ACCOUNTING POLICIES AND NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For three months period ended 31 March, 2018

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 2018:

	31 March 2018 (unaudited)	31 December 2017
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 rental 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 also leases out lines and provides 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 2018 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 2017.

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 2018	31 December 2017	31 March 2017
US dollar	**318.31**	332.33	313.73
Euro	**392.32**	398.23	334.94
Russian ruble	**5.55**	5.77	5.57

ACCOUNTING POLICIES AND 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 2018 (unaudited)	31 December 2017
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%
Info-Net Wireless LLP	Kazakhstan	**100.00%**	100.00%
Nursat+ LLP	Kazakhstan	**100.00%**	100.00%

3. CHANGES IN ACCOUNTING POLICIES

New standards, clarifications and amendments to existing standards and explanations

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 2017, except for the adoption of new standards and interpretations effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group first applies IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. As required by IAS 34, information about the nature and impact of these changes is disclosed below.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue and the related explanations and applies to any revenue arising from contracts with customers, unless the contracts relate to scope of application of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires that organizations apply judgment and take into account all relevant facts and circumstances when applying each phase of the model to contracts with customers. The standard also contains requirements for accounting for additional costs for contracting and costs directly related to the implementation of the contract.

The adoption of IFRS 15 did not have a significant impact on the interim condensed consolidated financial statements of the Group.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 brings together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group did not recalculate comparative information for the annual report beginning on January 1, 2017, and recognized the adjustment of the balance of retained earnings as of January 1, 2018.

ACCOUNTING POLICIES AND NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. CHANGES IN ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 9 Financial Instruments (continued)

(a) Classification and measurement

IFRS 9 includes a new approach to the classification and measurement of financial assets, which reflects the business model of the organization for the management of financial assets and the characteristics of their cash flows. IFRS 9 defines three main categories of valuation for financial assets: financial assets carried at amortized cost, at fair value through other comprehensive income (OCI) and at fair value through profit or loss. The standard excludes existing categories in accordance with IFRS (IAS 39), including held-to-maturity investments, trade and other receivables, loans to related parties and other financial assets.

(b) Impairment

The new requirements related to impairment in IFRS 9 are based on the model of expected credit losses and replace the loss model of IFRS (IAS 39). This approach reflects a general scheme of deterioration or improvement in the credit quality of financial instruments. The amount of expected credit losses recognized as an assessment reserve or an estimated loss liability depends on the degree of deterioration in credit risk after initial recognition.

The new impairment model is applicable to financial assets discloses at amortized cost, borrowings, assets under contract in accordance with IFRS 15 Revenue under Contracts with Customers, trade receivables, loan commitments and financial guarantee contracts.

According to IFRS 9, there are two bases for estimating an impairment loss:

- 12-month expected credit losses: expected credit losses due to defaults possible within 12 months after the reporting date; or
- Expected credit losses over the life of the instrument: the expected credit losses that result from all possible defaults over the expected life of the financial instrument.

The Group plans to adopt a simplified approach and reflect expected credit losses for the entire life of the trade and other receivables. For the estimation of the expected credit losses, trade and other receivables will be grouped on the basis of credit risk and days of delay in payment.

For long-term bank deposits and other financial assets recorded at amortized cost, the Group plans to adopt a general approach.

For short-term bank deposits, cash and cash equivalents, the Group assessed the credit risk as low based on the credit ratings of banks and financial institutions.

The application of the requirements of IFRS 9 with respect to expected credit losses resulted in an increase in valuation allowances for impairment losses on financial assets. As a result of this increase, the Group adjusted the balance of retained earnings as at 1 January 2018 in this interim condensed consolidated statement of changes in equity for expected credit losses on financial assets.

(c) Hedge accounting

The Group does not have hedging relationships that are designated as effective hedging relationships and, accordingly, the requirements for hedge accounting under IFRS 9 will not affect the interim condensed consolidated financial statements of the Group.

3. CHANGES IN ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group does not perform share-based payment transactions on a net basis for tax liabilities withheld at the source. Consequently, these amendments did not affect the interim condensed consolidated financial statements of the Group.

4. SEGMENT INFORMATION

The Group has two reportable operating segments as follows:

- Rendering fixed-line telecommunication services to local, national long-distance and international to business units of Kazakhtelecom JSC, Vostoktelecom LLP, KT Cloud Lab LLP and Nursat JSC;
- Rendering mobile telecommunication services in GSM and LTE standards by a business unit of 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.

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. This disclosure of segment information does not include amounts relating to discontinued operations.

The following tables disclose revenue and segment profit information for the Group's operating segments for the three months ended 31 March 2018 and 2017.

For the three months ended 31 March 2018 (unaudited)

In thousands of tenge	Fixed line	GSM and LTE telecom-munication	Other	Eliminations and adjustments	Group
Revenue					
Sales to external customers	**51,369,298**	**–**	**98,825**	**–**	**51,468,123**
Inter-segment	**–**	**–**	**55,198**	**(55,198)**	**–**
Total revenue	**51,369,298**	**–**	**154,023**	**(55,198)**	**51,468,123**
Financial results					
Depreciation and amortization	**(9,492,552)**	**–**	**(28,794)**	**–**	**(9,521,346)**
Finance costs	**(1,096,814)**	**–**	**–**	**–**	**(1,096,814)**
Finance income	**792,413**	**–**	**490**	**–**	**792,903**
Share in proft/(loss) of associates	**–**	**799,725**	**38,019**	**–**	**837,744**
Allowance for doubtful receivables	**(1,067,207)**	**–**	**(18)**	**–**	**(1,067,225)**
Segment profit/(loss)	**11,268,873**	**799,725**	**(21,524)**	**–**	**12,047,074**

ACCOUNTING POLICIES AND NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SEGMENT INFORMATION (continued)

For the three months ended 31 March 2017 (unaudited)

In thousands of tenge	Fixed line	GSM and LTE telecom-munication	Other	Eliminations and adjustments	Group
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
Financial 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 proft/(loss) of associates	–	(1,942,580)	–	–	(1,942,580)
Allowance for doubtful receivables	(97,902)	–	–	–	(97,902)
Segment profit/(loss)	12,498,815	(1,942,580)	16,304	–	10,572,539

The following table presents segment assets and liabilities of the Group's operating segments as at 31 March 2018 and 31 December 2017:

In thousands of tenge	**Fixed line**	**GSM and LTE telecom-munication**	**Other**	**Eliminations and adjustments**	**Group**
Operating assets					
As at 31 March 2018 (unaudited)	**407,345,418**	**69,108,059**	**1,661,571**	**(631,629)**	**477,483,419**
As at 31 December 2017	401,862,495	68,327,015	1,614,407	(489,725)	471,314,192
Operating liabilities					
As at 31 March 2018 (unaudited)	**110,900,937**	**–**	**306,966**	**(37,260)**	**111,170,643**
As at 31 December 2017	111,850,809	–	354,742	704	112,206,255

5. PROPERTY AND EQUIPMENT

During the three months period ended 31 March 2018, the Group acquired property and equipment for KZT 1,230,417 thousand (unaudited) (during three months period ended 31 March 2017: KZT 1,712,100 thousand (unaudited)). During the three months period ended 31 March 2018, the Group disposed property and equipment with net book value of KZT 34,516 thousand (unaudited) (during three months period ended 31 March 2017: KZT 146,205 thousand (unaudited)).

Construction-in-progress is mainly represented by network construction and telecommunication equipment for installation.

During the three months period ended 31 March 2018, the Group recognized depreciation expense amounting to KZT 8,972,955 thousand (unaudited) (during three months period ended 31 March 2017: KZT 7,105,150 thousand (unaudited)).

As at 31 March 2018, the net book value of equipment used by the Group under finance leases and included in property and equipment was equal to KZT 21,155,487 thousand (unaudited) (as at 31 December 2017: KZT 23,365,385 thousand). Additions during the three months period ended 31 March 2018 and 31 March 2017, the Group had no additions of telecommunication equipment held under finance leases). Leased assets were pledged as collateral under the respective finance lease agreements.

As at 31 March 2018, property and equipment, amounting to KZT 138,010,460 thousand (unaudited), were fully amortized (as at 31 December 2017: KZT 135,390,566 thousand).

ACCOUNTING POLICIES AND NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. INTANGIBLE ASSETS

During the three months period ended 31 March 2018, the Group acquired intangible assets for KZT 49,897 thousand (unaudited) (during three months period ended 31 March 2017: KZT 1,054 thousand (unaudited)).

During the three months period ended 31 March 2018, the Group recognized amortization expense amounting to KZT 726,929 thousand (unaudited) (during three months period ended 31 March 2017: KZT 771,915 thousand (unaudited)).

As at 31 March 2018 intangible assets (mainly software) with cost amounting to KZT 8,531,105 thousand (unaudited), were fully amortized (as at 31 December 2017: KZT 8,372,440 thousand).

7. INVESTMENTS IN AN ASSOCIATE

Investments in Khan Tengri Holding B.V.

On 29 February 2016, the Group acquired 51% share capital and 49.48% of voting shares in Khan Tengri Holding B.V. rendering GSM and LTE mobile telecommunication services in the Republic of Kazakhstan. Khan Tengri Holding B.V. is a private entity and not listed on the 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.

The table below provides a summarized financial information on the Group's investment in Khan Tengri Holding B.V. on the basis of an assessment of the fair value:

In thousands of tenge	**31 March 2018 (unaudited)**	31 December 2017
Current assets	**45,175,494**	39,906,159
Non-current assets	**154,950,045**	153,137,417
Current liabilities	**(51,388,388)**	(46,052,692)
Non-current liabilities	**(126,655,996)**	(126,441,186)
Equity	**22,081,155**	20,549,698
Share of the Group in equity – 51%	**11,261,390**	10,480,346
Goodwill	**57,846,669**	57,846,669
Carrying amount of investment of the Group	**69,108,059**	68,327,015

In thousands of tenge	**31 March 2018 (unaudited)**	31 March 2017 (unaudited)
Revenue	**27,705,322**	23,450,446
Operating expenses	**(23,804,177)**	(24,949,740)
Non-operating expenses	**(2,713,819)**	(2,309,687)
Profit / (loss) before tax	**1,187,326**	(3,808,891)
Income tax benefit	**344,133**	–
Profit / (loss) for the period	**1,531,459**	(3,808,891)
Total comprehensive income / (loss) for the period	**1,531,459**	(3,808,891)
Share of the Group in profit / (loss) for the period	**781,044**	(1,942,580)

7. INVESTMENTS IN AN ASSOCIATE (continued)

Investments in QazCloud LLP

Based on the decision of the Board of Directors of Kazakhtelecom JSC, on 17 of August 2016, Kazakhtelecom JSC and Samruk-Kazyna Business Service LLP signed the agreement of purchase and sale of 51% interest of Kazakhtelecom JSC in the charter capital of Kazakhtelecom Industrial Enterprises Services LLP.

On 4 October 2017, Kazakhtelecom Industrial Enterprises Services LLP was re-registred with name being changed to QazCloud LLP.

On 25 July 2017, the Board of Directors of Kazakhtelecom JSC approved a decision to make an additional investment contribution to the charter capital of QazCloud LLP in the amount of KZT 1,973,960 thousand.

On 15 November 2017, the Group made a partial contribution, in the amount of KZT 986,980 thousand, in accordance with the actual need for the charter capital of QazCloud LLP.

The table below provides summarized financial information on individually insignificant associate, QazCloud LLP:

In thousands of tenge	**31 March 2018 (unaudited)**	31 March 2017 (unaudited)
Revenue	**443,938**	–
Operating incomes	**49,700**	–
Non-operating expenses	**(414,441)**	(4,724)
Profit / (loss) before tax	**79,197**	(4,724)
Income tax benefit	**(1,607)**	(1,354)
Profit / (loss) for the period	**77,590**	(6,078)
Total comprehensive income /(loss) for the period	**77,590**	(6,078)
Unrecognized accumulated losses	–	(7,988)
Share of the Group in profit/(loss) for the period	**38,019**	(10,966)

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 2017.

As at 31 March 2018, no goodwill impairment indicators were identified.

9. TRADE RECEIVABLE

As at 31 March 2018 and 31 December 2017 trade receivable comprised:

In thousands of tenge	**31 March 2018 (unaudited)**	31 December 2017
Trade receivables	**35,853,865**	34,370,423
	35,853,865	34,370,423
Less: allowance for doubtful debts	**(3,515,841)**	(2,276,195)
	32,338,024	32,094,228

9. TRADE RECEIVABLE (continued)

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

In thousands of tenge	**31 March 2018 (unaudited)**	31 March 2017 (unaudited)
Allowance for doubtful receivables at 1 January	**(2,276,195)**	(2,224,485)
Charge for the period	**(1,323,728)**	(60,574)
Write-off for the period	**84,082**	104,613
Allowance for doubtful receivables at 31 March	**(3,515,841)**	(2,180,446)

10. OTHER CURRENT FINANCIAL ASSETS

As at 31 March 2018 and 31 December 2017 other current financial assets comprised:

In thousands of tenge	**31 March 2018 (unaudited)**	31 December 2017
Bank deposits	**45,273,032**	58,493,090
Loans to employees	**2,027,847**	2,060,217
Restricted cash	**446,198**	446,198
Reimbursement of fee for using radio frequencies	**305,417**	205,709
Interest receivable	**235,204**	371,432
Due from employees	**58,413**	114,825
Other accounts receivable	**1,948,540**	1,129,742
Other	**3,922**	4,065
	50,298,573	62,825,278
Less: allowance for doubtful amounts	**(771,245)**	(691,591)
	49,527,328	62,133,687

Bank deposits with initial maturity of more than 3 (three) months but less than 12 (twelve) months have been placed with local banks and earned income at interest rates of 1 to 3.1% per annum (as at 31 December 2017: from 1 to 13% per annum).

11. CASH AND CASH EQUIVALENTS

As at 31 March 2018 and 31 December 2017 cash and cash equivalents comprised:

In thousands of tenge	**31 March 2018 (unaudited)**	31 December 2017
Cash in current bank accounts	**42,600,372**	14,909,487
Deposits with less than 90 days' maturity from the date of opening	**161,999**	1,071,989
Cash on hand	**13,915**	4,467
	42,776,286	15,985,943

Cash on current bank accounts earn interest at the rates ranging from 0.1% to 9% per annum (2017: from 0.1% to 10% per annum). As 31 March 2018 cash on current bank accounts included an amount of KZT 161,999 thousand placed on overnight deposits with a rate of up to 7% (as at 31 December 2017, " an amount of KZT 74,999 thousand placed on overnight deposits). As at 31 March 2018, the Group did not place short-term bank deposits opened for for varying periods between one day and three months (2017: from 0.15 to 1.5% per annum).

11. CASH AND CASH EQUIVALENTS (continued)

At 31 March 2018 and 31 December 2017 cash and cash equivalents were denominated in the following currencies:

In thousands of tenge	**31 March 2018 (unaudited)**	31 December 2017
Tenge	**23,960,674**	7,200,660
US dollars	**18,739,651**	8,654,970
Russian rubles	**75,862**	98,540
Other	**99**	31,773
	42,776,286	15,985,943

12. BORROWINGS

As at 31 March 2018 and 31 December 2017 borrowings comprised:

In thousands of tenge	**Weighted average interest rate (unaudited)**	**31 March 2018 (unaudited)**	Weighted average interest rate	31 December 2017
Fixed interest rate borrowings with range between 7% and 9% p.a.	**8.00%**	**27,458,365**	8.13%	27,325,554
		27,458,365		27,325,554

As at 31 March 2018 and 31 December 2017 borrowings were denominated in the following currencies:

In thousands of tenge	**31 March 2018 (unaudited)**	31 December 2017
Tenge	**27,458,365**	27,325,554
	27,458,365	27,325,554

Borrowings are repayable as follows:

In thousands of tenge	**31 March 2018 (unaudited)**	31 December 2017
Current portion	**3,097,190**	2,357,864
Maturity between 1 and 2 years	**4,065,248**	4,065,248
Maturity between 2 and 5 years	**12,177,556**	12,177,556
Maturity over 5 years	**8,118,371**	8,724,886
Total non-current portion of borrowings	**24,361,175**	24,967,690
Total borrowings	**27,458,365**	27,325,554

13. OTHER NON-CURRENT AND CURRENT LIABILITIES

Other non-current financial liabilities

As at 31 March 2018 and 31 December 2017 other non-current financial liabilities comprised:

In thousands of tenge	**31 March 2018 (unaudited)**	31 December 2017
Guarantees issued	**945,498**	258,551
Non-current accounts payable	**1,807**	1,880
	947,305	260,431

ACCOUNTING POLICIES AND NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Other non-current liabilities

As at 31 March 2018 and 31 December 2017 other non-current liabilities comprised:

In thousands of tenge	**31 March 2018 (unaudited)**	31 December 2017
Deferred connection income on subscribers	**1,398,145**	1,444,644
Deferred income from operators	**3,294,765**	2,758,768
Decommissioning liabilities	**147,953**	145,985
Other	**1,114,195**	1,012,450
	5,955,058	5,361,847

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.

Other current financial liabilities

As at 31 March 2018 and 31 December 2017 other current financial liabilities comprised:

In thousands of tenge	**31 March 2018 (unaudited)**	31 December 2017
Payable to Khan Tengri Holding B.V.	**4,842,282**	4,842,282
Payables to employees	**3,909,418**	6,239,349
Dividends payable	**1,640,994**	1,628,625
Guarantees issued	**72,429**	82,150
Other	**566,895**	563,655
	11,032,018	13,356,061

Other current liabilities

As at 31 March 2018 and 31 December 2017 other current liabilities comprised:

In thousands of tenge	**31 March 2018 (unaudited)**	31 December 2017
Taxes payable other than income tax	**5,253,267**	2,600,717
Deferred connection income on subscribers	**558,992**	586,369
Payable to pension funds	**477,065**	718,267
Deferred income from operators	**383,380**	412,170
Other	**761,992**	504,137
	7,434,696	4,821,660

At 31 March 2018 and 31 December 2017, other current liabilities were not interest bearing and were primarily denominated in tenge.

ACCOUNTING POLICIES AND NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. REVENUE

Revenue for the three months period ended 31 March comprised:

In thousands of tenge	**31 March 2018 (unaudited)**	31 March 2017 (unaudited)
Data transfer services	**27,900,518**	26,114,431
Rendering of fixed line and wireless phone services	**11,301,206**	12,392,670
Rent of lines	**4,644,872**	4,871,290
Interconnect	**3,217,324**	4,052,989
Other	**4,404,203**	2,629,516
	51,468,123	50,060,896

15. COST OF SALES

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

In thousands of tenge	**31 March 2018 (unaudited)**	31 March 2017 (unaudited)
Personnel costs	**10,844,599**	11,313,684
Depreciation and amortization	**9,473,577**	7,813,664
Rental of channels	**2,070,498**	1,818,644
Rental of equipment	**1,736,584**	1,798,042
Content	**1,341,366**	1,334,953
Interconnect	**1,103,158**	1,543,388
Repair and maintenance	**950,240**	1,398,554
Inventories	**784,261**	1,035,252
Fee to provide telecom services	**735,235**	707,952
Electricity	**703,833**	733,517
Utilities	**543,454**	486,598
Security and safety	**439,756**	468,685
Business trip expenses	**124,858**	129,678
Insurance	**124,553**	103,797
Rent of transponders related to satelite communications	**112,063**	179,286
Fees for radiofrequencies use	**55,188**	48,634
Other	**530,682**	421,587
	31,673,905	31,336,015

16. INCOME TAX EXPENSE

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

In thousands of tenge	**31 March 2018 (unaudited)**	31 March 2017 (unaudited)
Current corporate income tax expenses	**2,733,293**	1,992,336
Deferred income tax (benefit) / expenses	**(72,198)**	435,724
	2,661,095	2,428,060

17. 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 2018, KZT 4,585,174 thousand (unaudited) was paid for property and equipment purchased in the preceding year (during the three months period ended 31 March 2017: KZT 4,367,118 thousand (unaudited)). Property and equipment of KZT 965,988 thousand (unaudited) were purchased during the three months period ended 31 March 2018 but not paid by 31 March 2018 (purchased, but not paid by 31 March 2017: KZT 490,927 thousand (unaudited)).

ACCOUNTING POLICIES AND NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. RELATED PARTY TRANSACTIONS

The category 'entities under control of the Parent' include entities controlled by the Parent Company. Transactions with such 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 the Parent and entities controlled by the Parent.

As at 31 March 2018 and 31 December 2017 the Group has not any impairment of accounts receivable relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Sales and purchases with related parties during the periods of three months period ended 31 March 2018 and 2017 and the balances with related parties at 31 March 2018 and 31 December 2017 were as follows:

In thousands of tenge	**31 March 2018 (unaudited)**	31 March 2017 (unaudited)
Sales of goods and services		
Parent	**107,403**	78,737
Parent-controlled entities	**769,432**	1,021,982
Associate (Khan Tengri Holding B.V.)	**5,691,360**	8,546,831
Associate (Qaz Cloud LLP)	**348**	52
Government institutions	**5,998,733**	3,003,749
Purchases of goods and services		
Parent	**649**	–
Parent-controlled entities	**654,180**	446,339
Associate (Khan Tengri Holding B.V.)	**2,945,148**	4,452,383
Government institutions	**2,443**	1,459
Interest incurred on borrowings		
Entities under state control (Development Bank of Kazakhstan JSC)	**514,802**	977,712
Average interest rate on borrowings	**8.11%**	8.15%

In thousands of tenge	**31 March 2018 (unaudited)**	31 December 2017
Cash and cash equivalents		
Entities under state control (Development Bank of Kazakhstan JSC)	**156**	172
Borrowings		
Entities under state control (Development Bank of Kazakhstan JSC)	**27,452,188**	27,319,491
Trade and other accounts receivable		
Parent	**107,415**	56,378
Parent-controlled entities	**905,377**	797,881
Associate (Khan Tengri Holding B.V.)	**15,315,474**	14,949,354
Associate (Qaz Cloud LLP)	**254**	71
Government institutions	**4,702,790**	7,078,905
Accounts payable		
Parent-controlled entities	**290,836**	172,879
Associate (Khan Tengri Holding B.V.)	**15,063,809**	9,370,735
Government institutions	**359,145**	477,877
Other non-current assets		
Long-term loans to key management personnel	**28,850**	27,294
Long term deposits with Eximbank JSC	**2,872,053**	3,323,300

19. FINANCIAL INSTRUMENTS

Fair values

As at 31 March 2018 and 31 December 2017, 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.

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 31 March 2018 the Group had contractual commitments totaling KZT 5,941,142 thousand (unaudited) (as at 31 December 2017: KZT 3,582,193 thousand) 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 2018. As at 31 March 2018, 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.

21. 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 KZT;

As at 31 December, 2016:

BVCS = (343,194,837 / 10,707,323) x 1,000 = 32,052

As at 31 March, 2017:

BVCS = (351,113,124 / 10,707,323) x 1,000 = 32,791

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

As at 31 December, 2017 – 343,194,837
As at 31 March, 2018 – 351,113,124

NOCS – number of outstanding common shares as of the date of calculation;
As at 31 December, 2017 – 10,707,323
As at 31 March, 2018 – 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, 2017:
NAV = (471,314,192 – 15,592,544) – 112,206,255 – 320,556= 343,194,837 in thousands of KZT

As at 31 March, 2018:
NAV = (477,483,419 – 14,879,096) – 111,170,643 – 320,556= 351,113,124 in thousands of KZT

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

As at 31 December, 2017 – 471,314,192
As at 31 March, 2018 – 477,483,419

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

As at 31 December, 2017 – 15,592,544
As at 31 March, 2018 – 14,879,096

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

As at 31 December, 2017 – (42,080,061+ 70,126,194) = 112,206,255

As at 31 March, 2018 – (41,096,369+ 70,074,274) = 111,170,643

21. 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 KZT;

As at 31 December, 2017 – 320,556

As at 31 March, 2018 – 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 KZT;

As at 31 December, 2017:

BVPS1 = ((1,862,544 + 874,244) / 320,556) x1,000 = 8,538

As at 31 March, 2018:

BVPS1 = ((1,874,913+ 874,244) / 320,556) x1,000 = 8,576

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

As at 31 December, 2017 – 320,556

As at 31 March, 2018 – 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 KZT;

As at 31 December, 2017 – 1,862,544

As at 31 March, 2018 – 1,874,913

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

As at 31 December, 2017 – 874,244

As at 31 March, 2018 – 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, 2017:

EPC = 1,541,988+ 320,556 = 1,862,544 thousands of KZT

As at 31 March, 2018:

EPC = 1,554,357+ 320,556 = 1,874,913 thousands of KZT

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 KZT;

As at 31 December, 2017 – 1,541,988

As at 31 March, 2018 – 1,554,357