Kazakhtelecom JSC

Consolidated financial statements

For the year ended 31 December 2015,
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 2015, 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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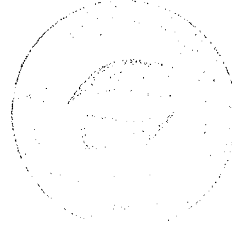
Opinion

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 2015, 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 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

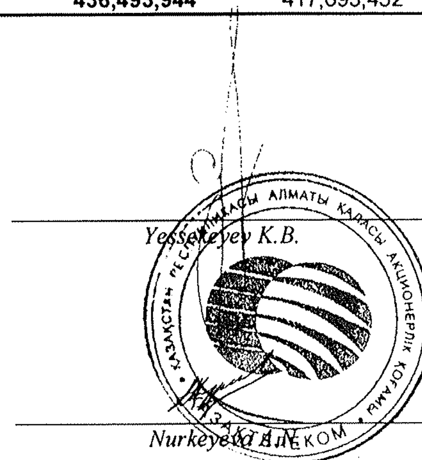
In thousands of tenge	Notes	2015	2014
Assets			
Non-current assets			
Property and equipment	7	**285,555,708**	308,471,725
Intangible assets	8	**19,558,165**	24,531,269
Advances paid for non-current assets	10	**79,256**	207,263
Deferred tax asset	36	**204,814**	1,679,830
Other non-current financial assets	12	**10,557,028**	11,884,667
Other non-current assets	13	**2,514,632**	4,916,543
		318,469,603	351,691,297
Current assets			
Inventories	14	**3,760,673**	5,934,046
Trade accounts receivable	15	**16,385,102**	20,764,872
Prepayments	16	**507,630**	992,346
Income tax prepaid		**64,629**	1,054,311
Other financial assets	17	**33,949,795**	21,362,797
Other current assets	18	**3,602,421**	6,213,467
Cash and cash equivalents	19	**11,276,891**	8,729,297
		69,547,141	65,051,136
Assets classified as held for sale	37	**48,477,200**	951,019
Total assets		**436,493,944**	417,693,452
Equity and liabilities			
Equity attributable to equity holders of the parent			
Charter capital	20	**12,136,529**	12,136,529
Treasury shares	20	**(6,464,488)**	(6,398,619)
Currency translation reserve	20	**47,662**	(69,350)
Other capital reserve	20	**1,820,479**	1,820,479
Retained earnings		**285,884,903**	263,644,674
		293,425,085	271,133,713
Non-controlling interests		**(1,003,643)**	(824,365)
Total equity		**292,421,442**	270,309,348

The accompanying accounting policy and notes on pages 8 to 57 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of tenge	Notes	2015	2014
Non-current liabilities			
Borrowings	21	**27,299,921**	56,426,152
Finance lease liabilities	22	**4,435,721**	10,629,340
Deferred tax liability	36	**18,167,340**	16,466,369
Employee benefit liability	23	**7,274,355**	5,055,066
Debt component of preferred shares	20	**874,156**	876,845
Other non-current liabilities	24	**2,976,133**	7,650,255
		61,027,626	97,104,027
Current liabilities			
Borrowings	21	**4,138,393**	5,762,823
Current portion of finance lease liabilities	22	**4,707,462**	7,519,979
Current portion of employee benefit liability	23	**511,689**	742,288
Trade accounts payable	25	**11,893,469**	21,401,773
Advances received		**2,529,209**	3,733,540
Income tax payable		**146,920**	110,742
Other current liabilities	26	**10,630,418**	11,008,932
		34,557,560	50,280,077
Liabilities directly associated with assets classified as held for sale	37	**48,487,316**	–
Total liabilities		**144,072,502**	147,384,104
Total equity and liabilities		**436,493,944**	417,693,452

Chairman of the Management Board — *Yessekeyev K.B.*



Chief Financial Director — *Nurkeyeva A.N.*

Chief Accountant — *Zhumanova M.A.*

The accompanying accounting policy and notes on pages 8 to 57 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

In thousands of tenge	Notes	2015	2014
Continuing operations			
Revenue	27	**182,743,603**	185,026,554
Compensation for universal services provision in rural areas	28	**7,010,726**	6,276,853
		189,754,329	191,303,407
Cost of revenue	29	**(127,254,556)**	(133,700,305)
Gross profit		**62,499,773**	57,603,102
General and administrative expenses	30	**(22,894,843)**	(23,486,084)
Selling expenses	31	**(3,149,381)**	(4,032,837)
Operating profit		**36,455,549**	30,084,181
Finance costs	33	**(6,653,136)**	(6,646,461)
Finance income	33	**2,679,338**	2,571,855
Foreign exchange gain/(loss), net	34	**189,482**	(6,936,051)
Loss from disposal of property and equipment		**(353,932)**	(547,059)
Other income	35	**3,979,735**	3,759,775
Other expenses	35	**(1,325,098)**	(782,320)
Profit before tax for the year from continuing operations		**34,971,938**	21,503,920
Income tax expense	36	**(8,614,784)**	(7,969,690)
Profit for the year from continuing operations		**26,357,154**	13,534,230
Discontinued operations			
Loss after tax for the year from discontinued operations	37	**(2,148,068)**	(6,809,880)
Profit for the year		**24,209,086**	6,724,350
Attributable to:			
Owners of the parent		**24,388,364**	7,483,619
Non-controlling interests		**(179,278)**	(759,269)

The accompanying accounting policy and notes on pages 8 to 57 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of tenge	Notes	2015	2014
Other comprehensive loss			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods (net of tax):			
Exchange differences on translation of foreign operations		**117,012**	(57,142)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**117,012**	(57,142)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods (net of tax):			
Actuarial losses on defined benefit plan		**(2,025,345)**	(1,035,850)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(2,025,345)**	(1,035,850)
Other comprehensive loss for the year, net of tax		**(1,908,333)**	(1,092,992)
Total comprehensive income for the year, net of tax		**22,300,753**	5,631,358
Attributable to:			
Owners of the parent		**22,480,031**	6,390,627
Non-controlling interests		**(179,278)**	(759,269)
		22,300,753	5,631,358
Earnings per share			
Basic and diluted, profit for the year attributable to owners of the parent, tenge	20	**2,219.75**	686.52
Earnings per share for continuing operations			
Basic and diluted, profit for the year from continuing operations attributable to owners of the parent, tenge	20	**2,414.50**	1,303.27

Chairman of the Management Board — Yessekeyev K.B.

Chief Financial Director — Nurkeyeva A.N.

Chief Accountant — Zhumanova M.A.

The accompanying accounting policy and notes on pages 8 to 57 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

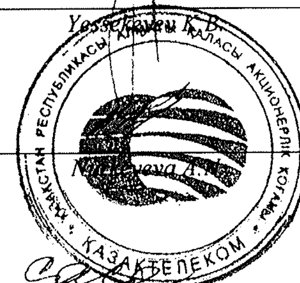
For the year ended 31 December 2015

	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	20	20	20	20				
At 1 January 2014	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 period	–	–	–	–	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 20)*	–	(108,475)	–	–	–	(108,475)	–	(108,475)
Financial guarantee issued for Parent *(Note 24)*	–	–	–	–	(663,900)	(663,900)	–	(663,900)
Acquisition of non-controlling interest in subsidiary *(Note 5)*	–	–	–	–	(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
Profit/(loss) for the period	**–**	**–**	**–**	**–**	**24,388,364**	**24,388,364**	**(179,278)**	**24,209,086**
Other comprehensive income/(loss)	**–**	**–**	**117,012**	**–**	**(2,025,345)**	**(1,908,333)**	**–**	**(1,908,333)**
Total comprehensive income/(loss)	**–**	**–**	**117,012**	**–**	**22,363,019**	**22,480,031**	**(179,278)**	**22,300,753**
Treasury shares repurchased *(Note 20)*	**–**	**(65,869)**	**–**	**–**	**–**	**(65,869)**	**–**	**(65,869)**
Derecognition of financial guarantee issued for Parent *(Note 24)*	**–**	**–**	**–**	**–**	**964,149**	**964,149**	**–**	**964,149**
Dividends *(Note 20)*	**–**	**–**	**–**	**–**	**(1,086,939)**	**(1,086,939)**	**–**	**(1,086,939)**
At 31 December 2015	**12,136,529**	**(6,464,488)**	**47,662**	**1,820,479**	**285,884,903**	**293,425,085**	**(1,003,643)**	**292,421,442**

Chairman of the Management Board — Yessekeyev K.B.

Chief Financial Director — [illegible]

Chief Accountant — Zhumanova M.A.



The accompanying accounting policy and notes on pages 8 to 57 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

In thousands of tenge	Notes	2015	2014
Operating activities			
Profit before tax from continuing operations		**34,971,938**	21,503,920
Loss before tax from discontinued operations		**(2,138,852)**	(8,261,574)
Profit before tax		**32,833,086**	13,242,346
Adjustments for:			
Depreciation of property and equipment		**31,304,158**	34,722,379
Amortization of intangible assets		**3,869,427**	3,609,437
Change in deferred revenues		**127,115**	115,247
Change in employee benefit liability		**(542,991)**	(460,917)
Unrealized foreign exchange loss		**7,651,418**	7,328,189
Provision for doubtful debts		**1,001,432**	601,992
NRV write down		**810,006**	1,562,830
Finance costs	33, 37	**8,095,412**	7,315,110
Finance revenue	33, 37	**(2,905,698)**	(2,598,605)
Impairment of P&E and intangible assets	30	**–**	2,442,170
Loss from disposal of P&E and intangible assets		**496,577**	574,218
Working capital adjustments			
Change in trade accounts receivable		**803,274**	(5,157,181)
Change in inventories		**(1,085,763)**	(2,939,829)
Change in other current and non-current assets		**(1,634,829)**	1,699,742
Change in prepayments		**146,273**	67,410
Change in trade accounts payable		**1,079,205**	2,352,384
Change in advances received		**236,018**	(505,031)
Change in other current liabilities		**(628,286)**	2,568,589
Cash generated from operations		**81,655,834**	66,540,480
Dividends paid on ordinary and preferred shares	20	**(1,170,843)**	(28,229,629)
Income taxes paid		**(5,319,944)**	(4,661,625)
Interest paid		**(6,468,646)**	(5,174,788)
Interest received		**796,716**	227,510
Net cash flows from operating activities		**69,493,117**	28,701,948
Investing activities			
Purchase of property and equipment		**(38,656,330)**	(49,865,160)
Purchase of intangible assets		**(1,040,563)**	(2,118,941)
Proceeds from sale of property and equipment		**219,319**	204,688
Deposits placed		**(22,277,090)**	(19,481,507)
Refund on deposits		**20,064,175**	6,761,204
Long-term loans to employees		**(2,097,004)**	(2,834,680)
Loans repaid by employees		**255,727**	276,105
Restricted cash placed		**(208,600)**	(193,160)
Restricted cash returned		**193,160**	4,056,059
Financial aid returned		**4,500**	27,500
Net cash flows used in investing activities		**(43,542,706)**	(63,167,892)

The accompanying accounting policy and notes on pages 8 to 57 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT (continued)

In thousands of tenge	Notes	2015	2014
Financing activities			
Proceeds from borrowings		**16,414,597**	26,238,065
Repayment of borrowings		**(31,570,145)**	(18,292,099)
Repurchase of treasury shares		**(70,000)**	(110,040)
Repayment of finance lease liabilities		**(8,723,116)**	(7,160,743)
Acquisition of non-controlling interests in a subsidiary		**–**	(52,970)
Financial aid provided		**–**	(41,943)
Net cash flows (used in) / from financing activities		**(23,948,664)**	580,270
Effects of exchange rate changes on cash and cash equivalents		**9,233,998**	262,148
Net increase/(decrease) in cash and cash equivalents		**2,001,747**	(33,885,674)
Cash and cash equivalents at 1 January		**8,729,297**	42,352,823
Cash and cash equivalents at 31 December	19	**19,965,042**	8,729,297

Non-cash transactions are disclosed in *Note 38*.

Chairman of the Management Board

Yessekeyev K.B.

Chief Financial Director

Nurkeyeva A.N.

Chief Accountant

Zhumanova M.A.

The accompanying accounting policy and notes on pages 8 to 57 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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 2015:

	31 December 2015	31 December 2014
Samruk-Kazyna	**51.0%**	51.0%
Bodam B.V.	**16.9%**	16.9%
ADR (The Bank of New York is a depositor)	**9.8%**	9.8%
Deran Services Limited	**7.6%**	7.6%
State Fund on Pension Assets JSC	**3.4%**	3.2%
Kazkommertsbank JSC	**3.1%**	3.1%
Deran Investments B.V.	**2.0%**	2.0%
Other	**6.2%**	6.4%
	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 5* (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 2016 by the Chairman of the Management Board on behalf of 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 2015. Control is achieved when the Group is exposed, or has rights, 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;
- the ability to use its power over the investee to affect its returns.

2. BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Generally, there is a presumption that a majority of voting rights results 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(s) with the other vote holders of the investee;
- rights arising from other contractual arrangements;
- the Group's voting rights and potential voting rights.

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 new and revised standards and amendments to IFRS effective as at 1 January 2015:

- Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions.*
- Annual Improvements 2010-2012 Cycle.
- Annual Improvements 2011-2013 Cycle.

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below.

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. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Annual Improvements 2010-2012 Cycle

With the exception of the improvement relating to IFRS 2 *Share-based Payment* applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. The Group has applied these improvements for the first time in these consolidated financial statements. 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. The clarifications are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods. In addition, the Group had not granted any awards during the second half of 2014. Thus, these amendments did not impact the Group's consolidated financial statements or accounting policies.

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 IAS 39. This is consistent with the Group's current accounting policy and, thus, this amendment did not impact the Group's accounting policy.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- an entity must disclose the judgements 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.

The Group has not applied the aggregation criteria in IFRS 8.12 since the Group represents single operating segment *(Note 6)*.

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 by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact to the revaluation adjustments recorded by the Group during the current period.

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. This amendment is not relevant for the Group as it does not receive any management services from other entities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Annual Improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. 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 consolidated financial statements of the joint arrangement itself.

The Group Kazakhtelecom JSC is not a joint arrangement, and thus this amendment is not relevant for the Group and its subsidiaries.

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 IAS 39. The Group does not apply the portfolio exception in IFRS 13.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property 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 a business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment did not impact the accounting policy of the Group.

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* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date. During 2015, the Group has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9.

(a) Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. The Group expects to continue measuring at fair value all financial assets currently held at fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

(a) Classification and measurement (continued)

Loans, other financial assets as well as trade accounts receivable are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortised cost under IFRS 9.

However, the Group will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables.

IFRS 14 Regulatory Deferral Accounts

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for 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 new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2015, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments.

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 reassessed 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 on the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

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.

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 on the Group's consolidated financial statements as the Group does not have any bearer plants.

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in 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.

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group's consolidated financial statements.

Annual Improvements 2012-2014 Cycle

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Annual improvements 2012-2014 cycle (continued)

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

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

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

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

IAS 19 Employee Benefits

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

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim consolidated financial report must be available to users on the same terms as the interim consolidated financial statements and at the same time. This amendment must be applied retrospectively.

These amendments are not expected to have any impact on the Group's consolidated financial statements.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Annual improvements 2012-2014 cycle (continued)

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

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

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to 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 2015	31 December 2014
US dollar	**340.01**	182.35
Euro	**371.46**	221.97
Russian rouble	**4.61**	3.17

The functional currency of the foreign operations Signum LLC (Russia) and Online.kg LLC (Kyrgyzstan) is the Russian rouble 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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 other comprehensive income.

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 of assets and liabilities

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.

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 40*.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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 consolidated 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 consolidated 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 appraisers are involved for valuation of significant assets, such as properties and AFS financial assets, and significant liabilities, such as contingent consideration. Involvement of external appraisers 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 reanalyse 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.

On an interim basis, the Executive Committee and the Group's external appraisers present the valuation results to the Audit Committee which 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 rather than through continuing use. Such 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 or to sale. 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 expected within one year from the date of the classification.

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

Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

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

Additional disclosures are provided in *Note 37*. All other notes to the consolidated financial statements include amounts for continuing operations, unless otherwise mentioned.

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. Further information on the recognised decommissioning provision is presented in "Other non-current liabilities" *(Note 24)*.

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 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 consolidated statement of comprehensive income when the asset is derecognised.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

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.

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 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 consolidated statement of comprehensive income 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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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 cash-generating unit 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 are recognised in the consolidated statement of comprehensive income in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to other comprehensive income. For such properties, the impairment is recognised in other comprehensive income up to the amount of any previous revaluation.

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 cash-generating unit'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 unless the asset is carried at a revalued amount. In this case, the reversal is treated as a revaluation increase.

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 cash generating unit (or group of cash generating units) 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. 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.

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 consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income in finance costs for loans and in general and administrative expenses for receivables.

This category generally applies to other non-current financial assets, trade accounts receivable and other financial assets. For more information, refer to *Note 12, 15* and *17*, 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 2015 and 2014, 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 restructuring. 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.

Financial assets carried at amortised cost

For financial assets carried at amortized cost, the Group at 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Loans and borrowings (continued)

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 21*.

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.

Debt component of preferred shares

The component of the preferred shares that exhibits characteristics of a liability is recognised as a liability in the consolidated 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 consolidated 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 consolidated statement of 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 that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in the consolidated statement of comprehensive income 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 profit or loss in subsequent periods.

Past service costs are recognised in profit or loss 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 consolidated statement of 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.

Cash dividend and non-cash distributions to equity holders of the parent

The Company recognises a liability to make cash or non-cash distributions to equity holders of the parent when the distribution is duly authorised and the distribution is no longer at the discretion of the Company. As per legislation, a distribution is taken as duly 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 consolidated statement of 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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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.

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 consolidated statement of comprehensive income in equal amounts over the expected useful life of the related asset.

Compensation related to income is presented separately in the consolidated statement of 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 consolidated statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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.

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;
- With respect to 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;
- With respect to 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax (continued)

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.

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 judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties includes:

- financial instruments risk management and policies – *Note 40*;
- sensitivity analyses disclosures – *Notes 9* and *23*.

Estimates and assumptions

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 described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

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 profit and loss. In January of 2015, 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 3 years on average. The change in the remaining useful lives resulted in a total decrease of depreciation expense for the year ended 31 December 2015 of 1,491,769 thousand tenge (2014: 622,349 thousand tenge). The Group expects that the respective decrease of depreciation expense in future periods will be equal to the decrease of depreciation expense in 2015.

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

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 9.*

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 2015, Group's allowances for doubtful accounts have been created amounted to 2,131,645 thousand tenge (as at 31 December 2014: 1,877,453 thousand tenge) *(Notes 13, 15, 16 and 18).*

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 2015, average customer relationship period is assessed as 13 years for fixed telephony customers and 5 years for internet 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 demographic assumptions related to active and retired employees who receive determined benefit payments (mortality rate among active and retired employees, turnover of employees, etc.) as well as financial assumptions (discount rate, future increases of minimum annual salary). Due to the long-term nature of these liabilities, there is a high level of uncertainty.

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 23.*

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

Discontinued operations

As at 3 November 2015, the Company declared its decision to conclude the agreement with Tele2 Group on the creation of the joint venture on the basis of Altel JSC (Altel 4G brand) and Mobile Telecom-Service LLP (Tele2 brand). Accordingly, operations of Altel JSC are classified as discontinued operations. The management concluded that the subsidiary complies with the criteria to be classified as assets held for sale considering the following reasons:

- As at 3 November 2015, the agreement was signed by shareholders with TELE2 SVERIGE AB and Khan Tengri Holding B.V. on the creation of the joint venture in the segment of cellular communications on the basis of Altel JSC (Altel 4G brand) and Mobile Telecom-Service LLP (Tele2 brand).
- Activities related to the creation of the joint venture were started and it is expected that the creation will be completed during the first quarter of 2016.
- Alongside with the creation of the joint venture the Group will lose the control over Altel JSC.

Further information on discontinued operations is presented in *Note 37.*

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 2015, the Group has 2,081,767 thousand tenge (as at 31 December 2014: 2,483,476 thousand tenge) of tax losses carried forward. These losses relate to subsidiaries that have a history of losses, expire after 10 years which start to expire in 2019 and may be used to offset taxable income only in that subsidiary of the Group in which such loss occurred.

The carrying value of recognized deferred tax assets as at 31 December 2015, is 1,505,221 thousand tenge (2014: 1,679,830 thousand tenge). As at 31 December 2015, the carrying amount of unrecognized deferred tax assets was 276,694 thousand tenge (31 December 2014: 420,468 thousand tenge). Further details on taxes are disclosed in *Note 36.*

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. Further information is presented in *Note 40.*

5. CONSOLIDATION

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

	Country of residence	Percentage ownership	
		31 December 2015	31 December 2014
ALTEL JSC	Kazakhstan	**100.00%**	100.00%
NURSAT JSC	Kazakhstan	**80.00%**	80.00%
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%
Info-Net Wireless LLP	Kazakhstan	**100.00%**	100.00%

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

6. SEGMENT INFORMATION

As the requirements of IFRS 8 *Operating Segments* do not refer to the discontinued operations, the Group does not include discontinued operations in the disclosure segments.

After the adoption of the decision to sell the LTE and GSM mobile services segment assets, in 2015 Management of the Company has identified only one reportable segment of the Group, which provides local and long distance fixed line telephony.

7. PROPERTY AND EQUIPMENT

The movements in property and equipment for 2015 and 2014, were as follows:

In thousands of tenge	Land	Buildings and constructions	Equipment	Other	Construction in progress	Total
Cost						
At 1 January 2014	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 37)*	–	(2,238)	(1,029,022)	(1,225)	–	(1,032,485)
Transfers to intangible assets *(Note 8)*	–	–	–	–	(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
Additions	**1,792**	**4,942,598**	**22,112,438**	**318,366**	**9,406,583**	**36,781,777**
Internal transfers	**–**	**1,723,280**	**15,659,989**	**124,213**	**(17,507,482)**	**–**
Disposals	**(1,428)**	**(192,637)**	**(16,229,062)**	**(563,731)**	**–**	**(16,986,858)**
Transfers to intangible assets *(Note 8)*	**–**	**–**	**–**	**–**	**(679,714)**	**(679,714)**
Discontinued operations *(Note 37)*	**(123,166)**	**(7,178,950)**	**(32,511,942)**	**(615,682)**	**(179,518)**	**(40,609,258)**
At 31 December 2015	**558,088**	**47,892,318**	**492,557,643**	**13,066,339**	**12,757,347**	**566,831,735**
Accumulated depreciation and impairment						
At 1 January 2014	–	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 37)*	–	–	(81,250)	(216)	–	(81,466)
At 31 December 2014	–	13,276,824	255,148,778	10,154,638	1,273,823	279,854,063
Depreciation expense	**–**	**2,192,805**	**28,149,789**	**867,462**	**–**	**31,210,056**
Disposals	**–**	**(108,792)**	**(15,460,077)**	**(542,805)**	**–**	**(16,111,674)**
Discontinued operations *(Note 37)*	**–**	**(514,427)**	**(12,760,367)**	**(401,624)**	**–**	**(13,676,418)**
At 31 December 2015	**–**	**14,846,410**	**255,078,123**	**10,077,671**	**1,273,823**	**281,276,027**
Net book value						
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
At 31 December 2015	**558,088**	**33,045,908**	**237,479,520**	**2,988,668**	**11,483,524**	**285,555,708**

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

7. PROPERTY AND EQUIPMENT (continued)

In 2014, an impairment loss amounted to 2,192,260 thousand tenge and represented write-off of certain facilities operating in the segment of wireline 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 2015, the Group had no fixed assets pledged as collateral for the Group's borrowings (31 December 2014: 2,480,212 thousand tenge) *(Note 21)*.

Borrowing costs amounted to 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%.

At 31 December 2015, the carrying value of equipment held under finance leases and included in property and equipment amounted to 28,038,190 thousand tenge (at 31 December 2014: 32,800,554 thousand tenge). Additions during the year include 186,964 thousand tenge (as at 31 December 2014: 7,545,272 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 2015, property and equipment with cost of 122,930,240 thousand tenge, were fully amortized (as at 31 December 2014: 125,577,873 thousand tenge).

8. INTANGIBLE ASSETS

The movements of intangible assets for 2015 and 2014, were as follows:

In thousands of tenge	Licenses and trademarks	Software	Goodwill	Other	Total
Cost					
At 1 January 2014	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 7)*	–	809,284	–	–	809,284
At 31 December 2014	26,245,279	21,343,021	2,706,335	5,112,821	55,407,456
Additions	**869,140**	**1,140,325**	**–**	**190**	**2,009,655**
Transfers	**172,440**	**(172,440)**	**–**	**–**	**–**
Disposals	**(385,933)**	**(209,074)**	**–**	**(1,166)**	**(596,173)**
Transfers from CIP *(Note 7)*	**277,951**	**401,763**	**–**	**–**	**679,714**
Discontinued operations *(Note 37)*	**(10,902,230)**	**(1,034,226)**	**–**	**(1,037,301)**	**(12,973,757)**
At 31 December 2015	**16,276,647**	**21,469,369**	**2,706,335**	**4,074,544**	**44,526,895**
Accumulated amortization					
At 1 January 2014	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
Amortization expense	**1,195,328**	**1,800,926**	**–**	**602,184**	**3,598,438**
Disposals	**(207,560)**	**(208,487)**	**–**	**(1,166)**	**(417,213)**
Discontinued operations *(Note 37)*	**(7,376,739)**	**(708,230)**	**–**	**(1,003,713)**	**(9,088,682)**
At 31 December 2015	**8,008,151**	**15,140,416**	**–**	**1,820,163**	**24,968,730**
Net book value					
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
At 31 December 2015	**8,268,496**	**6,328,953**	**2,706,335**	**2,254,381**	**19,558,165**

8. INTANGIBLE ASSETS (continued)

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 2015 intangible assets (mainly software) with cost amounting to 8,768,527 thousand tenge were fully amortized (as at 31 December 2014: 6,066,237 thousand tenge).

9. IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combination has been allocated to the IP TV cash generating unit ("CGU"). This CGU is part of wireline telecommunications segment.

Carrying amount of goodwill allocated to IP TV CGU:	IPTV	
	2015	2014
Goodwill	**2,706,335**	2,706,335

The Group performed its annual impairment test as at 31 December 2015 and 2014.

The recoverable amount of the IP TV 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 20.15% (2014: 12.85%) and cash flows beyond the five-year period are extrapolated using a 0% growth rate (2014: 0%).

As a result of this analysis, as at 31 December 2015 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.

9. IMPAIRMENT TESTING OF GOODWILL (continued)

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 36.86% (2014: 37.20%) would result in accrual of expenses from impairment in the IP TV CGU.

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 7.9 % (2014: 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 25.44% (2014: 29.18%) would result in impairment in the IP TV CGU.

10. ADVANCES PAID FOR NON-CURRENT ASSETS

As at 31 December 2015 and 2014, advances paid for non-current assets comprised advances to contractors for the construction and supply of property and equipment (mainly telecommunication equipment).

11. INVESTMENT PROPERTY

The movement in investment property was as follows in 2015 and 2014:

In thousands of tenge	**2015**	2014
Cost		
At 1 January	**1,264,668**	1,264,668
At 31 December	**1,264,668**	1,264,668
Accumulated depreciation and 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 2015 and 2014, 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 4,480,642 thousand tenge as at 31 December 2015 (as at 31 December 2014: 3,523,069 thousand tenge).

12. OTHER NON-CURRENT FINANCIAL ASSETS

As at 31 December 2015 and 2014, other non-current financial assets comprised the following:

In thousands of tenge	**2015**	2014
Long-term trade receivables	**7,662,171**	6,935,892
Long-term loans to employees	**2,791,134**	2,875,800
Long-term deposits	**50**	2,005,900
Other	**103,673**	67,075
	10,557,028	11,884,667

12. OTHER NON-CURRENT FINANCIAL ASSETS (continued)

Long-term trade receivables as at 31 December 2015, 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 from 12.2% per annum to 22% (2014: from 12.2 to 22% per annum). 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.

In 2015, average interest rate for long-term deposits was 4% per annum (2014: 4% per annum).

As at 31 December 2015 and 2014, other non-current financial assets were denominated in following currencies:

In thousands of tenge	**2015**	2014
Tenge	**10,557,028**	9,878,817
US dollars	**–**	2,005,850
	10,557,028	11,884,667

13. OTHER NON-CURRENT ASSETS

As at 31 December 2015 and 2014, other non-current assets comprised the following:

In thousands of tenge	**2015**	2014
Deferred expenses	**1,865,825**	2,275,585
Long-term VAT recoverable	**457,912**	2,442,411
Other	**190,895**	198,547
	2,514,632	4,916,543
Less: impairment allowance	**–**	–
	2,514,632	4,916,543

As at 31 December 2015 and 2014, 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	**2015**	2014
Impairment allowance at the beginning of the year	**–**	(3,250)
Recovery for the year	**–**	3,250
Impairment allowance at the end of the year	**–**	–

14. INVENTORIES

As at 31 December 2015 and 2014, inventories comprised the following:

In thousands of tenge	**2015**	2014
Cable materials at cost	**1,743,796**	1,677,575
Spare parts at cost	**640,210**	1,583,950
Other materials and supplies at cost	**621,623**	930,781
Fuel at cost	**480,496**	519,065
Goods for resale at net realizable value	**274,548**	1,222,675
	3,760,673	5,934,046

15. TRADE ACCOUNTS RECEIVABLE

As at 31 December 2015 and 2014, trade accounts receivable comprised the following:

In thousands of tenge	**2015**	2014
Trade accounts receivable	**18,299,271**	22,276,939
	18,299,271	22,276,939
Less: allowance for doubtful debts	**(1,914,169)**	(1,512,067)
	16,385,102	20,764,872

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

In thousands of tenge	**2015**	2014
Allowance for doubtful debts at the beginning of the year	**(1,512,067)**	(1,885,077)
Charge for the year	**(850,337)**	(580,922)
Write-offs for the year	**318,630**	942,925
Discontinued operations	**129,605**	11,007
Allowance for doubtful debts at the end of the year	**(1,914,169)**	(1,512,067)

As at 31 December 2015 and 2014, the ageing analysis of trade accounts receivable is as follows:

			Past due but not impaired				
In thousands of tenge	Total	Neither past due nor impaired	<30 days	30-90 days	90-120 days	120-360 days	>360 days
31 December 2015	**16,385,102**	**13,732,077**	**1,245,011**	**715,981**	**177,278**	**397,688**	**117,067**
31 December 2014	20,764,872	18,395,559	1,335,072	694,315	146,414	193,512	–

As at 31 December 2015 and 2014, the Group's trade accounts receivable were denominated in various currencies as follows:

In thousands of tenge	**2015**	2014
Tenge	**14,913,472**	19,609,368
US dollars	**1,414,681**	1,129,924
Other	**56,949**	25,580
	16,385,102	20,764,872

16. PREPAYMENTS

As at 31 December 2015 and 2014, prepayments comprised the following:

In thousands of tenge	**2015**	2014
Prepayments	**538,346**	1,023,566
	538,346	1,023,566
Less: impairment allowance	**(30,716)**	(31,220)
	507,630	992,346

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

In thousands of tenge	**2015**	2014
Impairment allowance at the beginning of the year	**(31,220)**	(33,508)
Charge for the year	**(2,090)**	(2,767)
Write-offs for the year	**–**	6,400
Discontinued operations	**2,594**	(1,345)
Impairment allowance at the end of the year	**(30,716)**	(31,220)

17. OTHER FINANCIAL ASSETS

As at 31 December 2015 and 2014, other financial assets comprised the following:

In thousands of tenge	**2015**	2014
Bank deposits	**29,278,450**	16,464,382
Other receivable	**2,376,729**	2,177,259
Due from employees	**1,851,394**	2,064,200
Interest receivable	**228,817**	454,486
Restricted cash on current bank account	**208,600**	193,160
Other	**5,805**	9,310
	33,949,795	21,362,797

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 2.3% to 10% per annum (2014: from 1.45% 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 2015 and 2014, the Group's other financial assets were denominated in various currencies as follows:

In thousands of tenge	**2015**	2014
US dollars	**29,253,502**	16,736,982
Tenge	**4,690,488**	4,616,505
Other	**5,805**	9,310
	33,949,795	21,362,797

18. OTHER CURRENT ASSETS

As at 31 December 2015 and 2014, other current assets comprised the following:

In thousands of tenge	**2015**	2014
VAT recoverable	**1,430,856**	1,428,137
Deferred expenses	**1,063,665**	2,578,354
Prepaid taxes other than income tax	**177,102**	171,609
Due from employees	**96,470**	102,217
Other	**1,021,088**	2,267,316
	3,789,181	6,547,633
Less: impairment allowance	**(186,760)**	(334,166)
	3,602,421	6,213,467

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	**2015**	2014
Allowance for doubtful debts at the beginning of the year	**(334,166)**	(385,904)
Charge for the year	**(91,038)**	(17,383)
Write-offs for the year	**105,493**	68,355
Discontinued operations	**132,951**	766
Allowance for doubtful debts at the end of the year	**(186,760)**	(334,166)

As at 31 December 2015 and 2014, other current assets were primarily denominated in tenge.

19. CASH AND CASH EQUIVALENTS

As at 31 December 2015 and 2014, cash and cash equivalents comprised the following:

In thousands of tenge	2015	2014
Cash on current bank accounts	**8,179,504**	7,349,198
Deposits with maturity less than 90 days from origination date	**3,079,666**	1,348,888
Cash on hand	**17,721**	31,211
	11,276,891	8,729,297

Cash on current bank accounts earn interest at the rates ranging from 0.01% to 7.55% per annum (2014: from 0.09% to 5.76% 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 0.1% to 32.0% per annum (2014: from 0.01% to 10.0% per annum).

As at 31 December 2015 and 2014, cash and cash equivalents were denominated in various currencies as follows:

In thousands of tenge	2015	2014
Tenge	**5,743,047**	6,676,058
US dollars	**5,264,926**	1,918,333
Russian roubles	**258,593**	126,479
Euro	**7,166**	6,030
Other	**3,159**	2,397
	11,276,891	8,729,297

For the purpose of the consolidated cash flow statement, cash and cash equivalents at 31 December 2015 and 2014 were as follows:

In thousands of tenge	2015	2014
Cash on current bank accounts	**8,179,504**	7,349,198
Deposits with maturity less than 90 days from origination date	**3,079,666**	1,348,888
Cash on hand	**17,721**	31,211
Cash on hands, current bank accounts and short-term deposits attributable to discontinued operations	**8,688,151**	–
Cash and cash equivalents	**19,965,042**	8,729,297

20. EQUITY

Authorised and issued shares

	Number of shares		Thousands of tenge		
	Ordinary shares	Preferred non-voting shares	Ordinary shares	Preferred non-voting shares	Total issued capital
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
As at 31 December 2015	**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 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
Treasury shares purchased	**33,737**	**12,067**	**331,654**	**87,603**	**419,257**
Treasury shares sold	**(28,364)**	**(11,081)**	**(274,853)**	**(78,535)**	**(353,388)**
As at 31 December 2015	**215,553**	**893,129**	**2,966,250**	**3,498,238**	**6,464,488**

20. EQUITY (continued)

Issued shares net of treasury shares

As at 31 December 2015, outstanding issued ordinary and preferred shares net of treasury shares were 10,707,323 and 320,524 shares respectively (as at 31 December 2014: 10,712,696 and 321,510 shares respectively).

Preferred shares

Preferred stockholders are entitled to priority rights for participation in an 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 2015 amounts to 874,156 thousand tenge (as at 31 December 2014: 876,845 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 95,432 thousand. tenge were accrued during the year ended 31 December 2015 (as at 31 December 2014: 96,542 thousand tenge) and are treated as finance costs in the consolidated statement of comprehensive income *(Note 33)*. Present value of non-discounted future cash flows represents the debt component in other non-current liabilities.

On the basis of the decision taken at the extraordinary general meeting of shareholders of Kazakhtelecom JSC on 22 April 2015, the Company announced at the end of 2014 the dividends on ordinary shares in the amount of 1,089,559 thousand tenge or 101.73 tenge per share (2014: nil tenge). Accrued dividends on ordinary shares were paid during 2015.

The movements in the dividends payable were as follows for the years ended 31 December:

In thousands of tenge	**2015**	2014
Dividends payable at the beginning of the year	**1,588,474**	30,268,498
Dividends declared on ordinary shares	**1,089,559**	–
Dividends declared on preferred shares in excess of the obligatory amount	**–**	–
Interest on debt component of preferred shares *(Note 33)*	**95,432**	96,542
Change in dividends payable of prior period	**(2,620)**	–
Withholding tax accrued	**(17,751)**	(546,937)
Dividends paid on ordinary an preferred shares	**(1,170,843)**	(28,229,629)
Dividends payable at the end of the year *(Note 26)*	**1,582,251**	1,588,474

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 2015 and 2014 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.

20. EQUITY (continued)

Earnings per share (continued)

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

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

In thousands of tenge	**2015**	2014
Net profit from continuing operations attributable to ordinary shares owners of the parent	**26,536,432**	14,293,499
Net loss from discontinued operations attributable to ordinary shares owners of the parent	**(2,148,068)**	(6,809,880)
Net profit attributable to ordinary shares owners of the parent for basic earnings	**24,388,364**	7,483,619
Interest on debt component of preferred shares	**95,432**	96,542
Net profit attributable to ordinary and preferred owners of the parent for basic and diluted earnings	**24,483,796**	7,580,161
Weighted average number of ordinary and preferred shares outstanding for basic and diluted earnings per share	**11,029,991**	11,041,472
Basic and diluted earnings per share, tenge	**2,219.75**	686.52

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 2015, that measure was 25,454 tenge (as at 31 December 2014: 22,913 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 2015, that measure was 8,662 tenge (as at 31 December 2014: 8,668 tenge).

21. BORROWINGS

As at 31 December 2015 and 31 December 2014, borrowings comprised the following:

In thousands of tenge	**Weighted average interest rate**	**2015**	Weighted average interest rate	2014
Fixed interest rate borrowings *with range between 7.5% and 12.5% p.a.*	**9.45%**	**31,438,314**	6.45%	31,049,735
Variable interest rate borrowings *with range between 2.49% and 9.33% p.a.*	**–**	**–**	6.87%	31,139,240
		31,438,314		62,188,975

As at 31 December 2015 and 31 December 2014 were denominated in various currencies as follows:

In thousands of tenge	**2015**	2014
Tenge, payments indexed to exchange rate tenge/US dollar	**28,425,355**	19,263,249
Tenge	**3,012,959**	22,973,450
US dollar	**–**	18,371,112
Won	**–**	1,581,164
	31,438,314	62,188,975

21. BORROWINGS (continued)

Borrowings are repayable as follows:

In thousands of tenge	2015	2014
Current portion	**4,138,393**	5,762,823
Maturity between 1 and 2 years	**–**	7,414,892
Maturity between 2 and 5 years	**27,299,921**	33,973,070
Maturity over 5 years	**–**	15,038,190
Total long-term portion	**27,299,921**	56,426,152
Total borrowings	**31,438,314**	62,188,975

As at 31 December 2015, the Group had not any property and equipment which were pledged as security the Group's borrowings (as at 31 December 2014: 2,480,212 thousand tenge) *(Note 7)*.

As at 31 December 2015, the Group had not any borrowings which were guaranteed by the Government of the Republic of Kazakhstan (as at 31 December 2014: 1,581,164 thousand tenge) *(Note 39)*.

As at 31 December 2015, the Group classified the borrowings of the subsidiary Altel JSC as related to discontinued operations in the amount of 33,836,564 thousand tenge (*Note 37*).

22. 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:

	2015		2014	
In thousands of tenge	**Minimal lease payments**	**Present value of minimum lease payments**	Minimal lease payments	Present value of minimum lease payments
Within one year	**5,579,589**	**4,707,462**	9,397,558	7,519,979
After one year but not more than five years	**4,847,737**	**4,435,721**	12,192,561	10,629,340
Less: amounts representing interest charges	**(1,284,143)**	**–**	(3,440,800)	–
Present value of minimum lease payments	**9,143,183**	**9,143,183**	18,149,319	18,149,319
Less: amounts due for settlement within 12 months		**(4,707,462)**		(7,519,979)
Amounts due for settlement after 12 months		**4,435,721**		10,629,340

The amounts representing interest are based on effective interest rates ranging from 12.5% to 14% 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 41*.

23. 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.

23. EMPLOYEE BENEFIT LIABILITY (continued)

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 2015 and 31 December 2014, the total liability for the Company's defined benefit plan comprised the following:

In thousands of tenge	**2015**	2014
Present value of defined benefit liability	**7,786,044**	5,797,354

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	**2015**	2014
Total liability at the beginning of the year	**5,797,354**	4,963,458
Current service cost	**116,272**	312,579
Interest cost	**540,313**	449,515
Benefits paid during the period	**(1,440,320)**	(1,223,011)
Actuarial losses recognized during the period in other comprehensive income	**2,531,681**	1,294,813
Actuarial losses recognized during the period in profit and loss	**240,744**	–
Total liability at the end of the year	**7,786,044**	5,797,354
Liability payable within one year	**511,689**	742,288
Liability payable after one year	**7,274,355**	5,055,066

Actuarial loss recognised for the year ended 31 December 2015 results primarily from changes in the assumptions relating to the discount rate and expected rate of future annual minimum salary increases.

Current service cost, interest cost and actuarial losses related to other long-term employee benefits in the aggregate amount of 897,329 thousand tenge were recorded in the cost of revenue and general and administrative expenses within personnel costs (2014: 762,094 thousand tenge) *(Note 32)*.

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:

	2015	2014
Discount rate	**9.50%**	9.32%
The expected rate of future annual minimum salary increase	**7.00%**	7.00%

The quantitative analysis of sensitivity as at 31 December 2015 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	(224,112)	337,018	570,387	(505,416)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

24. OTHER NON-CURRENT LIABILITIES

As at 31 December 2015 and 31 December 2014, other non-current liabilities comprised the following:

In thousands of tenge	**2015**	2014
Deferred connection revenue	**2,205,014**	2,890,794
Asset retirement obligations	**66,614**	1,944,996
Long-term accounts payables	**–**	1,020,730
Guarantees issued	**–**	709,303
Other	**704,505**	1,084,432
	2,976,133	7,650,255

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:

In thousands of tenge	**2015**	2014
Provision for asset retirement obligations at 1 January	**1,944,996**	1,065,771
Change in provision	**(363)**	661,586
Amortisation of discount from continuing operations *(Note 33)*	**6,970**	13,129
Discontinued operations	**(1,884,989)**	204,510
Provision for asset retirement obligations at 31 December	**66,614**	1,944,996

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. As at 31 December 2014 current and non-current parts of the debt amounted to 631,365 thousand tenge and 1,020,730 thousand tenge respectively.

As at 31 December 2015, current and non-current parts of debt amounted to 562,450 thousand tenge and 375,274 thousand tenge, respectively, and were included in liabilities directly associated with assets classified as held for sale.

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 Plc 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 accounted for the guarantee provided in the consolidated statement of changes in equity. Amortisation of the guarantee amounted to 69,395 thousand tenge in 2015 (2014: 78,811 thousand tenge) *(Note 33).*

In 2015 the Parent Company made early payment of obligations to the CDB and the Group derecognized the guarantee issued in the amount of 964,149 thousand tenge through equity.

Other

In 2014 there was a modification of the agreement on the supply and installation of LTE equipment between Huawei Almaty LLP and the Group, under which the reimbursement of finance costs for the supply and installation of LTE equipment will be performed during three years. Finance costs related to that loan meet the capitalization criteria and increase the cost of property and equipment in line with their entry into service.

As at 31 December 2015, other current assets and other non-current liabilities related to this agreement in the amount of 565,737 thousand tenge and 1,076,359 thousand tenge were presented within assets classified as held for sale and liabilities directly associated with assets classified as held for sale, respectively.

25. TRADE ACCOUNTS PAYABLE

As at 31 December 2015 and 2014, trade accounts payable comprised the following:

In thousands of tenge	**2015**	2014
Trade accounts payable for services	**6,364,079**	6,957,368
Trade accounts payable for property and equipment	**5,331,902**	10,090,634
Trade accounts payable for inventory	**197,488**	4,353,771
	11,893,469	21,401,773

As at 31 December 2015 and 2014, trade accounts payable were not interest bearing.

As at 31 December 2015 and 2014, trade accounts payable were denominated in various currencies as follows:

In thousands of tenge	**2015**	2014
Tenge	**7,088,852**	18,417,792
US dollars	**4,704,858**	2,907,277
Euro	**1,909**	4,535
Other	**97,850**	72,169
	11,893,469	21,401,773

26. OTHER CURRENT LIABILITIES

As at 31 December 2015 and 2014, other current liabilities comprised the following:

In thousands of tenge	**2015**	2014
Due to employees	**3,734,606**	3,956,719
Taxes payable other than income tax	**2,428,493**	1,643,273
Dividends payable *(Note 20)*	**1,582,251**	1,588,474
Deferred revenue	**811,719**	2,115,340
Payable to pension funds	**746,694**	740,301
Other	**1,326,655**	964,825
	10,630,418	11,008,932

As at 31 December 2015 and 2014, other current liabilities were not interest bearing and were primarily denominated in tenge.

27. REVENUE

Revenue for the years ended 31 December comprised the following:

In thousands of tenge	**2015**	2014
Data transfer services	**96,635,654**	91,858,111
Rendering of wireline and wireless phone services	**56,054,526**	60,617,311
Interconnect	**15,847,010**	13,987,444
Rent of lines	**6,933,796**	6,773,512
Sale of equipment and mobile devices	**-**	5,553,065
Other	**7,272,617**	6,237,111
	182,743,603	185,026,554

28. 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 2015 totalled 7,010,726 thousand tenge (2014: 6,276,853 thousand tenge).

29. COST OF REVENUE

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

In thousands of tenge	**2015**	2014
Personnel costs *(Note 32)*	**48,553,105**	49,185,499
Depreciation and amortisation	**30,007,843**	32,948,111
Interconnect	**8,555,181**	8,173,033
Rent of channels	**8,212,875**	8,057,469
Repair and maintenance	**7,343,005**	7,286,831
Materials	**6,159,307**	6,212,704
TV Content	**3,773,756**	2,869,111
Electricity	**2,748,050**	2,500,132
Fees for the right to provide telecom services	**2,519,955**	1,838,363
Security and safety	**2,406,021**	2,477,649
Fees for use of frequency range	**981,380**	896,180
Rental of equipment	**886,844**	901,437
Equipment and mobile devices	**–**	4,172,411
Other	**5,107,234**	6,181,375
	127,254,556	133,700,305

30. GENERAL AND ADMINISTRATIVE EXPENSES

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

In thousands of tenge	**2015**	2014
Personnel costs *(Note 32)*	**11,136,714**	10,783,335
Consulting services	**3,819,904**	1,080,813
Taxes other than income tax	**3,321,472**	2,783,811
Insurance	**554,940**	429,095
Social activities	**519,419**	620,160
Bank fees	**305,178**	623,039
Depreciation and amortisation	**281,273**	331,665
Business trips	**280,127**	354,386
Materials	**231,734**	263,585
Repair and maintenance	**219,218**	223,145
Trainings	**110,233**	239,764
Security and safety	**84,933**	88,854
Rental of equipment	**73,136**	130,878
Sponsorship	**11,130**	694,455
Charge for bad debt expense *(Note 13, 15, 16 and 18)*	**942,103**	597,822
Impairment of property and equipment and intangible assets *(Note 7 and 8)*	**–**	2,442,170
Other	**1,003,329**	1,799,107
	22,894,843	23,486,084

31. SELLING EXPENSES

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

In thousands of tenge	**2015**	2014
Marketing and advertising	**1,469,181**	1,888,276
Dealer commissions	**1,338,712**	1,672,728
Other	**341,488**	471,833
	3,149,381	4,032,837

32. PERSONNEL COSTS

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

In thousands of tenge	**2015**	2014
Payroll	**53,535,415**	53,978,523
Payroll related taxes	**5,257,075**	5,228,217
Employee benefits expense *(Note 23)*	**897,329**	762,094
	59,689,819	59,968,834

32. PERSONNEL COSTS (continued)

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

In thousands of tenge	**2015**	2014
Cost of revenue *(Note 29)*	**48,553,105**	49,185,499
General and administrative expenses *(Note 30)*	**11,136,714**	10,783,335
	59,689,819	59,968,834

33. FINANCE (COSTS)/INCOME

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

In thousands of tenge	**2015**	2014
Finance costs		
Interest on borrowings	**(3,704,016)**	(3,070,233)
Interest payable under finance leases	**(1,957,577)**	(2,223,737)
Discounting of long-term loans to employees	**(777,829)**	(1,064,878)
Discounting of other non-current financial assets	**(111,312)**	(177,942)
Interest on debt component of preferred shares *(Note 20)*	**(95,432)**	(96,542)
Amortization of discount reserve (ARO) *(Note 24)*	**(6,970)**	(13,129)
	(6,653,136)	(6,646,461)
Finance income		
Amortization of discount on long-term loans to employees	**1,069,658**	1,063,936
Amortization of discount on long-term trade receivables	**1,016,966**	1,017,516
Interest income on bank deposits	**501,992**	365,236
Interest income on guarantees issued *(Note 24)*	**69,395**	78,811
Interest income on current accounts	**21,327**	46,356
	2,679,338	2,571,855

34. FOREIGN EXCHANGE GAIN/(LOSS)

On 11 February 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 6,936,051 thousand tenge for the year ended 31 December 2014.

On 20 August 2015, NBRK and the Government of the Republic of Kazakhstan announced the transition to a free-floating exchange tenge rate and cancellation of the currency corridor. As a result, the Kazakh tenge was significantly devalued to the US dollar and other major currencies by approximately 90%. The Group had well balanced currency position in 2015 and as a result, for the year ended 31 December 2015, the Group recognized a net gain on revaluation of foreign currency items in the amount of 189,482 thousand tenge.

35. OTHER INCOME/(EXPENSES)

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

In thousands of tenge	**2015**	2014
Other income		
Rent income	**2,748,393**	2,415,430
Non-core operations	**482,099**	421,657
Other	**749,243**	922,688
	3,979,735	3,759,775
Other expenses		
Non-core operations	**(494,309)**	(451,732)
Rent expense	**(12,841)**	(11,351)
Other	**(817,948)**	(319,237)
	(1,325,098)	(782,320)

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

36. INCOME TAX

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

In thousands of tenge	2015	2014
Current corporate income tax charge	**6,191,443**	3,532,023
Correction of prior year corporate income tax	**–**	902,012
Deferred tax expense	**2,423,341**	3,535,655
	8,614,784	7,969,690

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 2015 and 2014.

A reconciliation of corporate income tax expense applicable to profit before income tax at the statutory income tax rate of 20% (2014: 20%) to current income tax expense was as follows for the years ended 31 December:

In thousands of tenge	2015	2014
Profit before tax from continuing operations	**34,971,938**	21,503,920
Loss before tax from discontinued operations	**(2,138,852)**	(8,261,574)
Profit before tax	**32,833,086**	13,242,346
Income tax, at statutory income tax rate of 20%	**6,566,617**	2,648,469
Inventory write off	**156,216**	559,816
Change in unrecognized deferred tax assets	**(143,774)**	338,351
Correction of prior year corporate income tax	**–**	902,012
Impairment of CIP	**–**	254,380
Sponsorship	**2,226**	138,891
Non-deductible expenses	**2,042,715**	1,676,077
Total income tax expense	**8,624,000**	6,517,996
Income tax expense reported in the consolidated statement of comprehensive income	**8,614,784**	7,969,690
Income tax attributable to discontinued operations *(Note 37)*	**9,216**	(1,451,694)
Total income tax expense	**8,624,000**	6,517,996

36. INCOME TAX (continued)

As at 31 December 2015, 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:

In thousands of tenge	Consolidated statement of financial position		Consolidated statement of comprehensive income		In other comprehensive income	
	31 December 2015	31 December 2014	2015	2014	2015	2014
Deferred tax assets						
Tax losses carry-forward	**2,081,767**	2,483,476	**(401,709)**	1,100,077	–	–
Employee benefits obligations	**1,557,209**	1,159,471	**(108,599)**	(92,184)	**506,337**	258,963
Discount on non-current assets	**1,163,564**	1,367,668	**(204,104)**	(179,510)	–	–
Accrued expenses	**1,105,482**	224,588	**880,894**	63,748	–	–
Unused vacation reserve	**392,890**	328,301	**64,589**	(3,434)	–	–
Bad debt allowance	**371,821**	263,665	**108,156**	(84,979)	–	–
Interest payable	**225,260**	198,983	**26,277**	(13,969)	–	–
Intangible assets	**60,072**	76,736	**(16,664)**	(114,092)	–	–
Deferred income	**55,862**	30,418	**25,444**	24,227	–	–
Other	**881,200**	929,851	**(48,651)**	518,640	–	–
Less: unrecognized tax assets	**(276,694)**	(420,468)	**143,774**	(338,351)	–	–
Less: deferred tax assets offset with deferred tax liabilities	**(6,113,212)**	(4,962,859)	**(1,150,353)**	188,494	–	–
Deferred tax assets	**1,505,221**	1,679,830	**(680,946)**	1,068,667	**506,337**	258,963
Deferred tax liabilities						
Property and equipment	**23,689,223**	20,824,271	**2,864,952**	3,417,312	–	–
Intangible assets	**591,329**	604,957	**(13,628)**	(453,178)	–	–
Less: deferred tax assets offset with deferred tax liabilities	**(6,113,212)**	(4,962,859)	**(1,150,353)**	188,494	–	–
Deferred tax liabilities	**18,167,340**	16,466,369	**1,700,971**	3,152,628	–	–
Deferred tax (expense)/ benefit			**(2,381,917)**	(2,083,961)	**506,337**	258,963

Reflected in consolidated financial statements as follows:

In thousands of tenge	2015	2014
Deferred tax assets		
- Continuing operations	**204,814**	1,679,830
- Discontinued operations *(Note 37)*	**1,300,407**	–
Deferred tax liability	**(18,167,340)**	(16,466,369)
Net deferred tax liabilities	**(16,662,119)**	(14,786,539)

In thousands of tenge	2015	2014
Reconciliation of deferred tax liabilities, net		
Opening balance as at 1 January	**14,786,539**	12,961,541
Income tax expense for the reporting period – origination and reversal of temporary differences	**2,423,341**	3,535,655
Net of deferred tax recognized in other comprehensive loss	**(506,337)**	(258,963)
Discontinued operations	**(41,424)**	(1,451,694)
Closing balance as at 31 December	**(16,662,119)**	(14,786,539)

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 2019 year. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

37. DISCONTINUED OPERATIONS

As at 3 November 2015, the Group declared its decision of the Board of Directors to conclude an agreement on the creation of a joint venture in the segment of cellular communications on the basis of Altel JSC (Altel 4G brand) and Mobile Telecom-Service LLP (Tele2 brand). The arrangement will be completed after the fulfillment of precedent conditions, which include the approval of authorized governmental bodies and respective third parties.

As a result of this arrangement in exchange for Group's 100% share in Altel JSC and fulfillment of certain conditions, the Group will receive 51% of share capital and 49.48% of voting rights in the joint venture. The completion of the deal is planned for the first quarter of 2016. Accordingly, Altel JSC was classified as a disposal group. With Altel JSC being classified as discontinued operations, the segment of cellular communications in the CDMA and LTE standards is no longer presented in the segment note.

The results of Altel JSC for the year are presented below:

In thousands of tenge	**2015**	2014
Revenue	**37,499,637**	16,919,877
Cost of revenue	**(31,797,354)**	(19,468,629)
Gross profit	**5,702,283**	(2,548,752)
General and administrative expenses	**(3,464,783)**	(1,847,839)
Selling expenses	**(3,788,680)**	(2,439,021)
Operating profit	**(1,551,180)**	(6,835,612)
Finance costs	**(1,442,276)**	(668,649)
Finance income	**226,360**	26,750
Other income/(expenses)	**628,244**	(784,063)
Loss before tax for the year from discontinued operations	**(2,138,852)**	(8,261,574)
Income tax (expense)/benefit	**(9,216)**	1,451,694
Loss for the year from discontinued operations	**(2,148,068)**	(6,809,880)

The major classes of assets and liabilities of Altel JSC classified as held for sale as at 31 December are, as follows:

In thousands of tenge	**2015**	2014
Assets		
Property and equipment *(Note 7)*	**26,932,840**	–
Intangible assets *(Note 8)*	**3,885,075**	–
Deferred tax asset *(Note 36)*	**1,300,407**	–
Inventories	**2,449,560**	–
Trade accounts receivable	**2,722,596**	–
Cash and cash equivalents	**8,688,151**	–
Other	**2,498,571**	–
Assets classified as held for sale	**48,477,200**	–
Liabilities		
Borrowings	**(33,836,564)**	–
Trade accounts payable	**(8,673,614)**	–
Advances received	**(1,441,043)**	–
Other	**(4,536,095)**	–
Liabilities directly associated with assets classified as held for sale	**(48,487,316)**	–
Net liabilities, directly associated with disposal group	**(10,116)**	–

The net cash flows incurred by Altel JSC are, as follows:

In thousands of tenge	**2015**	2014
Operating	**6,332,276**	(670,978)
Investing	**(8,266,897)**	(11,787,222)
Financing	**9,006,069**	13,178,346
Net cash inflow	**7,071,448**	720,146

37. DISCONTINUED OPERATIONS (continue)

	2015	2014
Loss per share		
Basic and diluted, from discontinued operations, tenge	**(194.75)**	(616.75)

The presentation of certain financial data of the Group as if there was no discontinued operations

The tables below present possible figures of the certain financial data of the Group for 2015 as if Altel JSC was not classified as discontinued operations.

Certain income and expenses line items as if there was no discontinued operations for 2015:

In thousands of tenge	
Revenue	**227,253,966**
Cost of revenue	**(159,051,910)**
General and administrative expenses	**(26,359,626)**
Depreciation and amortization of property and equipment and intangible assets	**(35,192,470)**
Selling expenses	**(6,938,061)**
Finance costs	**(8,095,412)**
Finance income	**2,905,698**
Income tax expense	**(8,624,000)**
Profit for the year	**24,209,086**
Profit attributable to owners of the parent	**24,388,364**
Profit attributable to non-controlling interests	**(179,278)**

Certain balance sheet items as if there was no discontinued operations as at 31 December 2015:

In thousands of tenge	
Current assets	**85,124,391**
Current liabilities	**47,666,413**
Current portion of borrowings	**6,325,878**
Long-term portion of borrowings	**58,949,000**
Current portion of finance lease liabilities	**4,707,462**
Long-term portion of finance lease liabilities	**4,435,721**
Total equity	**292,421,442**

As at 31 December 2014, 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 accordance to the contract for purchase of telecommunication equipment, works and services with Huawei Almaty LLP, the carrying amount of that assets was offset against accounts payable for new equipment.

38. NON-CASH TRANSACTIONS

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

In 2015, according to the finance lease agreements the Group received telecommunication equipment in the amount of 186,964 thousand tenge (2014: 7,545,272 thousand tenge).

During 2015 the Group paid 9,849,298 thousand tenge for fixed assets acquired in the previous year (2014: 13,006,996 thousand tenge). Fixed assets in the amount of 9,330,152 thousand tenge were purchased in 2015, but not paid at 31 December 2015 (2014: 11,111,364 thousand tenge).

39. RELATED PARTY TRANSACTIONS

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

Related party transactions were made on terms agreed to between the parties. 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 2015 and 2014, 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 2015 and 2014 and the balances with related parties at 31 December 2015 and 2014, were as follows:

In thousands of tenge	**2015**	2014
Sales of goods and services		
Parent	**646,134**	463,492
Parent-controlled entities	**2,524,809**	3,897,595
Government bodies	**27,262,662**	29,807,164
Purchases of goods and services		
Parent-controlled entities	**2,036,093**	2,054,751
Government bodies	**14,226,577**	2,886,766
Interest earned on financial assets		
Alliance Bank JSC	–	650
Average interest rate on financial assets	–	2.03%
BTA Bank JSC	–	896
Average interest rate on financial assets	–	2.35%
Interest accrued on borrowings		
Entities under government control		
Development Bank of Kazakhstan JSC	**3,318,471**	1,775,469
Average interest rate on borrowings	**8.08%**	8.29%

39. RELATED PARTY TRANSACTIONS (continued)

In thousands of tenge	**2015**	2014
Cash and cash equivalents		
Entities under government control		
Development Bank of Kazakhstan JSC	**2,581**	8,093
Borrowings		
Entities under government control		
Development Bank of Kazakhstan JSC	**55,398,052**	34,686,421
Trade and other receivables		
Parent	**154,155**	99,895
Parent-controlled entities	**470,265**	586,209
Government bodies	**3,204,354**	4,419,402
Trade accounts payable		
Parent-controlled entities	**192,228**	442,926
Government bodies	**556,337**	468,926
Other non-current assets		
Long-term loans to key management personnel	**41,696**	40,289

In 2015 and 2014, 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 telecommunication services provision area.

Total compensation to key management personnel in general and administrative expenses in the accompanying consolidated statement of comprehensive income amounted to 1,039,334 thousand tenge and 895,312 thousand tenge for the years ended 31 December 2015 and 31 December 2014, 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 28*, 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 21*, at 31 December 2014 the Group had borrowings amounted 1,581,164 thousand tenge which were guaranteed by the Government of the Republic of Kazakhstan.

40. FINANCIAL INSTRUMENTS 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 trade 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. As at 31 December 2015, 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.

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 trade accounts payable, cash and cash equivalents and accounts receivable denominated in US dollars and Euro, the Group's consolidated statement of financial position can be affected significantly by movement in the US dollar/tenge and Euro/tenge exchange rates.

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

Currency risk (continued)

The following table demonstrates the sensitivity to a reasonably possible changes in the US dollar and Euro 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.

	2015		2014	
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	**60%**	**1,684,581**	+17%	(3,253,155)
	-20%	**(561,527)**	-17%	3,253,155
Euro	**60%**	**5,372**	+18%	827
	-20%	**(1,791)**	-18%	(827)

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 12, 15, 16, 17 and 18*. 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.

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, approximately 22% of the Group's debt will mature in less than one year at 31 December 2015 (at 31 December 2014: 17%) based on the carrying value of borrowings reflected in the consolidated financial statements.

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

Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2015 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 2015						
Borrowings	–	1,344,895	4,494,836	35,458,206	–	41,297,937
Finance lease liabilities	–	1,538,431	4,041,158	4,847,737	–	10,427,326
Trade accounts payable	9,067,081	1,177,818	1,648,570	–	–	11,893,469
Employee benefit liability	–	–	511,689	5,761,280	7,201,600	13,474,569
Other financial liabilities	–	6,643,512	–	771,119	–	7,414,631
	9,067,081	10,704,656	10,696,253	46,838,342	7,201,600	84,507,932
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
Trade 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

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.

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 2015 and 2014.

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, trade 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 2015	31 December 2014
Borrowings	**31,438,314**	62,188,975
Trade accounts payable	**11,893,469**	21,401,773
Finance lease liabilities	**9,143,183**	18,149,319
Net debt	**52,474,966**	101,740,067
Equity	**292,421,442**	270,309,348
Debt-to-equity ratio	**0.18**	0.38

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

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 2015 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 2015	**11,276,891**	**–**	**–**	**11,276,891**
Other non-current financial assets	31 December 2015	**–**	**–**	**9,990,795**	**9,990,795**
Other financial assets	31 December 2015	**–**	**–**	**33,949,795**	**33,949,795**
Trade accounts receivable	31 December 2015	**–**	**–**	**16,385,102**	**16,385,102**
Liabilities for which fair values are disclosed					
Borrowings	31 December 2015	**–**	**–**	**32,495,536**	**32,495,536**
Finance lease liabilities	31 December 2015	**–**	**–**	**9,143,183**	**9,143,183**
Trade accounts payable	31 December 2015	**–**	**–**	**11,893,469**	**11,893,469**
Employee benefit liability	31 December 2015	**–**	**–**	**7,786,044**	**7,786,044**

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 2015	Fair value 2015	Unrecognised gain 2015	Carrying value 2014	Fair value 2014	Unrecognised loss 2014
Financial assets						
Cash and cash equivalents	**11,276,891**	**11,276,891**	**–**	8,729,297	8,729,297	–
Other non-current financial assets	**10,557,028**	**9,990,795**	**(566,233)**	11,884,667	11,884,667	–
Other financial assets	**33,949,795**	**33,949,795**	**–**	21,362,797	21,362,797	–
Trade accounts receivable	**16,385,102**	**16,385,102**	**–**	20,764,872	20,764,872	–
Financial liabilities						
Borrowings	**31,438,314**	**32,495,536**	**(1,057,222)**	62,188,975	57,893,510	4,295,465
Finance lease liabilities	**9,143,183**	**9,143,183**	**–**	18,149,319	18,149,319	–
Trade accounts payable	**11,893,469**	**11,893,469**	**–**	21,401,773	21,401,773	–
Employee benefit liability	**7,786,044**	**7,786,044**	**–**	5,797,354	5,797,354	–
Total unrecognized change in unrealized fair value			**(1,623,455)**			4,295,465

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 these 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.

41. 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 2015, the Group had contractual commitments totalling 9,144,742 thousand tenge (as at 31 December 2014: 46,635,714 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.

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

In thousands of tenge	**2015**	2014
Within one year	**118,205**	2,304,700
After one year but not more than five years	**–**	360,698
	118,205	2,665,398

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 proceeding 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 2015. As at 31 December 2015, 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.

42. SUBSEQUENT EVENTS

Starting from 1 January 2016 amendments to the Law of Kazakhstan "*About the introduction of changes into certain legislative acts of the Republic of Kazakhstan on informatization matters*" became effective which allow subscribers to independently choose the services of a cellular operator thereby keeping the some phone number. In order to change the operator, subscriber free to sign a contract with a new operator, choose a tariff plan and get a new SIM-card. The receiving operator will notify to the previous operator, and in 5 hours the subscriber's phone number is transferred to another operator's network. For subscribers the MNP service is free.

In January 2016, the Group purchased 20% share in Nursat JSC for 235,326 thousand tenge.

On 25 February 2016, the Group made an early repayment of the loan received from Bank of China in Kazakhstan JSC in the amount of 3,877,393 thousand tenge.

On 25 February 2016, the Group provided a guarantee in favor of Mobile Telecom-Service LLP under the credit line in Kazkommertsbank JSC with the credit limit of 14,000,000 thousand tenge until 25 February 2023. As at 25 February, 2016 no cash was received by Mobile Telecom-Service LLP under this credit line.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

42. SUBSEQUENT EVENTS (continued)

On 25 February 2016, loans of Altel JSC received under the credit line from Development Bank in Kazakhstan JSC in the amount of 26,991,220 thousand tenge were transferred to the Company.

On 25 February 2016, the Parent signed a guarantee agreement with Development Bank of Kazakhstan JSC as a guarantor on liabilities of the Company under the credit line in the amount of 26,991,220 thousand tenge.

On 25 February 2016, loans of Altel JSC received under the credit line from Sberbank of Russia JSC in the amount of 3,000,000 thousand tenge were transferred to the Company.