NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2017

1. GENERAL CORPORATE INFORMATION

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

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

The Company is controlled by the Government of the Republic of Kazakhstan through "Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna" or the "Parent"), which owns 51% of the Company's controlling stock. Main shareholders of the Company at 30 September 2017 are presented as follows:

	30 September 2017 (unaudited)	31 December 2016
Samruk-Kazyna	**51.0%**	51.0%
SOBRIO LIMITED	**24.5%**	24.5%
ADR (The Bank of New York is a depositor)	**9.2%**	9.2%
Alatau Capital Invest LLP	**3.7%**	3.7%
United Accumulative Pension Fund JSC	**3.4%**	3.4%
Deran Investment B.V.	**2.0%**	2.0%
Other	**6.2%**	6.2%
	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 channels, data transfer services and wireless communication services.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the nine months ended 30 September 2017 have been prepared in accordance with IAS 34 *Interim Financial Reporting.*

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2016.

Foreign currency translation

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

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

	30 September 2017	31 December 2016	30 September 2016
US dollar	**341.19**	333.29	335.46
Euro	**402.64**	352.42	374.81
Russian ruble	**5.9**	5.43	5.29

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION (continued)

Subsidiaries

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

		Percentage ownership	
	Country of residence	30 September 2017 (unaudited)	31 December 2016
Nursat JSC	Kazakhstan	**100.00%**	100.00%
KT-IX LLC	Russia	**100.00%**	100.00%
KT Cloud Lab LLP	Kazakhstan	**100.00%**	100.00%
Vostoktelecom LLP	Kazakhstan	**100.00%**	100.00%
Online.kg LLC	Kyrgyzstan	**100.00%**	100.00%
Info-Net Wireless LLP	Kazakhstan	**100.00%**	100.00%
Nursat + LLP	Kazakhstan	**100.00%**	100.00%

3. CHANGES IN ACCOUNTING POLICIES

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards effective as of 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these amendments apply for the first time in 2017, they do not have a material impact on the interim condensed consolidated financial statements of the Group.

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

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its condensed interim consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the year ended 31 December 2017.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

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

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 2014-2016 cycle

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

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

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

4. SEGMENT INFORMATION

The Group has two reportable operating segments as follows:

- Local, intercity and international wireline telecommunication services are mainly provided by Kazakhtelecom JCS, Vostoktelecom LLP, KT Cloud Lab LLP and Nursat JSC business units.
- GSM and LTE mobile telecommunication services provided by the Group's associate, Khan Tengri Holding B.V.

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

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

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

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

The following tables present revenue and segment profit information regarding the Group's operating segments for the nine months ended 30 September 2017 and 2016.

For the nine months ended 30 September 2017 (unaudited)

In thousands of tenge	Wireline telecom-munication	GSM and LTE telecom-munication	Other	Eliminations and adjustments	Consolidated
Revenue					
Sales to external customers	156,297,544	–	–	–	156,297,544
Inter-segment	–	–	156,718	(156,718)	–
Total revenue	156,297,544	–	156,718	(156,718)	156,297,544
Financial performance					
Depreciation and amortization	(23,814,691)	–	(21,741)	–	(23,836,432)
Impairment of property and equipment	(981,322)	–	–	–	(981,322)
Finance costs	(4,148,315)	–	–	–	(4,148,315)
Finance income	3,076,134	–	3,935	–	3,080,069
Share in loss of associates	–	(2,743,525)	–	–	(2,743,525)
Accrual of allowance for doubtful receivables	(731,066)	–	(531)	–	(731,597)
Segment profit/(loss) before tax	44,464,976	(2,743,525)	(2,629)	–	41,718,822

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SEGMENT 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					
Sales to 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
Financial performance					
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 in loss of associates	–	(8,998,086)	(1,864)	–	(8,999,950)
Accrual of allowance for doubtful receivables	(970,636)	–	–	–	(970,636)
Segment profit/(loss) before tax	38,463,672	(8,998,086)	(105,198)	1,743,181	31,103,569

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

In thousands of tenge	**Wireline telecom-munication**	**GSM and LTE telecom-munication**	**Other**	**Eliminations and adjustments**	**Consolidated**
Operating assets					
As at 30 September 2017 (unaudited)	**428,947,165**	**64,417,267**	**613,736**	**(485,941)**	**493,492,227**
As at 31 December 2016	401,684,781	67,160,792	441,401	(324,862)	468,962,112
Operating liabilities					
As at 30 September 2017 (unaudited)	**122,219,496**	**–**	**257,209**	**10,989**	**122,487,694**
As at 31 December 2016	124,895,545	–	254,647	14,310	125,164,502

5. PROPERTY AND EQUIPMENT

During the nine months ended 30 September 2017, the Group acquired property and equipment in the amount of 8,922,070 thousand tenge (unaudited) (during nine months ended 30 September 2016: 6,841,102 thousand tenge (unaudited)). During the nine months ended 30 September 2017, the Group disposed property and equipment with carrying amount of 339,746 thousand tenge (unaudited) (during nine months ended 30 September 2016: 202,061 thousand tenge (unaudited)).

The Group's main construction projects include capitalized costs for modernization and construction of existing and new digital and wireline networks and fiber optic communication lines. As at 30 September 2017, the carrying amount of construction in progress was equal to 7,950,035 thousand tenge (unaudited) (as at 31 December 2016: 9,813,847 thousand tenge).

During the nine months ended 30 September 2017, the Group recognized depreciation expense in the amount of 21,546,094 thousand tenge (unaudited) (during nine months ended 30 September 2016: 20,787,103 thousand tenge (unaudited)).

During the nine months ended 30 September 2017, the impairment loss was equal to 981,322 thousand tenge (during nine-months period ended 30 September 2016, the impairment loss was equal to nill) and represented write down of certain fixed assets in the fixed telecommunications segment to their recoverable value due to technological obsolescence. The loss was recorded in the interim condensed consolidated statement of comprehensive income within general and administrative expenses. The recoverable amount as of 30 September 2017 of nil tenge was determined on the basis of the calculation of value in use of assets at the individual level.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. PROPERTY AND EQUIPMENT (continued)

As at 30 September 2017, the carrying amount of equipment purchased and held under finance leases and included in property and equipment was equal to 23,719,076 thousand tenge (unaudited) (as at 31 December 2016: 25,570,125 thousand tenge). During the nine months ended 30 September 2017 and 2016, the Group did not have telecommunications equipment under finance leases. Leased assets were pledged as collateral under the respective finance lease agreements.

As at 30 September 2017, property and equipment with cost of 117,303,857 thousand tenge (unaudited) were fully depreciated (as at 31 December 2016: 116,565,628 thousand tenge).

6. INTANGIBLE ASSETS

During the nine months ended 30 September 2017, the Group acquired intangible assets in the amount of 10,188 thousand tenge (unaudited) (during nine months ended 30 September 2016: 107,418 thousand tenge (unaudited)).

During the nine months ended 30 September 2017, the Group recognized amortization expense in the amount of 2,315,321 thousand tenge (unaudited) (during nine months ended 30 September 2016: 2,292,616 thousand tenge (unaudited)).

As at 30 September 2017 intangible assets (mainly software) with cost of 8,696,617 thousand tenge (unaudited), were fully amortized (as at 31 December 2016: 8,508,183 thousand tenge).

7. INVESTMENTS IN AN ASSOCIATE

Khan-Tengri Holding B.V.

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

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

In thousands of tenge	**30 September 2017 (unaudited)**	31 December 2016
Current assets	**42,475,520**	29,436,215
Non-current assets	**260,918,714**	271,415,573
Current liabilities	**(52,554,484)**	(51,528,003)
Non-current liabilities	**(124,531,383)**	(117,635,958)
Total equity	**125,308,367**	131,687,827
Carrying amount of investment of the Group	**64,417,267**	67,160,792

In thousands of tenge	**For nine months ended 30 September 2017 (unaudited)**	For nine months ended 30 September 2016 (unaudited)
Revenue	**75,633,453**	51,782,666
Operating expenses	**(73,226,812)**	(61,305,173)
Non-operating expenses	**(7,786,101)**	(8,040,284)
Loss before tax	**(5,379,460)**	(17,562,791)
Income tax benefit	**-**	(80,515)
Loss for the period	**(5,379,460)**	(17,643,306)
Total comprehensive loss for the period	**(5,379,460)**	(17,643,306)
Share of the Group in loss for the period	**(2,743,525)**	(8,998,086)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. INVESTMENTS IN AN ASSOCIATE (continued)

Kazakhtelecom Industrial Enterprises Services LLP

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

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

In thousands of tenge	**For nine months ended 30 September 2017 (unaudited)**	For nine months ended 30 September 2016 (unaudited)
Operating expenses	**(20,144)**	(3,804)
Loss before tax	**(20,144)**	(3,804)
Income tax benefit	**4,029**	–
Loss for the period	**(16,115)**	(3,804)
Total comprehensive loss for the period	**(16,115)**	(3,804)
Share of the Group in loss for the period	**–**	(1,864)
Accumulated unrecognized share of losses	**(15,884)**	–

8. IMPAIRMENT TESTING OF GOODWILL

Goodwill is tested by the Group for impairment annually as at 31 December and when circumstances indicate the carrying amount of goodwill may be impaired. The Group's impairment test for goodwill is based on value-in-use calculations. The key assumptions used to determine the recoverable amount for the different cash generating units were disclosed in the annual consolidated financial statements of the Group for the year ended 31 December 2016.

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

9. TRADE RECEIVABLES

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

In thousands of tenge	**30 September 2017 (unaudited)**	31 December 2016
Trade receivable	**36,695,146**	27,216,691
	36,695,146	27,216,691
Less: allowance for doubtful receivables	**(2,250,654)**	(2,224,485)
	34,444,492	24,992,206

During the nine months ended 30 September movements in the allowance for doubtful receivables were as follows:

In thousands of tenge	**30 September 2017 (unaudited)**	30 September 2016 (unaudited)
Allowance for doubtful receivables at the beginning of the year	**(2,224,485)**	(1,914,169)
Charge for the period	**(707,827)**	(892,481)
Write-offs for the period	**681,658**	304,824
Allowance for doubtful receivables at the end of the period	**(2,250,654)**	(2,501,826)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. OTHER CURRENT FINANCIAL ASSETS

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

In thousands of tenge	**30 September 2017 (unaudited)**	31 December 2016
Bank deposits	**61,561,225**	45,889,260
Loans to employees	**2,128,001**	1,896,652
Interest receivable	**852,978**	242,197
Other accounts receivable	**97,214**	99,153
Other	**4,472**	5,805
	64,643,890	48,133,067

Bank deposits with initial maturities over 3 months but less than 12 months were opened in local banks and were earning interest at rates ranging from 1% to 13% per annum (as at 31 December 2016: from 1% to 14.5% per annum).

11. CASH AND CASH EQUIVALENTS

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

In thousands of tenge	**30 September 2017 (unaudited)**	31 December 2016
Cash on current bank accounts	**35,893,751**	20,976,246
Bank deposits with maturity of less than 90 days	**1,527,641**	3,332,900
Cash on hand	**9,854**	11,796
	37,431,246	24,320,942

Cash on current bank accounts earn interest at rates ranging from 0.1% to 10% per annum (as at 31 December 2016: from 0.1% to 13% per annum). Cash on current bank accounts as at September 30, 2017 included "overnight" deposits in the amount of 1,353,000 thousand tenge with interest rates ranging from 0.05% to 11.5% (as of December 31, 2016, "overnight" deposits were not placed). Short-term deposits were placed for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at rates ranging from 0.15% to 8.5% per annum (as at 31 December 2016: from 0.8% to 1% per annum).

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

In thousands of tenge	**30 September 2017 (unaudited)**	31 December 2016
Tenge	**25,868,349**	7,237,491
US dollars	**11,333,865**	17,049,152
Russian rubles	**64,581**	28,249
Other	**164,451**	6,050
	37,431,246	24,320,942

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. BORROWINGS

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

In thousands of tenge	**Weighted average interest rate (unaudited)**	**30 September 2017 (unaudited)**	Weighted average interest rate	31 December 2016
Borrowings with fixed interest rate of 7% to 9% per annum	**8.13%**	**55,386,552**	8.35%	56,268,176
		55,386,552		56,268,176

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

In thousands of tenge	**30 September 2017 (unaudited)**	31 December 2016
Tenge, payments indexed to exchange rate tenge/US dollar	**27,928,187**	27,817,642
Tenge	**27,458,365**	28,450,534
	55,386,552	56,268,176

Borrowings are repayable as follows:

In thousands of tenge	**30 September 2017 (unaudited)**	31 December 2016
Current portion of borrowings	**28,995,784**	2,473,507
Maturity between 1 and 2 years	**4,059,187**	2,029,593
Maturity between 2 and 5 years	**12,183,619**	38,981,004
Maturity over 5 years	**10,147,962**	12,784,072
Total non-current portion of borrowings	**26,390,768**	53,794,669
Total borrowings	**55,386,552**	56,268,176

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

13. OTHER NON-CURRENT AND CURRENT LIABILITIES

Non-current liabilities

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

In thousands of tenge	**30 September 2017 (unaudited)**	31 December 2016
Deferred income	**1,525,391**	1,763,417
Guarantees issued for an associate *(Note 17)*	**441,329**	726,808
Provision for asset retirement obligations	**154,518**	141,564
Other	**3,407,529**	1,577,350
	5,528,767	4,209,139

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Non-current liabilities (continued)

Provision for asset retirement obligations

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

Current liabilities

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

In thousands of tenge	**30 September 2017 (unaudited)**	31 December 2016
Payables to Khan Tengri Holding B.V.	**4,842,282**	4,842,282
Taxes payable other than income tax	**3,807,458**	2,335,514
Settlements with employees	**2,653,633**	4,324,798
Dividends payable	**1,695,417**	1,547,439
Deferred income	**602,201**	662,586
Payable to pension funds	**390,626**	864,145
Guarantees issued for an associate	**112,933**	151,852
Other	**1,307,733**	1,400,556
	15,412,283	16,129,172

As disclosed in *Note 17*, on 25 February 2016, the Company provided a guarantee to Mobile Telecom Service LLP under the credit facility from Kazkommertsbank with a credit limit of up to 14,000,000 thousand tenge for the period until 25 February 2023 and a guarantee to Altel JSC under the credit facility from Development Bank of Kazakhstan JSC with a credit limit of up to 10,008,780 thousand tenge for the period until 19 December 2024.

On 30 December 2016, was signed an additional agreement to the Guarantee Agreement of 25 February 2016, between Kazkommertsbank JSC and the Company on reduction of guaranteed liabilities from 14,000,000 thousand tenge to 7,000,000 thousand tenge.

On 24 April 2017, the Company and Kazkommertsbank JSC signed an agreement on termination of the Guarantee Agreement of 25 February 2016 for the amount of 7,000,000 thousand tenge. Actual development of credit funds under this guarantee was not made, the amount of debt is equal to zero.

On 30 December 2016, the Company provided a guarantee for the obligations of Mobile Telecom-Service LLP through a credit line with Halyk Bank JSC with a credit limit of up to 7,000,000 thousand tenge for the period until 20 December 2023.

As of 30 September 2017, the actual amount of the credit line in Halyk Bank of Kazakhstan JSC was zero tenge, the loan amount disbursed to Development Bank of Kazakhstan JSC was equal to 9.508.619 thousand tenge.

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

14. REVENUE

	For three months ended 30 September		**For nine months ended 30 September**	
In thousands of tenge	**2017 (unaudited)**	2016 (unaudited)	**2017 (unaudited)**	2016 (unaudited)
Data transfer services	**26,518,789**	25,427,052	**79,113,866**	75,749,016
Provision of wireline phone services	**11,944,132**	13,173,331	**36,606,842**	40,258,416
Rent of channels	**4,992,670**	7,104,848	**14,729,976**	11,832,537
Interconnect	**3,963,562**	4,503,495	**11,839,680**	14,162,174
Other	**3,350,949**	2,319,091	**8,921,770**	5,892,952
	50,770,102	52,527,817	**151,212,134**	147,895,095

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. COST OF SALES

	For three months ended 30 September		For nine months ended 30 September	
In thousands of tenge	**2017 (unaudited)**	2016 (unaudited)	**2017 (unaudited)**	2016 (unaudited)
Personnel costs	**11,960,574**	11,703,209	**36,179,292**	35,805,699
Depreciation and amortization	**7,909,223**	7,735,231	**23,667,462**	22,875,779
Rent of channels	**1,837,020**	1,849,232	**5,469,603**	6,580,627
Repair and maintenance	**2,063,082**	2,513,155	**5,119,842**	5,230,036
Rental of base stations	**1,577,980**	4,433,619	**5,046,502**	4,444,127
Interconnect	**1,616,525**	1,835,154	**4,694,950**	5,743,608
Materials	**1,707,449**	1,597,834	**4,095,311**	3,576,101
Content	**1,219,273**	1,083,340	**3,785,865**	3,272,646
Fees for the right to provide telecom services	**707,952**	687,277	**2,123,854**	2,061,829
Electricity	**690,553**	652,051	**2,073,950**	2,043,029
Security and safety	**594,657**	544,821	**1,593,559**	1,476,561
Fees for use of frequency range	**50,819**	59,480	**148,714**	302,512
Other	**1,544,866**	1,882,948	**4,575,826**	4,010,152
	33,479,973	36,577,351	**98,574,730**	97,422,706

16. INCOME TAX EXPENSES

	For three months ended 30 September		For nine months ended 30 September	
In thousands of tenge	**2017 (unaudited)**	2016 (unaudited)	**2017 (unaudited)**	2016 (unaudited)
Current income tax expense	**3,896,253**	1,672,482	**8,764,680**	8,139,025
Deferred income tax expense	**496,644**	470,096	**616,286**	1,383,650
	4,392,897	2,142,578	**9,380,966**	9,522,675

17. DISCONTINUED OPERATIONS

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

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

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

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

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

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

Net cash flows of Altel JSC were as follows:

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. DISCONTINUED OPERATIONS (continued)

Gain on disposal of subsidiary Altel JSC was as follows:

In thousands of tenge	**For period from 1 January 2016 till 29 Feburary 2016**
Fair value of investment in Khan Tengri Holding B.V. *(Note 7)*	80,700,000
Disposed net assets	(30,954,363)
Discount of receivables from Mobile Telecom Services LLP	(7,282,414)
Guarantees issued	(883,900)
Gain on disposal of subsidiary	**41,579,323**

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

In thousands of tenge	**For period from 1 January 2016 till 29 Feburary 2016**
Disposed cash of a subsidiary	(1,683,295)
Net cash outflow from the disposal of a subsidiary	**(1,683,295)**

Profit per share

	For three months ended 30 September		**For nine months ended 30 September**	
	2017 (unaudited)	2016 (unaudited)	**2017 (unaudited)**	2016 (unaudited)
Basic and diluted, profit for the period from discontinued operations, tenge	**–**	–	**–**	3,826.51

18. NON-CASH TRANSACTIONS

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

During the nine months ended 30 September 2017 an amount of 4,514,785 thousand tenge (unaudited) was paid for property and equipment purchased in the previous year (during the nine months ended 30 September 2016: 5,300,768 thousand tenge (unaudited)). Property and equipment of 1,243,646 thousand tenge (unaudited) were purchased during the nine months ended 30 September 2017 but not paid at 30 September 2017 (purchased, but not paid at 30 September 2016: 502,068 thousand tenge (unaudited)).

19. COMPENSATION FOR RENDERING UNIVERSAL SERVICES IN THE RURAL AREA

According to the Resolution of the Government of the Republic of Kazakhstan No. 451, dated 31 March 2009, *"On the approval of subsidies for telecommunication operators losses connected with the provision of universal telecommunication services in rural areas"*, the Group receives government subsidies as compensation for operators' losses for the provision of telephony services to socially important destinations. There are no unfulfilled conditions or contingencies attached to these subsidies. The grants received for the nine months ended 30 September 2017 were equal 5,085,410 thousand tenge (for the nine months ended 30 September 2016: 4,817,928 thousand tenge).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. RELATED PARTY DISCLOSURES

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

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

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

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

	For three months ended 30 September		**For nine months ended 30 September**	
In thousands of tenge	**2017 (unaudited)**	2016 (unaudited)	**2017 (unaudited)**	2016 (unaudited)
Sales of goods and services				
Parent	**109,880**	84,989	**271,115**	150,612
Parent-controlled entities	**1,073,903**	543,385	**3,141,415**	1,782,354
Associate	**4,345,234**	6,858,617	**13,878,050**	12,940,191
Government institutions	**10,295,654**	6,395,805	**21,839,025**	19,674,762
Purchases of goods and services				
Parent	**–**	–	**–**	30,226
Parent-controlled entities	**435,059**	427,360	**1,367,040**	1,281,080
Associate	**2,269,004**	4,362,413	**6,712,570**	5,591,793
Government institutions	**241,826**	263,209	**676,821**	385,500
Interest incurred on borrowings				
Entities under government control				
Development Bank of Kazakhstan JSC	**1,105,689**	1,082,291	**3,232,648**	3,044,762
Average interest rate on borrowings		8.13%		8.50%

In thousands of tenge	**30 September 2017 (unaudited)**	31 December 2016
Cash and cash equivalents		
Entities under government control		
Development Bank of Kazakhstan JSC	**188**	3,240
Borrowings		
Entities under government control		
Development Bank of Kazakhstan JSC	**55,380,375**	55,137,133
Trade and other receivables		
Parent	**82,695**	51,156
Parent-controlled entities	**562,631**	539,019
Associate	**14,466,084**	11,164,458
Government institutions	**8,576,985**	4,411,156
Accounts payable		
Parent-controlled entities	**367,765**	342,445
Associate	**8,453,040**	8,231,494
Government institutions	**320,827**	525,492
Other long term assets		
Long term loans provided to key personnel	**28,587**	38,513

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. RELATED PARTY DISCLOSURES (continued)

For the nine months ended 30 September 2017, The Government of the Republic of Kazakhstan granted compensation to the Group for the provision of universal services in rural areas in the amount of 5,085,410 thousand tenge (for the nine months ended 30 September 2016: 4,817,928 thousand tenge).

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

21. FINANCIAL INSTRUMENTS

Fair values

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

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

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

22. COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of telecommunication equipment. As at 30 September 2017, the Group had contractual commitments totaling 6,695,344 thousand tenge (unaudited) (as at 31 December 2016: 11,107,684 thousand tenge) related mostly to the purchase of telecommunication equipment and construction of telecommunication network.

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. In addition, management believes that international agreements, under which the Group works with non-residents residing in International Telecommunication Union, and which provide for certain tax exemptions, have a priority over national tax legislation. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 30 September 2017. As at 30 September 2017, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained.

23. SUBSEQUENT EVENTS

On 12 October 2017, the Company redeemed its indexed coupon bonds ahead of schedule, as a result of conducted specialized trades (KASE). The total amount of the transaction (principal, including the commission for early redemption and accumulated coupon) was equal to 30,128,136 thousand tenge.

24. 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, 2016:

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

As at 30 September, 2017:

BVCS = (355,358,733 / 10,707,323) x 1,000 = 33,188

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

As at 31 December, 2016– 326,336,933

As at 30 September, 2017 – 355,358,733

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

As at 31 December, 2016– 10,707,323

As at 30 September, 2017 – 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, 2016:

NAV = (468,962,112 – 17,140,121) – 125,164,502 – 320,556= 326,336,933 in thousands of Tenge

As at 30 September, 2017:

NAV = (493,492,227 – 15,325,244) – 122,487,694 – 320,556= 355,358,733 in thousands of Tenge

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

As at 31 December, 2016 – 468,962,112

As at 30 September, 2017 – 493,492,227

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

As at 31 December, 2016 – 17,140,121

As at 30 September, 2017 – 15,325,244

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

As at 31 December, 2016 – (37,600,370 + 87,564,132) = 125,164,502

As at 30 September, 2017 – (60,894,534 + 61,593,160) = 122,487,694

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

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

As at 31 December, 2016 – 320,556

As at 30 September, 2017 – 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, 2016:

BVPS1 = ((1,867,291 + 874,244) / 320,556) x1,000 = 8,552

As at 30 September, 2017:

BVPS1 = ((1,928,603 + 874,244) / 320,556) x1,000 = 8,743

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

As at 31 December, 2016 – 320,556

As at 30 September, 2017 – 320,556

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

As at 31 December, 2016 – 1,867,291

As at 30 September, 2017 – 1,928,603

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

As at 31 December, 2016 – 874,244

As at 30 September, 2017 – 874,244

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

EPC = TDPS1 + PS, where:

As at 31 December, 2016:

EPC = 1,546,735 + 320,556 = 1,867,291 thousands of Tenge

As at 30 September, 2017:

EPC = 1,608,047 + 320,556 = 1,928,603 thousands of Tenge

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

As at 31 December, 2016 – 1,546,735

As at 30 September, 2017 – 1,608,047