

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For three months period ended 31 March, 2013

1. CORPORATE INFORMATION

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

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

The Company is controlled by the Government of the Republic of Kazakhstan through National Welfare Fund "Samruk-Kazyna" ("Samruk-Kazyna" or the "Parent"), which owns 51% of the Company's controlling stock as at 31 March, 2013 and 31 December, 2012. The following lists the shareholders of the Company's stock :

	31 March 2013	31 December 2012
Samruk-Kazyna	51.0%	51.0%
Bodam B. V.	16.9%	16.9%
ADR (The Bank of New York is a depositor)	10.8%	11.1%
Deran Services Limited	9.6%	9.6%
Kazkommertsbank	3.1%	3.1%
Other	8.6%	8.3%
	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.

2. BASIS FOR PREPARATION**Basis of preparation**

The interim condensed consolidated financial statements for the nine months ended 31 March 2013 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 2012.

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:

	31 March 2013	31 December 2012
US dollar	150.84	150.74
Euro	193.33	199.22
South Korean won	0.14	0.14

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and will have no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

IAS 19 Employee Benefits (Revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013 will have no impact on the Group's financial position and performance.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates*, has been renamed to IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013 and will have no impact on the Group's financial position, performance or its disclosures.

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment will have no impact on the Group's financial position, performance or its disclosures.

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation – Special Purpose Entities*.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***IFRS 11 Joint Arrangements*

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard will have no impact on the Group's financial position, performance or its disclosures.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013 will have no impact on the Group's financial position, performance or its disclosures.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Group's financial position, performance or its disclosures.

Annual Improvements May 2012

These improvements will not have an impact on the Group, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**4. CONSOLIDATION**

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

	Country of residence	Percentage ownership	
		31 March 2013	31 December 2012
Altel JSC	Kazakhstan	100.00%	100.00%
Nursat JSC	Kazakhstan	77.08%	77.08%
Radiotell 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%	-
Online.kg LLC	Kyrgyzstan	100.00%	100.00%

5. 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 and Vostoktelecom 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.

The following tables present revenue and profit information regarding the Group's operating segments for the three months ended 31 March, 2013 and 2012, respectively:

Three months period ended 31 March, 2013

<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	42,191,090	2,035,488	310,996	9,646	-	44,547,220
Inter-segment	513,344	467,116	208,928	283,375	(1,472,763) 1)	-
Total revenue	42,704,434	2,502,604	519,924	293,021	(1,472,763)	44,547,220
Results						
Depreciation and amortization	(8,750,025)	(595,943)	(169,136)	(21,808)	-	(9,536,912)
Finance costs	(2,322,165)	(39,291)	(31,689)	-	- 2)	(2,393,145)
Finance income	1,224,023	1,701	-	-	- 2)	1,225,724
Recovery of bad debt expense	(146,439)	(5,117)	(31,957)	-	-	(183,513)
Income tax	(2,604,178)	37,100	23,998	(7,550)	-	(2,550,630)
Segment profit/(loss)	9,346,930	(1,212,324)	(144,243)	43,910	- 3)	8,034,273

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**5. SEGMENT INFORMATION (continued)**

Three months period ended 31 March, 2012

<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	39,565,150	2,674,660	346,452	640	—	42,586,902
Inter-segment	423,324	433,115	264,095	64,050	(1,184,584) 1)	—
Total revenue	39,988,474	3,107,775	610,547	64,690	(1,184,584)	42,586,902
Results						
Depreciation and amortization	(7,167,988)	(454,397)	(136,963)	(22,005)	—	(7,781,353)
Finance costs	(2,078,889)	(28,363)	(33,013)	(40)	— 2)	(2,140,305)
Finance income	955,544	1,641	—	—	— 2)	957,185
Recovery of bad debt expense	(160,185)	(4,119)	(644)	202	—	(164,746)
Income tax	(1,725,670)	(308,459)	(29,397)	1,571	—	(2,061,955)
Segment profit/(loss)	10,162,979	217,948	(55,746)	(25,329)	— 3)	10,299,852

- 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.

Reconciliation of profit

<i>In thousands of tenge</i>	31 March 2013	31 March 2012
Segment profit	8,034,273	10,299,852
Other	—	—
Group profit	8,034,273	10,299,852

Reconciliation of assets

<i>In thousands of tenge</i>	31 March 2013	31 December 2012
Segment operating assets	450,404,958	445,474,664
Elimination of the Company's investments in subsidiaries	(31,964,657)	(21,904,990)
Elimination of intergroup balances of accounts receivable and payable	(4,123,926)	(4,310,464)
Group operating assets	414,316,375	419,259,210

Reconciliation of liabilities

<i>In thousands of tenge</i>	31 March 2013	31 December 2012
Segment operating liabilities	135,697,935	146,187,853
Deferred tax liabilities	620,954	634,322
Elimination of intergroup balances of accounts receivable and payable	(4,123,926)	(4,310,464)
Group operating liabilities	132,194,963	142,511,711

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**6. PROPERTY AND EQUIPMENT**

The movements in property and equipment for three months period ended 31 March, 2013 were as follows:

<i>In thousands of tenge</i>	Land	Buildings and constructions	Equipment	Other	Construction in progress	Total
Cost:						
At 1 January 2012	652,643	33,837,831	344,359,701	12,473,761	27,195,811	418,519,747
Additions	66	44,298	2,171,480	90,838	1,995,794	4,302,476
Internal transfers	124	35,757	4,636,483	65,101	(4,737,465)	-
Disposals	(279)	(76,402)	(635,537)	(75,216)	-	(787,434)
Transfers to intangible assets (<i>Note 7</i>)	-	-	-	-	(26,385)	(26,385)
At 31 March 2012	652,554	33,841,484	350,532,127	12,554,484	24,427,755	422,008,404
At 1 January 2013	667,073	37,478,101	393,138,143	12,613,425	33,257,258	477,154,000
Additions	4,873	507,991	6,068,744	84,604	1,152,743	7,818,955
Internal transfers	-	1,135,997	9,014,748	15,472	(10,166,217)	-
Disposals	(392)	(15,752)	(668,946)	(36,552)	-	(721,642)
Transfers to intangible assets (<i>Note 7</i>)	-	-	-	-	(23,263)	(23,263)
At 31 March 2013	671,554	39,106,337	407,552,689	12,676,949	24,220,521	484,228,050
Accumulated depreciation and impairment:						
At 1 January 2012	-	8,720,707	174,627,726	7,735,392	89,165	191,172,990
Depreciation expense	-	318,881	6,457,807	297,331	-	7,074,019
Disposals	-	(11,358)	(503,500)	(65,805)	-	(580,663)
At 31 March 2012	-	9,028,230	180,582,033	7,966,918	89,165	197,666,346
At 1 January 2013	-	10,097,428	201,110,372	8,633,436	3,922	219,845,158
Depreciation expense	-	394,830	7,904,029	269,578	-	8,568,437
Disposals	-	(4,679)	(597,454)	(30,992)	-	(633,125)
At 31 March 2013	-	10,487,579	208,416,947	8,872,022	3,922	227,780,470
Net book value:						
At 1 January 2012	652,643	25,117,124	169,731,975	4,738,369	27,106,646	227,346,757
At 31 March 2012	652,554	24,813,254	169,950,094	4,587,566	24,338,590	224,342,058
At 31 March 2013	671,554	28,618,758	199,135,742	3,804,927	24,216,599	256,447,580

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

At 31 March, 2013, certain property and equipment with a net carrying amount of 5,768,575 thousand tenge (31 December 2012: 6,809,247 thousand tenge) were pledged as security for some of the Group's borrowings (*Note 11*).

Borrowing costs of 4,172 thousand tenge on loans obtained to finance the construction of property and equipment were capitalized during the three months of 2013 at an average capitalization rate of 2.66% (2012: 107 thousand tenge at an average capitalization rate of 1.64%).

At 31 March, 2013, the carrying value of equipment held under finance leases and included in property and equipment amounted to 23,873,725 thousand tenge (31 December 2012: 24,130,201 thousand tenge). Additions during three months include 461,463 thousand tenge (2012: 374,027 thousand tenge) of property and equipment held under finance leases. Leased assets are pledged as security for the related finance leases.

As at 31 March, 2013, property and equipment amounting to 109,439,770 thousand tenge, were fully amortized (31 December 2012: 108,675,442 thousand tenge).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**7. INTANGIBLE ASSETS**

The movements of intangible assets for three months period ended 31 March, 2013 were as follows:

<i>In thousands of tenge</i>	Licenses and trademarks	Software	Other	Total
Cost:				
At 1 January 2012	15,282,519	15,344,051	1,630,637	32,257,207
Additions	103,708	59,869	—	163,577
Transfers from construction in progress (Note 6)	—	26,385	—	26,385
Disposals	—	(16,093)	—	(16,093)
Internal movements	3,522	(3,522)	—	—
At 31 March 2012	15,389,749	15,410,690	1,630,637	32,431,076
At 1 January 2013	21,441,074	17,202,568	1,630,637	40,274,279
Additions	76,574	399,473	5,384,266	5,860,313
Transfers from construction in progress (Note 6)	12,615	10,648	—	23,263
Disposals	—	(163,027)	(66,842)	(229,869)
Internal movements	42,590	(42,590)	—	—
At 31 March 2013	21,572,853	17,407,072	6,948,061	45,927,986
Accumulated amortization and impairment:				
At 1 January 2012	10,490,973	9,394,312	1,464,117	21,349,402
Amortization expense	231,370	468,771	13,487	713,628
Disposals	—	(213)	—	(213)
At 31 March 2012	10,722,343	9,862,870	1,477,604	22,062,817
At 1 January 2013	11,381,797	11,157,897	1,518,065	24,057,759
Amortization expense	343,718	614,527	13,266	971,511
Disposals	—	(6,846)	(66,842)	(73,688)
At 31 March 2013	11,725,515	11,765,578	1,464,489	24,955,582
Net book value:				
At 1 January 2012	4,791,546	5,949,739	166,520	10,907,805
At 31 March 2012	4,667,406	5,547,820	153,033	10,368,259
At 31 March 2013	9,847,338	5,641,494	5,483,572	20,972,404

Licenses include those acquired through business combinations.

As at 31 March, 2013, intangible assets (mainly software) amounting to 5,261,970 thousand tenge were fully amortized (31 December 2012: 5,317,884 thousand tenge).

8. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable comprised the following at 31 March, 2013 and 31 December, 2012:

<i>In thousands of tenge</i>	31 March 2013	31 December 2012
Trade receivables	22,822,600	20,027,562
Less: Allowance for doubtful debts	(2,732,920)	(2,616,112)
	20,089,680	17,411,450

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

<i>In thousands of tenge</i>	31 March 2013	31 March 2012
Allowance for doubtful debts at 1 January	(2,616,112)	(2,567,505)
Charge for the period	(160,795)	(149,448)
Write-offs	43,987	18,649
Allowance for doubtful debts at 31 March	(2,732,920)	(2,698,304)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**9. OTHER FINANCIAL ASSETS**

Other financial assets comprised the following at 31 March, 2013 and 31 December, 2012:

<i>In thousands of tenge</i>	31 March 2013	31 December 2012
Bank deposits	46,753,083	44,580,940
Interest receivable	1,136,108	653,359
	47,889,191	45,234,299

Bank deposits with maturities from 3 to 12 months period were opened in a local bank and were earning interest at the weighted average rate of 5.21% per annum.

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following at 31 March, 2013 and 31 December, 2012:

<i>In thousands of tenge</i>	31 March 2013	31 December 2012
Cash on current bank accounts	35,000,712	51,173,062
Short-term deposits	582,150	2,247,768
Cash on hand	57,399	45,371
	35,640,261	53,466,201

At 31 March, 2013 and 31 December, 2012 cash and cash equivalents were denominated in various currencies as follows:

<i>In thousands of tenge</i>	31 March 2013	31 December 2012
Tenge	26,252,662	29,833,383
US dollars	9,039,361	23,196,670
Russian rubles	336,360	430,951
Euro	10,071	2,252
Other	1,807	2,945
	35,640,261	53,466,201

11. BORROWINGS

Borrowings comprised the following at 31 March, 2013 and 31 December, 2012:

<i>In thousands of tenge</i>	31 March 2013	31 December 2012
Fixed interest rate borrowings	11,133,086	12,928,056
Variable interest rate borrowings	59,539,475	62,207,489

Borrowings are repayable as follows:

<i>In thousands of tenge</i>	31 March 2013	31 December 2012
Current portion	9,413,644	11,349,815
Maturity between 1 and 2 years	6,381,519	7,939,301
Maturity between 2 and 5 years	8,516,048	9,421,752
Maturity over 5 years	46,361,350	46,424,677
Total long-term portion	61,258,917	63,785,730

At 31 March, 2013, certain property and equipment with a net carrying amount of 5,768,575 thousand tenge were pledged as security for some of the Group's borrowings (31 December 2012: 6,809,247 thousand tenge) (Note 6).

At 31 March, 2013, long-term guarantee deposits in amount of 809,050 thousand tenge were placed in banks as a security for some of the Group's borrowings (31 December 2012: 808,806 thousand Tenge).

Government of the Republic of Kazakhstan guaranteed some of the Group's borrowings of 1,461,217 thousand tenge and 1,595,527 thousand tenge as at 31 March 2013 and 31 December 2012, respectively (Note 16).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**12. OTHER NON-CURRENT AND CURRENT LIABILITIES**

Other liabilities comprised the following at March 31, 2013 and December 31, 2012:

<i>Non-current liabilities</i> <i>In thousands of tenge</i>	31 March 2013	31 December 2012
Deferred connection revenue	3,903,202	3,883,165
Asset retirement obligations	567,205	553,309
Other	33,934	34,002
	4,504,341	4,470,476
<i>Current liabilities</i> <i>In thousands of tenge</i>	31 March 2013	31 December 2012
Due to employees	3,022,543	2,837,900
Deferred connection revenue	1,570,732	1,703,433
Dividends payable	1,668,353	1,679,496
Taxes payable other than income tax	3,250,514	1,432,909
Payable to pension funds	434,567	555,449
Guarantees issued	67,064	112,755
Other	661,164	755,637
	10,674,937	9,077,579

13. REVENUE

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

<i>In thousands of tenge</i>	31 March 2013	31 March 2012
Rendering of wireline and wireless phone services	17,424,587	17,396,283
Data transfer services	19,279,570	16,055,334
Interconnect	3,570,206	3,776,659
Rent of lines	1,575,559	2,484,941
Other	1,466,376	1,359,890
	43,316,298	41,073,107

14. 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 2013	31 March 2012
Personnel costs	10,704,316	9,115,699
Depreciation and amortization	9,445,113	7,682,001
Interconnect	2,538,886	2,874,696
Repair and maintenance	1,273,405	989,173
Materials	1,097,953	1,102,123
Rent of channels	1,595,493	1,494,437
Security and safety	387,721	395,808
Electricity	613,910	479,840
Fees for the right to provide telecom services	448,845	435,209
Rental of equipment	477,263	378,554
Fees for use of frequency range	225,311	184,271
Other	1,646,290	202,674
	30,454,506	25,334,485

15. INCOME TAX

Corporate income tax expense comprised the following for three months period ended 31 March:

<i>In thousands of tenge</i>	31 March 2013	31 March 2012
Current corporate income tax charge	2,030,818	1,352,716
Deferred tax expense	519,812	709,239
	2,550,630	2,061,955

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**16. DISCONTINUED OPERATIONS**

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.

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 investing activities.

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

<i>In thousands of tenge</i>	31 March 2013	31 December 2012
As at 1 January	–	58,389,446
Share of profit of an associate	–	1,962,663
Dividends declared	–	(34,723,134)
Discontinued operations	–	(25,628,975)
At the end of the period	–	–

The movements in dividends receivable from an associate were as follows:

<i>In thousands of tenge</i>	31 March 2013	31 December 2012
As at 1 January	–	–
Dividends declared	–	34,723,134
Cash received	–	(34,723,134)
At the end of the period	–	–

Discontinued operation comprised of the following during three months ended 31 March:

<i>In thousands of tenge</i>	31 March 2013	31 March 2012
Share of profit of an associate	–	1,962,663
Profit before tax from a discontinued operation	–	1,962,663
Gain on disposal	–	200,033,665
Income tax expense	–	–
Profit after tax for the period from a discontinued operation	–	201,996,328

Gain on disposal of the investment comprised the following:

<i>In thousands of tenge</i>	31 March 2013	31 March 2012
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 three months ended 31 March, 2013, under finance lease agreements, the Group received telecommunication equipment with a value of 461,463 thousand tenge (2012: 374,027 thousand tenge). This transaction has been excluded from the consolidated statement of cash flows.

During the three months ended 31 March, 2013, the Group capitalized interests on bank loans of 4,172 thousand Tenge to property, plant and equipment (2012: 107 thousand tenge). This transaction has been excluded from the interim consolidated statement of cash flows.

During the three months ended 31 March 2013, 6,079,003 and 5,546,982 thousand tenge was paid for property and equipment, respectively purchased on credit in 2012. Property and equipment of 4,579,385 and 2,912,764 thousand tenge, respectively was purchased on credit during the three months ended 31 March 2013, but not paid by 31 March, 2013.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**18. RELATED PARTY TRANSACTIONS**

Parent-controlled entities comprise entities controlled by the Parent. BTA Bank JSC, Development Bank of Kazakhstan 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 had 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. Purchases and sales transactions are made on market terms. Outstanding balances at 31 March 2013 are unsecured, short-term and settlement occurs in cash, except as discussed below.

Sales and purchases with related parties during three months ended 31 March, 2013 and 31 March, 2012 and the balances with related parties at 31 March, 2013 and 31 December, 2012, were as follows:

<i>In thousands of tenge</i>	31 March 2013	31 March 2012
Sales of goods and services		
Parent	56,082	18,473
Parent-controlled entities	928,919	1,711,059
Associate (discontinued operation)	—	36,440
Government bodies	3,682,632	3,399,634
Purchases of goods and services		
Parent-controlled entities	1,569,808	1,711,705
Associate (discontinued operation)	—	495
Government bodies	7,510	6,373
Interest earned on financial assets		
Alliance Bank	12,712	60,626
<i>Average interest rate on financial assets</i>	2.01%	5.45%
BTA Bank	7,933	7,688
<i>Average interest rate on financial assets</i>	2.31%	3.07%
Interest accrued on borrowings		
Development Bank of Kazakhstan	1,119,911	1,081,217
<i>Average interest rate on borrowings</i>	9.61%	9.61%

<i>In thousands of tenge</i>	31 March 2013	31 December 2012
Cash and cash equivalents		
Alliance Bank	2,815,156	1,937,946
BTA Bank	1,467,871	1,252,564
Development Bank of Kazakhstan	17,503	8,043
Temirbank	82	85
Borrowings		
Development Bank of Kazakhstan	46,339,914	47,401,708
Trade and other receivables		
Parent	355,579	379,880
Parent-controlled entities	681,745	581,470
Government bodies	2,073,634	1,000,147
Accounts payable		
Parent-controlled entities	74,124	72,275
Government bodies	245,581	466,781
Other non-current assets		
Long-term loans to key management personnel	49,121	48,932

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 1,230,922 thousand tenge for the three months ended 31 March 2013 (2012: 1,513,795 thousand tenge).

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**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 31 March, 2013 the Group had contractual commitments totalling 9,810,302 thousand tenge (31 December 2012: 15,966,601 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, 2013. As at 31 March, 2013 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.

Guarantees

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 compensation of any amounts paid by Group arising from the guarantee agreement by the Parent.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**20. 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, 2013:

$$BVCS = (259,935,355 / 10,922,876) \times 1,000 = 23,797$$

As at 31 December, 2012:

$$BVCS = (259,317,326 / 10,922,876) \times 1,000 = 23,741$$

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

As at 31 March, 2013 – 259,935,355

As at 31 December, 2012– 259,317,326

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

As at 31 March, 2013 – 10,922,876

As at 31 December, 2012– 10,922,876

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

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

As at 31 March, 2013:

$$NAV = (414,316,375 - 20,972,404) - 132,194,963 - 1,213,653 = 259,935,355 \text{ in thousands of Tenge}$$

As at 31 December, 2012:

$$NAV = (419,259,210 - 16,216,520) - 142,511,711 - 1,213,653 = 259,317,326 \text{ in thousands of Tenge}$$

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, 2013 – 414,316,375

As at 31 December, 2012 – 419,259,210

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, 2013 – 20,972,404

As at 31 December, 2012 – 16,216,520

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, 2013 – (38,445,814 + 93,749,149) = 132,194,963

As at 31 December, 2012 – (45,880,265 + 96,631,446) = 142,511,711

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (continued)**20. 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, 2013 – 1,213,653

As at 31 December, 2012 – 1,213,653

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, 2013:

$$BVPS1 = ((2,871,760 + 904,197) / 1,213,653) \times 1,000 = 3,111$$

As at 31 December, 2012:

$$BVPS1 = ((2,882,903 + 894,065) / 1,213,653) \times 1,000 = 3,112$$

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

As at 31 March, 2013 – 1,213,653

As at 31 December, 2012 – 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 31 March, 2013 – 2,871,760

As at 31 December, 2012 – 2,882,903

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

As at 31 March, 2013 – 904,197

As at 31 December, 2012 – 894,065

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, 2013:

$$EPC = 1,658,107 + 1,213,653 = 2,871,760 \text{ thousands of Tenge}$$

As at 31 December, 2012:

$$EPC = 1,669,250 + 1,213,653 = 2,882,903 \text{ thousands of Tenge}$$

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, 2013 – 1,658,107

As at 31 December, 2012 – 1,669,250