

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**For three months period ended 31 March, 2015****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: 12 Sauran street, Astana, 010000, Republic of Kazakhstan.

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

	31 March 2015 (unaudited)	31 December 2014
Samruk-Kazyna	51.0%	51.0%
Bodam B. V.	16.9%	16.9%
ADR (The Bank of New York is a depositor)	9.8%	9.8%
Deran Services Limited	7.6%	7.6%
State Fund on Pension Assets JSC	3.2%	3.2%
Kazkommertsbank JSC	3.1%	3.1%
Deran Investments B.V.	2.0%	2.0%
Other	6.4%	6.4%
	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.

2. BASIS FOR PREPARATION

The interim condensed consolidated financial statements for the three months ended 31 March 2015 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 2014.

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:

	31 March 2015	31 March 2014	31 December 2014
US dollar	185.65	182.04	182.35
Euro	201.63	249.7	221.97
South Korean won	0.17	0.17	0.17
Russian rouble	3.21	5.09	3.17

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS FOR PREPARATION (continued)

Subsidiaries

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

	Country of residence	Percentage ownership	
		31 March 2015	31 December 2014
ALTEL JSC	Kazakhstan	100.00%	100.00%
NURSAT JSC	Kazakhstan	80.00%	80.00%
Kazakhtelecom Industrial Enterprises Services LLP	Kazakhstan	100.00%	100.00%
Signum LLC	Russia	100.00%	100.00%
KT Cloud Lab LLP	Kazakhstan	100.00%	100.00%
VOSTOKTELECOM LLP	Kazakhstan	100.00%	100.00%
Digital TV LLP	Kazakhstan	100.00%	100.00%
MaxCom LLP	Kazakhstan	100.00%	100.00%
Online.kg LLC	Kyrgyzstan	100.00%	100.00%

3. CHANGE IN ACCOUNTING POLICIES

New and amended standards and interpretations

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 2014, except for the amendments to IFRS effective as at 1 January 2015.

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

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition;
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)**

3. CHANGE IN ACCOUNTING POLICIES (continued)**New and amended standards and interpretations (continued)***Annual improvements 2010-2012 Cycle (continued)**IFRS 8 Operating Segments*

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's interim condensed consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)**

3. CHANGE IN ACCOUNTING POLICIES (continued)**Standards issued but not yet effective (continued)***IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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3. CHANGE IN ACCOUNTING POLICIES (continued)**Standards issued but not yet effective (continued)***Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

Annual improvements 2012-2014 Cycle

These improvements are effective from 1 January 2016 and are not expected to have a material impact on the Group. They include:

IAS 5: Changes in methods of disposal

IAS 7: Servicing Contracts

IAS 7: Applicability of the amendments to IFRS 7 to condensed interim financial statements

IAS 19: Regional market issue

IAS 34: Disclosure of information "elsewhere in the interim financial report"

4. SEGMENT 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, KT Cloud Lab 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 consolidated financial statements.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SEGMENT INFORMATION (continued)

Three months period ended 31 March, 2015 (unaudited)

<i>In thousands of tenge</i>	Wireline telecommu- nications	CDMA and LTE mobile telecommu- nications	Satellite telecommu- nications	Other	Eliminations and adjustments	Group
Revenue						
External customers	46,394,519	6,583,986	49,384	22	–	53,027,911
Inter-segment	1,773,327	814,792	151,420	20,877	(2,760,416)	–
Total revenue	48,167,846	7,398,778	200,804	20,899	(2,760,416)	53,027,911
Results						
Depreciation and amortization	(7,324,169)	(1,540,627)	(134,230)	(4,968)	–	(9,003,994)
Finance costs	(1,843,763)	(517,803)	(17,324)	–	135,063	(2,243,827)
Finance income	1,017,963	34,677	2	169	(373,400)	679,411
Charge of bad debt expense	(511,300)	(6,616)	(23,323)	–	–	(541,239)
Income tax	(1,415,268)	34,367	(784)	(7,589)	–	(1,389,274)
Segment profit/(loss)	13,843,473	(1,011,246)	(255,223)	(2,097)	(242,966)	12,331,941

Three months period ended 31 March, 2014 (unaudited)

<i>In thousands of tenge</i>	Wireline telecommu- nications	CDMA and LTE mobile telecommu- nications	Satellite telecommu- nications	Other	Eliminations and adjustments	Group
Revenue						
External customers	45,154,707	2,345,575	117,293	27,477	–	47,645,052
Inter-segment	781,400	466,598	20,618	30,697	(1,299,313)	–
Total revenue	45,936,107	2,812,173	137,911	58,174	(1,299,313)	47,645,052
Results						
Depreciation and amortization	(7,557,109)	(842,825)	(115,033)	(21,481)	–	(8,536,448)
Finance costs	(1,464,728)	(207,066)	(31,402)	–	129,117	(1,574,079)
Finance income	862,649	14,502	252	–	(236,036)	641,367
Charge of bad debt expense	(169,203)	(2,750)	(9,789)	(5,859)	–	(187,601)
Income tax	(2,577,710)	177,272	85,157	(11,395)	–	(2,326,676)
Segment profit/(loss)	6,342,327	(2,626,978)	(445,621)	(8,764)	(92,003)	3,168,961

The following table presents segment assets and liabilities of the Group's operating segments as at 31 March 2015 and 31 December 2014:

<i>In thousands of tenge</i>	Wireline telecommu- nications	CDMA and LTE telecommu- nications	Satellite telecommu- nications	Other	Eliminations and adjustments	Group
Segment assets						
As at 31 March 2015 (unaudited)	396,610,672	43,942,725	1,196,767	360,400	(35,279,003)	406,831,561
As at 31 December 2014	405,369,192	44,914,087	1,326,495	370,603	(34,286,925)	417,693,452
Segment liabilities						
As at 31 March 2015 (unaudited)	88,451,262	44,126,742	3,367,803	55,764	(10,423,708)	125,577,863
As at 31 December 2014	109,360,330	44,146,598	3,240,752	58,773	(9,422,349)	147,384,104

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SEGMENT INFORMATION (continued)

Reconciliation of assets

<i>In thousands of tenge</i>	31 March 2015 (unaudited)	31 December 2014
Segment operating assets	442,110,564	451,980,377
Elimination of the Company's investments in subsidiaries	(24,413,372)	(24,413,372)
Elimination of intergroup balances of accounts receivable and payable	(10,865,631)	(9,873,553)
Group operating assets	406,831,561	417,693,452

5. PROPERTY AND EQUIPMENT

During the three months ended 31 March 2015, the Group acquired property and equipment for 3,206,880 thousand tenge (2014: 5,638,962 thousand tenge) and disposed of property and equipment with net book value of 151,963 thousand tenge (2014: 193,323 thousand tenge).

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

As at 31 March 2015, the carrying value of construction in progress was 13,004,968 thousand tenge (31 December 2014: 20,443,655 thousand tenge).

During the three months period ended 31 March 2015, The Group recognized depreciation expense amounting to 7,965,646 thousand tenge (2014: 7,839,940 thousand tenge).

At 31 March 2015, certain property and equipment with a net carrying amount of 2,340,457 thousand tenge (At 31 December 2014: 2,480,212 thousand tenge) were pledged as security for some of the Group's borrowings (*Note 12*).

At 31 March 2015, the carrying value of equipment held under finance leases and included in property and equipment amounted to 32,004,112 thousand tenge (at 31 December 2014: 32,800,554 thousand tenge). During the three months period ended 31 March 2015, there were no additions of property and equipment held under finance leases (during the three months period ended 31 March 2014: 263,281 thousand tenge). Leased assets are pledged as security for the related finance leases.

As at 31 March 2015, property and equipment amounting to 126,252,972 thousand tenge, were fully amortized (At 31 December 2014: 125,577,873 thousand tenge).

6. INTANGIBLE ASSETS

During the three months ended 31 March 2015, the Group acquired intangible assets for 30,878 thousand tenge (2014: 131,068 thousand tenge).

During the three months period ended 31 March 2015, The Group recognized depreciation expense amounting to 1,045,534 thousand tenge (2014: 704,034 thousand tenge).

As at 31 March 2015 intangible assets (mainly software) amounting to 6,393,875 thousand tenge were fully amortized (At 31 December 2014: 6,066,237 thousand tenge).

7. 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 2014.

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 31 March 2015, size of the list of IP TV subscribers of the Group was higher than as at 31 December 2014, and growth rate of customers in the subscriber list during three months period ended 31 March 2015 was in line with the Group's expectations. As a result, no goodwill impairment indicators were identified as at 31 March 2015.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable comprised the following at 31 March, 2015 and 31 December, 2014:

<i>In thousands of tenge</i>	31 March 2015 (unaudited)	31 December 2014
Trade accounts receivable	22,735,890	22,276,939
	22,735,890	22,276,939
Less: allowance for doubtful debts	(1,814,099)	(1,512,067)
	20,921,791	20,764,872

The movements in the allowance for doubtful debts were as follows for the three months ended 31 March:

<i>In thousands of tenge</i>	31 March 2015 (unaudited)	31 March 2014 (unaudited)
Allowance for doubtful debts at 1 January	(1,512,067)	(1,885,077)
Charge for the period	(348,169)	(165,128)
Write-offs	46,137	39,587
Allowance for doubtful debts at 31 March	(1,814,099)	(2,010,618)

9. OTHER FINANCIAL ASSETS

Other financial assets comprised the following at 31 March, 2015 and 31 December, 2014:

<i>In thousands of tenge</i>	31 March 2015 (unaudited)	31 December 2014
Bank deposits	6,514,459	16,464,382
Other receivable	2,214,128	2,177,259
Due from employees	1,947,602	2,064,200
Interest receivable	223,931	454,486
Restricted cash on current bank account	193,000	193,160
Other	9,310	9,310
	11,102,430	21,362,797

Bank deposits with maturities over 3 months but less than 12 months were opened in a local bank and were earning interest at the rates ranging from 3% to 4.5% per annum (as at 31 December 2014: from 1.45 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.

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following at 31 March, 2015 and 31 December, 2014:

<i>In thousands of tenge</i>	31 March 2015 (unaudited)	31 December 2014
Cash on current bank accounts	12,592,896	7,349,198
Deposits with maturity less than 90 days from origination date	1,533,825	1,348,888
Cash on hand	26,144	31,211
	14,152,865	8,729,297

Cash on current bank accounts earn interest at the rates ranging from 0.10% to 2.5% per annum (as at 31 December 2014: from 0.09% to 5.76% 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 15.5% per annum (as at 31 December 2014: from 0.01% to 10% per annum).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. CASH AND CASH EQUIVALENTS (continued)

At 31 March, 2015 and 31 December, 2014 cash and cash equivalents were denominated in various currencies as follows:

<i>In thousands of tenge</i>	31 March 2015 (unaudited)	31 December 2014
Tenge	11,854,616	6,676,058
US dollars	2,116,327	1,918,333
Russian rubles	173,068	126,479
Euro	5,626	6,030
Other	3,228	2,397
	14,152,865	8,729,297

11. ASSETS CLASSIFIED AS HELD FOR SALE

Assets held for sale in the amount of 953,416 thousand tenge mostly represented by LTE equipment, attributable to a segment of cellular communications in the CDMA and LTE standards. In 2015, the Group does not use the equipment due to the fact that it plans to compensate carrying amount of the equipment through sale or netting with accounts payable, or by issuing penalties under the contract for purchase of telecommunication equipment, works and services with Huawei-Almaty LLP.

12. BORROWINGS

Borrowings comprised the following 31 March, 2015 and 31 December, 2014:

<i>In thousands of tenge</i>	Weighted average interest rate	31 March 2015 (unaudited)	Weighted average interest rate	31 December 2014
Fixed interest rate borrowings <i>with range between 3% and 8.5% p.a.</i>	6.86%	24,629,147	6.45%	31,049,735
Variable interest rate borrowings <i>with range between 2.88% and 9.34% p.a.</i>	7.91%	24,784,476	6.87%	31,139,240
		49,413,623		62,188,975

Borrowings are repayable as follows:

<i>In thousands of tenge</i>	31 March 2015 (unaudited)	31 December 2014
Current portion	3,800,370	5,762,823
Maturity between 1 and 2 years	5,046,073	7,414,892
Maturity between 2 and 5 years	27,786,719	33,973,070
Maturity over 5 years	12,780,461	15,038,190
Total long-term portion	45,613,253	56,426,152
Total borrowings	49,413,623	62,188,975

As at 31 March 2015, certain property and equipment with a net carrying amount of 2,340,457 thousand tenge were pledged as security for some of the Group's borrowings (as at 31 December 2014: 2,480,212 thousand tenge) (Note 5).

As at 31 March 2015, the Group's borrowings of 1,506,410 thousand tenge were guaranteed by the Government of the Republic of Kazakhstan (as at 31 December 2014: 1,581,164 thousand Tenge) (Note 19).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. OTHER NON-CURRENT AND CURRENT LIABILITIES

Non-current liabilities

Other non-current liabilities comprised the following 31 March, 2015 and 31 December, 2014:

<i>In thousands of tenge</i>	31 March 2015 (unaudited)	31 December 2014
Deferred connection revenue	2,738,498	2,890,794
Asset retirement obligations	1,980,065	1,944,996
Long-term accounts payables	1,046,718	1,020,730
Guarantees issued	621,842	709,303
Other	1,048,400	1,084,432
	7,435,523	7,650,255

Asset retirement obligations

Provision for asset retirement obligations is provided at the present value of expected costs to settle the obligation using estimated cash flows and is recognised as part of the cost of the particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability.

Long term accounts payable

The long-term accounts payable are presented by payables to ZTE Kazakhstan LLP for LTE equipment, installation and construction works. According to the delivery terms of contract, the debt is subject to repayment with equal semi-annual payments within three years. Short-term and long-term parts of the debt amounted to 227,830 and 1,262,729 thousand tenge, respectively. At initial recognition in 2014, these accounts payable were reflected at fair value. The difference between the carrying and fair value in the amount of 319,335 thousand tenge will be considered further as finance expenses, and at the time of recognition were carried on reduction of cost of the received equipment. During the three months period ended 31 March 2015, depreciation of discount on these accounts payable amounted to 41,247 thousand tenge.

Guarantees issued

On 14 November 2009 the Group signed an agreement with Kazakhmys Plc, Parent and China Development Bank ("CDB") where the Group and Kazakhmys provided a 12 to 15 years guarantee to CDB for loans of the Parent. The Group's liability under the guarantee is capped at 300 million US dollars of principal plus 15% of any interest and any other duly payable costs and expenses. For this purpose, the Group and Parent signed an agreement on full compensation of any amounts paid by the Group arising from the guarantee agreement by the Parent.

Current liabilities

Other current liabilities comprised the following 31 March, 2015 and 31 December, 2014:

<i>In thousands of tenge</i>	31 March 2015 (unaudited)	31 December 2014
Due to employees	4,170,409	3,956,719
Taxes payable other than income tax	3,169,734	1,643,273
Dividends payable	1,605,005	1,588,474
Deferred revenue	1,457,550	2,115,340
Payable to pension funds	434,145	740,301
Guarantees issued	80,238	-
Other	826,626	964,825
	11,743,707	11,008,932

At 31 March, 2015 and 31 December, 2014, other current liabilities were not interest bearing and were primarily denominated in tenge.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. REVENUE

Revenue for three months period ended 31 March comprised the following:

<i>In thousands of tenge</i>	31 March 2015 (unaudited)	31 March 2014 (unaudited)
Data transfer services	27,523,060	22,722,095
Rendering of wireline and wireless phone services	16,067,956	16,088,197
Interconnect	3,524,245	3,419,644
Sale of equipment and mobile devices	1,589,295	197,492
Rent of lines	1,565,984	1,620,851
Other	1,538,938	2,339,091
	51,809,478	46,387,370

15. COST OF REVENUE

Cost of services provided for three months period ended 31 March, comprised the following:

<i>In thousands of tenge</i>	31 March 2015 (unaudited)	31 March 2014 (unaudited)
Personnel costs	11,214,265	10,454,528
Depreciation and amortization	8,908,733	8,419,327
Interconnect	2,443,196	1,990,430
Rent of channels	1,879,428	1,701,777
Equipment and mobile devices	1,424,608	775,225
Repair and maintenance	1,135,872	1,149,842
Materials	892,016	903,246
Electricity	874,631	736,304
TV Content	806,699	729,215
Rental of equipment	803,566	616,583
Fees for use of frequency range	641,928	601,970
Fees for the right to provide telecom services	585,780	478,965
Security and safety	456,388	444,418
Other	1,116,833	1,601,577
	33,183,943	30,603,407

16. FOREIGN EXCHANGE LOSS

On February 11, 2014 exchange rate of Kazakh tenge to the US dollar and other major currencies has been devalued by approximately 20%. As a result, during the three months period ended 31 March 2014 the Group recognized a net forex loss in the amount of 7,450,064 thousand tenge.

During the three months period ended 31 March 2015 the Group recognized a net forex loss in the amount of 367,647 thousand tenge.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. INCOME TAX

Income tax expense for the three months ended 31 March comprised the following:

<i>In thousands of tenge</i>	31 March 2015 (unaudited)	31 March 2014 (unaudited)
Current corporate income tax charge	868,937	1,611,692
Deferred tax expense	520,337	714,984
	1,389,274	2,326,676

18. NON-CASH TRANSACTIONS

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

During the three months period ended 31 March 2015, under finance lease agreements, the Group had not received telecommunication equipment (during the three months period ended 31 March 2014: 263,281 thousand tenge).

During the three months ended 31 March 2015, 7,494,099 thousand tenge was paid for property and equipment purchased in the previous year (during the three months ended 31 March 2014: 9,357,317 thousand tenge). Property and equipment of 5,825,442 thousand tenge was purchased during the three months ended 31 March 2015 but not paid by 31 March 2015 (during the three months ended 31 March 2014: 6,653,918 thousand tenge).

19. RELATED PARTY TRANSACTIONS

The category "parent-controlled entities" comprises entities 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.

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 end of the period are unsecured, short-term and settlement occurs in cash, except as discussed below.

At 31 March, 2015 and 31 December, 2014, the Group has not recorded any impairment of trade accounts receivables relating to amounts owed by related parties. 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 INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. RELATED PARTY TRANSACTIONS (continued)

Sales and purchases with related parties during the three months period ended 31 March 2015 and 2014 and the balances with related parties at 31 March, 2015 and 31 December, 2014, were as follows:

<i>In thousands of tenge</i>	31 March 2015 (unaudited)	31 March 2014 (unaudited)
Sales of goods and services		
Parent	57,125	22,922
Parent-controlled entities	591,063	1,320,667
Government bodies	6,839,303	6,324,548
Purchases of goods and services		
Parent	241	8,467
Parent-controlled entities	531,547	969,282
Government bodies	290,118	2,852,219
Interest earned on financial assets		
BTA Bank JSC	-	556
<i>Average interest rate on financial assets</i>	-	4.79%
Interest accrued on borrowings		
Development Bank of Kazakhstan JSC	714,192	399,086
<i>Average interest rate on borrowings</i>	8.28%	9.33%

<i>In thousands of tenge</i>	31 March 2015 (unaudited)	31 December 2014
Cash and cash equivalents		
Development Bank of Kazakhstan JSC	3,749	8,093
Borrowings		
Development Bank of Kazakhstan JSC	34,867,768	34,686,421
Trade and other receivables		
Parent	63,743	99,895
Parent-controlled entities	510,706	586,209
Government bodies	6,383,089	4,419,402
Accounts payable		
Parent-controlled entities	429,610	442,926
Government bodies	241,119	468,926
Other non-current assets		
Long-term loans to key management personnel	40,749	40,289

As discussed in *Note 12*, some of the Group's borrowings for the amount of 1,506,410 thousand tenge were guaranteed by the Government of the Republic of Kazakhstan (As at 31 December 2014: 1,581,164 thousand tenge).

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 1,218,433 thousand tenge for the three months ended 31 March 2015 (three months ended 31 March 2014: 1,257,682 thousand tenge).

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(continued)**

20. FINANCIAL INSTRUMENTS**Fair values**

As at 31 March 2015 and 31 December 2014, 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 31 March 2015, the Group had contractual commitments totalling 30,661,208 thousand tenge (as at 31 December 2014: 46,635,714 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 31 March 2015. As at 31 March 2015 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. SUBSEQUENT EVENTS

On 25 April 2015, the Group made early repayment of loan in the amount of 3,966,816 thousand tenge received from the Bank of China Limited, Shenzhen Branch.

According to decision of the Annual General Shareholders' Meeting held on 22 April 2015, the Group declared about planning to pay dividends on ordinary shares in amount of 1,089,802 thousand tenge.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. CALCULATION OF BOOK VALUE PER COMMON SHARE

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

$$BVCS = NAV / NOCS, \text{ where}$$

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

As at 31 March, 2015:

$$BVCS = (257,416,740 / 10,710,201) \times 1,000 = 24,035$$

As at 31 December, 2014:

$$BVCS = (245,456,569 / 10,712,696) \times 1,000 = 22,913$$

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

As at 31 March, 2015 – 257,416,740

As at 31 December, 2014– 245,456,569

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

As at 31 March, 2015 – 10,710,201

As at 31 December, 2014– 10,712,696

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

$$NAV = (TA - IA) - TL - PS, \text{ where}$$

As at 31 March, 2015:

$$NAV = (406,831,561 - 23,518,204) - 125,577,863 - 318,754 = 257,416,740 \text{ in thousands of Tenge}$$

As at 31 December, 2014:

$$NAV = (417,693,452 - 24,531,269) - 147,384,104 - 321,510 = 245,456,569 \text{ in thousands of Tenge}$$

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

As at 31 March, 2015 – 406,831,561

As at 31 December, 2014 – 417,693,452

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

As at 31 March, 2015 – 23,518,204

As at 31 December, 2014 – 24,531,269

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

As at 31 March, 2015 – (40,242,704 + 85,335,159) = 125,577,863

As at 31 December, 2014 – (50,280,077 + 97,104,027) = 147,384,104

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. 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 31 March, 2015 – 318,754

As at 31 December, 2014 – 321,510

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

$$BVPS1 = (EPC + DCPS1) / NOPS1, \text{ where}$$

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

As at 31 March, 2015:

$$BVPS1 = ((1,923,759 + 869,329) / 318,754) \times 1,000 = 8,768$$

As at 31 December, 2014:

$$BVPS1 = ((1,909,984 + 876,845) / 321,510) \times 1,000 = 8,668$$

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

As at 31 March, 2015 – 318,754

As at 31 December, 2014 – 321,510

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 31 March, 2015 – 1,923,759

As at 31 December, 2014 – 1,909,984

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

As at 31 March, 2015 – 869,329

As at 31 December, 2014 – 876,845

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

$$EPC = TDPS1 + PS, \text{ where:}$$

As at 31 March, 2015:

$$EPC = 1,605,005 + 318,754 = 1,923,759 \text{ thousands of Tenge}$$

As at 31 December, 2014:

$$EPC = 1,588,474 + 321,510 = 1,909,984 \text{ thousands of Tenge}$$

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 31 March, 2015 – 1,605,005

As at 31 December, 2014 – 1,588,474