NOTES TO THE INTERIM CONDENSED CONDSOLIDATED FINANCIAL STATEMENTS

For the six months period ended 30 June 2014

1. CORPORATE INFORMATION

Kazakhtelecom JSC (the "Company" or "Kazakhtelecom") was established in June 1994 in accordance with legislation of the Republic of Kazakhstan.

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

The Company is controlled by the Government of the Republic of Kazakhstan through National Welfare Fund "Samruk-Kazyna" ("Samruk-Kazyna" or the "Parent"), which owned 51% of the Company's controlling stock. The following lists the shareholders of the Company's stock:

	30 June 2014 (unaudited)	31 December 2013
Samruk-Kazyna	**51.0%**	51.0%
Bodam B. V.	**16.9%**	16.9%
ADRs (The Bank of New York is a depositor)	**9.9%**	9.9%
Deran Services Limited	**9.6%**	9.6%
Kazkommertsbank	**3.1%**	3.1%
State Fund on Pension Assets	**3.1%**	–
Other	**6.4%**	9.5%
	100%	100%

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

The Company and its subsidiaries listed in *Note 2* (together the "Group") have a significant share of the fixed line communication market, including local, long-distance intercity and international telecommunication services (including CIS and non-CIS countries); and provides also rent of lines, data transfer services and wireless communication services.

The interim condensed consolidated financial statements of the Group were authorised for issue on 4 August 2014, by Management of the Company.

2. BASIS FOR PREPARATION

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with IAS 34 *Interim Financial Reporting.*

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2013.

Foreign currency translation

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the official rate at the date of the transaction established by the Kazakhstan Stock Exchange (hereinafter – the "KASE") and published by the National Bank of the Republic of Kazakhstan (the "NBRK") rate of exchange ruling at the reporting date. All differences are recognized to the income statement.

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

	30 June 2014	30 June 2013	31 December 2013
US Dollar	**183.51**	151.65	153.61
Euro	**249.92**	197.90	211.17
South Korean Won	**0.18**	0.13	0.14
Russian rouble	**5.45**	4.63	4.7

2. BASIS FOR PREPARATION (continued)

Subsidiaries

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

	Business activities	Country of residence	Percentage ownership 30 June 2014 (unaudited)	31 December 2013
ALTEL JSC	Mobile telecommunications	Kazakhstan	**100.00%**	100.00%
NURSAT JSC	Satellite telecommunications	Kazakhstan	**77.08%**	77.08%
Kazakhtelecom Industrial Enterprises Services LLP	Other	Kazakhstan	**100.00%**	100.00%
Signum LLC	Other	Russia	**100.00%**	100.00%
KT Cloud Lab LLP	Other	Kazakhstan	**100.00%**	100.00%
VOSTOKTELECOM LLP	Wireline telecommunications	Kazakhstan	**100.00%**	100.00%
Digital TV LLP	Wireline telecommunications	Kazakhstan	**100.00%**	100.00%
MaxCom LLP	Other	Kazakhstan	**–**	100.00%
Online.kg LLC	Other	Kyrgyzstan	**100.00%**	100.00%

On 16 April 2014 the Group transferred 100% interest in MaxCom LLP to ALTEL JSC as a contribution to charter capital.

3. CHANGE IN ACCOUNTING POLICIES

New standards, interpretations and amendments thereof, adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2013.

The Group has applied, for the first time, certain new standards and amendments to existing standards and interpretations. However, they do not impact the interim condensed consolidated financial statements of the Group.

The following standards and amendments became effective as of 1 January 2014:

- *Investment Entities* – Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities,* IAS 27 *Separate Financial Statements*;
- *Offsetting Financial Assets and Financial Liabilities* – Amendments to IAS 32 *Financial Instruments: Presentation*;
- *Recoverable Amount Disclosures for Non-Financial Assets* – Amendments to IAS 36 *Impairment of Assets*;
- *Novation of Derivatives and Continuation of Hedge Accounting* – Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*;
- IFRIC 21 *Levies*.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the impact of each new standard/amendment is described below:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on consolidation of investments held by the Group.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group.

3. CHANGE IN ACCOUNTING POLICIES (continued)

New standards, interpretations and amendments thereof, adopted by the Group (continued)

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the Group as the Group has not any derivatives.

Recoverable Amount Disclosures for Non-financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments have no impact on the Group.

IFRIC 21 Levies

IFRIC 21 is effective for annual periods beginning on or after 1 January 2014 and is applied retrospectively.

It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 *Income Taxes*) and fines or other penalties for breaches of legislation.

The interpretation clarifies that an entity recognises a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognised before the specified minimum threshold is reached. The interpretation requires these same principles to be applied in interim financial statements. These amendments have no impact on the consolidated financial statements of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

Reclassifications

Certain amounts in the interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2013 have been reclassified in accordance with the format of presentation adopted in the reporting period.

In thousands of tenge	Before reclassifications	Reclassifications	As reclassified
Interim condensed consolidated statement of comprehensive income for the six months period ended 30 June 2013			
[1] Other income	1,066,237	421,081	1,487,318
[1] Other expenses	–	(421,081)	(421,081)

[1] Reclassification of other expenses in the amount 421,081 thousand tenge into different line in the interim condensed consolidated statement of comprehensive income.

Reclassifications had no effect on net income, comprehensive income or equity, and the classification of current and non-current assets and liabilities.

4. BUSINESS COMBINATIONS

2013 acquisition of Digital TV LLP

On 29 March 2013, the Group acquired 100% interest in Digital TV LLP ("DTV") a private entity that is not listed on any public exchange. DTV is based in Republic of Kazakhstan and provides analogous and digital cable television services. The Group has acquired DTV because it expands both its existing services portfolio and customer base. The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of DTV for the period from the acquisition date.

As of 31 December 2013 the Group completed the valuation of fair value of its share in identified assets, liabilities and contingent liabilities. Business combination was accounted for using fair value amounts as at acquisition date.

4. BUSINESS COMBINATIONS (continued)

2013 acquisition of Digital TV LLP (continued)

Fair value amounts of identified assets, liabilities and contingent liabilities of Digital TV LLP as at the date of acquisition comprised the following:

In thousands of tenge	Fair value recognized on acquisition
Assets	
Property and equipment	5,234,025
Intangible assets	2,364,031
Cash and cash equivalents	307,145
Trade accounts receivable	139,039
Inventories	58,895
Prepayments	104,837
Other current assets	117,120
	8,325,092
Liabilities	
Accounts payable	203,687
Advances received	273,763
Deferred tax liabilities	538,398
Other current liabilities	209,029
	1,224,877
Total identifiable net assets at fair value	**7,100,215**
Goodwill	**2,706,335**
Purchase consideration transferred	**9,806,550**

The deferred tax liability mainly comprises the tax effect of the difference between tax base of tangible and intangible assets and fair value of those assets recognized.

The goodwill of 2,706,335 thousand tenge comprises the value of expected synergies arising from the acquisition.

Analysis of cash flows on acquisition	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	307,145
Cash paid	(9,806,550)
Net cash outflow	**(9,499,405)**

2013 acquisition of MaxCom LLP

On 3 April 2013, the Group acquired 100% interest in MaxCom LLP a not listed private entity. Maxcom LLP is based in Republic of Kazakhstan and provides mobile and fixed telecommunication services. The Group has acquired MaxCom LLP for widening of frequency band for provision of mobile services and customer base. The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of MaxCom LLP for the period from the acquisition date.

4. BUSINESS COMBINATIONS (continued)

2013 acquisition of MaxCom LLP (continued)

Fair value amounts of identified assets, liabilities and contingent liabilities of MaxCom LLP as at the date of acquisition comprised the following:

In thousands of tenge	Fair value recognized on acquisition
Assets	
Property and equipment	53,564
Intangible assets	890,838
Cash and cash equivalents	948
Prepayments	7,055
Other current assets	5,619
	958,024
Liabilities	
Borrowings	41,943
Accounts payable	6,008
Deferred tax liabilities	175,952
Other current liabilities	121
	224,024
Total identifiable net assets at fair value	**734,000**
Purchase consideration transferred	**734,000**

The deferred tax liability mainly comprises the tax effect of the difference between tax base of tangible and intangible assets and fair value of those assets recognized.

Analysis of cash flows on acquisition	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	948
Cash paid	(734,000)
Net cash outflow	**(733,052)**

5. SEGMENTS INFORMATION

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

- Wireline telecommunication services mainly provided by Kazakhtelecom JSC, VOSTOKTELECOM LLP and Digital TV LLP business units.
- CDMA and LTE mobile telecommunication services mainly provided by ALTEL JSC business unit.
- Satellite telecommunication services, including data transfer services mainly provided by NURSAT JSC business unit.

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

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

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

NOTES TO THE INTERIM CONDENSED CONDSOLIDATED FINANCIAL STATEMENTS (continued)

5. SEGMENTS INFORMATION (continued)

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2014 and 2013, respectively:

For the six months ended 30 June 2014 (unaudited)

In thousands of tenge	Wireline telecommu-nications	CDMA and LTE telecommuni-cations	Satellite telecommu-nications	Other	Eliminations and adjustments	Group
Revenue						
External customers	90,972,151	5,320,948	333,551	122,249	–	96,748,899
Inter-segment	1,799,586	1,151,057	84,496	913,728	(3,948,867)	–
Total revenue	92,771,737	6,472,005	418,047	1,035,977	(3,948,867)	96,748,899
Results						
Depreciation and amortization	(17,236,364)	(2,018,927)	(224,621)	(142,855)	–	(19,622,767)
Finance costs	(3,048,653)	(191,735)	(53,475)	–	–	(3,293,863)
Finance income	1,247,599	19,169	2,237	–	–	1,269,005
Accrual of bad debt allowance	(368,811)	46	(11,838)	(6,613)	–	(387,216)
Segment profit/(loss)	11,852,981	(4,780,580)	(808,029)	133,972	–	6,398,344

For the six months ended 30 June 2013 (audited)

In thousands of tenge	Wireline telecommu-nications	CDMA and LTE telecommuni-cations	Satellite telecommu-nications	Other	Eliminations and adjustments	Group
Revenue						
External customers	86,403,422	4,196,387	577,199	23,882	–	91,200,890
Inter-segment	1,039,312	891,139	408,308	559,109	(2,897,868)	–
Total revenue	87,442,734	5,087,526	985,507	582,991	(2,897,868)	91,200,890
Results						
Depreciation and impairment	(18,052,765)	(1,185,082)	(336,787)	(53,680)	–	(19,628,314)
Finance costs	(4,797,798)	(116,101)	(58,026)	–	–	(4,971,925)
Finance income	2,451,379	3,843	–	–	–	2,455,222
Accrual of bad debt allowance	(250,120)	(12,157)	(36,018)	(974)	–	(299,269)
Segment profit/(loss)	16,963,361	(2,195,906)	(332,151)	29,357	–	14,464,661

NOTES TO THE INTERIM CONDENSED CONDSOLIDATED FINANCIAL STATEMENTS (continued)

5. SEGMENTS INFORMATION (continued)

The following table presents segment assets and liabilities of the Group's operating segments as at 30 June 2014 and 31 December 2013:

In thousands of tenge	Wireline telecommu-nications	CDMA and LTE telecommuni-cations	Satellite telecommu-nications	Other	Eliminations and adjustments	Group
Segment assets						
As at 30 June 2014 (unaudited)	**398,416,096**	**34,149,872**	**4,240,575**	**2,984,790**	**(48,501,909)**	**391,289,424**
As at 31 December 2013	414,018,340	30,780,278	5,042,819	3,739,710	(37,445,869)	416,135,278
Segment liabilities						
As at 30 June 2014 (unaudited)	**103,886,799**	**28,519,879**	**3,084,019**	**272,343**	**(12,513,107)**	**123,249,933**
As at 31 December 2013	135,749,285	22,358,699	3,228,734	336,760	(11,041,535)	150,631,943

Reconciliation of assets:

In thousands of tenge	30 June 2014 (unaudited)	31 December 2013
Segment operating assets	**439,791,333**	453,581,147
Elimination of the Company's investments in subsidiaries	**(35,237,299)**	(26,674,775)
Elimination of intergroup balances of accounts receivable and payable	**(13,264,610)**	(10,771,094)
Group operating assets	**391,289,424**	416,135,278

6. PROPERTY AND EQUIPMENT

During the six months ended 30 June 2014, the Group acquired property and equipment for 15,067,519 thousand tenge (2013: 11,856,433 thousand tenge) and disposed of property and equipment with net book value of 754,965 thousand tenge (2013: 880,015 thousand tenge).

The Group's main construction projects are modernization and construction of existing and new digital and wireline networks and fiber optic communication lines.

As at 30 June 2014, the carrying value of construction in progress was 26,549,796 thousand tenge (31 December 2013: 31,290,069 thousand tenge).

During the six months ended 30 June 2014, The Group recognized depreciation expense amounting to 18,025,873 thousand tenge (2013: 17,644,421 thousand tenge).

As at 30 June 2014, certain items of property and equipment with a net carrying amount of 2,765,933 thousand tenge (31 December 2013: 3,046,995 thousand tenge) were pledged as security for some of the Group's borrowings (*Note 12*).

As at 30 June 2014, the carrying value of equipment held under finance leases and included in property and equipment amounted to 27,403,729 thousand tenge (31 December 2013: 28,903,323 thousand tenge). Additions during the six months ended 30 June 2014 include 263,281 thousand tenge (2013: 526,993 thousand tenge) of property and equipment held under finance leases. Leased assets are pledged as security for the related finance leases.

As at 30 June 2014, property and equipment, amounting to 122,180,043 thousand tenge, were fully amortized (31 December 2013: 120,459,427 thousand tenge).

7. INTANGIBLE ASSETS

During the six months ended 30 June 2014, the Group acquired intangible assets for 488,012 thousand tenge (2013: 942,785 thousand tenge).

During the six months ended 30 June 2014, the Group recognized amortization expense amounting to 1,613,069 thousand tenge (2013: 1,999,924 thousand tenge).

As at 30 June 2014 intangible assets, amounting to 6,592,304 thousand tenge, were fully amortized (31 December 2013: 6,283,986 thousand tenge).

NOTES TO THE INTERIM CONDENSED CONDSOLIDATED FINANCIAL STATEMENTS (continued)

8. IMPAIRMENTS

Goodwill

Goodwill is tested by the Group for impairment annually as at 31 December and when circumstances indicate the carrying value may be impaired. The Group's impairment test for goodwill is based on value-in-use calculations. The key assumptions used to determine the recoverable amount for the different cash generating units were disclosed in the annual consolidated financial statements for the year ended 31 December 2013.

The Group considers the size of its list of IP TV subscribers and growth rate of customers in the subscriber list, among other factors, when reviewing for indicators of impairment. As at 30 June 2014, size of the list of IP TV subscribers of the Group was higher than as at 31 December 2013, and growth rate of customers in the subscriber list during six months period ended 30 June 2014 was in line with the Group's expectations. As a result, no goodwill impairment indicators were identified as at 30 June 2014.

9. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable comprised the following at 30 June 2014 and 31 December 2013:

In thousands of tenge	**30 June 2014 (unaudited)**	31 December 2013
Trade receivables	**25,146,500**	18,077,833
	25,146,500	18,077,833
Less: Allowance for doubtful debts	**(1,410,159)**	(1,885,077)
	23,736,341	16,192,756

The movements in the allowance for doubtful debts were as follows during the six months ended 30 June:

In thousands of tenge	**30 June 2014 (unaudited)**	30 June 2013
Allowance for doubtful debts at 1 January	**(1,885,077)**	(2,616,112)
Charge for the period	**(371,139)**	(261,623)
Write-offs	**846,057**	820,880
Allowance for doubtful debts at 30 June	**(1,410,159)**	(2,056,855)

10. OTHER FINANCIAL ASSETS

Other financial assets comprised the following at 30 June 2014 and 31 December 2013:

In thousands of tenge	**30 June 2014 (unaudited)**	31 December 2013
Bank deposits	**14,111,660**	4,870,000
Due from employees	**2,010,220**	1,970,371
Other receivable	**1,262,452**	537,000
Interest receivable	**272,192**	271,971
Restricted cash on current bank account	**169,101**	4,056,059
Restricted deposit	**–**	441,000
	17,825,625	12,146,401

Bank deposits with maturities over 3 months but less than 12 months were opened in local banks and were earning interest at the rates ranging from 2 to 4% per annum (2013: from 3 to 6.5% per annum).

Interest free restricted cash on current bank accounts was placed as collateral for covered bank guarantees for the period less than one year.

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following at 30 June 2014 and 31 December 2013:

In thousands of tenge	30 June 2014 (unaudited)	31 December 2013
Cash in current bank accounts	8,624,832	41,516,634
Bank deposits with maturity of less than 90 days	431,564	802,136
Cash on hand	33,365	34,053
	9,089,761	42,352,823

Cash and cash equivalents comprised the following at 30 June 2014 and 31 December 2013:

Cash on current bank accounts earn interest at the rates ranging from 0.01 to 2.46% per annum (31 December 2013: from 0.08 to 3.98% per annum). Short-term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the rates ranging from 0.01 to 8.75% per annum (31 December 2013: from 0.1 to 4% per annum).

At 30 June 2014 and 31 December 2013 cash and cash equivalents were denominated in various currencies as follows:

In thousands of tenge	30 June 2014 (unaudited)	31 December 2013
US dollars	5,258,452	28,935,778
Tenge	3,718,308	13,081,223
Russian rubles	107,009	185,181
Euro	1,530	148,581
Other	4,462	2,060
	9,089,761	42,352,823

12. BORROWINGS

Borrowings comprised the following at 30 June 2014 and 31 December 2013:

In thousands of tenge	Weighted average interest rate	30 June 2014 (unaudited)	Weighted average interest rate	31 December 2013
Fixed interest rate borrowings *with range between 3% and 8.5% p.a.*	5.54%	19,467,699	5.49%	17,004,856
Variable interest rate borrowings *with range between 2.50% and 9.33% p.a.*	6.46%	35,463,217	6.69%	28,141,211
		54,930,916		45,146,067

Borrowings are repayable as follows:

In thousands of tenge	30 June 2014 (unaudited)	31 December 2013
Current portion	6,677,367	9,117,411
Maturity between 1 and 2 years	6,939,566	4,799,169
Maturity between 2 and 5 years	17,191,883	11,960,887
Maturity over 5 years	24,122,100	19,268,600
Total long-term portion	48,253,549	36,028,656
Total borrowings	54,930,916	45,146,067

As at 30 June 2014, certain items of property and equipment with a net carrying amount of 2,765,933 thousand tenge were pledged as security for some of the Group's borrowings (31 December 2013: 3,046,995 thousand tenge) (*Note 6*).

Government of the Republic of Kazakhstan guaranteed some of the Group's borrowings of 1,799,768 thousand tenge and 1,512,557 thousand tenge as at 30 June 2014 and 31 December 2013, respectively.

13. OTHER NON-CURRENT AND CURRENT LIABILITIES

Other non-current liabilities comprised the following at 30 June 2014 and 31 December 2013:

Non-current liabilities

In thousands of tenge	**30 June 2014 (unaudited)**	31 December 2013
Deferred connection revenue	**3,152,582**	3,304,035
Asset retirement obligations	**1,946,033**	1,065,771
Other	**294,267**	63,951
	5,392,882	4,433,757

Other current liabilities comprised the following at 30 June 2014 and 31 December 2013:

Current liabilities

In thousands of tenge	**30 June 2014 (unaudited)**	31 December 2013
Taxes payable other than income tax	**3,793,296**	1,198,333
Due to employees	**3,556,594**	3,580,509
Dividends payable	**1,682,087**	30,268,498
Deferred connection revenue	**1,636,714**	1,498,531
Payable to pension funds	**709,676**	674,322
Other	**855,463**	798,949
	12,233,830	38,019,142

At 30 June 2014 and 31 December 2013, other current liabilities were not interest bearing and were primarily denominated in tenge.

14. REVENUE

Revenue for the six months ended 30 June comprised the following:

In thousands of tenge	**30 June 2014 (unaudited)**	30 June 2013
Data transfer services	**46,109,709**	39,941,354
Rendering of wireline and wireless phone services	**32,107,797**	35,507,862
Interconnect	**7,003,760**	7,126,178
Rent of lines	**3,624,335**	3,164,878
Other	**4,771,532**	2,949,542
	93,617,133	88,689,814

NOTES TO THE INTERIM CONDENSED CONDSOLIDATED FINANCIAL STATEMENTS (continued)

15. COST OF REVENUE

Cost of revenue for the six months ended 30 June comprised the following:

In thousands of tenge	**30 June 2014 (unaudited)**	30 June 2013
Personnel costs	**24,785,981**	22,126,350
Depreciation and amortization	**19,405,603**	19,413,978
Interconnect	**4,134,315**	4,587,223
Rent of channels	**3,499,153**	3,529,778
Repair and maintenance	**2,513,799**	2,948,420
Materials	**2,131,476**	2,373,181
Electricity	**1,390,569**	1,128,356
Rental of equipment	**1,308,785**	978,638
Fees for use of frequency range	**1,204,333**	458,389
Fees for the right to provide telecom services	**957,928**	897,692
Security	**940,264**	960,629
Other	**5,972,711**	4,116,935
	68,244,917	63,519,569

16. FOREIGN EXCHANGE LOSS

On 11 February 2014, the exchange rate of the Kazakh tenge to the US dollar and other major currencies was devalued by approximately 20%. As a result, during six months period ended 30 June 2014, the Group recognized net forex loss at the amount 7,853,948 thousand tenge.

17. INCOME TAX

Income tax for the six months ended 30 June 2014 comprised the following:

In thousands of tenge	**30 June 2014 (unaudited)**	30 June 2013
Current income tax expense	**2,594,155**	3,593,263
Adjustments in respect of current income tax of previous years	**859,007**	–
Deferred income tax expense	**309,153**	262,872
	3,762,315	3,856,135

18. NON-CASH TRANSACTIONS

These transactions have been excluded from the interim condensed consolidated statement of cash flows:

During the six months ended 30 June 2014, under finance lease agreements, the Group received telecommunication equipment with a value of 263,281 thousand tenge (during the six months ended 30 June 2013: 526,993 thousand tenge).

During the six months ended 30 June 2014, under loan agreements, the Group received telecommunication equipment with a value of 670,506 thousand tenge (during the six months ended 30 June 2013: nill).

During the six months ended 30 June 2014, 9,861,516 thousand tenge was paid for property and equipment purchased in the 2013 year (during the six months ended 30 June 2013: 8,348,666 thousand tenge). Property and equipment of 4,338,391 thousand tenge was purchased during the six months ended 30 June 2014 but not paid by 30 June 2014 (during the six months ended 30 June 2013: 4,585,746 thousand tenge).

During the six months ended 30 June 2014, 1,528,938 thousand tenge was paid for intangible assets purchased in the 2013 year (during the six months ended 30 June 2013: 491,116 thousand tenge). Intangible assets of 697 thousand tenge were purchased during the six months ended 30 June 2014 but not paid by 30 June 2014 (during the six months ended 30 June 2013: 163,642 thousand tenge).

NOTES TO THE INTERIM CONDENSED CONDSOLIDATED FINANCIAL STATEMENTS (continued)

19. RELATED PARTY DISCLOSURES

The category "parent-controlled entities" comprises entities controlled by the Parent, except for banks controlled by the Parent. Transactions with (purchases from) parent-controlled entities are mainly represented by transactions of the Group with NC Kazakhstan Temir Zholy JSC, NC KazMunayGaz JSC, KEGOC JSC, Kazpost JSC. The Group provides telecommunication services to Parent and parent-controlled entities.

Alliance Bank JSC is a related party since it is controlled by Parent.

As at 30 June 2014, BTA Bank JSC and Temirbank JSC become not related parties since they were sold by the Parent during six months ended 30 June 2014.

Related party transactions were made on terms agreed to between the parties. Purchases and sales transactions are made on market terms. Outstanding balances at the year-end are unsecured, short-term and settlement occurs in cash, except as discussed below.

As at 30 June 2014 and 31 December 2013 the Group has not recorded impairment of trade accounts receivables relating to amounts owed by related parties.

Sales and purchases with related parties during the periods of six months ended 30 June 2014 and 30 June 2013 and the balances with related parties at 30 June 2014 and 31 December 2013 were as follows:

	Six months ended June 30	
In thousands of tenge	**2014 (unaudited)**	2013
Sales of goods and services		
Parent	**45,953**	116,920
Parent-controlled entities	**2,247,180**	1,902,908
Government bodies	**13,777,823**	7,399,218
Purchases of goods and services		
Parent	**477**	–
Parent-controlled entities	**1,565,229**	2,555,606
Government bodies	**3,001,602**	11,072
Interest earned on financial assets		
BTA Bank	**896**	17,082
Average interest rate on deposits	**2.35%**	2.34%
Alliance Bank	**–**	60,015
Average interest rate on deposits	**–**	4.10%
Interest incurred on borrowings		
Development Bank of Kazakhstan	**767,127**	2,173,911
Average interest rate on borrowings	**9.33%**	9.61%

In thousands of tenge	**30 June 2014 (unaudited)**	31 December 2013
Cash and cash equivalents		
Alliance Bank	**68,123**	759,639
BTA Bank	**–**	330,513
Development Bank of Kazakhstan	**4,038**	24,583
Temirbank	**–**	73
Borrowings		
Development Bank of Kazakhstan	**19,270,140**	16,242,112
Trade and other receivables		
Parent	**29,601**	87,086
Parent-controlled entities	**603,993**	1,211,106
Government bodies	**8,478,241**	2,005,348
Accounts payable		
Parent	**–**	14,505,462
Parent-controlled entities	**167,979**	256,026
State entities	**312,343**	354,949
Other long term assets		
Long term loans given to key personnel	**44,019**	44,137

NOTES TO THE INTERIM CONDENSED CONDSOLIDATED FINANCIAL STATEMENTS (continued)

19. RELATED PARTY DISCLOSURES (continued)

The Government of the Republic of Kazakhstan provides certain subsidies to the Group for provision of universal services in rural areas in the amount of 3,131,766 thousand tenge for the six months ended 30 June 2014, (for the six months ended 30 June 2013: 2,511,076 thousand tenge).

As discussed in *Note 12,* some of the Group's borrowings were guaranteed by the Government of the Republic of Kazakhstan in the amount of 1,799,768 thousand tenge (31 December 2013: 1,512,557 thousand tenge).

20. FINANCIAL INSTRUMENTS

Fair values

As at 30 June 2014 and 31 December 2013, the carrying values of the Group's monetary assets and liabilities approximated their estimated fair values.

The carrying amount of cash and cash equivalents, trade accounts receivable, trade accounts payable and other current monetary assets and liabilities approximates their fair value due to the short-term maturity of these financial instruments. Interest-bearing loans and borrowings are stated at amortized costs which approximate their fair values.

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

21. COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of telecommunication equipment. As at 30 June 2014 the Group had contractual commitments totaling 41,957,807 thousand tenge (31 December 2013: 42,361,938 thousand tenge) related mostly to the purchase of telecommunication equipment and construction of telecommunication network.

License commitments

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

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. In addition, management believes that international agreements, under which the Group works with non-residents residing in International Telecommunication Union, and which provide for certain tax exemptions, have a priority over national tax legislation. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 30 June 2014. As at 30 June 2014, 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.

22. CALCULATION OF BOOK VALUE PER COMMON SHARE

1. Book value per common share is calculated by the following formula:

BVCS = NAV / NOCS, where

BVCS – book value per common share as of the date of calculation, in Tenge;

As at 30 June, 2014:

BVCS = (242,691,012 / 10,715,908) x 1,000 = 22,648

As at 31 December, 2013:

BVCS = (238,938,162 / 10,718,921) x 1,000 = 22,291

NAV – net asset value for common shares as of the date of calculation, in thousands of Tenge;

As at 30 June, 2014 – 242,691,012

As at 31 December, 2013– 238,938,162

NOCS – number of outstanding common shares as of the date of calculation;

As at 30 June, 2014 – 10,715,908

As at 31 December, 2013– 10,718,921

2. Net asset value for common shares is calculated by the following formula:

NAV = (TA – IA) – TL – PS, where

As at 30 June, 2014:

NAV = (391,289,424 – 25,021,302) – 123,249,933 – 327,177= 242,691,012 in thousands of Tenge

As at 31 December, 2013:

NAV = (416,135,278 – 26,237,752) – 150,631,943 – 327,421= 238,938,162 in thousands of Tenge

TA – total assets in the statement of issuer's financial position as of the date of calculation, in thousands of Tenge;

As at 30 June, 2014 – 391,289,424

As at 31 December, 2013 – 416,135,278

IA – intangible assets in the statement of issuer's financial position as of the date of calculation, in thousands of Tenge;

As at 30 June, 2014 – 25,021,302

As at 31 December, 2013 – 26,237,752

TL – total liabilities in the statement of issuer's financial position as of the date of calculation, in thousands of Tenge;

As at 30 June, 2014 – (41,719,163 + 81,530,770) = 123,249,933

As at 31 December, 2013 – (80,672,909 + 69,959,034) = 150,631,943

22. CALCULATION OF BOOK VALUE PER COMMON SHARE (continued)

PS – preferred stock, i.e. balance of the account "authorized capital stock, preferred shares" in the statement of issuer's financial position as of the date of calculation, in thousands of Tenge;

As at 30 June, 2014 – 327,177

As at 31 December, 2013 – 327,421

3.Book value per preferred share of the first group is calculated by the following formula:

BVPS1 = (EPC + DCPS1) / NOPS1, where

BVPS1 – book value per preferred share of the first group as of the date of calculation, in Tenge;

As at 30 June, 2014:

BVPS1 = ((2,000,425 + 892,301) / 327,177) x1,000 = 8,841

As at 31 December, 2013:

BVPS1 = ((2,668,654 + 892,966) / 327,421) x1,000 = 10,878

NOPS1 – number of outstanding preferred shares of the first group as of the date of calculation;

As at 30 June, 2014 – 327,177

As at 31 December, 2013 – 327,421

EPC – equity with prior claims, i.e. equity owned by the holders of preferred stock of the first group as of the date of calculation, in thousands of Tenge;

As at 30 June, 2014 – 2,000,425

As at 31 December, 2013 – 2,668,654

DCPS1 – debt component of preferred shares of the first group included in liabilities, in thousands of Tenge;

As at 30 June, 2014 – 892,301

As at 31 December, 2013 – 892,966

4. Equity owned by the holders of preferred stock of the first group (equity with prior claims) is calculated by the following formula:

EPC = TDPS1 + PS, where:

As at 30 June, 2014:

EPC = 1,673,248 + 327,177 = 2,000,425 thousands of Tenge

As at 31 December, 2013:

EPC = 2,341,233 + 327,421 = 2,668,654 thousands of Tenge

TDPS1 – total dividends, i.e. the sum of accrued but not paid dividends on preferred shares of the first group (balance of the account "accounts payable to shareholders (dividends)") as of the date of calculation. Dividends on preferred shares of the first group not paid due to unavailability of actual information and details about such shareholders are not included, in thousands of Tenge;

As at 30 June, 2014 – 1,673,248

As at 31 December, 2013 – 2,341,233