NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2016

1. CORPORATE INFORMATION

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

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

The Company is controlled by the Government of the Republic of Kazakhstan through "Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna" or the "Parent"), which owned 51% of the Company's controlling stock. The following lists the shareholders of the Company's stock:

	30 September 2016 (unaudited)	31 December 2015
Samruk-Kazyna	**51.0%**	51.0%
Sobrio limited	**24.5%**	0.0%
Bodam B. V.	**0.0%**	16,9%
ADR (The Bank of New York is a depositor)	**9.8%**	9.8%
Deran Services Limited	**0.0%**	7.6%
State Fund on Pension Assets JSC	**3.4%**	3.4%
Kazkommertsbank JSC	**3.1%**	3.1%
Deran Investment B.V.	**2.0%**	2.0%
Other	**6.2%**	6.2%
	100%	100%

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

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

2. BASIS FOR PREPARATION

The interim condensed consolidated financial statements for the nine months ended 30 September 2016 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

Foreign currency translation

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

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

	30 September 2016	31 December 2015	30 September 2015
US dollar	**335.46**	340.01	270.89
Euro	**374.81**	371.46	303.97
Russian ruble	**5.29**	4.61	4.13

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS FOR PREPARATION (continued)

Subsidiaries

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

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

The liquidation of Digital TV LLP was completed in July 2016 due to end of operating activities after completion of business integration of Digital TV LLP and JSC Kazakhtelecom.

Based on decision of Board of Directors JSC Kazakhtelecom, between JSC Kazakhtelecom and LLP Samruk-Kazyna business service concluded sale contract of 51% in the authorized capital of KT IES LLP.

3. CHANGES IN ACCOUNTING POLICIES

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2015, they do not have a material impact on the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group.

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

IFRS 14 Regulatory Deferral Accounts

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

3. CHANGES IN ACCOUNTING POLICIES (continued)

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

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

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

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

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

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

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

Amendments to IAS 27: Equity Method in Separate Financial Statements

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

Annual improvements 2012-2014 cycle

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. CHANGES IN ACCOUNTING POLICIES (continued)

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

Annual improvements 2012-2014 cycle (continued)

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

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

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

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

IAS 19 Employee Benefits

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

IAS 34 Interim Financial Reporting

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

Amendments to IAS 1 Disclosure Initiative

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. CHANGES IN ACCOUNTING POLICIES (continued)

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

Annual improvements 2012-2014 cycle (continued)

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

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

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

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

4. SEGMENTS INFORMATION

The Group has two reportable operating segments as follows:

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

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

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

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

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

The following tables present revenue and segment profit information regarding the Group's operating segments for the nine months ended 30 September 2016 and 2015.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SEGMENTS INFORMATION (continued)

For the nine months ended 30 September 2016 (unaudited)

In thousands of tenge	Wireline telecom-munication	GSM and LTE telecom-munication	Other	Eliminations and adjustments	Consolidated
Revenue					
External customers	152,713,023	–	–	–	152,713,023
Inter-segment	268	–	70,149	(70,417)	–
Total revenue	152,713,291	–	70,149	(70,417)	152,713,023
Finance results					
Depreciation and amortization	(22,961,627)	–	(88,837)	–	(23,050,464)
Finance costs	(4,777,516)	–	–	5,194	(4,772,322)
Finance income	2,954,160	–	–	(124,080)	2,830,080
Share of loss of an associate	–	(8,998,086)	1,864	–	(8,999,950)
Accrual of bad debt allowance	(970,636)	–	–	–	(970,636)
Segment profit/(loss) before tax	38,463,672	(8,998,086)	(105,198)	1,743,181	31,103,569

For the nine months ended 30 September 2015 (unaudited)

In thousands of tenge	Wireline telecom-munication	GSM and LTE telecom-munication	Other	Eliminations and adjustments	Consolidated
Revenue					
External customers	140,611,873	–	355	–	140,612,228
Inter-segment	160	–	70,193	(70,353)	–
Total revenue	140,612,033	–	70,548	(70,353)	140,612,228
Finance results					
Depreciation and impairment	(22,891,502)	–	(7.621)	–	(22.899.123)
Finance costs	(4,663,784)	–	–	20,570	(4,643,214)
Finance income	2,791,395	–	658	(809,046)	1,983,007
Accrual of bad debt allowance	1,081,961	–	–	(385)	1,081,576
Segment profit/(loss) before tax	35,490,006	–	(14,186)	(2,717,019)	32,758,801

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SEGMENTS INFORMATION (continued)

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

In thousands of tenge	Wireline telecom-munication	GSM and LTE telecom-munication	Other	Eliminations and adjustments	Consolidated
Operating assets					
As at 30 September 2016 (unaudited)	**394,495,353**	**71,701,914**	**1,140,199**	**(692,930)**	**466,644,536**
As at 31 December 2015	389,292,364	–	370,603	46,830,977	436,493,944
Operating liabilities					
As at 30 September 2016 (unaudited)	**114,892,094**	–	**244,019**	**67,143**	**115,203,256**
As at 31 December 2015	99,069,286	–	58,773	44,944,443	144,072,502

5. PROPERTY AND EQUIPMENT

During the nine months ended 30 September 2016, the Group acquired property and equipment for 6,841,102 thousand tenge (unaudited) (during nine months ended 30 September 2015: 17,759,243 thousand tenge (unaudited)). During the nine months ended 30 September 2016, the Group disposed property and equipment with net book value of 202,061thousand tenge (unaudited) (during nine months ended 30 September 2015: 481,920 thousand tenge (unaudited)).

The Group's main construction projects are capitalized expenses for modernization and construction of existing and new digital and wireline networks and fiber optic communication lines. As at 30 September 2016, the carrying value of construction in progress was 7,905,836 thousand tenge (unaudited) (as at 31 December 2015: 11,483,524 thousand tenge).

During the nine months ended 30 September 2016, the Group recognized depreciation expense amounting to 20,787,103 thousand tenge (unaudited) (during nine months ended 30 September 2015: 28,833,770 thousand tenge (unaudited)).

As at 30 September 2016, the carrying value of equipment purchased and held under finance leases and included in property and equipment amounted to 26,187,141 thousand tenge (unaudited) (as at 31 December 2015: 28,038,190 thousand tenge). During the nine-month period ended 30 September 2016, the Group did not have telecommunications equipment under finance leases (during nine months ended 30 September 2015: 104,075 thousand tenge (unaudited)). Leased assets were pledged as collateral under the respective finance lease agreements.

As at 30 September 2016, property and equipment, amounting to 114,682,599 thousand tenge (unaudited), were fully amortized (as at 31 December 2015: 122,930,240 thousand tenge).

6. INTANGIBLE ASSETS

During the nine months ended 30 September 2016, the Group acquired intangible assets for 107,418 thousand tenge (unaudited) (during nine months ended 30 September 2015: 451,791 thousand tenge (unaudited)).

During the nine months ended 30 September 2016, the Group recognized amortization expense amounting to 2,292,616 thousand tenge (unaudited) (during nine months ended 30 September 2015: 3,047,916 thousand tenge (unaudited)).

As at 30 September 2016 intangible assets (mainly software) with cost amounting to 8,156,083 thousand tenge (unaudited), were fully amortized (as at 31 December 2015: 8,768,527 thousand tenge).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INVESTMENTS IN AN ASSOCIATE

In these consolidated financial statement following associate companies were included:

			30 September 2016 (unaudited)		31 December 2015	
In thousand of tenge	Primary activity	Country of registration	Book value	Ownership share	Book value	Ownership share
Khan-Tengri Holding B.V.	Telecommunication services	Netherlands	71,701,914	49,48%	–	–
LLP KIES	IT-services	Kazakhstan	27,123	49%	–	–
			71,729,037		–	

On 29 February 2016, the Group acquired 51% of the share capital and 49.48% of voting shares in the company Khan-Tengri Holding B.V. (Note 17), provider of mobile telecommunications services in GSM and LTE standard in the Republic of Kazakhstan. Khan-Tengri Holding B.V. – is a private organization, not listed on a stock exchange. The participation of the Group in the Khan-Tengri Holding B.V. is taken into account in the interim condensed consolidated financial statements using the equity method.

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

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

In thousands of tenge	30 September 2016 (unaudited)
Current assets	25,418,605
Non-current assets	271,226,992
Current liabilities	(43,981,888)
Non-current liabilities	(112,071,720)
Total equity	**140,591,989**
Group's carrying amount of the investment	**71,701,914**

In thousands of tenge	Nine months ended 30 September 2016 (unaudited)
Revenue	51,782,666
Operating expenses	(61,305,173)
Non-operating expenses	(8,040,284)
Loss before tax	**(17,562,791)**
Income tax expenses	(80,515)
Loss for the period	**(17,643,306)**
Total comprehensive loss for the period	**(17,643,306)**
Group's share of loss for the period	**(8,998,086)**

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INVESTMENTS IN AN ASSOCIATE (continued)

Based on decision of Board of Directors JSC Kazakhtelecom, between JSC Kazakhtelecom and LLP Samruk-Kazyna business service concluded sale contract of 51% in the authorized capital of KT IES LLP.

Below is a summary of individual insignificant associate KT IES LLP (proportional share of the Group):

In thousands tenge	30 September 2016 (unaudited)
Investment book value as at 30 September	**27.123**
Net loss for the period from continuing operations	(3.804)
Loss after tax for the period from discontinued operations	–
Other comprehensive income	–
Total comprehensive loss	**(1.864)**

The Group on 30 September 2016 had no unrecognized accumulated losses in associate companies (2015: nil)

8. IMPAIRMENT TESTING OF GOODWILL

Goodwill is tested by the Group for impairment annually as at 31 December and when circumstances indicate the carrying value may be impaired. The Group's impairment test for goodwill is based on value-in-use calculations. The key assumptions used to determine the recoverable amount for the different cash generating units were disclosed in the annual consolidated financial statements for the year ended 31 December 2015.

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

9. TRADE ACCOUNTS RECEIVABLE

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

In thousands of tenge	30 September 2016 (unaudited)	31 December 2015
Trade accounts receivable	**30,469,099**	18,299,271
	30,469,099	18,299,271
Less: allowance for doubtful debts	**(2,501,826)**	(1,914,169)
	27,967,273	16,385,102

9. TRADE ACCOUNTS RECEIVABLE (continued)

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

In thousands of tenge	**30 September 2016 (unaudited)**	30 September 2015 (unaudited)
Allowance for doubtful debts at 1 January	**(1,914,169)**	(1,512,067)
Charge for the period	**(892,481)**	(868,168)
Write-offs for the period	**304,824**	182,736
Allowance for doubtful debts at 30 September	**(2,501,826)**	(2,197,499)

10. OTHER FINANCIAL ASSETS

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

In thousands of tenge	**30 September 2016 (unaudited)**	31 December 2015
Bank deposits	**41,212,233**	29,278,450
Due from employees	**1,862,908**	1,851,394
Interest receivable on current bank accounts	**506,001**	228,817
Other receivable	**99,048**	2,376,729
Restricted cash on current bank accounts	**–**	208,600
Other	**5,805**	5,805
	43,685,995	33,949,795

Bank deposits with maturities over 3 months but less than 12 months, were opened in local banks and were earning interest at the rates ranging from 1.5 to 13% per annum (as at 31 December 2015: from 2.3 to 10% per annum).

11. CASH AND CASH EQUIVALENTS

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

In thousands of tenge	**30 September 2016 (unaudited)**	31 December 2015
Cash in current bank accounts	**14,906,299**	8,179,504
Bank deposits with maturity of less than 90 days	**2,334,000**	3,079,666
Cash on hand	**12,321**	17,721
	17,252,620	11,276,891

Cash on current bank accounts earn interest at the rates ranging from 0.10 to 14.5% per annum (as at 31 December 2015: from 0.01 to 7.55% per annum). Short-term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the rates ranging from 1 to 38% per annum (as at 31 December 2015: from 0.01 to 32% per annum).

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

In thousands of tenge	**30 September 2016 (unaudited)**	31 December 2015
Tenge	**8,673,449**	5,743,047
US dollars	**8,493,529**	5,264,926
Russian rubles	**81,599**	258,593
Euro	**1,885**	7,166
Other	**2,158**	3,159
	17,252,620	11,276,891

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. CASH AND CASH EQUIVALENTS (continued)

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

In thousands of tenge	30 September 2016 (unaudited)	31 December 2015
Cash on current bank accounts	**14,906,299**	8,179,504
Deposits with maturity less than 90 days from origination date	**2,334,000**	3,079,666
Cash on hand	**12,321**	17,721
Cash on hands, current bank accounts and short-term deposits attributable to discontinued operations	**–**	8,688,151
Cash and cash equivalents	**17,252,620**	19,965,042

12. BORROWINGS

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

In thousands of tenge	Weighted average interest rate (unaudited)	30 September 2016 (unaudited)	Weighted average interest rate	31 December 2015
Fixed interest rate borrowings with range between 7% and 12.5% p.a.	**8.50%**	**56,844,814**	9.45%	31,438,314
		56,844,814		31,438,314

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

In thousands of tenge	30 September 2016 (unaudited)	31 December 2015
Tenge	**29,424,498**	**3,012,959**
Tenge, payments indexed to exchange rate tenge/US dollar	**27,420,316**	**28,425,355**
	56,844,814	**31,438,314**

Borrowings are repayable as follows:

In thousands of tenge	30 September 2016 (unaudited)	31 December 2015
Current portion	**2,880,729**	4,138,393
Maturity between 1 and 2 years	**–**	–
Maturity between 2 and 5 years	**39,150,421**	27,299,921
Maturity over 5 years	**14,813,664**	–
Total long-term portion	**53,964,085**	27,299,921
Total borrowings	**56,844,814**	31,438,314

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. OTHER NON-CURRENT AND CURRENT LIABILITIES

Non-current liabilities

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

In thousands of tenge	**30 September 2016 (unaudited)**	31 December 2015
Deferred connection revenue	**2,755,766**	2,205,014
Guarantees issued for an associate *(Note 17)*	**701,851**	–
Asset retirement obligations	**67,544**	66,614
Other	**635,479**	704,505
	4,160,640	2,976,133

Current liabilities

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

In thousands of tenge	**30 September 2016 (unaudited)**	31 December 2015
Due to employees	**2,558,300**	4,296,716
Taxes payable other than income tax	**1,860,296**	2,428,493
Dividends payable	**1,602,743**	1,582,251
Deferred connection revenue	**687,557**	811,719
Payables to pension funds	**387,289**	746,694
Guarantees issued for an associate *(Note 17)*	**114,979**	–
Other	**1,461,174**	764,545
	8,672,338	10,630,418

The Company on 25 February 2016 has provided a guarantee obligations in favor of Mobile Telecom Service LLP for a credit line of Kazkommertsbank JSC with a credit limit of up to 14,000,000 thousand tenge until 25 February 2023 and the guarantee obligations in favor of Altel JSC credit line of Development Bank of Kazakhstan JSC with the credit limit of up to 10,008,780 thousand tenge until 19 December 2024. As at 30 September 2016 actual used credit line amount is nil of Kazkommertsbank JSC, used loan amount of credit line in Development Bank of Kazakhstan JSC is 228,997 thousand tenge.

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

14. REVENUE

	Three months ended 30 September		**Nine months ended 30 September**	
In thousands of tenge	**2016 (unaudited)**	2015 (unaudited)	**2016 (unaudited)**	2015 (unaudited)
Data transfer services	**25,427,052**	23,941,582	**75,749,016**	72,276,126
Rendering of wireline and wireless phone services	**13,173,331**	13,822,917	**40,258,416**	42,475,484
Interconnect	**4,503,495**	4,182,578	**14,162,174**	10,826,170
Rent of lines	**7,104,848**	1,564,326	**11,832,537**	4,894,041
Other	**2,319,091**	1,518,885	**5,892,952**	5,194,451
	52,527,817	45,030,288	**147,895,095**	135,666,272

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. COST OF REVENUE

In thousands of tenge	Three months ended 30 September 2016 (unaudited)	Three months ended 30 September 2015 (unaudited)	Nine months ended 30 September 2016 (unaudited)	Nine months ended 30 September 2015 (unaudited)
Personnel costs	**11,703,209**	10,989,592	**35,805,699**	34,606,212
Depreciation and amortization	**7,735,231**	7,609,372	**22,875,779**	22,686,628
Rent of channels	**1,849,232**	2,045,489	**6,580,627**	5,600,332
Interconnect	**1,835,154**	2,267,259	**5,743,608**	6,107,650
Repair and maintenance	**2,513,155**	2,288,013	**5,230,036**	4,966,705
Rental of base stations	**4,433,619**	217,412	**4,444,127**	662,112
Materials	**1,597,834**	1,618,246	**3,576,101**	3,717,698
TV Content	**1,083,340**	930,949	**3,272,646**	2,536,312
Fees for the right to provide telecom services	**687,277**	629,990	**2,061,829**	1,889,967
Electricity	**652,051**	686,435	**2,043,029**	2,066,697
Security and safety	**544,821**	571,791	**1,476,561**	1,531,450
Fees for use of frequency range	**59,480**	237,556	**302,512**	710,346
Other	**1,882,948**	939,906	**4,010,152**	3,371,508
	36,577,351	31,032,010	**97,422,706**	90,453,617

16. INCOME TAX EXPENSE

In thousands of tenge	Three months ended 30 September 2016 (unaudited)	Three months ended 30 September 2015 (unaudited)	Nine months ended 30 September 2016 (unaudited)	Nine months ended 30 September 2015 (unaudited)
Current income tax expense	**1,672,482**	1,808,235	**8,139,025**	5,872,811
Deferred income tax expense	**470,096**	651,784	**1,383,650**	1,988,482
	2,142,578	2,460,019	**9,522,675**	7,861,293

17. DISCONTINUED OPERATIONS

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

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. DISCONTINUED OPERATIONS (continued)

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

In thousands of tenge	29 February 2016 (unaudited)
Assets	
Property and equipment	**28,048,578**
Intangible assets	**8,082,670**
Trade accounts receivable	**3,889.479**
Inventories	**2,067,089**
Cash and cash equivalents	**1,683,295**
Deferred tax asset	**911,526**
Other	**2,453,617**
Total assets	**47,136,254**
Liabilities	
Trade accounts payable	**(10,423,524)**
Advances received	**(1,389,595)**
Other	**(4,368,772)**
Total liabilities	**(16,181,891)**
Disposed net assets	**30,954,363**

Results from discontinued operations were as follows:

In thousands of tenge	Three months ended 30 September 2016 (unaudited)	2015 (unaudited)	Nine months ended 30 September 2016 (unaudited)	2015 (unaudited)
Revenue	–	10,198,340	**4,961,007**	25,093,486
Cost of revenue	–	(8,832,808)	**(2,533,355)**	(21,560,128)
Gross profit	–	1,365,532	**2,427,652**	3,533,358
General and administrative expenses	–	(565,579)	**(585,577)**	(2,327,145)
Selling expenses	–	(964,103)	**(601,613)**	(2,499,604)
Operating (loss)/profit	–	(164,150)	**1,240,462**	(1,293,391)
Finance costs	–	(452,662)	**(421,325)**	(1,095,641)
Finance income	–	10,500	**175,085**	87,820
Other income	–	106,247	**47,958**	616,250
(Loss)/profit before tax for the period from discontinued operations	–	(500.065)	**1,042,180**	(1,684,962)
Income tax expense	–	258,563	**(423,337)**	98,803
(Loss)/profit for the period from discontinued operations	–	(241,502)	**618,843**	(1,586,159)
Gain from disposal of subsidiary	–	–	**41,579,323**	–
Total profit for the period discontinued operations	–	–	**42,198,166**	–

Gain on disposal of subsidiary Altel JSC is as follows:

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. DISCONTINUED OPERATIONS (continued)

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

Net cash flows of the company Altel JSC:

	For nine months, as of 30 September	
In thousands of tenge	**2016 (unaudited)**	2015 (unaudited)
Operating activities	**(10,770,566)**	3,651,931
Investing activities	**(4,777,192)**	(4,846,771)
Financing activities	**8,542,902**	1,567,229
Net cash flow	**(7,004,856)**	372,389

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

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

Profit/(loss) per share

	For three months, as of 30 September		For nine months, as of 30 September	
	2016 (unaudited)	2015 (unaudited)	**2016 (unaudited)**	2015 (unaudited)
Basic and diluted, profit/(loss) for the period from discontinued operations, tenge	–	(21.89)	**3,826.51**	(143.79)

18. NON-CASH TRANSACTIONS

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

During the nine months ended 30 September 2016, 5,300,768 thousand tenge (unaudited) was paid for property and equipment purchased in the preceding year (during the nine months ended 30 September 2015: 9,842,806 thousand tenge (unaudited)). Property and equipment of 502,068 thousand tenge (unaudited) were purchased during the nine months ended 30 September 2016 but not paid by 30 September 2016 (purchased, but not paid by 30 September 2015: 4,563,891 thousand tenge (unaudited)).

19. RELATED PARTY DISCLOSURES

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

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

As at 30 September 2016 and 31 December 2015 the Group has not recorded impairment of trade accounts receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. RELATED PARTY DISCLOSURES (continued)

Sales and purchases with related parties during the periods of three and nine months ended 30 September 2016 and 2015, and the balances with related parties at 30 September 2016 and 31 December 2015, were as follows:

	Three months ended 30 September		Nine months ended 30 September	
In thousands of tenge	**2016 (unaudited)**	2015 (unaudited)	**2016 (unaudited)**	2015 (unaudited)
Sales of goods and services				
Parent	**84,989**	164,052	**150,612**	587,702
Parent-controlled entities	**543,385**	389,861	**1,782,354**	1,599,498
Associate	**6,858,617**	–	**12,940,191**	–
Government bodies	**6,395,805**	7,534,997	**19,674,762**	20,167,939
Purchases of goods and services				
Parent	**–**	–	**30,226**	–
Parent-controlled entities	**427,360**	86,947	**1,281,080**	1,522,614
Associate	**4,362,413**	–	**5,591,793**	–
Government bodies	**263,209**	8,535,461	**385,500**	8,831,070
Interest incurred on borrowings				
Entities under government control				
Development Bank of Kazakhstan JSC	**1,082,291**	191,101	**3,044,762**	1,651,613
Average interest rate on borrowings	**8,50%**	8,37%	**8,50%**	8,37%

In thousands of tenge	**30 September 2016 (unaudited)**	31 December 2015
Cash and cash equivalents		
Entities under government control		
Development Bank of Kazakhstan JSC	**740**	2,581
Borrowings		
Entities under government control		
Development Bank of Kazakhstan JSC	**54,798,970**	55,398,052
Trade and other receivables		
Parent	**81,983**	154,155
Parent-controlled entities	**381,164**	470,265
Associate	**9,444,404**	–
Government bodies	**8,797,928**	3,204,354
Accounts payable		
Parent-controlled entities	**120,280**	192,228
Associate	**2,895,953**	–
State entities	**349,844**	556,337
Guarantees issued		
Associate *(Note 13)*	**816,830**	–
Other long term assets		
Long term loans given to key personnel	**39,494**	41,696

The Government of the Republic of Kazakhstan provides certain subsidies to the Group for provision of universal services in rural areas in the amount of 4,817,928 thousand tenge for the nine months ended 30 September 2016 (unaudited), (for the nine months ended 30 September 2015: 4,945,956 thousand tenge (unaudited)).

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. FINANCIAL INSTRUMENTS

Fair values

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

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

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

21. COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of telecommunication equipment. As at 30 September 2016, the Group had contractual commitments totaling 9,902,968 thousand tenge (unaudited) (as at 31 December 2015: 9,144,742 thousand tenge) related mostly to the purchase of telecommunication equipment and construction of telecommunication network.

License commitments

Under the terms of certain licenses on the provision of wireless telecom services, the Group has certain obligations in terms of coverage area of the Group's network. The Group is obliged to expand the cellular telecommunication coverage to the regions along the major highways and small-sized towns and urban-type communities of the Republic of Kazakhstan. The Group's management believes that the Group is in compliance with the terms of the licenses.

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. In addition, management believes that international agreements, under which the Group works with non-residents residing in International Telecommunication Union, and which provide for certain tax exemptions, have a priority over national tax legislation. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 30 September 2016. As at 30 September 2016, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained.

22. CALCULATION OF BOOK VALUE PER COMMON SHARE

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

BVCS = NAV / NOCS, where

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

As at 31 December, 2015:
BVCS = (272,542,753 / 10,707,323) x 1,000 = 25,454

As at 30 September, 2016:
BVCS = (333,702,069 / 10,707,323) x 1,000 = 31,166

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

As at 31 December, 2015– 272,542,753
As at 30 September, 2016 – 333,702,069

NOCS – number of outstanding common shares as of the date of calculation;
As at 31 December, 2015– 10,707,323
As at 30 September, 2016 – 10,707,323

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

NAV = (TA – IA) – TL – PS, where

As at 31 December, 2015:
NAV = (436,493,944 – 19,558,165) – 144,072,502 – 320,524= 272,542,753 in thousands of Tenge

As at 30 September, 2016:
NAV = (466,644,536 – 17,418,655) – 115,203,256 – 320,556= 333,702,069 in thousands of Tenge

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

As at 31 December, 2015 – 436,493,944
As at 30 September, 2016 – 466,644,536

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

As at 31 December, 2015 – 19,558,165
As at 30 September, 2016 – 17,418,655

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

As at 31 December, 2015 – (83,044,876 + 61,027,626) = 144,072,502
As at 30 September, 2016 – (26,928,150 + 88,275,106) = 115,203,256

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. CALCULATION OF BOOK VALUE PER COMMON SHARE (continued)

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

As at 31 December, 2015 – 320,524

As at 30 September, 2016 – 320,556

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

BVPS1 = (EPC + DCPS1) / NOPS1, where

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

As at 31 December, 2015:

BVPS1 = ((1,902,287 + 874,156) / 320,524) x1,000 = 8,662

As at 30 September, 2016:

BVPS1 = ((1,922,545 + 874,244) / 320,556) x1,000 = 8,725

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

As at 31 December, 2015 – 320,524

As at 30 September, 2016 – 320,556

EPC – equity with prior claims, i.e. equity owned by the holders of preferred stock of the first group as of the date of calculation, in thousands of Tenge;

As at 31 December, 2015 – 1,902,287

As at 30 September, 2016 – 1,922,545

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

As at 31 December, 2015 – 874,156

As at 30 September, 2016 – 874,244

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

EPC = TDPS1 + PS, where:

As at 31 December, 2015:

EPC = 1,581,763 + 320,524 = 1,902,287 thousands of Tenge

As at 30 September, 2016:

EPC = 1,601,989 + 320,556 = 1,922,545 thousands of Tenge

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

As at 31 December, 2015 – 1,581,763
As at 30 September, 2016 – 1,601,989