



**KazTransCom JSC**

**Financial Statements  
and Independent Auditor's Report  
31 December 2015**

# KAZTRANSCOM JSC

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## KAZTRANSCOM JSC

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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Management is responsible for the preparation of the financial statements that present fairly the financial position of JSC KazTransCom ("the Company") as of 31 December 2015, and the results of its operations, changes in equity and cash flows for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the 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 Company's financial position and financial performance; and
- making an assessment of the Company's ability to continue as a going concern.

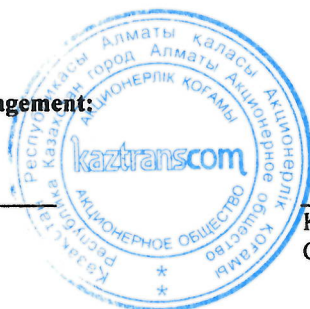
Management is also responsible for:

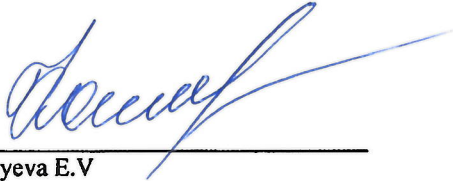
- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of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

The financial statements for the year ended 31 December 2015 were approved by the Company's management on 25 February 2016.

On behalf of the Company's management:

  
Khan A.V.  
General Director



  
Kolupayeva E.V.  
Chief Accountant



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## **INDEPENDENT AUDITOR'S REPORT**

To the Shareholders and Board of Directors of KazTransCom JSC:

We have audited the accompanying financial statements of KazTransCom JSC ("the Company"), which comprise the statement of financial position as at 31 December 2015 and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and Notes to the financial statements.

### **Management's responsibility for the Financial Statements**

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

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the Company's financial statements 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Member of Deloitte Touche Tohmatsu Limited

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Tracy*

**Olga Belonogova**  
Engagement Partner  
Certified Public Accountant  
State of Oregon, USA  
Certificate No. 10687  
dated 2 December 2003



**Daulat Kuatbekov**  
Qualified auditor  
Certificate  
No. 0000523  
dated 15 February 2002  
Republic of Kazakhstan

*Deloitte, LLP*

Deloitte LLP  
State audit license of the Republic of Kazakhstan  
No. 0000015, type MFU-2, issued by the  
Ministry of Finance of the Republic of Kazakhstan  
on 13 September 2006



*Nurlan Bekenov*

**Nurlan Bekenov**  
General Director  
Deloitte LLP

25 February 2016

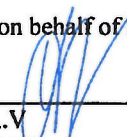
Almaty, Kazakhstan

# KAZTRANSCOM JSC

## STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

	Note	31 December 2015	31 December 2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	8	11,198,084	9,405,937
Intangible assets	9	229,435	218,744
Financial assets available for sale	10	-	24,000
Non-current receivables		57,050	45,291
Other non-current assets		115,908	5,332
<b>Total non-current assets</b>		<b>11,600,477</b>	<b>9,699,304</b>
<b>Current assets</b>			
Inventories	12	1,222,315	1,118,435
Trade and other receivables	13	2,263,289	1,791,376
Prepayments to suppliers		160,397	150,624
Other current assets	14	339,264	754,688
Cash and cash equivalents	15	4,782,924	2,295,519
<b>Total current assets</b>		<b>8,768,189</b>	<b>6,110,642</b>
<b>TOTAL ASSETS</b>		<b>20,368,666</b>	<b>15,809,946</b>
<b>EQUITY</b>			
Share capital	16	46,662	46,662
Additional paid-in capital	16	7,009	7,009
Other reserves	17	7,455	7,455
Retained earnings		16,480,183	12,916,618
<b>TOTAL EQUITY</b>		<b>16,541,309</b>	<b>12,977,744</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	18	2,110	2,303
Deferred income tax liabilities	25	1,412,109	1,294,371
Provisions for asset retirement obligations		53,315	47,113
<b>Total non-current liabilities</b>		<b>1,467,534</b>	<b>1,343,787</b>
<b>Current liabilities</b>			
Borrowings	18	400,200	9,246
Trade payables	19	1,486,712	576,509
Current income tax payable		30,222	138,533
Other payables	19	442,689	764,127
<b>Total current liabilities</b>		<b>2,359,823</b>	<b>1,488,415</b>
<b>TOTAL LIABILITIES</b>		<b>3,827,357</b>	<b>2,832,202</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>20,368,666</b>	<b>15,809,946</b>

Signed on behalf of management on 25 February 2016

  
Khan A.V.  
General Director

  
Kolumpayeva E.V.  
Chief Accountant

The accompanying Notes on pages 8 to 41 are an integral part of these financial statements.

# KAZTRANSCOM JSC

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

	Note	2015	2014
<b>Continuing operations</b>			
Revenue	20	17,712,588	15,182,758
Cost of sales	21	<u>(13,815,766)</u>	<u>(10,862,170)</u>
<b>Gross profit</b>		<b>3,896,822</b>	<b>4,320,588</b>
Other operating income		77,360	69,515
Distribution costs	22	(511,247)	(497,241)
General and administrative expenses	23	(1,635,540)	(1,672,171)
Other operating expenses		<u>(37,557)</u>	<u>(17,217)</u>
<b>Operating profit</b>		<b>1,789,838</b>	<b>2,203,474</b>
Finance income	24	2,670,343	196,244
Finance costs		<u>(5,838)</u>	<u>(7,010)</u>
<b>Profit before income tax</b>		<b>4,454,343</b>	<b>2,392,708</b>
Income tax expense	25	<u>(890,778)</u>	<u>(515,899)</u>
<b>Profit for the year from continuing operations</b>		<b><u>3,563,565</u></b>	<b><u>1,876,809</u></b>
<b>Discontinued operations</b>			
Loss for the year from discontinued operations		<u>-</u>	<u>(290,374)</u>
<b>Profit for the year</b>		<b><u>3,563,565</u></b>	<b><u>1,586,435</u></b>
Other comprehensive income for the year		<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year</b>		<b><u>3,563,565</u></b>	<b><u>1,586,435</u></b>
Share of total comprehensive income attributable to shareholders of the Company		<u>3,563,565</u>	<u>1,586,435</u>
<b>Earnings per ordinary share, from continuing and discontinued operations, basic and diluted in tenge</b>			
	26	1,460.21	649.58
<b>Earnings per preferred share, from continuing and discontinued operations, basic and diluted in tenge</b>			
	26	1,480.21	669.58
<b>Earnings per ordinary share, from continuing operations, basic and diluted in tenge</b>			
	26	1,460.21	768.63
<b>Earnings per preferred share, from continuing operations, basic and diluted in tenge</b>			
	26	1,480.21	788.63

Income for the year and total comprehensive income is fully attributable to shareholders of the Company.

Signed on behalf of management on 25 February 2016

Khan A.V  
General Director



Kolupayeva E.V  
Chief Accountant

The accompanying Notes on pages 8 to 41 are an integral part of these financial statements

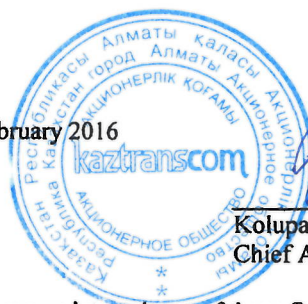
# KAZTRANSCOM JSC

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

	Note	2015	2014
<b>Cash flows from operating activities</b>			
Sales of goods, works, services		15,486,028	14,487,804
Advances received		38,547	10,836
Payments to suppliers for goods and services		(5,938,298)	(4,590,550)
Advances paid		(2,349,939)	(1,193,321)
Salaries and wages payable		(2,934,630)	(3,441,254)
Interest received from deposits		67,975	33,345
Interest expense on borrowings		(1,133)	(2,387)
Corporate income tax paid		(881,977)	(186,104)
Other payments to budget		(2,268,799)	(1,900,927)
Other		25,824	(630,536)
<b>Net cash from operating activities</b>		<b>1,243,598</b>	<b>2,586,906</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of property, plant and equipment		16,698	2,771
Proceeds on sale of investments		432	-
Acquisition of intangible assets		(60,045)	(67,330)
Acquisition of property, plant and equipment		(1,749,223)	(544,875)
Deposits placed		-	(638,225)
Loans given		-	(9,150)
Net cash outflow from disposal of subsidiary		-	(365)
<b>Net cash used in investing activities</b>		<b>(1,792,138)</b>	<b>(1,257,174)</b>
<b>Cash flows from financing activities</b>			
Loans received	18	400,000	-
Dividends paid		(1,400)	(1,639)
<b>Net cash generated by/(used in) financing activities</b>		<b>398,600</b>	<b>(1,639)</b>
Net (decrease)/increase in cash		(149,940)	1,328,093
Cash and cash equivalents at the beginning of the year	15	2,295,519	967,426
Effects of exchange rate changes on the balance of cash held in foreign currencies		2,637,345	-
<b>Cash and cash equivalents at the end of the year</b>	15	<b>4,782,924</b>	<b>2,295,519</b>

Signed on behalf of management on 25 February 2016

Khan A.V  
General Director



Kolupayeva E.V  
Chief Accountant

The accompanying Notes on pages 8 to 41 are an integral part of these financial statements



# KAZTRANSCOM JSC

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

	Note	Share capital	Additional paid-in capital	Other reserves	Retained earnings	Total Equity
Balance as at 1 January 2014		46,662	7,009	7,455	11,330,183	11,391,309
Profit for the year		-	-	-	1,586,435	1,586,435
Total comprehensive income for the year		-	-	-	1,586,435	1,586,435
Balance as at 31 December 2014	16	46,662	7,009	7,455	12,916,618	12,977,744
Profit for the year		-	-	-	3,563,565	3,563,565
Total comprehensive income for the year		-	-	-	3,563,565	3,563,565
Balance as at 31 December 2015		46,662	7,009	7,455	16,480,183	16,541,309

Signed on behalf of management on 25 February 2016

Khan A.V  
General Director

Kolupayeva E.V  
Chief Accountant

The accompanying Notes on pages 8 to 41 are an integral part of these financial statement

# KAZTRANSCOM JSC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

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### 1 KazTransCom JSC and Its Operations

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2015 for KazTransCom JSC ("the Company").

The Company was incorporated on 1 August 2001 as an Open Joint Stock Company in accordance with the legislation of the Republic of Kazakhstan. The Company is a successor of CaspiyMunaiBailanys OJSC incorporated in Atyrau Region of the Republic of Kazakhstan on 1 February 1999. In 2001, the Company signed an agreement with Aktubneftesvyaz OJSC (Aktobe) and Bailanys OJSC (Pavlodar) on legal merger with the Company and reorganization of those companies into the Company's branches. 1 January 2004 is the date of the Company's transition to IFRS. On 8 September 2004, the Company was reregistered into a Joint Stock Company.

In 2006, the Company acquired 100% of shares of ERP-Service LLP. ERP-Service LLP supplies ERP systems and other software as well as provides the services in the sphere of information technologies and other services related to maintenance. Based on the minutes of the Board of Directors meeting №6/1 dated 21 November, 2014 it was decided to sell a 100% of share capital in ERP-Service LLP. As at 12 December 2014, the transaction on sale of subsidiary was fully completed.

As at 31 December 2015, the Company's shareholders are Rodnik INC LLP (81.77%), Abdrakhmanov M.A. (9.99%), and other shareholders (8.24%). As at 31 December 2014, the Company's shareholders were Rodnik INC LLP (79.92%), Telecom Asia LLP (9.91%), and other shareholders (10.17%). At 31 December 2012, based on the foundational agreements, Mr. A.Z. Nalibayev and Mrs. R.M. Sagdiyeva, being the owners of Rodnik INC LLP, jointly controlled the Company's operations. On 19 January 2013, Sonera Holding B.V. and Lovou B.V. became co-owners of Rodnik INC LLP with equal participating interests of 25% by purchasing the share of Mrs. R.M. Sagdiyeva. Sonera Holding B.V. is ultimately owned by TeliaSonera A.B.; the ultimate owners of Lovou B.V. are individuals, each of them holds less than 10%.

#### *Principal activity.*

The Company's principal activity is the provision of telecommunication services in the Republic of Kazakhstan. The Company carries out its activities on the basis of a General license issued by the Agency of the Republic of Kazakhstan on Informatisation and Communication dated 14 October 2004. The Company is a member of National Telecommunication Association of the Republic of Kazakhstan. Currently, the integrated management system of the Company includes 4 systems based on 4 international standards ISO:

- quality management (ISO 9001:2008), re-certificated audits are conducted once per three-year period, the last audit was conducted in 2015;
- occupation health and safety management (OHSAS 18001:2007), re-certificated audits are conducted once per three-year period, the last audit was conducted in 2015;
- environmental management (ISO 14001:2004), re-certificated audits are conducted once per three-year period, the last audit was conducted in 2015;
- information security management systems (ISO/IEC 27001:2005), re-certificated audits are conducted once per three-year period, the last audit was conducted in 2015.

The Company's main clients are: KazMunaiGas National Company, KazTransOil JSC, Intergas Central Asia JSC, Agip Kazakhstan North Caspian Operating Company N.B.

#### *Registered address and place of business.*

The Company's registered address is: 69/204A, Rodostovtsev Street, Almaty, Republic of Kazakhstan.

As at 31 December 2015, the Company had 7 branches (as at 31 December 2014: seven branches) in the Republic of Kazakhstan located in Aktobe, Pavlodar, Atyrau, Uralsk, Almaty, Aktau and Astana

# KAZTRANSCOM JSC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

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### 2 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented.

#### 2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards, according to principle of historical cost valuation with amendment on initial recognition of financial instruments by fair value. The main provisions of accounting policies used in preparation of these financial statements are discussed below. These principles were consistently applied in connection to all periods presented in the financial statements, unless specified otherwise.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates as well as exercise of professional judgment in the process of application of the Company's accounting policy. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant for financial statements are disclosed in Note 5. Actual results can differ from such accounting estimates.

#### 2.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Company's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

#### 2.3 Foreign currency translation

##### (a) Functional and presentation currency

All amounts in these financial statements are presented in thousands of Kazakhstani Tenge ("tenge"), unless otherwise stated. The functional currency of the Company is also tenge, the currency of the primary economic environment in which the Company operates.

##### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

On 31 December 2015, the official exchange rate of the Kazakhstan Stock Exchange used to recalculate the balances in foreign currency was 339.47 tenge per US dollar 1 (31 December 2014: 182.35 tenge per US dollar 1). Conversion of tenge to other currencies is regulated by rules of currency restrictions and controls. Currently tenge is not a readily convertible currency outside the Republic of Kazakhstan.

#### 2.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss.

Cost includes all costs directly attributable to acquisition of respective asset. The cost of self-constructed assets includes the cost of materials, direct labour and all other costs directly attributable to bringing an asset to working condition for intended use, and costs for dismantling and relocation of an asset and land plot recovery. Costs for acquisition of software directly attributable to functional purpose of the appropriate equipment are capitalised to cost of such equipment.

# KAZTRANSCOM JSC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

Costs related to replacement of part of an item of property, plant and equipment, are recognised within the carrying amount of such an item, if it is probable that the Company will receive the future economic benefits and reasonable estimate of cost of such part is possible. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Costs of minor repairs and maintenance of items of property, plant and equipment are recognised in profit or loss as incurred. If an item of property, plant and equipment consists of separate components with different useful lives, each of them is stated as separate item (significant component) of property, plant and equipment.

At the end of each reporting period, the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the Company's management estimates the recoverable amount, which 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 statement of profit or loss and other comprehensive income. 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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised through profit or loss for the year within other operating income or expense.

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.

	<u>Useful life (years)</u>
Buildings	10 - 50
Telecommunication equipment	5 - 20
Vehicles	5 - 10
Other	3 - 10

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were 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 Company 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 reporting date.

### 2.5 Construction contracts

The Company has a range of contracts on construction of telecommunication networks. Contract costs are recognised when incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably, and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that they have been agreed with the customer and are capable of being reliably measured. The Company uses the "percentage-of-completion method" to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the completion of a physical proportion of the contract work up to the end of the reporting period as a percentage of total physical contract works.

The Company presents as trade receivable the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings.

Progress billings not yet paid by customers and retention are included within "trade and other receivables". The Company presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed recognised profits determined by the percentage-of-completion method.

## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

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#### 2.6 Intangible assets

All of the Company's intangible assets have definite useful lives and primarily include capitalised computer software and licences.

Acquired computer software and licenses are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Company are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Intangible assets are amortised using the straight-line method over their useful lives:

	<u>Useful life (years)</u>
Licenses	15
Software	10
Other	20

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

#### 2.7 Impairment of non-financial assets

At each reporting date the management assesses whether there is any indication of impairment of non-financial assets. If any such indication exists, the management estimates the recoverable amount, which 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 statement of profit or loss. 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.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Such a cash-generating unit for the Company are non-financial assets of its subsidiary.

#### 2.8 Financial instruments

- (a) *Basic conditions of assessment.* Financial instruments of the Company are carried at amortised cost as described below. 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.

## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

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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.

- b) *Classification of financial assets.* Financial assets of the Company include loans and receivables. 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 reporting period. These are classified as non-current assets. Loans and receivables in the Company's statement of financial position consist of trade and other receivables (Note 13), other current assets (Note 14), cash and cash equivalents (Note 15), and long-term receivables.

- c) *Classification of financial liabilities.* The Company's financial liabilities are financial liabilities which are carried at amortised cost. Financial liabilities in the financial position include borrowings (Note 18) and trade payables (Note 19).
- d) *Initial recognition of financial instruments.* Financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. 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.
- e) *Derecognition of financial asset.* The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Company 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.

#### 2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventory is assigned using first-in-first-out method (FIFO). Cost of finished goods and production in process comprises costs of materials, delivery to current location, direct labour costs, other direct costs, and corresponding proportion of overhead costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

#### 2.10 Prepayment

Prepayments to suppliers are reported at cost less provision for doubtful debt. Prepayments to suppliers are classified as long-term, if the expected date of receipt of goods or services is more than one year, or if the payment of suppliers relate to assets that will be reflected in the account as long at initial recognition. The prepayment amount for the acquisition of the assets included in the carrying value when the Company receive the control of these assets and it is probable that future economic benefits associated with them, will be received by the Company. Other prepayments are written off after receipt of goods or services. If there is an indication that the assets, goods or services will not be received, the carrying value of prepaid shall be reduced to the amount of provision and the related provision is recognised through profit or loss for the year.

## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

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#### 2.11 Trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Company determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Company considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Company obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year.

#### 2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities less than three months. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the end of the reporting period are included in other non-current assets.

#### 2.13 Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the Notes as a share premium.

## KAZTRANSKOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

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Preference shares which carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in other borrowed funds. The dividends on these preference shares are recognised as interest expense on an amortised cost basis using the effective interest method.

Where any Company's purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

#### 2.14 Trade payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

#### 2.15 Borrowings

Borrowings are carried at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

The commencement date for capitalisation is when (a) the Company incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

Borrowing costs capitalised are calculated at the Company's average borrowing cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

#### 2.16 Income tax

Income taxes have been provided for in the financial statements in accordance with tax legislation of the Republic of Kazakhstan enacted or substantively enacted by the end of the reporting period. The income tax charge/(credit) comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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



## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 *(in thousands of Kazakhstani Tenge)*

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Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and 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 end of the reporting period, 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 and liabilities are netted only within the Company. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

#### **2.17 Value added tax**

Value added tax ("VAT") related to sales is payable to state budget 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 statement of financial position on net basis. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

#### **2.18 Employee benefits**

Wages, salaries, contributions to the pension funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services, camps services, etc.) are accrued in the year in which the associated services are rendered by the employees of the Company.

#### **2.19 Pension payments**

The Company does not incur any expenses relating to the payment of pension and other retirement benefits to its employees. In accordance with the laws of the Republic of Kazakhstan Company keeps pension contributions from employees' salaries and transfers them to the state or private pension fund chosen by employee. After the retirement of employee, liabilities of the Company are terminated, and all subsequent payments are made by public or private pension savings fund.

#### **2.20 Provisions for liabilities and charges**

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. The Company recognises the estimated liability to repair or replace products sold still under warranty at the end of each reporting period. This provision is calculated based on past history of the level of repairs and replacements.

#### **2.21 Asset retirement obligations**

Estimated costs of dismantling and removing an item of property, plant and equipment (asset retirement obligations) are added to the cost of an item of property plant and equipment when incurred either when an item is acquired or as the item is used during a particular period for purposes other than to produce inventories during that period.

Other movements in the provisions for asset retirement obligations, including costs, resulting from new disturbance, updated cost estimates, changes to the estimated lives of operations and revisions to discount rates are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate.

## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

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The amortisation or "unwinding" of the discount applied in establishing the net present value of provisions is charged to profit or loss for the year. The amortisation of the discount is shown as a financing cost.

When the asset achieves the end of its useful life all changes in liability are charged to profit or loss for the year.

#### 2.22 Revenue recognition

Revenue is stated on accrual basis in the amount of receipts from sales less provided discounts and taxes, related to sales turnovers. Revenue is determined by fair value of the consideration received or receivable. Sales are shown net of VAT and discounts.

Revenues from sales of telecommunication equipment are recognised at the point of transfer of risks and rewards of ownership of the equipment, normally when the equipment is shipped. If the Company agrees to transport goods to a specified location, revenue is recognised when the equipment is passed to the customer at the destination point.

Call out revenue is recognised based on the actual airtime used by a subscriber. All the Company's subscribers are served on post-paid basis.

Revenues from providing an access to Internet network are stated on the basis of actual traffic used by a subscriber. The Internet users are served both on the prepaid and post-paid basis.

Sales of consulting services and installation services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

#### 2.23 Leases

(a) *Operating leases.* Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. 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.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

(b) *Finance lease liabilities.* Where the Company is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Company, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Company is not reasonably certain that it will obtain ownership by the end of the lease term.

#### 2.24 Dividends

Dividends are recognised as a liability and deducted from equity at the end of the reporting period only if they are declared before or at the end of the reporting period. Dividends are disclosed when they are proposed after the end of the reporting period but before the financial statements are authorised for issue and included to the Note "Events after the reporting period".

## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

#### 2.25 Earnings per share

Preference shares are neither redeemable, nor considered to be participating shares with respect to the distribution of dividends. Ordinary share dividends cannot exceed preference share dividends. Thus, preference shares are compound instruments with an equity component. The preference shares give their holders the right to participate in general shareholders' meetings without voting rights and to participate with voting rights when considering the issue in relation to reorganization and liquidation of the Company, when considering the issue of restriction of rights of preference shareholders, and also if dividends on preference shares are not paid in full in three months from the date of expiry of the period set for payment of such dividends. As a result, preference shares get voting rights without conversion to ordinary shares at the moment when dividends of preference shares are not paid in full in three months from the date of expiry of the period set for payment of such dividends until the dividends are paid.

Earnings per share are determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting year.

#### 3 Adoption of new and revised standards

In the current year, the Company 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 2015.

- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions;
- Annual Improvements to IFRSs 2010 - 2012 Cycle and 2011 – 2013 Cycle.

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

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

	<u>Effective for accounting periods beginning on or after</u>
<i>IFRS 16 Leases</i>	1 January 2019, with earlier application permitted
<i>IFRS 9 Financial Instruments</i>	1 January 2018, with earlier application permitted
<i>IFRS 15 Revenue from Contracts with Customers</i>	1 January 2018, with earlier application permitted
<i>Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses</i>	1 January 2017, with earlier application permitted
<i>Amendments to IAS 7: Statements of Cash Flows</i>	1 January 2017, with earlier application permitted
<i>Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations</i>	1 January 2016, with earlier application permitted
<i>Amendments to IAS 1 Disclosure Initiative</i>	1 January 2016, with earlier application permitted
<i>Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation</i>	1 January 2016, with earlier application permitted
<i>IFRS 14 Regulatory Deferral Accounts</i>	1 January 2016, with earlier application permitted
<i>Amendments to IAS 27: Equity Method in Separate Financial Statements</i>	1 January 2016, with earlier application permitted
<i>Annual improvements 2012-2014 Cycle</i>	1 January 2016, with earlier application permitted
<i>Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants</i>	1 January 2016, with earlier application permitted
<i>Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	1 January 2016, with limited exceptions; earlier application is permitted
<i>Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception</i>	1 January 2016, with earlier application permitted

## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

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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 Company's financial statements. The Company 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 Company plans to adopt the new standard on the required effective date. During 2015 the Company 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 Company in the future. Overall, the Company expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9. The Company expects changes in loss allowance methodology and will perform a detailed assessment in the future to determine the extent.

Management anticipates that the adoption of the standards listed above will not have a material impact on the financial statements of the Company in the period of initial application.

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 management of the Company anticipates that the application of IFRS 15 in the future may have a significant impact on amount and timing of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

#### 4 Financial Risk Management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company does not use derivatives for risk hedging.

## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

There is a Risk Committee under the Board of Directors established in Company. The principal activity of the Committee is to analyse the Company's operations in order to detect risk events, analyse transaction risks and develop recommendations to decrease the Company's risks. The activities of the Committee have a recommendation nature.

#### **Market risk**

##### *(a) Currency risk*

The Company operates in the Republic of Kazakhstan. The Company does not operate internationally, thus, the majority part of the Company's transactions are carried out in tenge. The Company has some financial instruments denominated in US dollar, Euro and Russian roubles. They include some accounts receivable and accounts payable and long-term borrowings. The Company does not hedge such financial instruments, since the management does not consider currency risk as significant.

The table below shows maximum exposure of the Company to currency risk at the end of the reporting period:

	31 December 2015				31 December 2014			
	US dollar	Euro	Russian rouble	British Pounds	US dollar	Euro	Russian rouble	British Pounds
Trade and other receivables	650,421	43,502	1,491	-	175,148	42,619	1,511	-
Cash and cash equivalents	4,670,476	17,538	329	372	1,922,096	63,927	4	17
Other current assets	169,735	-	-	-	674,695	-	-	-
Trade payables	(780,789)	(7,035)	(31,762)	-	(242,681)	(3,995)	(669)	-
<b>Net position</b>	<b>4,709,843</b>	<b>54,005</b>	<b>(29,942)</b>	<b>372</b>	<b>2,529,258</b>	<b>102,551</b>	<b>846</b>	<b>17</b>
Strengthening of tenge against currency by 30% (2014: 20%)	(1,412,953)	(16,202)	8,983	(112)	(505,852)	(20,510)	(169)	(3)
Weakening of tenge against currency by 30% (2014: 20%)	1,412,953	16,202	(8,983)	112	505,852	20,510	169	3

Changes in exchange rates do not affect the Company's equity, since the Company does not have any financial instruments accounted for within equity. The analysis calculates the effect of a reasonably possible fluctuations of the currency rate against tenge, with all other variables held constant on the statement of profit or loss and other comprehensive income.

##### *(b) Interest rate risk*

Since the Company does not have any significant interest-bearing assets, the Company's income and cash flows from the Company's operating activity are mainly independent from changes in interest rates. As such, management has not presented interest rate sensitivity analysis.

##### *(c) Price risk*

The Company is not exposed to the price risk of equity securities, since the Company does not hold a portfolio of these securities.

## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

#### Credit risk

Credit risk is managed at Company level. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

The table below shows maximum exposure of the Company to credit risk:

	Note	31 December 2015	31 December 2014
Cash and cash equivalents	15	4,782,924	2,295,519
Trade and other receivables	13	2,263,289	1,791,376
Other current financial assets	14	180,217	733,845
Long-term trade receivables		57,050	45,291
<b>Total maximum exposure to the credit risk</b>		<b>7,283,480</b>	<b>4,866,031</b>

The Company has policies in place to ensure that sales of services are made to customers with an appropriate credit history. If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, corporate customers department assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Sales to customers are done on a post-paid basis and settled in cash. The Company management checks unsettled accounts receivable analysis by terms due and traces unpaid balances. The customers with unpaid balances are not provided with telecommunication services until full settlement. The management provided a settlement terms analysis and other information on credit risk in Note 13. As at 31 December 2015, 60% of the Company's trade accounts receivable represents 12 debtors (2014: 12 debtors represent 64%).

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default. The ratings and balances with major banks at the end of the reporting period are presented in Note 11.

#### Liquidity risk

The Company exercises control over risk of cash shortage using long term (5 years) and short term (annual, quarterly and monthly) forecasts of future cash flows from operating activities. The Company has developed a number of internal regulations aimed to adopt control procedures of record keeping and making payments, and also regulations on operational budget settlement. The Company's aim is to maintain the balance between continuing financing and flexibility using bank overdrafts, bank loans, preference shares, finance lease and instalment contracts.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
<b>As at 31 December 2015</b>			
Borrowings	400,200	-	2,110
Trade payables	1,486,712	-	-
<b>Total financial liabilities</b>	<b>1,886,912</b>	<b>-</b>	<b>2,110</b>
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years
<b>As at 31 December 2014</b>			
Borrowings	9,246	1,057	2,110
Trade payables	576,509	-	-
<b>Total financial liabilities</b>	<b>585,755</b>	<b>1,057</b>	<b>2,110</b>

## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

#### *Capital risk management*

The Company's main objective when managing capital is to ensure stable credibility and normal level of capital adequacy for the Company's operations and maximum increase of return for shareholders. The Company manages capital structure and changes it in accordance with the changes in the economy. To maintain or adjust capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares. Optimal structure of capital is formed through combination of borrowing and capital financing to decrease cost of capital.

The Company monitors capital on the basis of the gearing ratio. The Company's strategy is to optimise its gearing ratio through a combination of equity financing from its shareholder and external borrowings. This ratio is determined as total debt divided by total capital, and is considered as optimal if it does not exceed 200%. Total debt is determined as "borrowings" as shown in the statement of financial position. Total capital is determined as "total equity" as shown in the statement of financial position.

	<u>31 December 2015</u>	<u>31 December 2014</u>
Total debt	402,310	11,549
Total capital	<u>16,541,309</u>	<u>12,977,744</u>
<b>Gearing ratio</b>	<u>2%</u>	<u>0%</u>

The Company management considers the level of gearing ratio as at 31 December 2015 as optimal and reflecting the requirements of the industry.

The Company complied with all external requirements on capital during the year ended 31 December 2015. Such requirements are provided in the Company's loan agreements, whereby the Company's equity should amount to not less than 1,700,000 thousand tenge.

#### *Fair value measurement*

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. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs).

All financial instruments of the Company are carried at amortised cost. Their fair value at the level 3 measurement have been determined using the discounted cash flows method.

#### *Financial assets 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. Applied rates of discounting depend on counterparty's credit risk. The carrying amounts of the Company's financial assets approximate fair values.

#### *Liabilities carried at amortised cost*

The fair value of liabilities is determined using valuation techniques. The estimated fair value of fixed interest rate instruments, 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. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date on which the amount could be required to be paid. Due to the short-term nature of short-term financial payables, their carrying amounts approximate fair values.

## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

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#### 5 Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on the Company 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 the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

##### *(a) Useful lives of property, plant and equipment and intangible assets*

The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Company. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

If the estimated useful lives differ by 10% from management's estimates, the impact on depreciation for the year ended 31 December 2015 would be to increase / decrease it by tenge 110,618 thousand (2014: increase decrease by tenge 103,922 thousand).

##### *(b) Asset retirement obligation provision*

The Company has a liability on dismantling and the land reclamation upon decommissioning of communication lines. This liability arose at the beginning of 2007 due to introduction of the new Environmental Code of the Republic of Kazakhstan. Provisions are made on the basis of net present value of dismantling and reclamation costs as liability arises from the previous activities. Provision for asset retirement obligations are estimated on the basis of the Company's interpretation of the current environmental legislation of the Republic of Kazakhstan and respective program for liquidation of consequences of the Company's operations on the covered area estimated by the Company on the basis of feasibility and engineer studies in accordance with the current technical rules and norms for reclamation. Asset retirement obligations are subject to potential changes in environmental legislation. As at 31 December 2015, the carrying amount of provisions for asset retirement obligations was 53,315 thousand tenge (31 December 2014: 47,113 thousand tenge).

##### *(c) Revenue recognition*

Significant judgment is required to determine revenue from contracts for provision of services and construction contracts. Key uncertainty areas include:

- Estimation of probability that works and amounts not stipulated in master construction contract will be approved by the clients;
- Estimation of revenue expected from variation orders and costs required for completion of services; and
- Review of execution of works to determine the percentage of completion.

##### *(d) Inventories for resale*

The Company classifies telecommunication equipment for resale as inventories, since this equipment is purchased for the purpose of installation into the property, plant and equipment of the clients during the construction or maintenance of communication lines of the clients or resale. However, the Company may use certain equipment for its own use as necessary including the construction of its communication network. In this case equipment is transferred to property, plant and equipment (Note 8), and used item is replaced with the same for resale. Accordingly, certain equipment at 31 December 2015, classified by management as current within inventories may be transferred to property, plant and equipment in future.



## KAZTRANSKOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

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#### (e) Valuation of inventories

Inventories are recorded at the lower of cost and net realisable value. The Company creates an obsolescence provision for inventories based on the results of regular physical count procedure and management's analysis in relation to slow-moving, obsolete and other inventories which realisable value is less than their cost. Identification process provides for the analysis of historical data and current operating plans with respect to appropriate provisions. For damaged inventories, a provision is accrued or write-off is made depending on the level of damage. Management accrues provision on any items of inventories recognised as obsolete.

Management believes that provision for inventory impairment reflected as at 31 December 2015 and 31 December 2014 is sufficient and represents the management's best estimate with respect to impaired inventories (Note 12).

#### (f) Impairment of trade and other receivables

Recognition of individual provisions for impairment of accounts receivable is based on a regular estimate by management of the repayment results of accounts receivable, its overdue status and past experience. Management believes that the provisions for impairment recorded as at 31 December 2015 and 31 December 2014 are sufficient and represent the best estimate of management of accounts receivable which will not be collected (Note 13).

## 6 Segment Information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Management of the Company.

#### (a) Description of products and services from which each reportable segment derives its revenue

The Company is organised on the basis of three main operating segments:

- Telecommunication services – cable and satellite communication services as well as land telephone communication and related repair services.
- Maintenance – equipment design, development, supply, installation for telecommunication platforms, and network and equipment maintenance.
- System integration – design, construction, certification and commissioning of communication objects and telecommunication systems.

#### (b) Factors that management used to identify the reportable segments

Segment financial information is reviewed by the Board of Directors of the Company, responsible for operational decision making. Such financial information is similar to the segment analysis provided internally to the Board of Directors of the Company. Management therefore applied the core principle of IFRS 8, *Operating Segments*, in determining which of the components should form the basis of operating segments.

#### (d) Measurement of operating segment profit or loss, assets and liabilities

The Board of Directors of the Company reviews financial information prepared based on International Financial Reporting Standards.

The Board of Directors of the Company evaluates performance of each segment based on gross profit.

Transactions between the operating segments are carried out based on normal commercial terms and conditions.

The headquarters is not an operating segment. Corporate profit and expenses, such as other income, distribution costs, general and administrative expenses, other expenses, finance income and costs are related to the headquarters and are not allocated between operating segments.

## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, trade receivables, and mainly exclude cash and cash equivalents, prepayments and income tax balances. Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and intangible assets.

(e) *Information about reportable segment profit or loss, assets and liabilities*

Segment information for the main reportable operating segments of the Company for 2015 and 2014 is set out below:

	Telecom- munication services	Technical maintenance	System integration	Head- quarters	Total
<b>2015</b>					
Segment revenue	16,057,489	1,382,150	272,949	-	17,712,588
Cost of segment sales	(12,270,086)	(1,229,699)	(315,981)	-	(13,815,766)
<b>Gross profit for segment</b>	<b>3,787,403</b>	<b>152,451</b>	<b>(43,032)</b>	<b>-</b>	<b>3,896,822</b>
Other income	-	-	-	77,360	77,360
Administrative and other expenses	-	-	-	(2,184,344)	(2,184,344)
Finance income	-	-	-	2,670,343	2,670,343
Finance costs	-	-	-	(5,838)	(5,838)
<b>Profit before income tax</b>	<b>3,787,403</b>	<b>152,451</b>	<b>(43,032)</b>	<b>557,521</b>	<b>4,454,343</b>
Income tax expense	-	-	-	(890,778)	(890,778)
<b>Profit for the year</b>	<b>3,787,403</b>	<b>152,451</b>	<b>(43,032)</b>	<b>(333,257)</b>	<b>3,563,565</b>
<b>31 December 2015</b>					
Segment assets	14,474,939	265,026	172,226	-	14,912,191
Other unallocated assets	-	-	-	5,456,475	5,456,475
<b>Total assets</b>	<b>14,474,939</b>	<b>265,026</b>	<b>172,226</b>	<b>5,456,475</b>	<b>20,368,666</b>
Segment liabilities	1,868,903	28,387	85,426	-	1,982,716
Current and deferred tax liability	-	-	-	1,442,331	1,442,331
Other unallocated liabilities	-	-	-	402,310	402,310
<b>Total liabilities</b>	<b>1,868,903</b>	<b>28,387</b>	<b>85,426</b>	<b>1,844,641</b>	<b>3,827,357</b>
<b>2015</b>					
Capital expenditure	2,221,975	-	-	-	2,211,975
Depreciation and amortisation	1,025,773	78,410	1,993	-	1,106,176

## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

	Telecom- munication services	Technical maintenance	System integration	Head office	Total
<b>2014</b>					
Segment revenue	11,904,397	2,086,782	1,191,579	-	15,182,758
Cost of segment sales	(8,332,251)	(2,268,666)	(261,253)	-	(10,862,170)
<b>Gross profit for segment</b>	<b>3,572,146</b>	<b>(181,884)</b>	<b>930,326</b>	<b>-</b>	<b>4,320,588</b>
Other income	-	-	-	69,515	69,515
Administrative and other expenses	-	-	-	(2,186,629)	(2,186,629)
Finance income	-	-	-	196,244	196,244
Finance costs	-	-	-	(7,010)	(7,010)
<b>Profit before income tax</b>	<b>3,572,146</b>	<b>(181,884)</b>	<b>930,326</b>	<b>(1,927,880)</b>	<b>2,392,708</b>
Income tax expense	-	-	-	(515,899)	(515,899)
<b>Profit for the year from continuing operations</b>	<b>3,572,146</b>	<b>(181,884)</b>	<b>930,326</b>	<b>(2,443,779)</b>	<b>1,876,809</b>
<b>31 December 2014</b>					
Segment assets	11,996,898	421,366	117,295	-	12,535,559
Other unallocated assets	-	-	-	3,274,387	3,274,387
<b>Total assets</b>	<b>11,996,898</b>	<b>421,366</b>	<b>117,295</b>	<b>3,274,387</b>	<b>15,809,946</b>
Segment liabilities	1,274,825	71,928	40,996	-	1,387,749
Current and deferred tax liability	-	-	-	1,432,904	1,432,904
Other unallocated liabilities	-	-	-	11,549	11,549
<b>Total liabilities</b>	<b>1,274,825</b>	<b>71,928</b>	<b>40,996</b>	<b>1,444,453</b>	<b>2,832,202</b>
<b>2014</b>					
Capital expenditure	594,914	-	-	-	594,914
Depreciation and amortisation	1,026,689	-	2,315	-	1,029,004

# KAZTRANSCOM JSC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

Segment assets and liabilities are reconciled to the Company's assets and liabilities of as follows:

	31 December 2015		31 December 2014	
	Assets	Liabilities	Assets	Liabilities
Segment assets and liabilities	14,912,191	1,982,716	12,535,559	1,387,749
Non-current borrowings	-	2,110	-	2,303
Current borrowings	-	400,200	-	9,246
Deferred income tax	-	1,412,109	-	1,294,371
Current income tax payable	-	30,222	-	138,533
Cash and cash equivalents	4,782,924	-	2,295,519	-
Prepayments to suppliers	160,397	-	150,624	-
Financial assets available for sale	-	-	24,000	-
Other	513,154	-	804,244	-
<b>Total</b>	<b>20,368,666</b>	<b>3,827,357</b>	<b>15,809,946</b>	<b>2,832,202</b>

**Geographical segments.** The Company's assets are mainly concentrated in the Republic of Kazakhstan, and the main part of the Company's profits is generated from transactions in the Republic of Kazakhstan.

### 7 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 Company's parent company and immediate controlling party is Rodnik INC LLP. The Company's ultimate controlling parties are disclosed in Note 1.

The nature of the related party relationships for those related parties with whom the Company entered into significant transactions or had significant balances outstanding as at 31 December 2015 and 31 December 2014 are detailed below.

As at 31 December 2015 and 2014 the outstanding balances with related parties were as follows:

	Other related parties	Key management personnel
<b>31 December 2015</b>		
Accounts receivable	390,587	-
Trade payables	92,350	-
Other payables	-	-
Other current assets	10,482	-
<b>31 December 2014</b>		
Accounts receivable	187,764	-
Trade payables	51,165	-
Other payables	-	69,660
Other current assets	9,150	-

## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

Information on dividends declared and paid to the Parent is disclosed in Note 16.

The income and expense items with related parties for 2015 and 2014 were as follows:

	<u>Other related parties</u>	<u>Key management personnel</u>
<b>2015</b>		
Revenue	5,051,973	-
Cost of sales	1,879,367	-
General and administrative expenses	<u>2,470</u>	<u>88,754</u>
<b>2014</b>		
Revenue	2,736,800	-
Cost of sales	1,495,500	-
General and administrative expenses	<u>2,725</u>	<u>94,233</u>

Compensation to management for their services at permanent positions of executive management consists of contractual amount of salary and performance bonus depending on the results of the Company's business activities. Total management compensation included into personnel costs in the statement of profit or loss and other comprehensive income for the year ended 31 December 2015 was 88,754 thousand tenge (2014: 94,233 thousand tenge). Directors classified as key management personnel include three positions (2014: three positions).

## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

#### 8 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	Land and buildings	Telecommunication equipment	Vehicles	Others	Construction in progress/ Equipment to be installed	Total
<b>Cost</b>						
<b>Cost as at 1 January 2014</b>	<b>1,683,825</b>	<b>10,331,629</b>	<b>598,637</b>	<b>1,444,944</b>	<b>444,076</b>	<b>14,503,111</b>
Additions	66,999	486,556	51,517	114,639	594,914	1,314,625
Transfers	34,456	513,746	4,994	231	(553,427)	-
Disposals	(1,326)	(234,857)	(23,571)	(92,879)	(221,172)	(573,805)
<b>Cost as at 31 December 2014</b>	<b>1,783,954</b>	<b>11,097,074</b>	<b>631,577</b>	<b>1,466,935</b>	<b>264,391</b>	<b>15,243,931</b>
Additions	132,623	531,589	23,247	76,541	2,211,975	2,975,975
Transfers	19,807	813,569	869	5,740	(839,985)	-
Disposals	(3,180)	(77,229)	(25,563)	(58,154)	(121,044)	(285,170)
<b>Cost as at 31 December 2015</b>	<b>1,933,204</b>	<b>12,365,003</b>	<b>630,130</b>	<b>1,491,062</b>	<b>1,515,337</b>	<b>17,934,736</b>
<b>Accumulated depreciation</b>						
<b>Balance as at 1 January 2014</b>	<b>307,066</b>	<b>3,425,496</b>	<b>402,722</b>	<b>1,038,454</b>	-	<b>5,173,738</b>
Depreciation charge	44,539	767,619	54,095	122,529	-	988,782
Transfers	(13,382)	44,282	(163)	(30,737)	-	-
Disposals	-	(218,483)	(18,211)	(87,832)	-	(324,526)
<b>Balance as at 31 December 2014</b>	<b>338,223</b>	<b>4,018,914</b>	<b>438,443</b>	<b>1,042,414</b>	-	<b>5,837,994</b>
Depreciation charge	45,989	849,473	46,307	112,401	-	1,054,170
Transfers	-	15,835	-	(15,835)	-	-
Disposals	(1,057)	(72,323)	(25,491)	(56,641)	-	(155,512)
<b>Balance as at 31 December 2015</b>	<b>383,155</b>	<b>4,811,899</b>	<b>459,259</b>	<b>1,082,339</b>	-	<b>6,736,652</b>
<b>Carrying value as at 1 January 2014</b>	<b>1,376,759</b>	<b>6,906,133</b>	<b>195,915</b>	<b>406,490</b>	<b>444,076</b>	<b>9,239,373</b>
<b>Carrying value as at 31 December 2014</b>	<b>1,445,731</b>	<b>7,078,160</b>	<b>193,134</b>	<b>424,521</b>	<b>264,391</b>	<b>9,405,937</b>
<b>Carrying value as at 31 December 2015</b>	<b>1,550,049</b>	<b>7,553,104</b>	<b>170,871</b>	<b>408,723</b>	<b>1,515,337</b>	<b>11,198,084</b>

Additions of property, plant and equipment in the amount of 1,104,889 thousand tenge in 2015 (2014: 698,672 thousand tenge) represent transfers from inventories.

Disposal of equipment in the amount of 120,501 thousand tenge in 2015 (2014: 214,193 thousand tenge) represent transfer to inventories.

## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

As at 31 December 2015, land, buildings, machinery and equipment with collateral values of 309,583 thousand tenge (31 December 2014: nil) have been pledged to secure bank borrowings.

Construction in progress mainly consist of construction of FOCL (Almaty-Shymkent) in the amount of 1,228,373 thousand tenge.

#### 9 Intangible Assets

	<u>Licenses</u>	<u>Software</u>	<u>Other</u>	<u>Total</u>
<b>Cost</b>				
Cost as at 1 January 2014	190,711	204,696	6,681	402,088
Additions	24,124	53,314	-	77,438
Disposals	<u>(5,872)</u>	<u>(19,645)</u>	<u>(45)</u>	<u>(25,562)</u>
Cost as at 31 December 2014	<u>208,963</u>	<u>238,365</u>	<u>6,636</u>	<u>453,964</u>
Additions	61,202	614	1,803	63,619
Disposals	<u>(904)</u>	<u>(19,707)</u>	<u>(94)</u>	<u>(20,705)</u>
Cost as at 31 December 2015	<u>269,261</u>	<u>219,272</u>	<u>8,345</u>	<u>496,878</u>
<b>Accumulated amortisation</b>				
Accumulated amortisation as at 1 January 2014	65,353	136,708	2,835	204,896
Amortisation charge	21,147	28,082	1,210	50,439
Disposals	<u>(2,521)</u>	<u>(17,549)</u>	<u>(45)</u>	<u>(20,115)</u>
Accumulated amortisation as at 31 December 2014	83,979	147,241	4,000	235,220
Amortisation charge	23,297	27,574	1,135	52,006
Disposals	<u>(56)</u>	<u>(19,633)</u>	<u>(94)</u>	<u>(19,783)</u>
Accumulated amortisation as at 31 December 2015	<u>107,220</u>	<u>155,182</u>	<u>5,041</u>	<u>267,443</u>
Carrying value as at 1 January 2014	<u>125,358</u>	<u>67,988</u>	<u>3,846</u>	<u>197,192</u>
Carrying value as at 31 December 2014	<u>124,984</u>	<u>91,124</u>	<u>2,636</u>	<u>218,744</u>
Carrying value as at 31 December 2015	<u>162,041</u>	<u>64,090</u>	<u>3,304</u>	<u>229,435</u>

# KAZTRANSCOM JSC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

### 10 Financial Instruments by Categories

The reconciliation between the statement of financial position balances and categories of financial instruments is presented below:

31 December 2015	Note	Loans and receivables	Total
<b>Assets as per statement of financial position</b>			
Non-current receivables		57,050	57,050
Trade and other receivables	13	2,263,289	2,263,289
Other current assets	14	180,217	180,217
Cash and cash equivalents	15	4,782,924	4,782,924
<b>Total</b>		<b>7,283,480</b>	<b>7,283,480</b>

31 December 2015	Note	Other financial liabilities	Total
<b>Liabilities as per statement of financial position</b>			
Bank loans, including interest payable	18	400,000	400,000
Trade payables	19	1,486,712	1,486,712
Finance lease liabilities, including interest payable		200	200
Preference shares		2,110	2,110
<b>Total</b>		<b>1,889,022</b>	<b>1,889,022</b>

31 December 2014	Note	Loans and receivables	Available for sale	Total
<b>Assets as per statement of financial position</b>				
Financial assets available for sale		-	24,000	24,000
Non-current receivables	45,291	-	-	45,291
Trade and other receivables	13	1,791,376	-	1,791,376
Other current assets	14	733,845	-	733,845
Cash and cash equivalents	15	2,295,519	-	2,295,519
<b>Total</b>		<b>4,866,031</b>	<b>24,000</b>	<b>4,890,031</b>

31 December 2014	Note	Other financial liabilities	Total
<b>Liabilities as per statement of financial position</b>			
Trade payables	19	576,509	576,509
Finance lease liabilities, including interest payable		9,439	9,439
Preference shares		2,110	2,110
<b>Total</b>		<b>588,058</b>	<b>588,058</b>



# KAZTRANSCOM JSC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

### 11 Credit Quality of Financial Assets

None of the Company's clients have external credit rating. Only banks, where the Company places its cash and short-term deposits, have external credit ratings. The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates:

	31 December 2015	31 December 2014
<b>Trade receivables</b>		
Counterparties without external credit rating		
Group 1	125,085	52,309
Group 2	1,989,828	1,621,275
Group 3	9,188	12,017
<b>Total trade receivables</b>	<b>2,124,101</b>	<b>1,685,601</b>

Group 1 – new clients (less than 6 months).

Group 2 – existing customers (more than 6 months) with no defaults in the past.

Group 3 – existing customers (more than 6 months) with some defaults in the past. All defaults were fully provided.

#### Cash at bank and short-term bank deposits

	Rating Agency	Rating	31 December 2015	31 December 2014
Sberbank of Russia	Moody's	Ba2 (stab)	2,878,970	1,227
Kazkommertsbank	Moody's	B (stab)	951,622	1,328,633
Tsesnabank	Standard & Poor's	B+	941,147	-
Halyk Bank of Kazakhstan	Moody's	Ba2	5,440	961,842
Citibank	Standard & Poor's	A2	-	68
BTA Bank	Moody's	B3	-	1,715
<b>Total cash at bank and short-term bank deposits</b>			<b>4,777,179</b>	<b>2,293,485</b>

#### Other current assets

	Rating Agency	Rating	31 December 2015	31 December 2014
Tsesnabank	Standard & Poor's	B+	101,841	-
Sberbank of Russia	Moody's	Ba2 (stab)	67,894	638,225
Sberbank of Russia	Moody's	Ba2 (stab)	-	86,470
<b>Total other current assets</b>			<b>169,735</b>	<b>724,695</b>

#### Long-term receivables

<b>57,050</b>	<b>45,291</b>
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Management of the Company estimates credit quality of long-term accounts receivable as high.

## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

#### 12 Inventories

	<u>31 December 2015</u>	<u>31 December 2014</u>
Telecommunication equipment for resale	848,143	704,362
Raw materials	253,637	281,994
Spare tools and appliances under maintenance contracts	92,151	106,095
Spare parts	28,384	30,625
Provision for inventory impairment	-	(4,641)
<b>Total inventories</b>	<b><u>1,222,315</u></b>	<b><u>1,118,435</u></b>

#### 13 Trade and Other Receivables

	<u>31 December 2015</u>	<u>31 December 2014</u>
Trade and other receivables	2,270,207	1,802,881
Less: Provision for impairment	(6,918)	(11,505)
<b>Total trade and other receivables</b>	<b><u>2,263,289</u></b>	<b><u>1,791,376</u></b>

The carrying value of accounts receivable and other receivables, less provision for impairment is expressed in the following currencies:

	<u>31 December 2015</u>	<u>31 December 2014</u>
Tenge	1,567,875	1,572,098
US Dollar	650,421	175,148
Euro	43,502	42,619
Russian Rouble	1,491	1,511
<b>Total trade and other receivables</b>	<b><u>2,263,289</u></b>	<b><u>1,791,376</u></b>

Below is presented the ageing analysis of trade and other receivables:

	<u>31 December 2015</u>	<u>31 December 2014</u>
<i>Current and not impaired</i>		
Trade and other receivable	2,124,101	1,685,601
<b>Total current and not impaired</b>	<b><u>2,124,101</u></b>	<b><u>1,685,601</u></b>
<i>Past due and not impaired</i>		
From 3 to 6 months	109,125	58,094
From 6 months to 1 year	30,063	47,681
<b>Total past and not impaired</b>	<b><u>139,188</u></b>	<b><u>105,775</u></b>
<i>Impaired</i>		
More than a year	6,918	11,505
<b>Total impaired</b>	<b><u>6,918</u></b>	<b><u>11,505</u></b>
Less provision for impairment of trade and other receivable	(6,918)	(11,505)
<b>Total trade and other receivables</b>	<b><u>2,263,289</u></b>	<b><u>1,791,376</u></b>

## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

A movement of the Company's provision for impairment of trade receivables is follow:

	<u>2015</u>	<u>2014</u>
As at 1 January	11,505	54,576
Accrual/(reversal) of provision for impairment of trade receivables	2,180	(2,182)
Accounts receivable write-off	<u>(6,767)</u>	<u>(40,889)</u>
<b>As at 31 December</b>	<b><u>6,918</u></b>	<b><u>11,505</u></b>

Accruals of provision for impairment are included in general and administrative expenses in the statement of profit or loss and other comprehensive income (Note 23). Amounts charged to the impairment provision account are generally written off when no cash inflows recovery is expected.

#### 14 Other Current Assets

	<u>31 December 2015</u>	<u>31 December 2014</u>
<i>Other current financial assets</i>		
Short term bank deposits	169,735	86,470
Loans receivable	10,482	9,150
Restricted cash	-	<u>638,225</u>
<b>Total other current financial assets</b>	<b><u>180,217</u></b>	<b><u>733,845</u></b>
<i>Other current non-financial assets</i>		
Deferred expenses	49,386	16,018
Other taxes	<u>109,661</u>	<u>4,825</u>
<b>Total other current assets</b>	<b><u>339,264</u></b>	<b><u>754,688</u></b>

Other current assets are denominated in following currencies:

	<u>31 December 2015</u>	<u>31 December 2014</u>
US Dollar	169,735	674,695
Tenge	<u>169,529</u>	<u>79,993</u>
<b>Total other current assets</b>	<b><u>339,264</u></b>	<b><u>754,688</u></b>

#### 15 Cash and Cash Equivalents

	<u>31 December 2015</u>	<u>31 December 2014</u>
Cash in deposit bank accounts in tenge and foreign currency	4,668,730	1,823,521
Cash in bank in tenge	88,464	307,419
Cash in bank in foreign currency	19,985	162,545
Cash on hand	<u>5,745</u>	<u>2,034</u>
<b>Total cash and cash equivalents</b>	<b><u>4,782,924</u></b>	<b><u>2,295,519</u></b>

## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

Cash and cash equivalents are denominated in following currencies:

	31 December 2015	31 December 2014
US Dollar	4,670,476	1,922,096
Tenge	94,209	309,475
Euro	17,538	63,927
British Pounds	372	17
Russian Rouble	329	4
<b>Total cash and cash equivalents</b>	<b>4,782,924</b>	<b>2,295,519</b>

## 16 Share Capital

### (a) Ordinary Shares

	Number of outstanding shares (in thousands)	Ordinary shares	Additional paid- in capital	Total
At 31 December 2015	2,387	46,662	7,009	53,671
At 31 December 2014	2,387	46,662	7,009	53,671

Shareholders are entitled to dividends and allocation of capital in tenge.

The total number of authorised shares is 3,000 thousand shares and the number of outstanding ordinary shares is 2,387 thousand shares (31 December 2014: 2,387 thousand shares) with a par value of 20 tenge per share (31 December 2014: 20 tenge per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

Share premium represents the excess of contributions received over the nominal value of shares issued.

As at 31 December 2015, treasury shares consists of 54,015 ordinary shares of the Company (31 December 2014: 54,015 ordinary shares).

As at 31 December 2015 and 2014, the following shareholders owned more than 3% of issued and standing ordinary shares of the Company:

Shareholders	Number of ordinary shares 31 December 2015	Number of ordinary shares 31 December 2014	% 31 December 2015	% 31 December 2014
Rodnik INC LLP	1,907,556	1,907,556	81.77	79.92
Abdrakhmanov M.A.	233,090	-	9.99	
Telecom-Asia LLP	80,496	236,561	3.45	9.91
<b>Total</b>	<b>2,221,142</b>	<b>2,144,117</b>	<b>95.21</b>	<b>89.83</b>

### (b) Preference shares

The total authorised and issued number of preference shares is 115,738 shares (31 December 2014: 115,738 shares), of which the number of outstanding shares is 105,714 shares (31 December 2014: 105,714 shares) with a par value of tenge 20 per share (31 December 2014: 20 tenge per share). All issued preference shares are fully paid.

The preference shares are not convertible or redeemable, but guarantee annual cumulative dividends in the amount of not less than 10% of nominal value of shares, but not less than dividends due to holders of ordinary shares.

## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

In case of liquidation, the holders of preference shares are the first to receive any declared unpaid dividends. Then all holders of ordinary and preference shares participate in distribution of remaining assets on equal basis.

Preference shares are included in borrowings (Note 18).

Below are dividends declared and paid during the period:

	2015		2014	
	Ordinary shares	Preference shares	Ordinary shares	Preference shares
<b>Dividends payable as at 1 January</b>	-	983	20,441	508
Dividends declared during the year	-	2,114	-	2,272
Dividends paid during the year	-	(1,632)	-	(1,797)
Dividends payable derecognized during the year	-	-	(20,441)	-
<b>Dividends payable as at 31 December</b>	-	<b>1,465</b>	-	<b>983</b>
<b>Dividends per share declared during the year</b>	-	<b>20.00 tenge</b>	-	<b>20.00 tenge</b>

All dividends are declared and paid in Kazakhstani tenge. Dividends on preference shares are included within finance costs, there were no dividends on ordinary shares.

#### 17 Other Reserves

In accordance with its Charter, the Company should create general loss reserve in the amount of not less than 15% of its authorised share capital. In 2001 in accordance with the Company shareholders' decision, a reserve was created in the amount of tenge 7,455 thousand, which represented 15.6% of share capital.

#### 18 Loans and Borrowings

	31 December 2015	31 December 2014
Bank loans	400,000	-
Cumulative irredeemable preference shares	2,110	2,110
Finance lease liabilities	200	9,439
<b>Total borrowings</b>	<b>402,310</b>	<b>11,549</b>

Bank name	Date of issue	Maturity date	Nominal interest rate	Outstanding balance	Total borrowings
Kazkommertsbank JSC	16 November 2015	16 May 2016	13.60%	400,000	400,000

As at 31 December 2015 land, buildings, machinery and equipment with collateral values of 309,583 thousand tenge (31 December 2014: nil) have been pledged to secure bank borrowings. The Company's borrowings are denominated in tenge.

The fair value of short-term borrowings approximates their carrying amounts.

## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

#### 19 Trade and Other Payables

	Note	31 December 2015	31 December 2014
Trade payables		1,486,712	576,509
<b>Total financial liabilities</b>		<b>1,486,712</b>	<b>576,509</b>
Provision for unused vacation		275,190	358,340
Advances received		54,737	24,653
Payments to pension fund		38,182	43,959
Personal income tax payable		30,429	35,988
Payables to employees		4,455	761
Dividends payable	17	1,465	983
Value added tax		-	194,806
Provision for management compensation		-	69,660
Other payables		38,231	34,977
		<b>442,689</b>	<b>764,127</b>
<b>Total trade and other payables</b>		<b>1,959,401</b>	<b>1,340,636</b>

Trade payables are denominated in the following currencies:

	31 December 2015	31 December 2014
US Dollar	780,789	242,681
Tenge	667,126	329,164
Russian Rouble	31,762	669
Euro	7,035	3,995
<b>Total trade payables</b>	<b>1,486,712</b>	<b>576,509</b>

#### 20 Revenue

	Note	2015	2014
Local telephone and trunk communication services		7,500,022	4,306,350
Line cable communication services		7,451,925	6,457,240
Technical maintenance of information systems and equipment		1,387,371	2,090,614
Satellite communication services		911,062	977,059
Equipment installation and sales		462,208	159,916
Revenue from construction contract		-	1,191,579
<b>Total revenue</b>		<b>17,712,588</b>	<b>15,182,758</b>

# KAZTRANSCOM JSC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

### 21 Cost of Sales

	<u>2015</u>	<u>2014</u>
Communication services	8,305,383	4,857,111
Payroll expenses and personnel costs	2,505,466	3,156,669
Depreciation and amortisation expenses	1,078,857	998,172
Lease of communication facilities and other equipment	858,893	812,342
Equipment, materials and consumables	400,775	310,419
Repair and maintenance expenses	262,513	196,996
Third-party contractors	208,978	271,163
Utilities	114,066	141,389
Business trip expenses	38,642	71,278
Transportation expenses	10,705	10,168
Other	31,488	36,463
<b>Total cost of sales</b>	<b><u>13,815,766</u></b>	<b><u>10,862,170</u></b>

### 22 Distribution Costs

	<u>2015</u>	<u>2014</u>
Payroll expenses and personnel costs	422,179	392,330
Marketing expenses	11,181	30,154
Communication services	9,867	9,322
Material	2,039	4,856
Business trip expenses	1,850	3,945
Depreciation and amortisation expenses	522	956
Other	63,609	55,678
<b>Total distribution costs</b>	<b><u>511,247</u></b>	<b><u>497,241</u></b>

### 23 General and Administrative Expenses

	<u>2015</u>	<u>2014</u>
Payroll expenses and personnel costs	782,270	941,924
Taxes other than income tax	564,084	405,309
Third parties services	81,368	71,675
Business trip expenses	32,587	50,391
Professional and consulting services	30,188	27,586
Depreciation and amortisation	26,797	29,815
Rent	22,837	19,742
Bank charges	19,148	21,442
Materials	13,243	12,764
Communication services	11,282	13,853
Provision for impairment of trade receivables	2,180	(2,182)
Provision for inventory impairment	(4,640)	(1,111)
Other	54,196	80,963
<b>Total general and administrative expenses</b>	<b><u>1,635,540</u></b>	<b><u>1,672,171</u></b>

### 24 Finance Income

	<u>2015</u>	<u>2014</u>
Foreign exchange gains	2,589,184	158,106
Bank interest income	79,970	38,138
Other interest income	1,189	-
<b>Total finance income</b>	<b><u>2,670,343</u></b>	<b><u>196,244</u></b>

## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

#### 25 Income Tax

Income tax expense comprises the following:

	2015	2014
Current income tax	773,040	425,925
Deferred income tax	117,738	89,974
<b>Income tax expense for the year</b>	<b>890,778</b>	<b>515,899</b>

Reconciliation between the expected and the actual tax charge is provided below:

	2015	2014
Profit before income tax	4,454,343	2,392,708
Theoretical tax charge at statutory rate 20% (2014: 20%)	890,869	478,542
Tax effect on non-deductible non-assessable items	(91)	37,357
<b>Income tax expense for the year</b>	<b>890,778</b>	<b>515,899</b>

Differences between IFRS and Kazakhstan 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 temporary differences is recorded at the tax rate applicable when deferred tax assets are realised or liabilities settled.

	1 January 2014	Charged to profit and loss	31 December 2014	Charged to profit and loss	31 December 2015
<b>Tax effect of deductible temporary differences</b>					
Provision for impairment of trade receivables	10,916	(8,615)	2,301	(917)	1,384
Accruals	66,487	7,768	74,255	(15,968)	58,287
Accruals (ERP-Service LTD)	39,039	(39,039)	-	-	-
Provisions for asset retirement	8,550	873	9,423	1,240	10,663
Property, plant and equipment and intangible assets (ERP-Service LTD)	(335)	335	-	-	-
<b>Gross deferred income tax asset</b>	<b>124,657</b>	<b>(38,678)</b>	<b>85,979</b>	<b>(15,645)</b>	<b>70,334</b>
<b>Tax effect of taxable temporary differences</b>					
Property, plant and equipment and intangible assets	1,290,350	90,000	1,380,350	102,093	1,482,443
<b>Gross deferred income tax liability</b>	<b>1,290,350</b>	<b>90,000</b>	<b>1,380,350</b>	<b>102,093</b>	<b>1,482,443</b>
<b>Recognised deferred income tax asset (ERP-Services LTD)</b>	<b>38,704</b>	<b>(38,704)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Recognised deferred income tax liability</b>	<b>1,204,397</b>	<b>89,974</b>	<b>1,294,371</b>	<b>117,738</b>	<b>1,412,109</b>

#### 26 Earnings-per Share

For the purpose of earning per share calculation, two share classes are specified: ordinary and preference shares. To calculate basic and diluted earnings per share the profit or loss attributable to the ordinary shareholders is adjusted by the amount of dividends declared in the period for each class of shares. The remaining profit or loss is allocated to ordinary shares and preferred shares to the extent that each instrument shares in earnings as if all the profit or loss for the reporting period had been distributed. The total amount of profit or loss allocated to each class of shares is divided by the weighted-average number of outstanding shares to which the earnings are allocated to determine the earnings per share for the instrument.



# KAZTRANSCOM JSC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

The Company has no potentially dilutive instruments; therefore, the diluted earnings per share equal the basic earnings per share.

	31 December 2015	31 December 2014
<i>Earnings per share are calculated as follows:</i>		
<b>Amount of shares (in thousands)</b>		
Ordinary shares	2,387	2,387
Treasury shares	54	54
<i>Ordinary shares net of treasury shares</i>	<u>2,333</u>	<u>2,333</u>
Preference shares	116	116
Treasury shares	10	10
<i>Preferred shares net of treasury shares</i>	<u>106</u>	<u>106</u>
<b>Total number of shares</b>	<u>2,439</u>	<u>2,439</u>
Profit for the year attributable to the Company's shareholders	<u>3,563,565</u>	<u>1,586,435</u>
<b>Less:</b>		
Minimum cumulative dividends on preference shares	<u>2,120</u>	<u>2,120</u>
<b>Retained Earnings</b>	<u>3,561,445</u>	<u>1,584,315</u>
Allocation to ordinary shareholders	3,406,663	1,515,460
Allocation to preference shareholders	<u>154,782</u>	<u>68,855</u>
<b>Retained Earnings</b>	<u>3,561,445</u>	<u>1,584,315</u>
<b>Loss for the year from discontinued operations</b>	-	290,374
<b>Earnings used in the calculation of basic earnings per share from continuing operations</b>	<u>-</u>	<u>1,874,689</u>
<b>Basic earnings per share from continuing and discontinued operations:</b>		
<b>Preference shares</b>		
Distributed earnings	20	20
Retained earnings	<u>1,460.21</u>	<u>649.58</u>
<b>Total earnings per share</b>	<u>1,480.21</u>	<u>669.58</u>
<b>Ordinary shares</b>		
Retained earnings	<u>1,460.21</u>	<u>649.58</u>
<b>Basic earnings per share from continuing operations:</b>		
<b>Preference shares</b>		
Distributed earnings	20	20
Retained earnings	<u>1,460.21</u>	<u>768.63</u>
<b>Total earnings per share</b>	<u>1,480.21</u>	<u>788.63</u>
<b>Ordinary shares</b>		
Retained earnings	<u>1,460.21</u>	<u>768.63</u>

## KAZTRANSCOM JSC

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

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#### 27 Contingencies, Commitments and Operating Risks

##### *Operating environment 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, which decreased significantly during 2015. Management is unable to reliably estimate the effects of any further price fluctuations on the Company's financial position.

Management of the Company is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Company's business in the foreseeable future. However, the impact of further economic developments on future operations and financial position of the Company is at this stage difficult to determine.

##### *Legal proceedings*

In the normal course of business, the Company may be subject to legal proceedings or claims. According to the management's view, final liabilities, if any arise out of such legal proceedings or claims, will not significantly affect the financial position or operations of the Company.

##### *Tax legislation*

Kazakhstani tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Company may be challenged by the relevant authorities. Tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, additional taxes, penalties and interest may be assessed. The statute of limitation period for tax obligations, within which the tax authorities may audit the accrued tax amounts and other obligatory payments, is 5 years. The given threshold may be prolonged subject to specific conditions.

The management of the Company believes that it correctly interprets respective regulations of legislation, and that Company's position in relation to tax, currency and customs legislation will be successfully protected in case of any dispute.

Accordingly, as at 31 December 2015, the Company has no provision for contingent tax liability (31 December 2014: nil). The Company management considers that there will be no significant losses in relation to existing and contingent tax claims above provisions made in these financial statements.

##### *Capital expenditure commitments*

As at 31 December 2015, the Company has contractual capital expenditure commitments in respect of property, plant and equipment totalling 345,308 thousand tenge.

##### *Insurance policies*

Insurance services market in the Republic of Kazakhstan is at the development stage and many forms of insurance which are common in other countries of the world are not yet available in the Republic of Kazakhstan. The Company does not have complete insurance protection in regard to its production facilities, losses resulted from business disruption, or liabilities to third parties due to damage caused to real estate or environment as a result of accidents or the Company's activities. Until the Company obtains the adequate insurance protection, there is a risk that loss or damage of certain assets can have significant adverse impact on the activities and financial position of the Company.

# KAZTRANSKOM JSC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2015 (in thousands of Kazakhstani Tenge)

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### *Environmental matters*

The enforcement of environmental regulation in the Republic of Kazakhstan is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its obligations related to usage of land for telecommunication networks laying. As obligations are determined, they are recognised immediately in the financial statements. Estimates can change in case of additional environmental analysis and revision of current program for restoration and equipment dismantlement.

### **28 Events after the reporting period**

In January 2016, the Company purchased 100% share capital of STS LLP and STS-Network LLP.