

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**For the nine months ended 30 September 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: 010000, Astana, 12 Sauran St., Republic of Kazakhstan.

The Company is controlled by the Government of the Republic of Kazakhstan through “Sovereign Wealth 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 as at 30 September 2015:

	30 September 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	3.4%	3.2%
Kazkommertsbank JSC	3.1%	3.1%
Deran Investment B.V.	2.0%	2.0%
Other	6.2%	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 nine months ended 30 September 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 in the interim condensed consolidated statement of comprehensive income.

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

	30 September 2015	31 December 2014	30 September 2014
US dollar	270.4	182.35	181.9
Euro	303.47	221.97	230.56
Russian ruble	4.09	3.17	4.6

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	
		30 September 2015 (unaudited)	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 standards, interpretations and amendments 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 2014, except for the adoption of new standards and interpretations effective as of 1 January 2015. 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 effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2015, they do not have a material impact on the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

The nature and the impact of each new standard or amendment is 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 recognise 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. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

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

3. CHANGES IN ACCOUNTING POLICIES (continued)**New standards, interpretations and amendments adopted by the Group (continued)***Annual Improvements 2010-2012 Cycle*

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these interim condensed consolidated financial statements. 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.

The above definitions are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods, and thus these amendments do not impact the Group's accounting policies.

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). This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements 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.

The Group has not applied the aggregation criteria in paragraph 12 of IFRS 8. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in *Note 4* in these interim condensed consolidated financial statements as the reconciliation is reported to the chief operating decision maker for the purpose of her decision making.

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 by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. The Group did not record any revaluation adjustments during the current interim period.

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. This amendment does not impact the Group's interim condensed consolidated financial statements as it does not receive any management services from other entities.

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

3. CHANGES IN ACCOUNTING POLICIES (continued)**New standards, interpretations and amendments adopted by the Group (continued)***Annual Improvements 2011-2013 Cycle*

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these interim condensed consolidated financial statements. 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.

The Group is not a joint arrangement, and thus this amendment is not relevant for the Group and its subsidiaries.

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). The Group does not apply the portfolio exception in IFRS 13.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property 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 a business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment does not impact the accounting policy of the Group.

4. SEGMENTS INFORMATION

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 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 CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SEGMENTS INFORMATION (continued)

The following tables present revenue and profit information regarding the Group's operating segments for the nine months ended 30 September 2015 and 2014.

For the nine months ended 30 September 2015 (unaudited)

<i>In thousands of tenge</i>	Wireline telecommu- nications	CDMA and LTE telecommu- nications	Satellite telecommu- nications	Other	Eliminations and adjustments	Group
Revenue						
External customers	139,779,750	25,788,950	136,659	355	-	165,705,714
Inter-segment	6,491,084	2,502,373	475,244	70,193	(9,538,894)	-
Total revenue	146,270,834	28,291,323	611,903	70,548	(9,538,894)	165,705,714
Results						
Depreciation and amortization	(22,237,536)	(4,475,779)	(403,966)	(15,345)	-	(27,132,626)
Finance costs	(4,610,413)	(1,226,912)	(53,371)	-	151,841	(5,738,855)
Finance income	2,791,393	106,953	2	658	(828,179)	2,070,827
Accrual of bad debt allowance	(1,065,481)	(65,417)	(16,095)	-	-	(1,146,993)
Segment profit/(loss) before tax	37,231,474	(5,389,896)	(1,491,083)	(21,910)	745,254	31,073,839

For the nine months ended 30 September 2014 (unaudited)

<i>In thousands of tenge</i>	Wireline telecommu- nications	CDMA and LTE telecommu- nications	Satellite telecommu- nications	Other	Eliminations and adjustments	Group
Revenue						
External customers	138,143,785	10,105,611	461,259	1,458	-	148,712,113
Inter-segment	2,702,948	750,355	127,589	140,350	(3,721,242)	-
Total revenue	140,846,733	10,855,966	588,848	141,808	(3,721,242)	148,712,113
Results						
Depreciation and impairment	(24,863,450)	(3,246,895)	(332,969)	(34,893)	-	(28,478,207)
Finance costs	(5,021,560)	(746,835)	(69,399)	-	530,057	(5,307,737)
Finance income	2,688,156	126,107	3,087	-	(869,873)	1,947,477
Accrual of bad debt allowance	(361,416)	(745)	(12,648)	(6,613)	-	(381,422)
Segment profit/(loss) before tax	24,710,298	(6,851,791)	(1,154,937)	11,856	(411,094)	16,304,332

The following table presents segment assets and liabilities of the Group's operating segments as at 30 September 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 30 September 2015 (unaudited)	418,091,239	44,621,026	1,058,824	334,901	(40,160,662)	423,945,328
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 30 September 2015 (unaudited)	93,539,349	49,122,444	4,233,926	36,676	(15,559,145)	131,373,250
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. SEGMENTS INFORMATION (continued)

Reconciliation of assets

<i>In thousands of tenge</i>	30 September 2015 (unaudited)	31 December 2014
Segment operating assets	464,105,990	451,980,377
Elimination of the Company's investments in subsidiaries	(24,184,823)	(24,413,372)
Elimination of intergroup balances of accounts receivable and payable	(15,975,839)	(9,873,553)
Group's operating assets	423,945,328	417,693,452

5. PROPERTY AND EQUIPMENT

During the nine months ended 30 September 2015, the Group acquired property and equipment for 17,759,243 thousand tenge (unaudited) (during nine months ended 30 September 2014: 30,247,755 thousand tenge (unaudited)). During the nine months ended 30 September 2015, the Group disposed property and equipment with net book value of 481,920 thousand tenge (unaudited) (during nine months ended 30 September 2014: 1,197,667 thousand tenge (unaudited)).

The Group's main construction projects are capitalized expenses for modernization and construction of existing and new digital and wireline networks and fiber optic communication lines. As at 30 September 2015, the carrying value of construction in progress was 15,727,428 thousand tenge (unaudited) (as at 31 December 2014: 20,443,655 thousand tenge).

During the nine months ended 30 September 2015, the Group recognized depreciation expense amounting to 23,833,770 thousand tenge (unaudited) (during nine months ended 30 September 2014: 25,817,806 thousand tenge (unaudited)).

As at 30 September 2015, there were no items of property and equipment (unaudited) (as at 31 December 2014: 2,480,212 thousand tenge) pledged as security for some of the Group's borrowings (*Note 12*).

As at 30 September 2015, the carrying value of equipment purchased and held under finance leases and included in property and equipment amounted to 28,642,186 thousand tenge (unaudited) (as at 31 December 2014: 32,800,554 thousand tenge). Additions during the nine months ended 30 September 2015 include 104,075 thousand tenge (unaudited) (during nine months ended 30 September 2014: 4,052,645 thousand tenge (unaudited)) of property and equipment held under finance leases. Leased assets are pledged as security for the related finance leases.

As at 30 September 2015, property and equipment, amounting to 125,582,004 thousand tenge (unaudited), were fully amortized (as at 31 December 2014: 125,577,873 thousand tenge).

6. INTANGIBLE ASSETS

During the nine months ended 30 September 2015, the Group acquired intangible assets for 581,279 thousand tenge (unaudited) (during nine months ended 30 September 2014: 1,276,357 thousand tenge (unaudited)).

During the nine months ended 30 September 2015, the Group recognized amortization expense amounting to 3,047,916 thousand tenge (unaudited) (during nine months ended 30 September 2014: 2,683,425 thousand tenge (unaudited)).

As at 30 September 2015 intangible assets (mainly software) with cost amounting to 7,847,754 thousand tenge (unaudited), were fully amortized (as at 31 December 2014: 6,066,237 thousand tenge).

7. IMPAIRMENT OF 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 30 September 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 nine months period ended 30 September 2015 was in line with the Group's expectations. As a result, no goodwill impairment indicators were identified as at 30 September 2015.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable comprised the following at 30 September 2015 and 31 December 2014:

<i>In thousands of tenge</i>	30 September 2015 (unaudited)	31 December 2014
Trade receivables	27,478,822	22,276,939
	27,478,822	22,276,939
Less: allowance for doubtful debts	(2,197,499)	(1,512,067)
	25,281,323	20,764,872

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

<i>In thousands of tenge</i>	30 September 2015 (unaudited)	30 September 2014 (unaudited)
Allowance for doubtful debts at 1 January	(1,512,067)	(1,885,077)
Charge for the period	(868,168)	(365,915)
Write-offs for the period	182,736	875,760
Allowance for doubtful debts at 30 September	(2,197,499)	(1,375,232)

9. OTHER FINANCIAL ASSETS

Other financial assets comprised the following at 30 September 2015 and 31 December 2014:

<i>In thousands of tenge</i>	30 September 2015 (unaudited)	31 December 2014
Bank deposits	11,164,816	16,464,382
Other receivable	2,311,894	2,177,259
Due from employees	1,923,425	2,064,200
Restricted cash on current bank accounts	208,600	193,160
Interest receivable on current bank accounts	86,332	454,486
Other	9,310	9,310
	15,704,377	21,362,797

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 0.6 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 30 September 2015 and 31 December 2014:

<i>In thousands of tenge</i>	30 September 2015 (unaudited)	31 December 2014
Bank deposits with maturity of less than 90 days	20,402,136	1,348,888
Cash in current bank accounts	7,308,842	7,349,198
Cash on hand	21,068	31,211
	27,732,046	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 30 September 2015 and 31 December 2014 cash and cash equivalents were denominated in various currencies as follows:

<i>In thousands of tenge</i>	30 September 2015 (unaudited)	31 December 2014
US dollars	22,063,961	1,918,333
Tenge	5,520,541	6,676,058
Russian rubles	141,572	126,479
Euro	3,172	6,030
Other	2,800	2,397
	27,732,046	8,729,297

11. ASSETS CLASSIFIED AS HELD FOR SALE

As at 31 December 2014 assets held for sale in the amount of 951,019 thousand tenge represented by LTE equipment, attributable to a segment of cellular communications in the CDMA and LTE standards. In accordance to the contract for purchase of telecommunication equipment, works and services with Huawei Almaty LLP, the carrying amount of that assets was offset against accounts payable for new equipment.

12. BORROWINGS

Borrowings comprised the following at 30 September 2015 and 31 December 2014:

<i>In thousands of tenge</i>	Weighted average interest rate (unaudited)	30 September 2015 (unaudited)	Weighted average interest rate	31 December 2014
Fixed interest rate borrowings with range between 3% and 12.5% p.a.	7.34%	31,710,357	6.45%	31,049,735
Variable interest rate borrowings 9.34% p.a.	9.34%	27,862,990	6.87%	31,139,240
		59,573,347		62,188,975

Borrowings are repayable as follows:

<i>In thousands of tenge</i>	30 September 2015 (unaudited)	31 December 2014
Current portion	4,996,279	5,762,823
Maturity between 1 and 2 years	2,201,681	7,414,892
Maturity between 2 and 5 years	35,958,125	33,973,070
Maturity over 5 years	16,417,262	15,038,190
Total long-term portion	54,577,068	56,426,152
Total borrowings	59,573,347	62,188,975

As at 30 September 2015, there were no items of property and equipment (unaudited) pledged as security for some of the Group's borrowings (as at 31 December 2014: 2,480,212 thousand tenge) (Note 5).

Government of the Republic of Kazakhstan guaranteed some of the Group's borrowings of 1,923,452 thousand tenge as at 30 September 2015 (unaudited) (as at 31 December 2014: 1,581,164 thousand tenge) (Note 20).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. OTHER NON-CURRENT AND CURRENT LIABILITIES

Other non-current liabilities comprised the following at 30 September 2015 and 31 December 2014:

Non-current liabilities

<i>In thousands of tenge</i>	30 September 2015 (unaudited)	31 December 2014
Deferred connection revenue	2,490,805	2,890,794
Asset retirement obligations	2,151,667	1,944,996
Guarantees issued	847,282	709,303
Long-term accounts payables	365,660	1,020,730
Other	1,451,322	1,084,432
	7,306,736	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 562,450 thousand tenge and 449,574 thousand tenge (unaudited), 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 284,431 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. Depreciation of discount for the nine months ended 30 September 2015 on these accounts payable amounted to 125,802 thousand tenge (unaudited) (during nine months ended 30 September 2014: nil (unaudited)).

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 at 30 September 2015 and 31 December 2014:

<i>In thousands of tenge</i>	30 September 2015 (unaudited)	31 December 2014
Due to employees	3,033,324	3,956,719
Taxes payable other than income tax	2,954,975	1,643,273
Dividends payable	1,653,152	1,588,474
Deferred connection revenue	870,299	2,115,340
Payables to pension funds	372,713	740,301
Guarantees issued	116,867	-
Other	1,213,953	964,825
	10,215,283	11,008,932

At 30 September 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 the nine months ended 30 September comprised the following:

<i>In thousands of tenge</i>	30 September 2015 (unaudited)	30 September 2014 (unaudited)
Data transfer services	80,819,840	71,882,573
Rendering of wireline and wireless phone services	48,662,624	48,117,910
Interconnect	12,231,338	10,933,834
Sale of equipment and mobile devices	8,952,914	1,499,990
Rent of lines	4,894,041	5,078,572
Other	5,199,001	5,999,538
	160,759,758	143,512,417

15. COST OF REVENUE

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

<i>In thousands of tenge</i>	30 September 2015 (unaudited)	30 September 2014 (unaudited)
Personnel costs	36,163,500	36,053,137
Depreciation and amortization	26,852,451	28,150,674
Equipment and mobile devices	8,761,373	2,807,309
Interconnect	8,503,874	6,618,985
Rent of channels	5,778,976	6,318,810
Repair and maintenance	5,243,372	4,672,324
Materials	3,737,299	3,723,198
Rental of equipment	2,559,075	2,061,663
TV Content	2,536,312	2,124,608
Electricity	2,509,280	2,086,102
Fees for the right to provide telecom services	2,156,686	1,520,483
Fees for use of frequency range	1,931,813	1,806,577
Security	1,591,773	1,583,463
Other	3,687,961	4,583,374
	112,013,745	104,110,707

16. NET 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 nine months period ended 30 September 2014, the Group recognized net forex loss in the amount of 7,501,385 thousand tenge (unaudited).

On 20 August 2015, the National Bank and the Government of the Republic of Kazakhstan decided to implement a new monetary policy based on inflation targeting, to cancel currency fluctuation limit and to use the free floating exchange rate. Consequently, the exchange rate of the Kazakh tenge to the US dollar and other major currencies was devalued by approximately 30%. As a result, during nine months ended 30 September 2015, the Group recognized a net loss from revaluation of foreign currency items in the amount of 862,237 thousand tenge (unaudited).

17. INCOME TAX EXPENSE

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

<i>In thousands of tenge</i>	30 September 2015 (unaudited)	30 September 2014 (unaudited)
Current income tax expense	5,902,687	4,075,161
Adjustments in respect of current income tax of previous years	20,495	895,007
Deferred income tax expense	1,839,308	1,422,197
	7,762,490	6,392,365

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. EARNINGS PER SHARE

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

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

The following table reflects the income and share data used in the basic and diluted earnings per share computations for the nine months ended 30 September:

<i>In thousands of tenge</i>	For the nine months ended 30 September	
	2015 (unaudited)	2014 (unaudited)
Net profit attributable to ordinary shares owners of the parent	23,568,904	10,140,944
Net profit attributable to ordinary shares owners of the parent for basic and diluted earnings	23,568,904	10,140,944
Interest on debt component of preferred shares	71,817	73,655
Net profit attributable to ordinary and preferred owners of the parent for basic and diluted earnings	23,640,721	10,214,599
Weighted average number of all shares outstanding for basic and diluted earnings per share	11,030,706	11,043,894
Basic and diluted earnings per share, tenge	2,143.17	924.91

The following table reflects the income and share data used in the basic and diluted earnings per share computations for the three months ended 30 September:

<i>In thousands of tenge</i>	For the three months ended 30 September	
	30 September 2015 (unaudited)	30 September 2014 (unaudited)
Net profit attributable to ordinary shares owners of the parent	7,730,350	7,353,974
Net profit attributable to ordinary shares owners of the parent for basic and diluted earnings	7,730,350	7,353,974
Interest on debt component of preferred shares	23,789	24,510
Net profit attributable to ordinary and preferred owners of the parent for basic and diluted earnings	7,754,139	7,378,484
Weighted average number of all shares outstanding for basic and diluted earnings per share	11,030,706	11,043,894
Basic and diluted earnings per share, tenge	702.96	668.11

There have been no other transactions involving ordinary shares between the reporting date and the date of completion of these condensed consolidated financial statements.

19. NON-CASH TRANSACTIONS

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

During the nine months ended 30 September 2015, under finance lease agreements, the Group received telecommunication equipment with a value of 104,075 thousand tenge (unaudited) (during the nine months ended 30 September 2014: 4,052,645 thousand tenge (unaudited)).

During the nine months ended 30 September 2015, 9,842,806 thousand tenge (unaudited) was paid for property and equipment purchased in the preceding year (during the nine months ended 30 September 2014: 12,288,326 thousand tenge (unaudited)). Property and equipment of 4,563,891 thousand tenge (unaudited) were purchased during the nine months ended 30 September 2015 but not paid by 30 September 2015 (purchased, but not paid by 30 September 2014: 9,288,988 thousand tenge (unaudited)).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. 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.

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

As at 30 September 2015 and 31 December 2014 the Group has not recorded 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.

Sales and purchases with related parties during the periods of nine months ended 30 September 2015 and 2014 and the balances with related parties at 30 September 2015 and 31 December 2014 were as follows:

<i>In thousands of tenge</i>	30 September 2015 (unaudited)	30 September 2014 (unaudited)
Sales of goods and services		
Parent	587,702	355,754
Parent-controlled entities	1,599,498	3,288,388
Government bodies	20,167,939	17,581,777
Purchases of goods and services		
Parent	-	712
Parent-controlled entities	1,522,614	2,410,736
Government bodies	8,831,070	3,010,866
Interest earned on financial assets		
Alliance Bank JSC	-	650
Average interest rate on deposits	-	2.03%
BTA Bank JSC	-	896
Average interest rate on deposits	-	2.35%
Interest incurred on borrowings		
Development Bank of Kazakhstan JSC	1,651,613	1,312,795
Average interest rate on borrowings	8.37%	9.33%
<i>In thousands of tenge</i>	30 September 2015 (unaudited)	31 December 2014
Cash and cash equivalents		
Development Bank of Kazakhstan JSC	8,398	8,093
Borrowings		
Development Bank of Kazakhstan JSC	47,625,594	34,686,421
Trade and other receivables		
Parent	170,516	99,895
Parent-controlled entities	357,626	586,209
Government bodies	8,589,214	4,419,402
Accounts payable		
Parent-controlled entities	478,724	442,926
State entities	322,596	468,926
Other long term assets		
Long term loans given to key personnel	41,478	40,289

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 4,945,956 thousand tenge for the nine months ended 30 September 2015 (unaudited), (for the nine months ended 30 September 2014: 5,199,696 thousand tenge (unaudited)).

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

20. RELATED PARTY DISCLOSURES (continued)

As discussed in *Note 12*, as at 30 September 2015 some of the Group's borrowings were guaranteed by the Government of the Republic of Kazakhstan in the amount of 1,932,452 thousand tenge (unaudited) (as at 31 December 2014: 1,581,164 thousand tenge).

Dividends

According to the decisions of the General Shareholders' Meeting held on 22 April 2015, for the results of 2014 the Company declared dividends on ordinary shares in the amount of 1,089,559 thousand tenge (unaudited) (2014: nil).

During the nine months ended 30 September 2015, the Group paid dividends in the amount of 1,076,327 thousand tenge (unaudited) (during the nine months ended 30 September 2014: 28,110,696 thousand tenge (unaudited)).

Dividends declared per ordinary share as of 30 September 2015: 101.73 tenge (unaudited) (as at 31 December 2014: nil).

21. FINANCIAL INSTRUMENTS**Fair values**

As at 30 September 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.

22. 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 2015 the Group had contractual commitments totaling 31,078,993 thousand tenge (unaudited) (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 30 September 2015. As at 30 September 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.

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

23. SUBSEQUENT EVENTS

Due to the termination of the liabilities between Parent and China Development Bank (“CDB”), the Guarantee from 14 November 2009 on 300 million US dollars issued for the Parent in front of CDB by Kazakhtelecom JSC and Kazakhmys Plc and the Agreement on compensation of expenses from 8 November 2010 signed with Parent and Kazakhtelecom JSC cease their action.

On 03 November 2015, Kazakhtelecom JSC and Tele2 Group made a deal to form a joint venture in the mobile segment based on ALTEL JSC and Mobile Telecom-Services LLP businesses (decision of the Board of Director of Kazakhtelecom JSC #10 dated 03 November, 2015). Kazakhtelecom JSC and Tele2 Group agreed to merge ALTEL JSC (brand ALTEL 4G) and Mobile Telecom-Services LLP (brand TELE2) subsidiary mobile operators.

On 12 November 2015, the Group made early repayment of the loan in the amount of 2,431,505 thousand tenge received from the Export-Import Bank of Korea.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. 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 30 September, 2015:

$$BVCS = (270,199,472 / 10,709,426) \times 1,000 = 25,230$$

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 30 September, 2015 – 270,199,472

As at 31 December, 2014– 245,456,569

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

As at 30 September, 2015 – 10,709,426

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 30 September, 2015:

$$NAV = (423,945,328 - 22,055,414) - 131,373,250 - 317,192 = 270,199,472 \text{ in thousands of Tenge}$$

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 30 September, 2015 – 423,945,328

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 30 September, 2015 – 22,055,414

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 30 September, 2015 – (39,964,123 + 91,409,127) = 131,373,250

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. 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 September, 2015 – 317,192

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 30 September, 2015:

$$BVPS1 = ((1,969,856 + 865,069) / 317,192) \times 1,000 = 8,938$$

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 30 September, 2015 – 317,192

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 30 September, 2015 – 1,969,856

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 30 September, 2015 – 865,069

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 30 September, 2015:

$$EPC = 1,652,664 + 317,192 = 1,969,856 \text{ thousands of Tenge}$$

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 30 September, 2015 – 1,652,664

As at 31 December, 2014 – 1,588,474