

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 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 owned 51% of the Company's controlling stock. The following lists the shareholders of the Company's stock:

	30 June 2013 (unaudited)	31 December 2012
Samruk-Kazyna	51.0%	51.0%
Bodam B. V.	16.9%	16.9%
ADRs (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%
	<b>100%</b>	<b>100%</b>

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

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

The interim condensed consolidated financial statements were authorised for issue on 26 July 2013, by Management of the Company.

### 2. BASIS FOR PREPARATION

#### Basis of preparation

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

#### Foreign currency translation

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

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

	30 June 2013	30 June 2012	31 December 2012
US Dollar	151.65	149.42	150.74
Euro	197.90	187.90	199.22
South Korean Won	0.13	0.13	0.14

## 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 June 2013 (unaudited)	31 December 2012
Altel JSC	Kazakhstan	100.00%	100.00%
Nursat JSC	Kazakhstan	77.08%	77.08%
Digital TV LLP	Kazakhstan	100.00%	-
MaxCom LLP	Kazakhstan	100.00%	-
VostokTelecom LLP	Kazakhstan	100.00%	100.00%
Radiotell LLP	Kazakhstan	100.00%	100.00%
Signum LLC	Russia	100.00%	100.00%
KT Cloud Lab LLP	Kazakhstan	100.00%	100.00%
Online.kg LLC	Kyrgyzstan	100.00%	100.00%

During the six months ended 30 June 2013 the Group purchased 100% shares in Digital TV LLP and MaxCom LLP (Note 4)

### 3. CHANGE IN ACCOUNTING POLICIES

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

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2012, except for the adoption of new standards and interpretations effective as of 1 January 2013.

The Group applies, for the first time, certain standards and amendments that require restatement of previous financial statements. These include *IFRS 10 Consolidated Financial Statements*, *IFRS 11 Joint Arrangements*, *IAS 19 (Revised 2011) Employee Benefits*, *IFRS 13 Fair Value Measurement* and amendments to *IAS 1 Presentation of Financial Statements*. As required by IAS 34, the nature and the effect of these changes are disclosed below. In addition, the application of *IFRS 12 Disclosure of Interest in Other Entities* would result in additional disclosures in the annual consolidated financial statements.

Several other new standards and amendments apply for the first time in 2013. However, they do not impact 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/amendment are described below:

#### *IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*

The amendments to IAS 1 introduce a 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 (e.g., 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) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Group's financial position or performance.

#### *IAS 1 Clarification of the requirement for comparative information (Amendment)*

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

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

### 3. CHANGE IN ACCOUNTING POLICIES (continued)

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

##### *IAS 1 Clarification of the requirement for comparative information (Amendment) (continued)*

An opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. Under IAS 34, the minimum items required for interim condensed financial statements do not include a third balance sheet.

##### *IAS 32 Tax effects of distributions to holders of equity instruments (Amendment)*

The amendment to IAS 32 Financial Instruments: Presentation clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with *IAS 12 Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the interim condensed consolidated financial statements for the Group, as there is no tax consequences attached to cash or non-cash distribution.

##### *IAS 34 Interim financial reporting and segment information for total assets and liabilities (Amendment)*

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in *IFRS 8 Operating Segments*. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual consolidated financial statements for that reportable segment. The Group provides this disclosure as total segment assets were reported to the chief operating decision maker (CODM). As a result of this amendment, the Group now also includes disclosure of total segment liabilities as these are reported to the CODM. See *Note 5*.

##### *IAS 19 Employee Benefits (Revised 2011) (IAS 19R)*

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures.

In case of the Group, the transition to IAS 19R had no impact on the net defined benefit plan obligations, but it impacted profit for the period as well as other comprehensive income for the period. The effect of the adoption of IAS 19R is explained below:

<i>In thousand tenge</i>	<b>30 June 2013 (unaudited)</b>
Decrease of the cost of revenue	(337,031)
Decrease of the general and administrative expenses	(29,307)
Increase of the income tax expense	73,268
<b>Net increase of profit for the period (continuous operations)</b>	<b>293,070</b>
Increase in actuarial changes in other comprehensive loss	366,338
Increase in income tax effect on actuarial changes in other comprehensive loss	(73,268)
<b>Net increase in other comprehensive loss, net of tax</b>	<b>293,070</b>
<b>The impact on total comprehensive income for the period, net of income taxes</b>	<b>-</b>

The Group did not restate the comparative information, as the effect on net increase in other comprehensive loss, net of tax, for the six months ended 30 June 2012 was insignificant.

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

### 3. CHANGE IN ACCOUNTING POLICIES (continued)

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

##### *IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7*

The amendment requires an entity to disclose information about rights to set-off financial instruments 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. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

##### *IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements*

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing *IAS 27 Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and *SIC-12 Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

##### *IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures*

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 under IFRS 11 must be accounted for using the equity method. Since the Group does not have jointly controlled entities, this standard has no impact on the Group's financial position, performance or its disclosures.

##### *IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for interim condensed consolidated financial statements, unless significant events and transactions in the interim period require that they are provided. Accordingly, the Group has not made such 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 application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements period. The Group provides these disclosures in *Note 20*.

In addition to the above-mentioned amendments and new standards, *IFRS 1 First-time Adoption of International Financial Reporting Standards* was amended with effect for reporting periods starting on or after 1 January 2013. The Group is not a first-time adopter of IFRS, therefore, this amendment is not relevant to the Group.

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

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

### 4. BUSINESS COMBINATIONS

#### *Acquisition of Digital TV LLP*

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

As of 30 June 2013 the Group has not completed the valuation of fair value of its share in identified assets, liabilities and contingent liabilities. Business combination was accounted for using preliminary fair value amounts as at acquisition date.

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

<i>In thousand tenge</i>	Fair value recognized on acquisition
<b>Assets</b>	
Property and equipment	4,152,164
Intangible assets	6,729,993
Cash and cash equivalents	307,145
Trade accounts receivable	139,039
Inventories	58,895
Prepayments	104,837
Other current assets	117,120
	<b>11,609,193</b>
<b>Liabilities</b>	
Accounts payable	203,687
Advances received	273,763
Deferred tax liabilities	1,116,164
Other current liabilities	209,029
	<b>1,802,643</b>
Total identifiable net assets at fair value	<b>9,806,550</b>
<b>Purchase consideration transferred</b>	<b>9,806,550</b>
<b>Analysis of cash flows on acquisition:</b>	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	307,145
Cash paid	(9,806,550)
Net cash outflow	<b>(9,499,405)</b>

From the date of acquisition, Digital TV LLP has contributed 956,711 thousand tenge of revenue and loss in the amount of 5,868 thousand tenge to the net profit before tax from the continuing operations of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been 89,668,983 thousand tenge, and the profit from continuing operations for the period would have been 10,603,763 thousand tenge.

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

### 4. BUSINESS COMBINATIONS (continued)

#### Acquisition of MaxCom LLP

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

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

<i>In thousand tenge</i>	Fair value recognized on acquisition
<b>Assets</b>	
Property and equipment	53,564
Intangible assets	890,838
Cash and cash equivalents	948
Prepayments	7,055
Other current assets	5,619
	<b>958,024</b>
<b>Liabilities</b>	
Borrowings	41,943
Accounts payable	6,008
Deferred tax liabilities	175,952
Other current liabilities	121
	<b>224,024</b>
Total identifiable net assets at fair value	<b>734,000</b>
<b>Purchase consideration transferred</b>	<b>734,000</b>
<b>Analysis of cash flows on acquisition:</b>	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	948
Cash paid	(734,000)
Net cash outflow	<b>(733,052)</b>

Since the date of acquisition MaxCom LLP has not had revenues and loss before tax amounted to 6,395 thousand tenge. Revenue and profit for the period from continuing operations would not change significantly, had the acquisition occurred at the beginning of the year.

### 5. SEGMENTS INFORMATION

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

- Wireline telecommunication services mainly provided by Kazakhtelecom JSC 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 interim condensed consolidated financial statements.

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

### 5. SEGMENTS INFORMATION (continued)

The following tables present revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2013 and 2012, respectively:

#### For the six months ended 30 June 2013 (unaudited)

<i>In thousands of tenge</i>	Wireline telecommunications	CDMA and LTE telecommunications	Satellite telecommunications	Other	Eliminations and adjustments	Group
<b>Revenue</b>						
External customers	86,403,422	4,196,387	577,199	23,882	–	91,200,890
Inter-segment	1,039,312	891,139	408,308	559,109	(2,897,868)	–
<b>Total revenue</b>	<b>87,442,734</b>	<b>5,087,526</b>	<b>985,507</b>	<b>582,991</b>	<b>(2,897,868)</b>	<b>91,200,890</b>
<b>Results</b>						
Depreciation and amortization	(18,052,765)	(1,185,082)	(336,787)	(53,680)	–	(19,628,314)
Finance costs	(4,797,798)	(116,101)	(58,026)	–	–	(4,971,925)
Finance income	2,451,379	3,843	–	–	–	2,455,222
Income tax	(3,814,558)	(34,005)	(5,731)	(1,841)	–	(3,856,135)
<b>Segment profit / (loss)</b>	<b>16,963,361</b>	<b>(2,195,906)</b>	<b>(332,151)</b>	<b>29,357</b>	<b>–</b>	<b>14,464,661</b>

#### For the six months ended 30 June 2012 (unaudited)

<i>In thousands of tenge</i>	Wireline telecommunications	CDMA and LTE telecommunications	Satellite telecommunications	Other	Eliminations and adjustments	Group
<b>Revenue</b>						
External customers	80,013,739	5,387,098	741,609	8,637	–	86,151,083
Inter-segment	803,708	877,500	491,816	1,496,507	(3,669,531)	–
<b>Total revenue</b>	<b>80,817,447</b>	<b>6,264,598</b>	<b>1,233,425</b>	<b>1,505,144</b>	<b>(3,669,531)</b>	<b>86,151,083</b>
<b>Results</b>						
Depreciation and impairment	(15,264,903)	(935,733)	(322,249)	(422,282)	–	(16,945,167)
Finance costs	(4,542,315)	(65,222)	(55,514)	(53,939)	3,198	(4,713,792)
Finance income	1,912,008	3,477	–	–	–	1,915,485
Income tax	(2,716,856)	(391,092)	(49,197)	4,372	–	(3,152,773)
<b>Segment profit</b>	<b>14,636,001</b>	<b>233,750</b>	<b>(130,242)</b>	<b>(86,337)</b>	<b>–</b>	<b>14,653,172</b>

The following table presents segment assets and liabilities of the Group's operating segments as at 30 June 2013 and 31 December 2012:

<i>In thousands of tenge</i>	Wireline telecommunications	CDMA and LTE telecommunications	Satellite telecommunications	Other	Eliminations and adjustments	Group
<b>Segment assets</b>						
As at 30 June 2013 (unaudited)	414,762,557	26,248,849	4,143,348	3,350,901	(27,675,436)	420,830,219
As at 31 December 2012	417,860,633	20,478,162	5,524,362	1,611,507	(26,215,454)	419,259,210
<b>Segment liabilities</b>						
As at 30 June 2013 (unaudited)	121,361,487	13,763,518	2,421,038	802,672	(2,568,465)	135,780,250
As at 31 December 2012	131,375,754	10,747,846	3,470,248	594,005	(3,676,142)	142,511,711

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

### 5. SEGMENTS INFORMATION (continued)

Reconciliation of assets:

<i>In thousands of tenge</i>	30 June 2013 (unaudited)	31 December 2012
<b>Segment operating assets</b>	<b>448,505,655</b>	445,474,664
Elimination of the Company's investments in subsidiaries	(23,243,250)	(21,904,990)
Elimination of intergroup balances of accounts receivable and payable	(4,432,186)	(4,310,464)
<b>Group operating assets</b>	<b>420,830,219</b>	419,259,210

### 6. PROPERTY AND EQUIPMENT

During the six months ended 30 June 2013, the Group acquired property and equipment for 11,865,433 thousand tenge (2012: 11,706,174 thousand tenge).

The Group's main construction projects are modernization and construction of existing and new digital and wireline networks and fiber optic communication line. As of 30 June 2013, the carrying value of construction in progress was 26,273,435 thousand tenge (31 December 2012: 33,253,336 thousand tenge).

During the six months ended 30 June 2013, the Group sold property and equipment with a net carrying value of 161,894 thousand tenge (2012: 313,364 thousand tenge) at net loss of 89,797 thousand tenge (2012: 97,327 thousand tenge).

During the six months ended 30 June 2013, The Group recognized depreciation expense amounting to 17,644,421 thousand tenge (2012: 15,735,227 thousand tenge).

At 30 June 2013, certain items of property and equipment with a net carrying amount of 5,557,071 thousand tenge (31 December 2012: 6,809,247 thousand tenge) were pledged as security for some of the Group's borrowings (*Note 11*).

At 30 June 2013, the carrying value of equipment held under finance leases and included in property and equipment amounted to 23,224,827 thousand tenge (31 December 2012: 24,130,201 thousand tenge). Additions during the six months ended 30 June 2013 include 526,993 thousand tenge (2012: 578,984 thousand tenge) of property and equipment held under finance leases. Leased assets are pledged as security for the related finance leases.

As at 30 June 2013 property and equipment, amounting to 113,829,485 thousand tenge, were fully amortized (31 December 2012: 108,675,442 thousand tenge).

### 7. INTANGIBLE ASSETS

During the six months ended 30 June 2013, the Group acquired intangible assets for 942,785 thousand tenge (2012: 521,012 thousand tenge).

As a result of the business combination, the Group recognized intangible assets with total value 7,620,831 thousand tenge (*Note 4*). These intangible assets mainly represent a subscriber base of Digital TV LLP and license for frequency range of MaxCom LLP.

During the six months ended 30 June 2013, the Group recognized amortization expense amounting to 1,999,924 thousand tenge (2012: 1,222,695 thousand tenge).

As at 30 June 2013 intangible assets, amounting to 5,383,197 thousand tenge, were fully amortized (31 December 2012: 5,317,884 thousand tenge).

### 8. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable comprised the following at 30 June 2013 and 31 December 2012:

<i>In thousands of tenge</i>	30 June 2013 (unaudited)	31 December 2012
Trade receivables	22,358,751	20,027,562
Less: Allowance for doubtful debts	(2,056,855)	(2,616,112)
	<b>20,301,896</b>	17,411,450



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

### 8. TRADE ACCOUNTS RECEIVABLE (continued)

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

<i>In thousands of tenge</i>	30 June 2013 (unaudited)	30 June 2012 (unaudited)
Allowance for doubtful debts at 1 January	(2,616,112)	(2,567,505)
Charge for the period	(261,623)	(301,716)
Write-offs	820,880	177,481
Allowance for doubtful debts at 30 June	(2,056,855)	(2,691,740)

### 9. OTHER FINANCIAL ASSETS

Other financial assets comprised the following at 30 June 2013 and 31 December 2012:

<i>In thousands of tenge</i>	30 June 2013 (unaudited)	31 December 2012
Bank deposits	50,389,691	44,580,940
Interest receivable	1,652,343	653,359
	52,042,034	45,234,299

Bank deposits with maturity of 3 months or more were open in local banks and were earning interest at the weighted average rate of 5.04% per annum.

### 10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following at 30 June 2013 and 31 December 2012:

<i>In thousands of tenge</i>	30 June 2013 (unaudited)	31 December 2012
Cash in current bank accounts	37,195,346	51,173,062
Bank deposits with maturity of less than 90 days	250,150	2,247,768
Cash on hand	51,187	45,371
	37,496,683	53,466,201

At 30 June 2013 and 31 December 2012 cash and cash equivalents were denominated in various currencies as follows:

<i>In thousands of tenge</i>	30 June 2013 (unaudited)	31 December 2012
Tenge	29,830,253	29,833,383
US Dollars	7,333,156	23,196,670
Russian Rubles	310,640	430,951
Euro	18,906	2,252
Other	3,728	2,945
	37,496,683	53,466,201

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

### 11. BORROWINGS

Borrowings comprised the following at 30 June 2013 and 31 December 2012:

<i>In thousands of tenge</i>	30 June 2013 (unaudited)	31 December 2012
Fixed interest rate borrowings	10,767,321	12,928,056
Variable interest rate borrowings	60,947,264	62,207,489

Borrowings are repayable as follows:

<i>In thousands of tenge</i>	30 June 2013 (unaudited)	31 December 2012
Current portion	11,167,444	11,349,815
Maturity between 1 and 2 years	5,635,307	7,939,301
Maturity between 2 and 5 years	8,323,245	9,421,752
Maturity over 5 years	46,588,589	46,424,677
Total long-term portion	60,547,141	63,785,730

As at 30 June 2013 certain items of property and equipment with a net carrying amount of 5,557,071 thousand tenge were pledged as security for some of the Group's borrowings (31 December 2012: 6,809,247 thousand tenge) (*Note 6*).

As at 30 June 2013 long-term guarantee deposits in the amount of 370,026 thousand tenge (31 December 2012: 808,806 thousand tenge) were placed in banks as a security for some of the Group's borrowings.

Government of the Republic of Kazakhstan guaranteed some of the Group's borrowings of 1,440,825 thousand tenge and 1,595,527 thousand tenge as at 30 June 2013 and 31 December 2012, respectively (*Note 18*).

### 12. OTHER NON-CURRENT AND CURRENT LIABILITIES

Other liabilities comprised the following at 30 June 2013 and 31 December 2012:

#### *Non-current liabilities*

<i>In thousands of tenge</i>	30 June 2013 (unaudited)	31 December 2012
Deferred connection revenue	3,660,560	3,883,165
Asset retirement obligations	777,059	553,309
Other	14,617	34,002
	4,452,236	4,470,476

#### *Current liabilities*

<i>In thousands of tenge</i>	30 June 2013 (unaudited)	31 December 2012
Due to employees	2,895,265	2,837,900
Dividends payable	1,715,046	1,679,496
Taxes payable other than income tax	1,640,709	1,432,909
Deferred connection revenue	1,491,782	1,703,433
Payable to pension funds	477,719	555,449
Guarantees issued	29,076	112,755
Other	864,640	755,637
	9,114,237	9,077,579

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

### 13. REVENUE

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

<i>In thousands of tenge</i>	30 June 2013 (unaudited)	30 June 2012 (unaudited)
Rendering of wireline and wireless phone services	35,507,862	35,377,480
Data transfer services	39,941,354	32,551,178
Interconnect	7,126,178	7,919,327
Rent of lines	3,164,878	4,875,348
Other	2,949,542	2,773,434
	<b>88,689,814</b>	<b>83,496,767</b>

### 14. COST OF REVENUE

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

<i>In thousands of tenge</i>	30 June 2013 (unaudited)	30 June 2012 (unaudited)
Personnel costs	22,126,350	20,181,916
Depreciation, amortization and impairment	19,413,978	16,736,958
Interconnect	5,416,510	6,196,220
Rent of channels	3,529,778	3,046,082
Repair and maintenance	2,948,420	2,592,325
Materials	2,373,181	2,576,525
Electricity	1,128,356	910,472
Rental of equipment	978,638	787,479
Security	960,629	876,396
Fees for the right to provide telecom services	897,692	864,288
Fees for use of frequency range	458,389	415,790
Other	3,287,648	2,178,870
	<b>63,519,569</b>	<b>57,363,321</b>

### 15. INCOME TAX

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

<i>In thousands of tenge</i>	30 June 2013 (unaudited)	30 June 2012 (unaudited)
Current income tax expense	3,593,263	3,229,563
Deferred income tax benefit	262,872	(76,790)
	<b>3,856,135</b>	<b>3,152,773</b>

### 16. DISCONTINUED OPERATION

As at 31 December 2011 the Group had a 49% interest in LLP GSM Kazakhstan OAO Kazakhtelecom ("GSM Kazakhstan"), which is engaged in the provision of mobile telecommunication services in the GSM standard in Kazakhstan. GSM Kazakhstan is a private entity that is not listed on any public exchange.

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

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

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

### 16. DISCONTINUED OPERATION (continued)

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

<i>In thousands of tenge</i>	<b>30 June 2012 (unaudited)</b>
<b>As at 1 January</b>	<b>58,389,446</b>
Share of profit of an associate	1,962,663
Dividends declared	(34,723,134)
Disposal of an investment	(25,628,975)
<b>As at 30 June</b>	<b>–</b>

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

<i>In thousands of tenge</i>	<b>30 June 2012 (unaudited)</b>
<b>As at 1 January</b>	<b>–</b>
Dividends declared	34,723,134
Cash received	(17,361,567)
<b>As at 30 June</b>	<b>17,361,567</b>

Discontinued operation comprised of the following during six months ended 30 June:

<i>In thousands of tenge</i>	<b>30 June 2012 (unaudited)</b>
Share of profit of an associate	1,962,663
<b>Profit before tax from a discontinued operation</b>	<b>1,962,663</b>
Gain on disposal	200,033,665
Income tax expense	–
<b>Profit after tax for the period from a discontinued operation</b>	<b>201,996,328</b>

Gain on disposal of the investment comprised the following:

<i>In thousands of tenge</i>	<b>30 June 2012 (unaudited)</b>
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)
<b>Gain on disposal</b>	<b>200,033,665</b>

### 17. NON-CASH TRANSACTIONS

During the six months ended 30 June 2013, under finance lease agreements the Group received telecommunication equipment with a value of 526,993 thousand tenge (2012: 578,984 thousand tenge). This transaction has been excluded from the interim consolidated statement of cash flows.

During the six months ended 30 June 2013, 8,348,666 and 491,116 thousand tenge was paid for property and equipment and intangible assets, respectively purchased on credit in 2012. Property and equipment and intangible assets of 4,585,746 and 163,642 thousand tenge, respectively was purchased on credit during the six months ended 30 June 2013.

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

### 18. RELATED PARTY DISCLOSURES

Parent-controlled entities comprise entities controlled by the Parent. BTA Bank JSC, Temirbank JSC and Alliance Bank JSC are related parties since they are controlled by Parent. Associate (discontinued operation) is represented by GSM Kazakhstan, a private entity not listed on any public exchange, in which the Group 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 that may not necessarily be at market rates. Outstanding balances at 30 June 2013 are unsecured, short-term and settlement occurs in cash, except as discussed below.

As at 30 June 2013 and December 31, 2012 the Group has not recorded impairment of trade accounts receivables relating to amounts owed by related parties.

Sales and purchases with related parties during the periods of six months ended 30 June 2013 and 30 June 2012 and the balances with related parties at 30 June 2013 and 31 December 2012 were as follows:

<i>In thousands of tenge</i>	<b>Six months ended June 30</b>	
	<b>2013 (unaudited)</b>	<b>2012 (unaudited)</b>
<b>Sales of goods and services</b>		
Parent	116,920	50,098
Parent-controlled entities	1,902,908	1,772,597
Government bodies	7,399,218	9,198,781
Associate (discontinued operation)	-	483,657
<b>Purchases of goods and services</b>		
Parent-controlled entities	2,555,606	919,978
Government bodies	11,072	78,577
Associate (discontinued operation)	-	233,421
<b>Interest earned on financial assets</b>		
BTA Bank	17,082	17,468
Average interest rate on deposits	2.34%	2.68%
Alliance Bank	60,015	105,649
Average interest rate on deposits	4.10%	5.43%
<b>Interest incurred on borrowings</b>		
Development Bank of Kazakhstan	2,173,911	2,194,893
Average interest rate on borrowings	9.61%	9.79%
	<b>30 June 2013</b>	<b>31 December 2012</b>
<i>In thousands of tenge</i>	<b>(unaudited)</b>	
<b>Cash and cash equivalents</b>		
Alliance Bank	3,614,305	1,937,946
BTA Bank	1,605,120	1,252,564
Development Bank of Kazakhstan	17,542	8,043
Temirbank	80	85
<b>Borrowings</b>		
Development Bank of Kazakhstan	47,644,107	47,401,708
<b>Trade and other receivables</b>		
Parent	325,673	379,880
Parent-controlled entities	717,553	581,470
Government bodies	2,948,666	1,000,147
<b>Accounts payable</b>		
Parent-controlled entities	77,502	72,275
State entities	300,668	466,781
<b>Other long term assets</b>		
Long term loans given to key personnel	49,285	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 2,511,076 thousand tenge for the six months ended 30 June 2013, (for the six months ended 30 June 2012: 2,654,316 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 19. DIVIDENDS PAID AND PROPOSED

The preferred shares earn a non-discretionary dividend of 300 tenge per share or 11% per annum in accordance with the Company's charter documents. Preferred shares are considered to be compound financial instruments, and accordingly the liability and equity components are presented separately in the consolidated statement of financial position. Dividends on preferred shares in the amount of 49,326 thousand tenge were accrued during the six months ended 30 June 2013 (2012: 60,479 thousand tenge) and is treated as finance costs in the income statement. Present value of non-discounted future cash flows represents the liability component in liabilities.

According to the decision of the General Shareholders Meeting held on 20 May 2013, the Company declared additional dividends on preferred shares in the amount of 52,601 thousand tenge and dividends on ordinary shares in the amount of 1,726,653 thousand tenge (2012: 7,867,553 thousand tenge and 217,234,922 thousand tenge, respectively). Dividends per share (ordinary and preferred): 161 tenge (2012: 19,888 tenge).

<i>In thousands of tenge</i>	30 June 2013 (unaudited)	30 June 2012 (unaudited)
Dividends declared on ordinary shares	1,726,653	217,234,922
Dividends declared on preferred shares	52,601	7,867,553
	<b>1,779,254</b>	<b>225,102,475</b>
Withholding tax accrued	(14,060)	(1,822,463)
Dividends paid	(1,778,970)	(221,272,330)
Change in dividends payable	<b>35,550</b>	<b>2,068,161</b>

### 20. FINANCIAL INSTRUMENTS

#### Fair values

As at 30 June 2013 and 31 December 2012, the carrying values of the Group's monetary assets and liabilities approximated their estimated fair values.

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

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

### 21. COMMITMENTS AND CONTINGENT LIABILITIES

#### Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of telecommunication equipment. As at 30 June 2013 the Group had contractual commitments totaling 43,473,369 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.

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

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### **21. COMMITMENTS AND CONTINGENT LIABILITIES (continued)**

#### **Taxation**

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. In addition, management believes that international agreements, under which the Group works with non-residents residing in International Telecommunication Union, and which provide for certain tax exemptions, have a priority over national tax legislation. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 30 June 2013. As at 30 June 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.

### **22. EVENTS AFTER THE REPORTING PERIOD**

On 19 July 2013, the Group paid interest on bonds issued in Kazakhstani Stock Exchange amounting to 2,188,356 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 30 June, 2013:

$$BVCS = (261,108,133 / 10,922,876) \times 1,000 = 23,905$$

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 30 June, 2013 – 261,108,133

As at 31 December, 2012– 259,317,326

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

As at 30 June, 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 30 June, 2013:

$$NAV = (420,830,219 - 22,728,183) - 135,780,250 - 1,213,653 = 261,108,133 \text{ in thousands of Tenge}$$

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 30 June, 2013 – 420,830,219

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 30 June, 2013 – 22,728,183

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 30 June, 2013 – (42,892,014 + 92,888,236) = 135,780,250

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



## 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 30 June, 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 30 June, 2013:

$$BVPS1 = ((2,893,433 + 889,484) / 1,213,653) \times 1,000 = 3,117$$

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 30 June, 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 30 June, 2013 – 2,893,433

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 30 June, 2013 – 889,484

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 30 June, 2013:

$$EPC = 1,679,780 + 1,213,653 = 2,893,433 \text{ thousands of Tenge}$$

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 30 June, 2013 – 1,679,107

As at 31 December, 2012 – 1,669,250