

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### For the six months ended June 30, 2017

#### 1. GENERAL 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 owns 51% of the Company’s controlling stock. Main shareholders of the Company at 30 June 2017 are presented as follows:

	30 June 2017 (unaudited)	31 December 2016
Samruk-Kazyna	51.0%	51.0%
SOBRIO LIMITED	24.5%	24.5%
ADR (The Bank of New York is a depositor)	9.2%	9.2%
Alatau Capital Invest LLP	3.7%	3.7%
United Accumulative Pension Fund JSC	3.4%	3.4%
Deran Investment B.V.	2.0%	2.0%
Other	6.2%	6.2%
	<b>100%</b>	<b>100%</b>

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

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

The interim condensed consolidated financial statements were authorised for issue on 2 August 2017 on behalf of the Management of the Company by the Chief financial director.

#### 2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 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 consolidated 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:

	30 June 2017	31 December 2016	30 June 2016
US dollar	322.27	333.29	338.66
Euro	367.52	352.42	377.20
Russian ruble	5.44	5.43	5.28

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### 2. BASIS OF PREPARATION (continued)

#### Subsidiaries

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

	Country of residence	Percentage ownership	
		30 June 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 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 amendments apply for the first time in 2017, they do not have a material impact on 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 changes (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 year 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.

The Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

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

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

##### *Annual improvements 2014-2016 cycle*

##### *Amendments to IFRS 12 Disclosure of Interests in Other Entities: clarification of the scope of disclosure requirements in IFRS 12*

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The amendment did not have an impact on the disclosures in the interim condensed consolidated financial statements because the Group does not have a share in the subsidiary, a joint venture or an associate that classified as held for sale.

### 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 the Group's 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 over a subsidiary that provided services in the segment of mobile telecommunications services in the GSM and LTE standards (*Note 17*). This disclosure on 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 2017 and 2016.

#### For the six months ended 30 June 2017 (unaudited)

<i>In thousands of tenge</i>	Wireline telecom- munication	GSM and LTE telecom- munication	Other	Eliminations and adjustments	Consolidated
<b>Revenue</b>					
Sales to external customers	90,556,978	-	-	-	90,556,978
Inter-segment	9,885,054	-	103,859	(103,859)	9,885,054
<b>Total revenue</b>	<b>100,442,032</b>	<b>-</b>	<b>103,859</b>	<b>(103,859)</b>	<b>100,442,032</b>
<b>Financial performance</b>					
Depreciation and amortization	(15,841,159)	-	(31,874)	-	(15,873,033)
Impairment of property and equipment	(769,768)	-	-	-	(769,768)
Finance costs	(2,784,764)	-	-	-	(2,784,764)
Finance income	2,002,974	-	1,644	-	2,004,618
Share in loss of associates	-	(3,070,100)	-	-	(3,070,100)
Accrual of allowance for doubtful receivables	(466,099)	-	(531)	-	(466,630)
<b>Segment profit/(loss) before tax</b>	<b>24,281,591</b>	<b>(3,070,100)</b>	<b>(8,275)</b>	<b>-</b>	<b>21,203,216</b>

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For the six months ended June 30, 2017

### 4. SEGMENT INFORMATION (continued)

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
<b>Revenue</b>					
Sales to external customers	92,497,657	-	-	-	92,497,657
Inter-segment	6,081,786	-	49,043	(49,255)	6,081,574
<b>Total revenue</b>	<b>98,579,443</b>	<b>-</b>	<b>49,043</b>	<b>(49,255)</b>	<b>98,579,231</b>
<b>Financial performance</b>					
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 in loss of associates	-	(5,214,816)	-	-	(5,214,816)
Accrual of allowance for doubtful receivables	(892,862)	-	-	-	(892,862)
<b>Segment profit/(loss) before tax</b>	<b>27,381,665</b>	<b>(5,214,816)</b>	<b>(74,413)</b>	<b>76,083</b>	<b>22,168,519</b>

The following table presents segment assets and liabilities of the Group's operating segments as at 30 June 2017 and 31 December 2016:

<i>In thousands of tenge</i>	Wireline telecom- munication	GSM and LTE telecom- munication	Other	Eliminations and adjustments	Consolidated
<b>Operating assets</b>					
<b>As at 30 June 2017 (unaudited)</b>	<b>409,581,907</b>	<b>64,090,692</b>	<b>621,018</b>	<b>(483,572)</b>	<b>473,810,045</b>
As at 31 December 2016	401,684,781	67,160,792	441,401	(324,862)	468,962,112
<b>Operating liabilities</b>					
<b>As at 30 June 2017 (unaudited)</b>	<b>119,206,585</b>	<b>-</b>	<b>256,928</b>	<b>19,857</b>	<b>119,483,370</b>
As at 31 December 2016	124,895,545	-	254,647	14,310	125,164,502

### 5. PROPERTY AND EQUIPMENT

During the six months ended 30 June 2017, the Group acquired property and equipment in the amount of 5,137,536 thousand tenge (unaudited) (during six months ended 30 June 2016: 3,892,554 thousand tenge (unaudited)). During the six months ended 30 June 2017, the Group disposed property and equipment with carrying amount of 223,328 thousand tenge (unaudited) (during six months ended 30 June 2016: 84,982 thousand tenge (unaudited)).

The Group's main construction projects include capitalized costs for modernization and construction of existing and new digital and wireline networks and fiber optic communication lines. As at 30 June 2017, the carrying amount of construction in progress was equal to 7,880,117 thousand tenge (unaudited) (as at 31 December 2016: 9,813,847 thousand tenge).

During the six months ended 30 June 2017, the Group recognized depreciation expense in the amount of 14,295,702 thousand tenge (unaudited) (during six months ended 30 June 2016: 13,722,521 thousand tenge (unaudited)).

During the six months ended 30 June 2017, the impairment loss was equal to 769,768 thousand tenge (during six-months period ended 30 June 2016, the impairment loss was equal to nil) and represented write down of certain fixed assets in the fixed telecommunications segment to their recoverable value due to technological obsolescence. The loss was recorded in the interim condensed consolidated statement of comprehensive income within general and administrative expenses. The recoverable amount as of 30 June 2017 of nil tenge was determined on the basis of the calculation of value in use of assets at the individual level.

As at 30 June 2017, the carrying amount of equipment purchased and held under finance leases and included in property and equipment was equal to 24,336,093 thousand tenge (unaudited) (as at 31 December 2016: 25,570,125 thousand tenge). During the six months ended 30 June 2017 and 2016, 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 2017, property and equipment with cost of 118,074,168 thousand tenge (unaudited) were fully depreciated (as at 31 December 2016: 116,565,628 thousand tenge).

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#### 6. INTANGIBLE ASSETS

During the six months ended 30 June 2017, the Group acquired intangible assets in the amount of 3,584 thousand tenge (unaudited) (during six months ended 30 June 2016: 39,862 thousand tenge (unaudited)).

During the six months ended 30 June 2017, the Group recognized amortization expense in the amount of 1,543,173 thousand tenge (unaudited) (during six months ended 30 June 2016: 1,556,356 thousand tenge (unaudited)).

As at 30 June 2017 intangible assets (mainly software) with cost of 8,540,582 thousand tenge (unaudited), were fully amortized (as at 31 December 2016: 8,508,183 thousand tenge).

#### 7. INVESTMENTS IN AN ASSOCIATE

##### *Khan-Tengri Holding B.V.*

On 29 February 2016, the Group acquired 51% of the share capital and 49.48% of voting shares in 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 interest of the Group in Khan-Tengri Holding B.V. was accounted in the interim condensed consolidated financial statements using equity method.

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

<i>In thousands of tenge</i>	30 June 2017 (unaudited)	31 December 2016
Current assets	37,637,171	29,436,215
Non-current assets	267,667,627	271,415,573
Current liabilities	(55,329,040)	(51,528,003)
Non-current liabilities	(124,307,734)	(117,635,958)
<b>Total equity</b>	<b>125,668,024</b>	<b>131,687,827</b>
<b>Carrying amount of investment of the Group</b>	<b>64,090,692</b>	<b>67,160,792</b>

  

<i>In thousands of tenge</i>	For six months ended 30 June 2017 (unaudited)	For six months ended 30 June 2016 (unaudited)
Revenue	48,970,293	28,742,997
Operating expenses	(50,024,645)	(34,608,157)
Non-operating expenses	(4,965,451)	(4,611,286)
<b>Loss before tax</b>	<b>(6,019,803)</b>	<b>(10,476,446)</b>
Income tax benefit	-	251,316
<b>Loss for the period</b>	<b>(6,019,803)</b>	<b>(10,225,130)</b>
<b>Total comprehensive loss for the period</b>	<b>(6,019,803)</b>	<b>(10,225,130)</b>
<b>Share of the Group in loss for the period</b>	<b>(3,070,100)</b>	<b>(5,214,816)</b>

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**7. INVESTMENTS IN AN ASSOCIATE (continued)**

***Kazakhtelecom Industrial Enterprises Services LLP***

Based on the decision of the Board of Directors of Kazakhtelecom JSC on 17 August 2016 a purchase and sale agreement was concluded between Kazakhtelecom JSC and Samruk-Kazyna Business Services LLP for 51% interest of Kazakhtelecom JSC in the charter capital of Kazakhtelecom Industrial Enterprises Services LLP. The transaction value was equal to 30,170 thousand tenge and was paid on 29 March 2017.

Below is a summary of the individually non-material associate, Kazakhtelecom Industrial Enterprises Services LLP (proportionate interest of the Group):

<i>In thousands of tenge</i>	For six months ended 30 June 2017 (unaudited)	For six months ended 30 June 2016 (unaudited)
Operating expenses	(11,955)	-
<b>Loss before tax</b>	<b>(11,955)</b>	<b>-</b>
Income tax benefit	2,391	-
<b>Loss for the period</b>	<b>(9,564)</b>	<b>-</b>
<b>Total comprehensive loss for the period</b>	<b>(9,564)</b>	<b>-</b>
<b>Share of the Group in loss for the period</b>	<b>-</b>	<b>-</b>
<b>Accumulated unrecognized share of losses</b>	<b>12,674</b>	<b>7,988</b>

**8. IMPAIRMENT TESTING OF GOODWILL**

Goodwill is tested by the Group for impairment annually as at 31 December and when circumstances indicate the carrying amount of goodwill 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 of the Group for the year ended 31 December 2016.

As at 30 June 2017, no goodwill impairment indicators were identified.

**9. TRADE RECEIVABLES**

As at 30 June 2017 and 31 December 2016, trade receivables comprised the following:

<i>In thousands of tenge</i>	30 June 2017 (unaudited)	31 December 2016
Trade receivable	33,008,129	27,216,691
	33,008,129	27,216,691
Less: allowance for doubtful receivables	(2,069,095)	(2,224,485)
	<b>30,939,034</b>	<b>24,992,206</b>

During the six months ended 30 June movements in the allowance for doubtful receivables were as follows:

<i>In thousands of tenge</i>	30 June 2017 (unaudited)	30 June 2016 (unaudited)
Allowance for doubtful receivables at the beginning of the year	(2,224,485)	(1,914,169)
Charge for the period	(434,823)	(814,164)
Write-offs for the period	590,213	167,400
<b>Allowance for doubtful receivables at the end of the period</b>	<b>(2,069,095)</b>	<b>(2,560,933)</b>

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#### 10. OTHER CURRENT FINANCIAL ASSETS

As at 30 June 2017 and 31 December 2016 other current financial assets comprised the following:

<i>In thousands of tenge</i>	<b>30 June 2017 (unaudited)</b>	31 December 2016
Bank deposits	59,848,532	45,889,260
Loans to employees	1,853,889	1,896,652
Interest receivable	538,430	242,197
Other accounts receivable	97,269	99,153
Other	5,492	5,805
	<b>62,343,612</b>	<b>48,133,067</b>

Bank deposits with initial maturities over 3 months but less than 12 months were opened in local banks and were earning interest at 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

As at 30 June 2017 and 31 December 2016 cash and cash equivalents comprised the following:

<i>In thousands of tenge</i>	<b>30 June 2017 (unaudited)</b>	31 December 2016
Cash on current bank accounts	22,026,338	20,976,246
Bank deposits with maturity of less than 90 days	1,921,872	3,332,900
Cash on hand	9,006	11,796
	<b>23,957,216</b>	<b>24,320,942</b>

Cash on current bank accounts earn interest at rates ranging from 0.1% to 10% per annum (as at 31 December 2016: from 0.1% to 13% per annum). Cash on current bank accounts as at June 30, 2017 included “overnight” deposits in the amount of 1,721,000 thousand tenge with interest rates ranging from 7.5% to 11.5% (as of December 31, 2016, “overnight” deposits were not placed). Short-term deposits were placed for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at rates ranging from 0.15% to 8.5% per annum (as at 31 December 2016: from 0.8% to 1% per annum).

As at 30 June 2017 and 31 December 2016, cash and cash equivalents were denominated in various currencies as follows:

<i>In thousands of tenge</i>	<b>30 June 2017 (unaudited)</b>	31 December 2016
Tenge	21,881,821	7,237,491
US dollars	1,918,405	17,049,152
Russian rubles	154,105	28,249
Other	2,885	6,050
	<b>23,957,216</b>	<b>24,320,942</b>

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**12. BORROWINGS**

As at 30 June 2017 and 31 December 2016 borrowings comprised the following:

<i>In thousands of tenge</i>	<b>Weighted average interest rate (unaudited)</b>	<b>30 June 2017 (unaudited)</b>	<b>Weighted average interest rate</b>	<b>31 December 2016</b>
Borrowings with fixed interest rate of 7% to 9% per annum	8.13%	54,196,107	8.35%	56,268,176
		<b>54,196,107</b>		<b>56,268,176</b>

As at 30 June 2017 and 31 December 2016, borrowings were denominated in the following currencies:

<i>In thousands of tenge</i>	<b>30 June 2017 (unaudited)</b>	<b>31 December 2016</b>
Tenge	27,325,554	28,450,534
Tenge, payments indexed to exchange rate tenge/US dollar	26,870,553	27,817,642
	<b>54,196,107</b>	<b>56,268,176</b>

Borrowings are repayable as follows:

<i>In thousands of tenge</i>	<b>30 June 2017 (unaudited)</b>	<b>31 December 2016</b>
<b>Current portion of borrowings</b>	<b>1,313,541</b>	<b>2,473,507</b>
Maturity between 1 and 2 years	4,054,087	2,029,593
Maturity between 2 and 5 years	38,074,002	38,981,004
Maturity over 5 years	10,754,477	12,784,072
<b>Total non-current portion of borrowings</b>	<b>52,882,566</b>	<b>53,794,669</b>
<b>Total borrowings</b>	<b>54,196,107</b>	<b>56,268,176</b>

As at 30 June 2017, the Parent is acting as guarantor of the Group's credit line in the amount of 26,991,220 thousand tenge received from Development Bank of Kazakhstan JSC (as at 31 December 2016: 26,991,220 thousand tenge).



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**13. OTHER NON-CURRENT AND CURRENT LIABILITIES**

**Non-current liabilities**

As at 30 June 2017 and 31 December 2016 other non-current liabilities comprised the following:

<i>In thousands of tenge</i>	30 June 2017 (unaudited)	31 December 2016
Deferred income	1,628,519	1,763,417
Guarantees issued for an associate (Note 17)	469,562	726,808
Provision for asset retirement obligations	155,214	141,564
Other	2,317,916	1,577,350
	<b>4,571,211</b>	<b>4,209,139</b>

*Provision for asset retirement obligations*

Provision for asset retirement obligations is recorded at the present value of the expected costs of restoring the sites and properties to their original state using a cash flow estimate and recognized as part of the cost of the specific asset. Cash flows are discounted at the current rate before tax, which reflects the risks inherent to the decommissioning liabilities.

**Current liabilities**

As at 30 June 2017 and 31 December 2016 other current liabilities comprised the following:

<i>In thousands of tenge</i>	30 June 2017 (unaudited)	31 December 2016
Payables to Khan Tengri Holding B.V.	4,842,282	4,842,282
Taxes payable other than income tax	4,341,194	2,335,514
Settlements with employees	3,131,741	4,324,798
Dividends payable	1,675,614	1,547,439
Deferred income	626,712	662,586
Payable to pension funds	563,352	864,145
Guarantees issued for an associate	112,933	151,852
Other	1,203,594	1,400,556
	<b>16,497,422</b>	<b>16,129,172</b>

At 30 June 2017 and 31 December 2016, other current liabilities were not interest bearing and were primarily denominated in tenge.

**14. REVENUE**

<i>In thousands of tenge</i>	For three months ended 30 June		For six months ended 30 June	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
Data transfer services	26,480,646	25,168,440	52,595,077	50,321,964
Provision of wireline phone services	12,270,040	13,551,677	24,662,710	27,085,085
Rent of channels	4,866,016	2,675,315	9,737,306	4,727,689
Interconnect	3,823,129	4,676,057	7,876,118	9,658,679
Other	2,941,305	2,006,180	5,570,821	3,573,861
	<b>50,381,136</b>	<b>48,077,669</b>	<b>100,442,032</b>	<b>95,367,278</b>

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### 15. COST OF SALES

<i>In thousands of tenge</i>	For three months ended 30 June		For six months ended 30 June	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
Personnel costs	12,905,034	13,302,649	24,218,718	24,102,490
Depreciation and amortization	7,944,575	7,605,925	15,758,239	15,140,548
Rent of channels	1,813,939	2,053,665	3,632,583	4,731,395
Rental of base stations	1,670,480	5,254	3,468,522	10,508
Interconnect	1,535,037	1,737,762	3,078,425	3,908,454
Repair and maintenance	1,658,206	1,516,880	3,056,760	2,716,881
Content	1,231,639	1,062,504	2,566,592	2,189,306
Materials	1,352,610	1,124,999	2,387,862	1,978,267
Fees for the right to provide telecom services	707,950	687,275	1,415,902	1,374,552
Electricity	649,880	639,104	1,383,397	1,390,978
Security and safety	530,117	495,482	998,902	931,740
Fees for use of frequency range	49,261	45,420	97,895	243,032
Other	1,710,014	1,221,607	3,030,960	2,127,204
	<b>33,758,742</b>	<b>31,498,526</b>	<b>65,094,757</b>	<b>60,845,355</b>

### 16. INCOME TAX EXPENSES

<i>In thousands of tenge</i>	For three months ended 30 June		For six months ended 30 June	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
Current income tax expense	2,876,091	3,926,754	4,868,427	6,466,543
Deferred income tax (benefit)/expense	(316,082)	430,635	119,642	913,554
	<b>2,560,009</b>	<b>4,357,389</b>	<b>4,988,069</b>	<b>7,380,097</b>

### 17. DISCONTINUED OPERATIONS

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

On 29 February 2016 Kazakhtelecom JSC and Tele2 closed their transaction on creation of the joint venture in the segment of mobile 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 obtained 51% of the share capital and 49.48% of voting shares in Khan-Tengri Holding B.V. (Note 7).

Under the terms of the transaction 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 transaction, 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 at the date of restructuring at the market interest rate of 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 the debt under credit line of Sberbank of Russia JSC of 3,000,000 thousand tenge were transferred to the Company.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**For the six months ended June 30, 2017**

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

Results from discontinued operations were as follows:

<i>In thousands of tenge</i>	<b>For period from 1 January 2016 till 29 February 2016</b>
Revenue	4,961,007
Cost of sales	(2,533,355)
<b>Gross profit</b>	<b>2,427,652</b>
General and administrative expenses	(585,577)
Selling expenses	(601,613)
<b>Operating profit</b>	<b>1,240,462</b>
Finance costs	(421,325)
Finance income	175,085
Other income	47,958
<b>Profit before tax for the period from discontinued operations</b>	<b>1,042,180</b>
Income tax expenses	(423,337)
<b>Profit for the period from discontinued operations</b>	<b>618,843</b>
<b>Profit from disposal of a subsidiary</b>	<b>41,579,323</b>
<b>Total profit for the period from discontinued operations</b>	<b>42,198,166</b>

Net cash flows of Altel JSC were as follows:

<i>In thousands of tenge</i>	<b>For period from 1 January 2016 till 29 February 2016</b>
Operating activities	(10,770,566)
Investing activities	(4,777,192)
Financing activities	8,542,902
<b>Net cash outflows</b>	<b>(7,004,856)</b>

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

### 17. DISCONTINUED OPERATIONS (continued)

Gain on disposal of subsidiary Altel JSC was as follows:

<i>In thousands of tenge</i>	For period from 1 January 2016 till 29 February 2016
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)
<b>Gain on disposal of subsidiary</b>	<b>41,579,323</b>

Net cash outflows from the disposal of Altel JSC were presented below as follows:

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

### Profit per share

	For three months ended 30 June		For six months ended 30 June	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
Basic and diluted, profit for the period from discontinued operations, tenge	-	-	-	3,826.51

### 18. NON-CASH TRANSACTIONS

The following significant non-cash transactions have been excluded from the interim condensed consolidated statement of cash flows:

During the six months ended 30 June 2017 an amount of 4,474,181 thousand tenge (unaudited) was paid for property and equipment purchased in the previous year (during the six months ended 30 June 2016: 5,276,148 thousand tenge (unaudited)). Property and equipment of 1,195,851 thousand tenge (unaudited) were purchased during the six months ended 30 June 2017 but not paid at 30 June 2017 (purchased, but not paid at 30 June 2016: 401,459 thousand tenge (unaudited)).

### 19. COMPENSATION FOR RENDERING UNIVERSAL SERVICES IN THE RURAL AREA

In 2017, the regulatory documents on subsidy were amended. In particular, under the Resolution of the Government of the Republic of Kazakhstan No. 238 dated 2 May 2017, new tender rules for the identification of universal services operators were approved, including the calculation of the subsidy rates and the procedure for the authorised body to assign the obligation to provide universal services to telecom operators, requirements for telecoms operators to provide universal communications services, a list of universal communications services and the recognition of certain decisions which have lost their force, of the Government of the RK. Currently, the regulator is conducting tendering procedures, and assignment of obligations for the right to render universal services and the conclusion of a subsidy agreement expected to occur in September 2017.

At the reporting date, the Group lacked reasonable assurance that it will be designated as the universal communications services operator and that it will meet all the conditions related to compensation and its receipt. Accordingly, the Group has not recognised compensation revenue for provision of universal services in rural areas for the six months ended 30 June 2017 (for the six months ended 30 June 2016: KZT 3,211,953 thousand).

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2017

### 20. 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.

Each financial year the Group examines the financial position of the related parties and the markets in which the related parties operate to conclude whether accounts receivable from related parties shall be impaired. No impairment of accounts receivable from related parties was recognised based on such analysis as at 30 June 2017 and 31 December 2016.

Sales and purchases with related parties during three and six months ended 30 June 2017 and 2016, and the balances with related parties as at 30 June 2017 and 31 December 2016, were as follows:

<i>In thousands of tenge</i>	For three months ended 30 June		For six months ended 30 June	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
<b>Sales of goods and services</b>				
Parent	82,498	36,613	161,235	65,623
Parent-controlled entities	1,045,478	561,030	2,067,512	1,238,969
Associate	4,698,296	5,650,891	9,532,816	6,081,574
Government institutions	8,539,622	6,474,250	11,543,371	13,278,957
<b>Purchases of goods and services</b>				
Parent	-	-	-	30,226
Parent-controlled entities	485,642	384,063	931,981	853,720
Associate	2,179,829	761,616	4,443,566	1,229,380
Government institutions	917,188	(103,122)	918,647	122,291
<b>Interest incurred on borrowings</b>				
Entities under government control				
Development Bank of Kazakhstan JSC	1,149,247	1,095,620	2,126,959	1,962,471
<i>Average interest rate on borrowings</i>	8.15%	8.08%	8.15%	8.08%

<i>In thousands of tenge</i>	30 June 2017 (unaudited)	31 December 2016
<b>Cash and cash equivalents</b>		
Entities under government control		
Development Bank of Kazakhstan JSC	109	3,240
<b>Borrowings</b>		
Entities under government control		
Development Bank of Kazakhstan JSC	54,195,146	55,137,133
<b>Trade and other receivables</b>		
Parent	34,586	51,156
Parent-controlled entities	593,329	539,019
Associate	14,416,244	11,164,458
Government institutions	7,260,943	4,411,156
<b>Accounts payable</b>		
Parent-controlled entities	241,286	342,445
Associate	7,960,638	8,231,494
Government institutions	291,973	525,492
<b>Other long term assets</b>		
Long term loans provided to key personnel	26,737	38,513

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**For the six months ended June 30, 2017**

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**20. RELATED PARTY DISCLOSURES (continued)**

During six months ended 30 June 2017 the Government of the Republic of Kazakhstan did not grant subsidies to the Group for provision of universal services in rural areas (during six months ended 30 June 2016: 3,211,953 thousand tenge (unaudited)).

As disclosed in *Note 12*, as at 30 June 2017, certain of the Group's borrowings were guaranteed by the Parent in the amount of 26,991,220 thousand tenge (as at 31 December 2016: 26,991,220 thousand tenge).

**21. FINANCIAL INSTRUMENTS****Fair values**

As at 30 June 2017 and 31 December 2016, the carrying amounts of the Group's financial assets and liabilities approximated their estimated fair values.

The carrying amounts of cash and cash equivalents, trade receivables, trade payables and other current financial assets and liabilities approximates their fair values due to the short-term maturity of these financial instruments. Interest-bearing loans and borrowings are stated at amortized cost which approximate their fair values.

The fair value of non-current 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 non-current financial assets is considered to approximate their carrying amount.

**22. 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 2017, the Group had contractual commitments totaling 6,408,484 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.

**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 the Republic 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 2017. As at 30 June 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.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### For the six months ended June 30, 2017

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#### 23. CALCULATION OF BOOK VALUE PER COMMON SHARE

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

$$BVCS = NAV / NOCS, \text{ where}$$

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

As at 31 December, 2016:

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

As at 30 June, 2017:

$$BVCS = (337,983,751 / 10,707,323) \times 1,000 = 31,566$$

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 30 June, 2017 – 337,983,751

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

As at 31 December, 2016 – 10,707,323

As at 30 June, 2017 – 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, 2016:

$$NAV = (468,962,112 - 17,140,121) - 125,164,502 - 320,556 = 326,336,933 \text{ in thousands of Tenge}$$

As at 30 June, 2017:

$$NAV = (473,810,045 - 16,022,368) - 129,486,370 - 320,556 = 337,983,751 \text{ in thousands of Tenge}$$

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, 2016 – 468,962,112

As at 30 June, 2017 – 473,810,045

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 30 June, 2017 – 16,022,368

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 30 June, 2017 – (31,757,846 + 87,725,524) = 119,483,370

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**For the six months ended June 30, 2017**

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**23. CALCULATION OF BOOK VALUE PER COMMON SHARE (continued)**

PS – preferred stock, i.e. balance of the account “authorized capital stock, preferred shares” in the statement of issuer's financial position as of the date of calculation, in thousands of Tenge;

As at 31 December, 2016 – 320,556

As at 30 June, 2017 – 320,556

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, 2016:

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

As at 30 June, 2017:

$$BVPS1 = ((1,908,796 + 874,244) / 320,556) \times 1,000 = 8,682$$

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 30 June, 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 30 June, 2017 – 1,908,796

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 30 June, 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:

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

As at 31 December, 2016:

$$EPC = 1,546,735 + 320,556 = 1,876,291 \text{ thousands of Tenge}$$

As at 30 June, 2017:

$$EPC = 1,588,240 + 320,556 = 1,908,796 \text{ thousands of Tenge}$$

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, 2016 – 1,546,735

As at 30 June, 2017 – 1,588,240