

## ACCOUNTING POLICIES AND NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months period ended 30 June 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 30 June 2018:

	30 June 2018 (unaudited)	31 December 2017 (audited)
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%
	<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 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.

The interim condensed consolidated financial statements were authorised for issue on 2 August 2018 on behalf of the Management of the Company by the Chief financial director.

### 2. BASIS FOR PREPARATION

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

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

### 2. BASIS FOR PREPARATION (continued)

#### Foreign currency translation (continued)

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

	30 June 2018	31 December 2017	30 June 2017
US dollar	341.08	332.33	322.27
Euro	397.26	398.23	367.52
Russian ruble	5.44	5.77	5.44

#### Subsidiaries

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

	Country of residence	Percentage ownership	
		30 June 2018 (unaudited)	31 December 2017 (audited)
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 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 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 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope 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 recognised 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 entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the modified retrospective method of adoption to not completed contracts at the date of initial application in its interim condensed consolidated financial statements.

The comparative information for each of the primary financial statements is presented based on the requirements of IAS 11, IAS 18 and related Interpretations.

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

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

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

##### *IFRS 15 Revenue from Contracts with Customers (continued)*

The cumulative catch-up adjustment to the opening balance of retained earnings as at 1 January 2018 is recognised in the consolidated statement of changes in equity for the six months ended 30 June 2018. The information on this adjustment is disclosed as follows:

<i>In thousands of tenge</i>		<b>Adjustments</b>
<b>Non-current assets</b>		
Contract costs	(b)	61,515
<b>Total non-current assets</b>		<b>61,515</b>
<b>Current assets</b>		
Contract costs	(b)	174,180
<b>Total current assets</b>		<b>174,180</b>
<b>Total assets</b>		<b>235,695</b>
<b>Equity</b>		
Retained earnings	(b), (c)	(124,139)
<b>Total equity</b>		<b>(124,139)</b>
<b>Non-current liabilities</b>		
Deferred tax liabilities	(b)	47,139
Other non-current liabilities	(c)	(5,215,862)
Contract liabilities	(c)	5,360,104
<b>Total non-current liabilities</b>		<b>191,381</b>
<b>Current liabilities</b>		
Other current liabilities	(c)	(1,207,937)
Advances received	(c)	(3,033,151)
Contract liabilities	(c)	4,409,541
<b>Total current liabilities</b>		<b>168,453</b>
<b>Total liabilities</b>		<b>359,834</b>

The Group's activities mainly relates to the provision of data transmission services, local, intercity and international calls, interconnect / traffic transmission of other operators and rent of channels.

#### *(a) Rendering of services*

Interconnection fees from domestic and foreign telecommunication operators are recognized when the services are rendered based on the actual minutes of traffic transferred through the network.

Revenue from international and intercity calls and calls to local operators are recognized at the time the call is made over the Group's network.

Subscription fees, consisting primarily of monthly charges for access to broadband and other internet services or voice services, are recognised as revenue over time on a straight-line basis. Revenue from dial up internet is recognized based on the actual airtime provided to the customers.

Revenue from the rental of analogue and digital channels and private circuits as well as wholesale access revenue is recognised on a straight-line basis over the period to which it relates.

Non-refundable upfront fees received for initial connection of new subscribers to fixed line and wireless networks are recognized during the expected period of the customer relationship. The expected period of the customer relationship is based on past history of customer period and industry practice.

Application of IFRS 15 to service contracts does not affect the Group's revenue and profit and loss, except the points described in *Note (b)* and *(c)* below.



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

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**3. CHANGES IN ACCOUNTING POLICIES (continued)****New standards, clarifications and amendments adopted by the Group (continued)***IFRS 15 Revenue from Contracts with Customers (continued)**(b) Equipment provided to customers free of charge*

The Group provides internet and other data transfer services and equipment to the subscribers to use these services, such as a modem, router and others.

Based on the analysis of the current operating indicators, the Group concluded that equipment that cannot be used by the subscriber separately from the Group's services is not a separate performance obligation.

Under IFRS 15, the Group capitalized the cost of the equipment provided free of charge as contract costs and charged this to retained earnings. The contract costs amortizes over the period the services are provided to the customers.

The statement of financial position at the date of transition to IFRS 15 (1 January 2018) was restated, resulting in: increases in current and non-current portions of contract costs amounting to KZT 174,180 thousand and KZT 61,515 thousand, respectively; increase in deferred tax liabilities amounting to KZT 47,139 thousand; and increase in retained earnings amounting to KZT 188,556 thousand.

*(c) Advances received from customers*

The Group receives mainly short-term advances from its customers. Upon the adoption of the IFRS 15, for short-term advances, the Group used the practical expedient. As such, the Group will not adjust the promised amount of the consideration for the effect of a financial component in contracts, where the Group expects, at contract inception, that the period between the time the customer pays for the service and when the Group transfers that promised service to the customer will be one year or less.

The Group also receives long-term advances for activation of connection to the international network. Prior to the adoption of IFRS 15, the Group presented these advances as deferred income in the statement of financial position. No interest was accrued on the long-term advances under the previous accounting policy. The Group concluded that there is a significant financing component for those contracts. Upon adoption of IFRS 15, the Group recognized contract liabilities for the interest on the advances received from customers with a significant financing component and charge this to retained earnings. In addition, reclassifications have been made from deferred revenue to contract liabilities for the outstanding balance of advances from customers.

The statement of financial position at the date of transition to IFRS 15 (1 January 2018) was corrected, resulting in: increase in current and non-current portion of contract liabilities amounting to KZT 4,409,541 thousand and KZT 5,360,104 thousand, respectively; decrease in other current and non-current liabilities amounting to KZT 1,207,937 thousand and KZT 5,215,862 thousand, respectively; decrease in advances received amounting to KZT 3,033,151 thousand and decrease in retained earnings to KZT 312,695 thousand.

*(d) Presentation and disclosure requirements*

As required for the condensed interim consolidated financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to *Note 16* for the disclosure on disaggregated revenue.



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

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

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

##### IFRS 15 Revenue from Contracts with Customers (continued)

##### (e) Impact on financial statements

The following tables summarise the impact of adopting IFRS 15 on the Group's interim condensed consolidated financial statements for the six month period ended 30 June 2018:

<i>In thousand tenge</i>	Impact of changes in accounting policies		
	As reported	Adjustments	Balances without adoption of IFRS 15
<b>Interim condensed consolidated statement of financial position as at 30 June 2018</b>			
<b>Non-current assets</b>			
Contract costs	30,757	(30,757)	–
<b>Total non-current assets</b>	<b>339,022,018</b>	<b>(30,757)</b>	<b>338,991,261</b>
<b>Current assets</b>			
Contract costs	117,848	(117,848)	–
<b>Total current assets</b>	<b>134,468,754</b>	<b>(117,848)</b>	<b>134,350,906</b>
<b>Total assets</b>	<b>473,490,772</b>	<b>(148,605)</b>	<b>473,342,167</b>
<b>Equity</b>			
Retained earnings	352,576,361	266,927	352,843,288
<b>Total equity</b>	<b>360,064,356</b>	<b>266,927</b>	<b>360,331,283</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	18,717,953	(29,721)	18,688,232
Other non-current liabilities	187,448	5,342,058	5,529,506
Contract liabilities	5,486,300	(5,486,300)	–
<b>Total non-current liabilities</b>	<b>67,232,215</b>	<b>(173,963)</b>	<b>67,058,252</b>
<b>Current liabilities</b>			
Other current liabilities	6,406,650	1,589,795	7,996,445
Advances received	–	2,915,344	2,915,344
Contract liabilities	4,746,708	(4,746,708)	–
<b>Total current liabilities</b>	<b>46,194,201</b>	<b>(241,569)</b>	<b>45,952,632</b>
<b>Total equity and liabilities</b>	<b>473,490,772</b>	<b>(148,605)</b>	<b>473,342,167</b>

<i>In thousand tenge</i>	Impact of changes in accounting policies		
	As reported	Adjustments	Balances without adoption of IFRS 15
<b>Interim condensed consolidated statement of comprehensive income for the three months period ended 30 June 2018</b>			
Revenue	51,900,241	(83,997)	51,816,244
Cost of sales	(36,225,418)	43,545	(36,181,873)
Finance costs	(1,373,555)	132,822	(1,240,733)
<b>Profit before tax for the period</b>	<b>14,739,684</b>	<b>92,370</b>	<b>14,832,054</b>
Income tax expenses	(4,212,425)	(8,709)	(4,221,134)
<b>Net profit for the period</b>	<b>10,527,259</b>	<b>83,661</b>	<b>10,610,920</b>

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

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

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

*IFRS 15 Revenue from Contracts with Customers (continued)*

(e) *Impact on financial statements (continued)*

<i>In thousand tenge</i>	Impact of changes in accounting policies		Balances without adoption of IFRS 15
	As reported	Adjustments	
<b>Interim condensed consolidated statement of comprehensive income for the six months period ended 30 June 2018</b>			
Revenue	103,623,294	(184,574)	103,438,720
Cost of sales	(68,154,253)	87,090	(68,067,63)
Finance costs	(2,470,369)	257,690	(2,212,679)
<b>Profit before tax for the period</b>	<b>26,768,077</b>	<b>160,206</b>	<b>26,928,283</b>
Income tax expenses	(6,873,520)	(17,418)	(6,890,938)
<b>Net profit for the period</b>	<b>19,894,557</b>	<b>142,788</b>	<b>20,037,345</b>

<i>In thousand tenge</i>	Impact of changes in accounting policies		Balances without adoption of IFRS 15
	As reported	Adjustments	
<b>Interim condensed consolidated statement of cash flow for the six months period ended 30 June 2018</b>			
<b>Operating activities</b>			
Profit before tax for the period	26,768,077	160,206	26,928,283
<b>Adjustments for:</b>			
Finance costs	(2,470,369)	257,690	(2,212,679)
<b>Adjustments of working capital</b>			
Change in contract costs	87,090	(87,090)	–
Change in contract liabilities	(570,068)	570,068	–
Change in advances received	–	(117,807)	117,807
Change in other current liabilities	1,313,927	452,261	861,666
<b>Cash flow received from operating activities</b>	<b>44,219,083</b>	<b>–</b>	<b>44,219,083</b>

*IFRS 9 Financial Instruments*

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.



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

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

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

##### IFRS 9 Financial Instruments (continued)

With the exception of hedge accounting, which the Group applied prospectively, the Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018. The management of the Group decided not to restate the comparative information for the period beginning 1 January 2017, hence:

- the comparative information on financial assets and liabilities is disclosed in accordance with classification and measurement requirements of IAS 39;
- the adjustment to the opening balance of retained earnings as at 1 January 2018 is recognized in the consolidated statement of changes in equity for the six months ended 30 June 2018. The information on this adjustment is disclosed as follows:

<i>In thousands of tenge</i>	<b>Adjustments</b>	
<b>Non-current assets</b>		
Other non-current financial assets	(b)	(311,627)
<b>Total non-current assets</b>		<b>(311,627)</b>
<b>Current assets</b>		
Trade receivables	(b)	(870,289)
Cash and cash equivalents	(b)	(20,240)
Other current financial assets	(b)	(278,727)
<b>Total current assets</b>		<b>(1,169,256)</b>
<b>Total assets</b>		<b>(1,480,883)</b>
<b>Equity</b>		
Retained earnings	(a), (b)	(1,976,432)
<b>Total equity</b>		<b>(1,976,432)</b>
<b>Non-current liabilities</b>		
Deferred tax liabilities	(b)	(204,630)
Other non-current financial liabilities	(a)	700,179
<b>Total non-current liabilities</b>		<b>495,549</b>

The impact of transition to IFRS 9 on retained earnings is as follows:

<i>In thousands of tenge</i>	<b>Retained earnings</b>
<b>Retained earnings</b>	
Closing balance under IAS 39 (31 December 2017)	351,621,657
Recognition of IFRS 9 ECLs	(2,181,062)
Deferred tax in relation to the above	204,630
<b>Restated opening balance under IFRS 9 (1 January 2018)</b>	<b>349,645,225</b>
<b>Total change in equity due to adopting IFRS 9</b>	<b>(1,976,432)</b>

#### (a) Classification and measurement

Under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

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

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

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

##### *IFRS 9 Financial Instruments (continued)*

##### *(a) Classification and measurement (continued)*

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and other receivables, and funds in credit institutions (bank deposits, cash and cash equivalents).

The Group does not have financial assets at FVPL and FVOCI.

The Group accounts the financial guarantee contracts after initial recognition at the higher of the initially recognized amount and the amount of the estimated provision for expected credit losses. As a result, the Group has adjusted the balance of retained earnings as of 1 January 2018 and other non-current financial liabilities by KZT 700,179 thousand.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of these assets.

##### *(b) Impairment*

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For long-term bank deposits and other financial assets recorded at amortized cost, the Group adopted 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 Group considers a financial asset in default when contractual payment are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of IFRS 9 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. The effect of the adjustment is as follows: decrease in trade receivables, cash and cash equivalents, other current and non-current financial assets, deferred tax liabilities and retained earnings amounting to KZT 870,289 thousand, KZT 20,240 thousand, KZT 278,727 thousand, KZT 311,627 thousand, KZT 204,630 thousand and KZT 1,276,253 thousand.

In addition, the Group presented separately the impairment losses on financial assets in its interim condensed consolidated statement of comprehensive income for the three and six months period ended 30 June 2018.



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

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

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

##### *IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group's interim condensed consolidated financial statements.

##### *Amendments to IAS 40 Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any impact on the Group's interim condensed consolidated financial statements.

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

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 Group's accounting policy for cash-settled share based payments is consistent with the approach clarified in the amendments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations and had not made any modifications to the terms and conditions of its share-based payment transaction. Therefore, these amendments do not have any impact on the Group's interim condensed consolidated financial statements.

##### *Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

##### *Amendments to IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*

The amendments clarify that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

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

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

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

*Amendments to IAS 28 Investments in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice (continued)*

These amendments do not have any impact on the Group's interim condensed consolidated financial statements.

*Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters*

Short-term exemptions in paragraphs E3–E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group's interim condensed consolidated financial statements.

#### Standards and interpretations issued but not yet effective

##### *IFRS 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*. IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.



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

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

#### Adjustments of comparative data

Certain amounts in the interim condensed consolidated statement of comprehensive income for the three and six months periods ended 30 June 2017 were corrected to match the presentation in the interim condensed consolidated statement of comprehensive income for the three and six months periods ended 30 June 2018:

<i>In thousand tenge</i>	As previously presented	Adjustments	Note	As adjusted
<b>Interim condensed consolidated statement of comprehensive income for the three months ended 30 June 2017</b>				
Revenue	50,381,136	250,635	[1]	<b>50,631,771</b>
Cost of sales	(33,758,742)	(250,635)	[1]	<b>(34,009,377)</b>
<b>Profit before tax for the period</b>	<b>10,630,677</b>	<b>–</b>		<b>10,630,677</b>

<i>In thousand tenge</i>	As previously presented	Adjustments	Note	As adjusted
<b>Interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2017</b>				
Revenue	100,442,032	494,935	[1]	<b>100,936,967</b>
Cost of sales	(65,094,757)	(494,935)	[1]	<b>(65,589,692)</b>
<b>Profit before tax for the period</b>	<b>21,203,216</b>	<b>–</b>		<b>21,203,216</b>

[1] Tax for the use of 4G radiofrequencies and the related reimbursement of the tax were presented on a gross basis. The above adjustment made had no impact on previously reported net profit, total comprehensive income or equity. The changes did not have an impact the Group's investing and financing cash flows.

### 4. SEGMENT INFORMATION

The Group has two reportable operating segments as follows:

- Rendering fixed-line telecommunication services to local, national long-distance and international users by business units of Kazakhtelecom JSC, Vostoktelecom LLP, KT Cloud Lab LLP and Nursat JSC, including revenue from rent of channels.
- Rendering mobile telecommunication services in GSM and LTE standards by a business unit of an associate Khan Tengri Holding B.V.

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

### 4. SEGMENT INFORMATION (continued)

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.

The following tables disclose revenue and segment profit information for the Group's operating segments for the three and six months ended 30 June 2018 and 2017.

#### For the three months ended 30 June 2018 (unaudited)

<i>In thousands of tenge</i>	Fixed line	GSM and LTE telecom- munication	Other	Eliminations and adjustments	Group
<b>Revenue</b>					
Sales to external customers	51,765,901	-	134,340	-	51,900,241
Inter-segment	-	-	51,660	(51,660)	-
<b>Total revenue</b>	<b>51,765,901</b>	<b>-</b>	<b>186,000</b>	<b>(51,660)</b>	<b>51,900,241</b>
<b>Financial results</b>					
Depreciation and amortization	(9,622,503)	-	(28,041)	-	(9,650,544)
Finance costs	(1,373,555)	-	-	-	(1,373,555)
Finance income	1,294,503	-	745	-	1,295,248
Share in profit of associates	-	1,425,966	56,001	-	1,481,967
Allowance for impairment	(3,302,392)	-	-	-	(3,302,392)
<b>Segment profit/(loss) before tax</b>	<b>14,197,358</b>	<b>1,425,966</b>	<b>7,628</b>	<b>(891,268)</b>	<b>14,739,684</b>

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

<i>In thousands of tenge</i>	Fixed line	GSM and LTE telecom- munication	Other	Eliminations and adjustments	Group
<b>Revenue</b>					
Sales to external customers	50,631,771	-	-	-	50,631,771
Inter-segment	-	-	51,189	(51,189)	-
<b>Total revenue</b>	<b>50,631,771</b>	<b>-</b>	<b>51,189</b>	<b>(51,189)</b>	<b>50,631,771</b>
<b>Financial results</b>					
Depreciation and amortization	(7,976,404)	-	(24,725)	-	(8,001,129)
Impairment of property and equipment	(769,768)	-	-	-	(769,768)
Finance costs	(1,468,904)	-	-	-	(1,468,904)
Finance income	1,222,567	-	1,644	-	1,224,211
Share in loss of associates	-	(1,127,520)	-	-	(1,127,520)
Allowance for impairment	(368,197)	-	(531)	-	(368,728)
<b>Segment profit/(loss) before tax</b>	<b>11,782,776</b>	<b>(1,127,520)</b>	<b>(24,579)</b>	<b>-</b>	<b>10,630,677</b>



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

### 4. SEGMENT INFORMATION (continued)

For the six months ended 30 June 2018 (unaudited)

<i>In thousands of tenge</i>	Fixed line	GSM and LTE telecom- munication	Other	Eliminations and adjustments	Group
<b>Revenue</b>					
Sales to external customers	103,390,129	–	233,165	–	103,623,294
Inter-segment	–	–	106,858	(106,858)	–
<b>Total revenue</b>	<b>103,390,129</b>	<b>–</b>	<b>340,023</b>	<b>(106,858)</b>	<b>103,623,294</b>
<b>Financial results</b>					
Depreciation and amortization	(19,115,055)	–	(56,835)	–	(19,171,890)
Finance costs	(2,470,369)	–	–	–	(2,470,369)
Finance income	2,086,916	–	1,235	–	2,088,151
Share in profit of associates	–	2,207,010	94,020	–	2,301,030
Allowance for impairment	(4,369,617)	–	–	–	(4,369,617)
<b>Segment profit/(loss) before tax</b>	<b>25,466,231</b>	<b>2,207,010</b>	<b>(13,896)</b>	<b>(891,268)</b>	<b>26,768,077</b>

For the six months ended 30 June 2017 (unaudited)

<i>In thousands of tenge</i>	Fixed line	GSM and LTE telecom- munication	Other	Eliminations and adjustments	Group
<b>Revenue</b>					
Sales to external customers	100,936,967	–	–	–	100,936,967
Inter-segment	–	–	103,859	(103,859)	–
<b>Total revenue</b>	<b>100,936,967</b>	<b>–</b>	<b>103,859</b>	<b>(103,859)</b>	<b>100,936,967</b>
<b>Financial results</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)
Allowance for impairment	(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>

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

### 4. SEGMENT INFORMATION (continued)

The following table presents segment assets and liabilities of the Group's operating segments as at 30 June 2018 and 31 December 2017:

<i>In thousands of tenge</i>	Fixed line	GSM and LTE telecommunication	Other	Eliminations and adjustments	Group
<b>Operating assets</b>					
<b>As at 30 June 2018 (unaudited)</b>	<b>401,789,754</b>	<b>70,534,025</b>	<b>2,223,294</b>	<b>(1,056,301)</b>	<b>473,490,772</b>
As at 31 December 2017 (audited)	401,862,495	68,327,015	1,614,407	(489,725)	471,314,192
<b>Operating liabilities</b>					
<b>As at 30 June 2018 (unaudited)</b>	<b>113,591,682</b>	<b>-</b>	<b>302,728</b>	<b>(467,994)</b>	<b>113,426,416</b>
As at 31 December 2017 (audited)	111,850,809	-	354,742	704	112,206,255

### 5. PROPERTY AND EQUIPMENT

During the six months period ended 30 June 2018, the Group acquired property and equipment for KZT 2,893,133 thousand (unaudited) (during six months period ended 30 June 2017: KZT 5,137,536 thousand (unaudited)). During the six months period ended 30 June 2018, the Group disposed property and equipment with net book value of KZT 218,522 thousand (unaudited) (during six months period ended 30 June 2017: KZT 223,328 thousand (unaudited)).

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

During the six months period ended 30 June 2018, the Group recognized depreciation expense amounting to KZT 17,732,784 thousand (unaudited) (during six months period ended 30 June 2017: KZT 14,295,702 thousand (unaudited)).

During the six months ended 30 June 2018, the Group did not recognize an impairment loss (during six-months period ended 30 June 2017, the impairment loss was equal to 769,768 thousand tenge).

As at 30 June 2018, the net book value of equipment used by the Group under finance leases and included in property and equipment was equal to KZT 30,708,579 thousand (unaudited) (as at 31 December 2017: KZT 32,142,707 thousand). Additions during the six months period ended 30 June 2018 and 30 June 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 30 June 2018, property and equipment, amounting to KZT 141,359,666 thousand (unaudited), were fully amortized (as at 31 December 2017: KZT 135,390,566 thousand).

### 6. INTANGIBLE ASSETS

During the six months period ended 30 June 2018, the Group acquired intangible assets for KZT 49,898 thousand (unaudited) (during six months period ended 30 June 2017: KZT 3,584 thousand (unaudited)).

During the six months period ended 30 June 2018, the Group recognized amortization expense amounting to KZT 1,454,071 thousand (unaudited) (during six months period ended 30 June 2017: KZT 1,543,173 thousand (unaudited)).

As at 30 June 2018 intangible assets (mainly software) with cost amounting to KZT 8,412,097 thousand (unaudited), were fully amortized (as at 31 December 2017: KZT 8,372,440 thousand).

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

### 7. INVESTMENTS IN ASSOCIATES

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

<i>In thousands of tenge</i>	Primary activities	Country of incorporation	30 June 2018 (unaudited)		31 December 2017 (audited)	
			Carrying amount	Ownership share	Carrying amount	Ownership share
Khan Tengri Holding B.V.	Telecommunication services	Netherlands	70,534,025	51%	68,327,015	51%
QazCloud LLP	IT services	Kazakhstan	1,576,145	49%	919,125	49%
			<b>72,110,170</b>		<b>69,246,140</b>	

Movements in investments in associates for the six month periods ended 30 June 2018 and 2017 are as follows:

<i>In thousands of tenge</i>	Khan Tengri Holding B.V.	QazCloud LLP	Total
<b>At 31 December 2016 (audited)</b>	67,160,792	–	67,160,792
Share in loss of associates	(3,070,100)	–	(3,070,100)
Share in other comprehensive income of associates	–	–	–
Dividends declared	–	–	–
<b>At 30 June 2017 (unaudited)</b>	64,090,692	–	64,090,692
<b>At 31 December 2017 (audited)</b>	68,327,015	919,125	69,246,140
Additional contribution to the charter capital of the associate	–	563,000	563,000
Share in profit of associates	2,207,010	94,020	2,301,030
Share in other comprehensive income of associates	–	–	–
Dividends declared	–	–	–
<b>At 30 June 2018 (unaudited)</b>	<b>70,534,025</b>	<b>1,576,145</b>	<b>72,110,170</b>

#### 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:

<i>In thousands of tenge</i>	30 June 2018 (unaudited)	31 December 2017 (audited)
Current assets	38,530,443	39,906,159
Non-current assets	156,128,504	153,137,417
Current liabilities	(55,058,498)	(46,052,692)
Non-current liabilities	(114,723,281)	(126,441,186)
<b>Equity</b>	<b>24,877,168</b>	<b>20,549,698</b>
Share of the Group in equity – 51%	12,687,356	10,480,346
Goodwill	57,846,669	57,846,669
<b>Carrying amount of investment of the Group</b>	<b>70,534,025</b>	<b>68,327,015</b>



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

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

#### Investments in Khan Tengri Holding B.V. (continued)

<i>In thousands of tenge</i>	For three months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Revenue	27,985,255	25,519,847
Operating expenses	(23,787,764)	(25,074,907)
Non-operating expenses	(2,105,298)	(2,655,764)
<b>Profit/(loss) before tax</b>	<b>2,092,193</b>	<b>(2,210,824)</b>
Income tax benefit	703,818	-
<b>Profit/(loss) for the period</b>	<b>2,796,011</b>	<b>(2,210,824)</b>
<b>Total comprehensive income/(loss) for the period</b>	<b>2,796,011</b>	<b>(2,210,824)</b>
Share of the Group in profit/(loss) for the period	1,425,966	(1,127,520)

<i>In thousands of tenge</i>	For six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Revenue	55,690,577	48,970,293
Operating expenses	(47,591,941)	(50,024,645)
Non-operating expenses	(4,819,117)	(4,965,451)
<b>Profit/(loss) before tax</b>	<b>3,279,519</b>	<b>(6,019,803)</b>
Income tax benefit	1,047,951	-
<b>Profit/(loss) for the period</b>	<b>4,327,470</b>	<b>(6,019,803)</b>
<b>Total comprehensive income/(loss) for the period</b>	<b>4,327,470</b>	<b>(6,019,803)</b>
Share of the Group in profit/(loss) for the period	2,207,010	(3,070,100)

#### Options to acquire interest in an associate

According to the agreement between the Group and Tele2, the Group has an unconditional right to require Tele2 to sell its 49% of the interest in Khan Tengri Holding B.V. at any time, after three years after 29 February 2016 (call option). The closing date of the transactions was 29 February 2016. Similarly, Tele2 has an unconditional right to require the Group to acquire a 49% interest in Khan Tengri Holding B.V. at any time, after three years after 29 February 2016 (put option).

The price of an options expressed in US dollars and should be equal to the fair market value of the shares transferred as of the day of its determination.

The Group estimated the fair value of the options and as at 30 June 2018 the fair value of the options is nil (31 December 2017: nil).

#### 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-registered 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.

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

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

#### Investments in QazCloud LLP (continued)

On 15 November 2017 and 27 April 2018, the Group made contributions to the charter capital of QazCloud LLP, in the amount of KZT 986,980 thousand and KZT 563,000 thousand, respectfully. The additional contributions to the charter capital of QazCloud LLP did not lead to the change in share of interest of the Group as the second participant, Samruk-Kazyna Business Service LLP, also made the contributions to the charter capital of QazCloud LLP according to its share.

The table below provides summarized financial information on QazCloud LLP:

<i>In thousands of tenge</i>	For three months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Revenue	635,901	-
Operating expenses	(485,155)	(7,231)
Non-operating incomes	2,823	-
<b>Profit/(loss) before tax</b>	<b>153,569</b>	<b>(7,231)</b>
Income tax (expense)/benefit	(39,281)	3,745
<b>Profit/(loss) for the period</b>	<b>114,288</b>	<b>(3,486)</b>
<b>Total comprehensive income/(loss) for the period</b>	<b>114,288</b>	<b>(3,486)</b>
Unrecognized accumulated losses	-	(1,708)
Share of the Group in profit for the period	56,001	-

<i>In thousands of tenge</i>	For six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
Revenue	1,079,839	-
Operating expenses	(899,596)	(11,955)
Non-operating incomes	52,523	-
<b>Profit/(loss) before tax</b>	<b>232,766</b>	<b>(11,955)</b>
Income tax (expense)/benefit	(40,888)	2,391
<b>Profit/(loss) for the period</b>	<b>191,878</b>	<b>(9,564)</b>
<b>Total comprehensive income/(loss) for the period</b>	<b>191,878</b>	<b>(9,564)</b>
Unrecognized accumulated losses	-	(12,674)
Share of the Group in profit for the period	94,020	-

Unrecognized accumulated loss for 2016 was amounted to KZT 7,988 thousand.

### 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 30 June 2018, no goodwill impairment indicators were identified.

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

### 9. OTHER NON-CURRENT FINANCIAL ASSETS

As at 30 June 2018 and 31 December 2017 other non-current financial assets comprised:

<i>In thousands of tenge</i>	<b>30 June 2018 (unaudited)</b>	31 December 2017(audited)
Long-term accounts receivable	<b>3,487,670</b>	3,326,666
Long-term bank deposits	<b>3,293,500</b>	3,323,300
Loans to employees	<b>2,535,053</b>	2,603,464
Other	<b>241,878</b>	203,876
	<b>9,558,101</b>	9,457,306
Less: allowance for impairment	<b>(3,293,500)</b>	-
	<b>6,264,601</b>	9,457,306

As at 30 June 2018, long-term bank deposits include a deposit with Eximbank Kazakhstan JSC in the amount of KZT 3,293,500 thousand, with a maturity period of up to 2019 and an interest rate of 2.5% per annum. As a result of initial application of IFRS 9, the Group recorded the provision for expected credit losses on this bank deposit in the amount of KZT 311,627 thousand as at 1 January 2018. During 6 months of 2018, the Group recognized additional provision on deposit placed in Eximbank Kazakhstan JSC in the amount of KZT 2,981,873 thousand in profit and loss due to default rating of the bank.

As at 30 June 2018, the long-term receivables represent amounts due from Mobile Telecom Service LLP. On 29 February 2016 the Company and Mobile Telecom Service LLP agreed to extend the maturity of the Company's receivables from Mobile Telecom Service LLP until 2031. These receivables were discounted at the date of restructuring using 10% rate.

Loans to employees are interest free loans provided for the period from 1 to 15 years. These loans were discounted as at the issue date using market interest rates of 12.2% per annum to 22% (2017: from 12.2 to 22% per annum). Repayment of long-term loans to employees is made through withholding of amounts due from employees' salaries. Loans are secured by employees' real estate properties.

### 10. TRADE RECEIVABLES

As at 30 June 2018 and 31 December 2017 trade receivables comprised:

<i>In thousands of tenge</i>	<b>30 June 2018 (unaudited)</b>	31 December 2017(audited)
Trade receivables	<b>40,700,260</b>	34,370,423
	<b>40,700,260</b>	34,370,423
Less: allowance for impairment	<b>(3,500,483)</b>	(2,276,195)
	<b>37,199,777</b>	32,094,228

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

<i>In thousands of tenge</i>	<b>2018</b>	2017
Allowance for doubtful receivables at 1 January (audited)	<b>(2,276,195)</b>	(2,224,485)
Change in accounting policy due to application of IFRS 9 (Note 3)	<b>(870,289)</b>	-
Allowance for doubtful receivables at 1 January (restated)	<b>(3,146,484)</b>	(2,224,485)
Charge for the period	<b>(713,359)</b>	(434,823)
Write-off for the period	<b>359,360</b>	590,213
Allowance for doubtful receivables at 30 June (unaudited)	<b>(3,500,483)</b>	(2,069,095)



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

### 11. OTHER CURRENT FINANCIAL ASSETS

As at 30 June 2018 and 31 December 2017 other current financial assets comprised:

<i>In thousands of tenge</i>	<b>30 June 2018 (unaudited)</b>	31 December 2017(audited)
Bank deposits	42,203,107	58,864,522
Loans to employees	2,038,067	2,060,217
Restricted cash	446,198	446,198
Reimbursement of fee for using radio frequencies	–	205,709
Due from employees	167,987	114,825
Other accounts receivable	1,936,926	1,133,807
	<b>46,792,285</b>	62,825,278
Less: allowance for impairment	<b>(1,163,975)</b>	(691,591)
	<b>45,628,310</b>	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 10.5% per annum (as at 31 December 2017: from 1 to 13% per annum).

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

<i>In thousands of tenge</i>	<b>2018</b>	2017
<b>Allowance for doubtful receivables at 1 January (audited)</b>	<b>(691,591)</b>	(660,721)
Change in accounting policy due to application of IFRS 9 (Note 3)	(278,727)	–
<b>Allowance for doubtful receivables at 1 January (restated)</b>	<b>(970,318)</b>	(660,721)
Charge for the period	(217,169)	(32,725)
Write-off for the period	23,512	2,449
<b>Allowance for doubtful receivables at 30 June (unaudited)</b>	<b>(1,163,975)</b>	(690,997)

### 12. CASH AND CASH EQUIVALENTS

As at 30 June 2018 and 31 December 2017 cash and cash equivalents comprised:

<i>In thousands of tenge</i>	<b>30 June 2018 (unaudited)</b>	31 December 2017(audited)
Cash in current bank accounts	46,537,722	14,909,487
Deposits with less than 90 days' maturity from the date of opening	65,586	1,071,989
Cash on hand	10,902	4,467
	<b>46,614,210</b>	15,985,943
Less: allowance for impairment	<b>(524,420)</b>	–
	<b>46,089,790</b>	15,985,943

As at 30 June 2018, the allowance for impairment includes the provision for expected credit loss on cash and cash equivalents on the initial application date of IFRS 9 in amount of KZT 20,240 thousand.

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 30 June 2018 cash on current bank accounts included an amount of KZT 65,586 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).

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

### 12. CASH AND CASH EQUIVALENTS (continued)

At 30 June 2018 and 31 December 2017 cash and cash equivalents were denominated in the following currencies:

<i>In thousands of tenge</i>	<b>30 June 2018 (unaudited)</b>	31 December 2017 (audited)
US dollars	<b>31,396,540</b>	8,654,970
Tenge	<b>14,579,703</b>	7,200,660
Russian rubles	<b>113,525</b>	98,540
Other	<b>22</b>	31,773
	<b>46,089,790</b>	15,985,943

### 13. EQUITY

#### Authorised and issued shares

	Number of shares		In thousands of tenge		Total issued shares
	Common shares	Preferred non-voting shares	Common shares	Preferred non-voting shares	
At 31 December 2016	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
At 31 December 2017	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
<b>At 30 June 2018</b>	<b>10,922,876</b>	<b>1,213,653</b>	<b>10,922,876</b>	<b>1,213,653</b>	<b>12,136,529</b>

#### Treasury shares

	Number of shares		In thousands of tenge		Total
	Common shares	Preferred non-voting shares	Common shares	Preferred non-voting shares	
<b>At 31 December 2016 (audited)</b>	215,553	893,097	2,966,250	3,498,124	6,464,374
Treasury shares reacquired	-	-	-	-	-
Sale of treasury shares	-	-	-	-	-
<b>At 30 June 2017 (unaudited)</b>	215,553	893,097	2,966,250	3,498,124	6,464,374
<b>At 31 December 2017 (audited)</b>	215,553	893,097	2,966,250	3,498,124	6,464,374
Treasury shares reacquired	-	-	-	-	-
Sale of treasury shares	-	-	-	-	-
<b>At 30 June 2018 (unaudited)</b>	<b>215,553</b>	<b>893,097</b>	<b>2,966,250</b>	<b>3,498,124</b>	<b>6,464,374</b>

#### Shares issued less reacquired shares

As at 30 June 2018, number of common and preferred shares issued net of reacquired shares was 10,707,323 and 320,556 shares, respectively (31 December 2017: 10,707,323 and 320,556 shares, respectively).

#### Preferred shares

Holders of preferred shares are entitled to receive annual cumulative dividends of 300 tenge per share, and not less than the amount of the dividends per share paid to holders of common shares. Payment of preferred shares dividends does not require a resolution of Kazakhtelecom JSC shareholders meeting. The discounted value of future cash flows of annual cumulative dividends is recorded as a financial liability as at 30 June 2018 in the amount of KZT 874,244 thousand (31 December 2017: KZT 874,244 thousand). This liability has been included in non-current liabilities as a debt component of preferred shares. Preferred shareholders receive the right to vote if the general meeting of shareholders considers decisions restricting rights of preferred shareholders, decisions on reorganization or liquidation of the Company and if dividends on preferred shares are not paid within 3 (three) months after a specified payment date.



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

### 13. EQUITY (continued)

#### Dividends

The preferred shares earn a non-discretionary dividend of 300 tenge per share in accordance with the Company's charter documents. Preferred shares are considered to be compound financial instruments, and accordingly the liability and equity components are presented separately in the consolidated statement of financial position. Dividends in the amount of KZT 48,083 thousand were accrued as at 30 June 2018 (at 30 June 2017: KZT 48,083 thousand) and are recorded as interest expenses in the consolidated statement of comprehensive income.

On the basis of the decision made at the annual shareholders general meeting of Kazakhtelecom JSC on 30 May 2018, the Company declared dividends on preferred shares based on 2017 results in the amount of KZT 415,373 thousand and dividends on common shares in the amount of KZT 17,086,639 thousand (2017: KZT 33,520 thousand and KZT 4,331,862 thousand, respectively). Dividends per share (common and preferred) as at 30 June 2018 were equal to KZT 1,595.79 (as at 31 December 2017: KZT 404.57 per common share).

As at 30 June 2018 and 30 June 2017 movements in dividends payable were as follow:

<i>In thousands of tenge</i>	2018	2017
<b>Dividends payable at 1 January (audited)</b>	<b>1,628,625</b>	1,547,439
Dividends declared on common shares	17,086,639	4,331,862
Dividends declared on preferred shares in excess of the obligatory amount	415,373	33,520
Interest on debt component of preferred shares	48,083	48,083
Withholding tax	(319,565)	(81,016)
Dividends paid on common and preferred shares	(16,897,726)	(4,204,274)
Other	122,491	-
<b>Dividends payable at 30 June (unaudited) (Note 15)</b>	<b>2,083,920</b>	1,675,614

#### Other reserves

According to the Company's Charter, the Company created a reserve capital equal to 15% of the authorized share capital. This reserve capital was created through appropriation of the retained earnings. There were no movements in the reserve capital as at 30 June 2018 and 31 December 2017.

#### Foreign currency translation reserve

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

#### Earnings per share

Basic earnings per share are calculated by dividing net profit for the year attributable to common equity holders of the Parent (after adjusting for the after-tax amount of dividends on preferred shares) by the weighted average number of common and preferred shares outstanding during the year.

Diluted earnings per share are equal to basic earnings per share, as the Group does not have any dilutive potential common shares.

The following tables reflects profit and share data used in the basic and diluted earnings per share computations.

<i>In thousands of tenge</i>	For six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
<b>Net profit</b>	<b>19,894,557</b>	16,215,147
Interest on preferred shares	48,083	48,083
<b>Net profit for calculating of basic and diluted earnings per share</b>	<b>19,942,640</b>	16,263,230
Weighted average number of common and preferred shares for calculation of basic and diluted earnings per share	11,027,879	11,027,879
<b>Basic and diluted earnings per share, tenge</b>	<b>1,808.38</b>	1,474.74



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

### 13. EQUITY (continued)

#### Earnings per share (continued)

The above presentation includes both ordinary and preferred shares as preferred shareholders equally share distributable profits, which results in identical earnings per share for both classes of shares.

There have been no other transactions involving common shares or potential common shares between the reporting date and the date of preparation of these the interim condensed consolidated financial statements.

#### Book value per ordinary share

Book value of the ordinary shares in accordance with requirements of KASE:

<i>In thousands of tenge</i>	30 June 2018 (unaudited)	31 December 2017 (audited)
<b>Total assets</b>	<b>473,490,772</b>	471,314,192
Less: intangible assets (Note 6)	14,161,630	15,592,544
Less: total liabilities	113,426,416	112,206,255
Less: the amount of preferred shares	320,556	320,556
<b>Net assets for calculation of book value per ordinary share</b>	<b>345,582,170</b>	343,194,837
Number of ordinary shares	10,707,323	10,707,323
<b>Book value per ordinary share (in tenge)</b>	<b>32,275</b>	32,052

Another requirement for disclosure is the amount of the dividends payable to owners of preferred non-voting shares, preferred non-voting shares in the equity and debt component of preferred non-voting shares, divided by number of preferred non-voting shares. As at 30 June 2018 this ratio was equal to KZT 8,856 (as at 31 December 2017: KZT 8,538).

### 14. BORROWINGS

As at 30 June 2018 and 31 December 2017 borrowings comprised:

<i>In thousands of tenge</i>	Weighted average interest rate (unaudited)	30 June 2018 (unaudited)	Weighted average interest rate	31 December 2017(audited)
Fixed interest rate borrowings with range between 7% and 9% p.a.	8.00%	27,724,846	8.13%	27,325,554
		<b>27,724,846</b>		<b>27,325,554</b>

As at 30 June 2018 and 31 December 2017 borrowings were denominated in tenge.

Borrowings are repayable as follows:

<i>In thousands of tenge</i>	30 June 2018 (unaudited)	31 December 2017(audited)
<b>Current portion of borrowings</b>	<b>4,786,748</b>	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	6,695,294	8,724,886
<b>Total non-current portion of borrowings</b>	<b>22,938,098</b>	24,967,690
<b>Total borrowings</b>	<b>27,724,846</b>	27,325,554

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

### 15. OTHER NON-CURRENT AND CURRENT LIABILITIES

#### Other non-current financial liabilities

As at 30 June 2018 and 31 December 2017 other non-current financial liabilities comprised:

<i>In thousands of tenge</i>	30 June 2018 (unaudited)	31 December 2017(audited)
Guarantees issued	937,144	258,551
Non-current accounts payable	1,734	1,880
	<b>938,878</b>	<b>260,431</b>

#### Other non-current liabilities

As at 30 June 2018 and 31 December 2017 other non-current liabilities comprised:

<i>In thousands of tenge</i>	30 June 2018 (unaudited)	31 December 2017(audited)
Asset retirement obligations	150,076	145,985
Deferred income from operators	-	2,758,768
Deferred connection income for connection of subscribers	-	1,444,644
Other	37,372	1,012,450
	<b>187,448</b>	<b>5,361,847</b>

#### 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.

#### Contract liabilities

As at 30 June 2018 and 31 December 2017 non-current contract liabilities comprised:

<i>In thousands of tenge</i>	30 June 2018 (unaudited)	31 December 2017(audited)
Contract liabilities from operators	3,096,554	-
Contract liabilities for connection of subscribers	1,356,315	-
Contract liabilities on fixed assets received free of charge	1,033,431	-
	<b>5,486,300</b>	<b>-</b>

#### Other current financial liabilities

As at 30 June 2018 and 31 December 2017 other current financial liabilities comprised:

<i>In thousands of tenge</i>	30 June 2018 (unaudited)	31 December 2017(audited)
Payable to Khan Tengri Holding B.V.	4,842,282	4,842,282
Payables to employees	4,068,237	6,239,349
Dividends payable (Note 13)	2,083,920	1,628,625
Guarantees issued	43,174	82,150
Other	502,527	563,655
	<b>11,540,140</b>	<b>13,356,061</b>

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

### 15. OTHER NON-CURRENT AND CURRENT LIABILITIES (continued)

#### Other current liabilities

As at 30 June 2018 and 31 December 2017 other current liabilities comprised:

<i>In thousands of tenge</i>	30 June 2018 (unaudited)	31 December 2017(audited)
Taxes payable other than income tax	5,589,255	2,600,717
Payable to pension funds	573,566	718,267
Deferred connection income for connection of subscribers	-	586,369
Deferred income from operators	-	412,170
Other	243,829	504,137
	<b>6,406,650</b>	<b>4,821,660</b>

At 30 June 2018 and 31 December 2017, other current liabilities were not interest bearing and were primarily denominated in tenge.

#### Contract liabilities

As at 30 June 2018 and 31 December 2017 current contract liabilities comprised:

<i>In thousands of tenge</i>	30 June 2018 (unaudited)	31 December 2017(audited)
Advances received	2,915,344	-
Contract liabilities from operators	773,109	-
Contract liabilities for connection of subscribers	537,241	-
Contract liabilities on fixed assets received free of charge	521,014	-
	<b>4,746,708</b>	<b>-</b>

Advances received represents the prepayment for the services of the Group like telecommunications services, internet services, IP-TV by customers. The customers can be divided to three major groups: individuals, private firms and legal firms under government sector.

### 16. REVENUE

Revenue for the three and six months period ended 30 June comprised:

<i>In thousands of tenge</i>	For three months ended 30 June 2018 (unaudited)		
	Fixed line	Other	Total
Data transfer services	27,682,583	-	27,682,583
Rendering of fixed line and wireless phone services	11,323,461	-	11,323,461
Rent of channels	4,652,402	-	4,652,402
Interconnect	3,413,320	-	3,413,320
Other	4,694,135	134,340	4,828,475
	<b>51,765,901</b>	<b>134,340</b>	<b>51,900,241</b>
B2C*	25,862,445	128,302	25,990,747
B2B**	7,568,992	6,038	7,575,030
B2O***	10,394,425	-	10,394,425
B2G****	7,940,039	-	7,940,039
	<b>51,765,901</b>	<b>134,340</b>	<b>51,900,241</b>



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

### 16. REVENUE (continued)

<i>In thousands of tenge</i>	For three months ended 30 June 2017 (unaudited)		
	Fixed line	Other	Total
Data transfer services	26,480,645	–	26,480,645
Rendering of fixed line and wireless phone services	12,270,040	–	12,270,040
Rent of channels	4,866,016	–	4,866,016
Interconnect	3,823,129	–	3,823,129
Other	3,191,941	–	3,191,941
	<b>50,631,771</b>	<b>–</b>	<b>50,631,771</b>
B2C*	25,410,285	–	25,410,285
B2B**	7,101,424	–	7,101,424
B2O***	10,940,510	–	10,940,510
B2G****	7,179,552	–	7,179,552
	<b>50,631,771</b>	<b>–</b>	<b>50,631,771</b>

<i>In thousands of tenge</i>	For six months ended 30 June 2018 (unaudited)		
	Fixed line	Other	Total
Data transfer services	55,583,101	–	55,583,101
Rendering of fixed line and wireless phone services	22,624,667	–	22,624,667
Rent of channels	9,297,274	–	9,297,274
Interconnect	6,630,644	–	6,630,644
Other	9,254,443	233,165	9,487,608
	<b>103,390,129</b>	<b>233,165</b>	<b>103,623,294</b>
B2C*	52,178,417	220,669	52,399,086
B2B**	15,177,169	12,496	15,189,665
B2O***	20,546,957	–	20,546,957
B2G****	15,487,586	–	15,487,586
	<b>103,390,129</b>	<b>233,165</b>	<b>103,623,294</b>

<i>In thousands of tenge</i>	For six months ended 30 June 2017 (unaudited)		
	Fixed line	Other	Total
Data transfer services	52,595,077	–	52,595,077
Rendering of fixed line and wireless phone services	24,662,710	–	24,662,710
Rent of channels	9,737,306	–	9,737,306
Interconnect	7,876,118	–	7,876,118
Other	6,065,756	–	6,065,756
	<b>100,936,967</b>	<b>–</b>	<b>100,936,967</b>
B2C*	50,781,209	–	50,781,209
B2B**	13,988,859	–	13,988,859
B2O***	22,174,582	–	22,174,582
B2G****	13,992,317	–	13,992,317
	<b>100,936,967</b>	<b>–</b>	<b>100,936,967</b>

\*B2C (Business-to-Consumer) – services rendered to private end consumers (individuals).

\*\*B2B (Business to Business) – services rendered to the corporate sector, including large enterprises and SMEs.

\*\*\*B2O (Business-to-Operator) – services rendered to communication operators.

\*\*\*\*B2G (Business-to-Government) – services rendered to the state sector.

Generally, revenue of the Group is recognized over time given that the customers simultaneously receive and consume the benefits provided by the Group.

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

### 17. 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.

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 2018 and 2017.

### 18. COST OF SALES

Cost of sales for the three and the six months period ended 30 June comprised the following:

<i>In thousands of tenge</i>	For three months ended 30 June		For six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)	2018 (unaudited)	2017 (unaudited)
Personnel costs	13,825,976	12,905,034	24,670,575	24,218,718
Depreciation and amortization	9,598,659	7,944,575	19,072,236	15,758,239
Rental of channels	1,952,838	1,813,939	4,023,336	3,632,583
Interconnect	1,675,367	1,535,037	2,778,525	3,078,425
Fees for usage of GSM radiofrequencies of Mobile Telecom Services LLP	1,624,327	1,374,895	2,646,207	2,393,320
Content	1,201,217	1,231,639	2,542,583	2,566,592
Repair and maintenance	1,117,002	1,658,206	2,067,242	3,056,760
Inventories	1,159,937	1,352,610	1,944,198	2,387,862
Fee to provide telecom services	735,234	707,950	1,470,469	1,415,902
Electricity	738,335	649,880	1,442,168	1,383,397
Utilities	365,211	362,567	908,665	849,165
Security and safety	308,806	530,117	748,562	998,902
Rental of equipment	102,683	238,298	774,808	975,480
Fees for radiofrequencies use	308,077	299,896	618,195	592,830
Business trip expenses	199,786	200,524	324,644	330,202
Rent of transponders related to satellite communications	188,266	179,323	300,329	358,609
Insurance	91,382	133,242	215,935	237,039
Fees for usage of billing system of Mobile Telecom Services LLP	67,680	57,287	110,259	99,722
Other	964,635	834,358	1,495,317	1,255,945
	<b>36,225,418</b>	<b>34,009,377</b>	<b>68,154,253</b>	<b>65,589,692</b>

### 19. INCOME TAX EXPENSE

Income tax expense for the three and the six months period ended 30 June comprised the following:

<i>In thousands of tenge</i>	For three months ended 30 June		For six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)	2018 (unaudited)	2017 (unaudited)
Current corporate income tax expenses	4,543,294	2,876,091	7,276,587	4,868,427
Deferred income tax (benefit)/expenses	(330,869)	(316,082)	(403,067)	119,642
	<b>4,212,425</b>	<b>2,560,009</b>	<b>6,873,520</b>	<b>4,988,069</b>

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

### 20. NON-CASH TRANSACTIONS

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

During the six months period ended 30 June 2018, KZT 4,618,999 thousand (unaudited) was paid for property and equipment purchased in the preceding year (during the six months period ended 30 June 2017: KZT 4,474,181 thousand (unaudited)). Property and equipment of KZT 463,073 thousand (unaudited) were purchased during the six months period ended 30 June 2018 but not paid by 30 June 2018 (purchased, but not paid by 30 June 2017: KZT 1,195,851 thousand (unaudited)).

### 21. 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.

Related party transactions (including transactions with Khan Tengri Holdings B.V. and its subsidiary Mobile Telecom Service LLP) were made on terms, agreed to between the parties, which do not necessarily represent market terms and maybe not accessible to third parties. Outstanding balances at the end of the year are not secured, are short-term, and settlements are made in cash, except as described below.

As at 30 June 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 and six months period ended 30 June 2018 and 2017 and the balances with related parties at 30 June 2018 and 31 December 2017 were as follows:

<i>In thousands of tenge</i>	<b>For three months ended 30 June</b>		<b>For six months ended 30 June</b>	
	<b>2018</b> <b>(unaudited)</b>	<b>2017</b> <b>(unaudited)</b>	<b>2018</b> <b>(unaudited)</b>	<b>2017</b> <b>(unaudited)</b>
<b>Sales of goods and services</b>				
Parent	96,802	82,498	204,205	161,235
Parent-controlled entities	957,677	1,045,530	1,726,761	2,067,512
Associate (Khan Tengri Holding B.V.) [1]	5,971,539	5,699,060	11,730,491	11,193,008
Associate (Qaz Cloud LLP)	345	-	693	-
Government institutions	9,007,998	8,539,622	15,006,731	11,543,371
<b>Purchases of goods and services</b>				
Parent	-	-	649	-
Parent-controlled entities	792,943	485,642	1,447,123	931,981
Associate (Khan Tengri Holding B.V.) [1]	3,430,944	1,990,552	4,890,784	4,042,965
Government institutions	2,264	917,188	4,707	918,647
<b>Interest incurred on borrowings</b>				
Entities under state control (Development Bank of Kazakhstan JSC)	514,802	1,149,247	1,029,604	2,126,959
<i>Average interest rate on borrowings</i>	8.00%	8.15%	8.00%	8.15%



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

### 21. RELATED PARTY TRANSACTIONS (continued)

<i>In thousands of tenge</i>	30 June 2018 (unaudited)	31 December 2017 (audited)
<b>Cash and cash equivalents</b>		
Entities under state control (Development Bank of Kazakhstan JSC)	399,432	172
<b>Borrowings</b>		
Entities under state control (Development Bank of Kazakhstan JSC)	27,718,783	27,319,491
<b>Trade and other receivables</b>		
Parent	149,813	56,378
Parent-controlled entities	709,493	797,881
Associate (Khan Tengri Holding B.V.)	17,010,297	14,949,354
Associate (Qaz Cloud LLP)	119	71
Government institutions	8,455,494	7,078,905
<b>Accounts payable</b>		
Parent-controlled entities	437,860	172,879
Associate (Khan Tengri Holding B.V.)	11,421,357	9,370,735
Government institutions	368,344	477,877
<b>Other non-current assets</b>		
Long-term loans to key management personnel	15,273	27,294
Long term deposits with Eximbank JSC	-	3,323,300

During six months periods ended 30 June 2018 and 2017, the Group provided communication services for the entities controlled by the Parent, and purchased goods and services to support operating activities related to provision of telecommunication services from such entities.

- [1] The Group has significant volumes of transactions with Mobile Telecom Services LLP (“MTS”), subsidiary of Khan Tengri B.V., including revenue from data transmission, access to internet, rental of lines, interconnect and other revenue that in total comprise 11% from total consolidated revenue of the Group. In addition, the Group purchased from MTS services related to the usage of GSM radiofrequencies, interconnect, mobile traffic for converged services and other services that in total comprise 7% from total consolidated cost of sales of the Group.

Sales and purchases with MTS during the three and six month periods ended 30 June 2018 and 2017 were as follows:

<i>In thousands of tenge</i>	For three months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
<b>Sales of goods and services</b>		
Data transfer services [A]	3,420,968	3,228,184
Rent of channels [B]	1,377,137	1,432,182
Interconnect [C]	438,383	303,205
Base cell stations maintenance [D]	162,656	221,320
Rent of sites for base stations	145,215	173,861
Other	427,180	340,308
	<b>5,971,539</b>	<b>5,699,060</b>
<b>Purchases of goods and services</b>		
Fee for usage of GSM radiofrequencies [E]	1,624,327	1,374,895
Mobile traffic at wholesale tariffs [F]	1,449,292	349,709
Interconnect [G]	207,033	113,508
Fee for usage of billing system [H]	67,680	57,287
Other	82,612	95,153
	<b>3,430,944</b>	<b>1,990,552</b>

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

### 21. RELATED PARTY TRANSACTIONS (continued)

<i>In thousands of tenge</i>	For six months ended 30 June	
	2018 (unaudited)	2017 (unaudited)
<b>Sales of goods and services</b>		
Data transfer services [A]	6,821,720	6,405,483
Rent of channels [B]	2,756,466	2,999,834
Interconnect [C]	811,623	495,612
Base cell stations maintenance [D]	325,319	320,898
Rent of sites for base stations	296,449	316,123
Other	718,914	655,058
	<b>11,730,491</b>	<b>11,193,008</b>
<b>Purchases of goods and services</b>		
Fee for usage of GSM radiofrequencies [E]	2,646,207	2,879,841
Mobile traffic at wholesale tariffs [F]	1,516,338	684,289
Interconnect [G]	430,091	188,508
Fee for usage of billing system [H]	110,259	119,993
Other	187,889	170,334
	<b>4,890,784</b>	<b>4,042,965</b>

- [A] Data transfer services represented revenue from provision of fixed and wireless communication channels, and access to the internet. It is calculated on the basis of provided communication channels capacity (Mb/s), as well as the number of communication channels provided.
- [B] Rent of channels represents revenue from the provision to the temporary use of channels with the specified technical characteristics, organized based on LTE base cell stations (i.e. 4G license radiofrequencies). It is calculated based on the actual number of rented channels. In February 2016, the Group concluded an agreement with MTS for renting out 4G license radiofrequencies. Rental fees are payable on a monthly basis. Simultaneously upon concluding the agreement for renting out 4G license radiofrequencies the Group and MTS agreed to increase fees for use of GSM radiofrequencies and fee for usage of the billing system payable by the Group as described below. For the six months period ended 30 June 2018 revenue from rent of channels amounted to KZT 2,756,466 thousands (for the six months period ended 30 June 2017 KZT 2,999,834 thousand).
- [C] Revenue from interconnect is calculated based on the actual volumes of minutes of the connection.
- [D] Revenue from base cell stations maintenance represents revenue from the provision of various services to ensure the stable and uninterrupted operation of radio access networks, and is calculated based on the actual number of base stations served.
- [E] Fee for usage of GSM radiofrequencies is fixed monthly payment for the usage of the GSM radiofrequencies owned by MTS. For the six months period ended 30 June 2018 fee for usage of GSM radiofrequencies amounted to KZT 2,646,207 thousands (for the six months period ended 30 June 2017 KZT 2,879,841 thousand).
- [F] Cost of mobile traffic at wholesale tariffs is the actual traffic used by Kazakhtelecom JSC customers in the mobile operator's network and is calculated based on the actual number of outgoing minutes, short messages (SMS), and megabytes of mobile traffic.
- [G] Expenses on interconnect are calculated based on the actual volume of minutes of the connections.
- [H] Fee for usage of billing system is fixed monthly payment for the usage of the MTS billing system. For the six months period ended 30 June 2018 fee for usage of billing system amounted to KZT 110,259 thousands (for the six months period ended 30 June 2017 KZT 119,993 thousand).

The provision of these service is governed by different agreements that are not related to each other. Under each such agreement, the Group is either receiving or providing a certain type of services, for which the Group receives or pays a fee, which may differ from the terms under agreements with third parties. The difference from the terms under agreements with third parties could be explained by volume discounts and other special conditions between the Group and its associate. Volumes of services purchased from / sold to MTS exceed the volume of similar transactions with third party operators.



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

### 22. FINANCIAL INSTRUMENTS

#### Impairment losses on financial assets

Impairment losses on financial assets for six months ended 30 June 2018 consists from other non-current financial assets charge for the period of KZT 2,981,873 thousand (Note 9), from trade receivable charge for the period of KZT 713,359 thousand (Note 10), from other current financial assets charge for the period of KZT 217,169 thousand (Note 11), from cash and cash equivalents charge for the period of KZT 504,180 thousand (Note 12), from long-term advance paid charge of KZT 5,578 thousand and recovery from advances paid in the amount of KZT 52,542 thousand.

#### Fair values

As at 30 June 2018 and 31 December 2017, the carrying and fair values of the Group's monetary assets and liabilities as follows:

<i>In thousands of tenge</i>	30 June 2018 (unaudited)		31 December 2017 (audited)	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Cash and cash equivalents	46,089,790	46,089,790	15,985,943	15,985,943
Other non-current financial assets	6,264,601	4,370,254	9,457,306	6,835,991
Other current financial assets	45,628,310	46,284,715	62,133,687	62,133,687
Trade receivables	37,199,777	37,199,777	32,094,228	32,094,228
<b>Total</b>	<b>135,182,478</b>	<b>133,944,536</b>	<b>119,671,164</b>	<b>117,049,849</b>
<b>Financial liabilities</b>				
Borrowings	27,724,846	21,779,611	27,325,554	21,995,442
Finance lease liabilities	9,360,423	9,360,423	11,601,837	11,601,837
Other non-current financial liabilities	938,878	748,647	260,431	172,590
Other current financial liabilities	11,540,140	11,446,913	13,356,061	13,341,392
Trade payables	11,722,022	11,722,022	13,506,545	13,506,545
<b>Total</b>	<b>61,286,309</b>	<b>55,057,616</b>	<b>66,050,428</b>	<b>60,617,806</b>

### 23. COMMITMENTS AND CONTINGENT LIABILITIES

#### Operating environment

In Kazakhstan, economic reforms and the development of the legal, tax and administrative infrastructure that meets the developed markets are still in process. The future stability of the Kazakhstan economy will largely depend on these reforms, as well as on the effectiveness of the Government's actions in the area of economy, financial and monetary policy.

#### Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of telecommunication equipment. As at 30 June 2018 the Group had contractual commitments totaling KZT 3,258,413 thousand including Value Added Tax (VAT) (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.



**ACCOUNTING POLICIES AND NOTES TO THE INTERIM CONDENSED  
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**23. COMMITMENTS AND CONTINGENT LIABILITIES (continued)****Options to acquire a interest in an associate**

According to the agreement between the Group and Tele2, the Group has an unconditional right to require Tele2 to sell its 49% of the interest in Khan Tengri Holding B.V. at any time during three years after 29 February 2016 (call option). Similarly, Tele2 has an unconditional right to require the Group to acquire a 49% interest in Khan Tengri Holding B.V. at any time during three years after 29 February 2016 (put option).

The price of options is expressed in US dollars and should be equal to fair market value of the shares transferred as of the day of its determination.

The Group estimated the fair value of the options. As of 30 June 2018 and 31 December 2017, the fair value of the options equals zero.

**Taxation**

Tax legislation and regulatory framework of the Republic of Kazakhstan are subject to constant changes and allow for different interpretations. In addition, management believes that international agreements, under which the Group works with non-residents residing in International Telecommunication Union, and which provide for certain tax exemptions, have a priority over national tax legislation. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. 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 1.25. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. 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 2018. Management believes that as at 30 June 2018 its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained.

**24. SUBSEQUENT EVENTS**

In July 2018, the Ministry of Communication and Information (further – "MCI") announced the result of the tender on identification of universal services operator for 2018. According to the order No. 309 dated 5 July 2018, Kazakhtelecom JSC is selected as an operator for the provision of universal services in the rural area in 2018. The agreement between Kazakhtelecom JSC and MCI on the compensation for rendering universal services in the rural area was signed on 12 July 2018 and prescribes the maximum amount of expenses to be reimbursed as KZT 6,183,580 thousand.

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

### 25. 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, 2017:

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

As at 30 June, 2018:

$$BVCS = (345,582,170 / 10,707,323) \times 1,000 = 32,275$$

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 30 June, 2018 – 345,582,170

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

As at 31 December, 2017 – 10,707,323

As at 30 June, 2018 – 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, 2017:

$$NAV = (471,314,192 - 15,592,544) - 112,206,255 - 320,556 = 343,194,837 \text{ in thousands of KZT}$$

As at 30 June, 2018:

$$NAV = (473,490,772 - 14,161,630) - 113,426,416 - 320,556 = 345,582,170 \text{ in thousands of KZT}$$

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 30 June, 2018 – 473,490,772

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 30 June, 2018 – 14,161,630

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 30 June, 2018 – (46,194,201 + 67,232,215) = 113,426,416

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

### 25. 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 30 June, 2018 – 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 KZT;

As at 31 December, 2017:

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

As at 30 June, 2018:

$$BVPS1 = ((1,964,577 + 874,244) / 320,556) \times 1,000 = 8,856$$

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 30 June, 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 30 June, 2018 – 1,964,577

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 30 June, 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:

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

As at 31 December, 2017:

$$EPC = 1,541,988 + 320,556 = 1,862,544 \text{ thousands of KZT}$$

As at 30 June, 2018:

$$EPC = 1,644,021 + 320,556 = 1,964,577 \text{ thousands of KZT}$$

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 30 June, 2018 – 1,644,021