue on behalf of the Management of Kazakhtelecom JSC

Chief Financial Director

Nurkatov A. A.

Chief Accountant

Baishumurova G. Zh.

*The accounting notes on pages 7 to 47 are an integral part of these consolidated financial statements.*



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended December 31, 2007

<i>In thousands of Tenge</i>	Attributable to equity holder of the parent							
	Notes	Share capital 22	Currency translation reserve 22	Other capital reserves 22	Retained earnings	Total	Minority interests	Total
At December 31, 2005		32,283,581	(154)	1,820,479	72,953,668	107,057,574	-	107,057,574
Acquisition of subsidiaries		-	-	-	(1,678,785)	(1,678,785)	202,378	(1,476,407)
Profit for the year		-	-	-	35,259,192	35,259,192	1,927	35,261,119
Dividends paid		-	-	-	(5,656,021)	(5,656,021)	-	(5,656,021)
Foreign currency translation		-	12,136	-	-	12,136	-	12,136
At December 31, 2006		32,283,581	11,982	1,820,479	100,878,054	134,994,096	204,305	135,198,401
Change in ownership interests of subsidiaries	6	-	-	-	-	-	7,773,291	7,773,291
Profit for the year		-	-	-	32,970,236	32,970,236	(2,639,894)	30,330,342
Dividends paid	22	-	-	-	(6,049,372)	(6,049,372)	-	(6,049,372)
Foreign currency translation		-	(16,003)	-	-	(16,003)	-	(16,003)
<b>At December 31, 2007</b>		<b>32,283,581</b>	<b>(4,021)</b>	<b>1,820,479</b>	<b>127,798,918</b>	<b>161,898,957</b>	<b>5,337,702</b>	<b>167,236,659</b>

Signed and authorized for issue on behalf of the Management of Kazakhtelecom JSC

Chief Financial Director

Nurkatov A. A.

Chief Accountant

Baishumurova G. Zh.

The accounting notes on pages 7 to 47 are an integral part of these consolidated financial statements

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended December 31, 2007

**1. CORPORATE INFORMATION**

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

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

The Company is controlled by the Government of the Republic of Kazakhstan through JSC Kazakhstan Holding for the Management of State Assets “Samruk” (“Samruk” or the “Parent”), which owned 51% of the Company’s controlling stock as of December 31, 2007 (2006: 54.4%). The following lists the shareholders having more than 5% of the Company’s stock:

	2007	2006
Samruk	51.0%	54.4%
Bodam B. V.	16.9%	16.9%
The Bank of New York	16.0%	17.1%
Deran Services Limited	9.6%	9.6%
Other	6.5%	2.0%
	<b>100.0%</b>	<b>100.0%</b>

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

The Company and its subsidiaries listed in *Note 6* (together the “Group”) have a significant share of the fixed line communication market, including local, long-distance intercity and international telecommunication services (including CIS and non-CIS countries); and provides also rent of lines, data transfer services and wireless communication services.

These financial statements present, on a consolidated basis, the financial performance for the year ended December 31, 2007 and financial position as at that date for the Group.

These financial statements were authorised for issue on March 20, 2008 by the Chief Financial Director and Chief Accountant of the Company.

**2. BASIS OF PREPARATION**

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 2. BASIS OF PREPARATION (continued)

#### Principles of consolidation

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Except when acquired as a result of a transaction between entities under common control, subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. On acquisition of a subsidiary, the purchase consideration is allocated to the assets and liabilities on the basis of their fair value at the date of acquisition. The financial statements of subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Minority interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group and is presented separately within equity in the consolidated balance sheet, separately from parent shareholder's equity.

#### Operating environment of the Group

While there have been certain improvements in the economy of Kazakhstan, such as an increase in the gross domestic product, the Republic of Kazakhstan continues to implement economic reforms and improve development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Kazakhstani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Functional and presentation currency

The consolidated financial statements are presented in Tenge. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Group entities whose functional currency differ from Tenge translate their financial statements into Tenge for presentation purposes in these consolidated financial statements based on the provisions of International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates" as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rate for the period;
- Equity items other than net profit or loss for the period that is included in the balance of accumulated profit or loss are translated at the closing rate existing at the date of the balance sheet presented; and
- All resulting exchange differences are recognised as separate component of equity.

#### Foreign currency translation

Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Any exchange gains and losses arising from assets and liabilities denominated in foreign currencies subsequent to the date of the underlying transaction are credited or charged to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets measured at the fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

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

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

	December 31, 2007	December 31, 2006
US Dollar	120.30	127.00
Euro	177.17	167.12
South Korean Won	0.13	0.14
Russian Ruble	4.92	4.82

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

---

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

#### Changes in accounting policy and disclosure

The accounting policies adopted are consistent with those of the previous financial year, except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures.

- IFRS 7, *Financial Instruments: Disclosures*;
- IAS 1, *Amendment – Presentation of Financial Statements*;
- IFRIC 8, *Scope of IFRS 2*;
- IFRIC 9, *Reassessment of Embedded Derivatives*;
- IFRIC 10, *Interim Financial Reporting and Impairment*;
- IFRIC 11, *IFRS 2 – Group and Treasury Share Transactions*.

The principal effects of these changes are as follows:

#### IFRS 7, *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements, as required.

#### IAS 1, *Presentation of Financial Statements*

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in *Note 38*.

#### IFRIC 8, *Scope of IFRS 2*

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the interpretation had no impact on the financial position or performance of the Group.

#### IFRIC 9, *Reassessment of Embedded Derivatives*

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Group.

#### IFRIC 10, *Interim Financial Reporting and Impairment*

The Group adopted IFRIC Interpretation 10 as of January 1, 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

#### IFRIC 11, *IFRS 2 – Group and Treasury Share Transactions*

The Group has adopted IFRIC Interpretation 11 as of January 1, 2007, insofar as it applies to consolidated financial statements. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The interpretation had no impact on the financial position or performance of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

---

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

#### Changes in accounting policy and disclosure (continued)

##### *IFRSs and IFRIC Interpretations not yet effective*

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 8, *Operating Segments*;
- IFRIC 12, *Service Concession Arrangements*;
- IFRIC 13, *Customer Loyalty Programmes*;
- IFRIC 14, *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.
- IFRS 2, *Share-based Payments – Vesting Conditions and Cancellations*;
- IFRS 3R, *Business Combinations*;
- IAS 27R, *Consolidated and Separate Financial Statements*;
- IAS 1R, *Amendment – Presentation of Financial Statements*;
- IAS 32, *Amendment – Financial Instruments: Presentation*.

The Group anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the consolidated financial statements of the Group. In addition to the above, further amendments to Standards and new Interpretations have been issued for which adoption is not currently yet mandatory.

##### *IAS 23 (Revised), Borrowing Costs*

IAS 23 (Revised), *Borrowing Costs*, becomes effective for annual periods beginning on or after January 1, 2009. This standard requires the Group to capitalize borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Adoption of this standard will not have an effect on the financial position or performance of the Group as the Group currently applies the allowed alternative treatment with the same requirements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

#### Investment in an associate

The Group's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence but is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the proportionate share of the results of operations of the associate. Where there has been an event that is recognised directly in the equity of the associate, the Group also recognises its share of the change directly in the Group's statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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

#### Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the property, plant and equipment if the recognition criteria set out in IAS 16 are met. Likewise, when a major update is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria set out in IAS 16 are satisfied. All other expenditures that do not qualify under the recognition criteria are recognised in profit or loss as incurred.

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

	<i>Years</i>
Buildings	50
Premises	10-20
Telecommunication equipment	3-20
Other	3-20

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

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

#### Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria set out in IAS 40 are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment loss. Depreciation is computed on a straight-line basis over the useful life, which is estimated to be 50 years.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

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

No assets held under operating lease have been classified as investment properties.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

---

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

#### **Intangible assets**

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

The useful lives of intangible assets are assessed to be either finite or indefinite.

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

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

Intangible assets consist primarily of telecommunication licenses, trademarks and software. Telecommunication licenses and trademarks are amortized on a straight-line basis within the estimated useful lives of 20 years for licenses and 7-9 years for trademarks. Other intangible assets are amortized on a straight-line basis over their estimated useful lives, generally from five to fourteen years.

#### **Business combinations and goodwill**

Business combinations are accounted for using the purchase method.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, and assumed liabilities.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Goodwill is not amortized.

If the Group's interest in the net fair value of the identifiable assets and liabilities exceeds the cost of the business combination, the Group (a) reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and (b) recognises immediately in profit or loss any excess remaining after that reassessment.

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

---

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

#### Impairment of non-financial assets (continued)

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognised in equity up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

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

#### *Goodwill*

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

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December.

#### *Associates*

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss of the Group's investment in its associates. The Group determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognises the amount in profit or loss.

#### Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the settlement date, which is the date that the investment is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the investments are derecognised or impaired.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

---

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

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

##### *Available-for-sale financial investments*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognised in profit or loss.

##### *Amortised cost*

Held-to-maturity investments and loans and receivables are measured at amortised cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

#### **Impairment of financial assets**

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

##### *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible or the period for allowed claims has expired.

##### *Available-for-sale financial investments*

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

#### **Inventories**

Inventories are valued at the lower of cost or net realisable value. Costs comprise charges incurred in bringing inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. The same cost formula is used for all inventories having a similar nature and use. All inventories are valued on the weighted-average cost basis.

#### **Trade and other receivables**

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection on the full amount is no longer probable. Bad debts are written-off when they are assessed as uncollectible or the period for allowed claims has expired.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

---

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

#### Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at banks and on hand and short term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

#### Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

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

##### *Group as a lessee*

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

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

Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

##### *Group as a lessor*

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

#### Financial liabilities

##### *Interest bearing loans and borrowings*

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

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

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

##### *Financial guarantee liabilities*

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

---

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

#### **Derecognition of financial assets and liabilities**

##### *Financial assets*

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

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

##### *Financial liabilities*

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

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

#### **Provisions**

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

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

##### *Other provisions*

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

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

---

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

#### Employee benefits

##### *Social tax*

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

##### *Defined contribution scheme*

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

##### *Defined benefit scheme*

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

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

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

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

The defined benefit scheme is unfunded.

#### Equity

##### *Share capital*

Ordinary shares and equity component of preferred shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

##### *Treasury shares*

Own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

##### *Minority interest*

Minority interest represents the interest in subsidiaries not held by the Group. Minority interest at the balance sheet date represents the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiaries at the acquisition date and the minorities' portion of movements in equity since the date of the combination or formation. Minority interest is presented within the shareholders' equity. Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiaries unless there is a binding obligation of the minority to fund the losses. All such losses are allocated to the Group.

##### *Dividends*

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are approved 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 consolidated financial statements are authorised for issue.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

---

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

#### Trade and other payables

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

#### Revenue recognition

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

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

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

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

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

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

#### Expense recognition

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

#### Borrowing costs

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.

#### Income tax

##### *Current income tax*

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

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

---

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

#### Income tax (continued)

##### *Deferred income tax*

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

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

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

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

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

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

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

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

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

#### **Related parties**

Related parties include the Group's shareholders, key management personnel, associates and enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by the Group's shareholders or key management personnel.

#### **Contingent liabilities and contingent assets**

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the consolidated financial statements. Where an inflow of economic benefits is probable, they are disclosed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

---

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

#### Offsetting

Assets and liabilities are only offset and reported at the net amount in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### Non-cash transactions

The Group conducts some of its settlements through non-cash transactions. Goods received are valued at the amount of services rendered. Inventory received is periodically reviewed for proper valuation and is written down to net realizable value.

#### Subsequent events

The results of post-year-end events that provide evidence of conditions that existed at the balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

#### *Fair value of assets and liabilities acquired in business combination*

The Group is required to recognise separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions. More details are provided in *Note 7*.

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

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the assets' recoverable amount. An asset's recoverable amount is higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. In 2007, the Group recognised an impairment loss of 232,060 thousand Tenge (2006: 9,468 thousand Tenge) (*Notes 9 and 10*).

The determination of impairment of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as expectations of growth in the related industry, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate an impairment exists. The recoverable amount and the fair values are typically determined using a discounted cash flow method which incorporates reasonable market participant assumptions. The identification of impairment indicators, the estimation of future cash flows and the determination of fair values for assets (or group of assets) requires management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values.

The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods. These estimates, including the methodologies used, can have a material impact on the fair value and ultimately the amount of any property, plant and equipment impairment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

---

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

#### *Allowances*

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the financial statements. As of December 31, 2007, allowances for doubtful accounts have been created in the amount of 1,664,667 thousand Tenge (2006: 1,086,680 thousand Tenge) (*Notes 17, 18 and 20*).

#### *Asset retirement obligations*

Under the terms of certain contracts, legislation and regulations, the Group has legal obligations to restore sites and premises to their original condition after dismantle of tangible assets. The settlement date of the obligations has been assumed to be the closer of the end of the economic life of related tangible assets and terms of the respective contracts and current legislation. The Group calculates asset retirement obligations separately for each contract. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for the expected inflation and discounted using average long-term risk free interest rates for emerging market sovereign debt adjusted for risk specific to the Kazakhstan market.

The Group reviews site restoration provisions at each balance sheet date and adjusts them to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". Estimating the future dismantle costs involves significant estimates and judgments by management. The Group's estimate can be affected by changes in asset removal technologies, costs and industry practice. Provision for asset retirement obligations is disclosed in *Note 26*.

#### *Connection fees*

Upfront fees received for activation and connection to the wireline and wireless network that do not represent a separate earning process are deferred and recognized over the expected period of the customer relationship. In making its judgments, management considered the detailed criteria for the recognition of revenues from connection fees set out in IAS 18, industry practice and the Group's historical churn rate.

#### *Finance Lease – Group as Lessee*

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

#### *Employee benefit liability*

The Group uses actuarial valuation method for measurement of the present value of defined employee benefit liability and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, etc.) as well as financial assumptions (discount rate, future annual minimum salary). Due to the long term nature of these benefits, such estimates are subject to significant uncertainty. The employee benefit liability at December 31, 2007 is disclosed in *Note 25*.

#### *Deferred tax assets*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognised tax losses at December 31, 2007 was 182,763 thousand Tenge (2006: 555,401) and the unrecognised tax losses at December 31, 2007 was 1,579,004 (2006: nil). Further details are contained in *Note 36*.

#### *Taxation*

In assessing tax risks, management considers to be probable obligations the known areas of tax positions which the Group would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, the determination of expected outcomes from pending tax proceedings and the outcome of ongoing compliance audits by tax authorities. Group's tax obligations and contingencies related to taxation are detailed in *Notes 28 and 39*.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### 5. RECLASSIFICATIONS

Certain reclassifications have been made to the previous year consolidated balance sheet, consolidated income statement and consolidated cash flow statement in order to conform to the current year presentation.

<i>In thousand Tenge</i>	<b>Amount</b>
<b>Consolidated balance sheet as at December 31, 2006</b>	
<i>Reclassification of inventory for investment projects to property, plant and equipment</i>	1,850,090
<i>Reclassification of investment property from other non-current assets</i>	1,413,096
<i>Reclassification of advances paid for non-current assets from other current assets</i>	823,756
<i>Reclassification of advances paid for non-current assets from other non-current assets</i>	2,756,214
<i>Reclassification of other non-current assets from other non-current liabilities</i>	1,242,447
<i>Reclassification of long-term financial investments to other non-current assets</i>	509,384
<i>Reclassification of long-term prepaid expenses to other non-current assets</i>	3,048
<i>Reclassification of other receivables from trade accounts receivable to other current assets</i>	338,878
<i>Reclassification of advances paid from other current assets</i>	892,862
<i>Reclassification of long-term VAT recoverable from other current assets to other non-current assets</i>	319,345
<i>Reclassification of trade receivables into trade payables</i>	727,757
<i>Reclassification of income tax prepaid from other current assets</i>	127,357
<i>Reclassification of interest receivable on bonds to other financial assets from other current assets</i>	49,421
<i>Reclassification of currency translation reserve from retained earnings</i>	11,982
<i>Reclassification of the current portion of employee benefit liability from long-term employee benefit liability</i>	91,276
<i>Reclassification of interest payable from other current liabilities to current portion of interest bearing loans and borrowings</i>	855,099
<i>Reclassification of deferred income from other current liabilities to advances received</i>	132,272
<i>Reclassification of taxes payable other than income tax to other current liabilities</i>	950,982
<b>Consolidated income statement for the year ended December 31, 2006</b>	
<i>Reclassification of finance revenue from other income</i>	231,884
<i>Reclassification of loss from disposal of property, plant and equipment from other expenses</i>	145,563

None of the above reclassifications impacted net profit or equity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### 6. CONSOLIDATION

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

	Country of residence	Percentage ownership	
		2007	2006
Altel JSC	Kazakhstan	100.00%	100.00%
Radiotell LLP	Kazakhstan	100.00%	100.00%
Signum LLP	Russia	100.00%	100.00%
KepterTelecom JSC	Kazakhstan	100.00%	-
VostokTelecom LLP	Kazakhstan	100.00%	-
Nursat JSC	Kazakhstan	95.68%	95.68%
Mobile Telecom-Service LLP	Kazakhstan	51.00%	100.00%

On January 29, 2007, the Company sold 49% of its share in Mobile Telecom-Service LLP to AsiaNet Kazakhstan LLP, a third party. The Group disposed the respective goodwill related to 49% of the ownership share in MTS amounting to 1,295,578 thousand Tenge (*Note 12*). Total consideration received from the minority shareholder amounted to 9,169,193 thousand Tenge. The respective gain of 100,324 thousand Tenge was recognized as other income in the consolidated income statement.

### 7. BUSINESS COMBINATIONS

#### Acquisitions in 2007:

##### *Acquisition of VostokTelecom LLP*

On May 15, 2007, Kazakhtelecom acquired a 100% partnership interest in VostokTelecom LLP ("VostokTelecom"), an unlisted company based in Kazakhstan, which owns a frequency range allowing provision of telecommunication services in the CDMA-450 format in rural areas. The acquisition was accounted for using the purchase method of accounting.

The fair value of the identifiable assets, liabilities and contingent liabilities attributable to the 100% interest acquired in VostokTelecom as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were:

<i>In thousands of Tenge</i>	Fair values recognized on acquisition	Previous carrying value
Property, plant and equipment	7	7
Intangible assets	682,449	-
Trade accounts receivable	131	131
Other current assets	1,679	1,679
Cash and cash equivalents	1,201	1,201
Deferred tax liability	(204,735)	-
Other current liabilities	(332)	(332)
<b>Net assets</b>	<b>480,400</b>	<b>2,686</b>
<b>Total consideration</b>	<b>480,400</b>	

The total cost of the combination was 480,400 thousand Tenge and was paid in cash. The net cash outflow on acquisition was as follows:

<i>In thousands of Tenge</i>	
Cash paid	480,400
Minus: cash acquired with the subsidiary	(1,201)
<b>Net cash outflow</b>	<b>479,199</b>

From the date of acquisition, VostokTelecom incurred net losses of 23,684 thousand Tenge, included in the net profit of the Group for the year ended December 31, 2007.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 7. BUSINESS COMBINATIONS (continued)

#### Acquisitions in 2007 (continued):

##### *Acquisition of KepterTelecom JSC*

On June 1, 2007, Kazakhtelecom acquired 100% of shares of KepterTelecom JSC ("KepterTelecom"), which offers telecommunication services in Astana and owns a licence for provision of wireless data transmission services. The acquisition was accounted for using the purchase method of accounting.

The fair value of the identifiable assets, liabilities and contingent liabilities attributable to the 100% interest acquired in KepterTelecom as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were:

<i>In thousands of Tenge</i>	Fair values recognized on acquisition	Previous carrying value
Property, plant and equipment	53,185	46,351
Intangible assets	716,167	1,077
Trade accounts receivable	6,448	6,448
Other current assets	3,914	4,310
Cash and cash equivalents	10,777	10,777
Deferred tax liability	(214,527)	-
Other long-term liabilities	(14,554)	(22,854)
Trade accounts payable	(5,551)	(5,648)
Other current liabilities	(4,969)	(5,280)
<b>Net assets</b>	<b>550,890</b>	<b>35,181</b>
<b>Total consideration</b>	<b>550,890</b>	

The total cost of the combination was 550,890 thousand Tenge and was paid in cash. The net cash outflow on acquisition was as follows:

<i>In thousands of Tenge</i>	
Cash paid	550,890
Minus: cash acquired with the subsidiary	(10,777)
<b>Net cash outflow</b>	<b>540,113</b>

From the date of acquisition, KepterTelecom contributed 30,802 thousand Tenge to the net profit of the Group.

#### Acquisitions in 2006:

##### *Acquisition of Altel JSC, Nursat JSC, and Mobile Telecom-Service LLP*

On April 30, 2006, Kazakhtelecom JSC acquired 50% of the ordinary shares in Altel JSC ("Altel"), which is a CDMA standard mobile services operator in Kazakhstan, 33.4% of the ordinary shares in Nursat JSC ("Nursat"), which offers high-speed broadband for Internet access and fixed-line telephony and 100% of the ordinary shares of Mobile Telecom-Service LLP ("MTS"), which is a GSM standard mobile services operator in Kazakhstan. Before the acquisition, Kazakhtelecom JSC owned 50% of the ordinary shares in Altel and 41.25% of the ordinary shares in Nursat. MTS owns 21.03% of Nursat. After the acquisition, Kazakhtelecom JSC owned 100% of the ordinary shares of Altel and MTS and 95.68% of Nursat and became controlling shareholder. The acquisition was accounted for using the purchase method of accounting. The acquisition of all three entities was made from one seller, at the same time, and was treated as one business combination to reflect its economic substance.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 7. BUSINESS COMBINATIONS (continued)

#### Acquisitions in 2006 (continued):

*Acquisition of Altel JSC, Nursat JSC, Mobile Telecom-Service LLP (continued)*

The fair values of the identifiable assets, liabilities and contingent liabilities attributable to acquired interest in Altel, Nursat, and MTS as at the date of acquisition were:

<i>In thousands of Tenge</i>	Fair values recognized on acquisition	Previous carrying value
Property, plant and equipment	6,528,364	6,427,180
Intangible assets	30,744,745	175,046
Other non-current financial assets	58,980	831,305
Inventories	1,006,112	1,006,112
Trade accounts receivable	1,886,259	1,918,168
Cash and cash equivalents	295,600	295,600
Borrowings	(7,114,851)	(7,114,851)
Deferred tax liability	(7,932,019)	(78,819)
Trade accounts payable	(5,115,140)	(6,075,023)
<b>Net assets</b>	<b>20,358,050</b>	<b>(2,615,282)</b>
Less: minority interests	(202,378)	
<b>Group's share of the fair value of net assets</b>	<b>20,155,672</b>	
Change in the investees' retained earnings to the extent related to the previously held ownership interests	1,678,785	
Less: investments previously accounted for by equity method	(1,102,226)	
Goodwill on acquisition	6,582,014	
<b>Total consideration</b>	<b>27,314,245</b>	

Intangible assets acquired in this business combination mainly represent licenses.

The total cost of the combination was 27,314,245 thousand Tenge and was paid in cash. The net cash outflow on acquisition was as follows:

<i>In thousands of Tenge</i>	
Total consideration	27,314,245
Consideration not paid at December 31, 2006, accounted for within other current liabilities ( <i>Note 28</i> )	(8,709,400)
Cash paid at December 31, 2006	18,604,845
Minus: cash acquired with the subsidiary	(295,600)
<b>Net cash outflow</b>	<b>18,309,245</b>

From the date of acquisition, Altel, Nursat and MTS incurred net losses of 25,266 thousand Tenge, included in the net profit of the Group for the year ended December 31, 2006.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 7. BUSINESS COMBINATIONS (continued)

#### Acquisitions in 2006 (continued):

##### *Acquisition of Radiotell LLP*

On November 1, 2006, Kazakhtelecom JSC acquired 100% of the partnership interest in Radiotell LLP ("Radiotell"), which owns frequency range, which allows offering of data, voice and video transmission services.

The fair values of the identifiable assets, liabilities and contingent liabilities attributable to acquired interest in Radiotell as at the date of acquisition were:

<i>In thousands of Tenge</i>	Fair values recognized on acquisition	Previous carrying value
Intangible assets	1,248,672	-
Trade accounts receivable	1,250	1,250
Cash and cash equivalents	2,376	2,376
Borrowings	(8,889)	(8,889)
Deferred tax liability	(374,602)	-
Trade accounts payable	(16,723)	(16,723)
<b>Net assets</b>	<b>852,084</b>	<b>(21,986)</b>
Goodwill on acquisition	373,516	
<b>Total consideration</b>	<b>1,225,600</b>	

The total cost of the combination was 1,225,600 thousand Tenge and was paid in cash. The net cash outflow on acquisition was as follows:

<i>In thousands of Tenge</i>	
Cash paid	1,225,600
Minus: cash acquired with the subsidiary	(2,376)
<b>Net cash outflow</b>	<b>1,223,224</b>

From the date of acquisition, Radiotell incurred net losses of 7,342 thousand Tenge, included to the net profit of the Group for the year ended December 31, 2006.

If all the combinations of 2006 described above had taken place at the beginning of the year, the profit of the Group for the year ended December 31, 2006 would have been 35,346,597 thousand Tenge and revenue would have been 117,176,039 thousand Tenge.

If all the combinations of 2007 described above had taken place at the beginning of the year, the profit of the Group for the year ended December 31, 2007 would have been 32,885,211 thousand Tenge and revenue would have been 127,840,443 thousand Tenge.

### 8. SEGMENTS INFORMATION

The Group's primary reporting format is business segments. The operating businesses are organised and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

#### *Primary Reporting Format – Business Segments*

The Group is organised into two business segments based on their products and services as follows:

The fixed line telecommunications segment provides wireline telecommunication services, including PSTN services, data transfer services and interconnect.

The mobile telecommunications segment provides wireless services: mobile telephony and related services.

The Group operates in one main geographical area – the Republic of Kazakhstan.

Transfer prices between segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expenses and segment result include transfers between business segments. Those transfers are eliminated on consolidation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### 8. SEGMENTS INFORMATION (continued)

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash, and exclude investments. Capital expenditure comprises additions to property, plant and equipment and intangibles.

The following tables present revenue and profit and certain asset and liability information regarding the Group's business segments:

<b>Year ended December 31, 2007</b>	<b>Fixed line telecommunications</b>	<b>Mobile telecommunications</b>	<b>Eliminations</b>	<b>Group</b>
<b>Revenue</b>				
Sales to external customers	118,373,822	9,388,303	-	127,762,125
Inter-segment sales	3,710,712	1,217,114	(4,927,826)	-
<b>Total revenue</b>	<b>122,084,534</b>	<b>10,605,417</b>	<b>(4,927,826)</b>	<b>127,762,125</b>
<b>Results</b>				
Depreciation and amortization	16,359,357	2,891,914	-	19,251,271
Share of profit of an associate	-	15,927,555	-	15,927,555
<b>Segment profit</b>	<b>28,852,626</b>	<b>10,949,113</b>	<b>-</b>	<b>39,801,739</b>
<b>Assets</b>				
Investments in an associate	-	37,829,235	-	37,829,235
Capital expenditure	50,162,295	13,232,801	-	63,395,096
<b>Operating assets</b>	<b>219,119,829</b>	<b>92,224,298</b>	<b>(5,891,839)</b>	<b>305,452,288</b>
<b>Operating liabilities</b>	<b>100,722,174</b>	<b>43,385,294</b>	<b>(5,891,839)</b>	<b>138,215,629</b>

<b>Year ended December 31, 2006</b>	<b>Fixed line telecommunications</b>	<b>Mobile telecommunications</b>	<b>Eliminations</b>	<b>Group</b>
<b>Revenue</b>				
Sales to external customers	108,906,977	5,005,590	-	113,912,567
Inter-segment sales	1,756,034	761,496	(2,517,530)	-
<b>Total revenue</b>	<b>110,663,011</b>	<b>5,767,086</b>	<b>(2,517,530)</b>	<b>113,912,567</b>
<b>Results</b>				
Depreciation and amortization	14,407,419	1,530,047	-	15,937,466
Share of profit of an associate	-	13,921,472	-	13,921,472
<b>Segment profit</b>	<b>26,289,686</b>	<b>13,843,095</b>	<b>-</b>	<b>40,132,781</b>
<b>Assets</b>				
Investments in an associate	-	34,837,680	-	34,837,680
Capital expenditure	35,357,129	5,300,661	-	40,657,790
<b>Operating assets</b>	<b>172,676,138</b>	<b>74,790,270</b>	<b>(7,900,980)</b>	<b>239,565,428</b>
<b>Operating liabilities</b>	<b>86,370,372</b>	<b>25,897,635</b>	<b>(7,900,980)</b>	<b>104,367,027</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 9. PROPERTY, PLANT AND EQUIPMENT

The movement in property, plant and equipment for the year ended December 31, 2007 was as follows:

<i>In thousands of Tenge</i>	Land	Buildings and premises	Equipment	Other	Construction in progress	Total
<b>Cost:</b>						
At January 1, 2006	486,111	13,659,688	147,110,428	6,978,542	4,684,814	172,919,583
Acquisition of subsidiaries	6,019	466,513	5,288,393	135,052	632,387	6,528,364
Additions	60,283	664,364	19,078,330	947,203	16,801,377	37,551,557
Internal transfers	-	2,868,961	7,709,827	311,760	(10,890,548)	-
Disposals	(6,968)	(190,199)	(3,070,715)	(240,978)	(62,762)	(3,571,622)
Reclassification to intangibles	-	-	10,420	-	50,990	61,410
At December 31, 2006 (as stated previously)	545,445	17,469,327	176,126,683	8,131,579	11,216,258	213,489,292
Reclassifications	-	141,324	3,981,977	127,056	1,850,090	6,100,447
At December 31, 2006	545,445	17,610,651	180,108,660	8,258,635	13,066,348	219,589,739
Acquisition of subsidiaries	-	-	39,928	13,264	-	53,192
Additions	13,770	248,756	11,008,511	1,065,129	45,654,589	57,990,755
Internal transfers	7,535	3,344,527	24,974,434	273,341	(28,599,837)	-
Disposals	(2,408)	(272,250)	(5,088,807)	(452,941)	-	(5,816,406)
<b>At December 31, 2007</b>	<b>564,342</b>	<b>20,931,684</b>	<b>211,042,726</b>	<b>9,157,428</b>	<b>30,121,100</b>	<b>271,817,280</b>
<b>Accumulated depreciation and impairment:</b>						
At January 1, 2006	-	3,642,967	65,931,461	3,209,472	24,321	72,808,221
Depreciation expense	-	498,726	12,425,594	842,142	-	13,766,462
Internal transfers	-	139,250	(132,911)	(6,339)	-	-
Impairment	-	-	9,468	-	-	9,468
Disposals	-	(77,757)	(2,771,549)	(220,928)	-	(3,070,234)
Reclassification to intangibles	-	-	(114,332)	-	-	(114,332)
At December 31, 2006 (as stated previously)	-	4,203,186	75,347,731	3,824,347	24,321	83,399,585
Reclassifications	-	141,324	3,981,977	127,056	-	4,250,357
At December 31, 2006	-	4,344,510	79,329,708	3,951,403	24,321	87,649,942
Depreciation expense	-	660,868	13,829,637	1,162,135	-	15,652,640
Internal transfers	-	(29,633)	(11,178)	40,811	-	-
Impairment	-	-	-	-	69,402	69,402
Disposals	-	(109,796)	(3,630,887)	(350,837)	-	(4,091,520)
<b>At December 31, 2007</b>	<b>-</b>	<b>4,865,949</b>	<b>89,517,280</b>	<b>4,803,512</b>	<b>93,723</b>	<b>99,280,464</b>
<b>Net book value:</b>						
At December 31, 2006	545,445	13,266,141	100,778,952	4,307,232	13,042,027	131,939,797
<b>At December 31, 2007</b>	<b>564,342</b>	<b>16,065,735</b>	<b>121,525,446</b>	<b>4,353,916</b>	<b>30,027,377</b>	<b>172,536,816</b>

As of December 31, 2006, as disclosed in *Note 5*, the Group reclassified inventories intended for capital construction to the construction in progress in the total amount of 1,850,090 thousand Tenge. Also, as of January 1, 2007, the Group restated gross value and accumulated depreciation of certain property, plant and equipment which were shown net as of December 31, 2006.

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

During the year ended December 31, 2007, an impairment loss of 69,402 thousand Tenge represented the write down of certain construction in progress in the mobile telecommunications segment to the recoverable amount. This has been recognized in the consolidated income statement in the line item of "General and administrative expense". The recoverable amount was based on value in use and was determined at the cash-generating unit level. The cash-generating unit consisted of assets of Altel, the subsidiary of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 9. PROPERTY, PLANT AND EQUIPMENT (continued)

At December 31, 2007, certain items of property, plant and equipment with a net carrying amount of 9,481,363 thousand Tenge (2006: 9,075,367 thousand Tenge) were pledged as security for some of the Group's borrowings (Note 23).

Borrowing costs of 755,368 thousand Tenge on loans obtained to finance the construction of property, plant and equipment were capitalized during 2007 (2006: 97,898 thousand Tenge).

At December 31, 2007, the carrying value of equipment held under finance leases and included in property, plant and equipment was 12,401,608 thousand Tenge (2006: 7,225,496 thousand Tenge). Additions during the year include 6,720,760 thousand Tenge (2006: 3,688,248 thousand Tenge) of property, plant and equipment held under finance leases. Leased assets are pledged as security for the related finance lease.

### 10. INTANGIBLE ASSETS

The movement of intangible assets for the year ended December 31, 2007 is as follows:

<i>In thousands of Tenge</i>	<b>Licenses and trademarks</b>	<b>Software</b>	<b>Other</b>	<b>Total</b>
<b>Cost:</b>				
At January 1, 2006	397,798	3,968,089	3,366	4,369,253
Acquisitions of subsidiaries	29,326,937	65,151	2,601,329	31,993,417
Additions	288,836	961,538	5,769	1,256,143
Disposals	-	(16,578)	-	(16,578)
Transfer from property, plant and equipment	5,988	(67,398)	-	(61,410)
At December 31, 2006	30,019,559	4,910,802	2,610,464	37,540,825
Acquisitions of subsidiaries	1,396,735	1,881	-	1,398,616
Additions	1,533,086	3,807,537	19,415	5,360,038
Disposals	(477,077)	(59,162)	(689,444)	(1,225,683)
<b>At December 31, 2007</b>	<b>32,472,303</b>	<b>8,661,058</b>	<b>1,940,435</b>	<b>43,073,796</b>
<b>Accumulated amortization:</b>				
At January 1, 2006	183,425	2,024,232	2,077	2,209,734
Amortization expense	1,109,670	747,832	313,502	2,171,004
Disposals	-	(12,498)	-	(12,498)
Transfer from property, plant and equipment	-	114,332	-	114,332
At December 31, 2006	1,293,095	2,873,898	315,579	4,482,572
Amortization expense	2,061,361	1,014,597	409,625	3,485,583
Impairment	162,658	-	-	162,658
Disposals	(314,248)	(148,085)	(689,444)	(1,151,777)
<b>At December 31, 2007</b>	<b>3,202,866</b>	<b>3,740,410</b>	<b>35,760</b>	<b>6,979,036</b>
<b>Net book value:</b>				
At December 31, 2006	28,726,464	2,036,904	2,294,885	33,058,253
<b>At December 31, 2007</b>	<b>29,269,437</b>	<b>4,920,648</b>	<b>1,904,675</b>	<b>36,094,760</b>

Licenses include intangible assets acquired through business combinations.

During the year ended December 31, 2007, an impairment loss of 162,658 thousand Tenge represented the write down of certain billing software licenses in the mobile telecommunications segment to the recoverable amount. This has been recognized in the consolidated income statement in the line item of "General and administrative expense". The recoverable amount was based on value in use and was determined at the cash-generating unit level. The cash-generating unit consisted of assets of MTS, the subsidiary of the Group.

As at December 31, 2007 intangible assets (mainly software) amounting to 2,161,040 thousand Tenge were fully amortised (2006: 1,093,886 thousand Tenge).

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

At December 31, 2007 advances paid for non-current assets comprised advances to contractors for the construction and supply of property, plant, and equipment and were 90% denominated in Tenge and 10% – in US Dollars (2006: 74% in Tenge and 26% in US Dollars).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### 12. GOODWILL

The movement of goodwill for the year ended December 31, 2007 is as follows:

<i>In thousands of Tenge</i>	2007	2006
<b>Cost:</b>		
At January 1	6,958,087	2,557
Additions	-	6,955,530
Disposals	(1,295,578)	-
<b>At December 31</b>	<b>5,662,509</b>	<b>6,958,087</b>
<b>Accumulated impairment:</b>		
At January 1	-	-
Charge	-	-
<b>At December 31</b>	<b>-</b>	<b>-</b>
<b>Carrying amount:</b>		
At January 1	6,958,087	2,557
At December 31	5,662,509	6,958,087

#### Goodwill impairment test

Goodwill acquired through business combination (*Note 7*) has been allocated to five individual cash-generating units for impairment testing as follows: Altel, Nursat, MTS, Radiotell and Signum.

Carrying amount of goodwill allocated to each of the cash-generating units:

<i>In thousands of Tenge</i>	2007	2006
Altel	2,171,743	2,171,743
Nursat	1,766,234	1,766,234
MTS	1,348,459	2,644,037
Radiotell	373,516	373,516
Signum	2,557	2,557
	<b>5,662,509</b>	<b>6,958,087</b>

The recoverable amount of the cash-generating units has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by management of the Group covering a three-year period and on management forecasts for the next seven years. The pre-tax discount rate applied to cash flow projections is 11.41% and cash flows beyond the 10-year period are extrapolated using a 3% growth rate.

#### *Key assumptions used in value in use calculations*

Key assumptions on which management has based its determination of value in use include average revenue per user ("ARPU"), customer base, churn rates, capital expenditure, market share, growth rates and discount rates. Any significant future changes in the market and competitive environments could have an adverse effect on the value of the cash-generating units.

With regard to the assessment of value in use of cash-generating units, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### (continued)

#### 13. INVESTMENT IN AN ASSOCIATE

At December 31, 2007 the Group had a 49% interest (2006: 49%) in LLP GSM Kazakhstan OAO Kazakhtelecom ("GSM Kazakhstan"), which is engaged in the provision of mobile telecommunication services in the GSM standard in Kazakhstan. GSM Kazakhstan is a private entity that is not listed on any public exchange.

The movement in the investment in the associate was as follows:

<i>In thousands of Tenge</i>	2007	2006
<b>Balance at January 1</b>	<b>34,837,680</b>	28,125,252
Share in the associate's net profit	15,927,555	13,921,472
Dividends paid	(12,936,000)	(7,209,044)
<b>Balance at December 31</b>	<b>37,829,235</b>	34,837,680

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

<i>In thousands of Tenge</i>	2007	2006
<b>Share of the associate's balance sheet:</b>		
Current assets	4,954,220	9,129,436
Non-current assets	41,820,398	32,140,240
Current liabilities	(8,945,383)	(5,578,760)
Non-current liabilities	-	(853,236)
<b>Net assets</b>	<b>37,829,235</b>	34,837,680
<b>Share of the associate's revenue and profit:</b>		
Revenue	49,508,207	40,519,882
Net profit	15,927,555	13,921,472
<b>Carrying amount of the investment</b>	<b>37,829,235</b>	34,837,680

Amounts due to and from the associate at December 31, 2007 and 2006 and transactions with the associate for the years then ended, were as follows:

<i>In thousands of Tenge</i>	2007	2006
<i>Amounts due to and from the associate:</i>		
Due from the associate	3,288,538	2,461,320
Due to the associate	58,679	54,181
<i>Transactions with the associate:</i>		
Sales	13,415,618	11,534,942
Purchases	5,485,380	7,868,588

#### *Terms and conditions of transactions with the associate*

Sales to and purchases from the associate are made at market prices. Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for the associate receivables or payables. For the years ended December 31, 2007 and 2006, the Group has not made any provision for doubtful debts relating to amounts owed by the associate. This assessment is undertaken each financial year through examining the financial position of the associate and the market in which the associate operates.

#### 14. INVESTMENT PROPERTY

Movement in investment property was as follows for the year ended December 31:

<i>In thousands of Tenge</i>	2007	2006
At January 1	1,413,096	1,413,096
Depreciation expense	(113,048)	-
<b>At December 31</b>	<b>1,300,048</b>	1,413,096

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### 15. OTHER NON-CURRENT ASSETS

Other non-current assets comprised the following at December 31, 2007:

<i>In thousands of Tenge</i>	2007	2006
Deferred expense	1,498,532	1,242,447
Long-term VAT recoverable	795,281	319,345
Due from employees	439,026	246,268
Other	495,162	847,276
	<b>3,228,001</b>	<b>2,655,336</b>

At December 31, 2007 and 2006, other non-current assets were denominated in Tenge.

### 16. INVENTORIES

Inventories comprised the following at December 31, 2007:

<i>In thousands of Tenge</i>	2007	2006
Cable materials	1,231,365	1,038,281
Spare parts	1,343,663	1,138,409
Fuel	560,242	389,453
Raw materials and supplies	1,459,506	1,021,104
Goods for resale	350,664	1,022,944
	<b>4,945,440</b>	<b>4,610,191</b>
Less: Allowance for obsolete and slow-moving inventories	<b>(185,600)</b>	<b>(138,636)</b>
	<b>4,759,840</b>	<b>4,471,555</b>

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

<i>In thousands of Tenge</i>	2007	2006
Allowance for obsolete and slow-moving inventories at the beginning of the year	(138,636)	(116,768)
Charge for the year	(90,687)	(49,261)
Write-offs	43,723	27,393
Allowance for obsolete and slow-moving inventories at the end of the year	<b>(185,600)</b>	<b>(138,636)</b>

As at December 31, 2007 and 2006 the Group pledged certain inventories with carrying amount of 322,472 thousand Tenge and 334,264 thousand Tenge, respectively, as a collateral to secure Group's loans (Note 23).

### 17. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable comprised the following at December 31, 2007:

<i>In thousands of Tenge</i>	2007	2006
Trade receivables	14,738,913	13,735,327
Less: Allowance for doubtful debts	<b>(1,240,492)</b>	<b>(796,232)</b>
	<b>13,498,421</b>	<b>12,939,095</b>

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

<i>In thousands of Tenge</i>	2007	2006
Allowance for doubtful debts at the beginning of the year	(796,232)	(771,641)
Charge for the year	(509,387)	(106,971)
Write-offs	65,127	82,380
Allowance for doubtful debts at the end of the year	<b>(1,240,492)</b>	<b>(796,232)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### 17. TRADE ACCOUNTS RECEIVABLE (continued)

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

<i>In thousands of Tenge</i>	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-90 days	90-120 days	120-360 days	>360 days
2007	13,498,421	11,235,289	1,598,484	456,326	120,392	87,930	-
2006	12,939,095	11,064,135	1,063,568	709,709	59,071	42,612	-

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

<i>In thousands of Tenge</i>	2007	2006
Tenge	11,308,641	11,299,182
US Dollars	2,189,780	1,639,913
	13,498,421	12,939,095

### 18. ADVANCES PAID

Advances paid comprised the following at December 31, 2007:

<i>In thousands of Tenge</i>	2007	2006
Advances paid	909,384	1,039,663
Less: Impairment allowance	(195,473)	(146,801)
	713,911	892,862

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

<i>In thousands of Tenge</i>	2007	2006
Impairment allowance at the beginning of the year	(146,801)	(145,381)
Charge for the year	(148,312)	(1,420)
Write-offs	99,640	-
Impairment allowance at the end of the year	(195,473)	(146,801)

At December 31, 2007 and 2006 advances paid were denominated primarily in Tenge.

### 19. OTHER FINANCIAL ASSETS

Short-term financial assets comprised the following at December 31, 2007:

<i>In thousands of Tenge</i>	2007	2006
Dividends receivable	1,960,000	-
Bank deposits maturing in 2008	455,081	-
Bonds receivable maturing at September 1, 2008	407,416	-
	2,822,497	-

Dividends receivable represent the declared dividends from an associate (Note 13).

Bank deposits were opened in a local bank and were earning interest at 6.5%-11.1% per annum. Bonds receivable earn interest at 7% per annum.

As at December 31, 2007 and 2006 Group's other financial assets were denominated in Tenge.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### 20. OTHER CURRENT ASSETS

Other current assets comprised the following at December 31, 2007:

<i>In thousands of Tenge</i>	2007	2006
VAT recoverable	1,325,654	1,069,987
Prepaid taxes other than income tax	456,014	549,306
Due from employees	388,408	309,488
Deferred expenses	103,304	345,548
Other	485,942	156,369
	<b>2,759,322</b>	<b>2,430,698</b>
Less: allowance for doubtful receivables	<b>(228,702)</b>	<b>(143,647)</b>
	<b>2,530,620</b>	<b>2,287,051</b>

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

<i>In thousands of Tenge</i>	2007	2006
Allowance for doubtful debts at the beginning of the year	(143,647)	(113,919)
Charge for the year	(110,628)	(1,426,379)
Write-offs	25,573	1,396,651
Allowance for doubtful debts at the end of the year	<b>(228,702)</b>	<b>(143,647)</b>

At December 31, 2007 and 2006 other current assets were primarily denominated in Tenge.

### 21. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following at December 31, 2007:

<i>In thousands of Tenge</i>	2007	2006
Cash in current bank accounts	18,967,110	3,838,410
Short-term deposits	2,726,241	500,140
Cash on hand	62,353	66,739
	<b>21,755,704</b>	<b>4,405,289</b>

Cash in current bank accounts does not earn interest. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the weighted average short-term deposit rate of 7.9% per annum (2006: 7% per annum).

At December 31, 2007 cash and cash equivalents were denominated in various currencies as follows:

<i>In thousands of Tenge</i>	2007	2006
Tenge	12,500,260	4,316,535
US Dollars	8,968,746	82,938
Russian Rubles	260,090	5,795
Euro	26,608	21
	<b>21,755,704</b>	<b>4,405,289</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### 22. EQUITY

At December 31, 2007 and 2006, the authorised, issued and paid shares of the Group consist of the following:

#### *Authorised share capital*

<i>In thousands of Tenge</i>	<b>2007</b>	2006
Ordinary shares of 1,000 Tenge each	<b>10,922,876</b>	10,922,876
Preferred non-voting shares of 1,000 Tenge each	<b>1,213,653</b>	1,213,653
	<b>12,136,529</b>	12,136,529

#### *Issued and fully paid shares*

<i>In thousands of Tenge</i>	<b>2007</b>	2006
Ordinary shares of 1,000 Tenge each	<b>10,922,876</b>	10,922,876
Preferred non-voting shares of 1,000 Tenge each	<b>403,194</b>	403,194
	<b>11,326,070</b>	11,326,070

#### *Treasury shares*

<i>In thousands of Tenge</i>	<b>2007</b>	2006
Preferred non-voting shares of 1,000 Tenge each	<b>810,459</b>	810,459

Treasury shares were purchased by the Company on the market. The Company paid 2,652,860 thousand Tenge for 810,459 preferred shares. As at December 31, 2007 and 2006, the share capital does not include 1,842,401 thousand Tenge, which represents the difference between the par value of the treasury preferred shares and the cost of their purchase.

At December 31, 2007, the share capital of the Group was as follows:

<i>In thousands of Tenge</i>	<b>2007</b>	2006
Ordinary shares of 1,000 Tenge each	<b>10,922,876</b>	10,922,876
Preferred non-voting shares of 1,000 Tenge each	<b>1,213,653</b>	1,213,653
	<b>12,136,529</b>	12,136,529
Treasury shares (810,459 preferred shares at cost of exchange)	<b>(2,652,860)</b>	(2,652,860)
Inflation adjustment	<b>22,799,912</b>	22,799,912
	<b>32,283,581</b>	32,283,581

The Group's share capital consists of ordinary voting shares and preferred non-voting shares each with a par value of 1,000 Tenge per share. Each ordinary share carries an equal voting right, whereas the preferred shares rank higher in dividend and liquidation rights but do not have voting rights, except for certain cases provided in the Company's charter documents.

#### **Dividends**

The preferred shares pay a prescribed dividend of 30% of their par value and are considered to be compound financial instruments in accordance with the substance of the Company's charter documents and accordingly the liability and equity components are presented separately in the consolidated balance sheet. Prescribed dividends in the amount of 120,957 thousand Tenge were accrued in 2007 and 2006 (*Note 35*).

According to the decision made at the annual general shareholders meeting held on June 30, 2007 the Company declared additional dividends on preferred shares in the amount of 98,699 thousand Tenge and dividends on ordinary shares in the amount of 5,950,673 thousand Tenge (2006: 84,698 thousand Tenge and 5,571,323 thousand Tenge, respectively).

#### **Currency translation reserve**

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

#### **Other capital reserve**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 22. EQUITY (continued)

#### Earnings per share

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

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

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

<i>In thousands of Tenge</i>	2007	2006
Net profit attributable to ordinary equity holders of the parent from continuing operations	32,970,236	35,259,192
Dividends on preferred shares distributed through the statement of changes in equity	(98,699)	(84,698)
Net profit attributable to ordinary equity holders of the parent for basic earnings	32,871,537	35,174,494
Weighted average number of ordinary shares for basic and diluted earnings per share	10,922,876	10,922,876
Basic and diluted earnings per share, Tenge	3,009	3,220

### 23. INTEREST-BEARING LOANS AND BORROWINGS

Interest-bearing loans and borrowings comprised the following at December 31, 2007:

<i>In thousands of Tenge</i>	2007	2006
Fixed interest rate borrowings	3,548,772	4,208,588
<i>Weighted average interest rate</i>	5.55%	6.20%
Variable interest rate borrowings	73,446,572	54,111,594
<i>Weighted average interest rate</i>	6.94%	7.50%

At December 31, 2007 interest-bearing loans and borrowings were denominated in various currencies as follows:

<i>In thousands of Tenge</i>	2007	2006
US Dollar	57,050,693	40,425,581
EURO	12,870,653	9,626,885
Tenge	4,905,658	5,667,684
WON	2,050,385	2,204,874
Other	117,955	395,158
	76,995,344	58,320,182

Interest-bearing loans and borrowings are repayable as follows:

<i>In thousands of Tenge</i>	2007	2006
Current portion	8,602,608	34,856,464
Maturity between 1 and 2 years	5,983,782	7,143,759
Maturity between 2 and 5 years	54,842,688	13,320,027
Maturity over 5 years	7,566,266	2,999,932
Total long-term portion	68,392,736	23,463,718

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### 23. INTEREST-BEARING LOANS AND BORROWINGS (continued)

At December 31, 2007, certain items of property, plant and equipment with a net carrying amount of 9,481,363 thousand Tenge were pledged as security for some of the Group's borrowings (2006: 9,075,367 thousand Tenge) (*Note 9*).

As at December 31, 2007 and 2006 the Group pledged certain inventories with carrying amount of 322,472 thousand Tenge and 334,264 thousand Tenge, respectively, as a collateral to secure the Group's loans (*Note 16*).

Under the terms and conditions of certain borrowing agreements, the Group is obliged to comply with certain covenants. At December 31, 2007, the Group's management believes that the Group complied with the covenants.

At December 31, 2007 and 2006, some of the Group's borrowings of 2,050,385 thousand Tenge and 2,204,739 thousand Tenge, respectively, were guaranteed by the Government of the Republic of Kazakhstan.

### 24. LEASES

#### *Finance leases*

The Group has finance leases for various items of property, plant and equipment, primarily telecommunication equipment. These leases transfer the ownership over the leased assets to the Group upon the end of the lease term. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments comprised the following at December 31, 2007:

<i>In thousands of Tenge</i>	2007		2006	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within one year	3,726,633	2,970,079	1,575,156	1,128,694
After one year but not more than five years	6,305,265	5,136,676	2,760,653	2,403,610
After five years	13,660	5,925	-	-
Less: amounts representing finance charges	(1,932,878)	-	(803,505)	-
<b>Present value of minimum lease payments</b>	<b>8,112,680</b>	<b>8,112,680</b>	<b>3,532,304</b>	<b>3,532,304</b>
Less: amounts due for settlement within 12 months		(2,970,079)		(1,128,694)
<b>Amounts due for settlement after 12 months</b>		<b>5,142,601</b>		<b>2,403,610</b>

The amounts representing interest are based on effective interest rates from 11.2% to 14.6%.

#### *Operating leases*

The Group has entered into commercial leases on certain property, plant and equipment, primarily buildings and premises. These leases have an average life of 1 year with renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. Operating lease obligations are disclosed under *Note 39*.

### 25. EMPLOYEE BENEFIT LIABILITY

#### **State Contribution Scheme**

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 25. EMPLOYEE BENEFIT LIABILITY (continued)

#### Defined Benefit Scheme

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

The Defined Benefit Scheme is unfunded.

The total liability for the Company's Defined Benefit Scheme comprised the following at December 31, 2007:

<i>In thousands of Tenge</i>	2007	2006
Present value of defined benefit liability	3,084,607	1,756,505

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

<i>In thousands of Tenge</i>	2007	2006
Total liability at the beginning of the year	1,756,505	1,717,774
Current service cost	230,636	121,016
Interest cost	140,520	137,422
Benefits paid during the year	(422,097)	(219,707)
Actuarial loss recognised during the year	1,379,043	-
Total liability at the end of the year	3,084,607	1,756,505
Liability falling due within one year	162,988	91,276
Liability falling due after one year	2,921,619	1,665,229

Actuarial loss recognised for the year ended December 31, 2007 results primarily from changes in the assumptions relating to the rate of future salary increases.

Current service cost, interest cost, and actuarial loss in the aggregate amount of 1,750,199 thousand Tenge were recorded in the consolidated income statement within personnel costs (2006: 258,438 thousand Tenge) (Note 34).

There were no unrecognized actuarial losses or past service costs.

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

	2007	2006
Discount rate	8.42%	8.00%
The expected rate of future annual minimum salary increases	8.30%	3.00%

### 26. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities comprised the following at December 31, 2007:

<i>In thousands of Tenge</i>	2007	2006
Deferred revenue	1,498,532	1,242,447
Guarantees issued	469,501	-
Asset retirement obligations	226,615	-
	2,194,648	1,242,447

In November-December 2007 the Group guaranteed an obligation of Skif City LLP, its lessor and unrelated party, under loan agreements amounting to 82,161 thousand US Dollars. A fair value of the guarantees issued was calculated based on a market price for similar instruments.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 27. TRADE ACCOUNTS PAYABLE

Trade accounts payable comprised the following at December 31, 2007:

<i>In thousands of Tenge</i>	2007	2006
Accounts payable for property, plant and equipment	11,885,030	4,466,903
Accounts payable for services	3,339,183	1,963,024
Accounts payable for inventory	402,922	179,066
	<b>15,627,135</b>	<b>6,608,993</b>

At December 31, 2007 and 2006 trade accounts payable were not interest bearing.

At December 31, 2007 trade accounts payable were denominated in various currencies as follows:

<i>In thousands of Tenge</i>	2007	2006
Tenge	7,628,965	3,141,942
US Dollars	4,557,936	1,710,073
Euro	3,440,234	1,756,978
	<b>15,627,135</b>	<b>6,608,993</b>

### 28. OTHER CURRENT LIABILITIES

Other current liabilities comprised the following at December 31, 2007:

<i>In thousands of Tenge</i>	2007	2006
Due to employees	1,364,644	953,314
Taxes payable other than income tax	1,064,103	648,584
Dividends payable	383,644	236,365
Payable to pension funds	361,802	266,224
Guarantees issued	162,582	-
Payable for MTS shares (Note 7)	-	8,709,400
Other	1,158,320	253,516
	<b>4,495,095</b>	<b>11,067,403</b>

At December 31, 2007 and 2006 other current liabilities were not interest bearing.

At December 31, 2007 and 2006, other current liabilities were primarily denominated in Tenge.

### 29. REVENUE

Revenue for the year ended December 31, 2007 comprised the following:

<i>In thousands of Tenge</i>	2007	2006
Rendering of wireline and wireless phone services	75,140,820	67,735,313
Data transfer services	17,555,702	11,062,408
Interconnect	16,994,197	20,131,845
Rent of lines	9,410,382	7,302,160
Other	5,941,257	4,329,935
	<b>125,042,358</b>	<b>110,561,661</b>

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

According to the Resolution of the Government of the Republic of Kazakhstan #1039, dated October 7, 2004 "On the approval of subsidies for telecommunication operators losses connected with the provision of universal telecommunication services in rural areas", beginning from 4<sup>th</sup> quarter of 2004, the Group has started receiving government grants as compensation of operators' losses for socially important destinations. There are no unfulfilled conditions or contingencies attached to these grants. The amount of subsidy for the year ended December 31, 2007 totalled 2,719,767 thousand Tenge (2006: 3,350,906 thousand Tenge).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### 31. COST OF REVENUE

Cost of services provided for the year ended December 31, 2007 comprised the following:

<i>In thousands of Tenge</i>	2007	2006
Personnel costs (Note 34)	27,201,115	20,260,766
Depreciation and amortization	17,791,224	14,129,934
Interconnect	12,008,398	15,118,171
Materials	6,740,521	5,324,338
Fees for the right to provide telecom services	3,351,698	3,010,333
Repair and maintenance	3,129,131	2,485,798
Rent of channels	2,795,987	2,006,293
Rental of equipment	1,063,895	721,566
Security and safety	1,003,358	591,575
Fees for use of frequency range	912,493	644,578
Other	2,634,434	852,633
	<b>78,632,254</b>	<b>65,145,985</b>

### 32. GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expense for the year ended December 31, 2007 comprised the following:

<i>In thousands of Tenge</i>	2007	2006
Personnel costs (Note 34)	8,771,286	6,969,788
Taxes other than income tax	2,260,678	2,817,658
Depreciation and amortization	1,346,999	1,807,532
Consulting services	885,922	632,972
Repair and maintenance	799,007	622,240
Bad debt expense (Notes 17, 18 and 20)	768,327	1,534,770
Materials	592,797	451,934
Bank fees	554,476	477,678
Write-down of inventories to a net realizable value	303,759	-
Impairment of property, plant and equipment and intangible assets (Notes 9 and 10)	232,060	9,468
Provision for obsolete inventory (Note 16)	90,687	49,261
Other	2,654,779	2,112,937
	<b>19,260,777</b>	<b>17,486,238</b>

### 33. SELLING EXPENSE

Selling expense for the year ended December 31, 2007 comprised the following:

<i>In thousands of Tenge</i>	2007	2006
Marketing and advertising	2,304,704	1,431,138
Dealers commission	832,353	665,048
Other	787,197	170,871
	<b>3,924,254</b>	<b>2,267,057</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### 34. PERSONNEL COSTS

Personnel costs for the year ended December 31, 2007 comprised the following:

<i>In thousands of Tenge</i>	2007	2006
Payroll	29,734,087	23,321,556
Payroll related taxes	4,488,115	3,650,560
Employee benefits expense (Note 25)	1,750,199	258,438
	<b>35,972,401</b>	<b>27,230,554</b>

### 35. FINANCE COSTS

Finance cost for the year ended December 31, 2007 comprised the following:

<i>In thousands of Tenge</i>	2007	2006
Interest on loans	4,065,048	3,220,597
Interest on finance lease obligations	370,482	331,677
Interest on debt component of preferred shares	120,957	120,957
	<b>4,556,487</b>	<b>3,673,231</b>

### 36. INCOME TAX

Income tax expense comprised the following for the year ended December 31, 2007:

<i>In thousands of Tenge</i>	2007	2006
Current income tax expense	5,682,868	5,974,013
Deferred income tax expense / (benefit)	3,788,529	(1,102,351)
	<b>9,471,397</b>	<b>4,871,662</b>

A reconciliation of income tax expense applicable to profit before income tax at the statutory income tax rate of 30% to current income tax expense was as follows for the year ended December 31, 2007:

<i>In thousands of Tenge</i>	2007	2006
Profit before income tax	39,801,739	40,132,781
Statutory tax rate	30%	30%
Profit before income tax at the statutory tax rate	11,940,522	12,039,834
Non-taxable share of profit of an associate	(4,778,267)	(4,176,442)
Change in valuation allowance	1,588,504	-
Write-off of tax losses carried forward	297,806	-
Reversal of deferred tax on undistributed earnings of an associate	-	(3,899,547)
Non-deductible expenses	422,832	907,817
	<b>9,471,397</b>	<b>4,871,662</b>

According to the tax legislation, effective starting from the fiscal years beginning on January 1, 2007, dividends received from Kazakhstan taxpayers are exempt from withholding tax withheld at the source of payment. Therefore, the Group reversed the deferred tax liability on undistributed profits of an associated company registered in the Republic of Kazakhstan, which was provided for in prior years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### 36. INCOME TAX (continued)

Deferred tax balances, calculated by applying the statutory tax rates in effect at the balance sheet date to the temporary differences between the basis of assets and liabilities and the amounts reported in the consolidated financial statements, are comprised of the following at December 31, 2007:

<i>In thousands of Tenge</i>	2007	2006
<b>Deferred tax assets</b>		
Tax losses carry-forward	1,761,767	555,401
Employee benefits obligations	925,382	526,952
Bad debt allowance	689,098	434,192
Property, plant and equipment	356,870	-
Other	238,873	60,155
Intangible assets	41,585	-
Less: unrecognized deferred tax assets	(1,588,504)	-
Less: deferred tax assets offset with deferred tax liabilities	(1,715,863)	(1,576,700)
<b>Deferred tax assets</b>	<b>709,208</b>	<b>-</b>
<b>Deferred tax liabilities</b>		
Property, plant and equipment	17,387,890	13,573,603
Intangible assets	8,655,480	7,423,415
Other	25,833	16,023
Less: deferred tax assets offset with deferred tax liabilities	(1,715,863)	(1,576,700)
<b>Deferred tax liabilities</b>	<b>24,353,340</b>	<b>19,436,341</b>
<b>Net deferred tax liabilities</b>	<b>23,644,132</b>	<b>19,436,341</b>

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

<i>In thousands of Tenge</i>	2007	2006
Balance at January 1	19,436,341	12,232,071
Charge to consolidated income statement	3,788,529	(1,102,351)
Arisen in a business combination	419,262	8,306,621
<b>Balance at December 31</b>	<b>23,644,132</b>	<b>19,436,341</b>

### 37. RELATED PARTY TRANSACTIONS

Related parties include key management personnel of the Group, enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by the Group's key management personnel and entities and other entities controlled by the Government. Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

#### Terms and conditions of transactions with related parties

Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash, except as discussed below. For the year ended December 31, 2007, the Group has not recorded any impairment of receivables relating to amounts owned by related parties (2006: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 37. RELATED PARTY TRANSACTIONS (continued)

The major transactions with related parties during the years ended December 31, 2007 and 2006 were as follows:

<i>In thousands of Tenge</i>		Sales to related parties	Purchases from related parties	Due from related parties	Due to related parties
Parent	2007	421	–	131,204	–
	2006	136,801	–	131,131	–
Parent-controlled entities	2007	1,868,720	889,800	1,598,650	52,410
	2006	1,617,083	576,090	1,656,433	33,731
Other state-controlled entities	2007	10,768,319	597,465	572,745	22,021
	2006	9,128,178	251,797	723,278	13,563

Transactions with the associate are disclosed in *Note 13*.

Total compensation to key management personnel included in general and administrative expenses in the accompanying consolidated income statement amounted to 827,870 thousand Tenge and 889,781 thousand Tenge for the years ended December 31, 2007 and 2006, respectively. Compensation to key management personnel consists of contractual salary and performance bonus based on operating results.

As discussed in *Note 30*, the Government of the Republic of Kazakhstan provides certain subsidies to the Group.

As discussed in *Note 23*, some of the Group's borrowings of 2,050,385 thousand Tenge and 2,204,739 thousand Tenge as of December 31, 2007 and 2006, respectively, were guaranteed by the Government of the Republic of Kazakhstan.

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

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

#### Interest rate risk

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

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

<i>In thousands of Tenge</i>	2007		2006	
	Increase / decrease in basis points	Effect on profit before tax	Increase / decrease in basis points	Effect on profit before tax
US Dollar	+50	(274,519)	+50	(196,982)
	-50	274,519	-50	196,982
Euro	+50	(63,303)	+50	(47,698)
	-50	63,303	-50	47,698
Tenge	+50	(23,029)	+50	(22,282)
	-50	23,029	-50	22,282

\* 1 basis point = 0.01%

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

**38. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****Currency risk**

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

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

<i>In thousands of Tenge</i>	2007		2006	
	<b>Increase / decrease in exchange rate</b>	<b>Effect on profit before tax</b>	<b>Increase / decrease in exchange rate</b>	<b>Effect on profit before tax</b>
US Dollar	+5%	<b>2,931,813</b>	+5%	2,197,256
	-5%	<b>(2,931,813)</b>	-5%	(2,197,256)
Euro	+5%	<b>814,215</b>	+5%	569,192
	-5%	<b>(814,215)</b>	-5%	(569,192)
Won	+5%	<b>102,519</b>	+5%	110,244
	-5%	<b>(102,519)</b>	-5%	(110,244)

**Market risk**

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency, and securities, all of which are exposed to general and specific market movements. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing appropriate margin and collateral requirements.

**Credit risk**

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in *Note 17*. There are no significant concentrations of credit risk within the Group.

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

**Liquidity risk**

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, debentures, preferred shares, and finance leases. The Group's policy is that not more than 30% of borrowings should mature in the next 12 month period. 28% of the Group's debt will mature in less than one year at December 31, 2007 (2006: 63%) based on the carrying value of borrowings reflected in the financial statements, excluding discontinued operations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

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

#### Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2007 based on contractual undiscounted payments.

<i>In thousands of Tenge</i>	On demand	Due later than one month but not later than three months	Due later than three month but not later than one year	Due later than one year but not later than five years	Due after five years	Total
<b>As of December 31, 2007</b>						
Interest bearing loans and borrowings	-	1,249,599	12,351,404	72,540,564	9,267,088	95,408,655
Finance lease liabilities	-	772,033	2,954,300	6,305,265	13,660	10,045,258
Trade accounts payable	-	1,525,406	13,269,386	832,343	-	15,627,135
Debt component of preferred shares	-	-	108,971	338,077	652,572	1,099,620
Employee benefit liability	-	-	162,988	730,404	2,191,215	3,084,607
Other non-current liabilities	-	-	-	469,501	-	469,501
Other current liabilities	4,239,738	92,775	162,582	-	-	4,495,095
	<b>4,239,738</b>	<b>3,639,813</b>	<b>29,009,631</b>	<b>81,216,154</b>	<b>12,124,535</b>	<b>130,229,871</b>
<b>As of December 31, 2006</b>						
Interest bearing loans and borrowings	-	757,134	37,127,865	24,083,314	3,836,812	65,805,125
Finance lease liabilities	-	412,392	1,162,764	2,760,653	-	4,335,809
Trade accounts payable	-	827,883	5,499,187	281,923	-	6,608,993
Debt component of preferred shares	-	-	108,971	338,077	652,572	1,099,620
Employee benefit liability	-	-	91,276	416,307	1,248,922	1,756,505
Other current liabilities	10,899,581	100,473	67,349	-	-	11,067,403
	<b>10,899,581</b>	<b>2,097,882</b>	<b>44,057,412</b>	<b>27,880,274</b>	<b>5,738,306</b>	<b>90,673,455</b>

#### Cash flow risk

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

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

#### Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the holders of ordinary shares, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2007 and 2006.

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

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

#### Capital management (continued)

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

<i>In thousands of Tenge</i>	2007	2006
Interest bearing loans and borrowings	76,995,344	58,320,182
Trade accounts payable	15,627,135	6,608,993
Finance lease obligations	8,112,680	3,532,304
<b>Net debt</b>	<b>100,735,159</b>	<b>68,461,479</b>
Equity	161,898,957	134,994,096
<b>Debt-to-equity ratio</b>	<b>0.62</b>	<b>0.51</b>

#### Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments:

<i>In thousands of Tenge</i>	Carrying amount		Fair value	
	2007	2006	2007	2006
<b>Financial assets</b>				
Cash and cash equivalents	21,755,704	4,405,289	21,755,704	4,405,289
Trade accounts receivable	13,498,421	12,939,095	13,498,421	12,939,095
Other financial assets	2,822,497	-	2,822,497	-
<b>Financial liabilities</b>				
Interest bearing loans and borrowings	76,995,344	58,320,182	76,995,344	58,320,182
Finance lease liabilities	8,112,680	3,532,304	8,112,680	3,532,304
Trade accounts payable	15,627,135	6,608,993	15,627,135	6,608,993
Other current liabilities	4,495,095	11,067,403	4,495,095	11,067,403

### 39. COMMITMENTS AND CONTINGENT LIABILITIES

#### Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of property, plant and equipment. As at December 31, 2007 the Company had contractual commitments totaling to 5,547,224 thousand Tenge (2006: 11,532,519 thousand Tenge) related mostly to purchase of telecommunication equipment, construction of administrative office building, construction of fiber-optic lines and base stations.

#### Operating lease commitments - Group as lessee

The Group has entered into commercial leases on certain buildings and premises. These leases have an average life of 1 year with renewal option included in the contracts. There are no restrictions placed upon the Group by entering into these leases. There are no non-cancellable operating leases as at December 31, 2007 and 2006.

#### Finance lease commitments – Group as lessee

The Group has finance lease for telecommunication equipment. Future minimum lease payments under the finance lease are disclosed in *Note 24*.

#### License commitments

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

---

### 39. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

#### Legal Proceedings

The Group is party to various other legal proceedings related to business operations, such as property damage claims and employee claims. The Group does not believe that pending or threatened claims of these types, individually or in aggregate, are likely to have any material adverse effect on the Group's financial position or results of operations.

The Group assesses the likelihood of material liabilities arising from individual circumstances and makes provision in its consolidated financial statements only where it is probable that actual events giving rise to liability will occur and the amount of the liability can be reasonably estimated. No provision has been made in these consolidated financial statements for any of the contingent liabilities mentioned above.

#### Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2007. As at December 31, 2007 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements.

### 40. EVENTS AFTER THE BALANCE SHEET DATE

In January the Group obtained a loan for the total amount of 733,714 thousand Tenge from a foreign commercial bank to finance a purchase of telecommunication equipment.

In January the Group reorganised its branch in Kyrgyzstan to a new subsidiary "Online.kg" LLC with 100% of ownership of Kazakhtelecom.

In February 2008 the Group obtained a loan from a Kazakhstan commercial bank for the total amount of 29,193,185 thousand Tenge to finance a purchase of telecommunication equipment.