KCELL JSC

Consolidated Financial Statements
for the year ended 31 December 2016
and Independent Auditor's Report

KCELL JSC

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KCELL JSC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES
FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Kcell JSC ("the Company") and its subsidiaries (together referred to as "the Group") as at 31 December 2016, the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance and;
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with the legislation of Kazakhstan and accounting standards;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2016 were approved by management on 9 February 2017.

Approved for issue and signed on behalf of the Management

Arti Ots	**Trond Moe**
Chief Executive Officer	**Chief Financial Officer**

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Kcell JSC

Opinion

We have audited the consolidated financial statements of Kcell JSC ("the Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the matter was determined to be a key audit matter	How the matter was addressed in the audit and the outcome of the procedures
Provisions and contingent liabilities The Company is currently undergoing a tax audit for the years 2012-2015, which has yet to be finalised. There is a high level of judgement required in estimating the level of provisioning required as a result of the ongoing tax audit. Refer to Note 19 – Contingencies, Commitments and Operating Risks.	Our procedures included the following: -where relevant, reading external tax opinions obtained by management; -enquiring with management and reading Group correspondence with tax authorities; -discussing further actions with the Group legal team upon the receipt of tax audit conclusion; -assessing and challenging management's conclusions through understanding precedents set in similar cases. Based on the evidence obtained, whilst noting the inherent uncertainty with such legal, regulatory and tax matters, we determined the level of provisioning as at 31 December 2016 to be appropriate. We also validated the completeness and appropriateness of the related disclosures in Note 19 of the consolidated financial statements.
Physical verification of fixed assets (Assets under construction and Plant and machinery) Due to the scale of the territory covered, the Group has a significant amount of fixed assets, particularly Assets under construction and Plant and machinery, which have not been physically verified by the Group in prior periods. As at 31 December 2016, the carrying amounts of Assets under construction and advances given and Plant and machinery were 16,711,684 thousand Tenge and 56,402,691 thousand Tenge, respectively (Note 9).	We tested the operating effectiveness of the controls over the physical verification within the fixed assets process, noting no significant exceptions. On a sample basis we performed a verification of fixed assets. We have additionally performed the reconciliation of the fixed asset register with on-air reports, prepared by the technical department of the Group. No significant issues were noted from our testing.

Assets impairment (Assets under construction and Plant and machinery) As discussed in Note 9 to the consolidated financial statements, in prior years, based on management estimates of usage, the Group has written off a significant amount of Plant and machinery and Assets under construction. Given the pace of technological advancements in the sector, we consider asset impairment to be a significant area of judgement.	We tested the operating effectiveness of controls over the impairment assessment process. Our procedures included reviewing plant and machinery for the existence of impairment indicators, as well as the impairment model used for value in use calculation, including reviewing the future cash flow projections and assessing the methodology used in determination of related input assumptions, such as the growth rate and discount rate applied in the model, no significant issues were noted. In addition, we have reviewed the Assets under construction ageing analysis assessing the appropriateness of management's key assumptions in respect of historical utilization of the Assets under construction. Based on our procedures, we noted no exceptions and consider management's key assumptions to be within a reasonable range.
Capital expenditure (Assets under construction) As discussed in Note 9 to the consolidated financial statements, there are a material amount of assets in the course of construction and advances given, which are transferred to other groups of property, plant and equipment as such assets start being used. There are a number of areas where management judgement impacts the carrying value of Assets under construction. These include: -the decision to capitalise or expense costs; and -the timeliness of the transfer from assets in the course of construction to the appropriate property classification.	We tested controls in place over the fixed asset cycle, evaluated the appropriateness of capitalisation policies, performed tests of details on costs capitalised, assessed the nature of costs incurred in capital expenditure through testing of amounts recorded and assessing whether the expenditure met capitalisation criteria. In performing these procedures, we challenged the judgements made by management including the nature of underlying costs capitalised as part of the cost of the network roll-out through reviewing third party supporting documentation in relation to the costs incurred. Further, we substantively tested the transfer of assets in the course of construction to the appropriate property classification through reviewing, on a sample basis, supporting documentation detailing the type of asset being constructed and the related asset class in which it had been transferred to on completion, along with the timeliness of the transfer. No significant issues were noted from our testing.

Revenue recognition	
There is an inherent risk around the accuracy and cut-off of revenue recorded given the complexity of systems and the impact of multiple-element arrangements to revenue recognition (tariff structures, the appropriateness of the allocation of the total transaction value between multiple elements in a bundled transaction etc.). The application of revenue recognition accounting standards is complex and involves a number of key judgements and estimates.	We involved our IT specialists to test the operating effectiveness of controls over the customer billing systems. Our tests assessed the controls in place to ensure all services supplied to customers are input into and processed through the billing systems, allowing us to rely on the controls in place within the revenue system. We subsequently applied a combination of substantive analytical procedures and tests of detail to obtain assurance over the validity and completeness of the reported output of these systems. We tested the basis of allocation of total transaction value between multiple elements in a bundled transaction, noting no significant exceptions. We also considered the application of the Group's accounting policies to amounts billed and the accounting implications of allocation of the total transaction value between multiple elements in a bundled transaction to ensure that the Group accounting policies were determined appropriately and applied consistently. Based on our work, we noted no issues on accuracy and cut-off of revenue from multiple-element arrangements recorded in the year.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

Mark Smith
Engagement Partner
Chartered Accountant
Institute of Chartered Accountant of Scotland
License № M21857
Glasgow, Scotland

Ivan Mudrichenko
Auditor-performer
Qualification certificate
No. MF-0000415
dated 13 January 2017

Deloitte, LLP

Deloitte, LLP
State license for audit activities
in the Republic of Kazakhstan #0000015,
type MFU-2, issued by the Ministry of Finance
of the Republic of Kazakhstan
dated 13 September 2006

Nurlan Bekenov
General Director
Deloitte, LLP

9 February 2017

Almaty, the Republic of Kazakhstan

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in thousand of Kazakhstani Tenge, unless otherwise stated)

	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	9	95,321,606	94,501,445
Intangible assets	10	42,842,480	16,956,188
Long-term trade receivable	11	1,162,961	397,111
Financial aid receivable from related party	8	-	300,000
Restricted cash		86,419	145,748
Total non-current assets		**139,413,466**	**112,300,492**
Current assets			
Inventories		3,587,082	2,801,602
Trade and other receivables	11	18,238,920	13,440,877
Prepaid current income tax		10,575,846	5,114,688
Due from related parties	8	738,983	780,054
Cash and cash equivalents		8,476,653	31,589,007
Total current assets		**41,617,484**	**53,726,228**
TOTAL ASSETS		**181,030,950**	**166,026,720**
EQUITY			
Share capital	12	33,800,000	33,800,000
Retained earnings		38,880,286	46,646,103
TOTAL EQUITY		**72,680,286**	**80,446,103**
LIABILITIES			
Non-current liabilities			
Deferred income tax liability	18	6,012,214	5,037,021
Other non-current liabilities		1,285,482	1,285,482
Borrowings	14	8,000,000	-
Total non-current liabilities		**15,297,696**	**6,322,503**
Current liabilities			
Borrowings	14	57,414,639	50,201,227
Trade and other payables	13	26,952,614	18,509,955
Due to related parties	8	1,525,559	1,215,538
Deferred revenue		6,759,535	8,397,228
Taxes payable		400,621	934,166
Total current liabilities		**93,052,968**	**79,258,114**
TOTAL LIABILITIES		**108,350,664**	**85,580,617**
TOTAL LIABILITIES AND EQUITY		**181,030,950**	**166,026,720**

Approved for issue and signed on behalf of the Management on 9 February 2017

Arti Ots
Chief Executive Officer

Trond Moe
Chief Financial Officer

The accompanying notes on pages 12 to 42 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in thousand of Kazakhstani Tenge, unless otherwise stated)

	Note	2016	2015
Revenues	15	147,037,004	168,424,046
Cost of sales	16	(91,865,727)	(89,932,191)
Gross profit		**55,171,277**	**78,491,855**
Selling and marketing expenses	16	(10,988,346)	(9,221,036)
General and administrative expenses	16	(14,149,534)	(12,380,999)
Other operating income		2,871,658	2,422,854
Other operating expenses	16	(1,863,772)	(6,711,830)
Operating profit		**31,041,283**	**52,600,844**
Finance income	17	2,650,545	13,524,281
Finance costs	17	(10,935,593)	(5,713,217)
Profit before income tax		**22,756,235**	**60,411,908**
Income tax expense	18	(6,072,619)	(13,779,583)
Profit and total comprehensive income for the year		**16,683,616**	**46,632,325**
Earnings per share (Kazakhstani Tenge), basic and diluted	12	**83.42**	**233.16**

Profit and total comprehensive income for both periods are fully attributable to the Group's shareholders.

Approved for issue and signed on behalf of the Management on 9 February 2017

Arti Ots
Chief Executive Officer

Trond Moe
Chief Financial Officer

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(in thousand of Kazakhstani Tenge)

	Share capital	Retained earnings	Total equity
Balance at 1 January 2015	**33,800,000**	**58,273,778**	**92,073,778**
Profit and total comprehensive income for the year	-	46,632,325	46,632,325
Dividends declared (Note 12)	-	(58,260,000)	(58,260,000)
Balance at 31 December 2015	**33,800,000**	**46,646,103**	**80,446,103**
Profit and total comprehensive income for the year	-	16,683,616	16,683,616
Business combination under common control (Note 3)	-	(1,133,433)	(1,133,433)
Dividends declared (Note 12)	-	(23,316,000)	(23,316,000)
Balance at 31 December 2016	**33,800,000**	**38,880,286**	**72,680,286**

Approved for issue and signed on behalf of the Management on 9 February 2017

Arti Ots
Chief Executive Officer

Trond Moe
Chief Financial Officer

The accompanying notes on pages 12 to 42 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousand of Kazakhstani Tenge)

	Note	2016	2015
Cash flows from operating activities			
Profit for the year		16,683,616	46,632,325
Adjustments for:			
Depreciation of property, plant and equipment	9	17,192,050	21,707,948
Amortisation of intangible assets	10	7,036,978	2,866,065
Income tax		(4,474,443)	(3,492,662)
Net foreign exchange gain		(1,206,903)	(11,927,863)
Interest income		(1,316,560)	(376,100)
Impairment of trade receivables	11	1,090,968	692,005
Interest expense		10,283,135	5,493,653
Impairment and loss on disposal of property, plant and equipment	9	9,666	3,976,839
Operating cash flows before working capital changes		**45,298,507**	**65,572,210**
Change in working capital and other balances:			
Trade and other receivables		(4,679,352)	(891,549)
Long-term receivables		(765,850)	(397,111)
Due from related parties		41,071	(505,798)
Inventories		(528,205)	(465,538)
Taxes payable		(533,544)	442,947
Trade and other payables		2,030,961	(2,946,663)
Due to related parties		310,021	554,200
Deferred revenues		(1,637,693)	(411,821)
Other		59,413	(700)
Cash generated from operations		**39,595,329**	**60,950,177**
Interest paid		(10,364,306)	(5,612,452)
Interest received		1,316,475	376,100
Net cash generated from operating activities		**30,547,498**	**55,713,825**
Cash flows from investing activities			
Purchase of property, plant and equipment		(15,091,050)	(15,985,099)
Purchase of intangible assets		(28,857,944)	(7,328,692)
Cash inflow as a result of acquisition of a subsidiary		108,615	-
Financial aid paid to related party		-	(300,000)
Net cash used in investing activities		**(43,840,379)**	**(23,613,791)**
Cash flows from financing activities			
Proceeds from bank borrowings		33,000,000	39,800,000
Repayment of borrowings		(18,000,000)	(14,500,000)
Dividends paid	12	(23,316,000)	(58,260,000)
Purchase of investments in subsidiaries	3	(2,185,000)	-
Net cash used in financing activities		**(10,501,000)**	**(32,960,000)**
Net decrease in cash and cash equivalents		**(23,793,881)**	**(859,966)**
Effects of exchange rate changes on the balance of cash held in foreign currencies		681,527	12,928,616
Cash and cash equivalents at the beginning of the year		31,589,007	19,520,357
Cash and cash equivalents at the end of the year		**8,476,653**	**31,589,007**

Approved for issue and signed on behalf of the Management on 9 February 2017

Arti Ots
Chief Executive Officer

Trond Moe
Chief Financial Officer

The accompanying notes on pages 12 to 42 are an integral part of these consolidated financial statements

(in thousand of Kazakhstani Tenge)

1. THE GROUP AND ITS OPERATIONS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board for the year ended 31 December 2016 for Kcell JSC ("the Company") and its subsidiaries (together referred to as "the Group").

The Company was established as a limited liability partnership (GSM Kazakhstan OAO Kazakhtelecom LLP) on 1 June 1998 to design, construct and operate a cellular telecommunications network in the Republic of Kazakhstan, using the GSM (Global System for Mobile Communications) standard.

The Company began its commercial operations in 1999 through direct sales and a network of distributors. Prior to 2 February 2012, the Company was owned 51 percent by Fintur Holdings B.V. ("Fintur" or "Parent company") and 49 percent by Kazakhtelecom JSC ("Kazakhtelecom"). Fintur itself is owned jointly by Sonera Holding B.V. ("Sonera") and Turkcell Iletisim Hizmetleri A.S., with holdings of 58.55 percent and 41.45 percent, respectively.

On 2 February 2012, the 49 percent stake in the Company owned by Kazakhtelecom was sold directly to Sonera, a subsidiary of Telia Company.

On 1 July 2012, the General Meeting of the participants of GSM Kazakhstan approved a conversion of the Company from Limited Liability Partnership to Joint Stock Company ("the Conversion"), with 200,000,000 common shares to be transferred to Fintur and Sonera in proportion to their ownership percentage. The General Meeting also approved the Company's change of name to Kcell JSC.

On 27 August 2012, the Ministry of Justice registered the Company as a Joint Stock Company. Under Kazakhstani law, upon the Conversion, retained earnings as of the date of the Conversion became share capital of the Company and ceased to be available for distribution to shareholders.

On 13 December 2012, the Company successfully completed its offering of Global Depositary Receipts on the London Stock Exchange and common shares on the Kazakhstan Stock Exchange. The offering consisted of a sale by Sonera of 50 million shares, which represented 25 percent of the Company's share capital (Note 12).

On 4 May 2016, the 24 percent stake in the Company owned by Sonera was sold directly to TeliaSonera Kazakhstan Holding B.V. ("TeliaSonera Kazakhstan"), a subsidiary of Telia Company. The Company's ultimate parent and controlling party is Telia Company.

The Company owns the following subsidiaries:

	Ownership interest		Voting power	
	2016	2015	2016	2015
KazNet Media LLP (Note 3)	100%	-	100%	-
KT-Telecom LLP	100%	100%	100%	100%
AR-Telecom LLP	100%	100%	100%	100%

Operations:

On 25 December 2010, the competent authority signed an addendum to the existing GSM license, which provided the Company with a right to operate a 3G network. In December 2010, the Company launched 3G services in Astana and Almaty. As of 1 January 2015, the Group provided all locations with a population of over 10,000 people with mobile services using UMTS/WCDMA based on the terms of the addendum.

In January 2016, the Group paid 14 billion Tenge as the first tranche for LTE radio frequencies. In accordance with the decision made by Kazakhstan's Ministry of Investments and Development ("the MID") in January 2016, the Group had to pay a one-time fee of 4 billion Tenge by 1 February 2016 for 10/10 MHz radio frequency within the 1700/1800 MHz band, and the first tranche of 10 billion Tenge by 1 March 2016 to gain access to 10/10 MHz radio frequency within the 700/800 MHz band. The second tranche for 10/10 MHz radio frequencies within the 700/800 MHz band in the amount of 12 billion Tenge is to be paid by 1 December 2016. The Group paid the second tranche on 30 November 2016. On 1 March 2016, the Group launched LTE in its network on the previously granted frequencies.

The Company's registered address is 100, Samal-2, Almaty, Republic of Kazakhstan.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") on the historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the financial statements is determined on such a basis, except for leasing transactions that are within the scope of "International Accounting Standards" ("IAS") 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into levels based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These consolidated financial statements have been prepared in accordance with IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4. Actual results could differ from those estimates.

Foreign currency translation

(i) Functional and presentation currency

All amounts in these consolidated financial statements are presented in thousands of Kazakhstani Tenge ("Tenge"), unless otherwise stated. The functional currency of the Group entities is also Tenge, the currency of the primary economic environment in which they operate.

(ii) Transactions and balances

Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction established by the National Bank of the Republic of Kazakhstan. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the profit or loss for the year.

As at 31 December 2016, the principal rate of exchange used for translating foreign currency balances was US Dollar ("USD") 1 = Tenge 333.29 (31 December 2015: USD 1 = Tenge 339.47). Exchange restrictions and currency controls exist relating to converting Tenge into other currencies. At present, the Tenge is not a freely convertible currency in most countries outside of the Republic of Kazakhstan.

Consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Property, plant and equipment

(i) Recognition and subsequent measurement

Property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment. Cost comprises construction cost or purchase price, including import duties and non-refundable taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the construction cost or purchase price.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Construction in progress is carried at cost. Upon completion, assets are transferred to plant and machinery at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Advances for property, plant and equipment are presented within property, plant and equipment financial statement line.

(in thousand of Kazakhstani Tenge)

(ii) Depreciation

Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Property	10 to 50
Plant and machinery	3 to 10
Equipment tools and installations	2 to 8

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset, less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in the profit or loss for the year when the asset is retired.

(iii) Impairment

At each reporting date, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount of the asset to determine the extent, if any, of the impairment loss. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Intangible assets

The Group's operating licenses (GSM-900, GSM-1800 and 3G), as disclosed in Notes 1 and 10, are recorded at cost and are amortised on a straight-line basis over the estimated economic useful life of the license/right. The economic useful life of the original GSM license and 3G license is estimated by management at 15 years based on their terms. The useful life of the initial license term is in line with management's assessment of the development of communication technology. The economic useful life of the right for the radiofrequencies (GSM-1800) was estimated by management to expire in line with the GSM-900 license. On 1 March 2016, the Group launched LTE in its network on the previously granted frequencies. The economic useful life of the 4G license is also estimated by management at 15 years based on their terms. The useful life of the initial license term is in line with management's assessment of the development of communication technology. The economic useful life of the right for the radiofrequencies (GSM-1700/1800) was estimated by management to expire in line with the GSM-700/800 license.

Other intangible assets are amortised over their estimated useful lives as follows:

	Useful lives in years
Computer software and software license rights	3 to 8
Other telecom licenses	10
Other	8 to 10

If impaired, the carrying amount of intangible assets is written down to the higher of value in use or fair value less costs to sell.

Advances for intangible assets are presented within intangible assets financial statement line.

Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Inventories

Inventories primarily include handsets and other goods for resale. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

An allowance for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. When a trade receivable is deemed to be uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited to the profit or loss for the year. The primary factors that the Group considers whether a receivable is impaired is its overdue status and collection history.

Prepaid taxes, deferred expenses and advances to suppliers are stated at actual amounts paid less allowance for impairment.

Prepayments

Prepayments are carried at cost less any allowance for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks with original maturities of three months or less and are subject to insignificant risk of change in value. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in restricted cash.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are expensed to the consolidated statement of comprehensive income. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends

Dividends are recorded as a liability and deducted from equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue are disclosed in the subsequent events note.

Value added tax

Value added tax ("VAT") related to sales is payable to the government when goods are shipped or services are rendered. Input VAT is reclaimable against output VAT upon receipt of a tax invoice from a supplier. The tax legislation permits the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases unsettled at the reporting date is stated in the statements of financial position on a net basis.

Trade and other payables

Trade and other payables are accrued when the counterparty performed its obligations under the contract. The Group recognises trade payables initially at fair value. Subsequently, trade payables are carried at amortised cost using the effective interest method.

Provisions for liabilities and charges

Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In such circumstances, a provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Revenue recognition

Revenue is recorded on an accruals basis measured at the fair value of the consideration received or receivable, being the sales value, net of discounts granted and VAT.

Revenue is categorised as follows: voice services, data services, value added services, and sale of handsets.

Voice service includes call out revenue, interconnect fees, roaming revenues charged to the Group's subscribers for roaming in other wireless operators' network, and roaming revenues charged to other wireless operators for non-Group subscribers using the Group's network.

Data services include revenues from GPRS, WAP services and other data services.

Value added services consists of SMS, MMS, info services and providing content of third parties, fax and voice mail services.

The Group may bundle services and products into one customer offering. Offerings may involve the delivery or performance of multiple products, services, or rights to use assets (multiple deliverables). In some cases, the arrangements include initial installation, initiation, or activation services and involve consideration in the form of a fixed fee or a fixed fee coupled with a continuing payment stream. Telecom equipment is accounted for separately from service where a market for each deliverable exist and if title to the equipment passes to the end-customer. Costs associated with the equipment are recognised at the time of revenue recognised. The revenue is allocated to equipment and services in proportion to the fair value of the individual items. Services invoiced based on usage are not included in the allocation. Customised equipment that can be used only in connection with services or products provided by the Group is not accounted for separately and revenue is deferred over the total service arrangement period.

In revenue arrangements where more than one good or service is provided to the customer, customer consideration is allocated between the goods and services using relative fair value principles. Determining the fair value of each deliverable can require complex estimates. The Group generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a stand-alone basis after considering volume discounts where appropriate.

(i) Call out revenue

Call out revenue is recognised based on the actual airtime used by the subscribers. Prepayments received for call out revenue are not recognised as revenue until the related service has been provided to the subscriber. Revenue is recognised based on the actual traffic time elapsed, at the customer selected calling plan rates.

(ii) Interconnect revenues and costs

The Group charges interconnect per minute fees and fixed monthly payments to other local wireless and fixed line operators for calls originated outside and terminated within the Group's network. The Group recognises such revenues when the services are provided. The Group is charged interconnect fees per minute and fixed monthly payments by other local wireless and fixed line operators for calls originated within the Group's network and terminated outside of the network. The Company recognises such costs when the services are provided.

(iii) Data revenue

The data service is recognised when a service is used by a subscriber based on actual data volume traffic or over the contract term, as applicable.

(iv) Roaming revenues charged to the Group's subscribers

Roaming revenue from the Group's subscribers for roaming in other operators' network is charged based on information provided by other operators to the Group.

(v) Roaming fees charged to other wireless operators

The Group charges roaming per minute fees to other wireless operators for non-Group subscribers utilising the Group's network. The Group recognises such revenues when the services are provided.

(vi) Value added services

Value added services mainly consists of content provided by third parties, different info services, fax and voice mail. When invoicing the end-customer for third party content service, amounts collected on behalf of the principal are excluded from revenue.

(vii) Deferred revenue

Prepayments received for communication services are recorded as deferred revenue. The Group recognises revenue when the related service has been provided to the subscriber.

Roaming discounts

The Group enters into roaming discount agreements with a number of wireless operators. According to the terms of the agreements the Group is obliged to provide and entitled to receive a discount that is generally dependent on the volume of inter operator roaming traffic. The Group uses various estimates and assumptions, based on historical data and adjusted for known changes, to determine the amount of discount to be received or granted. Such estimates are adjusted monthly to reflect newly-available information.

The Group accounts for discounts received as a reduction of roaming expenses and discounts granted as reduction of roaming revenue. The Group considers terms of the various roaming discount agreements in order to determine the appropriate presentation of the amounts receivable from and payable to its roaming partners in its consolidated statements of financial position.

Sales commission to dealers

The Company sells part of payment scratch cards, sim cards, and handsets using dealers. The Company pays a certain commission to dealers depending on the number of payment scratch cards, sim cards or handset sold. The commission is recognised when the item is sold to the subscriber.

Payroll expenses and related contributions

Wages, salaries, contributions to pension funds, paid annual leave and sick leave, bonuses, and other benefits are accrued in the period in which the associated services are rendered by the employees of the Group.

Pension payments

The Group does not incur any expenses in relation to provision of pensions or other post-employment benefits to its employees. In accordance with the legal requirements of the Republic of Kazakhstan, the Group withholds pension contributions from employee salaries and transfers them into state or private pension funds on behalf of its employees. Pension contributions are the responsibility of employees, and the Group has no current or future obligations to make payments to employees following their retirement. Upon retirement of employees, all pension payments are administered by the pension funds directly.

Income taxes

Income taxes have been provided for in these consolidated financial statements in accordance with Kazakhstani legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the period.

Current tax is the amount expected to be paid to or recovered in respect of taxable profits or losses for the current and prior periods. Taxable income or losses are based on estimates where the consolidated financial statements are authorised prior to the filling of the relevant tax return. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that future taxable profit, including deferred tax liabilities, will be available against which the deductions can be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to owners of the Group by the weighted average number of participating shares outstanding during the reporting year. The Group has no dilutive or potentially dilutive securities outstanding.

Segment reporting

Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately. The chief operating decision-maker has been identified as the Company's Chief Executive Officer. The Group determined the Group's operations as a single reporting segment.

Financial instruments

(i) Key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and the current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure at fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

(ii) Classification of financial assets

Financial assets of the Group include loans and receivables. The management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade receivables (Note 11), due from related parties (Note 8) in the consolidated statements of financial position.

(iii) Classification of financial liabilities

Financial liabilities of the Group include financial liabilities carried at amortised cost. The Group's financial liabilities comprise trade and other payables (Note 13) and due to related parties (Note 8).

(iv) *Initial recognition of financial instruments*

Derivatives are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

(v) Derecognition of financial assets

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

3. BUSINESS COMBINATION UNDER COMMON CONTROL

On 26 August 2012, Sonera and the Company entered into a memorandum of understanding ("the MoU"), under which the Company had the right to require Sonera to sell to it, and Sonera had the right to require the Company to acquire from it:

- all participatory interests owned by Sonera in KazNet Media LLP ("KazNet") together with all rights and obligations of Sonera under a framework agreement to buy all the participatory interests in the charter capital of KazNet; and
- and all the participatory interests owned by Sonera in Rodnik Inc LLP ("Rodnik") together with all rights and obligations of Sonera under the agreements to buy participatory interests in the charter capital of Rodnik (refer to "Investment in Rodnik by Sonera" in Note 19).

On 20 October 2015, the Company and KT-Telecom (100 percent subsidiary of the Company) signed an agreement ("the Agreement") for the purchase of 100 percent of the participatory interest in KazNet where Sonera is the seller. KazNet holds 100 percent of the participatory interest in Aksoran and 100 percent of the participatory interest in Instaphone – companies holding frequencies that are capable of being deployed for 4G/LTE.

In accordance with the Agreement, the amount of the transaction is divided by two tranches. The first tranche comprises a nominal price of 5 million US Dollars; the second tranche equals to the fair market value of the frequencies. If the parties of the Agreement can not agree commercially on the fair value of the frequencies, then the fair value shall be determined by independent appraiser appointed by the parties. The total amount of the transaction shall not exceed 70 million US Dollars.

In accordance with the Agreement, the second tranche shall be paid by the Company within 60 calendar days from the date at which the frequencies are permitted to be used by the Company for 4G/LTE services in Kazakhstan. The Company shall receive the relevant authorisation for the use of the frequencies by 31 December 2025. The second tranche shall not be due and payable if the Company is not authorised to provide 4G/LTE services in Kazakhstan by 31 December 2025. As at 31 December 2016, the Company did not apply for permission to use the frequencies.

In accordance with the Agreement, the completion of the deal is subject to the satisfaction of a list of conditions, including but not limited to, signing of waiver-letters and execution of an amendment to the MoU.

(in thousand of Kazakhstani Tenge)

On 15 January 2016, all parties of the Agreement signed waiver-letters according to which all parties confirmed no need for execution of the amendment to the MoU and corresponding satisfaction of all the conditions precedent set forth in the Agreement.

On 4 May 2016, the Company and KT-Telecom signed an amendment to the Agreement for the purchase of a 100% participatory interest in KazNet from Telia Company for 1 US Dollar (the revised first tranche following the amendment). The parties agreed that the control over KazNet is transferred to the Group and thereafter the Group would consolidate KazNet, including its subsidiaries Aksoran and Instaphone, starting from the month after Aksoran repays the 5 million US Dollars of loan principal plus 369 thousand US Dollars of accrued interest on that loan to Sonera.

On 5 May 2016, KazNet repaid a loan due to Sonera in full, thus the Group obtained control over the activity of KazNet, including Aksoran and Instaphone, and consolidated its financial information since June 2016. Since the transfer of ownership in KazNet represents a business combination under common control (with Telia Company being the ultimate parent), the assets and liabilities of the transferred subsidiary were recognised at their historical carrying values per the predecessor owner's financial statements. The financial statements of these companies are not significant for understanding of the consolidated financial statements; as such, the Group consolidated them from the date of control transfer.

The following statement of financial position of KazNet was presented in these consolidated financial statements at the date of receipt of control:

	Combination of the financial statements of KazNet as of consolidation date
Property, plant and equipment	184,562
Intangible assets	61
Total non-current assets	**184,623**
Inventories	257,275
Trade and other receivables	755,076
Prepaid income tax	11,522
Cash and cash equivalents	108,615
Total current assets	**1,132,488**
Total assets	**1,317,111**
Accumulated loss	(1,133,433)
Additional paid-in capital*	946,823
Net loss for the period	(204,032)
Total equity	**(390,642)**
Borrowings*	1,538,177
Trade and other payables	169,576
Total liabilities	**1,707,753**
Total liabilities and equity	**1,317,111**

*Borrowings comprise interest free financial aid received from the Company in the nominal amount of 2,485,000 thousand Tenge. 300,000 thousand Tenge were issued in 2015 and 2,185,000 thousand Tenge were issued during the year ended 31 December 2016. The difference between the nominal amount and fair value was recognised as additional paid-in capital in KazNet separate financial statements. These transactions were eliminated in these consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in these consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial period include:

Useful lives of property, plant and equipment and intangible assets

Management determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and intangible assets. This estimate is based on projected period over which the Group expects to consume economic benefits from the asset. It could change significantly as a result of technical innovations and competitor actions in a high-tech and competitive mobile industry. The carrying amount of assets most affected by judgements (switches and transmission devices) amounted to 56,402,691 thousand Tenge (Note 9) as of 31 December 2016 (2015: 60,736,902 thousand Tenge). Management will increase the depreciation charge where useful lives are less than previously assessed estimated lives, or it will write-down technically obsolete assets that have been abandoned.

Management assesses the useful life of telecommunication licenses based on technology development and legal terms of the license agreements. The useful life of GSM, 3G license and 4G license is assessed as estimated by the management as 15 years. The useful lives are reviewed at least at each reporting date.

Provisions and contingencies

For each event management makes separate assessment of probable outcome and its effect on the Company's operations. Provisions are recognised when negative outcome is anticipated to be probable. For those events, with possible negative outcome on the Company's operations related contingency is disclosed.

Deferred tax assets and liabilities

As at each reporting date, management determines the amount of deferred income tax by comparing the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the date of the corresponding consolidated statements of financial position. Management makes certain assumptions in determining future taxable income sufficient for compensation of deferred tax assets reflected in the consolidated statement of financial position. The carrying amount of net deferred tax liability as at 31 December 2016 amounted to 6,012,214 thousand Tenge (as at 31 December 2015: 5,037,021 thousand Tenge) (Note 18).

Going concern

These consolidated financial statements have been prepared in accordance with IFRS on a going concern basis, which assumes the realisation of assets and discharge of liabilities in the normal course of business within the foreseeable future.

As at 31 December 2016, the Group's net current liabilities are 51,435,484 thousand Tenge. In December 2016, the Group and Eurasian Development Bank entered into a credit agreement to establish and further utilise a credit line of 26 billion Tenge. It has a maturity of 18 months with a possibility to extend it to a further 18 month-period on the terms of the abovementioned agreement (Note 20). Management has considered the Company's future plans, and in light of these plans and the current and expected profitability of the Group, positive cash flows from operations, available financing, management believes that the Group will continue to operate as a going concern for the foreseeable future.

Business combinations under common control

Also, as described in Note 3, during the year ended 31 December 2016, the Group carried out a business combination under common control. Business combinations involving entities under common control are outside of the scope of IFRS 3, *Business Combinations,* and there is no other specific IFRS guidance. Accordingly, management has to apply significant judgement to develop an accounting policy that is relevant and reliable in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The Group accounted for this business combination on a carryover basis, which results in the historical carrying value of assets and liabilities of the acquired entities being combined with that of the Group. The Group consolidates the financial statements of the companies under common control from the date of obtaining control, if the financial statements of these companies do not have a significant impact on the consolidated financial statements, and, respectively, do not affect the users of the consolidated financial statements, otherwise the consolidated financial statements of the Group reflect the effect of the combination, as if it occurred, at the beginning of the earliest period presented. Any difference between the amount recorded as share capital issued and the amount recorded for the share capital acquired is adjusted against retained earnings in the consolidated statement of changes in equity.

5. AMENDMENTS TO IFRS AND THE NEW INTERPRETATION THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR

In the current year, the Group has applied a number of amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016.

- IFRS 5: Amendments resulting from September 2014 Annual Improvements to IFRSs;
- IFRS 7: Amendments resulting from September 2014 Annual Improvements to IFRSs;
- IFRS 11: Amendments regarding the accounting for acquisitions of an interest in a joint operation;
- IFRS 12: Amendments regarding the application of the consolidation exception;
- IFRS 14: Regulatory Deferral Accounts Original issue;
- IAS 1: Amendments resulting from the disclosure initiative;
- IAS 19: Amendments resulting from September 2014 Annual Improvements to IFRSs;
- IAS 27: Amendments reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements;
- IAS 28: Amendments regarding the application of the consolidation exception;
- IAS 34: Amendments resulting from September 2014 Annual Improvements to IFRSs;
- IAS 38: Amendments regarding the clarification of acceptable methods of depreciation and amortisation;
- Amendments bringing bearer plants into the scope of IAS 16.

The adoption of the above mentioned Standards and Interpretations has not led to any changes in the Group's accounting policies. The amendments did not materially affect the consolidated financial statements of the Group.

(in thousand of Kazakhstani Tenge)

6. NEW AND REVISED IFRS IN ISSUE BUT NOT YET EFFECTIVE

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

	Effective for accounting periods beginning on or after
IFRS 16 Leases	1 January 2019, with earlier application permitted
IFRS 15 Revenue from Contracts with Customers	1 January 2018, with earlier application permitted
IFRS 9 Financial Instruments	1 January 2018, with earlier application permitted
IFRS 1: Amendments resulting from Annual Improvements 2014-2016 Cycle (removing short-term exemptions)	1 January 2018, with earlier application permitted
IFRS 2: Amendments to clarify the classification and measurement of share-based payment transactions	1 January 2018, with earlier application permitted
IFRS 4: Amendments regarding the interaction of IFRS 4 and IFRS 9	1 January 2018, with earlier application permitted
Clarifications to IFRS 15	1 January 2018, with earlier application permitted
IAS 28: Amendments resulting from Annual Improvements 2014-2016 Cycle (clarifying certain fair value measurements)	1 January 2018, with earlier application permitted
IAS 40: Amendments to clarify transfers or property to, or from, investment property	1 January 2018, with earlier application permitted
IFRS 12: Amendments resulting from Annual Improvements 2014-2016 Cycle (clarifying scope)	1 January 2017, with earlier application permitted
IAS 7: Amendments as result of the Disclosure initiative	1 January 2017, with earlier application permitted
IAS 12: Amendments regarding the recognition of deferred tax assets for unrealised losses	1 January 2017, with earlier application permitted

IFRS 16 Leases was announced in January 2016. IFRS 16 supersedes IAS 17 Leases and related interpretations and is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 Revenue from Contracts with Customers' has also been applied. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however remains largely unchanged and the distinction between operating and finance leases is retained. The management of the Company anticipates that the application of this standard may have an impact on the Group's consolidated financial statements. The Group is currently assessing an impact of the new standard on the financial results.

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group plans to adopt the new standard on the required effective date. During 2016, the Group has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9. The Group expects changes in the loss allowance methodology and will perform a detailed assessment in the future to determine the extent.

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The Group is currently in the process of assessing an impact of the new standard on the financial results.

The management will perform an assessment of the impact of the adoption of the standards listed above and will report on the expected impact in the consolidated financial statements of the Group in 2017.

7. SEGMENT INFORMATION

The Group's operations are a single reportable segment.

The Group provides mobile communication services in the Republic of Kazakhstan. The Group identifies the segment in accordance with the criteria set in IFRS 8, *Operating Segments*, and based on the way the operations of the Group are regularly reviewed by the chief operating decision maker to analyse performance and allocate resources among business units of the Group.

The chief operating decision-maker ("CODM") has been determined as the Company's Chief Executive Officer. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined a single operating segment being mobile communication services based on these internal reports.

8. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Group's ultimate controlling party is Telia Company. Telia Company group includes entities under common control and associates of Telia Company. Immediate shareholders are disclosed in the Note 12.

(in thousand of Kazakhstani Tenge)

The Group's primary transactions with related parties are consulting services, technical assistance and operational support, roaming and interconnect. The Group's transactions with its related parties during the years ended 31 December and related amounts due as of the year-end were as follows:

		2016	2015
Due from related parties	Entities of Telia Company group	738,983	780,054
Financial aid receivable from related party	Entities of Telia Company group	-	300,000
Due to related parties	Entities of Telia Company group	522,766	331,346
Due to related parties	Immediate and ultimate parent	1,002,793	884,192
Revenue	Entities of Telia Company group	1,415,936	1,679,127
Expense	Entities of Telia Company group	5,253,027	5,078,847
Expense	Immediate and ultimate parent	39,095	165,037

Amounts due from related parties are neither past due nor impaired. They represent receivables from related parties for roaming services. These entities do not have credit ratings assigned but their reliability is determined by the Group on the basis of long-term cooperation and which have a good credit history. The Group's management believes that amounts due from related parties will be fully repaid within one year.

Memorandum of Understanding ("MoU")

On 26 August 2012, Sonera and the Company entered into a memorandum of understanding, details of which are disclosed further in Note 19.

Compensation of key management personnel

Compensation paid to key management personnel for their services in full time executive management positions and to the members of the board of directors consists of a contractual salary, performance bonus depending on financial performance of the Group, and other compensation in the form of reimbursement of apartment rent expenses from the Company. Total compensation included in staff costs in the statement of comprehensive income is equal to 245,522 thousand Tenge for the year ended 31 December 2016 (2015: 213,591 thousand Tenge). Compensation scheme does not include share-based payments, post-employment or other long-term benefits.

(in thousand of Kazakhstani Tenge)

9. PROPERTY, PLANT AND EQUIPMENT

	Property	Plant and machinery	Equipment tools and installations	Assets under construction and advances given	Total
As at 1 January 2015					
Cost	20,789,633	181,370,531	22,336,985	19,028,746	243,525,895
Accumulated depreciation and impairment losses	(3,299,660)	(113,901,795)	(17,369,118)	-	(134,570,573)
Carrying amount as at 1 January 2015	**17,489,973**	**67,468,736**	**4,967,867**	**19,028,746**	**108,955,322**
Additions	258,643	1,849,261	2,974,392	6,148,614	11,230,910
Transfers	-	12,381,702	245,691	(12,627,393)	-
Impairment	-	(2,081,573)	(21,711)	(1,873,555)	(3,976,839)
Depreciation charge	(1,327,710)	(18,881,224)	(1,499,014)	-	(21,707,948)
As at 31 December 2015					
Cost	21,048,276	183,391,835	25,182,608	10,676,412	240,299,131
Accumulated depreciation and impairment losses	(4,627,370)	(122,654,933)	(18,515,383)	-	(145,797,686)
Carrying amount as at 31 December 2015	**16,420,906**	**60,736,902**	**6,667,225**	**10,676,412**	**94,501,445**
Additions	168,635	-	1,014,372	16,654,308	17,837,315
Business combination (Note 3)	-	-	184,562	-	184,562
Transfers	-	10,361,061	257,975	(10,619,036)	-
Disposals (net)	-	-	(9,666)	-	(9,666)
Depreciation charge	(686,233)	(14,695,272)	(1,810,545)	-	(17,192,050)
As at 31 December 2016					
Cost	21,216,911	193,752,896	26,553,990	16,711,684	258,235,481
Accumulated depreciation and impairment losses	(5,313,603)	(137,350,205)	(20,250,067)	-	(162,913,875)
Carrying amount as at 31 December 2016	**15,903,308**	**56,402,691**	**6,303,923**	**16,711,684**	**95,321,606**

As at 31 December 2016, the gross carrying value of property, plant and equipment, which has been fully depreciated and still in use, was 95,704,126 thousand Tenge (31 December 2015: 84,786,886 thousand Tenge).

Due to the absence of exact plans on usage the Company had written-off property, plant and equipment in the amount of 29,310 thousand Tenge (31 December 2015: 3,965,245 thousand Tenge). The related impairment of property, plant and equipment charge was included in other operating expenses (Note 16).

(in thousand of Kazakhstani Tenge)

10. INTANGIBLE ASSETS

	Software and licenses	Intangible assets in progress	Advances given	Total
As at 1 January 2015				
Cost	38,546,529	-	-	38,546,529
Accumulated depreciation	(26,052,968)	-	-	(26,052,968)
Carrying amount as at 1 January 2015	**12,493,561**	**-**	**-**	**12,493,561**
Additions	2,617,707	813,570	3,897,415	7,328,692
Transfers	441,703	3,073,208	(3,514,911)	-
Amortisation charge	(2,866,065)	-	-	(2,866,065)
As at 31 December 2015				
Cost	41,605,939	3,886,778	382,504	45,875,221
Accumulated amortisation	(28,919,033)	-	-	(28,919,033)
Carrying amount as at 31 December 2015	**12,686,906**	**3,886,778**	**382,504**	**16,956,188**
Additions	15,762,033	3,161,176	14,000,000	32,923,209
Business combination (Note 3)	61	-	-	61
Transfers	15,783,873	(1,409,591)	(14,374,282)	-
Amortisation charge	(7,036,978)	-	-	(7,036,978)
As at 31 December 2016				
Cost	73,151,906	5,638,363	8,222	78,798,491
Accumulated depreciation	(35,956,011)	-	-	(35,956,011)
Carrying amount as at 31 December 2016	**37,195,895**	**5,638,363**	**8,222**	**42,842,480**

Initially, a new billing system, Amdocs, was classified as intangible assets in progress. As of 31 December 2016, Amdocs was partially transferred to software and licenses.

As at 31 December 2016, the carrying amount of the 3G license was 3,000,000 thousand Tenge (31 December 2015: 3,333,333 thousand Tenge) and its remaining amortisation period was 9 years. As at 31 December 2016, the carrying amount of the 4G license was 24,411,111 thousand Tenge (31 December 2015: nil) and its remaining amortisation period was 14 years. As at 31 December 2016, the gross carrying value of intangible assets, which has been fully amortised and still in use, was 16,668,784 thousand Tenge (31 December 2015: 13,794,254 thousand Tenge).

11. TRADE AND OTHER RECEIVABLES

	31 December 2016	31 December 2015
Trade and other receivables from dealers and distributors	1,280,359	1,665,086
Trade receivables from subscribers	12,955,810	6,652,075
Trade receivables for interconnect services	452,276	1,054,610
Trade receivables from roaming operators	1,895,114	2,863,044
Less: allowance for impairment of trade receivables	(2,839,931)	(2,467,799)
Total financial assets	**13,743,628**	**9,767,016**
Less: long term trade receivables from subscribers	(1,162,961)	(397,111)
Total current financial assets	**12,580,667**	**9,369,905**
Advances to suppliers	1,456,953	2,564,323
VAT recoverable	2,330,281	-
Prepaid other taxes	454,778	638,512
Deferred expenses	544,379	403,728
Other receivables	871,862	464,409
Total trade and other receivables	**18,238,920**	**13,440,877**

(in thousand of Kazakhstani Tenge)

Total financial assets are denominated in currencies as follows:

	31 December 2016	31 December 2015
Tenge	11,848,514	6,903,972
US dollar	1,895,114	2,863,044
Total financial assets	**13,743,628**	**9,767,016**

The allowance for impairment of trade receivables relates to trade receivables from subscribers, dealers and distributors. The ageing analysis of trade receivables is as follows:

	31 December 2016	31 December 2015
Total neither past due nor impaired	*11,978,871*	*6,057,731*
Past due but not impaired		
due for 1 month	77,591	522,147
due for 2 months	61,162	800,420
due for 3 months	213,468	143,374
due for 4 to 6 months	941,068	732,277
due for more than 6 months	471,468	1,511,067
Total past due but not impaired	*1,764,757*	*3,709,285*
Impaired		
30 to 60 days	56,860	58,435
60 to 90 days	69,496	59,313
90 to 120 days	82,514	97,543
120 to 200 days	232,627	231,181
over 200 days	2,398,434	2,021,327
Total impaired	*2,839,931*	*2,467,799*
Allowance for impairment of trade receivables	(2,839,931)	(2,467,799)
Total financial assets	**13,743,628**	**9,767,016**

The main factors, which the Group takes into account when considering whether receivables are impaired, are their past due status and historical experience of collectability. Impairment of receivables was assessed based on the past due status of such receivables.

There are no customers who represent more than 10 percent of the total balance of receivables. The concentration of credit risk is limited due to the customer base being large and unrelated.

Neither past due nor impaired receivables represent receivables from companies and subscribers with no credit ratings assigned but their reliability is determined by the Company on the basis of long-term cooperation representing those companies which have a good credit history. The Company's management believes that neither past due nor impaired receivables in the amount of 6,638,682 thousand Tenge will be fully repaid in 2017.

A reconciliation of movements in the financial assets impairment allowance is as follows:

	2016	2015
As at 1 January	2,467,799	2,041,663
Charge for the year	1,090,968	692,005
Receivables written off during the year as uncollectible	(718,836)	(265,869)
As at 31 December	**2,839,931**	**2,467,799**

The Group considers that the carrying amount of receivables is approximately equal to their fair value.

(in thousand of Kazakhstani Tenge)

12. SHARE CAPITAL AND EARNINGS PER SHARE

Share capital of the Group at 31 December is as follows:

	31 December 2016		31 December 2015	
	Share	**Number of shares**	**Share**	**Number of shares**
Fintur	51 percent	102,000,000	51 percent	102,000,000
TeliaSonera Kazakhstan	24 percent	48,000,000	-	-
Sonera	-	-	24 percent	48,000,000
JSC Central Securities Depositary	23.32 percent	46,636,793	23.31 percent	46,625,346
Single Accumulative Pension Fund	1.14 percent	2,270,950	1.14 percent	2,270,950
Other	0.54 percent	1,092,257	0.55 percent	1,103,704

The total authorised number of ordinary shares is 200,000,000 shares with a par value of 169 Tenge per share, all of which are issued and fully paid.

The calculation of basic and diluted earnings per share is based on the following data:

	2016	**2015**
Profit for the period attributable to equity shareholders	16,683,616	46,632,325
Weighted average number of common shares	200,000,000	200,000,000
Earnings per share (Kazakhstani Tenge), basic and diluted	**83.42**	**233.16**

The Group has no dilutive or potentially dilutive securities outstanding.

According to the requirements of the Kazakhstan Stock Exchange (KASE), the Group calculated book value per share, which was calculated based on the number of common shares outstanding as at the reporting date. The book value per share as at 31 December 2016 and 31 December 2015 is presented below.

	31 December 2016	**31 December 2015**
Net assets, excluding intangible assets	29,837,806	63,872,419
Number of common shares in issue	200,000,000	200,000,000
Book value per share (Kazakhstani Tenge)	**149.19**	**319.36**

Dividends declared and paid during the years ended 31 December were as follows:

	2016	**2015**
Dividends payable as at 1 January	-	-
Dividends declared during the year	23,316,000	58,260,000
Dividends paid during the year	(23,316,000)	(58,260,000)
Dividends payable as at 31 December	-	-

(in thousand of Kazakhstani Tenge)

13. TRADE AND OTHER PAYABLES

	31 December 2016	31 December 2015
Trade payables	21,605,956	17,147,552
Total financial liabilities	**21,605,956**	**17,147,552**
Accrued salaries and bonuses to employees	1,276,596	1,179,154
Other payables (Note 19)	4,070,062	183,249
Total trade and other payables	**26,952,614**	**18,509,955**

Trade and other payables are denominated in currencies as follows:

	31 December 2016	31 December 2015
US dollar	11,624,078	6,127,865
Tenge	9,512,408	10,645,696
Euro	433,373	361,809
Other	36,097	12,182
Total financial liabilities	**21,605,956**	**17,147,552**

14. BORROWINGS

	31 December 2016	31 December 2015
Halyk Bank of Kazakhstan JSC	42,221,389	30,153,333
Alfabank JSC	10,124,500	-
Kazkommertsbank JSC	10,035,000	17,039,667
Altyn Bank JSC (previously – SB HSBC Kazakhstan JSC)	3,033,750	3,008,227
Total borrowings	**65,414,639**	**50,201,227**
Including		
Long-term loans	8,000,000	-
Short-term loans – principle amount	57,000,000	50,000,000
Short-term loans – accrued interest	414,639	201,227

The Group's borrowings are denominated in Kazakhstani Tenge. The Group has not entered into any hedging arrangements in respect of interest rate exposures.

The carrying amount of the Group's borrowings approximates their fair value.

The details of the Group's borrowings as at 31 December 2016 are as follows:

Bank name	Date of issue	Maturity date	Nominal interest rate	Outstanding balance	Total borrowings
Halyk Bank of Kazakhstan JSC	13/04/2016	13/04/2017	15.00%	22,165,000	22,165,000
Halyk Bank of Kazakhstan JSC	23/09/2016	20/09/2019	14.50%	12,043,500	12,043,500
Kazkommertsbank JSC	25/09/2016	24/09/2017	18.00%	10,035,000	10,035,000
Halyk Bank of Kazakhstan JSC	28/11/2016	27/11/2017	14.50%	8,012,889	8,012,889
Alfabank JSC	08/06/2016	08/06/2017	17.00%	6,076,500	6,076,500
Alfabank JSC	15/07/2016	10/07/2017	16.00%	4,048,000	4,048,000
Altyn Bank JSC	04/10/2016	25/09/2017	15.00%	3,033,750	3,033,750
Total				**65,414,639**	**65,414,639**

As at 31 December 2016 and 2015, no assets were pledged under borrowing agreements.

As at 31 December 2016 and 2015, the Group was in compliance with financial covenants.

(in thousand of Kazakhstani Tenge)

15. REVENUES

	2016	2015
Voice service	86,443,705	105,345,069
Data service	41,529,225	39,277,710
Sale of handsets	9,713,475	11,151,550
Value added services	9,350,599	12,649,717
Total revenues	**147,037,004**	**168,424,046**

16. EXPENSES BY NATURE

Operating expenses are presented on the face of the statement of comprehensive income using a classification based on the functions "Cost of sales", "Selling and marketing expenses" and "General and administrative expenses". Total expenses by function were distributed by nature as follows.

	2016	2015
Interconnect fees and expenses	25,663,407	27,718,449
Depreciation and amortization	24,229,028	24,574,013
Network maintenance expenses	15,315,438	13,292,300
Staff costs	11,148,947	9,300,820
Frequency usage charges and taxes other than on income	10,614,327	8,108,801
Cost of SIM card, scratch card, start package sales and handsets	10,118,847	11,101,596
Transmission rent	9,909,019	8,155,332
Sales commissions to dealers and advertising expenses	3,274,185	3,728,797
Other	6,730,409	5,554,118
Total expenses	**117,003,607**	**111,534,226**

Amortisation and depreciation by function were as follows:

	2016	2015
Cost of sales	21,826,610	22,100,037
General and administrative expenses	2,402,418	2,473,976
Total depreciation of property, plant and equipment and amortisation of intangible assets	**24,229,028**	**24,574,013**

Other operating expense for the year ended 31 December comprised the following:

	2016	2015
Operational foreign exchange loss	1,349,460	2,394,270
Property, plant and equipment write-off (Note 9)	29,310	3,965,245
Provision for legal cases	-	96,803
Other	485,002	255,512
Total other operating expenses	**1,863,772**	**6,711,830**

17. FINANCE INCOME AND FINANCE EXPENSE

Finance income for the year ended 31 December comprised the following:

	2016	2015
Foreign exchange gains	1,333,985	13,148,181
Interest income	1,316,560	376,100
Total finance income	**2,650,545**	**13,524,281**

(in thousand of Kazakhstani Tenge)

Finance expense for the year ended 31 December comprised the following:

	2016	2015
Interest expense	10,283,135	5,493,653
Foreign exchange losses	652,458	219,564
Total finance expense	**10,935,593**	**5,713,217**

18. TAXES

Income tax expense comprised the following:

	2016	2015
Current income tax	4,352,334	13,184,612
Deferred income tax	975,193	594,971
Current income tax in respect of prior years	745,092	-
Total income tax expense	**6,072,619**	**13,779,583**

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense reported in the consolidated financial statements was as follows:

	2016	2015
Profit before income tax	**22,756,235**	**60,411,908**
Theoretical tax charge at the statutory rate of 20 percent	4,551,247	12,082,382
Non-deductible expenses	776,280	1,697,201
	5,327,527	13,779,583
Adjustments recognised in the current year in relation to the current tax of prior years	745,092	-
Income tax expense	**6,072,619**	**13,779,583**

The Group paid income tax in the amount of 10,505,520 thousand Tenge for the year ended 31 December 2016 (2015: 17,272,245 thousand Tenge).

Differences between IFRS and Kazakhstani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rates which are expected to be applied to the periods when the temporary difference will reverse.

	31 December 2015	Charged/ (credited) to profit or loss	31 December 2016
Tax effects of deductible temporary differences			
Other	889,811	268,542	1,158,353
Gross deferred tax asset	**889,811**	**268,542**	**1,158,353**
Tax effect of taxable temporary differences			
Property, plant and equipment and Intangible assets	5,926,832	1,243,735	7,170,567
Gross deferred tax liability	**5,926,832**	**1,243,735**	**7,170,567**
Less offsetting with deferred tax assets	(889,811)	(268,542)	(1,158,353)
Recognised deferred tax liability, net	**5,037,021**	**975,193**	**6,012,214**

(in thousand of Kazakhstani Tenge)

Comparative movements for year ended 31 December 2015 is detailed below:

	1 January 2015	Charged/ (credited) to profit or loss	31 December 2015
Tax effects of deductible temporary differences			
Deferred revenue	1,140,039	(1,140,039)	-
Other	1,053,484	(163,673)	889,811
Gross deferred tax asset	**2,193,523**	**(1,303,712)**	**889,811**
Tax effect of taxable temporary differences			
Property, plant and equipment and Intangible assets	6,635,573	(708,741)	5,926,832
Gross deferred tax liability	**6,635,573**	**(708,741)**	**5,926,832**
Less offsetting with deferred tax assets	(2,193,523)	1,303,712	(889,811)
Recognised deferred tax liability, net	**4,442,050**	**594,971**	**5,037,021**

19. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Political and economic conditions in the Republic of Kazakhstan

Emerging markets such as the Republic of Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the Republic of Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the Republic of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because the Republic of Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to a significant decrease in the national export revenue. On 20 August 2015, the Government and the National Bank of the Republic of Kazakhstan announced a transition to a new monetary policy based on a free floating Tenge exchange rate, and cancelled the currency corridor. In 2015 and 2016, the Tenge depreciated significantly against major foreign currencies.

Management of the Group is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future. In order to mitigate the risk of recent devaluation the Group has taken all necessary measures by maintaining financing in national currency and converting available cash deposits into foreign currency. However, the impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

Taxation

Kazakhstani tax legislation and practice is in a state of continuous development and therefore is subject to varying interpretations and frequent changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Group may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest. Tax periods remain open to retroactive review by the tax authorities for five years.

The Company is currently undergoing a tax audit for the years 2012-2015, which commenced in February 2016, the results of which have yet to be finalised. Management of the Company assessed the total value of potential claims and risks related to the tax inspection and accrued a provision in the amount of 3,962,620 thousand Tenge, included in "other payables" (Note 13). Management believes that the amount provided is sufficient to cover any additional tax amounts payable.

(in thousand of Kazakhstani Tenge)

The Company's management believes its interpretations of the tax legislation are appropriate and that the Company has justifiable arguments for its tax positions and will dispute the tax assessment results, when provided by the tax authorities, to the fullest extent possible under the legislation of the Republic of Kazakhstan.

Capital expenditure commitments

As at 31 December 2016, the Group has contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totalling 4,514,284 thousand Tenge (31 December 2015: 7,898,620 thousand Tenge).

Non-cancellable service commitments

The future minimum payments under non-cancellable operating service agreements are as follows:

	31 December 2016	31 December 2015
Not later than 1 year	5,489,090	5,374,000
From 1 to 2 years	-	5,455,000
Total non-cancellable commitments	**5,489,090**	**10,829,000**

The Group's non-cancellable service agreements are represented by the 2016 and 2017 Telecommunication Services Agreement on use of transparent communication channels and IP VPN network with Kazakhtelecom and fibre optics use agreement for the same period with KazTransCom JSC.

Acquisitions and investments

(i) Memorandum of understanding with Sonera

On 26 August 2012, Sonera and the Company entered into a memorandum of understanding ("the Buy and Sell MoU"), under which the Company had the right to require Sonera to sell to it, and Sonera had the right to require the Company to acquire from it, all participatory interests owned by Sonera in KazNet Media LLP ("KazNet") together with all rights and obligations of Sonera under a framework agreement to buy all the participatory interests in the charter capital of KazNet and all the participatory interests owned by Sonera in Rodnik Inc LLP ("Rodnik") together with all rights and obligations of Sonera under the agreements to buy participatory interests in the charter capital of Rodnik (refer to "Investment in Rodnik by Sonera").

Subject to satisfaction of the applicable conditions, each of Sonera and the Company was entitled to exercise its option at any time starting from nine months after the date of the offering of global depositary receipts and listing on local stock exchange, which took place on 13 December 2012. The purchase price that the Company was supposed to pay to Sonera for the acquisition resulting from the exercise of the option would be the amount of net cost incurred by Sonera in connection with the corresponding investments and acquisition transactions plus interest accrued on such amount.

The contractual right of Sonera to sell the underlying assets (debt and equity interests and related rights and obligations) to the Company is a financial instrument (derivative) within the scope of IAS 39, *Financial Instruments: Recognition and Measurement*. The derivative instrument should be measured at fair value, with the changes in fair value recognised in the statement of comprehensive income. The Group did not have an unconditional right to avoid the settlement.

Sonera had the right to terminate the Buy and Sell MoU at any time by serving a written notice to the Company.

The exercise of these options was conditional upon Fintur having consented to, authorised or voted in favour of the acquisition to be made by the Company as a result of the exercise of such right. In addition, completion of the acquisition contemplated by the exercise of options is subject to law, regulation and any requisite approvals. Sonera had the option to sell ("the Put Option") and the Company had the option to buy ("the Call Option") the participatory interest. The strike price of the both options equals the net costs incurred by Sonera, annually compounded using the interest rate (interest accruals begins when the costs are incurred or the receipts are cashed and ends when the participatory interest are transferred).

Neither the Put Option nor the Call Option could be exercised without the authorisation of Fintur. In addition there is uncertainty in the timing of required changes in 4G/LTE regulation. Accordingly, there is an uncertainty in the valuation of the derivative. On this basis, the Company measured the derivative at the original cost of zero.

On 4 May 2016, the Company obtained control over the activity of KazNet (Note 3).

(ii) Investment in Rodnik by Sonera

Sonera negotiated an agreement with a third party to acquire 25 percent of the participatory interests in the charter capital of Rodnik. Rodnik owns 79.92 percent of the total share capital of KazTransCom JSC ("KTC").

The purchase price for acquisition is 20 million US Dollars, subject to adjustments to be made based on the amount of net debt of Rodnik and KTC at the time the acquisition is completed.

On 13 August 2012, Sonera entered into a call option agreement with a third party, under which Sonera has a call option to acquire another 75 percent participatory interest in Rodnik. Pursuant to the terms of that call option agreement, the call option exercise price will be calculated based on fair market value of the participatory interest in Rodnik.

The acquisition of 25 percent of the participatory interests in the charter capital of Rodnik was completed on 14 January 2013.

Execution of the KazNet option had no effect on the option related to Rodnik.

Anti-monopoly legislation

On 18 October 2011, the Agency for Competition Protection of the Republic of Kazakhstan issued an order mandating inclusion of the Company in the State Register of Dominant and Monopolistic Entities of the Republic of Kazakhstan ("the State Register") in respect of certain services provided by the Company, including interconnection services. The Company challenged its inclusion in the State Register.

In April 2013, the Appellate Judicial Panel for Civil and Administrative Cases of Astana Court cancelled the Order. However, in June 2013, the Cassation Board of Astana court cancelled the April decision of the Appellate Judicial Panel for Civil and Administrative Cases. The Company continued to appeal against inclusion in the State Register in the Supervisory Board of the Supreme Court, however, in November 2013 the Company's application had been cancelled.

Starting from June 2013, the Company was subject to regulation by the Ministry of Transport and Communication ("the Ministry"). Since August 2014, the Company is subject to regulation by the MID. The MID can reduce the Company's interconnection tariffs, while interconnection tariffs of other mobile operators that have not been included in the State Register would remain unregulated. The MID cannot change interconnection tariffs of the Company retrospectively.

The standby letter of credit

The standby letter of credit for 10 million US Dollars, within the framework of the general agreement between Kcell JSC and Citibank Kazakhstan JSC, was issued on 23 September 2015. As at 31 December 2016, the credit limit has been decreased to 5.5 million US Dollars. This instrument has been issued in favour of Apple Distribution International (Ireland) to allow the Company to extend the term of payment for goods purchased from the company, and will have a positive impact on the Company's working capital. As at 31 December 2016, the instrument has been used, the outstanding balance is 650,628 thousand Tenge.

The "Daytime Unlimited" and failure to disconnect calls on Kcell network

During 2013, an investigation was initiated by the Agency for Competition Protection of the Republic of Kazakhstan ("the ACP"), in relation to the "Daytime Unlimited" service under the Activ brand and non-interruption of services when a customer's balance reaches zero under the Kcell brand. On conclusion of the initial investigations, the Antimonopoly Inspectorate issued an administrative offence report with a potential fine on the Company of 16 billion Tenge. During the following court process the Company was able to reduce the penalty to 325 million Tenge and subsequently made payment in full in May 2014.

The ACP ordered that the Company should comply with the following on or before 21 April 2014:

1. to stop collection of the subscription fees under the tariff plan "Daytime Unlimited" in case of insufficiency of funds on a subscriber's account;
2. to ensure interruption of connection (voice or Internet access) when a subscriber's balance reaches zero; and
3. to ensure a refund to subscribers, any fees received as a result of failure to interrupt the connection when a subscriber's balance reaches zero ("the Order").

The Company complied with point 1, however, due to technical limitations of the billing system, the Company is currently unable to implement point 2. However, the Company in the process of introducing a new billing system that will enable the interruption of the connection.

The Company has challenged the ACP findings and decision through the courts system in the Republic of Kazakhstan, culminating in an appeal to the Supreme Court. On 30 June 2015, the Supreme Court of the Republic of Kazakhstan dismissed the Company's supervisory appeal. On 15 June 2015, the ACP filed a claim in court seeking for enforcement of the order. On 9 July 2015, the court issued a resolution on satisfying the ACP claim to enforce the order, and as a result the Company must now enforce points 2 and 3 in the above ACP order.

As at 31 December 2016, the total amount returned to subscribers is 2,539,436 thousand Tenge. As at 31 December 2016, the Company accrued a provision in the amount of 116,640 thousand Tenge (31 December 2015: 92,382 thousand Tenge). The Company expects further refunding the subscription of fees until the point 2 above is enforced.

20. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk), liquidity risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments to hedge risk exposures.

Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales on credit terms and other transactions with counterparties giving rise to financial assets.

(in thousand of Kazakhstani Tenge)

The Group's maximum exposure to credit risk by class of assets is as follows:

	Note	31 December 2016	31 December 2015
Trade receivables	11	12,580,667	9,369,905
Cash and cash equivalents		8,476,653	31,589,007
Long-term trade receivables		1,162,961	397,111
Due from related parties	8	738,983	780,054
Restricted cash		86,419	145,748
Financial aid receivable from related party	8	-	300,000
Total maximum exposure to credit risk		**23,045,683**	**42,581,825**

Credit risk from balances with cash and cash equivalents is managed by the Company's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved financial institutions and within credit limits assigned to each bank or financial institution. Financial institutions' credit limits are reviewed by the Group's Treasury Department on a monthly basis. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a financial institution's potential failure to make payments.

The Group has policies in place to ensure that sales of products and services are made to customers and distributors with an appropriate credit history. If corporate customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer taking into account its financial position, past experience and other factors. The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Customers that fail to settle their liabilities for mobile services provided are disconnected until the debt is paid. Management provides ageing and other information about credit risk (Note 11). The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount of trade receivables exposed to credit risk. The Group has no significant concentrations of credit risk since the customers portfolio is diversified among a large number of customers, both individuals and companies. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

Foreign exchange risk

The majority of the Group's purchases of property, plant and equipment and inventories, as well as certain services such as roaming are denominated in US Dollars. Hence, the major concentration of foreign exchange risk arises from the movement of the US Dollar against the Tenge. Due to the undeveloped market for financial instruments in Kazakhstan, the management does not hedge the Group's foreign exchange risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows.

	Liabilities		Assets	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
US Dollar	11,624,078	6,127,865	5,116,232	26,909,960
Euro	433,373	361,809	174,072	31,120
Others	36,097	12,182	50,033	24,137

As at 31 December 2016, if the US Dollar had weakened/strengthened by 10% percent against the Tenge with all other variables held constant, after-tax profit for year ended 31 December 2016 would have been 540,257 thousand Tenge lower/higher (2015: 2,581,258 thousand Tenge lower/higher), mainly as a result of foreign exchange gains/losses on translation of US Dollar denominated bank balances, receivables and payables. Profit is less sensitive to movement in Tenge/US Dollar exchange rates at 31 December 2016 than at 31 December 2015 because of the increased amount of US Dollar denominated cash and cash equivalents at 31 December 2016 offsets exposure to US Dollar denominated accounts payable.

(in thousand of Kazakhstani Tenge)

Cash flow and fair value interest rate risk

The Group does not have floating interest bearing assets or liabilities as of 31 December 2016, and as such, management has not presented interest rate sensitivity analysis.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash. Due to the dynamic nature of the underlying businesses, the Group's treasury aims to maintain flexibility in funding by keeping sufficient cash available.

The table below shows financial liabilities as at 31 December 2016 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the reporting date.

The maturity analysis of financial liabilities as at 31 December 2016 is as follows:

	Demand and less than 3 months	From 3 to 12 months	More than 12 months	Total
Liabilities				
Borrowings	2,942,139	57,683,278	10,624,500	71,249,917
Trade payables	21,605,956	-	-	21,605,956
Due to related parties	1,525,559	-	-	1,525,559
Total future payments	**26,073,654**	**57,683,278**	**10,624,500**	**94,381,432**

The comparative maturity analysis of financial liabilities as at 31 December 2015 is detailed below:

	Demand and less than 3 month	From 3 to 12 months	Total
Liabilities			
Borrowings	1,856,997	52,633,539	54,490,536
Trade payables	17,147,552	-	17,147,552
Due to related parties	1,215,538	-	1,215,538
Total future payments	**20,220,087**	**52,633,539**	**72,853,626**

Management believes that the payments of the borrowings and other financial liabilities will be financed by cash flows from operating activities and that the Group will be able to meet its obligations as they fall due. The Company can extend borrowings up to an additional twelve months, subject to consent of the lenders (Note 14). In December 2016, the Group and Eurasian Development Bank entered into a credit agreement to establish and further utilise a credit line of 26 billion Tenge. It had a maturity of 18 months with a possibility to extend it to a further 18 month-period on the terms of the abovementioned agreement.

Fair value of financial instruments

The Group does not carry any financial assets or liabilities at fair value. Management of the Group considers that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values due to their short-term maturities.

(in thousand of Kazakhstani Tenge)

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to owners, return capital to owners, issue new capital and sell assets to reduce debt.

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows as at 31 December 2016:

	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position and net amount of exposure (c) = (a) - (b)
ASSETS			
Trade receivables from interconnect services	4,938,459	4,486,183	452,276
Trade receivables from roaming services	4,548,493	2,653,379	1,895,114
Total assets subject to offsetting, master netting and similar arrangement	**9,486,952**	**7,139,562**	**2,347,390**
LIABILITIES			
Trade payables for interconnect services	5,235,844	4,486,183	749,661
Trade payables for roaming services	2,653,379	2,653,379	-
Total liabilities subject to offsetting, master netting and similar arrangement	**7,889,223**	**7,139,562**	**749,661**

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows as at 31 December 2015:

	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position and net amount of exposure (c) = (a) - (b)
ASSETS			
Trade receivables from interconnect services	6,538,225	5,483,615	1,054,610
Trade receivables from roaming services	8,068,465	5,205,421	2,863,044
Total assets subject to offsetting, master netting and similar arrangement	**14,606,690**	**10,689,036**	**3,917,654**
LIABILITIES			
Trade payables for interconnect services	7,037,682	5,483,615	1,554,067
Trade payables for roaming services	5,205,421	5,205,421	-
Total liabilities subject to offsetting, master netting and similar arrangement	**12,243,103**	**10,689,036**	**1,554,067**

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting.

The Group has master netting arrangements with telecom operators, which are enforceable in case of default. In addition, applicable legislation allows an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. These fall in the scope of the disclosure as they were set off in the consolidated statement of financial position.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Republic of Kazakhstan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments. For the purpose of fair value disclosures the Company determines below described instruments' fair value hierarchy as level 2 (significant observable inputs).

Financial assets carried at amortised cost

The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of cash and cash equivalents, trade receivables and due from related parties approximate fair values due to their short-term maturities.

Financial liabilities carried at amortised cost

The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Carrying amounts of trade payables, dividends payable and due to related parties approximate fair values due to their short term maturities.

22. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue on 9 February 2017.