NOTES TO THE INTERIM CONDENSED CONDSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Kazakhtelecom JSC (the "Company" or "Kazakhtelecom") was established in 1994 by the decree of the Cabinet of Ministers of the Republic of Kazakhstan.

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

The Company is controlled by the Government of the Republic of Kazakhstan through National Welfare Fund "Samruk-Kazyna" ("Samruk-Kazyna" or the "Parent"), which owned 51% of the Company's controlling stock as of 30 September 2012 and 31 December 2011. The following lists the shareholders of the Company's stock:

	30 September 2012 (unaudited)	31 December 2011
Samruk-Kazyna	**51,0%**	51.0%
Bodam B. V.	**16,9%**	16.9%
ADRs (The Bank of New York is a depositor)	**11,4%**	12.7%
Deran Services Limited	**9,6%**	9.6%
Kazkommertsbank	**3,1%**	3.1%
Other	**8,0%**	6.7%
	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 4* (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 interim condensed consolidated financial statements present, on a consolidated basis, the financial performance for the nine months ended September 30, 2012 and financial position as at that date for the Group.

2. BASIS FOR PREPARATION

Basis of preparation

The interim condensed consolidated financial statements for the nine months ended 30 September 2012 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 consolidated financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

Foreign currency translation

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:

	30 September 2012	31 December 2011
US Dollar	**149,86**	148.40
Euro	**194,02**	191.72
South Korean Won	**0,13**	0.13

NOTES TO THE INTERIM CONDENSED CONDSOLIDATED FINANCIAL STATEMENTS (continued)

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 financial statements for the year ended 31 December 2011, except for the adoption of new standards and interpretations as of 1 January 2012, noted below:

Amendment IAS 12 "Income Taxes - deferred tax: Recovery of Underlying Assets"

This amendment to IAS 12 includes a rebuttable presumption that the carrying amount of investment property measured using the fair value model in IAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, IAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. Effective implementation date is for annual periods beginning on or after 1 January 2012.

The Group has neither investment properties at fair value nor assets under IAS 16 valued under the revaluation model. Therefore amendment had no impact on the financial statements of the Group.

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

Amendment IFRS 7 "Financial Instruments – Disclosures" - Transfers of financial assets

The IASB issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. Effective implementation date is for annual periods beginning on or after 1 July 2011 with no comparative requirements. The Group is in process of assessing the impact of the amendment.

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

4. CONSOLIDATION

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

		Percentage ownership	
	Country of residence	**30 September 2012 (unaudited)**	**31 December 2011**
Altel JSC	Kazakhstan	**100.00%**	100.00%
Nursat JSC	Kazakhstan	**77.08%**	77.08%
VostokTelecom LLP	Kazakhstan	**100.00%**	100.00%
Radiotell LLP	Kazakhstan	**100.00%**	100.00%
Signum LLC	Russia	**100.00%**	100.00%
KT Cloud Lab LLP	Kazakhstan	**100.00%**	100.00%
Association of internet –traffic exchange center	Kazakhstan	**100.00%**	100.00%
Online.kg LLC	Kyrgyzstan	**100.00%**	100.00%

NOTES TO THE INTERIM CONDENSED CONDSOLIDATED FINANCIAL STATEMENTS (continued)

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:

- Provision of wireline telecommunication services as represented by Kazakhtelecom JSC business unit.
- Provision of mobile telecommunication services in CDMA standard as represented by Altel JSC business unit.
- Provision of wireless telecommunication services, including data transfer services as represented 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 an arm's length basis in a manner similar to transactions with third parties.

The following tables present revenue and profit information regarding the Group's operating segments for the nine months ended 30 September 2012 and 2011, respectively:

For the nine months ended 30 September 2012 (unaudited)

In thousands of tenge	Wireline telecommu-nications	CDMA mobile services	Wireless telecommu-nications	Other	Eliminations and adjustments	Group
Revenue						
External customers	120,892,791	7,908,665	1,064,508	23,794	–	129,889,758
Inter-segment	1,226,774	1,325,209	611,857	2,164,936	(5,328,776) [1]	–
Total revenue	**122,119,565**	**9,233,874**	**1,676,365**	**2,188,730**	**(5,328,776)**	**129,889,758**
Results						
Depreciation and amortization	(24,933,575)	(1,449,711)	(497,154)	(633,346)	–	(27,513,786)
Finance costs	(7,494,809)	(99,272)	(86,005)	(81,041)	3,198 [2]	(7,757,929)
Finance income	2,666,515	5,427	–	989	–	2,672,931
Income tax	(3,229,215)	(464,082)	31,918	6,274	–	(3,655,105)
Segment profit	**18,024,101**	**193,260**	**(383,740)**	**(109,483)**	**–**	**17,724,138**

For the nine months ended 30 September 2011 (unaudited)

In thousands of tenge	Wireline telecommu-nications	CDMA mobile services	Wireless telecommu-nications	Other	Eliminations and adjustments	Group
Revenue						
External customers	115,656,553	9,129,326	1,148,509	3,765	–	125,938,153
Inter-segment	1,490,618	1,336,426	1,087,045	2,579,592	(6,493,681) [1]	–
Total revenue	**117,147,171**	**10,465,752**	**2,235,554**	**2,583,357**	**(6,493,681)**	**125,938,153**
Results						
Depreciation and impairment	(30,066,580)	(1,170,878)	(477,650)	(540,914)	–	(32,256,022)
Finance costs	(6,049,413)	(29,982)	(83,963)	(38,212)	(59,818) [2]	(6,261,388)
Finance income	2,474,424	10,830	68	87	(10,634) [2]	2,474,775
Income tax	(3,221,150)	(387,085)	(31,616)	(11,058)	–	(3,650,909)
Segment profit	**16,512,434**	**1,687,212**	**53,119**	**67,361**	**(70,452)** [3]	**18,249,674**

NOTES TO THE INTERIM CONDENSED CONDSOLIDATED FINANCIAL STATEMENTS (continued)

5. SEGMENTS INFORMATION (continued)

1) Inter-segment revenues are eliminated on consolidation.

2) Finance costs and income does not include inter-segment finance charges.

3) Segment operating profit does include profit from inter-segment sales.

The following table presents segment assets of the Group's operating segments as at 30 September 2012 and 31 December 2011:

In thousands of tenge	Wireline telecommu-nications	CDMA mobile services	Wireless telecommu-nications	Other	Eliminations and adjustments	Group
Segment assets						
As at 30 September 2012 (unaudited)	**397,986,161**	**19,029,024**	**4,653,717**	**8,423,596**	**(28,737,160)**	**401,355,338**
As at 31 December 2011	361,402,556	17,372,787	4,822,950	6,088,551	32,009,360	421,696,204

Reconciliation of profit:

In thousands of tenge	**30 September 2012 (unaudited)**	30 September 2011 (unaudited)
Segment profit	**17,724,138**	18,320,126
Other	**–**	(70,452)
Group profit	**17,724,138**	18,249,674

Reconciliation of assets:

In thousands of tenge	**30 September 2012 (unaudited)**	31 December 2011
Segment operating assets	**430,092,498**	389,686,844
GSM Mobile Services –discontinued operations (*Note 16*)	**–**	58,389,446
Elimination of the Company's investments in subsidiaries	**(23,996,620)**	(23,915,296)
Elimination of intergroup balances of accounts receivable and payable	**(4,740,540)**	(2,464,790)
Group operating assets	**401,355,338**	421,696,204

6. PROPERTY AND EQUIPMENT

During the nine months ended 30 September 2012, the Group acquired property and equipment for 31,647,761 thousand tenge (2011: 15,887,517 thousand tenge).

The Group's main construction projects are modernization and construction of existing and new digital and wireline networks and fiber optic communication line. As of 30 September 2012, the carrying value of construction in progress was 37,770,239 thousand tenge (31 December 2011: 27,106,646 thousand tenge).

During the nine months ended 30 September 2012, the Group sold property and equipment with a net carrying value of 474,661 thousand tenge (2011: 453,396 thousand tenge) at net loss of 220,277 thousand tenge (2011: 163,491 thousand tenge).

During the nine months ended 30 September 2012, The Group recognized depreciation expense amounting to 25,597,773 thousand tenge (2011: 30,147,159 thousand tenge).

At 30 September 2012, certain items of property and equipment with a net carrying amount of 8,553,389 thousand tenge (31 December 2011: 8,611,210 thousand tenge) were pledged as security for some of the Group's borrowings (*Note 11*).

NOTES TO THE INTERIM CONDENSED CONDSOLIDATED FINANCIAL STATEMENTS (continued)

6. PROPERTY AND EQUIPMENT (continued)

At 30 September 2012, the carrying value of equipment held under finance leases and included in property and equipment amounted to 18,358,686 thousand tenge (31 December 2011: 22,244,663 thousand tenge). Additions during the nine months ended 30 September 2012 include 639,023 thousand tenge (2011: 783,109 thousand tenge) of property and equipment held under finance leases. Leased assets are pledged as security for the related finance leases.

As at 30 September 2012 property and equipment, amounting to 102,749,088 thousand tenge, were fully amortized (2011: 58,951,625 thousand tenge).

7. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable comprised the following at 30 September 2012 and 31 December 2011:

In thousands of tenge	**30 September 2012 (unaudited)**	31 December 2011
Trade receivables	**22,339,814**	18,586,034
Less: Allowance for doubtful debts	**(2,656,252)**	(2,567,505)
	19,683,562	16,018,529

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

In thousands of tenge	**30 September 2012 (unaudited)**	30 September 2011 (unaudited)
Allowance for doubtful debts at 1 January	**(2,567,505)**	(3,326,801)
Charge for the period	**(282,306)**	144,219
Write-offs	**193,559**	254,678
Allowance for doubtful debts at 30 September	**(2,656,252)**	(2,927,904)

8. OTHER FINANCIAL ASSETS

Other financial assets comprised the following at 30 September 2012 and 31 December 2011:

In thousands of tenge	**30 September 2012 (unaudited)**	31 December 2011
Dividends receivable	**8,680,784**	–
Interest receivable	**291,700**	535,686
	8,972,484	535,686

Dividends receivable represent the declared dividends from an associate *(Note 16)*.

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following at 30 September 2012 and 31 December 2011:

In thousands of tenge	**30 September 2012 (unaudited)**	31 December 2011
Cash in current bank accounts	**74,251,449**	68,136,616
Deposits with maturity of less than 90 days	**26,885,890**	19,534,679
Cash on hand	**49,296**	44,392
	101,186,635	87,715,687

NOTES TO THE INTERIM CONDENSED CONDSOLIDATED FINANCIAL STATEMENTS (continued)

9. CASH AND CASH EQUIVALENTS (continued)

At 30 September 2012 and 31 December 2011 cash and cash equivalents were denominated in various currencies as follows:

In thousands of tenge	**30 September 2012 (unaudited)**	31 December 2011
US Dollars	**59,552,028**	16,547,360
Tenge	**41,103,322**	71,061,978
Russian Rubles	**510,315**	39,086
Euro	**17,432**	65,756
Other	**3,538**	1,507
	101,186,635	87,715,687

10. EQUITY

Authorised share capital (number of shares)

	30 September 2012 (unaudited)	31 December 2011
Ordinary shares	**10,922,876**	10,922,876
Preferred non-voting shares	**1,213,653**	1,213,653
	12,136,529	12,136,529

Issued and paid shares

	Number of shares		Thousands of Tenge		
	Ordinary shares	Preferred non-voting shares	Ordinary shares	Preferred non-voting shares	**Total issued capital**
As at January 1, 2011	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
As at December 31, 2011	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
As at September 30, 2012 (unaudited)	**10,922,876**	**1,213,653**	**10,922,876**	**1,213,653**	**12,136,529**

Treasury shares

	Number of shares		Thousands of Tenge	
	Ordinary shares	Preferred non-voting shares	Ordinary shares	Preferred non-voting shares
As at January 1, 2011	–	810,459	–	(2,652,860)
As at December 31, 2011	–	810,459	–	(2,652,860)
As at September 30, 2012 (unaudited)	**–**	**810,459**	**–**	**(2,652,860)**

Preferred shares

Preferred stockholders are entitled to priority rights for participation in dividends and in any case are entitled, at the discretion of the Company's shareholders, to an annual cumulative dividend of 300 Tenge per share, but not less than per share dividends paid to the holders of common stock. This cumulative annual dividend represents a financial liability which, based on discounted future cash flows, amounts to 926,029 thousand Tenge. This liability has been recorded in non-current liabilities as a debt component of preferred stock. Preferred shareholders receive the right to vote if the general meeting of shareholders considers decisions restricting rights of preferred shareholders, decisions on reorganization or liquidation of the Company and if dividends on preferred shares are not paid within three months after a specified payment date.

NOTES TO THE INTERIM CONDENSED CONDSOLIDATED FINANCIAL STATEMENTS (continued)

10. EQUITY (continued)

Dividends

The preferred shares pay a non-discretionary dividend of 300 Tenge per share in accordance with the Company's charter documents and are considered to be compound financial instruments, and accordingly the liability and equity components are presented separately in the consolidated statement of financial position. Prescribed dividends in the amount of 90,719 thousand Tenge were accrued in September 30, 2012 and September 30, 2011. This dividend represents the interest with the effective rate of 11% on the debt component and is expensed in the income statement. Present value of non-discounted future cash flows represents the liability component in liabilities.

According to the decision of the General Shareholders Meeting held on 8 May 2012, the Company declared additional dividends on preferred shares in the amount of 7,776,834 thousand tenge and dividends on ordinary shares in the amount of 217,234,922 thousand tenge (2011: 92,223 thousand tenge and 5,775,252 thousand tenge, respectively). Dividends per share (ordinary and preferred): 19,888 tenge (2011: 529 tenge).

In thousands of tenge	**30 September 2012 (unaudited)**	30 September 2011 (unaudited)
Dividends declared on ordinary shares	**217,234,922**	5,775,252
Dividends declared on preferred shares	**7,776,834**	92,223
	225,011,756	5,867,475
Withholding tax accrued	**(1,814,778)**	(110,440)
Dividends paid	**(221,852,704)**	(5,730,359)
Change in dividends payable	**1,434,993**	117,395

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 *Note2*.

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 INTERIM CONDENSED CONDSOLIDATED FINANCIAL STATEMENTS (continued)

10. EQUITY (continued)

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 September 30, 2012:

BVCS = (262,229,015 / 10,922,876) x 1,000 = 24,007

As at December 31, 2011:

BVCS = (270,780,808 / 10,922,876) x 1,000 = 24,790

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

As at September 30, 2012 – 262,229,015
As at December 31, 2011– 270,780,808

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

As at September 30, 2012 – 10,922,876
As at December 31, 2011– 10,922,876

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

NAV = (TA – IA) – TL – PS, where

As at September 30, 2012:

NAV = (401,355,338 – 10,526,072) – 127,386,598 – 1,213,653= 262,229,015 in thousands of Tenge

As at December 31, 2011:

NAV = (421,696,204 – 10,907,805) – 138,793,938 – 1,213,653= 270,780,808 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 September 30, 2012 – 401,355,338
As at December 31, 2011 – 421,696,204

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

As at September 30, 2012 – 10,526,072
As at December 31, 2011 – 10,907,805

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

As at September 30, 2012 – (36,321,749 + 91,064,849) = 127,386,598
As at December 31, 2011 – (48,305,464 + 90,488,474) = 138,793,938

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;

10. EQUITY (continued)

As at September 30, 2012 – 1,213,653
As at December 31, 2011 – 1,213,653

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 September 30, 2012:

BVPS1 = ((3,052,197 + 926,029) / 1,213,653) x1,000 = 3,278

As at December 31, 2011:

BVPS1 = ((1,629,077 + 1,099,620) / 1,213,653) x1,000 = 2,248

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

As at September 30, 2012 – 1,213,653
As at December 31, 2011 – 1,213,653

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 September 30, 2012 – 3,052,197
As at December 31, 2011 – 1,629,077

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

As at September 30, 2012 – 926,029
As at December 31, 2011 – 1,099,620

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 September 30, 2012:

EPC = 1,838,544 + 1,213,653 = 3,052,197 thousands of Tenge

As at December 31, 2011:

EPC = 415,424 + 1,213,653 = 1,629,077 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 September 30, 2012 – 1,838,544
As at December 31, 2011 – 415,424

NOTES TO THE INTERIM CONDENSED CONDSOLIDATED FINANCIAL STATEMENTS (continued)

11. BORROWINGS

Borrowings comprised the following at 30 September 2012 and 31 December 2011:

In thousands of tenge	30 September 2012 (unaudited)	31 December 2011
Fixed interest rate borrowings	**13,454,089**	15,884,874
Variable interest rate borrowings	**60,658,651**	58,334,633

Borrowings are repayable as follows:

In thousands of tenge	30 September 2012 (unaudited)	31 December 2011
Current portion	**9,509,314**	14,539,739
Maturity between 1 and 2 years	**7,847,448**	12,051,018
Maturity between 2 and 5 years	**10,638,813**	27,427,478
Maturity over 5 years	**46,117,165**	20,201,272
Total long-term portion	**64,603,426**	59,679,768

As at 30 September 2012 certain items of property and equipment with a net carrying amount of 8,553,389 thousand tenge were pledged as security for some of the Group's borrowings (31 December 2011: 8,611,210 thousand tenge) (*Note 6*).

As at 30 September 2012 long-term guarantee deposits in the amount of 806,658 thousand tenge (31 December 2011: 803,096 thousand tenge) were placed in banks as a security for some of the Group's borrowings.

Government of the Republic of Kazakhstan guaranteed some of the Group's borrowings of 1,510,893 thousand tenge and 1,562,259 thousand tenge as at 30 September 2012 and 31 December 2011, respectively (*Note 18*).

12. OTHER NON-CURRENT AND CURRENT LIABILITIES

Other liabilities comprised the following at 30 September 2012 and 31 December 2011:

Non-current liabilities

In thousands of tenge	30 September 2012 (unaudited)	31 December 2011
Deferred connection revenue	**3,523,273**	4,147,152
Asset retirement obligations	**237,112**	217,542
Guarantees issued	**-**	112,754
Other	**77,415**	121,451
	3,837,800	4,598,899

Current liabilities

In thousands of tenge	30 September 2012 (unaudited)	31 December 2011
Taxes payable other than income tax	**903,252**	1,869,985
Dividends payable	**1,904,816**	469,823
Due to employees	**1,504,795**	1,973,489
Deferred connection revenue	**1,760,760**	1,796,010
Payable to pension funds	**342,643**	610,177
Guarantees issued	**158,738**	281,105
Other	**707,818**	630,924
	7,282,822	7,631,513

Taxes payable other than income tax include unpaid value-added tax for the amount of 280,795 thousand tenge as of 30 September 2012 (31 December 2011: 803,729 thousand tenge).

NOTES TO THE INTERIM CONDENSED CONDSOLIDATED FINANCIAL STATEMENTS (continued)

13. REVENUE

Revenue for the nine months ended 30 September comprised the following:

In thousands of tenge	**30 September 2012 (unaudited)**	30 September 2011 (unaudited)
Rendering of wireline and wireless phone services	**53,196,110**	55,846,838
Data transfer services	**49,295,671**	43,207,153
Interconnect	**12,109,338**	10,425,734
Rent of lines	**7,169,044**	8,175,361
Other	**4,138,127**	4,141,033
	125,908,290	121,796,119

14. COST OF REVENUE

Cost of revenue for the nine months ended 30 September comprised the following:

In thousands of tenge	**30 September 2012 (unaudited)**	30 September 2011 (unaudited)
Personnel costs	**30,046,668**	27,955,509
Depreciation, amortization and impairment	**27,152,520**	31,593,323
Interconnect	**9,393,031**	9,266,668
Repair and maintenance	**10,554,591**	9,030,793
Rent of channels	**4,664,276**	3,512,521
Security and safety	**1,370,168**	1,274,821
Fees for the right to provide telecom services	**1,293,367**	1,492,377
Rental of equipment	**1,249,736**	1,074,835
Fees for use of frequency range	**601,903**	496,058
Other	**3,620,618**	4,020,067
	89,946,878	89,716,972

15. INCOME TAX

Income tax for the nine months ended 30 September comprised the following:

In thousands of tenge	**30 September 2012 (unaudited)**	30 September 2011 (unaudited)
Current income tax expense	**4,034,822**	5,538,722
Deferred income tax benefit	**(379,717)**	(1,887,813)
	3,655,105	3,650,909

16. DISCONTINUED OPERATION

As at 31 December 2011 the Group had a 49% interest 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.

On 21 December 2011, Kazakhtelecom concluded an agreement to sell its 49% ownership in GSM Kazakhstan to Sonera Holdings B.V., a subsidiary of Swedish mobile operator Telia Sonera AB.

NOTES TO THE INTERIM CONDENSED CONDSOLIDATED FINANCIAL STATEMENTS (continued)

16. DISCONTINUED OPERATION (continued)

On 1 February 2012, the Group completed the sale of 49% ownership in GSM Kazakhstan for the consideration of 1,519 million of US Dollars (equivalent to 225,738,590 thousand tenge). As a result, the gain from disposal comprised of 200,033,665 thousand tenge. The cash flows generated by the sale of the discontinued operation during 2012 have been considered in the cash flow statement as part of the investing activities.

The movements in the investment in an associate balance were as follows:

In thousands of tenge	**30 September 2012 (unaudited)**	30 September 2011 (unaudited)
As at 1 January	**58,389,446**	53,785,831
Share of profit of an associate	**1,962,663**	25,319,902
Dividends declared	**(34,723,134)**	(13,720,000)
Disposal of an investment	**(25,628,975)**	–
As at 30 September	**–**	65,385,733

The movement in dividends receivable from an associate balance were as follows:

In thousands of tenge	**30 September 2012 (unaudited)**	30 September 2011 (unaudited)
As at 1 January	**–**	–
Dividends declared	**34,723,134**	13,720,000
Cash received	**(26,042,350)**	(10,290,000)
As at 30 September	**8,680,784**	3,430,000

Discontinued operation comprised of the following during nine months ended 30 September:

In thousands of tenge	**30 September 2012 (unaudited)**	30 September 2011 (unaudited)
Share of profit of an associate	**1,962,663**	25,319,902
Profit before tax from a discontinued operation	**1,962,663**	25,319,902
Gain on disposal	**200,033,665**	–
Income tax expense	**–**	–
Profit after tax for the period from a discontinued operation	**201,996,328**	25,319,902

Gain on disposal of the investment comprised the following:

In thousands of tenge	**30 September 2012 (unaudited)**
Consideration received from Sonera Holdings B.V.	**225,738,590**
Net assets associated with disposal group as of the date of disposal	**(25,628,975)**
Forex gain	**(75,950)**
Gain on disposal	**200,033,665**

17. NON-CASH TRANSACTIONS

During the nine months ended 30 September 2012, under finance lease agreements the Group received telecommunication equipment with a value of 639,023 thousand tenge (2011: 783,109 thousand tenge). This transaction has been excluded from the interim consolidated statement of cash flows.

During the nine months ended 30 September 2012, 6,123,085 and 476,755 thousand tenge was paid for property and equipment and intangible assets, respectively purchased on credit in 2011. Property and equipment and intangible assets of 5,979,178 and 855,323 thousand tenge, respectively was purchased on credit during the nine months ended 30 September 2012.

During the nine months ended 30 September 2012, property and equipment for the amount of 86,719 thousand tenge were transferred to inventories.

NOTES TO THE INTERIM CONDENSED CONDSOLIDATED FINANCIAL STATEMENTS (continued)

17. NON-CASH TRANSACTIONS (continued)

In 2012, the Group obtained a loan in the amount of 4,900,021 thousand Tenge from the Bank of China to finance purchases of telecommunication equipment. According to the loan agreement, the bank transferred money directly to the supplier of equipment.

18. RELATED PARTY DISCLOSURES

Parent-controlled entities comprise entities controlled by the Parent. BTA Bank JSC, Temirbank JSC and Alliance Bank JSC are related parties since they are controlled by Parent. Associate (discontinued operation) is represented by GSM Kazakhstan, a private entity not listed on any public exchange, in which the Group has a 49% interest (Note 16).

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 30 September 2012 are unsecured, short-term and settlement occurs in cash, except as discussed below.

As at 30 September 2012 the Group has recorded impairment of trade accounts receivables relating to amounts owed by related parties for the total amount of 101,427 thousand tenge (31 December 2011:1,373 thousand tenge).

Sales and purchases with related parties during the periods of nine months ended 30 September 2012 and 30 September 2011 and the balances with related parties at 30 September 2012 and 31 December 2011 were as follows:

	Nine months ended September 30	
In thousands of tenge	**2012 (unaudited)**	2011 (unaudited)
Sales of goods and services		
Parent	**71,670**	239,241
Parent-controlled entities	**3,022,998**	2,921,981
Associate	**483,657**	5,211,672
Purchases of goods and services		
Parent-controlled entities	**2,119,254**	1,240,886
Associate	**233,421**	2,595,840
Interest earned on financial assets		
BTA Bank	**26,753**	16,059
Average interest rate on deposits	**2.74%**	2.31%
Alliance Bank	**108,662**	29,146
Average interest rate on deposits	**4.57%**	1.84%
Interest incurred on borrowings		
Development Bank of Kazakhstan	**3,164,919**	3,138,247
Average interest rate on borrowings	**9.65%**	9.59%

NOTES TO THE INTERIM CONDENSED CONDSOLIDATED FINANCIAL STATEMENTS (continued)

18. RELATED PARTY DISCLOSURES (continued)

In thousands of tenge	30 September 2012 (unaudited)	31 December 2011
Cash and cash equivalents		
BTA Bank	**582,996**	1,446,095
Alliance Bank	**850,411**	4,042,647
Temirbank	**88**	96
Development Bank of Kazakhstan	**8,023**	12,690
Borrowings		
Development Bank of Kazakhstan	**45,879,972**	46,591,485
Trade and other receivables		
Parent	**71,989**	370,972
Parent-controlled entities	**606,476**	559,728
Associate	**–**	635,759
Accounts payable		
Parent-controlled entities	**89,454**	72,197
Associate	**–**	2,513,021

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 3,981,468 thousand tenge for the nine months ended 30 September 2012, (for the nine months ended 30 September 2011: 4,142,034 thousand tenge).

As discussed in *Note 11*, some of the Group's borrowings were guaranteed by the Government of the Republic of Kazakhstan.

19. 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 September 2012 the Group had contractual commitments totaling 19,738,145 thousand tenge (31 December 2011: 9,074,781 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 September 2012. As at 30 September 2012, 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.