Kazakhtelecom JSC

Consolidated financial statements

For the year ended 31 December 2014
with independent auditors' report

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Independent auditors' report

To the Shareholders of Kazakhtelecom JSC

We have audited the accompanying consolidated financial statements of Kazakhtelecom JSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 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 consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity'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 consolidated 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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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kazakhtelecom JSC and its subsidiaries as at 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Evgeny Zhemaletdinov
Auditor/General Director
Ernst and Young LLP

State Audit License for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of Finance of the Republic of Kazakhstan on 15 July 2005

Auditor Qualification Certificate No. 0000553 dated 24 December 2003

25 February 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

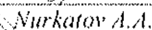
In thousands of tenge	Notes	2014	2013
Assets			
Non-current assets			
Property and equipment	8	**308,471,725**	289,230,439
Intangible assets	9	**24,531,269**	26,237,752
Advances paid for non-current assets	11	**207,263**	673,558
Deferred tax asset	38	**1,679,830**	352,200
Other non-current financial assets	13	**11,884,667**	10,807,868
Other non-current assets	14	**4,916,543**	4,450,873
		351,691,297	331,752,690
Current assets			
Inventories	15	**5,934,046**	5,339,214
Trade accounts receivable	16	**20,764,872**	16,192,756
Prepayments	17	**992,346**	1,063,692
Income tax prepaid		**1,054,311**	716,423
Other financial assets	18	**21,362,797**	12,146,401
Other current assets	19	**6,213,467**	6,571,279
Cash and cash equivalents	20	**8,729,297**	42,352,823
		65,051,136	84,382,588
Assets classified as held for sale	21	**951,019**	–
Total assets		**417,693,452**	416,135,278
Equity and liabilities			
Equity attributable to equity holders of the parent			
Charter capital	22	**12,136,529**	12,136,529
Treasury shares	22	**(6,398,619)**	(6,290,144)
Currency translation reserve	22	**(69,350)**	(12,208)
Other capital reserve	22	**1,820,479**	1,820,479
Retained earnings		**263,644,674**	257,903,737
		271,133,713	265,558,393
Non-controlling interests		**(824,365)**	(55,058)
Total equity		**270,309,348**	265,503,335

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

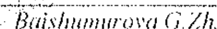
In thousands of tenge	Notes	2014	2013
Non-current liabilities			
Borrowings	23	**56,426,152**	36,028,656
Finance lease liabilities	24	**10,629,340**	10,689,177
Deferred tax liability	38	**16,466,369**	13,313,741
Employee benefit liability	25	**5,055,066**	4,600,737
Debt component of preferred shares	22	**876,845**	892,966
Other non-current liabilities	26	**7,650,255**	4,433,757
		97,104,027	69,959,034
Current liabilities			
Borrowings	23	**5,762,823**	9,117,411
Current portion of finance lease liabilities	24	**7,519,979**	6,994,294
Current portion of employee benefit liability	25	**742,288**	362,721
Accounts payable	27	**21,401,773**	21,939,224
Advances received		**3,733,540**	4,238,571
Income tax payable		**110,742**	1,546
Other current liabilities	28	**11,008,932**	38,019,142
		50,280,077	80,672,909
Total liabilities		**147,384,104**	150,631,943
Total equity and liabilities		**417,693,452**	416,135,278

Chief Financial Director



Nurkatov A.A.

Chief Accountant



Baishumurova G.Zh.

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

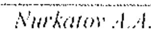
In thousands of tenge	Notes	2014	2013
Revenue	29	**201,946,431**	185,838,836
Compensation for universal services provision in rural areas	30	**6,276,853**	5,028,584
		208,223,284	190,867,420
Cost of revenue	31	**(153,168,934)**	(135,725,761)
Gross profit		**55,054,350**	55,141,659
General and administrative expenses	32	**(25,333,923)**	(20,833,393)
Selling expenses	33	**(6,471,858)**	(5,350,930)
Operating profit		**23,248,569**	28,957,336
Finance costs	35	**(7,315,110)**	(11,173,578)
Finance income	35	**2,598,605**	4,214,185
Foreign exchange loss, net	36	**(7,629,945)**	(481,103)
Loss from disposal of property and equipment		**(574,218)**	(150,832)
Other income	37	**3,700,489**	3,151,564
Other expenses	37	**(786,044)**	(1,010,793)
Profit before tax		**13,242,346**	23,506,779
Income tax expense	38	**(6,517,996)**	(3,945,859)
Profit for the year		**6,724,350**	19,560,920
Attributable to:			
Owners of the parent		7,483,619	19,614,067
Non-controlling interests		(759,269)	(53,147)

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

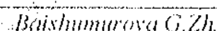
In thousands of tenge	Notes	2014	2013
Other comprehensive loss			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(57,142)**	(7,632)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**(57,142)**	(7,632)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods:			
Actuarial losses on defined benefit plan		(1,035,850)	(80,029)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(1,035,850)**	(80,029)
Other comprehensive loss for the year, net of tax		**(1,092,992)**	(87,661)
Total comprehensive income for the year, net of tax		**5,631,358**	19,473,259
Attributable to:			
Owners of the parent		**6,390,627**	19,526,406
Non-controlling interest		**(759,269)**	(53,147)
		5,631,358	19,473,259
Earnings per share			
Basic and diluted, profit for the year attributable to owners of the parent, tenge	22	**686.52**	**1,783.99**

Chief Financial Director



Nurkatov A.A.

Chief Accountant



Baishumurova G.Zh.

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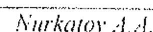
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

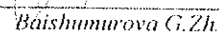
	Attributable to owners of the parent							
In thousands of tenge	Charter capital	Treasury shares	Foreign currency translation reserve	Other capital reserves	Retained earnings	Total	Non-controlling interests	Total equity
Notes	22	22	22	22				
At 1 January 2013	12,136,529	(6,019,715)	(4,576)	1,820,479	268,816,693	276,749,410	(1,911)	276,747,499
Profit/(loss) for the year	–	–	–	–	19,614,067	19,614,067	(53,147)	19,560,920
Other comprehensive loss	–	–	(7,632)	–	(80,029)	(87,661)	–	(87,661)
Total comprehensive (loss) / income	–	–	(7,632)	–	19,534,038	19,526,406	(53,147)	19,473,259
Treasury shares repurchased *(Note 22)*	–	(270,429)	–	–	–	(270,429)	–	(270,429)
Dividends *(Note 22)*	–	–	–	–	(30,446,994)	(30,446,994)	–	(30,446,994)
At 31 December 2013	**12,136,529**	**(6,290,144)**	**(12,208)**	**1,820,479**	**257,903,737**	**265,558,393**	**(55,058)**	**265,503,335**
Profit/(loss) for the year	–	–	–	–	7,483,619	7,483,619	(759,269)	6,724,350
Other comprehensive loss	–	–	(57,142)	–	(1,035,850)	(1,092,992)	–	(1,092,992)
Total comprehensive (loss) / income	–	–	(57,142)	–	6,447,769	6,390,627	(759,269)	5,631,358
Treasury shares repurchased *(Note 22)*	–	(108,475)	–	–	–	(108,475)	–	(108,475)
Financial guarantee issued for Parent *(Note 26)*	–	–	–	–	(663,900)	(663,900)	–	(663,900)
Changes in share ownership in a subsidiary, without loss of a control *(Note 6)*	–	–	–	–	(42,932)	(42,932)	(10,038)	(52,970)
At 31 December 2014	**12,136,529**	**(6,398,619)**	**(69,350)**	**1,820,479**	**263,644,674**	**271,133,713**	**(824,365)**	**270,309,348**

Chief Financial Director



Nurkatov A.A.

Chief Accountant



Baishumurova G.Zh.

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2014

In thousands of tenge	Notes	2014	2013
Operating activities			
Profit before tax		**13,242,346**	23,506,779
Adjustments for:			
Depreciation of property and equipment	31, 32	**34,722,379**	33,579,770
Amortization and impairment of intangible assets	31, 32	**3,609,437**	3,291,666
Change in deferred revenues		**115,247**	(715,883)
Change in employee benefit liability		**(460,917)**	(288,807)
Unrealized foreign exchange loss		**7,328,189**	927,113
Provision for doubtful debts	32	**601,992**	326,471
Reversal of NRV write down		**1,562,830**	179,328
Finance costs	35	**7,315,110**	11,173,578
Finance revenue	35	**(2,598,605)**	(4,214,185)
Impairment of P&E and intangible assets	32	**2,442,170**	–
Loss from disposal of P&E and intangible assets		**574,218**	150,832
Working capital adjustments:			
Change in trade accounts receivable		**(5,157,181)**	1,348,165
Change in inventories		**(2,939,829)**	(56,997)
Change in other current and non-current assets		**1,699,742**	1,240,422
Change in prepayments		**67,410**	(149,311)
Change in accounts payable		**2,352,384**	2,122,956
Change in advances received		**(505,031)**	577,350
Change in other current liabilities		**2,568,589**	504,786
Cash generated from operations		**66,540,480**	73,504,033
Dividends paid	22	**(28,229,629)**	(1,928,375)
Income taxes paid		**(4,661,625)**	(3,758,810)
Interest paid		**(5,174,788)**	(7,568,593)
Interest received		**227,510**	2,220,200
Net cash flows from operating activities		**28,701,948**	62,468,455
Investing activities			
Purchase of property and equipment		**(49,865,160)**	(49,786,150)
Purchase of intangible assets		**(2,118,941)**	(7,351,694)
Proceeds from sale of property and equipment		**204,688**	137,126
Purchase of subsidiaries, excluding acquired cash	5	–	(10,232,457)
Deposits placed		**(19,481,507)**	(4,142,347)
Refund on deposits		**6,761,204**	44,478,688
Long-term loans to employees		**(2,834,680)**	(3,737,679)
Loans repaid by employees		**276,105**	263,952
Restricted cash placed		**(193,160)**	(4,056,109)
Restricted cash returned		**4,056,059**	–
Financial aid returned		**27,500**	10,614
Net cash flows used in investing activities		**(63,167,892)**	(34,416,056)

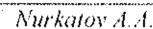
The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT (continued)

In thousands of tenge	Notes	2014	2013
Financing activities			
Proceeds from borrowings		**26,238,065**	11,375,291
Repayment of borrowings		**(18,292,099)**	(43,579,485)
Repurchase of treasury shares	22	**(110,040)**	(236,182)
Repayment of finance lease liabilities		**(7,160,743)**	(6,746,995)
Acquisition of non-controlling interests in a subsidiary	6	**(52,970)**	–
Financial aid returned		**(41,943)**	–
Net cash flows from / (used in) financing activities		**580,270**	(39,187,371)
Net decrease in cash and cash equivalents		**(33,885,674)**	(11,134,972)
Effects of exchange rate changes on cash and cash equivalents		**262,148**	21,594
Cash and cash equivalents at 1 January		**42,352,823**	53,466,201
Cash and cash equivalents at 31 December	20	**8,729,297**	42,352,823

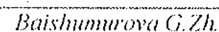
Non-cash transactions are disclosed in *Note 39*.

Chief Financial Director



Nurkatov A.A.

Chief Accountant



Baishumurova G.Zh.

The accompanying notes on pages 8 to 56 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. CORPORATE INFORMATION

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

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

The Company is controlled by the Government of the Republic of Kazakhstan through National Welfare Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna" or the "Parent"), which owned 51% of the Company's controlling stock. The following lists the shareholders of the Company's stock as at 31 December:

	2014	2013
Samruk-Kazyna	**51.0%**	51.0%
Bodam B. V.	**16.9%**	16.9%
ADR (The Bank of New York is a depositor)	**9.8%**	9.9%
Deran Services Limited	**7.6%**	9.6%
State Fund on Pension Assets JSC	**3.2%**	–
Kazkommertsbank JSC	**3.1%**	3.1%
Deran Investments B.V.	**2.0%**	–
Other	**6.4%**	9.5%
	100%	100%

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

The Company and its subsidiaries listed in *Note 6* (together the "Group") have a significant share of the fixed line communication market, including local, long-distance intercity and international telecommunication services including CIS and non-CIS countries; and provides also rent of lines, data transfer services and wireless communication services.

The consolidated financial statements were authorised for issue on 25 February 2015 by the Management of the Company.

2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements. These consolidated financial statements are presented in Kazakhstan tenge ("tenge") and all values are rounded to the nearest thousand, except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2014. Control is achieved when the Group is exposed, or has the right, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as at 1 January 2014:

- Investment Entities - Amendments to IFRS 10 *Consolidated Financial Statements,* IFRS 12 *Disclosure of Interests in Other Entities and* IAS 27 *Separate Financial Statements;*
- Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32 *Financial Instruments: Presentation*
- Recoverable Amount Disclosures for Non-Financial Assets — Amendments to IAS 36 *Impairment of Assets*;
- Novation of Derivatives and Continuation of Hedge Accounting — Amendments to IAS 39 *Financial Instruments: Recognition and Measurement;*
- IFRIC 21 *Levies*;
- *Improvements to IFRSs – 2010-2012 Cycle:* Amendments to IFRS 13 – Short-term receivables and payables;
- *Improvements to IFRSs – 2011-2013 Cycle:* Amendments to IFRS 1 – Meaning of 'effective IFRSs'.

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2014.

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

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Amendments to IAS 36 Assets impairment: Disclosures on Recoverable Amount for Non-financial Assets

These amendments remove unintended consequences for disclosures in accordance with IAS 36, associated with IFRS 13 coming into effect. In addition, these amendments require disclosure of information on asset's or CGU recoverable amount on which impairment loss was recognized or reimbursed during the reporting period. These amendments are applied retrospectively for annual periods beginning on or after 1 January 2014. The amendments have impact on the consolidated financial statements of the Group *(Notes 8 and 9).*

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

Annual Improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for 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. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 14 Regulatory Deferral Accounts

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

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition;
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

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

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

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

Amendments to IAS 27: Equity Method in Separate Financial Statements

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

Foreign currency translation

The Group's consolidated financial statements are presented in tenge, which is the functional currency of the Company and its major subsidiaries in the Republic of Kazakhstan. Tenge is the currency of the primary economic environment in which the Company and its major subsidiaries operate. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

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

	31 December 2014	31 December 2013
US dollar	**182.35**	153.61
Euro	**221.97**	211.17
South Korean won	**0.17**	0.14
Russian rouble	**3.17**	4.7

The functional currency of the foreign operations Signum LLC (Russia) and Online.kg LLC (Kyrgyzstan) is the Russian ruble and Kyrgyz som, respectively. On consolidation the assets and liabilities of foreign operations are translated into tenge at the rate of exchange prevailing at the reporting date and their statements of comprehensive income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification (continued)

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Fair value measurement

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarised in the *Note 41*.

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 fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The respective unit of the Group ("Executive Committee") determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted AFS financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operations. The management of the Company appoints the Executive Committee.

External valuers are involved for valuation of significant assets, such as properties and AFS financial assets, and significant liabilities, such as contingent consideration. Involvement of external valuers is decided upon annually by the Executive Committee is after discussion with and approval by the Company's Audit Committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Executive Committee decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the Executive Committee analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the Executive Committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Executive Committee, in conjunction with the Group's external valuers, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

On an interim basis, the Executive Committee and the Group's external valuers present the valuation results to the Audit Committee and the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as comprehensive income after tax from discontinued operations in the consolidated statement of comprehensive income.

Property and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives as follows:

	Years
Buildings	50
Constructions	10-25
Telecommunication equipment	3-20
Other	3-20

Land is not depreciated.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Construction-in-progress

Construction-in-progress represents property and equipment under construction and machinery and equipment awaiting installation and is stated at cost. Construction-in-progress includes cost of construction, equipment and other direct costs. When construction of such assets is completed or when the machinery and equipment are ready for their intended use, construction-in-progress is transferred to the appropriate category. Construction-in-progress is not depreciated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and accumulated impairment loss. Depreciation is computed on a straight-line basis over the useful life, which is estimated to be 50 years.

Investment properties are derecognised in the consolidated statement of financial position, when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of comprehensive income in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets other than goodwill are assessed to be finite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of comprehensive income when the asset is derecognised.

Amortization is calculated on a straight-line basis over the estimated useful lives as follows:

	Years
Licenses and trademarks	3-20
Software	1-14
Customer base	8
Other	2-15

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the consolidated statement of comprehensive income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of comprehensive income.

The following assets have specific characteristics for impairment testing:

Goodwill

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and cash equivalents, deposits, trade and other receivables, loans and other receivables.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Loans and receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables.

This category generally applies to trade and other receivables. For more information on receivables, refer to *Note 13* and *16*, respectively.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income as finance costs. The Group did not have any held-to-maturity investments during the years ended 31 December 2014 and 2013, except for deposits placed in banks.

Cash and cash equivalents

Cash and cash equivalents in consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less from the origination date.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred "loss event"), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation. Besides, such evidence includes observable data indicating that there is a measurable decrease in the estimated future cash flows on a financial instrument such as changes in arrears or economic conditions that correlate with defaults.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists 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. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings or payables, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings, lease liabilities, financial guarantee contracts, and debt component of preferred shares.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as described below:

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the consolidated statement of comprehensive income.

This category generally applies to loans and borrowings. For more information on receivables, refer to *Note 23*.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Debt component of preferred shares

The component of the preferred shares that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. The corresponding minimal guaranteed dividends on those shares are charged as interest expense in the consolidated statement of comprehensive income. On initial recognition, the fair value of the liability component is determined by discounting expected future cash flows at a market interest rate for a comparable debt instrument. The fair value of the equity component on initial recognition is assigned the residual amount after deducting from the initial carrying amount of the instrument as a whole the fair value determined for the liability component. Subsequently, the liability component is measured according to the same principles used for subordinated debt, and the equity component is not remeasured in subsequent years.

Trade and other payables

Liabilities for trade and other amounts payable are recognized at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in statement of consolidated comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are valued at the lower of cost or net realisable value. Costs comprise charges incurred in bringing inventory to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. The same cost formula is used for all inventories having a similar nature and use. All inventories are valued on the weighted-average cost basis.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the statement of consolidated comprehensive income on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Asset retirement obligation (decommissioning)

Site restoration provisions are made in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure (mainly base stations and platforms for the base stations, and radio relay towers), removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs. The cost of decommissioning are recognized at present value of expected costs to settle the obligation, measured using cash flows, and are recognized as part of the asset. The cash flows are discounted at current rate before tax. The unwinding of the discount is expensed as incurred and recognised in the statement of profit or loss as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

Employee benefits

Social tax

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. Social tax is expensed as incurred.

The Group withholds up to 10% from the salary of its employees as the employees' contributions to their designated pension funds. Under the legislation, employees are responsible for their retirement benefits and the Group has no present or future obligation to further compensate its employees upon their retirement, except as provided below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Defined benefit plan

In accordance with a Collective Agreement the Company provides certain long-term and retirement benefits to certain employees (the "Defined Benefit Plan").

Long-term benefits are paid to employees upon completion of a certain number of years of service whereas retirement benefits represent one-off payments paid upon retirement in accordance with the Collective Agreement. Both items vary according to the employee's average salary and length of service.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding net interest (not applicable to the Group) and the return on plan assets (excluding net interest), are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to comprehensive income in subsequent periods.

Past service costs are recognised in the consolidated statement of comprehensive income on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "Cost of revenue" and "General and administrative expenses" in the statement of consolidated comprehensive income.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in equity.

Dividends

The Group recognises a liability to make cash or non-cash distributions to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Group. As per legislation, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the statement of consolidated comprehensive income.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group analyses concluded arrangements, which provide revenue, in accordance with specified criteria to define if the Group is principal or agent. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to inventory and credit risks.

The specific recognition criteria described below must also be met before revenue is recognised:

Rendering of services

The Group's revenues are principally derived from the provision of local, domestic long distance and international long distance telecommunication services which consist of (i) usage charges for telephone services, which vary depending on the day, the time of the day, distance and duration of the telephone call, (ii) a monthly telephone service fee, (iii) service activation and installation fees, (iv) provision of internet and data services, and (v) interconnection fees from domestic and foreign telecommunications operators.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Rendering of services (continued)

The Group records service revenues over the periods they are earned as follows:

(i) Revenues derived from wireline and wireless phone services are recognised as the services are provided;

(ii) Monthly telephone service fees are recognised in the month in which the telephone services are provided to customers;

(iii) Upfront fees received for activation of connection to the wireline and wireless network that do not represent a separate earnings process and are deferred and recognised over the expected period of the customer relationship. The expected period of the customer relationship is based on past history of customer period and industry practice;

(iv) Revenue from provision of data transfer services are recognised when the services are provided to customers;

(v) Interconnection fees from domestic and foreign telecommunications operators are recognised when the services are rendered as measured by the actual minutes of traffic processed.

Sales of phone handsets and accessories

When the sale of handsets and related accessories, and the connection service do not represent a separate earning process and bundled with the telecommunication service arrangement in such a way that the commercial effect cannot be understood without reference to these transactions as a whole, the revenue is recognized over the expected term of the customer relationship. The expected period of customer relationship is based on past history of churn, and industry practice.

Rental income

Rental income arising from operating leases of telecommunication channels is accounted for on a straight-line basis over the lease terms and included in revenue due to its operating nature.

Compensation for provision of universal services in rural areas

Compensation for provision of universal services is recognised where there is reasonable assurance that the compensation will be received and all attached conditions will be complied with. When the compensation relates to an expense item, it is recognised as income over the period necessary to match the compensation on a systematic basis to the costs that it is intended to compensate. Where the compensation relates to an asset, it is recognised as deferred income and released to the statement of consolidated comprehensive income in equal amounts over the expected useful life of the related asset.

Compensation related to income is presented separately in the statement of consolidated comprehensive income within revenues from operating activities.

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income is recorded using the EIR. EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of consolidated comprehensive income.

Dividends

Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

Expense recognition

Expenses are recognized as incurred and are reported in the consolidated statement of comprehensive income in the period to which they relate on the accrual basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Connection cost

The Group defers connection costs incurred and attributable to the related deferred revenue over the expected period of the customer relationship.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that Group incurs in connection with the borrowing of funds.

Income tax

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax (continued)

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances changed. The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it occurred during the measurement period or recognised in the consolidated statement of comprehensive income.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful life of property and equipment and intangible assets

The Group assesses the remaining useful lives of items of property and equipment and intangible assets with finite useful lives at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amounts of the carrying values of property and equipment and intangible assets and on depreciation and amortization expenses recognized in the consolidated statement of comprehensive income. In 2014, following the analysis of historical data on usage of equipment, as well as technological obsolescence, the Group reassessed the remaining useful lives of certain telecommunication equipment which resulted in prolonged remaining useful lives by to 2 years on average, and remaining useful lives of CDMA equipment were decreased by 1-7 years on average. The change in the remaining useful lives resulted in a total decrease of depreciation expense for the year ended 31 December 2014 of 622,349 thousand tenge (2013: 2,680,999 thousand tenge).

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in *Note 10.*

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts historical and anticipated customer performance are considered. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

As at 31 December 2014, allowances for doubtful accounts have been created in the amount of 1,877,453 thousand tenge (as at 31 December 2013: 2,307,739 thousand tenge) *(Notes 14, 16, 17 and 19).*

Connection fees

Upfront fees received for activation and connection to the wireline and wireless network that do not represent a separate earning process are deferred and recognized over the expected period of the customer relationship. In making its judgments, management considered the detailed criteria for the recognition of revenues from connection fees set out in IAS 18, industry practice and the Group's historical churn rate. As at 31 December 2014 average customer relationship period is assessed as 13 years for fixed telephony customers, 5 years for internet customers and 17-42 months for mobile telecommunications customers.

Finance lease – Group as lessee

The Group has entered into leases with respect to certain telecommunication equipment. The Group has determined that the lease transfers substantially all the risks and rewards incidental to ownership of this equipment and, therefore, the lease is classified as a finance lease.

Employee benefit liability

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions.

In determining the appropriate discount rate, management considers the interest rates of highly rated corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation.

The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates.

Further details about employee benefit liability are given in *Note 25.*

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

As at 31 December 2014 the Group has 2,483,476 thousand tenge (as at 31 December 2013: 1,383,399 thousand tenge) of tax losses carried forward. These losses relate to subsidiaries that have a history of losses, expire after 10 years and may not be used to offset taxable income elsewhere in the Group.

The carrying value of recognized deferred tax assets as at 31 December 2014 is 1,679,830 thousand tenge (2013: 352,200 thousand tenge). As at 31 December 2014, the carrying amount of unrecognized deferred tax assets was 420,468 thousand tenge (as at 31 December 2013: 82,117 thousand tenge). Further details on taxes are disclosed in *Note 38.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See *Note 41* for further disclosures.

5. BUSINESS COMBINATIONS

Acquisition of Digital TV LLP

On 29 March 2013, the Group acquired 100% interest in Digital TV LLP ("DTV") a private entity that is not listed on any public exchange. DTV is based in Republic of Kazakhstan and provides analogous and digital cable television services. The Group has acquired DTV because it expands both its existing services portfolio and customer base. The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of DTV for the period from the acquisition date.

As at 31 December 2013 the Group completed the valuation of fair value of its share in identified assets, liabilities and contingent liabilities. Business combination was accounted for using fair value amounts as at acquisition date.

Fair value amounts of identified assets, liabilities and contingent liabilities of Digital TV LLP as at the date of acquisition comprised the following:

In thousands of tenge	**Fair value recognized on acquisition**
Assets	
Property and equipment	5,234,025
Intangible assets	2,364,031
Cash and cash equivalents	307,145
Trade accounts receivable	139,039
Inventories	58,895
Prepayments	104,837
Other current assets	117,120
	8,325,092
Liabilities	
Accounts payable	203,687
Deferred tax liabilities	538,398
Advances received	273,763
Other current liabilities	209,029
	1,224,877
Total identifiable net assets at fair value	**7,100,215**
Goodwill *(Note 9)*	**2,706,335**
Purchase consideration transferred	**9,806,550**

The deferred tax liability mainly comprises the tax effect of the difference between tax base of tangible and intangible assets and fair value of those assets recognized.

The goodwill of 2,706,335 thousand tenge comprises the value of expected synergies arising from the acquisition.

Analysis of cash flows on acquisition	
Net cash acquired with the subsidiary	307,145
Cash paid	(9,806,550)
Net cash outflow	**(9,499,405)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. BUSINESS COMBINATIONS (continued)

Acquisition of MaxCom LLP

On 3 April 2013, the Group acquired 100% interest in MaxCom LLP a not listed private entity. MaxCom LLP is based in Republic of Kazakhstan and provides mobile and fixed telecommunication services. The Group has acquired MaxCom LLP for widening of frequency band for provision of mobile services and customer base. The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of MaxCom LLP for the period from the acquisition date.

Fair value amounts of identified assets, liabilities and contingent liabilities of MaxCom LLP as at the date of acquisition comprised the following:

In thousands of tenge	**Fair value recognized on acquisition**
Assets	
Property and equipment	53,564
Intangible assets	890,838
Cash and cash equivalents	948
Prepayments	7,055
Other current assets	5,619
	958,024
Liabilities	
Borrowings	41,943
Accounts payable	6,008
Deferred tax liabilities	175,952
Other current liabilities	121
	224,024
Total identifiable net assets at fair value	**734,000**
Purchase consideration transferred	**734,000**

The deferred tax liability mainly comprises the tax effect of the difference between tax base of tangible and intangible assets and fair value of those assets recognized.

Analysis of cash flows on acquisition	
Net cash acquired with the subsidiary	948
Cash paid	(734,000)
Net cash outflow	**(733,052)**

6. CONSOLIDATION

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

		Percentage ownership	
	Country of residence	2014	2013
ALTEL JSC	Kazakhstan	**100.00%**	100.00%
NURSAT JSC	Kazakhstan	**80.00%**	77.08%
Kazakhtelecom Industrial Enterprises Services LLP	Kazakhstan	**100.00%**	100.00%
Signum LLC	Russia	**100.00%**	100.00%
KT Cloud Lab LLP	Kazakhstan	**100.00%**	100.00%
VOSTOKTELECOM LLP	Kazakhstan	**100.00%**	100.00%
Digital TV LLP	Kazakhstan	**100.00%**	100.00%
MaxCom LLP	Kazakhstan	**100.00%**	100.00%
Online.kg LLC	Kyrgyzstan	**100.00%**	100.00%

On 16 April 2014, the Group transferred 100% interest in MaxCom LLP as equity contribution to ALTEL JSC.

On 31 July 2014, the Group bought 2.92 % shares of NURSAT JSC from the minority shareholder Telecom 21 LLC for the amount of 52,970 thousand tenge.

7. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the organizational structure of the Group. The Group has three reportable operating segments as follows:

- Wireline telecommunication services mainly provided by Kazakhtelecom JSC, VOSTOKTELECOM LLP, KT Cloud Lab LLP and Digital TV LLP business units.
- CDMA and LTE mobile telecommunication services mainly provided by ALTEL JSC business unit.
- Satellite telecommunication services, including data transfer services mainly provided by NURSAT JSC business unit.

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

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

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

Year ended 31 December 2014

In thousands of tenge	Wireline telecommunications	CDMA and LTE mobile telecommunications	Satellite telecommunications	Other	Eliminations and adjustments	Group
Revenue						
External customers	189,319,364	18,369,485	532,651	1,784	–	208,223,284
Inter-segment	4,382,820	1,463,705	233,910	181,744	(6,262,179)	–
Total revenue	193,702,184	19,833,190	766,561	183,528	(6,262,179)	208,223,284
Results						
Depreciation and amortization	(32,413,601)	(5,385,373)	(1,406,085)	(41,486)	–	(39,246,545)
Finance costs	(6,731,929)	(1,381,271)	(79,414)	–	877,504	(7,315,110)
Finance income	3,567,558	143,591	3,095	210	(1,115,849)	2,598,605
Charge of bad debt expense	(440,363)	(4,170)	(150,846)	(6,613)	–	(601,992)
Income tax	(7,753,392)	1,274,559	(14,194)	(24,969)	–	(6,517,996)
Segment profit/(loss)	25,912,541	(10,711,092)	(2,754,818)	50,315	745,400	13,242,346
Operating assets	405,369,192	44,914,087	1,326,495	370,603	(34,286,925)	417,693,452
Operating liabilities	109,360,330	44,146,598	3,240,752	58,773	(9,422,349)	147,384,104
Other disclosures						
Assets classified as held for sale	–	946,381	–	4,638	–	951,019
Capital expenditure	51,000,787	10,145,426	60,574	62	–	61,206,849

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. SEGMENT INFORMATION (continued)

Year ended 31 December 2013

In thousands of tenge	Wireline telecommunications	CDMA and LTE mobile telecommunications	Satellite telecommunications	Other	Eliminations and adjustments	Group
Revenue						
External customers	180,275,609	8,349,421	2,223,949	18,441	–	190,867,420
Inter-segment	498,090	2,275,534	614,423	246,409	(3,634,456)	–
Total revenue	180,773,699	10,624,955	2,838,372	264,850	(3,634,456)	190,867,420
Results						
Depreciation and amortization	(32,333,195)	(3,744,618)	(708,844)	(84,779)	–	(36,871,436)
Finance costs	(10,841,708)	(540,399)	(102,449)	–	310,978	(11,173,578)
Finance income	5,059,958	19,737	–	614	(866,124)	4,214,185
(Provision) / Recovery of bad debt expense	(337,731)	(14,382)	26,616	(974)	–	(326,471)
Income tax	(4,799,430)	784,042	48,863	20,666	–	(3,945,859)
Segment profit/(loss)	30,982,851	(6,566,763)	(280,745)	(59,011)	(569,553)	23,506,779
Operating assets	413,497,875	30,780,278	5,042,819	1,730,244	(34,915,938)	416,135,278
Operating liabilities	134,866,234	21,813,760	3,228,734	146,453	(9,423,238)	150,631,943
Other disclosures						
Capital expenditure	70,638,360	8,930,633	176,120	984,892	–	80,730,005

1) Inter-segment revenues are eliminated on consolidation.

2) Finance costs and income include inter-segment finance charges and inter-segment finance income.

3) Segment operating profits include profits from inter-segment operations.

4) Capital expenditure consists of additions of property and equipment and intangible assets.

Reconciliation of profit

In thousands of tenge	**2014**	2013
Segment profit	**12,496,946**	24,076,332
Other	**745,400**	(569,553)
Group profit	**13,242,346**	23,506,779

Reconciliation of assets

In thousands of tenge	**2014**	2013
Segment operating assets	**451,980,377**	451,051,216
Elimination of the Company's investments in subsidiaries	**(24,413,372)**	(24,413,243)
Elimination of intergroup balances of accounts receivable and payable	**(9,873,553)**	(10,502,695)
Group operating assets	**417,693,452**	416,135,278

Reconciliation of liabilities

In thousands of tenge	**2014**	2013
Segment operating liabilities	**156,806,453**	160,055,181
Deferred tax liabilities	**451,204**	1,079,457
Elimination of intergroup balances of accounts receivable and payable	**(9,873,553)**	(10,502,695)
Group operating liabilities	**147,384,104**	150,631,943

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. PROPERTY AND EQUIPMENT

The movements in property and equipment for the years 2014 and 2013 were as follows:

In thousands of tenge	Land	Buildings and constructions	Equipment	Other	Construction in progress	Total
Cost						
At 1 January 2013	667,073	37,478,101	393,138,143	12,613,425	33,257,258	477,154,000
Additions	4,919	858,242	36,198,818	1,051,075	24,600,675	62,713,729
Acquisition of subsidiaries *(Note 5)*	4,735	496,946	4,635,803	33,832	116,273	5,287,589
Internal transfers	–	4,784,689	21,023,767	(136,286)	(25,672,170)	–
Disposals	(2,029)	(166,208)	(6,184,942)	(258,200)	(20,336)	(6,631,715)
Transfers to intangible assets *(Note 9)*	–	–	–	–	(987,709)	(987,709)
At 31 December 2013	674,698	43,451,770	448,811,589	13,303,846	31,293,991	537,535,894
Additions	**10,237**	**1,050,949**	**31,966,582**	**930,045**	**25,350,909**	**59,308,722**
Internal transfers	**–**	**4,329,285**	**29,737,037**	**28,196**	**(34,094,518)**	**–**
Disposals	**(4,045)**	**(231,739)**	**(5,959,966)**	**(457,689)**	**(23,620)**	**(6,677,059)**
Transfers to assets held for sale (*Note 21*)	**–**	**(2,238)**	**(1,029,022)**	**(1,225)**	**–**	**(1,032,485)**
Transfers to intangible assets *(Note 9)*	**–**	**–**	**–**	**–**	**(809,284)**	**(809,284)**
At 31 December 2014	**680,890**	**48,598,027**	**503,526,220**	**13,803,173**	**21,717,478**	**588,325,788**
Accumulated depreciation and impairment						
At 1 January 2013	–	10,097,428	201,110,372	8,633,436	3,922	219,845,158
Depreciation expense	–	1,596,721	30,935,818	1,081,363	–	33,613,902
Disposals	–	(50,506)	(4,862,093)	(241,006)	–	(5,153,605)
At 31 December 2013	–	11,643,643	227,184,097	9,473,793	3,922	248,305,455
Depreciation expense	**–**	**1,746,391**	**31,955,862**	**1,083,015**	**–**	**34,785,268**
Impairment	**–**	**–**	**919,249**	**1,111**	**1,271,900**	**2,192,260**
Disposals	**–**	**(113,210)**	**(4,829,180)**	**(403,065)**	**(1,999)**	**(5,347,454)**
Transfers to assets held for sale (*Note 21*)	**–**	**–**	**(81,250)**	**(216)**	**–**	**(81,466)**
At 31 December 2014	**–**	**13,276,824**	**255,148,778**	**10,154,638**	**1,273,823**	**279,854,063**
Net book value						
At 31 December 2012	667,073	27,380,673	192,027,771	3,979,989	33,253,336	257,308,842
At 31 December 2013	674,698	31,808,127	221,627,492	3,830,053	31,290,069	289,230,439
At 31 December 2014	**680,890**	**35,321,203**	**248,377,442**	**3,648,535**	**20,443,655**	**308,471,725**

Construction in progress primarily represents construction of network and telecommunication equipment under installation.

In 2014, an impairment loss amounted to 2,192,260 thousand tenge and represented write-off of certain facilities operating in the segments of wireline telecommunications and satellite telecommunications to the recoverable amount due to technological obsolescence. Loss was recognized in the consolidated statement of comprehensive income as general and administrative expenses. At 31 December 2014, the recoverable amount of assets constituted nil tenge. Amount was determined based on the assessment of value in use of the assets at the level of individual assets.

At 31 December 2014, certain property and equipment with a net carrying amount of 2,480,212 thousand tenge (31 December 2013: 3,046,995 thousand tenge) were pledged as security for some of the Group's borrowings *(Note 23)*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. PROPERTY AND EQUIPMENT (continued)

Borrowing costs of 41,000 thousand tenge on loans obtained to finance the construction of property and equipment were capitalized during 2014 at an average capitalization rate of 7% (2013: 32,223 thousand tenge at an average capitalization rate of 5.75%).

At 31 December 2014, the carrying value of equipment held under finance leases and included in property and equipment amounted to 32,800,554 thousand tenge (at 31 December 2013: 28,903,323 thousand tenge). Additions during the year include 7,545,272 thousand tenge (as at 31 December 2013: 7,768,930 thousand tenge) of property and equipment held under finance leases. Leased assets are pledged as security for the related finance leases.

As at 31 December 2014, property and equipment with cost of 125,577,873 thousand tenge, were fully amortized (as at 31 December 2013: 120,459,427 thousand tenge).

9. INTANGIBLE ASSETS

The movements of goodwill and intangible assets for the years 2014 and 2013 were as follows:

In thousands of tenge	Licenses and trademarks	Software	Goodwill	Other	Total
Cost					
At 1 January 2013	21,441,074	17,202,568	–	1,630,637	40,274,279
Additions	2,920,051	2,590,449	–	1,256,983	6,767,483
Acquisition of a subsidiaries *(Note 5)*	967,401	81,246	2,706,335	2,206,222	5,961,204
Internal movements	293,328	(293,328)	–	–	–
Disposals	(105,679)	(532,756)	–	(67,684)	(706,119)
Transfers from CIP *(Note 8)*	324,192	663,517	–	–	987,709
At 31 December 2013	25,840,367	19,711,696	2,706,335	5,026,158	53,284,556
Additions	**422,339**	**884,581**	**–**	**591,207**	**1,898,127**
Transfers	**77,431**	**355,359**	**–**	**(432,790)**	**–**
Disposals	**(94,858)**	**(417,899)**	**–**	**(71,754)**	**(584,511)**
Transfers from CIP *(Note 8)*	**–**	**809,284**	**–**	**–**	**809,284**
At 31 December 2014	**26,245,279**	**21,343,021**	**2,706,335**	**5,112,821**	**55,407,456**
Accumulated amortization					
At 1 January 2013	11,381,797	11,157,897	–	1,518,065	24,057,759
Amortization expense	1,451,765	1,621,943	–	217,958	3,291,666
Disposals	(82,644)	(152,817)		(67,160)	(302,621)
At 31 December 2013	12,750,918	12,627,023	–	1,668,863	27,046,804
Amortization expense	**1,407,796**	**1,648,791**	**–**	**552,850**	**3,609,437**
Impairment	**238,408**	**10,357**	**–**	**1,145**	**249,910**
Disposals	**–**	**(29,964)**	**–**	**–**	**(29,964)**
At 31 December 2014	**14,397,122**	**14,256,207**	**–**	**2,222,858**	**30,876,187**
Net book value					
At 31 December 2012	10,059,277	6,044,671	–	112,572	16,216,520
At 31 December 2013	13,089,449	7,084,673	2,706,335	3,357,295	26,237,752
At 31 December 2014	**11,848,157**	**7,086,814**	**2,706,335**	**2,889,963**	**24,531,269**

In 2014, an impairment loss amounted 249,910 thousand tenge and represented write-off of certain intangible assets operating in the segment of satellite communications to the recoverable amount due to technological obsolescence. Loss was recognized in the consolidated statement of comprehensive income as general and administrative expenses. At 31 December 2014, the recoverable amount of assets constituted nil tenge. Amount was determined based on the assessment of value in use of the assets at the level of individual assets.

Licenses and trademarks, software and other include intangible assets acquired through business combinations.

As at 31 December 2014 intangible assets (mainly software) with cost amounting to 6,066,237 thousand tenge were fully amortized (as at 31 December 2013: 6,283,986 thousand tenge).

10. IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combination has been allocated to the IP TV cash generating unit, which is part of wireline telecommunications segment.

Carrying amount of goodwill allocated to IP TV CGU:

	IPTV	
	2014	2013
Goodwill	**2,706,335**	2,706,335

The Group performed its annual impairment test as at 31 December 2014 and 2013.

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections from financial budgets approved by management covering a five-year period.

The after-tax discount rate applied to cash flow projections is 12.85% (2013: 13.27%) and cash flows beyond the five-year period are extrapolated using a 0% growth rate (2013: 1%).

As a result of this analysis, as at 31 December 2014 the management did not identify impairment for this CGU.

Key assumptions used in value in use calculations

The calculation of value-in-use for the IPTV cash-generating unit is most sensitive to the following assumptions:

- Customer base during the budgeted period and average revenue per user (ARPU);
- Growth rate used to extrapolate cash flows beyond the forecast period;
- Discount rate.

Customer base and ARPU

Customer base and ARPU is important because management assesses how the CGU's position, relative to its competitors, might change over the forecast period. Management expects the Group's IPTV customer base to increase over the forecast period, as it plans to use the advantages of Kazakhtelecom' s JSC infrastructure to increase market share of Kazakhtelecom JSC. Given the fact of competition, this will result in ARPU decreasing over the forecast period.

Growth rate

Growth rate is based on published industry research.

Discount rate

Discount rate represent the current market assessment of the risks specific to the CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Sensitivity to changes in assumptions

The implications of the key assumptions for the recoverable amount are discussed below:

Customer base and ARPU

Although management expects the Group's market share to increase over the forecast period, a decline in the customer base and ARPU by 37.20% would result in accrual of expenses from impairment in the IP TV CGU.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. IMPAIRMENT TESTING OF GOODWILL (continued)

Sensitivity to changes in assumptions (continued)

Growth rate assumptions

Management recognizes that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction by 16.30% in the long-term growth rate in IP TV CGU would result in impairment.

Discount rates

A rise in after-tax discount rate to 29.18% would result in impairment in the IP TV CGU.

11. ADVANCES PAID FOR NON-CURRENT ASSETS

As at 31 December 2014 and 2013, advances paid for non-current assets comprised advances to contractors for the construction and supply of property and equipment (mainly telecommunication equipment).

12. INVESTMENT PROPERTY

The movement in investment property was as follows for the years ended 31 December:

In thousands of tenge	**2014**	2013
Cost		
At 1 January	**1,264,668**	1,264,668
At 31 December	**1,264,668**	1,264,668
Accumulated impairment		
At 1 January	**(1,264,668)**	(1,264,668)
At the end of the year	**(1,264,668)**	(1,264,668)
Carrying amount		
At 1 January	**–**	–
At 31 December	**–**	–

Investment property represents an office building constructed for the purposes of renting to Government related entities.

The impairment of 1,264,668 thousand tenge represents the write down of the carrying value of the investment property to the recoverable amount. The recoverable amount was based on analysis of value in use and fair value less costs to sell and estimated to be zero as at 31 December 2014 and 2013, as it is unlikely that the Group will receive reimbursement for its construction costs either through sale of the office building or rent payments. However, these assumptions may change in the future. Management assessed fair value of the investment property as 3,523,069 thousand tenge as at 31 December 2014.

13. OTHER NON-CURRENT FINANCIAL ASSETS

As at 31 December 2014 and 31 December 2013, other non-current financial assets comprised the following:

In thousands of tenge	**2014**	2013
Long-term trade receivables	**6,935,892**	7,622,976
Long-term loans to employees	**2,875,800**	2,783,614
Long-term deposits	**2,005,900**	374,858
Other	**67,075**	26,420
	11,884,667	10,807,868

Long-term trade receivables as at 31 December 2014 represent receivables from Mobile Telecom-Service LLP, the former subsidiary of the Group sold in 2010. The receivables were discounted at origination date using the interest rate of 10% representing the market interest rate.

Long-term loans to employees are interest free loans given for the period from one to fifteen years. Long-term loans to employees were discounted at issue date of at market rates at range 12.2-22% (2013: 12.2-22%). Repayment of long-term loans to employees is made through withholding of the amounts payable from the salaries of employees. Loans are secured by employees' apartments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. OTHER NON-CURRENT FINANCIAL ASSETS (continued)

Average interest rate for long-term deposits was 4% per annum (2013: 1.5%).

As at 31 December 2014 and 31 December 2013, other non-current financial assets were denominated in various currencies as follows:

In thousands of tenge	**2014**	2013
Tenge	**9,878,817**	10,406,640
US dollars	**2,005,850**	374,808
Other	**–**	26,420
	11,884,667	10,807,868

14. OTHER NON-CURRENT ASSETS

As at 31 December 2014 and 31 December 2013, other non-current assets comprised the following:

In thousands of tenge	**2014**	2013
Deferred expenses	**2,275,585**	2,944,502
Long-term VAT recoverable	**2,442,411**	1,216,958
Other	**198,547**	292,663
	4,916,543	4,454,123
Less: impairment allowance	**–**	(3,250)
	4,916,543	4,450,873

At 31 December 2014 and 31 December 2013, other non-current assets were denominated in tenge.

The movements in the impairment allowance were as follows for the years ended 31 December:

In thousands of tenge	**2014**	2013
Impairment allowance at the beginning of the year	**(3,250)**	–
Recovery / (charge) for the year	**3,250**	(3,250)
Impairment allowance at the end of the year	**–**	(3,250)

15. INVENTORIES

As at 31 December 2014 and 31 December 2013, inventories comprised the following:

In thousands of tenge	**2014**	2013
Cable materials at cost	**1,677,575**	1,611,715
Spare parts at cost	**1,583,950**	887,788
Goods for resale at net realizable value	**1,222,675**	910,892
Other materials and supplies at cost	**930,781**	1,366,477
Fuel at cost	**519,065**	562,342
	5,934,046	5,339,214

16. TRADE ACCOUNTS RECEIVABLE

As at 31 December 2014 and 31 December 2013, trade accounts receivable comprised the following:

In thousands of tenge	**2014**	2013
Trade accounts receivable	**22,276,939**	18,077,833
	22,276,939	18,077,833
Less: allowance for doubtful debts	**(1,512,067)**	(1,885,077)
	20,764,872	16,192,756

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. TRADE ACCOUNTS RECEIVABLE (continued)

The movements in the allowance for doubtful debts were as follows for the years ended 31 December:

In thousands of tenge	2014	2013
Allowance for doubtful debts at the beginning of the year	**(1,885,077)**	(2,616,112)
Charge for the year	**(583,903)**	(282,399)
Write-offs for the year	**956,913**	1,013,434
Allowance for doubtful debts at the end of the year	**(1,512,067)**	(1,885,077)

As at 31 December 2014 and 31 December 2013, the ageing analysis of trade accounts receivable is as follows:

		Neither past	Past due but not impaired				
In thousands of tenge	Total	due nor impaired	<30 days	30-90 days	90-120 days	120-360 days	>360 days
31 December 2014	**20,764,872**	**18,395,559**	**1,335,072**	**694,315**	**146,414**	**193,512**	**–**
31 December 2013	16,192,756	13,799,530	1,427,668	522,023	327,074	116,461	–

As at 31 December 2014 and 31 December 2013, the Group's trade accounts receivable were denominated in various currencies as follows:

In thousands of tenge	2014	2013
Tenge	**19,609,368**	15,514,427
US dollars	**1,129,924**	625,092
Other	**25,580**	53,237
	20,764,872	16,192,756

17. PREPAYMENTS

As at 31 December 2014 and 31 December 2013, prepayments comprised the following:

In thousands of tenge	2014	2013
Prepayments	**1,023,566**	1,097,200
	1,023,566	1,097,200
Less: impairment allowance	**(31,220)**	(33,508)
	992,346	1,063,692

The movements in the impairment allowance were as follows for the years ended 31 December:

In thousands of tenge	2014	2013
Impairment allowance at the beginning of the year	**(33,508)**	(17,434)
Charge for the year	**(3,936)**	(16,623)
Write-offs for the year	**6,224**	549
Impairment allowance at the end of the year	**(31,220)**	(33,508)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. OTHER FINANCIAL ASSETS

As at 31 December 2014 and 31 December 2013, other financial assets comprised the following:

In thousands of tenge	2014	2013
Bank deposits	**16,464,382**	4,870,000
Other receivable	**2,177,259**	537,000
Due from employees	**2,064,200**	1,970,371
Interest receivable	**454,486**	271,971
Restricted cash on current bank account	**193,160**	4,056,059
Other	**9,310**	–
Restricted deposit	**–**	441,000
	21,362,797	12,146,401

Bank deposits with maturities over 3 months but less than 12 months were opened in a local bank and were earning interest at the rates ranging from 1.45% to 6.5% per annum (2013: from 3 to 6.5% per annum).

Interest free restricted cash on current bank accounts was placed as collateral for covered bank guarantees for the period less than one year.

As at 31 December 2014 and 31 December 2013, the Group's other financial assets were denominated in various currencies as follows:

In thousands of tenge	2014	2013
US dollars	**16.736.982**	11,432
Tenge	**4.616.505**	12,134,969
Other	**9.310**	–
	21.362.797	12,146,401

19. OTHER CURRENT ASSETS

As at 31 December 2014 and 31 December 2013, other current assets comprised the following:

In thousands of tenge	2014	2013
Deferred expenses	**2,578,354**	1,821,116
VAT recoverable	**1,428,137**	2,094,175
Prepaid taxes other than income tax	**171,609**	311,058
Due from employees	**102,217**	109,885
Other	**2,267,316**	2.620,949
	6,547,633	6,957,183
Less: impairment allowance	**(334,166)**	(385,904)
	6,213,467	6,571,279

Other represents guarantee payments for tenders and prepaid insurance.

The movements in the allowance for doubtful debts were as follows for the years ended 31 December:

In thousands of tenge	2014	2013
Allowance at the beginning of the year	**(385,904)**	(367,800)
Charge for the year	**(16,241)**	(23,665)
Write-offs for the year	**67,979**	5,561
Allowance at the end of the year	**(334,166)**	(385,904)

As at 31 December 2014 and 31 December 2013, other current assets were primarily denominated in tenge.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. CASH AND CASH EQUIVALENTS

As at 31 December 2014 and 31 December 2013, cash and cash equivalents comprised the following:

In thousands of tenge	2014	2013
Cash on current bank accounts	**7,349,198**	41,516,634
Deposits with maturity less than 90 days from origination date	**1,348,888**	802,136
Cash on hand	**31,211**	34,053
	8,729,297	42,352,823

Cash on current bank accounts earn interest at the rates ranging from 0.09% to 5.76% per annum (2013: from 0.08% to 3.98% per annum). Short-term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the rates ranging from 0.01% to 10% per annum (2013: from 0.1% to 4% per annum).

As at 31 December 2014 and 31 December 2013, cash and cash equivalents were denominated in various currencies as follows:

In thousands of tenge	2014	2013
Tenge	**6,676,058**	13,081,223
US dollars	**1,918,333**	28,935,778
Russian rubles	**126,479**	185,181
Euro	**6,030**	148,581
Other	**2,397**	2,060
	8,729,297	42,352,823

21. ASSETS CLASSIFIED AS HELD FOR SALE

Assets held for sale in the amount of 951,019 thousand tenge represented by LTE equipment, attributable to a segment of cellular communications in the CDMA and LTE standards. In 2015, the Group does not use the equipment due to the fact that it plans to compensate carrying amount of the equipment through sale or netting with accounts payable, or by issuing penalties under the contract for purchase of telecommunication equipment, works and services with Huawei-Almaty LLP.

22. EQUITY

Authorised and issued shares

	Number of shares		Thousands of tenge		Total issued capital
	Ordinary shares	Preferred non-voting shares	Ordinary shares	Preferred non-voting shares	
As at 31 December 2012	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
As at 31 December 2013	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
As at 31 December 2014	**10,922,876**	**1,213,653**	**10,922,876**	**1,213,653**	**12,136,529**

Treasury shares

	Number of shares		Thousands of tenge		
	Ordinary shares	Preferred non-voting shares	Ordinary shares	Preferred non-voting shares	Total
As at 31 December 2012	186,688	885,829	2,583,167	3,436,548	6,019,715
Treasury shares purchased	45,748	20,477	666,953	259,511	926,464
Treasury shares sold	(28,481)	(20,074)	(407,749)	(248,286)	(656,035)
As at 31 December 2013	203,955	886,232	2,842,371	3,447,773	6,290,144
Treasury shares purchased	32,812	14,359	384,368	132,908	517,276
Treasury shares sold	(26,587)	(8,448)	(317,290)	(91,511)	(408,801)
As at 31 December 2014	**210,180**	**892,143**	**2,909,449**	**3,489,170**	**6,398,619**

Issued shares net of treasury shares

As at 31 December 2014, outstanding issued ordinary and preferred shares net of treasury shares were 10,712,696 and 321,510 respectively (as at 31 December 2013: 10,718,921 and 327,421 shares respectively).

22. EQUITY (continued)

Preferred shares

Preferred stockholders are entitled to priority rights for participation in di annual cumulative dividend of 300 tenge per share, but not less than per share dividends paid to the holders of common stock. This cumulative annual dividend represents a financial liability which, based on discounted future cash flows, as at 31 December 2014 amounts to 876,845 thousand tenge (as at 31 December 2013: 892,966 thousand tenge). This liability has been recorded in non-current liabilities as a debt component of preferred stock. Preferred shareholders receive the right to vote if the general meeting of shareholders considers decisions restricting rights of preferred shareholders, decisions on reorganization or liquidation of the Company and if dividends on preferred shares are not paid within three months after a specified payment date.

Dividends

The preferred shares earn a non-discretionary dividend of 300 tenge per share or 11% per annum in accordance with the Company's charter documents. Preferred shares are considered to be compound financial instruments, and accordingly the liability and equity components are presented separately in the consolidated statement of financial position. Dividends on preferred shares in the amount of 96,542 thousand tenge were accrued during the year ended 31 December 2014 (as at 31 December 2013: 98,450 thousand tenge) and are treated as finance costs in the consolidated statement of comprehensive income. Present value of non-discounted future cash flows represents the debt component in other non-current liabilities.

In 2014 the Group did not declare dividends on ordinary shares.

In thousands of tenge	**2014**	2013
Dividends declared on ordinary shares	–	29,643,596
Dividends declared on preferred shares	–	803,398
	–	30,446,994
Withholding tax accrued	**(544,317)**	(28,067)
Dividends paid	**(28,229,629)**	(1,928,375)
Change in dividends payable	**(28,680,024)**	28,589,002

Other capital reserve

According to the Company's Charter, the Company created a capital reserve which is equal to 15% of the authorized share capital. This reserve was created from the appropriation of the retained earnings. In 2014 and 2013 there were no any movements in capital reserve.

Currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of the subsidiaries, whose functional currency is not tenge and whose financial statements are included in these consolidated financial statements in accordance with the accounting policy disclosed in *Note 3.*

Earnings per share

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. EQUITY (continued)

Earnings per share (continued)

The following table reflects the income and share data used in the basic and diluted earnings per share computations:

In thousands of tenge	**2014**	2013
Net profit attributable to ordinary shares owners of the parent	**7,483,619**	19,614,067
Net profit attributable to ordinary shares owners of the parent for basic and diluted earnings	**7,483,619**	19,614,067
Interest on debt component of preferred shares	**96,542**	98,450
Net profit attributable to ordinary and preferred owners of the parent for basic and diluted earnings	**7,580,161**	19,712,517
Weighted average number of all shares outstanding for basic and diluted earnings per share	**11,041,472**	11,049,653
Basic and diluted earnings per share, tenge	**686.52**	1,783.99

There have been no other transactions involving ordinary shares between the reporting date and the date of completion of these financial statements.

In accordance with Kazakhstan Stock Exchange requirements the Group discloses the ratio calculated as total equity less total intangible assets, and less the preferred non-voting shares amount in equity divided by number of ordinary shares outstanding as at year end. As at 31 December 2014, that measure was 22,913 tenge (as at 31 December 2013: 22,291 tenge). Another requirement for disclosure is the sum of the dividends payable to owners of preferred shares, preferred non-voting shares amount in equity and debt component of preferred shares, divided by number of preferred non-voting shares as at year end. As at 31 December 2014, that measure was 8,668 tenge (as at 31 December 2013: 10,878 tenge).

23. BORROWINGS

As at 31 December 2014 and 31 December 2013, borrowings comprised the following:

In thousands of tenge	**Weighted average interest rate**	**2014**	Weighted average interest rate	2013
Fixed interest rate borrowings *with range between 3% and 7% p.a.*	**6.45%**	**31,049,735**	5.49%	17,004,856
Variable interest rate borrowings *with range between 2.49% and 9.33% p.a.*	**6.87%**	**31,139,240**	6.69%	28,141,211
		62,188,975		45,146,067

As at 31 December 2014 and 31 December 2013 were denominated in various currencies as follows:

In thousands of tenge	**2014**	2013
Tenge	**22,973,450**	5,144,630
Tenge, payments indexed to exchange rate tenge/US dollar	**19,263,249**	16,242,112
US dollar	**18,371,112**	22,246,768
Won	**1,581,164**	1,512,557
	62,188,975	45,146,067

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. BORROWINGS (continued)

Borrowings are repayable as follows:

In thousands of tenge	2014	2013
Current portion	**5,762,823**	9,117,411
Maturity between 1 and 2 years	**7,414,892**	4,799,169
Maturity between 2 and 5 years	**33,973,070**	11,960,887
Maturity over 5 years	**15,038,190**	19,268,600
Total long-term portion	**56,426,152**	36,028,656
Total borrowings	**62,188,975**	45,146,067

As at 31 December 2014, certain property and equipment with a net carrying amount of 2,480,212 thousand tenge were pledged as security for some of the Group's borrowings (as at 31 December 2013: 3,046,995 thousand tenge) *(Note 8)*.

As at 31 December 2014, the Group's borrowings of 1,581,164 thousand tenge were guaranteed by the Government of the Republic of Kazakhstan (as at 31 December 2013: 1,512,557 thousand Tenge) *(Note 40)*.

24. LEASES

Finance leases

The Group has finance leases for various items of property and equipment, primarily telecommunication equipment. These leases transfer the ownership over the leased assets to the Group upon the end of the lease term. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments comprised the following:

	2014		2013	
In thousands of tenge	**Minimum lease payments**	**Present value of minimum lease payments**	Minimum lease payments	Present value of minimum lease payments
Within one year	**9,397,558**	**7,519,979**	8,912,030	6,994,294
After one year but not more than five years	**12,192,561**	**10,629,340**	12,496,169	10,689,177
After five years	**–**	**–**	–	–
Less: amounts representing interest charges	**(3,440,800)**	**–**	(3,724,728)	–
Present value of minimum lease payments	**18,149,319**	**18,149,319**	17,683,471	17,683,471
Less: amounts due for settlement within 12 months		**(7,519,979)**		(6,994,294)
Amounts due for settlement after 12 months		**10,629,340**		10,689,177

The amounts representing interest are based on effective interest rates ranging from 12.5% to 21% p.a.

Operating leases

The Group has entered into commercial leases on certain property and equipment, primarily buildings and premises. These leases have an average life of 1 year with renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases. Operating lease commitments are disclosed in *Note 42*.

25. EMPLOYEE BENEFIT LIABILITY

State contribution plan

The Group pays social tax according to the current statutory requirements in the Republic of Kazakhstan. Social tax and payroll are expensed as incurred.

The Group also withholds 10% from the salaries of its employees as the employee contribution and transfers on behalf of employees to their personal accounts at cumulative pension funds. These amounts are part of payroll and expensed when they are incurred.

Defined benefit plan

Employee benefit liability under this plan are payable in accordance with a labour union agreement concluded between the Company and its employees.

The Defined Benefit Plan is unfunded.

As at 31 December 2014 and 31 December 2013, the total liability for the Company's defined benefit plan comprised the following:

In thousands of tenge	**2014**	2013
Present value of defined benefit liability	**5,797,354**	4,963,458

A reconciliation of the present value of the defined benefit liability with specified payments is as follows for the years ended 31 December:

In thousands of tenge	**2014**	2013
Total liability at the beginning of the year	**4,963,458**	5,172,236
Current service cost	**312,579**	229,063
Interest cost	**449,515**	486,030
Benefits paid during the year	**(1,223,011)**	(1,023,908)
Actuarial loss recognized during the year	**1,294,813**	100,037
Total liability at the end of the year	**5,797,354**	4,963,458
Liability falling due within one year	**742,288**	362,721
Liability falling due after one year	**5,055,066**	4,600,737

Actuarial loss recognised for the year ended 31 December 2014 results primarily from changes in the assumptions relating to the discount rate and expected rate of future annual minimum salary increases. In determining the appropriate discount rate, management considers the interest rate of highly rated corporate bonds in the respective currency.

Current service cost and interest cost in the aggregate amount of 762,094 thousand tenge were recorded in the cost of revenue and general and administrative expenses within personnel costs (2013: 715,093 thousand tenge) *(Note 34)*.

There were no unrecognized actuarial losses or past service costs.

The estimates of the Company's liability were made on the basis of the published statistical data regarding mortality and the Company's data concerning the number, age, gender and years of employee service. Other principal assumptions used in determining benefit obligations for the Company's plan are shown below:

	2014	2013
Discount rate	**9.32%**	9.40%
The expected rate of future annual minimum salary increase	**9.60%**	6.24%

The quantitative analysis of sensitivity as at 31 December 2014 is as follows:

	Discount rate		**Expected rate of annual salary increase**	
Sensitivity level	Growth for 0.5%	Decline for 0.5%	Growth for 1%	Decline for 1%
Impact on defined benefit plan in thousands of tenge	(211,886)	227,829	428,956	(377,143)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. EMPLOYEE BENEFIT LIABILITY (continued)

Defined benefit plan (continued)

The analysis of sensitivity given above was made on the basis of a method according to which influence of reasonable changes of the main assumptions on the obligation under the pension plan with the established payments, is defined by means of extrapolation of their values as at the end of the reporting period.

26. OTHER NON-CURRENT LIABILITIES

As at 31 December 2014 and 31 December 2013, other non-current liabilities comprised the following:

In thousands of tenge	**2014**	2013
Deferred connection revenue	**2,890,794**	3,304,035
Asset retirement obligations	**1,944,996**	1,065,771
Long-term accounts payables	**1,020,730**	–
Guarantees issued	**709,303**	–
Other	**1,084,432**	63,951
	7,650,255	4,433,757

Asset retirement obligations

Provision for asset retirement obligations is provided at the present value of expected costs to settle the obligation using estimated cash flows and is recognised as part of the cost of the particular asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability.

The movements in the provision for asset retirement obligations were as follows as at 31 December 2014:

In thousands of tenge	**2014**	2013
Provision for asset retirement obligations at 1 January	**1,065,771**	553,309
Increase in provision for the year	**661,586**	479,901
Unwinding of discount *(Note 35)*	**217,639**	32,561
Provision for asset retirement obligations at 31 December	**1,944,996**	1,065,771

Long term accounts payable

The long-term accounts payable are presented by payables to ZTE Kazakhstan LLP for LTE equipment, installation and construction works. According to the delivery terms of contract, the debt is subject to repayment with equal semi-annual payments within three years. Short-term and long-term parts of the debt amounted to 631,365 and 1,262,729 thousand tenge, respectively. At initial recognition in 2014, these accounts payable were reflected at fair value. The difference between the carrying and fair value in the amount of 319,335 thousand tenge will be considered further as finance expenses, and at the time of recognition were carried on reduction of cost of the received equipment. Depreciation of discount for 2014 on these accounts payable amounted to 45,355 thousand tenge (*Note 35*).

Guarantees issued

On 14 November 2009 the Group signed an agreement with Kazakhmys Plc, Parent and China Development Bank ("CDB") where the Group and Kazakhmys provided a 12 to 15 years guarantee to CDB for loans of the Parent. The Group's liability under the guarantee is capped at 300 million US dollars of principal plus 15% of any interest and any other duly payable costs and expenses. For this purpose, the Group and Parent signed an agreement on full compensation of any amounts paid by the Group arising from the guarantee agreement by the Parent.

The Group accounts the issued guarantee, in the consolidated statement of changes in equity. Amortization of this guarantee in 2014 amounted to 78,811 thousand tenge (*Note 35*).

Other

In 2014 Huawei-Almaty LLP made change to a procedure for payment of accounts payable for delivery and installation of the LTE equipment, which according to initial terms of the contract assumed distribution of this accounts payable for three years, and subsequently assumes repayment of this accounts payable without delay. For performance of these conditions of repayment the Group obtained a loan from Development Bank of Kazakhstan JSC. Finance expenses on this loan amounted to 766,170 thousand tenge for 3 years. According to the mutual arrangement, Huawei-Almaty LLP compensates to the Group finance expenses, related to attraction of the loan. As at 31 December 31 2014 the Group reflected uncollected compensation of finance expenses from Huawei-Almaty LLP in the amount 236,619 thousand tenge as a part of other current assets.

26. OTHER NON-CURRENT LIABILITIES (continued)

Other (continued)

Due to the fact that this is a special purpose loan, finance expenses relating to this loan are capitalized in the cost of property and equipment on the accrual basis, the Group recognized other long-term obligation which will be written off in the cost of fixed assets. As the result of this change, the net effect on the balance of property and equipment will be nil.

27. ACCOUNTS PAYABLE

As at 31 December 2014 and 31 December 2013, accounts payable comprised the following:

In thousands of tenge	**2014**	2013
Accounts payable for property and equipment	**10,090,634**	13,663,823
Accounts payable for services	**6,957,368**	5,776,442
Accounts payable for inventory	**4,353,771**	2,498,959
	21,401,773	21,939,224

As at 31 December 2014 and 31 December 2013, accounts payable were not interest bearing.

As at 31 December 2014 and 31 December 2013, accounts payable were denominated in various currencies as follows:

In thousands of tenge	**2014**	2013
Tenge	**18,417,792**	18,085,138
US dollars	**2,907,277**	2,250,816
Euro	**4,535**	1,513,261
Other	**72,169**	90,009
	21,401,773	21,939,224

28. OTHER CURRENT LIABILITIES

As at 31 December 2014 and 31 December 2013, other current liabilities comprised the following:

In thousands of tenge	**2014**	2013
Due to employees	**3,956,719**	3,580,509
Deferred n revenue	**2,115,340**	1,498,531
Taxes payable other than income tax	**1,643,273**	1,198,333
Dividends payable *(Note 22)*	**1,588,474**	30,268,498
Payable to pension funds	**740,301**	674,322
Other	**964,825**	798,949
	11,008,932	38,019,142

As at 31 December 2014 and 31 December 2013, other current liabilities were not interest bearing and were primarily denominated in tenge.

29. REVENUE

Revenue for the years ended 31 December comprised the following:

In thousands of tenge	**2014**	2013
Data transfer services	**98,716,817**	83,195,307
Rendering of wireline and wireless phone services	**64,220,809**	70,893,249
Interconnect	**14,907,303**	14,213,905
Sale of equipment and mobile devices	**11,204,624**	5,596,720
Rent of lines	**6,773,512**	6,564,206
Other	**6,123,366**	5,375,449
	201,946,431	185,838,836

30. COMPENSATION FOR UNIVERSAL SERVICES PROVISION IN RURAL AREAS

According to the Resolution of the Government of the Republic of Kazakhstan No. 451, dated 31 March 2009, "On the approval of subsidies for telecommunication operators' losses connected with the provision of universal telecommunication services in rural areas", the Group receives government subsidies as compensation for operators' losses for the provision of telephony services to socially important destinations. There are no unfulfilled conditions or contingencies attached to these subsidies. The amount of subsidy for the year ended 31 December 2014 totalled 6,276,853 thousand tenge (2013: 5,028,584 thousand tenge).

31. COST OF REVENUE

Cost of services provided for the years ended 31 December, comprised the following:

In thousands of tenge	**2014**	2013
Personnel costs *(Note 34)*	**50,975,811**	46,563,523
Depreciation and amortization	**37,891,139**	36,243,501
Equipment and mobile devices	**11,053,304**	5,762,261
Interconnect	**9,242,814**	9,188,969
Rent of channels	**8,238,357**	6,842,979
Repair and maintenance	**7,720,512**	7,624,529
Materials	**6,237,494**	6,382,829
TV Content	**2,869,111**	1,846,132
Electricity	**2,836,545**	2,257,648
Rental of equipment	**2,812,855**	2,069,462
Security and safety	**2,545,210**	2,040,968
Fees for use of frequency range	**2,406,505**	1,243,562
Fees for the right to provide telecom services	**2,023,336**	1,795,381
Other	**6,315,941**	5,864,017
	153,168,934	135,725,761

32. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 December, comprised the following:

In thousands of tenge	**2014**	2013
Personnel costs *(Note 34)*	**11,607,613**	11,023,218
Taxes other than income tax	**3,090,366**	2,782,580
Impairment of property and equipment and intangible assets (*Note 8 and 9*)	**2,442,170**	–
Consulting services	**1,110,050**	1,484,531
Sponsorship	**694,455**	7,447
Bank fees	**672,464**	678,158
Social activities	**646,931**	658,811
Depreciation and amortization	**440,677**	627,935
Insurance	**429,678**	414,018
Business trips	**377,714**	485,631
Materials	**281,060**	358,714
Trainings	**242,055**	224,084
Repair and maintenance	**237,788**	248,311
Rental of equipment	**186,146**	234,483
Security and safety	**93,341**	103,341
Charge for bad debt expense *(Notes 14, 16, 17 and 19)*	**601,992**	326,471
Other	**2,179,423**	1,175,660
	25,333,923	20,833,393

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. SELLING EXPENSES

Selling expenses for the years ended 31 December comprised the following:

In thousands of tenge	2014	2013
Marketing and advertising	**3,713,303**	3,512,477
Dealer commissions	**2,272,448**	1,300,548
Other	**486,107**	537,905
	6,471,858	5,350,930

34. PERSONNEL COSTS

Personnel costs for the years ended 31 December comprised the following:

In thousands of tenge	2014	2013
Payroll	**56,359,015**	51,898,668
Payroll related taxes	**5,462,315**	4,972,980
Employee benefits expense *(Note 25)*	**762,094**	715,093
	62,583,424	57,586,741

The split of personnel costs for the years ended 31 December comprised the following:

In thousands of tenge	2014	2013
Cost of revenue *(Note 31)*	**50,975,811**	46,563,523
General and administrative expenses *(Note 32)*	**11,607,613**	11,023,218
	62,583,424	57,586,741

35. FINANCE (COSTS) / INCOME

Finance costs and income for the years ended 31 December comprised the following:

In thousands of tenge	2014	2013
Finance costs		
Interest on borrowings	**(3,508,314)**	(7,081,563)
Interest payable under finance leases	**(2,223,737)**	(2,211,460)
Discounting of long-term loans to employees	**(1,064,878)**	(1,497,698)
Amortization of discount reserve (ARO) *(Note 26)*	**(217,639)**	(32,561)
Discounting of other non-current financial assets *(Note 13)*	**(158,645)**	(251,846)
Interest on debt component of preferred shares *(Note 22)*	**(96,542)**	(98,450)
Amortization of long-term trade payables *(Note 26)*	**(45,355)**	–
	(7,315,110)	(11,173,578)
Finance income		
Amortization of discount on long-term loans to employees	**1,074,373**	1,001,213
Amortization of discount on long-term trade receivables *(Note 13)*	**998,219**	887,673
Interest income on bank deposits	**400,846**	1,839,451
Interest income on guarantees issued *(Note 26)*	**78,811**	112,755
Income on current accounts	**46,356**	373,093
	2,598,605	4,214,185

36. FOREIGN EXCHANGE LOSS

On February 11, 2014 exchange rate of Kazakh tenge to the US dollar and other major currencies has been devalued by approximately 20%. As a result, the Group recognized a net forex loss in the amount of 7,629,945 thousand tenge for the year ended 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. OTHER INCOME / (EXPENSES)

Other income and expenses for the years ended 31 December comprised the following:

In thousands of tenge	2014	2013
Other income		
Rent income	**2,417,125**	1,905,616
Non-core operations	**421,657**	428,782
Other	**861,707**	817,166
	3,700,489	3,151,564
Other expenses		
Non-core operations	**(451,732)**	(450,918)
Rent income	**(11,351)**	(10,424)
Other	**(322,961)**	(549,451)
	(786,044)	(1,010,793)

Rent income mainly represents rent of spaces designated for the installation of technological equipment by third parties.

38. INCOME TAX

Corporate income tax expense for the years ended 31 December comprised the following:

In thousands of tenge	2014	2013
Current corporate income tax charge	**3,532,023**	4,107,939
Correction of prior year corporate income tax	**902,012**	–
Deferred tax expense/(income)	**2,083,961**	(162,080)
	6,517,996	3,945,859

The Group and its subsidiaries, other than Signum LLC and Online.kg LLC are subject to taxation in the Republic of Kazakhstan. Signum LLC is subject to taxation in the Russian Federation, Online.kg LLC is subject to income tax in Kyrgyzstan.

The tax rate for the Group and its subsidiaries except for subsidiaries indicated above was 20% at 31 December 2014 and 31 December 2013.

A reconciliation of corporate income tax expense applicable to profit before income tax at the statutory income tax rate of 20% (2013: 20%) to current income tax expense was as follows for the years ended 31 December:

In thousands of tenge	2014	2013
Profit before tax	**13,242,346**	23,506,779
Income tax, at statutory income tax rate of 20%	**2,648,469**	4,701,356
Correction of prior year corporate income tax	**902,012**	–
Inventory write off	**559,816**	287,000
Impairment of investments to subsidiaries	**456,379**	–
Change in unrecognized deferred tax assets	**338,351**	82,117
Impairment of CIP	**254,380**	–
Expenses for loyalty program	**129,966**	–
Sponsorship	**138,891**	1,489
Recreation activities	**122,628**	2,144
Bad debt allowance	**62,593**	–
Withholding tax for interest received	**(34,184)**	(389,609)
Non-deductible expenses / (Non-taxable gain)	**938,695**	(738,638)
Total income tax expense	**6,517,996**	3,945,859

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. INCOME TAX (continued)

At 31 December 2014 deferred tax balances, calculated by applying the statutory tax rates in effect at the reporting date to the temporary differences between the basis of assets and liabilities and the amounts reported in the consolidated financial statements, are comprised of the following:

	Consolidated statement of financial position		Consolidated statement of comprehensive income		In other comprehensive income	
In thousands of tenge	**31 December 2014**	31 December 2013	**2014**	2013	**2014**	2013
Deferred tax assets						
Tax losses carry-forward	**2,483,476**	1,383,399	**1,100,077**	661,641	**–**	–
Deferred income	**30,418**	6,191	**24,227**	(155,090)	**–**	–
Employee benefits obligations	**1,159,471**	992,692	**(92,184)**	(61,763)	**258,963**	20,008
Bad debt allowance	**263,665**	348,644	**(84,979)**	(81,977)	**–**	–
Intangible assets	**76,736**	190,828	**(114,092)**	147,020	**–**	–
Discount on non-current assets	**1,367,668**	1,547,178	**(179,510)**	(57,370)	**–**	–
Unused vacation reserve	**328,301**	331,735	**(3,434)**	138,110	**–**	–
Interest payable	**198,983**	212,952	**(13,969)**	212,952	**–**	–
Other	**1,154,439**	572,051	**582,388**	244,093	**–**	–
Less: unrecognized tax assets	**(420,468)**	(82,117)	**(338,351)**	(82,117)	**–**	–
Less: deferred tax assets offset with deferred tax liabilities	**(4,962,859)**	(5,151,353)	**188,494**	(741,458)	**–**	–
Deferred tax assets	**1,679,830**	352,200	**1,068,667**	224,041	**258,963**	20,008
Deferred tax liabilities						
Property and equipment	**20,824,271**	17,406,959	**3,417,312**	1,023,450	**–**	–
Intangible assets	**604,957**	1,058,135	**(453,178)**	(220,031)	**–**	–
Less: deferred tax assets offset with deferred tax liabilities	**(4,962,859)**	(5,151,353)	**188,494**	(741,458)	**–**	–
Deferred tax liabilities	**16,466,369**	13,313,741	**3,152,628**	61,961	**–**	–
Deferred tax (expense) / income			**(2,083,961)**	162,080	**258,963**	20,008

Reflected in consolidated financial statements as follows:

In thousands of tenge	**2014**	2013
Deferred tax assets	**1,679,830**	352,200
Deferred tax liability	**(16,466,369)**	(13,313,741)
Net deferred tax liabilities	**(14,786,539)**	(12,961,541)

In thousands of tenge	**2014**	2013
Reconciliation of deferred tax liabilities, net		
Opening balance as at 1 January	**12,961,541**	12,429,279
Tax expense / (income) during the period recognized in profit or loss	**2,083,961**	(162,080)
Tax income during the period recognized in other comprehensive income	**(258,963)**	(20,008)
Deferred taxes acquired in business combinations	**–**	714,350
Closing balance as at 31 December	**14,786,539**	12,961,541

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. In accordance with Kazakhstan tax legislation tax losses can be carried forward up to ten years from the origination date and will start expiring in 2020 year. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. NON-CASH TRANSACTIONS

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

In 2014, under finance lease agreements, the Group received telecommunication equipment with a value of 7,545,272 thousand tenge (2013: 7,768,930 thousand tenge).

In 2014, the Group has obtained commodity loan from Bank of China Limited for the total amount of 941,941 thousand of tenge for the purchase of telecommunication equipment.

In 2014, 13,006,996 thousand tenge was paid for property and equipment purchased in the prior year (2013: 9,326,736 thousand tenge). Property and equipment of 11,111,364 thousand tenge was purchased in 2014 but not paid by 31 December 2014 (2013: 13,663,823 thousand tenge).

40. RELATED PARTY TRANSACTIONS

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

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

As at 31 December 2014 and 31 December 2013, the Group has not recorded any impairment of trade accounts receivables relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Sales and purchases with related parties during the years ended 31 December 2014 and 2013 and the balances with related parties at 31 December 2014 and 31 December 2013, were as follows:

In thousands of tenge	**2014**	2013
Sales of goods and services		
Parent	**463,492**	261,011
Parent-controlled entities	**3,897,595**	4,289,648
Government bodies	**29,807,164**	23,863,594
Purchases of goods and services		
Parent	**–**	8,121
Parent-controlled entities	**2,054,751**	4,322,312
Government bodies	**2,886,766**	749,550
Interest earned on financial assets		
Alliance Bank JSC	**650**	92,416
Average interest rate on financial assets	**2.03%**	3.98%
BTA Bank JSC	**896**	25,313
Average interest rate on financial assets	**2.35%**	*2.33%*
Interest accrued on borrowings		
Development Bank of Kazakhstan JSC	**1,775,469**	5,730,179
Average interest rate on borrowings	**8.29%**	9.50%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. RELATED PARTY TRANSACTIONS (continued)

In thousands of tenge	2014	2013
Cash and cash equivalents		
Alliance Bank JSC	–	759,639
BTA Bank JSC	–	330,513
Development Bank of Kazakhstan JSC	**8,093**	24,583
Temirbank JSC	–	73
Borrowings		
Development Bank of Kazakhstan JSC	**34,686,421**	16,242,112
Trade and other receivables		
Parent	**99,895**	87,086
Parent-controlled entities	**586,209**	1,211,106
Government bodies	**4,419,402**	2,005,348
Accounts payable		
Parent	–	14,505,462
Parent-controlled entities	**442,926**	256,026
Government bodies	**468,926**	354,949
Other non-current assets		
Long-term loans to key management personnel	**40,289**	44,137

In 2014 and 2013, the Group provided telecommunication services to enterprises controlled by the Parent Company, as well as from these companies were purchased goods and services for support operating activities in the sphere of provision telecommunication services.

Total compensation to key management personnel in general and administrative expenses in the accompanying consolidated statement of comprehensive income amounted to 895,312 thousand tenge and 826,998 thousand tenge for the years ended 31 December 2014 and 31 December 2013, respectively. Compensation to key management personnel includes salary stated in labor contracts and bonuses paid based on the results of the year.

As discussed in *Note 30*, the Government of the Republic of Kazakhstan provides certain subsidies to the Group for provision of universal services in rural areas.

As discussed in *Note 23*, some of the Group's borrowings for the amount of 1,581,164 thousand tenge were guaranteed by the Government of the Republic of Kazakhstan (at 31 December 2013: 1,512,557 thousand tenge).

41. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments consist of bank borrowings, lease liabilities, cash and cash equivalents as well as accounts receivable and accounts payable. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and credit risk. The Group further monitors the market risk and liquidity risk arising from all financial instruments.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term borrowings with floating interest rates.

41. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before income tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

In thousands of tenge	Increase/decrease in basis points	Effect on profit before tax
2014	**+2**	**(6,068)**
	-2	**6,068**
2013	+3	(8,239)
	-3	8,239

* 1 basis point = 0.01%

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

As a result of significant borrowings, lease liabilities and accounts payable, cash and cash equivalents and accounts receivable denominated in US dollars, Euro and South Korean won, the Group's consolidated statement of financial position can be affected significantly by movement in the US dollar/tenge, Euro/tenge and Won/tenge exchange rates.

The following table demonstrates the sensitivity to a reasonably possible changes in the US dollar, Euro and Won exchange rates, with all the variables held constant, of the Group's profit before income tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Group's equity.

	2014		2013	
In thousands of tenge	**Increase/decrease in exchange rate**	**Effect on profit before tax**	Increase/decrease in exchange rate	Effect on profit before tax
US dollar	**+17%**	**(3,253,155)**	+30%	(3,219,911)
	-17%	**3,253,155**	+10%	(1,073,304)
Euro	**+18%**	**827**	+30%	(407,142)
	-18%	**(827)**	+10%	(135,714)
Won	**+17%**	**(274,648)**	+30%	(453,767)
	-17%	**274,648**	+10%	(151,256)

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept, and by monitoring exposures in relation to such limits.

The Group does business only with recognised, creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in *Notes 13, 16, 17, 18 and 19*. There are no significant concentrations of credit risk within the Group.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and cash on deposits, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

41. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

To limit this risk, the Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and finance leases. The Group's policy is that not more than 30% of borrowings should mature in the next 12 month period, 17% of the Group's debt will mature in less than one year at 31 December 2014 (at 31 December 2013: 26%) based on the carrying value of borrowings reflected in the financial statements, excluding discontinued operations.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2014 based on contractual undiscounted payments.

In thousands of tenge	On demand	Due later than one month but not later than three months	Due later than three month but not later than one year	Due later than one year but not later than five years	Due after five years	Total
As at 31 December 2014						
Borrowings	–	4,709,591	5,403,144	54,833,966	17,348,710	82,295,411
Finance lease liabilities	–	2,672,552	6,649,778	12,192,561	–	21,514,891
Accounts payable	16,315,811	2,119,432	2,966,530	–	–	21,401,773
Employee benefit liability	–	–	742,288	4,892,044	6,115,055	11,749,387
Other financial liabilities	–	6,510,018	–	4,759,461	–	11,269,479
	16,315,811	16,011,593	15,761,740	76,678,032	23,463,765	148,230,941
As at 31 December 2013						
Borrowings	–	5,445,790	5,388,065	25,066,756	21,463,022	57,363,633
Finance lease liabilities	–	2,600,337	6,238,172	12,496,169	–	21,334,678
Accounts payable	16,725,541	2,172,656	3,041,027	–	–	21,939,224
Employee benefit liability	–	–	362,721	4,095,632	5,119,540	9,577,893
Other financial liabilities	–	34,647,956	–	1,129,722	–	35,777,678
	16,725,541	44,866,739	15,029,985	42,788,279	26,582,562	145,993,106

Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount.

Cash flow requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise. The management of the Group believes that any possible fluctuations of future cash flows associated with a monetary financial instrument will not have material impact on the Group's operations.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

41. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the holders of ordinary shares, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2014 and 2013.

The Group monitors capital using a debt-to-equity ratio, which is net debt divided by total capital. The Group's policy is to keep the ratio not greater than 1.0. The Group includes within net debt interest bearing loans and borrowings, accounts payable and finance lease liabilities. Capital includes equity attributable to the equity holders of the Group.

The debt-to-equity ratio at the year-end was as follows:

In thousands of tenge	**31 December 2014**	31 December 2013
Borrowings	**62,188,975**	45,146,067
Accounts payable	**21,401,773**	21,939,224
Finance lease obligations	**18,149,319**	17,683,471
Net debt	**101,740,067**	84,768,762
Equity	**270,309,348**	265,503,335
Debt-to-equity ratio	**0.38**	0.32

Fair value

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The table below shows the hierarchy of fair value of assets and liabilities of the Group. The fair value hierarchy for financial instruments measured at fair value as at 31 December 2014 was as follows:

		Fair value measurement using			
In thousands of tenge	**Date of valuation**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2014	**8,729,297**	**–**	**–**	**8,729,297**
Other non-current financial assets	31 December 2014	**–**	**–**	**11,884,667**	**11,884,667**
Other financial assets	31 December 2014	**–**	**–**	**21,362,797**	**21,362,797**
Accounts receivable	31 December 2014	**–**	**–**	**20,764,872**	**20,764,872**
Liabilities for which fair values are disclosed					
Borrowings	31 December 2014	**–**	**–**	**62,188,975**	**62,188,975**
Finance lease liabilities	31 December 2014	**–**	**–**	**18,149,319**	**18,149,319**
Accounts payable	31 December 2014	**–**	**–**	**21,401,773**	**21,401,773**
Employee benefit liability	31 December 2014	**–**	**–**	**5,797,354**	**5,797,354**

41. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Fair value (continued)

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial assets that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

In thousands of tenge	**Carrying value 2014**	**Fair value 2014**	**Unrecognised gain 2014**	Carrying value 2013	Fair value 2013	Unrecognised loss 2013
Financial assets						
Cash and cash equivalents	**8,729,297**	**8,729,297**	**–**	42,352,823	42,352,823	–
Other non-current financial assets	**11,884,667**	**11,884,667**	**–**	10,807,868	10,807,868	–
Other financial assets	**21,362,797**	**21,362,797**	**–**	12,146,401	12,146,401	–
Trade accounts receivable	**20,764,872**	**20,764,872**	**–**	16,192,756	16,192,756	–
Financial liabilities						
Borrowings	**62,188,975**	**57,893,510**	**4,295,465**	45,146,067	42,730,424	2,415,643
Finance lease liabilities	**18,149,319**	**18,149,319**	**–**	17,683,471	17,683,471	–
Accounts payable	**21,401,773**	**21,401,773**	**–**	21,939,224	21,939,224	–
Employee benefit liability	**5,797,354**	**5,797,354**	**–**	4,963,458	4,963,458	–
Total unrecognised change in fair value			**4,295,465**			2,415,643

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial liabilities carried at amortized cost

The fair value of borrowings is estimated by discounting future cash flows using rates currently available for loans on similar terms, credit risk and remaining maturities

42. COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

The Group generally enters into contracts for the completion of construction projects and purchase of telecommunication equipment. As at 31 December 2014, the Group had contractual commitments totalling 46,635,714 thousand tenge (as at 31 December 2013: 42,361,938 thousand tenge) related mostly to the purchase of telecommunication equipment and construction of telecommunication network.

Operating lease commitments – Group as lessee

The Group has entered into property lease contracts for office buildings and office space in different regions of Kazakhstan. Property lease contracts for office buildings have remaining lease terms of, an average, 1 year. The office space lease has a remaining lease term of five years with a renewal option included in the contract. There are no restrictions placed upon the Group by entering into this lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

42. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Operating lease commitments – Group as lessee (continued)

Future minimum rentals payable under non-cancellable operating lease are as follows:

In thousands of tenge	2014	2013
Within one year	**2,304,700**	1,379,056
After one year but not more than five years	**360,698**	415,340
	2,665,398	1,794,396

License commitments

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

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. In addition, management believes that international agreements, under which the Group works with non-residents residing in International Telecommunication Union, and which provide for certain tax exemptions, have a priority over national tax legislation. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for five calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at 31 December 2014. As at 31 December 2014 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained.

Guarantees issued

On 14 November 2009 the Group signed an agreement with Kazakhmys Plc, Parent and China Development Bank ("CDB") where the Group and Kazakhmys provided a 12 to 15 years guarantee to CDB for loans of the Parent. The Group's liability under the guarantee is capped at 300 million US dollars of principal plus 15% of any interest and any other duly payable costs and expenses. For this purpose, the Group and Parent signed an agreement on full compensation of any amounts paid by the Group arising from the guarantee agreement by the Parent.

43. SUBSEQUENT EVENTS

On 2 February 2015, the Group made early repayment to Sberbank of Russia JSC of the loan in the amount of 6,455,750 thousand tenge.

On 26 January and 11 February 2015, the Group made early repayment of loans in the amount of 1,700,291 and 2,382,823 thousand tenge, respectively, received from the Bank of China Limited, Shenzhen Branch.

On 17 February 2015, the Group made early repayment of the loan in the amount of 1,905,062 thousand tenge received from Kazkommertsbank JSC.