

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. CORPORATE INFORMATION

Kazakhtelecom JSC (the “Company” or “Kazakhtelecom”) was established in June 1994 in accordance with the 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 owned 51% of the Company’s controlling stock. The following lists the shareholders of the Company’s stock:

	30 June 2016 (unaudited)	31 December 2015
Samruk-Kazyna	51.0%	51.0%
Bodam B.V.	16.9%	16.9%
ADR (The Bank of New York is a depositor)	9.8%	9.8%
Deran Services Limited	7.6%	7.6%
State Fund on Pension Assets JSC	3.4%	3.4%
Kazkommertsbank JSC	3.1%	3.1%
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* (together the “Group”) have a significant share of the fixed line communication market, including local, long-distance intercity and international telecommunication services including CIS and non-CIS countries; and provides also rent of lines, data transfer services and wireless communication services.

The interim condensed consolidated financial statements were authorised for issue on 2 August 2016 on behalf of the Management of the Company by the Acting Chief Financial Director.

2. BASIS FOR PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2016 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 2015.

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:

	30 June 2016	31 December 2015	30 June 2015
US dollar	338.66	340.01	186.20
Euro	377.20	-371.46	206.98
Russian ruble	5.28	4.61	3.37

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS FOR PREPARATION (continued)

Subsidiaries

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

	Country of residence	Percentage ownership	
		30 June 2016 (unaudited)	31 December 2015
NURSAT JSC	Kazakhstan	100%	80%
Kazakhtelecom Industrial Enterprises Services LLP	Kazakhstan	100%	100%
Signum LLC	Russia	100%	100%
KT Cloud Lab LLP	Kazakhstan	100%	100%
VOSTOKTELECOM LLP	Kazakhstan	100%	100%
Digital TV LLP	Kazakhstan	100%	100%
MaxCom LLP	Kazakhstan	100%	100%
Online.kg LLC	Kyrgyzstan	100%	100%
Info-Net Wireless LLP	Kazakhstan	100%	100%
ALTEL JSC	Kazakhstan	–	100%

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 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016. 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 2016, 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:

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of comprehensive income. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer and is not involved in any rate-regulated activities, this standard does not apply.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group's interim condensed consolidated financial statements as there has been no interest acquired in a joint operation during the period.

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

3. CHANGES IN ACCOUNTING POLICIES (continued)**New standards, interpretations and amendments adopted by the Group (continued)***Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact to the Group's interim condensed consolidated financial statements given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 *Agriculture*. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact to the Group's interim condensed consolidated financial statements as the Group does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in their separate financial statements will have to apply that change retrospectively. First-time adopters of IFRS electing to use the equity method in their separate financial statements will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group's interim condensed consolidated financial statements.

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

*IFRS 7 Financial Instruments: Disclosures**(i) Servicing contracts*

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

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

3. CHANGES IN ACCOUNTING POLICIES (continued)**New standards, interpretations and amendments adopted by the Group (continued)***Annual improvements 2012-2014 cycle (continued)**IAS 19 Employee Benefits*

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively. These amendments do not have any impact on the Group's interim condensed consolidated financial statements.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1.
- That specific line items in the statement of comprehensive income and the statement of financial position may be disaggregated.
- That entities have flexibility as to the order in which they present the notes to financial statements.
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of comprehensive income. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group's interim condensed consolidated financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 *Investments in Associates and Joint Ventures* allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have any impact on the Group's interim condensed consolidated financial statements as the Group does not apply the consolidation exception.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SEGMENTS 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 six months ended 30 June 2016 and 2015.

For the six months ended 30 June 2016 (unaudited)

<i>In thousands of tenge</i>	Wireline telecom- munication	GSM and LTE telecom- munication	Other	Eliminations and adjustments	Consolidated
Revenue					
External customers	98,579,231	–	–	–	98,579,231
Inter-segment	212	–	49,043	(49,255)	–
Total revenue	98,579,443	–	49,043	(49,255)	98,579,231
Finance results					
Depreciation and amortization	(15,194,848)	–	(65,757)	–	(15,260,605)
Finance costs	(3,169,960)	–	–	5,194	(3,164,766)
Finance income	2,072,204	–	–	(103,981)	1,968,223
Share of loss of an associate	–	(5,214,816)	–	–	(5,214,816)
Accrual of bad debt allowance	(892,862)	–	–	–	(892,862)
Segment profit/(loss) before tax	27,381,665	(5,214,816)	(74,413)	76,083	22,168,519

For the six months ended 30 June 2015 (unaudited)

<i>In thousands of tenge</i>	Wireline telecom- munication	GSM and LTE telecom- munication	Other	Eliminations and adjustments	Consolidated
Revenue					
External customers	93,933,186	–	105	–	93,933,291
Inter-segment	–	–	45,331	(45,331)	–
Total revenue	93,933,186	–	45,436	(45,331)	93,933,291
Finance results					
Depreciation and impairment	(15,209,549)	–	(10,407)	–	(15,219,956)
Finance costs	(3,412,222)	–	–	–	(3,412,222)
Finance income	1,329,762	–	243	–	1,330,005
Accrual of bad debt allowance	(723,810)	–	–	–	(723,810)
Segment profit/(loss) before tax	22,535,569	–	(5,071)	–	22,530,498

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SEGMENTS INFORMATION (continued)

The following table presents segment assets and liabilities of the Group's operating segments as at 30 June 2016 and 31 December 2015:

<i>In thousands of tenge</i>	Wireline telecom- munication	GSM and LTE telecom- munication	Other	Eliminations and adjustments	Consolidated
Operating assets					
As at 30 June 2016 (unaudited)	392,897,980	75,485,184	1,303,836	(3,051,958)	466,635,042
As at 31 December 2015	389,292,364	–	370,603	46,830,977	436,493,944
Operating liabilities					
As at 30 June 2016 (unaudited)	122,223,896	–	327,639	(464,594)	122,086,941
As at 31 December 2015	99,069,286	–	58,773	44,944,443	144,072,502

5. PROPERTY AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired property and equipment for 3,892,554 thousand tenge (unaudited) (during six months ended 30 June 2015: 6,780,066 thousand tenge (unaudited)). During the six months ended 30 June 2016, the Group disposed property and equipment with net book value of 84,982 thousand tenge (unaudited) (during six months ended 30 June 2015: 346,464 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 30 June 2016, the carrying value of construction in progress was 7,200,597 thousand tenge (unaudited) (as at 31 December 2015: 11,483,524 thousand tenge).

During the six months ended 30 June 2016, the Group recognized depreciation expense amounting to 13,722,521 thousand tenge (unaudited) (during six months ended 30 June 2015: 15,877,402 thousand tenge (unaudited)).

As at 30 June 2016, the carrying value of equipment purchased and held under finance leases and included in property and equipment amounted to 26,804,158 thousand tenge (unaudited) (as at 31 December 2015: 28,038,190 thousand tenge). During the six-month period ended 30 June 2016 and 2015, the Group did not have telecommunications equipment under finance leases. Leased assets were pledged as collateral under the respective finance lease agreements.

As at 30 June 2016, property and equipment, amounting to 114,997,643 thousand tenge (unaudited), were fully amortized (as at 31 December 2015: 122,930,240 thousand tenge).

6. INTANGIBLE ASSETS

During the six months ended 30 June 2016, the Group acquired intangible assets for 39,862 thousand tenge (unaudited) (during six months ended 30 June 2015: 272,803 thousand tenge (unaudited)).

During the six months ended 30 June 2016, the Group recognized amortization expense amounting to 1,556,356 thousand tenge (unaudited) (during six months ended 30 June 2015: 2,037,315 thousand tenge (unaudited)).

As at 30 June 2016 intangible assets (mainly software) with cost amounting to 7,974,797 thousand tenge (unaudited), were fully amortized (as at 31 December 2015: 8,768,527 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), provider of mobile telecommunications services in GSM and LTE standard in the Republic of Kazakhstan. Khan-Tengri Holding B.V. – is a private organization, not listed on a stock exchange. The participation of the Group in the Khan-Tengri Holding B.V. is taken into account in the interim condensed consolidated financial statements using the equity method.

As at 30 June 2016, the Group has not yet completed assessment of the fair value of the investment. At the date of acquisition the investment was recognized at fair value in the amount of 80,700,000 thousand tenge based on a provisional assessment. After completion of the valuation of fair value of the acquired investment are finalized, adjustment of the carrying value of the investment in the Group's consolidated financial statements is possible, including as the Group's share in the results of the disposal of a subsidiary.

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:

<i>In thousands of tenge</i>	30 June 2016 (unaudited)
Current assets	21,850,682
Non-current assets	270,332,803
Current liabilities	(36,606,437)
Non-current liabilities	(107,566,883)
Total equity	148,010,165
Group's carrying amount of the investment	75,485,184

<i>In thousands of tenge</i>	Six months ended 30 June 2016 (unaudited)
Revenue	28,742,997
Operating expenses	(34,608,155)
Non-operating expenses	(4,611,286)
Loss before tax	(10,476,444)
Income tax benefit	251,316
Loss for the period	(10,225,128)
Total comprehensive loss for the period	(10,225,128)
Group's share of loss for the period	(5,214,816)

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 2015.

As at 30 June 2016, no goodwill impairment indicators were identified.

9. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable comprised the following at 30 June 2016 and 31 December 2015:

<i>In thousands of tenge</i>	30 June 2016 (unaudited)	31 December 2015
Trade accounts receivable	27,871,640	18,299,271
	27,871,640	18,299,271
Less: allowance for doubtful debts	(2,560,933)	(1,914,169)
	25,310,707	16,385,102

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. TRADE ACCOUNTS RECEIVABLE (continued)

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

<i>In thousands of tenge</i>	30 June 2016 (unaudited)	30 June 2015 (unaudited)
Allowance for doubtful debts at 1 January	(1,914,169)	(1,512,067)
Charge for the period	(814,164)	(541,491)
Write-offs for the period	167,400	108,531
Allowance for doubtful debts at 30 June	(2,560,933)	(1,945,027)

10. OTHER FINANCIAL ASSETS

Other financial assets comprised the following at 30 June 2016 and 31 December 2015:

<i>In thousands of tenge</i>	30 June 2016 (unaudited)	31 December 2015
Bank deposits	33,215,724	29,278,450
Due from employees	1,839,966	1,851,394
Interest receivable on current bank accounts	331,441	228,817
Restricted cash on current bank accounts	208,600	208,600
Other receivable	99,924	2,376,729
Other	5,805	5,805
	35,701,460	33,949,795

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 1.5 to 13% per annum (as at 31 December 2015: from 2.3 to 10% per annum).

11. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following at 30 June 2016 and 31 December 2015:

<i>In thousands of tenge</i>	30 June 2016 (unaudited)	31 December 2015
Cash in current bank accounts	13,198,533	8,179,504
Bank deposits with maturity of less than 90 days	6,280,000	3,079,666
Cash on hand	19,923	17,721
	19,498,456	11,276,891

Cash on current bank accounts earn interest at the rates ranging from 0.10 to 14.5% per annum (as at 31 December 2015: from 0.01 to 7.55% 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 1 to 38% per annum (as at 31 December 2015: from 0.01 to 32% per annum).

At 30 June 2016 and 31 December 2015, cash and cash equivalents were denominated in various currencies as follows:

<i>In thousands of tenge</i>	30 June 2016 (unaudited)	31 December 2015
Tenge	14,049,096	5,743,047
US dollars	5,375,891	5,261,026
Russian rubles	71,435	258,593
Euro	405	7,166
Other	1,626	3,159
	19,498,456	11,276,891

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. CASH AND CASH EQUIVALENTS (continued)

For the purpose of the consolidated cash flow statement, cash and cash equivalents at 30 June 2016 and 31 December 2015 were as follows:

<i>In thousands of tenge</i>	30 June 2016 (unaudited)	31 December 2015
Cash on current bank accounts	13,198,533	8,179,504
Deposits with maturity less than 90 days from origination date	6,280,000	3,079,666
Cash on hand	19,923	17,721
Cash on hands, current bank accounts and short-term deposits attributable to discontinued operations	-	8,688,151
Cash and cash equivalents	19,498,456	19,965,042

12. BORROWINGS

Borrowings comprised the following at 30 June 2016 and 31 December 2015:

<i>In thousands of tenge</i>	Weighted average interest rate (unaudited)	30 June 2016 (unaudited)	Weighted average interest rate	31 December 2015
Fixed interest rate borrowings with range between 7% and 12.5% p.a.	8.31%	60,545,029	9.45%	31,438,314
		60,545,029		31,438,314

As at 30 June 2016 and 31 December 2015, were denominated in various currencies as follows:

<i>In thousands of tenge</i>	30 June 2016 (unaudited)	31 December 2015
Tenge	32,264,315	3,012,959
Tenge, payments indexed to exchange rate tenge/US dollar	28,280,714	28,425,355
	60,545,029	31,438,314

Borrowings are repayable as follows:

<i>In thousands of tenge</i>	30 June 2016 (unaudited)	31 December 2015
Current portion	6,304,442	4,138,393
Maturity between 1 and 2 years	-	-
Maturity between 2 and 5 years	39,426,923	27,299,921
Maturity over 5 years	14,813,664	-
Total long-term portion	54,240,587	27,299,921
Total borrowings	60,545,029	31,438,314

The Parent Company had a guarantee of the Development Bank of Kazakhstan JSC credit line of the Group in the amount of 26,991,220 thousand as at 30 June 2016 (as 31 December 2015: nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. OTHER NON-CURRENT AND CURRENT LIABILITIES

Non-current liabilities

Other non-current liabilities comprised the following at 30 June 2016 and 31 December 2015:

<i>In thousands of tenge</i>	30 June 2016 (unaudited)	31 December 2015
Deferred connection revenue	2,921,302	2,205,014
Guarantees issued for an associate (Note 17)	730,595	-
Asset retirement obligations	67,544	66,614
Other	691,325	704,505
	4,410,766	2,976,133

Current liabilities

Other current liabilities comprised the following at 30 June 2016 and 31 December 2015:

<i>In thousands of tenge</i>	30 June 2016 (unaudited)	31 December 2015
Due to employees	3,091,510	3,734,606
Taxes payable other than income tax	3,952,995	2,428,493
Dividends payable	1,593,537	1,582,251
Deferred connection revenue	730,280	811,719
Payables to pension funds	593,243	746,694
Guarantees issued for an associate (Note 17)	114,979	-
Other	1,123,983	1,326,655
	11,200,527	10,630,418

At 30 June 2016 and 31 December 2015, other current liabilities were not interest bearing and were primarily denominated in tenge.

14. REVENUE

<i>In thousands of tenge</i>	Three months ended 30 June		Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
Data transfer services	25,168,440	24,197,129	50,321,964	48,334,544
Rendering of wireline and wireless phone services	13,551,677	14,204,615	27,085,085	28,652,567
Rent of lines	4,865,869	1,689,346	7,324,490	3,329,715
Interconnect	4,676,057	3,407,532	9,658,679	6,643,592
Other	2,006,180	2,019,813	3,573,861	3,675,566
	50,268,223	45,518,435	97,964,079	90,635,984
Less: revenue from joint operation agreement, subject to netting with cost of revenue (Note 15)	(2,190,554)	-	(2,596,801)	-
	48,077,669	45,518,435	95,367,278	90,635,984

The Group has a joint operations agreement with a related party. During the implementation of this agreement, the Group incurs revenue from the rent of communication channels and expense from rent of base stations, which are subject to netting.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. COST OF REVENUE

<i>In thousands of tenge</i>	Three months ended 30 June		Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
Personnel costs	13,302,649	12,938,347	24,102,490	23,616,620
Depreciation and amortization	7,605,925	7,604,823	15,140,548	15,077,256
Rental of base stations	2,195,808	240,544	2,607,309	444,700
Rent of channels	2,053,665	1,729,235	4,731,395	3,554,843
Interconnect	1,737,762	1,934,991	3,908,454	3,840,391
Repair and maintenance	1,516,880	1,613,978	2,716,881	2,678,692
TV Content	1,062,504	798,664	2,189,306	1,605,363
Materials	1,124,999	1,212,460	1,978,267	2,099,452
Fees for the right to provide telecom services	687,275	750,851	1,374,552	1,259,977
Electricity	639,104	635,754	1,390,978	1,380,262
Security and safety	495,482	516,850	931,740	959,659
Fees for use of frequency range	45,420	237,055	243,032	472,790
Other	1,221,607	1,343,552	2,127,204	2,431,602
	33,689,080	31,557,104	63,442,156	59,421,607
Less: expenses from joint operation agreement, subject to netting with revenue (Note 14)	(2,190,554)	-	(2,596,801)	-
	31,498,526	31,557,104	60,845,355	59,421,607

16. INCOME TAX EXPENSE

<i>In thousands of tenge</i>	Three months ended 30 June		Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
Current income tax expense	3,926,754	3,195,639	6,466,543	4,064,576
Deferred income tax expense	430,635	781,728	913,554	1,336,698
	4,357,389	3,977,367	7,380,097	5,401,274

17. DISCONTINUED OPERATIONS

As at 3 November 2015, the Company declared its decision to conclude the agreement on the creation of a joint venture on the basis of Altel JSC (Altel 4G brand) and Mobile Telecom Service LLP (Tele2 brand).

As at 29 February 2016 Kazakhtelecom JSC and Tele2 closed its deal on the creation of the joint venture in the segment of cellular communication on the basis of Altel JSC and Mobile Telecom Service LLP. As a result of this transaction, Kazakhtelecom JSC, in exchange for a 100% share in Altel JSC got 51% of the share capital and 49.48% of voting shares in the Khan-Tengri Holding B.V. (Note 7).

Under the terms of the deal on 25 February 2016, the Company has provided a guarantee in favor of Mobile Telecom Service LLP for a credit line of Kazkommertsbank JSC with a credit limit of up to 14,000,000 thousand tenge until 25 February 2023 and the guarantee in favor of Altel JSC credit line of Development Bank of Kazakhstan JSC with the credit limit of up to 10,008,780 thousand tenge until 19 December 2024.

Also, according to the terms of the deal, on 29 February 2016, the Company and Mobile Telecom Service LLP, agreed to postpone repayment of debt of Mobile Telecom Service LLP to the Company till 2031. The debt has been discounted to the date of restructuring at the market interest rate 10%.

On 25 February 2016, the debt of Altel JSC under credit line in Development Bank of Kazakhstan JSC in the amount of 26,991,220 thousand tenge and debt credit line of Sberbank of Russia JSC at 3,000,000 thousand tenge was transferred to the Company.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. DISCONTINUED OPERATIONS (continued)

As at disposal date, main classes of assets and liabilities of Altel JSC were as follows:

<i>In thousands of tenge</i>	29 February 2016 (unaudited)
Assets	
Property and equipment	28,048,578
Intangible assets	8,082,670
Trade accounts receivable	3,889,479
Inventories	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 accounts payable	(10,423,524)
Advances received	(1,389,595)
Other	(4,368,772)
Total liabilities	(16,181,891)
Disposed net assets	30,954,363

Results from discontinued operations were as follows:

<i>In thousands of tenge</i>	Three months ended 30 June		Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
Revenue	-	8,633,434	4,961,007	14,895,146
Cost of revenue	-	(7,407,880)	(2,533,355)	(12,727,320)
Gross profit	-	1,225,554	2,427,652	2,167,826
General and administrative expenses	-	(1,305,320)	(585,577)	(1,761,566)
Selling expenses	-	(925,375)	(601,613)	(1,535,501)
Operating (loss)/profit	-	(1,005,141)	1,240,462	(1,129,241)
Finance costs	-	(256,447)	(421,325)	(642,979)
Finance income	-	45,956	175,085	77,320
Other income	-	69,842	47,958	510,003
(Loss)/profit before tax for the period from discontinued operations	-	(1,145,790)	1,042,180	(1,184,897)
Income tax expense	-	(194,393)	(423,337)	(159,760)
(Loss)/profit for the period from discontinued operations	-	(1,340,183)	618,843	(1,344,657)
Gain from disposal of subsidiary	-	-	41,579,323	-
Total profit for the period discontinued operations	-	-	42,198,166	-

Gain on disposal of subsidiary Altel JSC is as follows:

<i>In thousands of tenge</i>	Three months ended 30 June 2016 (unaudited)	Six months ended 30 June 2016 (unaudited)
Provisional assessment of fair value of investment in Khan Tengri Holding B.V. (Note 7)	-	80,700,000
Disposed net assets	-	(30,954,363)
Discount of receivables from Mobile Telecom Services LLP	-	(7,282,414)
Guarantees issued	-	(883,900)
Gain on disposal of subsidiary	-	41,579,323

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. DISCONTINUED OPERATIONS (continued)

As at 30 June 2016, the Group has not yet completed assessment of the fair value of the investment. At the date of acquisition the investment was recognized at fair value in the amount of 80,700,000 thousand tenge based on a provisional assessment. After completion of the valuation of fair value of the acquired investment are finalized, adjustment of the carrying value of the investment in the Group's consolidated financial statements is possible, including as the Group's share in the results of the disposal of a subsidiary.

Net cash flows of the company Altel JSC:

<i>In thousands of tenge</i>	For six months, as of 30 June	
	2016 (unaudited)	2015 (unaudited)
Operating activities	(10,770,566)	2,704,109
Investing activities	(4,777,192)	(3,379,413)
Financing activities	8,542,902	314,113
Net cash flow	(7,004,856)	(361,191)

Net cash outflows from the disposal of Altel JSC are presented below:

<i>In thousands of tenge</i>	29 February 2016 (unaudited)
Disposed cash of a subsidiary	(1,683,295)
Net cash outflow from the disposal of a subsidiary	(1,683,295)

Profit/(loss) per share

	For three months, as of 30 June		For six months, as of 30 June	
	2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
Basic and diluted, profit/(loss) for the period from discontinued operations, tenge	-	(121.47)	3,826.51	(121.88)

18. NON-CASH TRANSACTIONS

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

During the six months ended 30 June 2016, 5,276,148 thousand tenge (unaudited) was paid for property and equipment purchased in the preceding year (during the six months ended 30 June 2015: 9,756,075 thousand tenge (unaudited)). Property and equipment of 401,459 thousand tenge (unaudited) were purchased during the six months ended 30 June 2016 but not paid by 30 June 2016 (purchased, but not paid by 30 June 2015: 2,886,423 thousand tenge (unaudited)).

19. RELATED PARTY DISCLOSURES

The category "parent-controlled entities" comprises entities 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. Outstanding balances at the year-end are unsecured, short-term and settlement occurs in cash, except as discussed below.

As at 30 June 2016 and 31 December 2015 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 and six months ended 30 June 2016 and 2015, and the balances with related parties at 30 June 2016 and 31 December 2015, were as follows:

<i>In thousands of tenge</i>	Three months ended 30 June		Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)	2016 (unaudited)	2015 (unaudited)
Sales of goods and services				
Parent	36,613	366,525	65,623	423,650
Parent-controlled entities	561,030	618,574	1,238,969	1,209,637
Associate	5,650,891	-	6,081,574	-
Government bodies	6,474,250	5,793,639	13,278,957	12,632,942
Purchases of goods and services				
Parent	-	-	30,226	-
Parent-controlled entities	384,063	1,078,014	853,720	1,609,561
Associate	761,616	-	1,229,380	-
Government bodies	(103,122)	5,491	122,291	295,609
Interest incurred on borrowings				
Entities under government control				
Development Bank of Kazakhstan JSC	1,095,620	746,320	1,962,471	1,460,512
<i>Average interest rate on borrowings</i>	8.08%	8.21%	8.08%	8.21%

<i>In thousands of tenge</i>	30 June 2015 (unaudited)	31 December 2015
Cash and cash equivalents		
Entities under government control		
Development Bank of Kazakhstan JSC	494	2,581
Borrowings		
Entities under government control		
Development Bank of Kazakhstan JSC	55,511,103	55,398,052
Trade and other receivables		
Parent	29,052	154,155
Parent-controlled entities	405,706	470,265
Associate	4,247,751	-
Government bodies	8,096,350	3,204,354
Accounts payable		
Parent-controlled entities		
Associate	136,600	192,228
State entities	4,787,295	-
	297,215	556,337
Guarantees issued		
Associate (<i>Note 13</i>)	845,574	-
Other long term assets		
Long term loans given to key personnel	40,338	41,696

The Government of the Republic of Kazakhstan provides certain subsidies to the Group for provision of universal services in rural areas in the amount of 3,211,953 thousand tenge for the six months ended 30 June 2016 (unaudited), (for the six months ended 30 June 2015: 3,297,307 thousand tenge (unaudited)).

As discussed in *Note 12*, as at 30 June 2016, certain of the Group's borrowings were guaranteed by the Parent in the amount of 26,991,220 thousand tenge (as at 31 December 2015: nil).

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

20. FINANCIAL INSTRUMENTS**Fair values**

As at 30 June 2016 and 31 December 2015, the carrying values of the Group's monetary assets and liabilities approximated their estimated fair values.

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

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

21. COMMITMENTS AND CONTINGENT LIABILITIES**Capital commitments**

The Group generally enters into contracts for the completion of construction projects and purchase of telecommunication equipment. As at 30 June 2016, the Group had contractual commitments totaling 6,667,310 thousand tenge (unaudited) (as at 31 December 2015: 9,144,742 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 30 June 2016. As at 30 June 2016, 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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, 2015:

$$BVCS = (272,542,753 / 10,707,323) \times 1,000 = 25,454$$

As at 30 June, 2016:

$$BVCS = (326,044,891 / 10,707,323) \times 1,000 = 30,451$$

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

As at 31 December, 2015 – 272,542,753

As at 30 June, 2016 – 326,044,891

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

As at 31 December, 2015 – 10,707,323

As at 30 June, 2016 – 10,707,323

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

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

As at 31 December, 2015:

$$NAV = (436,493,944 - 19,558,165) - 144,072,502 - 320,524 = 272,542,753 \text{ in thousands of Tenge}$$

As at 30 June, 2016:

$$NAV = (466,635,042 - 18,182,686) - 122,086,941 - 320,524 = 326,044,891 \text{ in thousands of Tenge}$$

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

As at 31 December, 2015 – 436,493,944

As at 30 June, 2016 – 466,635,042

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, 2015 – 19,558,165

As at 30 June, 2016 – 18,182,686

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, 2015 – (83,044,876 + 61,027,626) = 144,072,502

As at 30 June, 2016 – (32,758,354 + 89,328,587) = 122,086,941

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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, 2015 – 320,524

As at 30 June, 2016 – 320,524

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

$$BVPS1 = (EPC + DCPS1) / NOPS1, \text{ where}$$

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

As at 31 December, 2015:

$$BVPS1 = ((1,902,287 + 874,156) / 320,524) \times 1,000 = 8,662$$

As at 30 June, 2016:

$$BVPS1 = ((1,911,138 + 874,156) / 320,524) \times 1,000 = 8,690$$

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

As at 31 December, 2015 – 320,524

As at 30 June, 2016 – 320,524

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, 2015 – 1,902,287

As at 30 June, 2016 – 1,911,138

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

As at 31 December, 2015 – 874,156

As at 30 June, 2016 – 874,156

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

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

As at 31 December, 2015:

$$EPC = 1,581,763 + 320,524 = 1,902,287 \text{ thousands of Tenge}$$

As at 30 June, 2016:

$$EPC = 1,590,614 + 320,524 = 1,911,138 \text{ thousands of Tenge}$$

TDPS1 – total dividends, i.e. the sum of accrued but not paid dividends on preferred shares of the first group (balance of the account “accounts payable to shareholders (dividends)”) as of the date of calculation. Dividends on preferred shares of the first group not paid due to unavailability of actual information and details about such shareholders are not included, in thousands of Tenge;

As at 31 December, 2015 – 1,581,763

As at 30 June, 2016 – 1,590,614