NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For three months period ended 31 March, 2017

1. GENERAL INFORMATION

Kazakhtelecom JSC (the "Company" or "Kazakhtelecom") was established in 1994 in accordance with legislation of the Republic of Kazakhstan.

The Company is incorporated, domiciled and operates in the Republic of Kazakhstan. The legal address of the Company is: 010000, Astana, 12 Sauran St., Republic of Kazakhstan.

The Company is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna" or the "Parent"), which owns 51% of the Company's controlling shares. Below is a list of the Company's shareholders as at 31 March 2017:

	31 March 2017 (unaudited)	31 December 2016
Samruk-Kazyna	**51,0%**	51,0%
SOBRIO LIMITED	**24,5%**	24,5%
ADR (The Bank of New York - depositor)	**9,2%**	9,2%
Alatau Capital Invest LLP	**3,7%**	3,7%
State Fund on Pension Assets JSC	**3,4%**	3,4%
Deran Investment B.V.	**2,0%**	2,0%
Other	**6,2%**	6,2%
	100%	100%

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

The Company and its subsidiaries listed in *Note 2* (hereinafter collectively referred to as 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, as well as wireless communication.

2. BASIS FOR PREPARATION

The interim condensed consolidated financial statements for the three months period ended 31 March 2017 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 2016.

Foreign currency translation

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

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

	31 March 2017	31 December 2016	31 March 2016
US dollar	**313.73**	**333.29**	343.06
Euro	**334.94**	**352.42**	388.24
Russian ruble	**5.57**	**5.43**	5.08

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS FOR PREPARATION (continued)

Subsidiaries

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

	Country of residence	Percentage ownership 31 March 2017 (unaudited)	31 December 2016
Nursat JSC	Kazakhstan	**100,00%**	100,00%
KT-IX LLC	Russia	**100,00%**	100,00%
KT Cloud Lab LLP	Kazakhstan	**100,00%**	100,00%
VostokTelecom LLP	Kazakhstan	**100,00%**	100,00%
Online,kg LLC	Kyrgyzstan	**100,00%**	100,00%
Info-Net Wireless LLP	Kazakhstan	**100,00%**	100,00%
Nursat+ LLP	Kazakhstan	**100,00%**	100,00%

3. CHANGES IN ACCOUNTING POLICIES

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2017, they do not have a material impact on the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

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

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changed (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its condensed interim consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the ended 31 December 2017.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

4. SEGMENT INFORMATION

The Group has two reportable operating segments as follows:

- Local, intercity and international wireline telecommunication services are mainly provided by Kazakhtelecom JCS, VOSTOKTELECOM LLP, KT Cloud Lab LLP and NURSAT JSC business units.
- GSM and LTE mobile telecommunication services provided by an associate Khan Tengri Holding B.V.

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

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

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

In February 2016, the Group has lost control of a subsidiary that provided services in the segment for the provision of mobile telecommunications services in the GSM and LTE standards *(Note 17)*. This disclosure of segment information does not include amounts relating to discontinued operations.

The following tables present revenue and segment profit information regarding the Group's operating segments for the three months ended 31 March 2017 and 2016.

For the three months ended 31 March 2017 (unaudited)

In thousands of tenge	Wireline telecom-munication	GSM and LTE telecom-munication	Other	Eliminations and adjustments	Consolidated
Revenue					
Sales to external customers	50,060,896	–	–	–	50,060,896
Inter-segment	–	–	52,670	(52,670)	–
Total revenue	50,060,896	–	52,670	(52,670)	50,060,896
Finance results					
Depreciation and amortization	(7,864,755)	–	(7,149)	–	(7,871,904)
Finance costs	(1,315,860)	–	–	–	(1,315,860)
Finance income	780,407	–	–	–	780,407
Share in loss of an associate	–	(1,942,580)	–	–	(1,942,580)
Accrual of allowance for doubtful receivables	(97,902)	–	–	–	(97,902)
Segment profit/(loss)	12,498,815	(1,942,580)	16,304	–	10,572,539

For the three months ended 31 March 2016 (unaudited)

In thousands of tenge	Wireline telecom-munication	GSM and LTE telecom-munication	Other	Eliminations and adjustments	Consolidated
Revenue					
Sales to external customers	49,022,651	–	–	–	49,022,651
Inter-segment	–	–	23,689	(23,689)	–
Total revenue	49,022,651	–	23,689	(23,689)	49,022,651
Finance results					
Depreciation and amortization	(7,574,654)	–	(24,074)	–	(7,598,728)
Finance costs	(1,441,712)	–	–	–	(1,441,712)
Finance income	1,080,456	–	–	–	1,080,456
Share in loss of associate	–	(1,307,162)	–	–	(1,307,162)
Accrual of allowance for doubtful receivables	(776,591)	–	–	–	(776,591)
Segment profit/(loss)	14,496,970	(1,307,162)	(34,295)	(101,040)	13,054,473

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SEGMENT INFORMATION (continued)

The following table presents segment assets and liabilities of the Group's operating segments as at 31 March 2017 and 31 December 2016:

In thousands of tenge	Wireline telecom-munication	GSM and LTE telecom-munication	Other	Eliminations and adjustments	Consolidated
Operating assets					
As at 31 March 2017 (unaudited)	**402,573,759**	**65,218,212**	**505,189**	**(353,855)**	**467,943,305**
As at 31 December 2016	401,684,781	67,160,792	441,401	(324,862)	468,962,112
Operating liabilities					
As at 31 March 2017 (unaudited)	**115,713,518**	**–**	**253,103**	**22,072**	**115,988,693**
As at 31 December 2016	124,895,545	–	254,647	14,310	125,164,502

5. PROPERTY AND EQUIPMENT

During the three months period ended 31 March 2017, the Group acquired property and equipment for 1,712,100 thousand tenge (unaudited) (during three months period ended 31 March 2016: 1,114,870 thousand tenge (unaudited)). During the three months period ended 31 March 2017, the Group disposed property and equipment with net book value of 146,205 thousand tenge (unaudited) (during three months period ended 31 March 2016: 49,026 thousand tenge (unaudited)).

The Group's main construction projects are capitalized expenses for modernization and construction of existing and new digital and wireline networks and fiber optic communication lines. As at 31 March 2017, the carrying value of construction in progress was 8,136,882 thousand tenge (unaudited) (as at 31 December 2016: 9,813,847 thousand tenge).

During the three months period ended 31 March 2017, the Group recognized depreciation expense amounting to 7,105,150 thousand tenge (unaudited) (during three months period ended 31 March 2016: 7,103,241 thousand tenge (unaudited)).

As at 31 March 2017, the carrying value of equipment purchased and held under finance leases and included in property and equipment amounted to 24,953,109 thousand tenge (unaudited) (as at 31 December 2016: 25,570,125 thousand tenge). During the three months period ended 31 March 2017 and 31 March 2016, the Group had no additions of telecommunication equipment held under finance leases. Leased assets are pledged as security for the related finance leases.

As at 31 March 2017, property and equipment, amounting to 119,221,859 thousand tenge (unaudited), were fully amortized (as at 31 December 2016: 116,565,628 thousand tenge).

6. INTANGIBLE ASSETS

During the three months period ended 31 March 2017, the Group acquired intangible assets for 1,054 thousand tenge (unaudited) (during three months period ended 31 March 2016: 32,090 thousand tenge (unaudited)).

During the three months period ended 31 March 2017, the Group recognized amortization expense amounting to 771,915 thousand tenge (unaudited) (during three months period ended 31 March 2016: 977,965 thousand tenge (unaudited)).

As at 31 March 2017 intangible assets (mainly software) with cost amounting to 15,656,942 thousand tenge (unaudited), were fully amortized (as at 31 December 2016: 8,508,183 thousand tenge).

7. INVESTMENTS IN AN ASSOCIATE

On 29 February 2016, the Group acquired 51% of the share capital and 49.48% of voting shares in the company Khan Tengri Holding B.V. *(Note 17)*, rendering GSM and LTE mobile telecommunications services in the Republic of Kazakhstan. Khan-Tengri Holding B.V. is a private entity that is not listed on a stock exchange. The Group's interest in Khan Tengri Holding B.V. is recorded in the interim condensed consolidated financial statements using the equity method.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INVESTMENTS IN AN ASSOCIATE (continued)

The table below illustrates the summarized financial information of the Group's investment in the Khan-Tengri Holding B.V. based on provisional assessment:

In thousands of tenge	31 March 2017 (unaudited)
Current assets	32,718,202
Non-current assets	272,263,937
Current liabilities	(55,139,506)
Non-current liabilities	(121,963,786)
Total equity	127,878,847
Group's carrying amount of the investment	65,218,2124

In thousands of tenge	Three months ended 31 March 2017 (unaudited)
Revenue	23,450,445
Operating expenses	(24,084,756)
Non-operating expenses	(2,309,687)
Loss before tax	(2,943,997)
Income tax benefit	–
Loss for the period	(2,943,997)
Total comprehensive loss for the period	(2,943,997)
Group's share of loss for the period	(1,942,580)

8. IMPAIRMENT TESTING OF GOODWILL

Goodwill is tested by the Group for impairment annually as at 31 December and when circumstances indicate the carrying value may be impaired. The Group's impairment test for goodwill is based on value-in-use calculations. The key assumptions used to determine the recoverable amount for the different cash generating units were disclosed in the annual consolidated financial statements for the year ended 31 December 2016.

As at 31 March 2017, no goodwill impairment indicators were identified.

9. TRADE RECEIVABLE

Trade accounts receivable comprised the following at 31 March 2017 and 31 December 2016:

In thousands of tenge	31 March 2017 (unaudited)	31 December 2016
Trade receivables	**30,507,580**	27,216,691
	30,507,580	27,216,691
Less: allowance for doubtful debts	**(2,180,446)**	(2,224,485)
	28,327,134	24,992,206

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. TRADE RECEIVABLE (continued)

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

In thousands of tenge	**31 March 2017 (unaudited)**	31 March 2016 (unaudited)
Allowance for doubtful debts at 1 January	**(2,224,485)**	(1,914,169)
Charge for the period	**(60,574)**	(752,832)
Write-offs for the period	**104,613**	251,376
Allowance for doubtful debts at 31 March	**(2,180,446)**	(2,415,625)

10. OTHER CURRENT FINANCIAL ASSETS

Other financial assets comprised the following at 31 March 2017 and 31 December 2016:

In thousands of tenge	**31 March 2017 (unaudited)**	31 December 2016
Bank deposits	**48,605,175**	**45,889,260**
Due from employees	**1,844,105**	**1,896,652**
Interest receivable on current bank accounts	**420,077**	**242,197**
Other receivable	**100,872**	**99,153**
Other	**5,987**	**5,805**
	50,976,216	**48,133,067**

Bank deposits with maturities over 3 months but less than 12 months were opened in local banks and were earning interest at the rates ranging from 1 to 13% per annum (as at 31 December 2016: from 1 to 14.5% per annum).

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following at 31 March 2017 and 31 December 2016:

In thousands of tenge	**31 March 2017 (unaudited)**	31 December 2016
Cash in current bank accounts	**19,245,853**	**20,976,246**
Bank deposits with maturity of less than 90 days	**5,922,156**	**3,332,900**
Cash on hand	**8,705**	**11,796**
	25,176,714	**24,320,942**

Cash on current bank accounts earn interest at the rates ranging from 0.1 to 10% per annum (as at 31 December 2016: from 0.1 to 13% per annum). Short-term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the rates ranging from 0.15 to 11.5% per annum (as at 31 December 2016: from 0.8 to 38% per annum).

At 31 March 2017 and 31 December 2016 cash and cash equivalents were denominated in various currencies as follows:

In thousands of tenge	**31 March 2017 (unaudited)**	31 December 2016
US dollars	**13,084,660**	**17,049,152**
Tenge	**12,042,633**	**7,237,491**
Russian rubles	**47,719**	**28,249**
Other	**1,702**	**6,050**
	25,176,714	**24,320,942**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. BORROWINGS

Borrowings comprised the following at 31 March 2017 and 31 December 2016:

In thousands of tenge	**Weighted average interest rate (unaudited)**	**31 March 2017 (unaudited)**	Weighted average interest rate	31 December 2016
Fixed interest rate borrowings with range between 7% and 9% p.a.	**8.13%**	**53,577,736**	8.35%	56,268,176
		53,577,736		56,268,176

As at 31 March 2017 and 31 December 2016, borrowings were denominated in the following currencies:

In thousands of tenge	**31 March 2017 (unaudited)**	31 December 2016
Tenge	**27,898,997**	28,450,534
Tenge, payments indexed to exchange rate tenge / US dollar	**25,678,739**	27,817,642
	53,577,736	56,268,176

Borrowings are repayable as follows:

In thousands of tenge	**31 March 2017 (unaudited)**	31 December 2016
Current portion	**1,326,074**	2,473,507
Maturity between 1 and 2 years	**2,631,009**	2,029,593
Maturity between 2 and 5 years	**37,443,098**	38,981,004
Maturity over 5 years	**12,177,555**	12,784,072
Total long-term portion	**52,251,662**	53,794,669
Total borrowings	**53,577,736**	56,268,176

13. OTHER NON-CURRENT AND CURRENT LIABILITIES

Non-current liabilities

Other non-current liabilities comprised the following at 31 March 2017 and 31 December 2016:

In thousands of tenge	**31 March 2017 (unaudited)**	31 December 2016
Deferred connection revenue	**1,701,680**	1,763,417
Guarantees issues to an associate	**688,845**	726,808
Asset retirement obligations	**155,265**	141,564
Other	**2,292,625**	1,577,350
	4,838,415	4,209,139

Asset retirement obligations

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. OTHER NON-CURRENT AND CURRENT LIABILITIES (continued)

Current Liabilities

Other current liabilities comprised the following at 31 March 2017 and 31 December 2016:

In thousands of tenge	**31 March 2017 (unaudited)**	31 December 2016
Liabilities to Khan-Tengri Holding BV	**4,842,282**	4,842,282
Taxes payable other than income tax	**3,553,176**	2,335,514
Due to employees	**3,149,814**	4,324,798
Dividends payable	**1,561,461**	1,547,439
Deferred connection revenue	**644,821**	662,586
Payables to pension funds	**493,375**	864,145
Guarantees issued	**151,852**	151,852
Other	**1,044,225**	1,400,556
	15,441,006	16,129,172

At 31 March 2017 and 31 December 2016, other current liabilities were not interest bearing and were primarily denominated in tenge.

14. REVENUE

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

In thousands of tenge	**31 March 2017 (unaudited)**	31 March 2016 (unaudited)
Data transfer services	**26,114,431**	25,153,524
Rendering of wireline and wireless phone services	**12,392,670**	13,533,408
Interconnect	**4,871,290**	2,458,621
Rent of lines	**4,052,989**	4,982,622
Other	**2,629,516**	1,567,681
	50,060,896	47,695,856

15. COST OF SALES

Cost of sales for the three months period ended 31 March comprised the following:

In thousands of tenge	**31 March 2017 (unaudited)**	31 March 2016 (unaudited)
Personnel costs	**11,313,684**	10,799,841
Depreciation and amortization	**7,813,664**	7,534,623
Rent of channels	**1,818,644**	2,677,730
Rental of equipment	**1,798,042**	411,501
Interconnect	**1,543,388**	2,170,692
Repair and maintenance	**1,398,554**	1,200,001
TV Content	**1,334,953**	1,126,802
Materials	**1,035,252**	853,268
Electricity	**733,517**	751,874
Fees for the right to provide telecom services	**707,952**	687,277
Security	**468,785**	436,258
Fees for use of frequency range	**48,634**	272,554
Other	**1,320,946**	980,539
	31,336,015	29,902,960

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. INCOME TAX EXPENSE

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

In thousands of tenge	**31 March 2017 (unaudited)**	31 March 2016 (unaudited)
Current income tax expense	**1,992,336**	2,539,789
Deferred income tax expense	**435,724**	482,919
	2,428,060	3,022,708

17. DISCONTINUED OPERATIONS

On 3 November 2015, the Group announced the decision of its Board of directors to enter into an agreement to form a joint venture in mobile segment based on Altel JSC (ALTEL 4G brand) and Mobile Telecom-Service LLP (Tele2 brand) businesses.

On 29 February 2016, Kazakhtelecom JSC and Tele2 completed the transaction on formation of a joint venture in mobile segment based on Altel JSC and Mobile Telecom-Service LLP businesses. As a result of this transaction, Kazakhtelecom JSC received 51% of the authorised capital and 49.48% of voting shares in Khan Tengri Holding B.V. in exchange for 100% share in Altel JSC *(Note 7)*.

According to the transaction terms, on 25 February 2016, the Company provided a guarantee to Mobile Telecom Service LLP under the credit facility from Kazkommertsbank with a credit limit of up to KZT 14,000,000 thousand for the period until 25 February 2023 and a guarantee to Altel JSC under the credit facility from Development Bank of Kazakhstan JSC with a credit limit of up to KZT 10,008,780 thousand for the period until 19 December 2024.

Also, according to the transaction terms, on 29 February 2016 the Company and Mobile Telecom Service LLP agreed to extend the maturity of the Company's receivables from Mobile Telecom Service LLP until 2031. Receivables were discounted at the date of restructuring using the 10% market interest rate.

On 25 February 2016, the amount due from Altel JSC on the credit line in Development Bank of Kazakhstan JSC of KZT 26,991,220 thousand and the amount due on the credit line in SB Sberbank of Russia of KZT 3,000,000 thousand was transferred to the Company.

The major classes of assets and liabilities of Altel JSC as at the date of disposal were as follows:

In thousands of tenge	**29 February 2016 (unaudited)**
Assets	
Property and equipment	**28,048,578**
Intangible assets	**8,082,670**
Trade receivables	**3,889,479**
Inventory	**2,067,089**
Cash and cash equivalents	**1,683,295**
Deferred tax asset	**911,526**
Other	**2,453,617**
Total assets	**47,136,254**
Liabilities	
Trade payables	**(10,423,524)**
Advances received	**(1,389,595)**
Other	**(4,368,772)**
Total liabilities	**(16,181,891)**
Disposed net assets	**30,954,363**

17. DISCONTINUED OPERATIONS (continued)

The results of discontinued operation for the period are presented below:

In thousands of tenge	31 March 2016 (unaudited)
Revenue	4,961,007
Cost of sales	(2,533,355)
Gross profit	**2,427,652**
General and administrative expenses	(585,577)
Selling expenses	(601,613)
Operating profit/(loss)	**1,240,462**
Finance costs	(421,325)
Finance income	175,085
Other income	47,958
Profit/(loss) before tax from discontinued operations	**1,042,180**
Income tax expenses	(423,337)
Total profit for the year from discontinued operations	**618,843**

Net cash flows of Altel JSC:

In thousands of tenge	31 March 2016 (unaudited)
Operating	(10,770,566)
Investing	(4,777,192)
Financing	8,542,902
Net cash (outflow)/inflow	**(7,004,856)**

18. NON-CASH TRANSACTIONS

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

During the three months period ended 31 March 2017, 4,367,118 thousand tenge (unaudited) was paid for property and equipment purchased in the preceding year (during the three months period ended 31 March 2016: 4,848,164 thousand tenge (unaudited)). Property and equipment of 490,927 thousand tenge (unaudited) were purchased during the three months period ended 31 March 2017 but not paid by 31 March 2017 (purchased, but not paid by 31 March 2016: 418,689 thousand tenge (unaudited)).

19. RELATED PARTY DISCLOSURES

The category "parent-controlled entities" comprises entities controlled by the Parent, except for banks controlled by the Parent. Transactions with (purchases from) parent-controlled entities are mainly represented by transactions of the Group with NC Kazakhstan Temir Zholy JSC, NC KazMunayGaz JSC, KEGOC JSC, Kazpost JSC. The Group provides telecommunication services to Parent and parent-controlled entities.

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

As at 31 March 2017 and 31 December 2016 the Group has not recorded impairment of trade accounts receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. RELATED PARTY DISCLOSURES (continued)

Sales and purchases with related parties during the periods of three months period ended 31 March 2017 and 2016 and the balances with related parties at 31 March 2017 and 31 December 2016 were as follows:

In thousands of tenge	**31 March 2017 (unaudited)**	31 March 2016 (unaudited)
Sales of goods and services		
Parent	78,737	29,010
Parent-controlled entities	1,022,034	677,939
Associate	8,546,831	430,683
Government bodies	3,003,749	6,804,707
Purchases of goods and services		
Parent	–	30,226
Parent-controlled entities	446,339	469,657
Associate	4,452,383	467,764
Government bodies	1,459	225,413
Interest incurred on borrowings		
Entities under government control		
Development Bank of Kazakhstan JSC	977,712	866,851
Average interest rate on borrowings	8.15%	8.07%

In thousands of tenge	**31 March 2017 (unaudited)**	31 December 2016
Cash and cash equivalents		
Entities under government control		
Development Bank of Kazakhstan JSC	130	3,240
Borrowings		
Entities under government control		
Development Bank of Kazakhstan JSC	53,057,393	55,137,133
Trade and other receivables		
Parent	73,685	51,156
Parent-controlled entities	985,935	539,019
Associate	3,128,524	11,164,458
Government bodies	5,793,669	4,411,156
Accounts payable		
Parent-controlled entities	354,792	342,445
Associate	4,477,960	8,231,494
State entities	151,108	525,492
Other long term assets		
Long term loans given to key personnel	46,167	38,513

The Government of the Republic of Kazakhstan did not provide certain subsidies to the Group for provision of universal services in rural areas for the three months period ended 31 March 2017 (unaudited), (for the three months period ended 31 March 2016: 1,326,795 thousand tenge (unaudited)).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. FINANCIAL INSTRUMENTS

Fair values

As at 31 March 2017 and 31 December 2016, 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 receivables, trade payables and other current monetary assets and liabilities approximates their fair value due to the short-term maturity of these financial instruments. Interest-bearing loans and borrowings are stated at amortized costs which approximate their fair values.

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

21. COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of telecommunication equipment. As at 31 March 2017 the Group had contractual commitments totaling 4,003,819 thousand tenge (unaudited) (as at 31 December 2016: 11,107,684 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 2017. As at 31 March 2017, 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. CALCULATION OF BOOK VALUE PER COMMON SHARE

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

BVCS = NAV / NOCS, where

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

As at 31 December, 2016:

BVCS = (326,336,933 / 10,707,323) x 1,000 = 30,478

As at 31 March, 2017:

BVCS = (335,219,481 / 10,707,323) x 1,000 = 31,307

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

As at 31 December, 2016– 326,336,933
As at 31 March, 2017 – 335,219,481

NOCS – number of outstanding common shares as of the date of calculation;
As at 31 December, 2016– 10,707,323
As at 31 March, 2017 – 10,707,323

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

NAV = (TA – IA) – TL – PS, where

As at 31 December, 2016:
NAV = (468,962,112 – 17,140,121) – 125,164,502 – 320,556= 326,336,933 in thousands of Tenge

As at 31 March, 2017:
NAV = (467,943,305 – 16,414,575) – 115,988,693 – 320,556= 335,219,481 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 December, 2016 – 468,962,112
As at 31 March, 2017 – 467,943,305

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

As at 31 December, 2016 – 17,140,121
As at 31 March, 2017 – 16,414,575

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

As at 31 December, 2016 – (37,600,370 + 87,564,132) = 125,164,502
As at 31 March, 2017 – (29,379,949 + 88,608,744) = 115,988,693

22. 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 December, 2016 – 320,556

As at 31 March, 2017 – 320,556

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

BVPS1 = (EPC + DCPS1) / NOPS1, where

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

As at 31 December, 2016:

BVPS1 = ((1,867,291 + 874,244) / 320,556) x1,000 = 8,552

As at 31 March, 2017:

BVPS1 = ((1,881,313 + 874,244) / 320,556) x1,000 = 8,596

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

As at 31 December, 2016 – 320,556

As at 31 March, 2017 – 320,556

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 December, 2016 – 1,867,291

As at 31 March, 2017 – 1,881,313

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

As at 31 December, 2016 – 874,244

As at 31 March, 2017 – 874,244

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, where:

As at 31 December, 2016:

EPC = 1,546,735 + 320,556 = 1,867,291 thousands of Tenge

As at 31 March, 2017:

EPC = 1,560,757 + 320,556 = 1,881,313 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 December, 2016 – 1,546,735

As at 31 March, 2017 – 1,560,757