

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For nine months period ended on 30 September 2011

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 as of 30 September 2011 and 31 December 2010. The following lists the shareholders of the Company’s stock:

	30 September 2011	31 December 2010
Samruk-Kazyna	51.0%	51.0%
Bodam B. V.	16.9%	16.9%
ADR (The Bank of New York is a depositor)	12.7%	13.4%
Deran Services Limited	9.6%	9.6%
LLP Optimus	0.0%	3.0%
Kazkommertsbank JSC	3.1%	-
Other	6.7%	6.1%
	100.0%	100.0%

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

The interim condensed consolidated financial statements of the Group for the nine months ended 30 September 2011 were 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 2010.

These interim condensed consolidated financial statements are presented in Kazakhstan Tenge (“Tenge”) and all monetary amounts are rounded to the nearest thousand Tenge except when otherwise indicated.

Foreign currency translation

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange (“KASE”) are used as official currency exchange rates in the Republic of Kazakhstan.

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

	30 September 2011	31 December 2010
US Dollar	147.87	147.40
Euro	201.72	195.23
South Korean Won	0.13	0.13
Russian Ruble	4.64	4.84

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. CHANGE IN ACCOUNTING POLICIES

The accounting policies applied in the preparation of these interim condensed consolidated financial statements are consistent with those applied in the preparation of the annual consolidated financial statements for the year ended December 31, 2010, except for the adoption of new standards and interpretations as of January 1, 2011 noted below:

- IAS 24 “*Related Party Transactions (Amendment)*”

The IASB has issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact of the financial position or performance of the Group.

- IAS 32 “*Financial Instruments: Presentation (Amendment)*”

The amendment alters the definition of financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity’s non-derivative equity instrument, to acquire a fixed number of the entity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group.

- IFRIC 14 “*Prepayments of a Minimum Funding Requirements (Amendment)*”

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements (MFR) and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as pension assets. The Group is not subject to minimum funding requirements in Kazakhstan. The amendment to the interpretation therefore had no effect on the financial position or performance of the Group.

- IFRIC 19 “*Extinguishing Financial Liabilities with Equity Instruments*”

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in gains or losses. This Interpretation did not have any impact on the financial position or performance of the Group.

Improvements to IFRSs (issued May 2010)

In May 2010, the IASB issued its third omnibus of amendments to its standard, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact of the financial position or performance of the Group.

- IFRS 3 “*Business Combinations*” The measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity’s net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments’ proportionate share of the acquiree’s identifiable net assets. All other components are to be measured at their acquisition date at fair value.
- IFRS 7 “*Financial Instruments – Disclosure*” The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- IAS 1 “*Presentation of Financial Statements*” The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity in the notes to the financial statements.
- IAS 34 “*Interim Financial Statements*” The amendment requires additional disclosures for fair value and change in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. CHANGE IN ACCOUNTING POLICIES (continued)

Improvements to IFRSs (issued May 2010) (continued)

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group.

- IFRS 3 *Business Combinations* – Clarifications that contingent consideration arising from business combinations prior to adoption of IFRS 3 (as revised in 2008) are accounted for in accordance with IFRS 3 (2005).
- IFRS 3 *Business Combinations* – unreplaced and voluntarily replaced share-based payment awards and its accounting treatment within a business combination.
- IAS 27 *Consolidated and Separate Financial Statements* – applying the IAS 27 (as revised in 2008) transition requirements to consequentially amended standards.
- IFRIC 13 *Customer Loyalty Programs* – in determining the fair value of awards credits, an entity shall consider discount and incentives that would otherwise be offered to customers not participating in the loyalty program

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

4. CONSOLIDATION

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

	Country of residence	Percentage ownership	
		30 September 2011	31 December 2010
Altel JSC	Kazakhstan	100.00%	100.00%
Nursat JSC	Kazakhstan	77.08%	77.08%
VostokTelecom LLP	Kazakhstan	100.00%	100.00%
Radiotell LLP	Kazakhstan	100.00%	100.00%
Signum LLC	Russia	100.00%	100.00%
KepterTelecom JSC	Kazakhstan	100.00%	100.00%
Association of internet –traffic exchange center «Online.kg» JSC	Kazakhstan	100.00%	100.00%
	Kyrgyzstan	100.00%	100.00%

On 17 March 2010 the Group completed the sale of Mobile Telecom-Service LLP (*Note 17*).

5. SEGMENTS INFORMATION

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

- Provision of wireline telecommunication services as represented by Kazakhtelecom JSC business unit.
- Provision of mobile telecommunication services in CDMA standard as represented by Altel JSC business unit.
- Provision of wireless telecommunication services, including data transfer services as represented by Nursat JSC business unit.
- Provision of mobile telecommunication services in GSM standard as represented by LLP GSM Kazakhstan OAO Kazakhtelecom business unit (*Note 17*).

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the interim condensed consolidated financial statements.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SEGMENTS INFORMATION (continued)

For the nine months ended 30 September 2011

<i>In thousands of Tenge</i>	Wireline telecommunications	CDMA mobile services	Wireless telecommunications	GSM mobile services	Other	Eliminations and adjustments	Group
Revenue							
External customers	115,656,553	9,129,326	1,148,509	-	3,765	-	125,938,153
Inter-segment	1,490,618	1,336,426	1,087,045	-	2,579,592	(6,493,681) 1)	-
Total revenue	117,147,171	10,465,752	2,235,554	-	2,583,357	(6,493,681)	125,938,153
Results							
Depreciation and impairment	(30,066,580)	(1,170,878)	(477,650)	-	(540,914)	- 2)	(32,256,022)
Share of profit of an associate	-	-	-	-	-	-	-
Finance costs	(6,049,413)	(29,982)	(83,963)	-	(38,212)	(59,818) 3)	(6,261,388)
Finance income	2,474,424	10,830	68	-	87	(10,634) 3)	2,474,775
Income tax	(3,221,150)	(529,412)	(31,616)	-	(20,583)	151,852	(3,650,909)
Segment profit	16,512,434	1,687,212	53,119	-	67,361	(70,452) 4)	18,249,674

For the nine months ended 30 September 2010

<i>In thousands of Tenge</i>	Wireline telecommunications	CDMA mobile services	Wireless telecommunications	GSM mobile services	Other	Eliminations and adjustments	Group
Revenue							
External customers	103,630,551	8,351,726	1,587,835	-	2,089	-	113,572,201
Inter-segment	1,769,214	1,340,169	515,126	-	1,642,065	(5,266,574) 1)	-
Total revenue	105,399,765	9,691,895	2,102,961	-	1,644,154	(5,266,574)	113,572,201
Results							
Depreciation and amortization	(20,168,233)	(1,079,710)	(1,811,634)	-	(408,002)	- 2)	(23,467,579)
Share of profit of an associate	-	-	-	-	-	-	11,646,360
Finance costs	(7,054,526)	(29,396)	(71,342)	-	(1,545)	18,845 3)	(7,137,964)
Finance income	1,333,358	33,544	19,078	-	267	(18,845) 3)	1,367,402
Income tax	(7,475,993)	(612,548)	(10,063)	-	(3,617)	264,175	(7,838,046)
Segment profit	15,069,853	2,044,300	(1,557,557)	-	9,897	(514,814) 4)	15,051,679

- 1) Inter-segment revenues are eliminated on consolidation.
- 2) Depreciation and amortization does not include depreciation charge recognized on group level.
- 3) Finance costs and income does not include inter-segment finance charges.
- 4) Segment operating profit does include profit from inter-segment sales and profit / (loss) from discontinued operations.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. SEGMENTS INFORMATION (continued)

Table below shows operating assets of the segments of the Group as of 30 September 2011 and 31 December 2010:

<i>In thousands of Tenge</i>	Wireline telecommu- nications	CDMA mobile services	Wireless telecommu- nications	GSM mobile services	Other	Eliminations and adjustments	Group
Segment assets							
As at 30 September 2011	392,981,948	17,970,230	5,101,849	-	5,517,590	(26,427,061)	395,144,556
As at 31 December 2010	316,271,672	15,466,963	5,496,310	53,785,831	5,398,697	(25,857,181)	370,562,292

Reconciliation of profit:

<i>In thousands of Tenge</i>	30 September 2011	30 September 2010
Segment profit	18,320,126	15,566,493
Other	(70,452)	(514,814)
Group profit	18,249,674	15,051,679

Reconciliation of assets:

<i>In thousands of Tenge</i>	30 September 2011	31 December 2010
Segment operating assets	421,571,617	396,419,473
Elimination of the Company's investments in subsidiaries	(23,915,296)	(23,837,046)
Elimination of intergroup balances of accounts receivable and payable	(2,511,765)	(2,020,135)
Group operating assets	395,144,556	370,562,292

6. PROPERTY, PLANT AND EQUIPMENT

During the nine months ended 30 September 2011, the Group acquired property, plant and equipment for 15,887,517 thousand Tenge (September 30, 2010: 18,288,969 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 at 30 September 2011 the carrying value of construction in progress was 21,392,944 thousand Tenge (31 December 2010: 26,124,249 thousand Tenge).

During the nine months ended 30 September 2011, the Group sold property, plant and equipment with a net carrying value of 453,396 thousand Tenge (September 30, 2010: 1,333,802 thousand Tenge). As a result, net loss on disposal of 163,491 thousand Tenge (September 30, 2010: 229,061 thousand Tenge) was recognized.

During the nine months ended 30 September 2011, The Group recognized depreciation expense amounting to 30,147,159 thousand Tenge (September 30, 2010: 20,573,349 thousand Tenge).

At 30 September 2011, certain items of property, plant and equipment with a net carrying amount of 8,790,098 thousand Tenge (31 December 2010: 7,625,754 thousand Tenge) were pledged as security for some of the Group's borrowings (Note 12).

At 30 September 2011, the carrying value of equipment held under finance leases and included in property, plant and equipment amounted to 17,002,483 thousand Tenge (31 December 2010: 20,241,901 thousand Tenge). Additions during the nine months ended 30 September 2011 include 783,109 thousand Tenge (December 31, 2010: 4,175,774) of property, plant and equipment held under finance leases. Leased assets are pledged as security for the related finance leases.

As at 30 September 2011 property, plant and equipment, amounting to 52,027,530 thousand Tenge, were fully amortized (31 December 2010: 49,134,335 thousand Tenge).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INVESTMENTS IN ASSOCIATES

At September 30, 2011 and December 31, 2010 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.

The movements in the investments in the associate were as follows:

<i>In Thousands of Tenge</i>	30 September 2011	30 September 2010
Balance at January 1	53,785,831	48,130,939
Share in the associate's net profit	25,319,902	19,280,851
Dividends declared	(13,720,000)	(12,740,000)
Discontinued operations (Note 17)	(65,385,733)	-
Balance as of September 30	-	54,671,790

The following table illustrates summarised financial information of the Group's investment in GSM Kazakhstan:

<i>In thousands of Tenge</i>	30 September 2011	31 December 2010
Share of the associate's statement of financial position:		
Current assets	21,085,994	7,766,923
Non-current assets	60,844,896	59,685,441
Current liabilities	(14,286,032)	(11,091,260)
Non-current liabilities	(2,259,125)	(2,575,273)
Equity	65,385,733	53,785,831
	30 September 2011	30 September 2010
Share of the associate's revenue and profit:		
Revenue	64,532,258	52,690,883
Profits	25,319,902	19,280,851
Carrying amount of the investment	65,385,733	54,671,790

Amounts due to and from the associate at September 30, 2011 and December 31, 2010 and transactions with the associate for the nine months ended September 30, 2011 and September 30, 2010 are disclosed in the Note 19.

8. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable comprised the following at 30 September 2011 and 31 December 2010:

<i>In thousands of Tenge</i>	30 September 2011	31 December 2010
Trade receivables	20,008,273	14,507,776
Less: Allowance for doubtful debts	(2,927,904)	(3,326,801)
	17,080,369	11,180,975

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

<i>In thousands of Tenge</i>	30 September 2011	30 September 2010
Allowance for doubtful debts at the beginning of the period	(3,326,801)	(1,412,060)
Charge for the period	125,142	(1,137,970)
Write-offs	273,755	155,116
Allowance for doubtful debts at the end of the period	(2,927,904)	(2,394,914)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. OTHER FINANCIAL ASSETS

Other financial assets comprised the following at 30 September 2011 and 31 December 2010:

<i>In thousands of Tenge</i>	30 September 2011	31 December 2010
Dividends receivable	3,430,000	–
Bank deposits	238,058	379,868
	3,668,058	379,868

Dividends receivable represent the declared dividends from an associate.

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following at 30 September 2011 and 31 December 2010:

<i>In thousands of Tenge</i>	30 September 2011	31 December 2010
Cash in current bank accounts	53,497,532	44,258,361
Short-term deposits	20,886,070	13,723,039
Cash on hand	51,716	42,086
	74,435,318	58,023,486

Cash in current bank accounts earn interest at weighted average rate of 2.6% (December 31, 2010: 1%). Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the weighted average short-term deposit rate of 3.6% per annum (December 31, 2010: 4.7% per annum).

11. EQUITY

Authorised share capital (number of shares)

	September 30, 2011	December 31 2010
Ordinary shares	10,922,876	10,922,876
Preferred non-voting shares	1,213,653	1,213,653
	12,136,529	12,136,529

Issued and paid shares

	Number of shares		In thousands of Tenge		Total issued shares
	Ordinary shares	Preferred non-voting shares	Ordinary shares	Preferred non- voting shares	
As of January 1, 2010	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
As of December 31, 2010	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
As of September 30, 2011	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529

Treasury shares

	Number of shares		In thousands of Tenge	
	Ordinary shares	Preferred non- voting shares	Ordinary shares	Preferred non-voting shares
As of January 1, 2010	–	810,459	–	(2,652,860)
As of December 31, 2010	–	810,459	–	(2,652,860)
As of September 30, 2011	–	810,459	–	(2,652,860)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. EQUITY (continued)

Preferred shares

Preferred stockholders are entitled to priority rights for participation in dividends and in any case are entitled, at the discretion of the Company's shareholders, to an annual cumulative dividend of KZT 300 per share, but not less than per share dividends paid to the holders of common stock. This cumulative annual dividend represents a financial liability which, based on discounted future cash flows, amounts to 1,099,620 thousand Tenge. This liability has been recorded in non-current liabilities as a debt component of preferred stock. Preferred shareholders receive the right to vote if the general meeting of shareholders considers decisions restricting rights of preferred shareholders, decisions on reorganization or liquidation of the Company and if dividends on preferred shares are not paid within three months after a specified payment date.

Dividends

The preferred shares pay a non-discretionary dividend of 300 Tenge per share in accordance with the Company's charter documents and are considered to be compound financial instruments, and accordingly the liability and equity components are presented separately in the consolidated statement of financial position. Prescribed dividends in the amount of 90,719 thousand Tenge were accrued for nine months of 2011 and 2010. This dividend represents the interest with the effective rate of 11% on the debt component and is expensed in the income statement. Present value of non-discounted future cash flows represents the liability component in long-term liabilities.

Currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from translation of financial statements of the subsidiaries, whose functional currency is not tenge and whose financial statements are included in these consolidated financial statements in accordance with the accounting policy disclosed in *Note 2*.

Other capital reserve

According to the Company's Charter, the Company created a reserve capital which is equal to 15% of the authorized share capital. This reserve was created from the appropriation of the retained earnings.

Earnings per share

Basic earnings per share 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 dilutive potential ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

<i>In thousands of Tenge</i>	September 30, 2011	September 30, 2010
Net profit attributable to ordinary equity holders of the parent from continuing operations	14,598,260	7,801,576
Net profit attributable to ordinary equity holders of the parent from discontinued operation	25,319,902	20,125,143
Net profit attributable to ordinary equity holders of the parent for basic earnings	39,918,162	27,926,719
Interest on convertible preferred shares	90,719	90,719
Net profit attributable to ordinary and preferred equity holders of the parent corrected for diluted earnings	40,008,881	28,017,438
Weighted average number of ordinary and preferred shares for basic earnings per share	11,326,070	11,326,070
Basic and diluted earnings per share, Tenge	3,532	2,474

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. EQUITY (continued)

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of this financial statement.

To calculate earnings per share amounts for the discontinued operation (*Note 17*), the weighted average number of ordinary shares for both basic and diluted amounts is as per the table above. The following table provides the loss figure used:

<i>In thousands of Tenge</i>	September 30, 2011	September 30, 2010
Net profit attributable to ordinary equity holders of the parent from a discontinued operation for basic and diluted earnings per share calculations	25,319,902	20,125,143

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 September 30, 2011:

$$BVCS = (259,620,533 / 10,922,876) \times 1,000 = 23,769$$

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

As at September 30, 2011 – 259,620,533

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

As at September 30, 2011 – 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 September 30, 2011:

$$NAV = (395,144,556 - 11,808,091) - 122,502,279 - 1,213,653 = 259,620,533 \text{ in thousands of Tenge}$$

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

As at September 30, 2011 – 395,144,556

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

As at September 30, 2011 – 11,808,091

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

As at September 30, 2011 – (44,699,663 + 77,802,616) = 122,502,279

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 September 30, 2011 – 1,213,653

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. EQUITY (continued)

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 September 30, 2011:

$$BVPS1 = ((1,694,352 + 1,099,620) / 1,213,653) \times 1,000 = 2,302$$

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

As at September 30, 2011 – 1,213,653

EPC – equity with prior claims, i.e. equity owned by the holders of preferred stock of the first group as of the date of calculation, in thousands of Tenge;

As at September 30, 2011 – 1,694,352

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

As at September 30, 2011 – 1,099,620

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

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

As at September 30, 2011:

$$EPC = 480,699 + 1,213,653 = 1,694,352 \text{ thousands of Tenge}$$

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 September 30, 2011 – 480,699

12. BORROWINGS

Borrowings comprised the following at 30 September 2011 and 31 December 2010:

<i>In thousands of Tenge</i>	30 September 2011	31 December 2010
Fixed interest rate borrowings	10,960,934	10,943,004
Weighted average interest rate	5.97%	5.76%
Variable interest rate borrowings	55,552,027	56,182,101
Weighted average interest rate	8.44%	8.52%

Borrowings are repayable as follows:

<i>In thousands of Tenge</i>	30 September 2011	31 December 2010
Current portion	13,188,137	9,153,943
Maturity between 1 and 2 years	9,652,006	10,428,169
Maturity between 2 and 5 years	23,323,081	21,905,927
Maturity over 5 years	20,349,737	25,637,066
Total long-term portion	53,324,824	57,971,162

As at 30 September 2011 certain items of property, plant and equipment with a net carrying amount of 8,790,098 thousand Tenge were pledged as security for some of the Group's borrowings (31 December 2010: 7,625,754 thousand Tenge) (Note 6).

Government of the Republic of Kazakhstan guaranteed some of the Group's borrowings of 1,526,450 thousand Tenge and 1,691,528 thousand Tenge as at 30 September 2011 and 31 December 2010, respectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. OTHER NON-CURRENT AND CURRENT LIABILITIES

Other liabilities comprised the following at 30 September 2011 and 31 December 2010:

Non-current liabilities

<i>In thousands of Tenge</i>	30 September 2011	31 December 2010
Deferred connection revenue	3,049,778	2,986,328
Guarantees issued	158,737	393,858
Asset retirement obligations	207,873	196,161
Other	109,429	296,869
	3,525,817	3,873,216

Current liabilities

<i>In thousands of Tenge</i>	30 September 2011	31 December 2010
Taxes payable other than income tax	2,739,206	1,597,212
Dividends payable	539,159	421,764
Deferred connection revenue	2,128,212	1,846,910
Due to employees	1,208,287	1,648,996
Guarantees issued	339,256	469,890
Payable to pension funds	335,299	455,914
Other	628,358	470,477
	7,917,777	6,911,163

As at September 30, 2011, dividends payable represent the unpaid amount of declared dividends. During the nine months ended 30 September 2011, the Group accrued a non-discretionary dividend of 300 Tenge per share on preferred shares for the amount of 90,719 thousand Tenge. According to the decision made at the annual general shareholders meeting held on May 31, 2011, the Company declared additional dividends on preferred shares in the amount of 213,181 thousand Tenge and dividends on ordinary shares in the amount of 5,775,252 thousand Tenge. (December 31, 2010: 49,226 thousand Tenge and 4,610,437 thousand Tenge accordingly).

14. REVENUE

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

<i>In thousands of Tenge</i>	30 September 2011	30 September 2010
Rendering of wireline and wireless phone services	55,846,838	55,320,258
Data transfer services	43,207,153	33,376,868
Interconnect	10,425,734	9,814,050
Rent of lines	8,175,361	7,249,360
Other	4,141,033	3,952,961
	121,796,119	109,713,497

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 2011	30 September 2010
Depreciation, amortization and impairment	31,593,323	22,650,390
Personnel costs	27,955,509	25,399,994
Interconnect	9,266,668	9,791,237
Repair and maintenance	9,030,793	8,542,082
Rent of channels	3,512,521	3,571,223
Fees for the right to provide telecom services	1,492,377	1,457,587
Security and safety	1,274,821	1,228,728
Rent of equipment	1,074,835	1,028,444
Fees for use of frequency range	496,058	461,129
Other	4,020,067	3,269,347
	89,716,972	77,400,161

16. INCOME TAX

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

<i>In thousands of Tenge</i>	30 September 2011	30 September 2010
Current income tax expense	5,538,722	3,480,202
Deferred income tax benefit / loss	(1,887,813)	4,357,844
	3,650,909	7,838,046

During the nine months ended 30 September 2011, deferred tax benefit mainly consisted of reversal of temporary differences on deferred tax liabilities related to property, plant and equipment.

17. DISCONTINUED OPERATIONS

On December 14, 2009 Kazakhtelecom concluded an agreement to sell the subsidiary Mobile Telecom-Service LLP to Tele2 Sverige AB, a Swedish mobile operator. Mobile Telecom-Service LLP was a separate operating segment of the Group.

On March 17, 2010 the Group completed the sale of Mobile Telecom-Service LLP for consideration of 76,000 thousand US Dollars (equivalent to 11,175,800 thousand Tenge). As a result of the transaction, 178,320 thousand Tenge was recognized as a gain on sale.

Cash inflows from sale of Mobile Telecom-Service LLP:

<i>In thousands of Tenge</i>	September 30, 2011	September 30, 2010
Revenue	-	670,038
Cost of services	-	(614,472)
Gross profit	-	55,566
General and administrative expenses	-	(70,313)
Selling expenses	-	(73,558)
Operating loss	-	(88,305)
Finance costs	-	(126,930)
Finance income	-	1,467
Foreign exchange profit / (loss)	-	925,599
Other losses	-	(45,859)
Profit from discontinued operations before tax	-	665,972
Profit from sale of discontinued operation	-	178,320
Corporate income tax benefit (Note 16)	-	-
Profit from discontinued operation after tax for the reporting period	-	844,292

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. DISCONTINUED OPERATIONS (continued)

Profit from sale of discontinued operations comprised the following:

In thousands of Tenge

Consideration received from Tele2 AB	11,175,800
Net assets assigned for sale	(1,890,643)
Provision for loss from restructuring of receivables from MTS	(9,106,837)
Profit from sale	178,320

As Mobile Telecom-Service LLP was sold before December 31, 2010, assets and liabilities of disposal group classified as held for sale as of December 31, 2009 are no longer reflected in the consolidated statement of financial position.

Cash inflow from sale of Mobile Telecom-Service LLP comprised the following:

September 30,
2010

In thousands of Tenge

Consideration received	11,175,800
Net cash disposed of with sale the discontinued operations	(217,905)
Net cash inflow	10,957,895

According to the decision adopted on September 16, 2011 the Group decided to sell its share in the associated company LLP GSM Kazakhstan OAO Kazakhtelecom, which is engaged in provision of mobile communication services. Thus, all assets of the associated company are classified as assets held for sale.

Financial results of LLP GSM Kazakhstan OAO Kazakhtelecom as at September 30, 2011 are presented below:

<i>In thousands of Tenge</i>	September 30, 2011	September 30, 2010
Profit from discontinued operations after tax for the reporting period	25,319,902	19,280,851

Investments in LLP GSM Kazakhstan OAO Kazakhtelecom, classified as held for sale, comprised the following:

<i>In thousands of Tenge</i>	September 30, 2011	December 31, 2010
Assets		
Investments in associate (Note 7)	65,385,733	–
Net assets directly associated with disposal group	65,385,733	–

Earnings per share:

	September 30, 2011	September 30, 2010
Basic and diluted earnings per share, from discontinued operations, Tenge	2,236	1,777

18. NON-CASH TRANSACTIONS

During the nine months ended 30 September 2011, under finance lease agreements the Group received telecommunication equipment with a value of 783,109 thousand Tenge (December 31, 2010: 4,175,774 thousand tenge). This transaction has been excluded from the interim consolidated statement of cash flows.

As at September 30, 2011 the Group capitalized interests on bank loans of 7,256 thousand Tenge to property, plant and equipment (December 31, 2010: 46,293 thousand Tenge). This transaction has been excluded from the interim consolidated statement of cash flows.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. NON-CASH TRANSACTIONS (continued)

As at September 30, 2011 the Group recognized provisions for asset retirement obligations amounting to 11,712 thousand Tenge (December 31, 2010: 32,065 thousand Tenge) as property, plant and equipment additions. This transaction has been excluded from the interim consolidated statement of cash flows.

As at 30 September 2011, 8,288,624 thousand Tenge was paid for property, plant and equipment purchased in 2010. Property, plant and equipment of 4,918,289 thousand Tenge was purchased during the nine months ended 30 September 2011 but not paid by September 30, 2011.

19. RELATED PARTY DISCLOSURES

The category 'parent-controlled entities' comprises entities controlled by the Parent, except for banks, controlled by the Parent. Halyk Bank of Kazakhstan JSC is a related party due to the bank being controlled by member of the Management Board of the Parent. BTA Bank JSC and Alliance Bank JSC are related parties since they are controlled by the Parent. The Associate is represented by GSM Kazakhstan, private entity not listed on any public stock exchange in which the Group has a 49% interest. Parent company has lost control over JSC Kazkommertsbank in the beginning of 2010 (2009: Parent company controlled the bank through 21.2% ownership of ordinary shares), as in the beginning of 2010 an option became exercisable between the Parent company and major shareholders of the bank, which granted other shareholders the right to acquire shares owned by the Parent company.

Terms and conditions of transactions with related parties

Related party transactions were made on terms agreed between the parties that may not necessarily be at market rates. Outstanding balances at year-end are unsecured, short-term and settlement occurs in cash, except as discussed below.

As at 30 September 2011 and 31 December 2010, the Group has not recorded any impairment of trade accounts receivables relating to amounts owned 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 2011 and 30 September 2010 and the balances with related parties at 30 September 2011 and 31 December 2010 were as follows:

<i>In thousands of Tenge</i>	Nine months ended September 30,	
	2011	2010
Sales of goods and services		
Parent	239,241	209,466
Parent-controlled entities	2,921,981	2,370,087
Associate	5,211,672	4,792,070
Purchases of goods and services		
Parent-controlled entities	1,240,886	1,217,607
Associate	2,595,840	3,553,910
Interest earned on financial assets		
Halyk Bank of Kazakhstan	-	-
Average interest rate on deposits	-	-
Interest incurred on borrowings		
Halyk Bank of Kazakhstan	-	5,721
Average interest rate on borrowings	-	13.75%
Development Bank of Kazakhstan	3,138,247	3,168,144
Average interest rate on borrowings	9.59 %	9.48%

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. RELATED PARTY DISCLOSURES (continued)

<i>In thousands of Tenge</i>	September 30, 2011	December 31, 2010
Cash and cash equivalents		
Halyk Bank of Kazakhstan	3,828,491	10,306,195
Alliance Bank	4,127,603	734,991
BTA Bank	1,184,136	560,029
Development Bank of Kazakhstan	12,659	7,507
Temirbank JSC	100	
Borrowings		
Development Bank of Kazakhstan	45,407,689	46,358,023
Trade and other receivables		
Parent	233,952	138,205
Parent-controlled entities	376,089	459,761
Associate	821,797	425,917
Accounts payable		
Parent-controlled entities	79,934	82,035
Associate	3,313,381	2,221,965

Total compensation to key management personnel in general and administrative expenses in the accompanying interim consolidated income statement amounted to 198,015 thousand Tenge and 272,900 thousand Tenge for the period of nine months ended September 30, 2011 and December 31, 2010, respectively. Compensation to key management personnel mainly consists of contractual salary and performance bonus based on operating results.

The Government of the Republic of Kazakhstan provided certain subsidies to the Group for provision of universal services in rural areas in the amount of 4,142,034 thousand Tenge for the nine months ended September 30, 2011 (September 30, 2010: 3,858,704 thousand Tenge).

As discussed in *Note 12*, some of the Group's borrowings were guaranteed by the Government of the Republic of Kazakhstan.

Transactions with (purchases from) parent-controlled entities are mainly represented by transactions of the Group with NC Kazakhstan Temir Zholy JSC (railway services), KEGOK JSC (utilities), Kazpost JSC (postage services). In addition, the Group provides telecommunication services to the Parent, parent-controlled entities and the Associate.

20. 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 2011 the Group had contractual commitments totaling 29,187,898 thousand Tenge (December 31, 2010: 14,652,126 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)

20. 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. Instances of inconsistent opinions between local, regional and national tax authorities are usual. 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 2011. As at 30 September 2011 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.