STRENGTHENING LEADERSHIP AND DEVELOPING NEW SOURCES OF GROWTH

ҚАЗАҚТЕЛЕКОМ

ANNUAL REPORT

2016

telecom.kz

Approved by
The JSC Kazakhtelecom's Board of Directors
Minutes dated May 31, 2017 No. 5

Approved by decision
of the JSC Kazakhtelecom's Management Board
dated May 2, 2017 No. 16/62

ANNUAL REPORT OF KAZAKHTELECOM JSC for 2016

«Strengthening leadership and developing new sources of growth»

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«Strengthening leadership and developing new sources of growth»

This Annual report of Kazakhtelecom JSC covered the whole 2016, including financial performance, new services, measures to improve customer services, the implementation of the transformation program, working with the staff and many other important directions for the Company.

A number of strategic decisions taken earlier are reflected in the activities of the communication provider. This significantly changed the image of the company. Today Kazakhtelecom has formed the image of modern infocommunication operator with a diversified portfolio of products and services. The level of technical development and stable growth of capitalization confirm the reputation of Kazakhtelecom JSC as a reliable, highly efficient and progressive company on the Kazakhstan telecommunication market.

Successfully implementing strategic objectives, developing services, Company has been retaining market leadership in many positions for many years. Now the operator has a modern telecommunications network and covers all major target markets of consumers of ICT services. The level achieved is confirmed by the statistics: on the General Telecom market of Kazakhstan, size of which is estimated at more than 677 billion KZT, the share of Kazakhtelecom JSC is 30.5%. The subscriber base is more than 3.6 million connections, households, businesses, government customers, communication operators on the territory of Kazakhstan and beyond. The share of Kazakhtelecom JSC on the market of fixed telephony is 92.7%, fixed broadband — 74.8%, Pay TV with 27.9%.

In 2016 for the first time of interaction with international rating agencies Fitch Ratings and Standard & Poor's, the credit rating of Kazakhtelecom JSC upgraded to «BB+», reflecting the high level of solvency of the Company, effective risk management and the ability to gradual movement towards the goal.

To preserve our leadership position, increase efficiency, speed up innovation and meet the needs of clients in Kazakhtelecom JSC starting from 2014, Transformation Program Orleu is implemented. In 2016 within the framework of the program, a number of qualitative transformations in strategic areas was achieved, and the effect on free cash flow from the business transformation program amounted to more than 22 billion KZT.

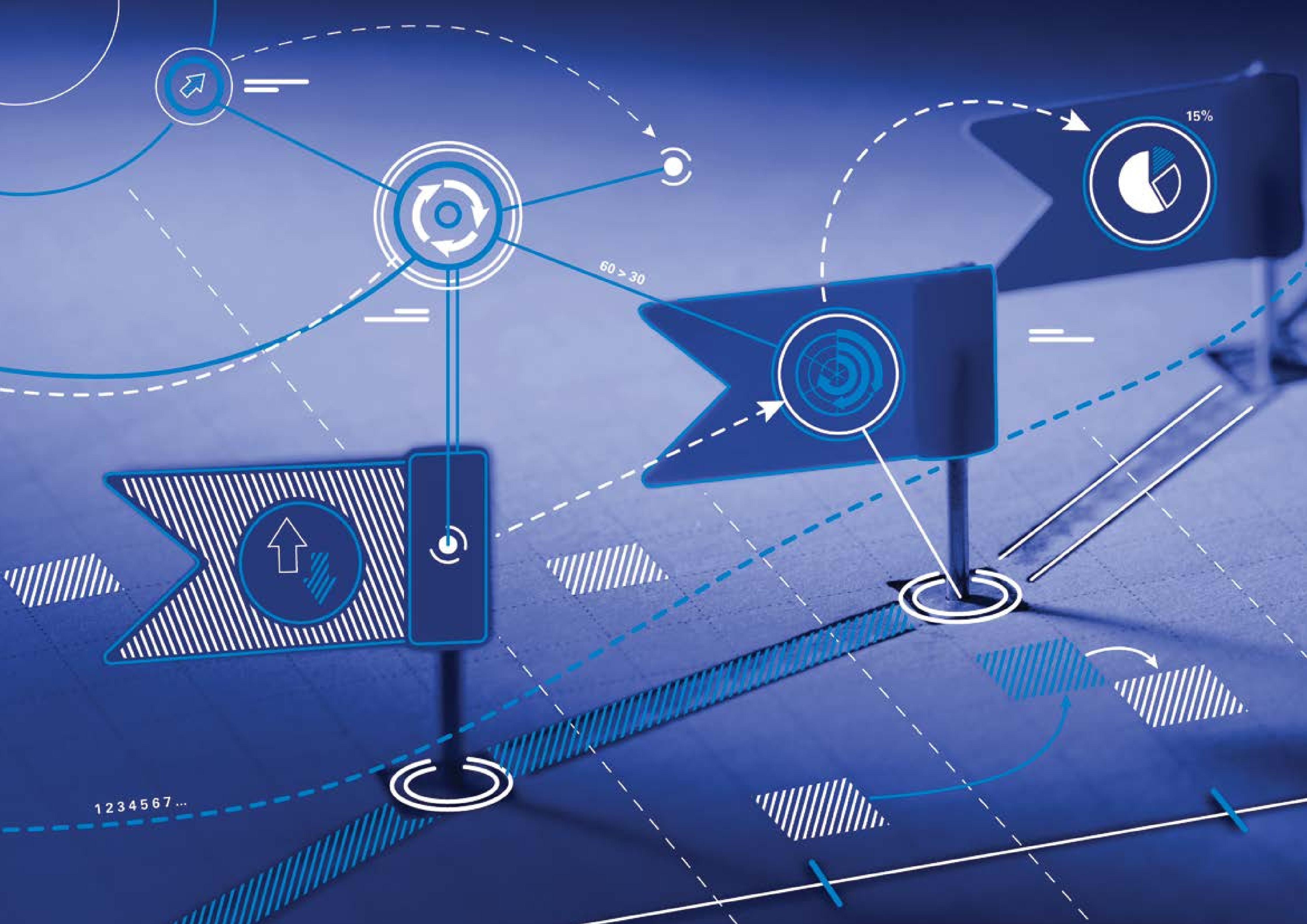
In a rather difficult period of the global infocommunication market, the world companies strive to maintain the momentum of development. With this goal in 2016, Kazakhtelecom actualized Strategy to increase shareholder value, updated long-term development Strategy, identified areas of business improvement and new perspective directions. Therefore, special attention is paid to the development of new lines of business, such as e-Commerce, financial services, «Internet of things», the monetization of Big Data.

Among already implemented innovative projects, convergent services occupy a special place. So, last year to expand the list of the offered services and applied technologies joint venture was created in mobile on the basis of the business of ALTEL JSC (ALTEL 4G trademark) and Mobile Telecom-Service LLP (Tele2 trademark). The merger of two companies allowed in a short time to double the presence of both companies in the mobile communication market of Kazakhstan. This decision was the starting event in the field of fixed-mobile convergence – a new stage of development of the communications industry.

In the medium term, Kazakhtelecom JSC is the largest multiservice operator in the country. To preserve the achieved level of development, Company intends to continue the implementation of initiatives, the development and introduction of new services, while, as before, the priority is the adherence to the principles of customer focus, achievement of objectives to improve competitiveness, flexibility to changes, but the preservation of the best traditions, adherence to the current trends of the industry.

Group of companies has ambitious goals, the implementation of which requires modern technological equipment and professional human capital resources, which Kazakhtelecom has in full.

2017 promises to be a breakthrough, rich in events and innovations, for which the Company has undertaken a number of activities for the development, testing and implementation of projects that will form the basis of the infocommunication market and Company growth in the coming years.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Summary review Key performance indicators

KAZAKHTELECOM JOINT STOCK COMPANY IS THE LEADING TELECOMMUNICATION OPERATOR OF THE REPUBLIC OF KAZAKHSTAN PROVIDING A WIDE RANGE OF INFOCOMMUNICATION SERVICES ACROSS THE COUNTRY.

Official full name: Joint Stock Company Kazakhtelecom.
Registered address: 12, Sauran Street, Yessil district, Astana, 010000, Republic of Kazakhstan.

ҚАЗАҚТЕЛЕКОМ

Kazakhtelecom JSC (Company, Kazakhtelecom) possesses a powerful modern communications network of a nationwide scale that covers all major target consumer markets for info-communications services. The Company is the largest fixed telephony operator in Kazakhstan, the recognized leader in providing telecommunications services, including in rural area, and one of the largest operators of the National Data Communications Network.

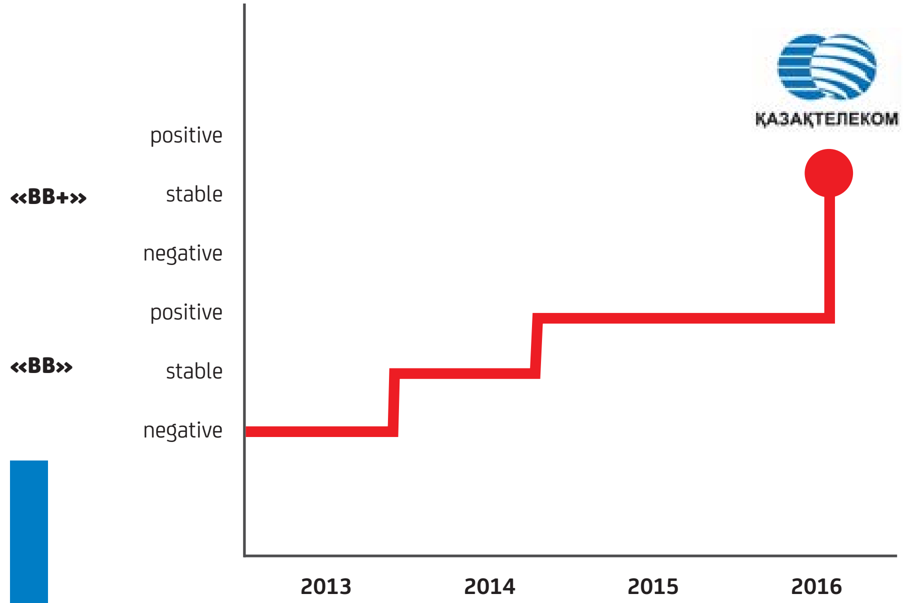
3.67 **million** fixed telephony subscribers

1.5 **million** fixed broadband access subscribers

670 **thousand** Pay TV subscribers

Revenues —	Net profit —	EBITDA margin —
205 820 KZT million	**55 832 KZT million**	**35.8%**

FitchRatings



IN DECEMBER 2016, FITCH RATINGS INTERNATIONAL RATING AGENCY UPGRADED THE CREDIT RATING OF KAZAKHTELECOM JSC FROM «BB» (FORECAST «POSITIVE») TO «BB+» (FORECAST «STABLE»).

THE NATIONAL RATING OF KAZAKHTELECOM JSC WAS UPGRADED FROM «A+» (KAZ) TO «AA–» (KAZ) (FORECAST «STABLE»).

KEY PERFORMANCE INDICATORS

Financial indicators (consolidated)	Unit	2016	2015	2014	2013	2012
Revenues from sale of services	KZT mln	205 820	189 754*	208 223	190 867	175 669
Net profit	KZT mln	55 832	24 388	7 484	19 614	222 130**
EBITDA	KZT mln	73 718	66 745*	61 580	65 829	69 068
EBITDA margin,	%	35,8	35,2*	29,6	34,5	39,3
Capital investments	KZT mln	15 014	38 699	55 154	61 503	63 270
Efficiency indicators	**Unit**	**2016**	**2015**	**2014**	**2013**	**2012**
ROIC (Return on invested capital)	%	10,1	8,4*	6,0	6,9	120,9**
Average revenue per user (ARPU)	KZT/month	3 605	3 582	3 413	3 086	2 823
Number of employees	people	25 117	28 343	29 000	29 848	29 237
Revenues, total, per employee	KZT thousand	8 194	6 912*	7 180	6 395	6 008
Data on assets	**Unit**	**2016**	**2015**	**2014**	**2013**	**2012**
Assets, total	KZT mln	468 962	436 494*	417 693	416 135	419 259
Long term credits	KZT mln	53 795	27 300*	56 426	36 029	63 786
Own capital	KZT mln	343 798	292 421*	270 309	265 503	276 748
Technical indicators	**Unit**	**2016**	**2015**	**2014**	**2013**	**2012**
Number of fixed lines	Lines	3 670 696	3 878 584	4 063 258	4 085 811	4 047 566
Level of digitization of local network	%	100	100	99,06	98,2	97,2
Number of subscribers of fixed broadband data communication (BDC)	Subscribers	1 592 146	1 502 632	1 543 138	1 467 520	1 203 897
Number of Pay TV subscribers	Points	670 127	607 762	530 630	455 378	148 649
Macroeconomic indicators	**Unit**	**2016**	**2015**	**2014**	**2013**	**2012**
Population of Kazakhstan, total	Thousand people	17 926,5	17 670,9	17 417,4	17 165,2	16 911,91
GDP growth	%	101,1	101,2	104,3	106,0	105,0
Consumer price index	%	108,5	113,6	107,4	104,8	106,0
USD/KZT, year average exchange rate	KZT	342,16	221,73	179,19	152,13	149,11

** Financial performance of the Company in 2015 in accordance with the audited financial statements. On November 3, 2015, the Company announced its decision to conclude a joint venture agreement in the mobile segment with Tele2 Group on the basis of ALTEL JSC (ALTEL 4G trademark) and Mobile Telecom-Service LLP (Tele2 trademark). In this connection, the operations of ALTEL JSC were discontinued.*

*** Financial indicators for 2012 include profit from discontinued operations due to the sale of the share of participation in GSM Kazakhstan LLP.*

ADDRESS OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear colleagues, clients and partners!

2016 was a turning point in the global telecommunications market, which continued showing signs of saturation, and its players were busy searching for new niches for further growth. Naturally, these trends have affected our country too, but even in these difficult conditions, Kazakhtelecom was able not only to achieve the established indicators, retain leadership positions, increase profitability, prove the effectiveness of the chosen management model, but also to consolidate the image of the operator that follows the global trends, adapts and implements them in practice. The company once again confirmed that its distinctive features are reliability, innovative approach, efficient use of resources, sustainable development, customer-oriented and constant work on improving the quality of service. In addition, the Company has improved its business processes throughout the year, upgraded equipment and systems, optimized production areas, centralized monitoring and management functions for telecommunications networks. I also believe that the results of the year clearly show how timely the course was held to transform the activity within the framework of the Orleu Program. Transformations taking place in the Company had an impact on one of the most important indicators – thus, by the end of 2016, the effect on free cash flow amounted to more than 22 billion Kazakh KZTs.

Another fact reflecting the availability of systematic and efficient work in all areas is confirmation of the Company's high ratings by international agencies Standard & Poor's and Fitch Ratings in 2016.

To preserve the dynamics of development and the ability to accept the most difficult challenges of the past year, in my opinion, one of the main decisions has been taken: the Long-term development strategy of Kazakhtelecom JSC was updated until 2025. At the same time, the Company's plans for the long term have been brought by the top management to the notion of almost every member of the staff consisting of many thousands of employees.

All the indicators achieved in 2016 allow the Board of Directors to highly appreciate the activities of the Management Board, the entire top management staff, the heads of structural and regional divisions of the Company and every employee of the Company. On behalf of the Board of Directors and on my own behalf, I would like to express my gratitude to all for the results achieved and a faithful approach and employee morale. I am confident that Kazakhtelecom will continue developing dynamically, introducing advanced technologies and services, improving the quality of services, finding new sources of income, and preserving the traditions in the industry and indicative degree of social stability.

The objective of the Board of Directors is to continuously improve the effectiveness of decisions made by the management, ensure the implementation of the Company's long–term plans, retain its leading positions in the market and maintain adherence to high standards in corporate governance. This work will be continued in 2017 as well.

Yours respectfully,
Chairman of JSC Kazakhtelecom's
Board of Directors

Nurzhan Baidauletov

MESSAGE FROM THE CHAIRMAN OF THE JSC KAZAKHTELECOM'S MANAGEMENT BOARD

Dear shareholders, investors, clients, partners,

On behalf of the JSC Kazakhtelecom's Management Board, I am pleased to present the Annual Report for 2016 for your attention.

The past year was not simple for our Company, like for many others, but it was interesting and successful for a number of indicators. This is evidenced by the analysis of the work carried out over the past year, which showed that the Company successfully implements its strategic goals, actively develops services and facilities, and maintains leading positions in many segments of the Kazakhstan telecommunications market.

The work on transformation of the Company's profile, its image, started in 2015, was continued last year, with the result that today our clients and partners perceive us as a multiservice operator, leader in the information and communications industry and the flagship in the implementation of innovative services.

One of the key decisions that influenced the change in tactics was the updating of the Long-term Development Strategy of Kazakhtelecom JSC until 2025, where some projects were revised; a new initiative aimed at developing new businesses was included. Also, the Company's approved policy for managing the full cycle of capital investments has allowed to optimize the process of investment management at all stages. We took timely measures to revise the key principles of management and organization of our activities, adapted to the changes and expectations of customers, staying one-step ahead, achieved changes within the transformation program and managed to increase the profitability of the company. In the past year, we managed to fully realize our goals and increase the profitability of the company. It should be noted particularly that one of the indicators — the effect on free cash flow amounted to more than 22 billion KZT in 2016.

A significant success for us was the confirmation of the high ratings of the international rating agencies Standard & Poor's and Fitch Ratings: in 2016, Standard & Poor's affirmed the Company's credit ratings at «BB» and improved the forecast to «Positive», along with that, the international rating Agency Fitch Ratings has upgraded the credit rating of Kazakhtelecom JSC to the level «BB+» (forecast — «Stable»). We believe that improving the credit rating of Kazakhtelecom JSC is an event reflecting the Company's high level of creditworthiness, a sign of an effective risk management system and confirmation of the leading positions in the telecommunications market in the country.

The implementation of projects within the framework of the transformation program reached its most active phase and, in a strategic plan, steps were taken that led to positive results. Stunning examples are the creation of a Unified service center (USC) for personnel records management, a pilot USC for payroll accounting, centralization of a repair bureau and the establishment of a Unified management center for the telecommunications networks with the centralization of monitoring and management functions in Almaty, the completion of the merger process of Almatytelecom CTC with Almaty Regional directorate of telecommunications and Astanatelecom CTC with Akmola RDT.

At the same time, we understand not only the matter of things and its' principles — we realize that only highly qualified specialists can create competitive products. With that in mind, the Company makes every effort to train and constantly improve the competence of the employees. We pay special attention to personnel motivation, for this purpose the meetings of the best employees with such business and management gurus as Jack Ma the world-famous entrepreneur and founder of Alibaba Group were arranged in Astana. Also, an interactive platform and an autograph session of an economist, the author of a modern political economy bestseller «Why Nations Fail» Daron Acemoğlu was organized. These events made an indelible impression on its' participants and inspired them to new projects and ideas.

In order to collect proposals, creative and innovative ideas and build trust within the Company between top management and employees, we organized and held communication sessions for all branch offices. We received high-quality feedback, answered questions from our colleagues, explained the new Strategy of the company and gave step-by-step explanation of how Kazakhtelecom is going to be developed in the coming years. Along with this, we conducted motivational, presentation and image events in most of the regions, which positively affected the Company's reputation and characterizes us as a progressive operator.

We understand and appreciate the fact that the success achieved in 2016 is the result of well-coordinated work of all the divisions and effective communications within the Company. With a special feeling of pride, I would like to thank all the employees for their contribution to the implementation of the goals set and the excellent work done.

Besides the internal reforms, work was continued aimed at strengthening relations in the external environment. Strategic cooperation with the leading companies of the international telecommunications market such as China Telecom Global, Rostelecom PJSC, KoreaTelecom, Telecommunication Company of Iran, AfganTelecom and others allowed for Kazakhtelecom to become a provider of transit services for ultimate customers on the Eurasian continent, create a joint Competence Center for innovative digital technologies in the format of a virtual working group using ICT technologies; provide telecommunications services in the countries of Central Asia, implement joint innovative projects in the field of scientific ICT research on the basis of profile educational institutions of Kazakhstan with foreign colleagues. As part of the strengthening and development of cooperation, we have already managed to launch unlimited international calls between Kazakhstan and Russia, to develop a number of projects that we intend to implement with partners in the nearest future. In addition, in 2016, during the annual large-scale event — the Astana Economic Forum, which is a platform for presentations and sharing of world experts' experience in the field of economy, finance and management, Kazakhtelecom held a separate session — a workshop dedicated to Blockchain technology and its role in public administration. For the record, the session gathered not only bright speakers, but also one of the largest and most active audiences at the Forum.

The company stays strong in the pursuit of its' goals, because there are still many interesting and promising projects ahead. The market needs new products and services, which means that we have ambitious goals and large-scale tasks. Therefore, in 2017 Kazakhtelecom JSC will make maximum efforts for their implementation. I am absolutely sure that we have sufficient intellectual potential and physical and financial resources to reach new heights!

Yours sincerely,
Chairman of the
JSC Kazakhtelecom's Management Board

Kuanyshbek Yessekeyev

INTERNATIONAL RATING AGENCY FITCH RATINGS HAS UPGRADED THE CREDIT RATING OF KAZAKHTELECOM JSC FROM «BB» (FORECAST «POSITIVE») TO «BB+» (FORECAST «STABLE»).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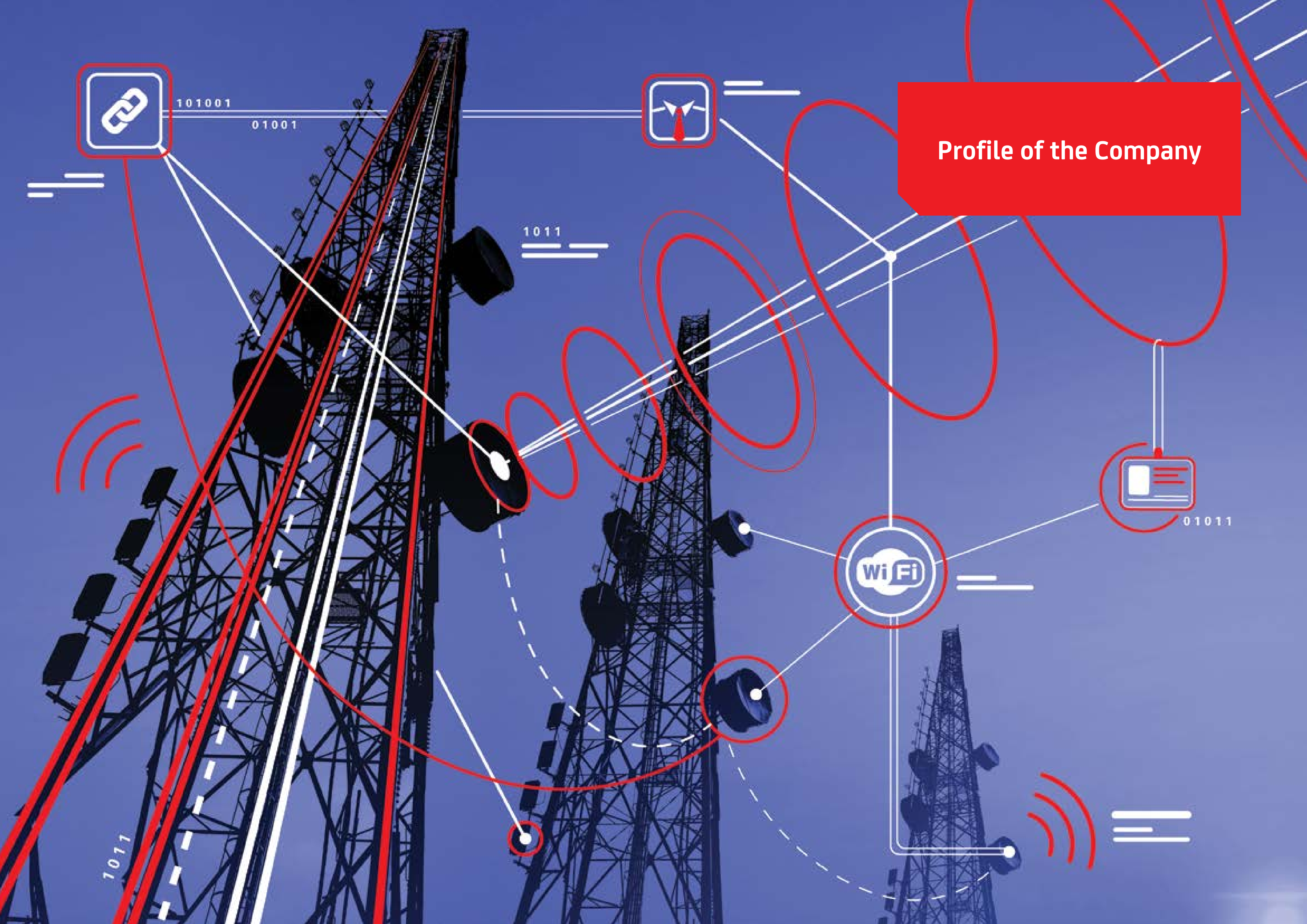
January >	• Provided technical assistance in conduction of XVII «Nur Otan» Party Congress.
February >	• Presented new demo-points for the payment of telecommunication services without a fee in points of network service.
March >	• Completed transaction on establishment of joint venture in mobile industry between Kazakhtelecom JSC and Tele2 «AB».
April >	• Joint project of Kazakhtelecom JSC and Netris company was the winner in the nomination «Best complex project of a multiservice network». • In the framework of the XI International conference on human resource management presented a «Shared services center» in HR-direction. • Signed lease contract on a transit link along the route Rapid Europe—Asia Link (REAL), from Hong Kong to Frankfurt am Main between Kazakhtelecom JSC and China Telecom. • Signed Memorandum of understanding and strategic cooperation between Kazakhtelecom JSC and Rostelecom PJSC. • The General Shareholders' Meeting approved the size of dividends on the results of 2015. A dividend per ordinary share amounted to KZT 331.73.
May >	• Launched the Contact center on issues of land reform «1434» on the basis of KT Cloud Lab LLP. • Signed Memorandum of understanding between Kazakhtelecom JSC and TEM invest. • Signed cooperation agreement with the National chamber of entrepreneurs of Kazakhstan «Atameken» to support domestic producers. • Made expansion of joint with the China Telecom company with a reserve in the area of Dostyk—Alashankou. • In the framework of Astana Economic Forum held workshop on theme: «Prospects of application of Blockchain technology in the field of public administration». • Signed Memorandum of understanding on cooperation in ICT business between Kazakhtelecom JSC and KT Corporation (Korea). • Held meeting with the founder of Alibaba Group Jack MA with the best experts of Kazakhtelecom JSC. • Held meeting with a famous economist, author of the modern Economic bestseller «Why Nations Fail» by Daron Acemoglu for employees of Kazakhtelecom JSC. • Signed Memorandum of cooperation in the organization of the Contact center of the International specialized exhibition EXPO-2017 of Kazakhtelecom JSC and NC Astana EXPO-2017 JSC. • Updated Long-term development strategy of Group of companies of Kazakhtelecom JSC until 2020.
June >	• Together with Rostelecom PJSC started feature package «Tariff «Unlimited Russia». • Signed Memorandum of understanding and cooperation with the Commissioner for children rights in the Republic of Kazakhstan, Deputy of the Majilis Parliament Z. Y. Balieva • Held 8th operators Conference «Carrier Meeting».
July >	• Change in shareholders composition of Kazakhtelecom JSC — the new major shareholder of Kazakhtelecom JSC following the transaction, became the Sobrio Limited Company (UAE). • Start up of new feature packages of access to the Internet on LTE technology in rural areas. • Start up of new feature packages «Megaline Minimum Plus» ADSL for individuals.
August >	• Service Start up «Secure Internet» for legal entities. • The launch of a new e-learning course on the state language without departing from the main activity. • Enabled possibility of emergency messages for timely informing of the population of Almaty in emergencies.

September >	• The launch of new tariff plans iD Net 300 Mbps, iD Net 500 Mbps, iD Net 1 GB/s. • Joint project of Kazakhtelecom JSC and Ukrainian operator «Datagroup» REAL received the award in the nomination «The Best project in the field of backbone networks and transport services at the First all-Ukrainian awarding ceremony of companies in the Telecom and media industries TelecomAWARDS-2016». • The launch of a pilot project on connecting to company services through WhatsApp. • Conducted XIV Spartakiad for summer multisport competition «Densaulyk» among Company employees. • Implemented alternative digital channel of interaction with customers DIS based on Telegram messenger and Facebook. • Signed Memorandum on extension of the joint in the area of Dostyk—Alashankou between Kazakhtelecom JSC and China Mobile. • Organized transit towards Europe—Southeast Asia on the route DREAM together with China Mobile. • Signed Memorandum of trilateral cooperation between Kazakhtelecom JSC and Turkmentelecom SCT (State Company of telecommunications) and Aryacell Telecommunication Development (JSC) Co. companies. • Increased number of channels in the iD TV — from 85 to 125. • Beginning of implementation of «Organization of «cloud» surveillance» project.
October >	• Presented new sales channel through the app WhatsApp in 6 regions of the Republic. • Signed new tripartite Collective agreement between Kazakhtelecom JSC, National trade Union of workers of information, communication and telecommunications PA and Trade Union of employees of informatization and communications PA. • Launch of National e-portal «Mail.kz» together with the «RS Solution». • International Rating Agency Standard & Poor's improved the forecast on the corporate credit rating from «Stable» to «Positive» and affirmed credit rating of Kazakhtelecom at «BB». • Signed contract for the provision of telecommunications services in the border of Kazakhstan/Russia with a new Russian alternative operator (Milecom LLC).
November >	• Held Hackathon «Kazakhtelecom: solutions for mail.kz» in the International information technologies University (IITU). • The launch of the Contact center for the protection of children's rights «111» on the basis of KT Cloud Lab LLP. • Kazakhtelecom is recognized as the best customer for the group of companies NWF Samruk-Kazyna JSC in the nomination «Support of subjects of small and average business». • Signed tripartite Memorandum of understanding between Kazakhtelecom JSC, NWF Samruk-Kazyna JSC and KoreaTelecom Corporation. • The launch of the pilot project «Shared service center (SSC) on function of calculation of wages». • Start up of service package «Tariff «Unlimited for B2B Russia» in cooperation with Rostelecom PJSC.
December >	• Presented transit route Europe—China—REAL in Hong Kong jointly with Kvant-Telecom CJSC (Russia) and Datagroup PJSC (Ukraine). • International rating Agency Fitch Ratings has upgraded the credit rating of Kazakhtelecom JSC from «BB» (forecast «Positive») to «BB+» (forecast «Stable»). • Made payment of the guaranteed dividend on preference shares for 2016 in the amount of 300 KZT per 1 share. • Implemented software and hardware suite that implements the access to the service «iD TV Online» via the SMART TV application (Samsung, LG no earlier than in 2014). • Expanded capacity of the GPON network by more than 12 thousand ports.

Profile of the Company



THE COMPANY'S CENTRAL OFFICE IS LOCATED IN THE CITY OF ASTANA, THE CAPITAL OF KAZAKHSTAN. THERE ARE ABOUT 25 THOUSAND PEOPLE WORKING FOR THE COMPANY. JSC KAZAKHTELECOM HAS REGIONAL BRANCHES IN EACH REGION OF THE COUNTRY THEREBY ENSURING PROVISION OF TELECOMMUNICATIONS SERVICES ACROSS THE WHOLE TERRITORY OF THE COUNTRY.

BASIC FACTS

The National joint stock company Kazakhtelecom was founded pursuant to the resolution of the Cabinet of Ministers of the Republic of Kazakhstan No. 666, as of June 17, 1994 «On founding the national joint stock company Kazakhtelecom» by transferring property of state enterprises, joint stock companies, and telecommunication entities to the charter fund of the founded national joint stock company set to provide a wide range of communications services across the whole territory of the country.

The initial state registration at the department of justice of the Republic of Kazakhstan was made on December 1, 1994.

In March 1996, the primary emission of shares equaling to the charter fund of KZT 12,1 bln was registered.

Pursuant to the Law of the Republic of Kazakhstan as of May 13, 2003 «On joint stock companies», the company was reregistered as joint stock company Kazakhtelecom (hereinafter — Kazakhtelecom JSC). Certificate of state re-registration of a legal entity No. 6924–1901–AO as of April 1, 2004 was issued by the Department of Justice of the city of Astana.

On January 26, 2012, due to establishment of the Administration of justice of the Saryarka district of the Department of justice of the city of Astana, a new certificate of registration of a legal entity No. 570–1901–01–AO was issued to the Company. Due to a change of the legal address of Kazakhtelecom JSC, the certificate on state re-registration of a legal entity was issued by the Department of justice of the city of Astana as of August 18, 2014.

The Company is acting upon the General License No. 14014826 as of 09.10.2014 issued by the Committee for communication, informatization and information of the Ministry on investment and development of the Republic of Kazakhstan.

The major shareholder of Kazakhtelecom JSC is Samruk-Kazyna JSC, a state-owned company, holding 51% of the Company's ordinary shares.

JSC Kazakhtelecom is a legal entity that consists of 21 affiliated branches. Subsidiary companies of Kazakhtelecom JSC also make part of the Company's assets.

The Company's central office is located in the city of Astana, the capital of Kazakhstan. There are about 25 thousand people working for the Company. JSC Kazakhtelecom has regional branches in each region of the country thereby ensuring provision of telecommunications services across the whole territory of the country.

MISSION, VISION, STRATEGIC INITIATIVES AND OBJECTIVES

MISSION OF THE GROUP OF COMPANIES OF KAZAKHTELECOM JSC (GROUP):

To become indispensable and habitual part of everyone's life changing itself and surprising and surpassing expectations!

Key notions of the mission:

To become — to lay down the foundation for transforming the Company in accordance with its strategy;

indispensable — to compete by offering a unique service in the market owing to its leadership in innovation, prices, geography and complex of services;

habitual — convenience, affordability (availability), stability;

part of everyone's life — creation of communication environment, receipt and exchange of information, management of knowledge, entertainment and social orientation;

everyone's (life) — all segments, differentiated approach;

changing itself — structure and processes of the Company oriented towards flexible and timely reaction to changes in technology, market, demand and competitive situation;

surprising — achievement of a unique client experience;

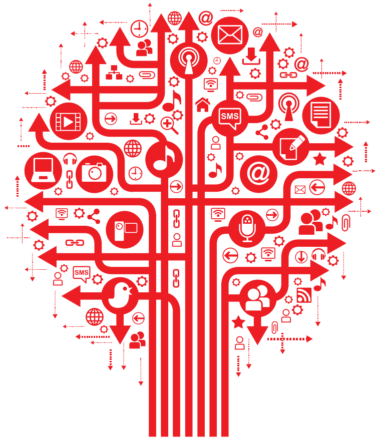
surpassing expectations — formatting and meeting demand, dominance in innovations.

MISSION

Become an ultimate and familiar part of everyone’s life, changing, surprising and exceeding expectations!

VISION

Leading Kazakhstan integrated operator on the infocomms market



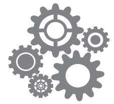
STRATEGIC INITIATIVES

Family Service Supermarket: choice number 1 for communications, information and entertainment

Integrated operator

Informational foundation for Kazakhstan business

Effective business-model



New businesses

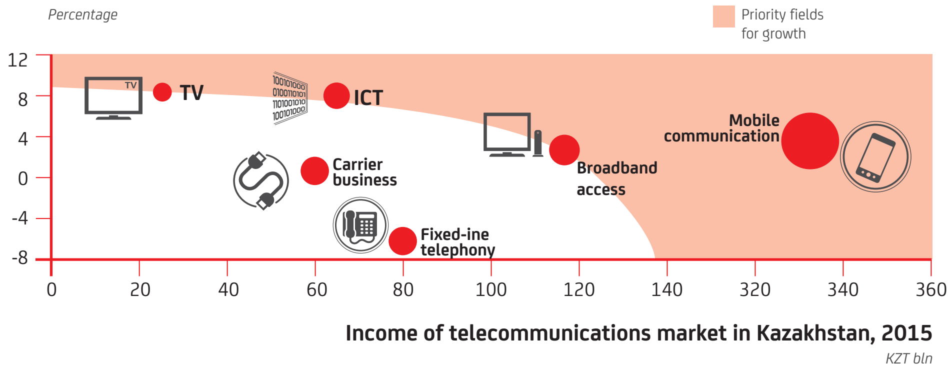
RESULT

The outcome of successfully implemented strategy may become an increase in shareholder value of the Company

The strategy of Kazakhtelecom JSC Group of Companies is aimed at preserving the leading positions in the fixed business, developing the mobile business with the step-by-step development of an integrated operator, using synergies with the core business for point development in related sectors of the telecommunications industry. At the same time, the task is set to maintain the operational efficiency of the business at a level above the average for analogical companies and increase the efficiency of capital investments.

In order to maintain its leading positions in the telecommunications market of Kazakhstan and to increase its’ presence in the infocommunication market, Kazakhtelecom develops its’ presence at the mobile communications market by the means of a joint venture created on the base of ALTEL (ALTEL 4G trademark) and Mobile Telecom-Service LLP (Tele2 trademark).

Average annual rate of growth 2015–2025



«Growing points» of telecommunications market in Kazakhstan (2015–2025)

Kazakhtelecom has a number of indisputable advantages compared to other participants of the Kazakhstan market, in particular:

- wide coverage of Kazakhstan population with communication services — over 80% of households are connected to fixed telephony by Kazakhtelecom JSC;
- unrivaled wired communication infrastructure in the country — technical coverage of more than 80% of Kazakhstan households, of which:
  - 30% of households are provided with access to the infrastructure of high-speed data transmission GPON;
  - 60% of households have access to ADSL 2+ infrastructure, providing speeds up to 20 Mb/s;
  - 10% of households have access only to the basic telephony service;
- developed network of retail sales points of sales and customer service — more than 300 throughout Kazakhstan;
- a recognizable brand that consumers trust.

At the same time, the Group faces serious strategic challenges that will affect its ability to create and multiply the shareholder value and should be taken into account when developing a long-term strategy:

- reduction of growth rates and scale of business of the Company:
  - decrease in revenues from fixed telephony due to the outflow of fixed lines and the refusal of subscribers from fixed telephony services in favor of mobile telephony;
  - Increased competition in the fixed broadband access market;
  - weak positions in fast-growing areas — mobile segment, ICT;
- high level of use of free content by consumers;
- regulatory restrictions:
  - lack of regulatory support in the development of mobile business;
  - regulatory restrictions in the fixed business (for example, regulation of fixed communication tariffs for B2C, lack of the possibility of regional differentiation);
- reduction of business margins due to a decrease in the unit price of services provided;
- significant pressure associated with investments in infrastructure, including due to the implementation of social projects with low payback.

In 2016, the Strategy the meets the trends and challenges of the market was updated to increase the shareholder value of Kazakhtelecom JSC. The updated Strategy identifies **5 strategic initiatives** that contribute to achievement of the set goals and successful resistance to possible challenges, and form the ***Group's vision*** and more than 70 strategic directions were emphasized:

- Family services supermarket: choice number 1 for communication, information, entertainment;
- Information foundation for Kazakhstan business;
- Construction of an integrated operator;
- An effective business model;
- New businesses.

1. The group of initiatives «Family services supermarket» provides the following:

- promotion of the package offer of telecommunications and other services to the household, which fully satisfies the needs of all members of the household in communication, information, entertainment;
- increase user experience and customer loyalty;
- development of a function aimed at increasing the overall efficiency of sales channels;
- improvement of the Company's brand and its positioning.

2. Group of initiatives «Information foundation for Kazakhstan business» includes the following:

- protection of current positions through formation of packages and improvement of tariffs and price policy, development of access technologies;
- Strengthening of positions on the operator market;
- development of ICT business;
- development of a customer-oriented and segment-oriented sales approach.

3. The group of initiatives «Development of integrated operator» provides for the need to take an active part in managing the established joint venture on the basis of the business of ALTEL JSC and Mobile Telecom-Service LLP in 2016 under the management of Tele2 within the framework of the rights agreed upon in Shareholders' agreement, in order to increase the efficiency and profitability of their investments within the framework of the accepted course of merging their mobile business with Tele2 and includes the following:

- effective goal-setting at the level of the Board of Directors of JV;
- realization of synergies in incomes;
- realization of synergies in costs;
- maximizing the benefits of using the warrant.

4. «Effective business model» is a prerequisite for the Group to achieve its strategic goals, both in terms of direct impact on financial indicators and in terms of providing the necessary conditions for implementing the most important strategic initiatives mentioned above. Modernization of the business model involves a set of initiatives to improve organizational efficiency and workforce productivity, improve the processes and corporate culture of the Group.

5. As the competition in the traditional telecommunications business is growing and the profitability is decreasing, an alternative source of growth for Kazakhtelecom may become related areas of activity. **The group of initiatives «New Business»** will be directed to the development of new related areas of activity:

- development of financial services;
- development of e-commerce;
- digitalization of the economy;
- commercialization of Big Data;
- development of e-learning.

EQUITY HOLDING STRUCTURE

The Company's stock capital makes up KZT 12 136 529 thousand and is comprised of 10 922 876 ordinary shares and 1 213 653 preferred shares with the nominal value of KZT 1 000 per share. The fraction of the Company's preferred shares out of the total number of issued shares totals 10%.

The Company's ordinary and preferred shares were included onto the official list of category «A» of the Kazakhstani Stock Exchange (KASE) as of October 16, 1997, and from September 1, 1998, they were transferred to the first category of the official list of KASE.

Since October 30, 2009, the securities of JSC Kazakhtelecom are included on the Exchange's official list on the category «Debt securities of the quasi-state sector's entities».

December 26, 2014. The first issue of bonds of Kazakhtelecom JSC for KZT 21 000 000 000 issued within the first bonded program for the amount of KZT 90 000 000 000 was included in the official list of the broker's board under the category «Debt securities of subjects of the quasi-public sector».

On April 28, 2006, the state block of shares of JSC Kazakhtelecom was transferred to JSC Kazakhstani holding for management of state assets «Samruk», founded in accordance with the Enactment of the Government of the Republic of Kazakhstan as of February 23, 2006 No. 117 with a view to effectively managing the state shares in a number of the largest companies of Kazakhstan.

Following the Enactment of the Government of the Republic of Kazakhstan, No. 962, as of October 17, 2008, «On measures for implementation of the Decree of the President of the Republic of Kazakhstan No. 669 as of October 13, 2008», Sovereign Wealth Fund Samruk-Kazyna (hereinafter referred to as SWF Samruk-Kazyna JSC, the Fund) was founded by merging JSC Kazakhstani holding for management of state assets Samruk with JSC Fund for sustainable development Kazyna. To date, the Fund is the Company's largest shareholder.

In July 2016, Sobrio Limited Company became the new major shareholder of Kazakhtelecom JSC, which acquired shares of JSC (24.47% of ordinary shares of the Company) from Bodam B.V. and Deran Services B.V. companies.

Owners of ordinary shares of Kazakhtelecom JSC, as of 01/01/2017

Shareholder	Number of shares	Share (%)*
NWF Samruk-Kazyna JSC	5 570 668	51,00
Sobrio Limited	2 672 592	24,47
BNY Mellon (nominee shareholder)	1 001 276	9,17
Other shareholders with a share of less than 5%	1 678 340	15,37
Total announced ordinary shares	**10 922 876**	**100**

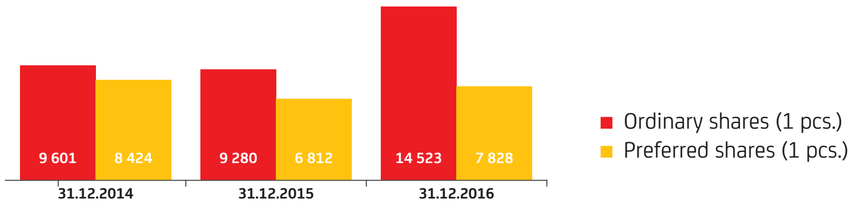
As of 01.01.2017 the members of the Management Board and the Board of Directors of the Company are not the owners of ordinary shares of Kazakhtelecom JSC, there is no cross-shareholdings.

Shareholders structure of Kazakhtelecom JSC as of January 01, 2017*

** The share is calculated of the total number of allotted ordinary shares*

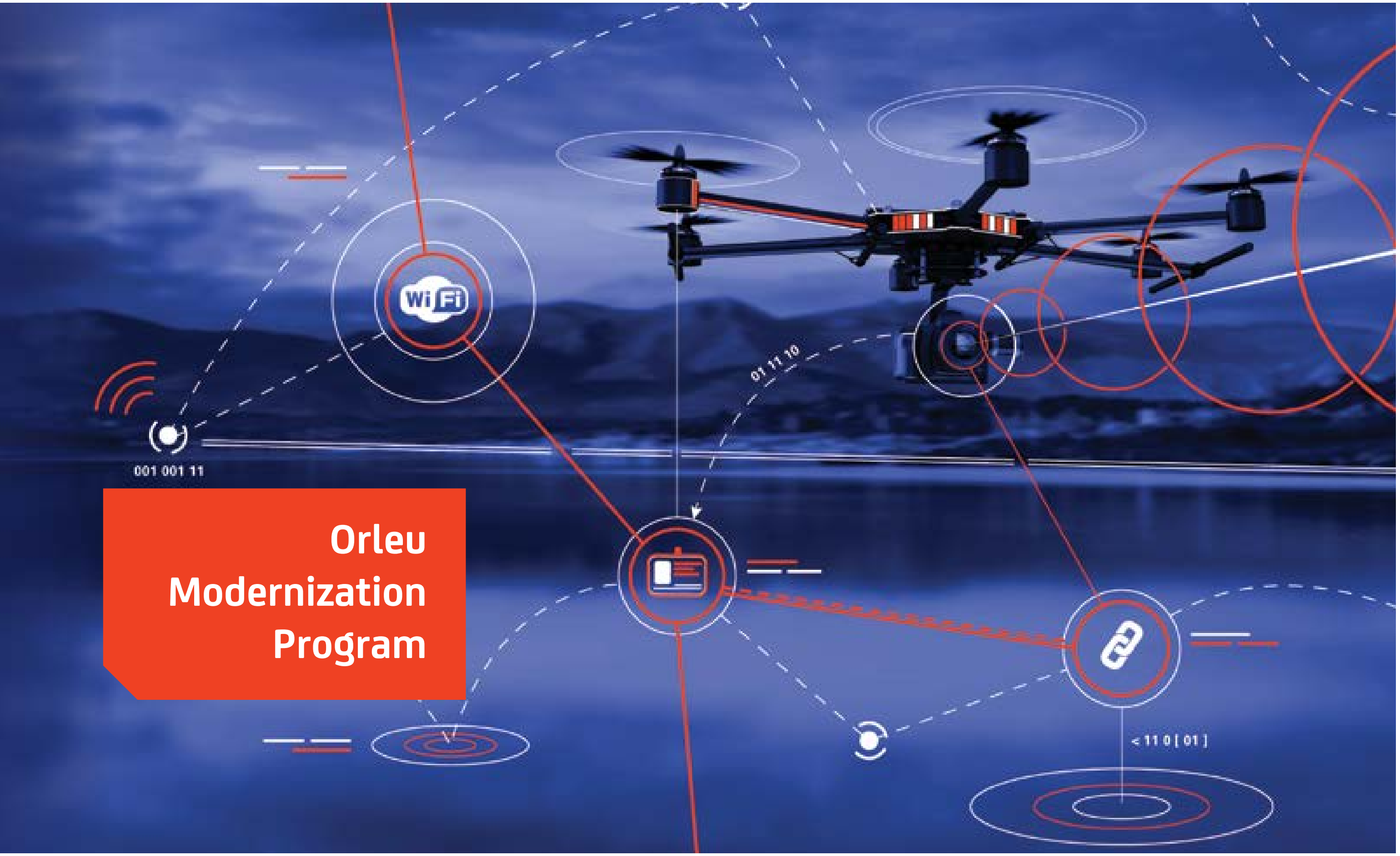
As of December 31, 2016, the value of ordinary shares of Kazakhtelecom JSC on Kazakhstan Stock Exchange JSC amounted to KZT 14 522.97, the cost of preferred shares of Kazakhtelecom JSC amounted to KZT 7 828.00.

Stock value of Kazakhtelecom JSC (KZT)**



*** Closing price on the last available date*

Possible triggers for the growth of the Company's stock value are as follows: constant work in all areas of the Company's activities in order to improve business performance, good financial outcomes for 2016 and ambitious goals for the future. In addition, in 2016, the international rating agency Fitch Ratings upgraded the Company's credit rating to «BB+», financial stability and liquidity indicators were significantly improved, what in aggregate has a positive impact on the Company's value.

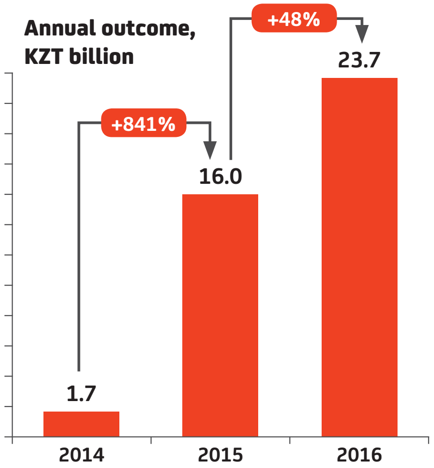


Orleu Modernization Program

In 2016, the active implementation of the Orleu Transformation Program in Kazakhtelecom JSC was continued. Previous preparatory work began to bring both financial and qualitative results. This is evidenced by the most important financial indicator — the outcome on free cash flow, that is the amount of money earned or saved due to Orleu.

ANNUALLY THE EFFECT FROM THE IMPLEMENTATION OF THE ORLEU PROGRAM DEMONSTRATES THE GROWTH.

If in 2014 this amount was KZT 1.7 billion, and in 2015 — KZT 16 billion, then in 2016 the effect on free cash flow amounted to KZT 23.7 billion, which is 144 % of the plan.



One of the most important events of 2016 for the Company was the updating of the Long-term development strategy of Kazakhtelecom JSC up to 2025, in which the parameters of individual projects were revised, and the fifth block of initiatives «New Businesses» was included, providing for the development of services in the field of information and communication technologies. In particular, the Company intends to provide clients with services in the areas of finance, e-commerce, digitalization of the economy, the commercialization of data arrays (Big Data), e-education.

As it was expected, in 2016 the greatest financial outcome was brought by projects aimed at revenue growth. They include projects on batching services, introducing new services and products, developing sales and service channels, managing the outflow. These projects are implemented within the blocks of initiatives called «Supermarket services for the whole family» and «Informational foundation for Kazakhstan business».

Throughout the world, there has been an increase in packaged offers in the telecommunications market. For the past 3 years In Kazakhtelecom, the projects of batching services are the champions of the transformation program. According to the outcomes of 2016, more than 1 million of subscribers are connected to paid traffic packages, and 272.6 thousand use packages of three or more services.

Significant efforts were made to retain the users. As part of the measures for reactive outflow management (the measures aimed at retaining the subscribers who applied for a service termination), the share of retained subscribers increased from 34% in 2015 to 53% in 2016. In the direction of proactive outflow management in 2016, the predictors (indicators) were developed and automated to determine the subscribers who are prone to outflow, and a pilot for outflow proactive management was launched. As an outcome of these events, 249 476 subscribers of various services were retained for the year, most of which are telephone subscribers (114.5 thousand).

Our Company is actively developing as an infocommunication operator. We offer on the market the convergent services such as «Universal number», unified packages of home and mobile Internet, iD Net Wireless, 2-play B2B.

A significant milestone became the launch of the Fiscal Data Operator services — one of the largest projects of Kazakhtelecom, which is of national importance. In August 2016, the «Safe Internet» service was launched into commercial operation in the segment of legal entities. The branch offices executed more than 2 400 connections, which had a positive impact on ARPU in corporate clients segment.

Within the framework of the «Effective Business Model» block, the projects on optimization of the procurement process and optimization of property management had the greatest effect.

For 2 years on the project «optimization of the supply process» of the revised planning and write-offs issues are revised, a process of regular procurement analysts, which gave a significant financial effect, is developed and implemented.

Because of upgrading equipment and optimizing the use of office space, it became possible to release part of the production and working areas. Such property our Company rents or sells. In addition, the Company managed to reduce the costs of rental property from third-party individuals and organizations. Thanks to the performed activities, cost reduction and increased revenues were achieved.

The merger of Almatytelecom CTC and Astanatelecom CTC with Almaty and Akmola Regional directorate of telecommunications, respectively, was completed. Optimization of the management links improved the ratio of production and management personnel that led to a reduction in the number of chiefs. As the result, the bureaucratic barriers are eliminated and decisions at the local level are adopted faster. In general, the performance indicators of branch offices began to improve.

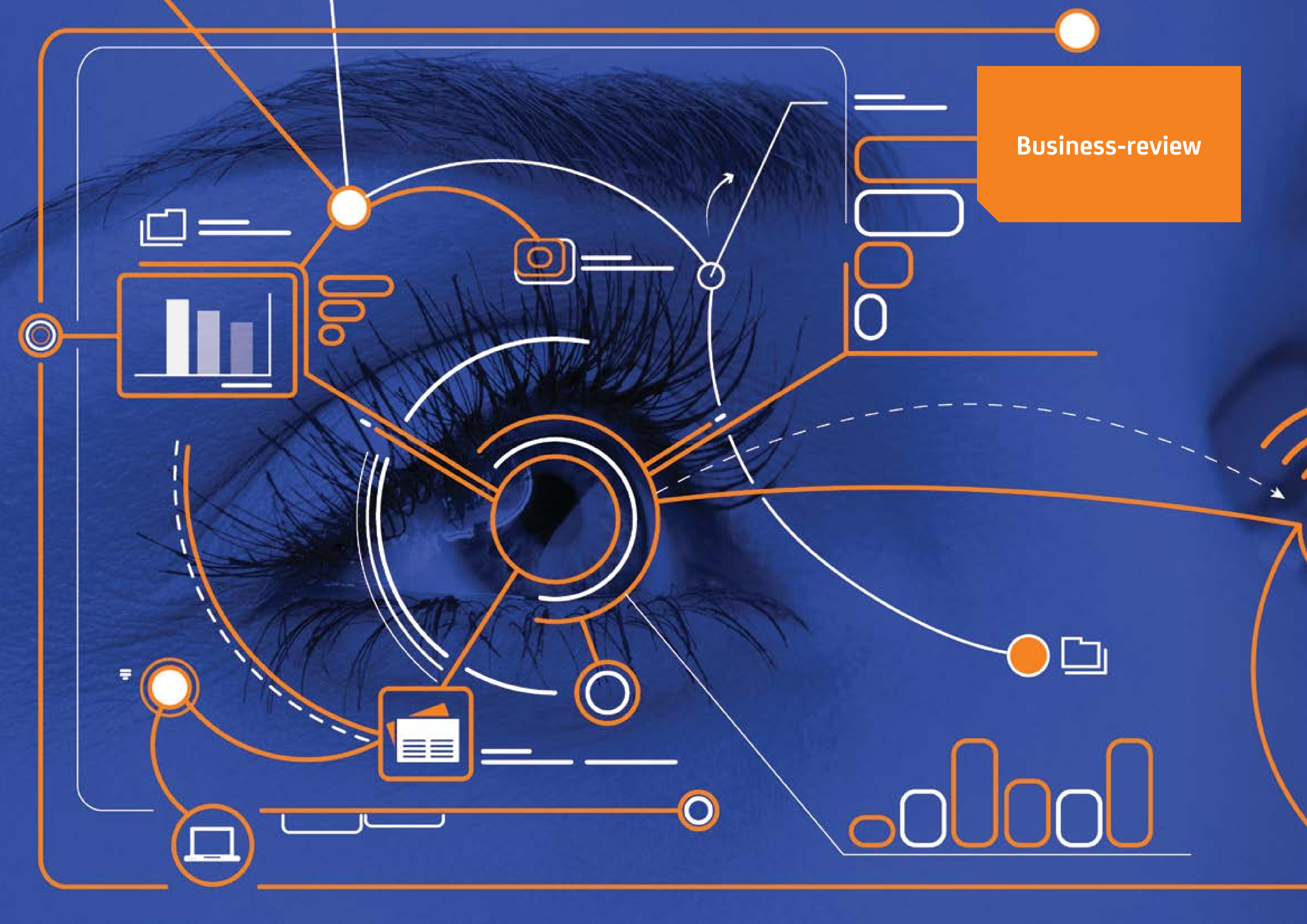
The central repair bureau «165» was moved under the Main Control Center of Telecommunications Networks (MCCTN). The Genesys centralized platform was launched, which combined the capacities of the three sites and increased the efficiency of the operators by 20%, respectively, the customer waiting time was reduced by the same amount, and the cost of call maintenance was reduced as well. The management of active equipment on the network from a unified center in Almaty resulted in improved network performance, staff efficiency, reduced network recovery time, and reduced network management costs.

Other important outcomes: the establishment of a Unified Service Center (USC) for personnel record management and a pilot USC for payroll accounting.

The outgoing year is also marked by the successful completion of the project on ALTEL and Tele2 merger within the framework of the «Integrated Operator» initiatives. As an outcome of the transaction, Kazakhtelecom received 51% of shares in joint ventures. The company has all the resources for active competition in the mobile communications market.

In 2017, the active implementation of the transformation program will continue. The effect on free cash flow is planned at the level of KZT 21.3 billion. Particular attention in the upcoming year will be given to the projects of centralization of administrative and support functions, optimization of management levels, procurement process, management reporting, channels rearrangement in favor of digital ones, optimization of interaction with clients, network management.

Business-review

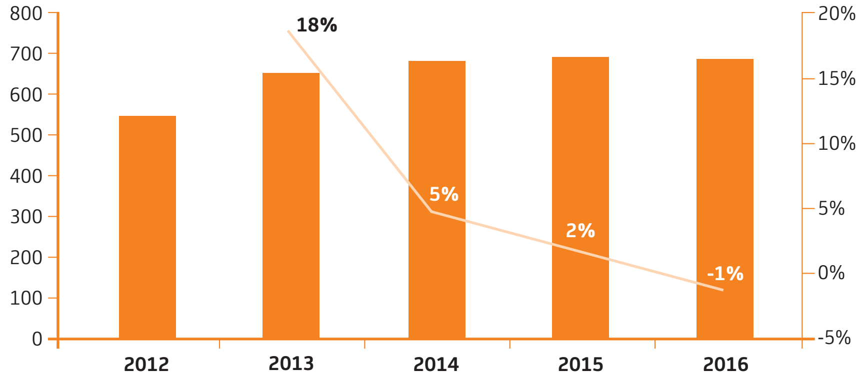


KAZAKHTELECOM JSC HAS BEEN OPERATING IN THE FIELD OF TELECOMMUNICATIONS SINCE JUNE 17, 1994 AND IS THE UNDISPUTED LEADER OF THE TELECOMMUNICATIONS SERVICES MARKET FOR KAZAKHSTAN GOVERNMENT BODIES AND CORPORATE USERS OF ALL LEVELS. THE COMPANY PROVIDES A WIDE RANGE OF INFOCOMMUNICATION SERVICES THROUGHOUT THE COUNTRY AND ENTERS NEW MARKET SEGMENTS.

TELECOMMUNICATIONS MARKET OVERVIEW

According to the Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, the volume of the communication services market of the Republic of Kazakhstan in 2016 amounted to KZT 677.7 billion. Over the past 5 years, since 2012, there has been a steady growth in revenue in the communications market, but in 2016 the telecommunications market declined by 1% compared to 2015.

The volume and growth rates of the telecommunications market in Kazakhstan (2012–2016)



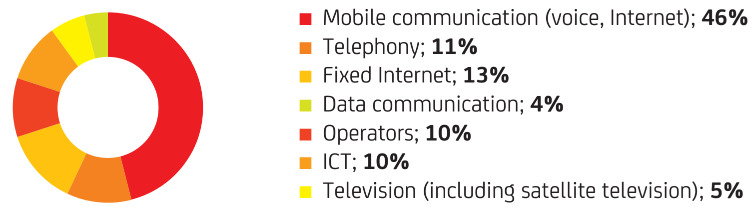
The telecommunications market in terms of services has different trends:

- Fixed telephony continues to decline from 2007, with an average annual outflow of fixed lines of 200 thousand.
- A significant decrease in revenue and customer base is noticed in the segment of mobile voice telephony, about 6 thousand of SIM-cards were disconnected in 2016.
- The service of Broad Band WL is developing most dynamically, both through fixed and mobile access.
- Mobile access to the Internet is ramping up, and the client base for 2016 grew by 20% and amounted to more than 12 million users.
- Pay TV-market, information and communications technologies services (telecommunications segment) are actively developing. However, due to their small capacity, they do not yet make a significant contribution to the development of the entire communications market.
- In 2016, the operator segment showed a growth after a brief slowdown.

According to the results of 2016, the structure of the telecommunications market consists of 7 segments:

1) Mobile communication (voice communication, VAS) — 33%;
2) Broad Band WL (fixed, mobile) — 30%;
3) Fixed telephony — 11.5%;
4) Operator services – 9.9%;
5) Information and communications technologies services — 7.3%
6) Pay TV — 4.5%
7) Data communication — 3.8%

Structure of incomes of the telecommunications industry in Republic of Kazakhstan by types of services, 2016



In the structure of income by type of services, mobile communication along with mobile Internet (without mobile interconnect) accounts for the major share that is 46% (KZT 315 billion), 11% is fixed telephony (KZT 77.7 billion), 13% is Internet (KZT 90.6 billion). The operator segment amounted to 10% (KZT 69.5 billion). Pay TV-market reached 5% (KZT 30.5 billion), the data communication market accounted for 4% (about KZT 25.9 billion), the share of the ICT services market grew significantly from 2% in 2015 to 10% in 2016 (KZT 68.5 billion).

The main drivers of revenue growth in 2016 were broadband, fixed and mobile access to the Internet (+6%), television services (+12%), data communication (+15%).

Because of the creation of a modern telecommunications infrastructure, the penetration of the Internet among the population in 2016 reached 72.9%, ensuring the 41st position for Kazakhstan in the ranking of the global competitiveness index.

The remaining segments of the market showed a slowdown in growth, with the largest losses in the segment of mobile voice and fixed telephony.

The structure of the telecommunications market is constantly changing. Prior to 2000, the fixed telephony market (up to 70% of the communications market) and the operator segment (9%) were the dominants. Today, the mobile market is a primary dominant.

TELECOMMUNICATIONS MARKET BY SEGMENTS

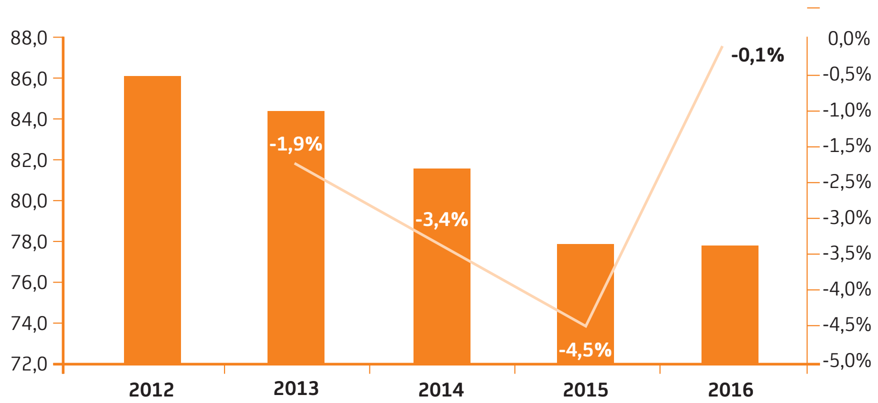
Fixed telephony. The capacity of the fixed-line telephony market was KZT 77.7 billion in 2016. Over the past 5 years, the fixed telephony market has rapidly lost its position in total revenue. However, in 2016 there is a certain stabilization of the revenues decrease from fixed telephony services as a whole.

The decrease in the market volume in monetary terms is mainly comes from a significant reduction in fixed-line telephony subscribers by 212 thousand subscribers among the population and a reduction in local communications revenues.

The total number of fixed lines at the end of 2016 was 3 931 thousand of fixed lines.

The outflow of fixed line telephony subscribers at the current stage of the development of the telecommunications market in Kazakhstan is not a negative trend and has no dangerous nature. On the contrary, it corresponds to the scenario of the development of the world's leading telecom markets and shows the extremely high prevalence and availability of mobile communication services, which are inevitable partial substitutes for fixed telephony on the mature market. In other words, a slight outflow of fixed telephony subscribers against the background of the general market development characterizes it as healthy and developing in the current directions.

Dynamics and capacity of the fixed telephony market, 2012–2016 (KZT Billion)



Mobile communication. Following the results of 2016, the cellular market volume in Kazakhstan amounted to KZT 315.0 billion, which corresponds to an increase of 9% compared to the previous year.

The rapid growth in 2016 showed revenues from mobile Internet — their share in the overall structure was 30%. Revenues from voice services continued to dominate, but their share in 2016 dropped to 50% compared to 60% a year earlier. The density of mobile subscribers per 100 people for the year increased from 166 to 179, and subscribers with Internet access almost did not change, making 61 against 60 a year earlier.

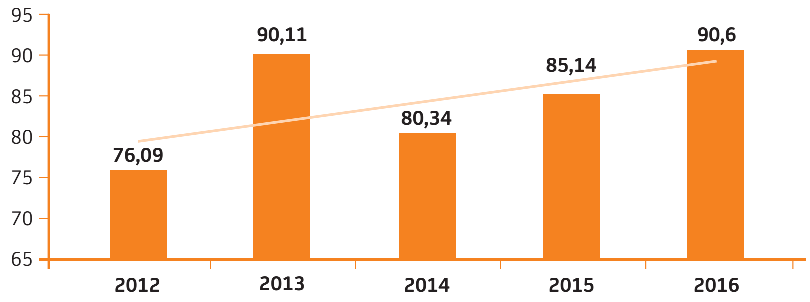
Leading positions are reserved by Kcell. At the end of 2016, the subscriber base of Kcell JSC amounted to 9.9 million numbers, the revenues from services was KZT 147 billion. The second place — «Beeline» Group of Companies with 8.7 million of subscribers and sales volume of KZT 94 billion (in the mobile segment). The consolidated company Tele2 and ALTEL increased the subscriber base to 7 million numbers, having earned more than KZT 80 billion.

The natural driver for the development of the mobile Internet market has been and still remains the rapid growth in the number of users of smartphones. The Kazakhstan mobile phone market in 2016 again took the course to increasing of smartphones sales after a break caused by the drop in the value of the country's currency in August 2015. Imports of smartphones to Kazakhstan amounted to almost 700 thousand pieces in the second quarter of 2016, which is 18% more compared to the same period of last year, upcoming the currency shock. In 2016 about 200 thousand tablet PCs were supplied to Kazakhstan.

According to the Connected Consumer Survey research conducted by TNS Infratest in 2016 on Google's order, 65% of Kazakhstanis are users of smartphones. This indicator is one of the highest in the post-Soviet space. At the same time, this figure is even higher among young people under the age of 25 and up to 35 years, in these age categories 91% and 85% of Kazakhstanis use smartphones respectively.

On the average, there are 2.1 devices connected to the Internet account for one Kazakhstani. In 2016, they provided about 80% of all revenues from mobile data transmission. As a comparison, in 2013, the smartphone users generated slightly more than half of total revenues (51.4%). As a result, the significant changes occurred in the structure of revenues from mobile Internet in 2014, — the share of income from USB-modems users and tablet PCs decreased from 36.5% to 26.2%, and users of regular phones and M2M devices together provided only 6% of all income.

The market of fixed access to the Internet. The total capacity of the fixed stationary broadband Internet access market on the basis of estimated data was KZT 90.6 billion. Despite the rapid growth of mobile broadband Internet access subscribers, the base of fixed Internet subscribers grew by 10% in 2016.



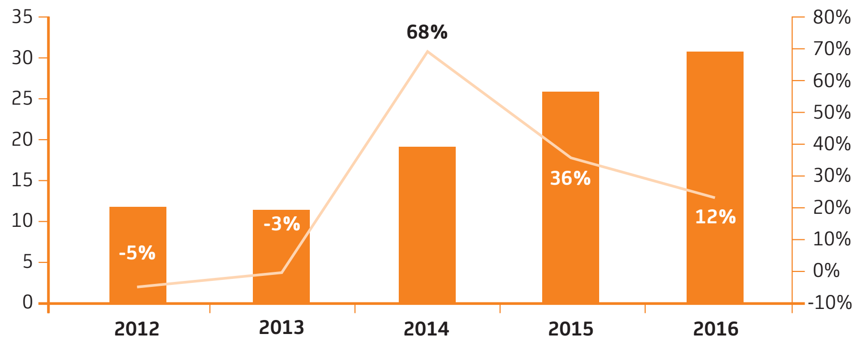
In 2016, the revenues from the implementation of fixed broadband Internet access services reached the level of 2013 after the fall in 2014.

The total number of subscribers in 2016 reached 2 227 thousand, the penetration depth was 27.4 subscribers per 100 households and 1.6 ports per one enterprise.

Pay TV. Revenues from Pay TV services amounted to KZT 30.5 billion. The total number of subscribers of digital, satellite and cable television in 2016 reached 2.1 million, including about 1.7 million users of Pay TV according to preliminary estimation.

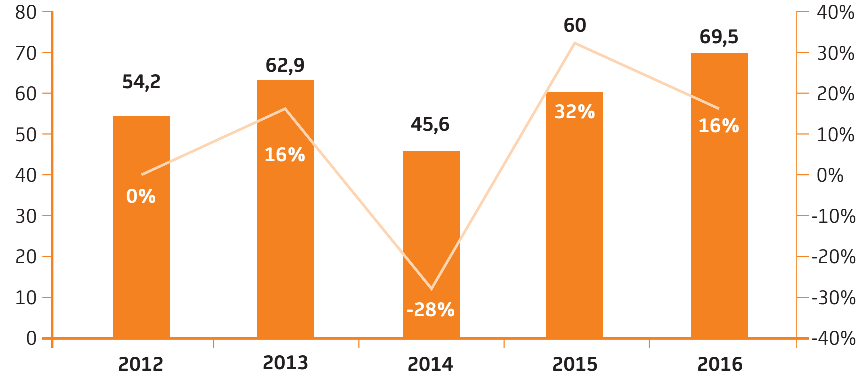
Income increase in 2016 relative to 2015 was 12% or + KZT 3 billion. The main peak in revenue growth was observed in 2014, which was associated with the maximum number of connections to Pay TV-services. Since 2015, the earnings-growth rate has slowed down, which is illustrative of a gradual market saturation.

Revenues dynamics coming from Pay TV services, 2012–2016 (KZT billion)



Operator's market of telecommunications services. In 2016, revenues on the operator segment of market participants amounted to about KZT 69.5 billion, showing the growth of 16% compared to 2015. This is associated with commissioning of new sections of telephone and cable channels, trunk fiber-optic communication line channels with the participation of 4 market players (TNS Plus VimpelCom, ASTEL, Transtelecom and Kaztranscom) in 2014–2015 and a significant increase in data traffic transmission for these channels over 2015–2016 years.

Revenues dynamics coming from carrier segment, 2012–2016 (KZT billion)



ICT services market. In the market of other ICT services provided by telecommunications licensed companies, there has also been a fierce competition in the provision of Data Center services, hardware engineering, and various IT outsourcing services.

Despite the fact that the ICT services market is not key one in the telecommunications market, but auxiliary, its' share in the overall revenue structure is growing steadily. Thus, in 2016 the volume of incomes of ICT amounted to KZT 68.5 billion. The total IT-market in Kazakhstan, which is not fully included in the telecommunications market, exceeded KZT 800 billion. The given market on 80% consists of equipment sales, 10% of licensed software and 10% of IT-services (consulting, implementation, technical service, monetization of Internet applications, electronic services). This volume includes both B2B sales and the B2C-segment for ICT services. However, the B2B-segment prevails in the market (over 90%).

OVERVIEW OF THE REGULATORY ENVIRONMENT OF THE INDUSTRY

Effective and reliable telecommunications and data transmission are of paramount importance for the country for a wide range of economic, social, and strategic reasons and are related to ensuring national security. In this connection, the state has a significant influence on the telecommunications industry activities.

The main normative legal act regulating relations in the sphere of telecommunications is the Law of the Republic of Kazakhstan «On Communications», which establishes the legal basis for activities in the field of communications on the territory of the Republic of Kazakhstan, determines the powers of state bodies on regulation of this activity, the rights and obligations of individuals and legal entities, rendering or using communication services.

In the reporting year, in accordance with the Decree of the President of the Republic of Kazakhstan dated May 6, 2016 No. 253 «On Measures for Further Improvement of the Public Administration System of the Republic of Kazakhstan», the functions and powers of the Ministry of Investments and Development of the Republic of Kazakhstan in the field of information, informatization and communications were transferred to the newly formed Ministry of Information and Communications of the Republic of Kazakhstan (MIC RK).

The MIC RK includes the republican state institution «Committee for State Control in the Field of Communications, Informatization and Mass Media» (hereinafter — the Committee). The Committee carries out implementation and monitoring functions, and also participates in the regulatory and strategic functions of the Ministry of Communications and Information of the Republic of Kazakhstan in the field of communication, information and mass media.

In 2016, the legislative environment was changed both on issues related to the provision of services in the field of communications, and those of regulatory importance. The most significant are the following legislative acts:

1. By the Law of the Republic of Kazakhstan dated December 28, 2016 No. 34–VI LRK «On Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on Competition and State Support for Housing Construction» telecommunications services have been withdrawn from the sphere of natural monopolies provided that there is no competitive telecommunications operator due to the reason of technological impossibility or economic inexpediency of providing of such types of services, except for generic telecommunications services.
2. The Law of the Republic of Kazakhstan dated April 9, 2016 «On Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on Post service Issues» amends the Entrepreneurship Code of the Republic of Kazakhstan, according to which the state regulates prices and tariffs for subsidized services in the field of communications in accordance with the legislation of the Republic Kazakhstan on communication, as well as to the Law of the Republic of Kazakhstan «On Communications», according to which the new revision describes the concepts of a universal service operator and universal communication services.
3. The Law of the Republic of Kazakhstan dated December 22, 2016 «On Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on Countering Extremism and Terrorism» amends the Law of the Republic of Kazakhstan «On Communications», according to which, from July 1, 2017: the competence of the authorized body and its territorial subdivisions include the approval of rules for the registration of subscriber devices of the mobile network, and the State Technical Service ensures the formation, functioning, maintenance and development of a uniform data base of identification codes of mobile network subscriber devices and providing access to its resources.
   The Law of the RK «On communication» was also supplemented by the article on the registration of subscribers' mobile devices.

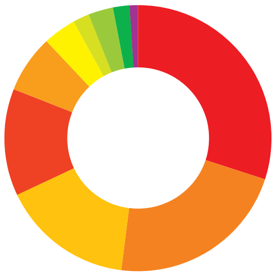
Besides, taking into consideration the previously introduced amendments and additions to the Law of the RK «On Communications» in 2016 the following regulatory legal acts were adopted:

1. The Decree of the Acting Minister for Investments and Development of the Republic of Kazakhstan dated January 26, 2016 No. 65 «On approval of the Rules for connection of networks of long-distance and international operators to the point of exchange of Internet traffic»;
2. The Decree of the Acting Minister for Investment and Development of the Republic of Kazakhstan dated January 26, 2016 No. 67 «On Approval of the Rules for Providing Internet Access Services in Public Internet Access Points»;
3. The Decree of Acting Minister for Investment and Development of the Republic of Kazakhstan dated January 28, 2016 No. 120 «On approval of the Rules for the provision of cable ducts channels for use»;
4. The Decree of Acting Minister for Investment and Development of the Republic of Kazakhstan dated January 28, 2016 No. 119 «On Approval of the Rules for Connection and Interaction of Telecommunication Networks».

COMPANY'S POSITION IN THE INDUSTRY

Kazakhtelecom JSC has been operating in the field of telecommunications since June 17, 1994 and is the undisputed leader of the telecommunications services market for Kazakhstan government bodies and corporate users of all levels. The Company provides a wide range of infocommunication services throughout the country and enters new market segments.

Structure of the telecommunications market of the Republic of Kazakhstan by operators, 2016



- Kazakhtelecom JSC GC; **30,5%**
- Kcell JSC; **21,7%**
- Beeline GC ; **16,1%**
- Mobile Telecom–Service LLP ; **13,3%**
- Transtelecom JSC ; **4,0%**
- KazTransCom JSC; **2,0%**
- Alma TV; **3,0%**
- AO «ASTEL»; **1,5%**
- ASTEL JSC; **1,5%**
- Other regional operators; **6,9%**

Source: Calculation indices according to the data of the RK Committee on Statistics, 2016

According to the results of 2016, the main players in the telecommunications market of Kazakhstan are 4 operators: Kazakhtelecom JSC Group of companies with a market share of 30.5%, Kcell JSC — 21.7%, GC Beeline — 16.1%, Mobile Telecom-Service[1] LLP — 13.3%.

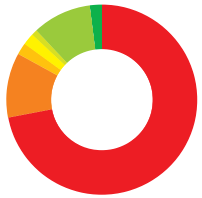
According to the calculated data of the Committee on Statistics of the Republic of Kazakhstan, the share of the Kazakhtelecom Group of companies in the general communications market in 2016 was 30.5%.

Kazakhtelecom, occupying 93.3% of the fixed-line telephony market, remains the absolute leader in this segment, which includes local, intra-zone, long-distance and international communication services.

In the segment of fixed broadband access, according to preliminary data, the share of Kazakhtelecom JSC in the total volume of revenues was 72%; GC Beeline's share — 11%; Operators working in the corporate market — 2% each, the remaining 10% of the share is distributed among regional operators.

[1]The joint company formed by Kazakhtelecom JSC together with Tele2 group on the basis of businesses such as ALTEL JSC (ALTEL 4G trademark) and Mobile Telecom-Service LLP (Tele2 trademark)

Market share of fixed broadband access operators by revenue, 2016

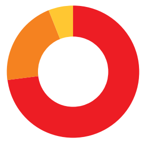


- Kazakhtelecom JSC Group of companies; **72%**
- GC Beeline ; **11%**
- KazTransCom JSC; **2%**
- Transtelecom JSC; **2%**
- ASTEL JSC; **2%**
- Alma TV; **1%**
- Regional operators; **10%**

In the reporting year, the growth of the subscriber base of Kazakhtelecom JSC amounted to + 99 thousand ports in relation to 2015. The growth of the client base was mainly due to connections to broadband access in the countryside.

Two key players of Kazakhtelecom JSC (73.1%) and Kaztranscom JSC (21%) occupy leading positions in the data transmission market of Kazakhstan. The key advantage of Kazakhtelecom JSC is the possibility of providing services almost anywhere in Kazakhstan. KazTransCom JSC, established as a departmental operator for servicing oil and gas production and processing enterprises, continues specializing in this segment, despite the Company's active attempts to expand the boundaries of the consumer market.

Shares of operators in the data transmission market of the Republic of Kazakhstan, 2016



- Kazakhtelecom JSC; **73,10%**
- KazTransCom JSC; **21%**
- Other operators; **5,90%**

THE INFLUENCE OF THE STATE ON THE COMPANY'S ACTIVITIES

Kazakhtelecom JSC is included into the republican section of the State Register of Natural Monopoly Entities, in 2016 it was in the State Register of Market Entities Occupying a Dominant or Monopoly Position in Regulated Markets, and is the operator of «universal services» and its activity is subject to state regulation.

On the part of the state, the Company's activities are regulated and controlled by the authorized body which is the Committee for State Control in the Field of Communications, Informatization and Mass Media of the Ministry of Information and Communications of the Republic of Kazakhstan (hereinafter — the Committee of MIC RoK). MIC RoK Committee is also an authorized body in the field of natural monopolies in the field of telecommunications, while ensuring control and regulation of the Company's activities as a subject of natural monopoly. In addition, the Committee for Regulation of Natural Monopolies and Protection of Competition of the Ministry of National Economy of the Republic of Kazakhstan exercises its powers with regard to the protection of competition in relation to the Company.

The activity of Kazakhtelecom JSC in 2016 in terms of tariff formation was subject to state regulation in four areas:

1. ***Services of natural monopoly.***
   In accordance with sub-paragraph 1) of paragraph 1 of Article 15 of the Law of the Republic of Kazakhstan «On Natural Monopolies» (*this law title is effective from January 01, 2017)*, the state regulation of the activity of a natural monopoly entity is carried out by approving the tariff (price, collection rate) or its ceiling level, including using the method of comparative analysis, differentiated and investment tariffs (prices, charge rates).
2. ***Services included in the State Register of Market Entities Occupying a Dominant or Monopolistic Position.***
   The regulation of tariffs for regulated telecommunications services included in the State Register of Market Entities Occupying a Dominant or Monopolistic Position in 2016 was carried out by the authorized body in order to prevent unjustified price increases and determine the order of pricing on regulated markets, approval and adjustment of the investment program (project) of the entity in accordance with the Rules for pricing on regulated markets, approving and adjusting the investment program (project) of the subject of the regulated market, approvals and adjustments of the investment program (project) of the entity, approved by the order of the Minister of National Economy of the Republic of Kazakhstan dated December 29, 2014 No. 174.
3. ***Generic telecommunications services.***
   In accordance with sub-paragraph 2) of paragraph 2 of Article 20 of the Law of the Republic of Kazakhstan «On Communications», the authorized body regulates the maximum level of prices for subsidized generic communication services rendered in rural settlements. At the same time, the procedure for regulating prices and tariffs for subsidized generic communication services provided in rural settlements is conducted in accordance with the Rules for the regulation of the maximum price level for subsidized generic communication services rendered in rural settlements approved by the decree of the Minister of Information and Communications of the Republic of Kazakhstan dated October 20, 2016 No. 215.
4. ***Services rendered to security agencies, and also to the operator of information and communication infrastructure of «electronic government».***
   Tariffs for the services specified in the Rules of Prices Regulation (Tariffs) for the Provision of Lines and Communication Channels, Ducts in the Cable Lines and areas required to place hardware and software for the needs of Authorized State Bodies, bodies of military administration, National Security and Internal Affairs of the Republic of Kazakhstan, as well as the operator of the information and communication infrastructure of «e-government» are approved by the authorized agency.

However, when carrying out works within the framework of introduction of new services and further modernization of the telecommunications network, the Company requires coordinating with the state authorities issues related to permits for the use of the radio-frequency spectrum, numbering resource.

In view of this, the Company is working on issuing of authorization document for the use of the radio frequency spectrum of the Republic of Kazakhstan, as well as for obtaining permission from the authorized body to use the numbering resource (Order SCC MID RK). On the state portal elicense.kz, the Company forms an appropriate application. The application is considered by the authorized body within 30 calendar days, after which the corresponding permission is issued.

SUBSIDIES AND STATE GUARANTEES IN THE FIELD OF TELECOMMUNICATIONS

Despite the extensive development of telecommunications networks and technologies, there are still rural settlements with limited access to the Internet in the Republic. To solve these tasks, the legislation of the Republic of Kazakhstan provides for a universal service mechanism that ensures the provision of socially significant services of an established quality to any user in any settlement with a price level ensuring the availability of these services.

This experience of developed and some developing countries shows the possibility of an effective combination of universal service with a market-oriented policy of the telecommunications services market development.

Annually, the multi-purpose service operator is determined by the authorized body in the field of communications on a competitive basis. Taking into account that the development of telecommunications services in rural areas is economically unattractive for other telecoms operators and other telecom operators do not participate in the competition as per the condition of universal service operator, these obligations are assigned to Kazakhtelecom JSC as the dominant telecommunications operator.

In the reporting year, as part of the provision of universal telecommunications services, the Company provided 893 623 subscribers with local telephone services and 47 379 subscribers with wireless access to the Internet.

Universal communication services rendered in rural settlements refer to subsidized services. Losses of telecom operators rendering universal telecommunications services in rural settlements are subject to subsidization.

In accordance with the current mechanism for subsidizing unprofitable universal telecommunications services, the Company receives subsidies annually from the funds provided for these purposes in the Republican budget of the Republic of Kazakhstan. In 2016, the amount of subsidies in the amount of KZT 7,353 billion provided for these purposes in the Republican budget has been fully utilized by the Company.

Business portfolio of the Company

THE BUSINESS PORTFOLIO OF KAZAKHTELECOM JSC INCLUDES A FULL RANGE OF TELECOMMUNICATIONS SERVICES, WHICH IS REPRESENTED PRACTICALLY IN ALL REGIONS OF THE REPUBLIC AND BEYOND.
THE SERVICES OF KAZAKHTELECOM JSC ARE REPRESENTED BOTH IN THE RETAIL MARKET AND IN THE WHOLESALE MARKET OF COMMUNICATION SERVICES.

In the wholesale market of communication services, Kazakhtelecom JSC provides services in the operator segment, strictly adhering to the statutory regulations of the Republic of Kazakhstan and the principles of mutually beneficial partnership. The Company strives to preserve and develop the competitive advantage factors — the availability of the necessary number of network resources for connection of operators' networks and transmission of all types of traffic, a branched telecommunications network built on the latest digital equipment with high capacity, providing good quality and reliable service to operators and their subscribers.

The main categories of services in this segment are as follows:

- Organization of access to the network of Internet providers of the Republic of Kazakhstan with bandwidth up to 10 Gbit/s;
- Providing consumers with long-distance and international digital communication channels for lease with bandwidths from 64 Kb/s to 100 Gbit/s.

Over the past years, Kazakhtelecom JSC Group of Companies has been constantly taking steps to ensure the competitiveness of Internet access services for ISP providers of the Republic of Kazakhstan and the lease of long-distance communication channels, with each year tariff reductions and improving reliability and quality, expanding the geography of providing transit services in Europe, Russia, Central Asia and the People's Republic of China.

In the retail market of communication services, Kazakhtelecom JSC provides telecommunication services for end users in the B2C and B2B-segments.

Business areas of telecommunications services provided in the B2C and B2B-segments include a wide range of communication services that are aimed at meeting the growing needs of users. In this connection, Kazakhtelecom JSC actively develops and introduces new services and packages based on traditional fixed services. The Company continues providing the population and enterprises with innovative high-tech telecommunications solutions for the home and office.

In B2C-segment, telecommunication services are represented in the following areas:

1) Fixed line services include traditional telephony services and broadband Internet access based on advanced technologies. In this area, the following brands are brought to the B2C mass market:

iD Phone is the service of virtual telephony. The service has been launched since 2009 and currently more than 120,000 subscribers are connected to the service in all regions of Kazakhstan;

Megaline is the service of broadband Internet access which is provided in all regional and major cities of the Republic of Kazakhstan since 2005. The range of tariff plans for this service today includes low-yield to high-yield tariffs depending on the parameters of the service. The service on the market is positioned as an affordable Internet for the whole family and according to data for the year 2016, more than 800 thousand households of the Republic are connected to the service;

iD Net is the service of access to the Internet on a new high-speed technology FTTx with access speed up to 1 Gbit / s, which greatly exceeds the capabilities of competitors.

Besides, Kazakhtelecom JSC offers its subscribers the service of access to the Internet based on wireless solutions, such as WLL CDMA EVDO in rural areas and Internet access using Wi-Fi technology in public places.

Despite the replacement of fixed-line communications with the mobile communications, Kazakhtelecom JSC retains its leadership position in the share of the fixed-line telephony market.

Services of fixed-line telephony of Kazakhtelecom JSC for today can be obtained with a package of unlimited calls to various destinations of both the RK and the CIS.

In the competitive environment, where fixed-line telephony subscribers migrate to the mobile network, in accordance with the trends of the world telecommunications market, the customer base of broadband Internet access services of Kazakhtelecom JSC in 2016 reached 1 600 thousand subscribers.

In order to increase ARPU subscribers, company revenues, and increase loyalty to its services, Kazakhtelecom JSC devotes additional efforts to develop additional services and to upgrade the existing ones.

2) Pay TV services — in 2016 the Company continues developing and promoting «iD TV» digital TV services, including video on demand and subscription, karaoke, HD package — TV channels and Online access (iD TV Online). The client base in 2016 amounted to more than 670 thousand subscribers, of which 491 thousand are subscribers of digital television using IP TV technology.

The development of this business area on the one hand assumes the preservation of one of the leading shares in the Pay TV-market, on the other hand, the implementation of the Triple Play principle (sale of a package of services: high-speed Internet access, IP TV and telephone communications) through offering a wide range of service packages including integrated solutions iD TV / iD TV Online.

Increasing the long-term competitive advantage through the integrated provision of content through various devices: SmartTV, mobile devices, personal computers, etc., with the provision of a wide choice of TV channels and video content.

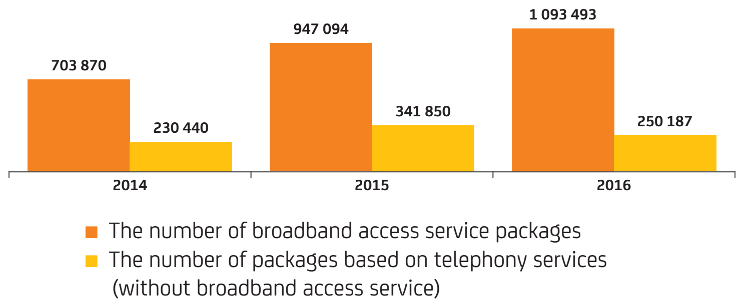
3) Converged services are an important driver of the Company's development. Partnership with Tele2 mobile operator provides the necessary technological base for the development of such services. This direction in the market is represented by FMS products. The «Universal Number» and FMS services are bright representatives of convergence of fixed services with mobile services and erase the boundaries of subscribers' beliefs about traditional communications. The number of subscribers connected to the «Universal Number» service in 2016 was more than 35 thousand, to the FMS service — more than 20 thousand.

4) Package solutions. In accordance with the trends in the development of the telecommunications market and changes in the preferences of users of communication services, Kazakhtelecom JSC is focusing on the development of package offers.

Kazakhtelecom JSC continues active promoting of packages on the concept of Double and Triple Play. Package offers of Double Play include services of broadband and telephony or broadband and Pay TV. In the market, the packages are presented under the brands «Megaline» and «iD Net». The Triple Play package offers include services based on broadband access, Pay TV and telephony.

At the end of 2016, the customer base of subscribers connected to service packages amounted to about 1 343.7 thousand units, including on the basis of broadband access, TV and traditional telephony.

The dynamics of the number of subscribers who were connected based on the package offers for 2014–2016



In the B2B-segment, Kazakhtelecom JSC provides fixed, converged and infocommunication services, including «cloud» services.

Fixed communication services to this segment include services of traditional telephony and broadband Internet access under the brands «Megaline Business» and «iD Net Business».

As a result of 2016, more than 20 thousand points were connected to corporate networks in Kazakhstan and abroad through VPN virtual private network services by Kazakhtelecom JSC. VPN services represent the basis for creating distributed corporate networks for a large number of business organizations in the country and offer a wide range of capabilities for arrangement of superimposed networks using L2 and L3 technologies.

Intellectual services of Kazakhtelecom JSC are a universal solution for the B2B-segment, which allows for the prompt collection or provision of any information over the phone in automatic or semi-automatic mode, as well as providing its customers with other additional services: free call, paid information service, televoting.

For government agencies, the services of access to the Internet are provided by a centralized exit through a single gateway. The main features of the service are as follows:

a) good quality and reliability, based on the network of high-speed terrestrial data transmission channels of Kazakhtelecom JSC;
b) dual redundancy of data transmission channels — the organization of an alternative route for client traffic in case of disruption of the main channel in less than 50 milliseconds;
c) high data transfer rates and processing of data packets: the subscriber's technical solution will not change as the amount of information transmitted increases, since the network can easily be scaled to gigabit speeds;
d) security against unauthorized access: the service is logically separated from public networks, that is, external traffic will pass only through a single client security gateway;
e) maximum coverage of the territory: availability of the service in more than 100 localities of the Republic of Kazakhstan..

The result of the further development of the converged products is the launch of FMC solutions in the segment of B2B and M2M projects. The number of subscribers connected to the converged services reached about 105 thousand subscribers. Services for this segment include telephony, data transmission for small and medium businesses and M2M solutions based on fixed and mobile networks. In this area, such services as «Mobile Office», cash register machine (fiscal data operator) have been developed and implemented.

By the Decree of the Government of the Republic of Kazakhstan, Kazakhtelecom JSC is identified as a legal entity that ensures the transfer of information on cash payments, in the operational mode, to the tax service bodies over public telecommunications networks. Since 2015, the Company has been connecting cash register machines (CRM) to the data transmission medium. Within the framework of this project, Kazakhtelecom JSC provides reception and processing of data from CRMs, coming online via communication channels to a specialized data center. In 2016, 65 thousand units of CRM were connected.

Since 2015, the Company has launched the «Mobile Office» service. This service provides secure wireless access in the customer's presence points to the information resources of its corporate network. In 2016, the number of interconnect points reached 400.

In the B2B-segment Kazakhtelecom JSC actively develops information security services and expands the range and functionality of services. The list of implemented new infocommunication services in 2016 was supplemented by such services as «Secure Internet», «Protection from DDoS-attacks», «Virtual Firewall». These services are the basis for creating highly secure, fault-tolerant networks that allow Kazakhtelecom's business customers to withstand cybercrime.

Kazakhtelecom JSC is actively developing «cloud» services and is working to increase the penetration of «cloud» technology, with the development of IT infrastructure and a network of data centers.

To date, its own network consists of 15 data centers with a total area of 11 310 m2, which allows to accommodate 22 732 units of equipment. In all data centers, favorable conditions have been created for the placement of client equipment — both for the price and the quality of the services provided.

The key data center is the Data Center of the international level in Pavlodar city with level of reliability TIER-III, the total area of server rooms is 1 000 square meters, in which 11 000 pieces of equipment are freely located. The coefficient of fault tolerance of this facility is 99.982%.

On the basis of the Company's data centers, virtual hosting services, Data Storage System, Data Processing Center (DPC) Security System, Cloud Webinar, Dynamic Cloud Server, VPS, Dedicated, Microsoft Hosted Exchange and Microsoft Hosted SharePoint cloud solutions are provided.

In 2016, the services of data centers of Kazakhtelecom JSC were used by over 11 thousand companies.

Quality of service means a new standard by which customers judge the quality of the product. Today, in conditions of tough market competition, good quality customer service has become one of the most important competitive advantages.

Within the framework of improving the quality of service, the Company has developed several directions for the further development of customer orientation, but the main driver is the satisfaction of subscribers with the technical parameters of services and the very servicing. In order to control the quality of service, service standards have been introduced that deal with both the communication culture and the efficiency of the process itself. For example, reducing the connection timeout, eliminating the damage, and, most importantly, reducing the number of repeated calls to the contact center.

In 2016, for the first time, a study was conducted to measure the consumer loyalty index of NPS among subscribers in comparison with the main competitors. According to the results of generalized data, consumers of the home Internet are guided by such parameters as Internet speed and stability of the operator's service. The most important parameters for Pay TV subscribers are the quality of service, fast service, tariffs for the service and high-quality technical support. In general, subscribers of the «iD Net» service are much more satisfied with the stability of the service, speed and tariffs compared to users of «Megaline».


Wi Fi

Structure of the Company's assets: subsidiaries

ACTIVITIES OF SUBSIDIARIES CONTRIBUTE TO THE DEVELOPMENT OF KAZAKHTELECOM JSC IN THE TRADITIONAL MARKET OF TELECOMMUNICATIONS SERVICES AND IN NEW BUSINESS AREAS.

Structure of Kazakhtelecom JSC Group of companies:
Subsidiaries as of 31.12.2016

ҚАЗАҚТЕЛЕКОМ

Mobile communications	Khan Tengri Holding B.V. (51%) →	MT-C LLP (100% Khan Tengri)
Corporate infocommunication services	KT Cloub Lab (100%)	KT IES LLP (49%)
Fixed communications Pay TV	Vostoktelecom LLP (100%)	KT-IX LLC (100%)
E-Commerce Fintech	Nursat+ LLP (100%)	
Other assets	Info-Net LLP Wireless (100%)	
Assets intended to be restructured	Nursat JSC (100%)	Online.kg LLC (100%)

In order to implement the strategic initiative to build an integrated operator in February 2016, a transaction was closed between Kazakhtelecom JSC and Tele2 Group to form a joint venture based on the mobile operators ALTEL JSC and Mobile Telecom-Service LLP. Within the framework of the integration procedures stipulated by the shareholder agreement / terms of the transaction, in 2016, ALTEL JSC was optimized and consolidated with Mobile Telecom-Service LLP with retaining the recognizable market brands of ALTEL 4G and Tele2. Under the deal, Khan Tengri Holding B.V. (Netherlands) became the sole shareholder of the unified Kazakhstan mobile operator, in which Kazakhtelecom JSC owns 51% of the share capital, while Tele2 Group owns 49%.

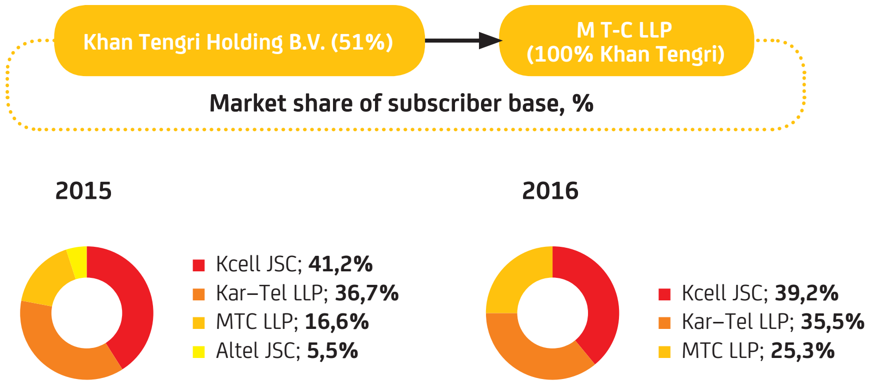
At the end of 2016, the market share of the joint venture in the «subscriber base» parameter reached 25.3%.

In order to create a single IT-service company to provide IT-services — the IT-services competence center of Samruk-Kazyna Group (Fund) in August 2016, 51% of Kazakhtelecom JSC's share in the authorized capital of KTIES LLP was sold to a subsidiary of the Fund — Samruk-Kazyna Business Service LLP and a joint venture was formed. The project is being implemented by the Fund within the framework of the Fund's Transformation Program.

As part of the implementation of the strategic initiative to build an effective business model, the development of IX Exchange (Internet Exchange) of the services of Kazakhtelecom JSC on the basis of the subsidiary — Signum LLC (Moscow, Russia) was determined, for which the company was consolidated with a change of name to KT-IX LLC.

One of the drivers of Kazakhtelecom JSC growth is the development of new businesses in related areas. Kazakhtelecom JSC is planning the development of new services in the e-commerce and payments market defined by the Long-term Development Strategy of Kazakhtelecom Group of Companies until 2025, on the basis of the subsidiary company NURSAT + LLP.

STRENGTHENING LEADERSHIP THROUGH JOINT VENTURES



The measures on consolidating ALTEL JSC to Mobile Telecom-Service LLP have been completed.

As a result of the transaction, the current subscribers of ALTEL JSC and Mobile Telecom-Service LLP, as well as future customers, will be provided with new opportunities by expanding the network coverage, using advanced technologies such as 4G LTE and increasing the range of services provided. At the end of 2016, the market share of the joint venture in terms of the "subscriber base" parameter reached 25.3%.

DYNAMIC DEVELOPMENT KT Cloub Lab (100%)

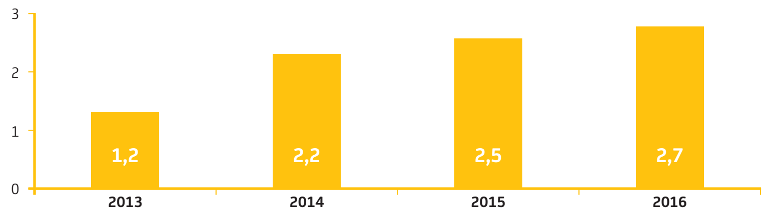
In 2016, KT Cloud Lab LLP continued working on the implementation of new projects, including such projects as the Contact Center for Land Reform 1 434 and the Contact Center for the Protection of Children's Rights 111 and others.

Work was also carried out to improve internal business processes, (a system of motivation for the sales sectors, a system of professional competencies for employees of the contact center, etc.)

In 2017, it is planned to implement a large-scale project that is the organization of a contact center for the International Specialized Exhibition EXPO-2017.

KT Cloud Lab LLP

Revenue from the sale of services, KZT billion



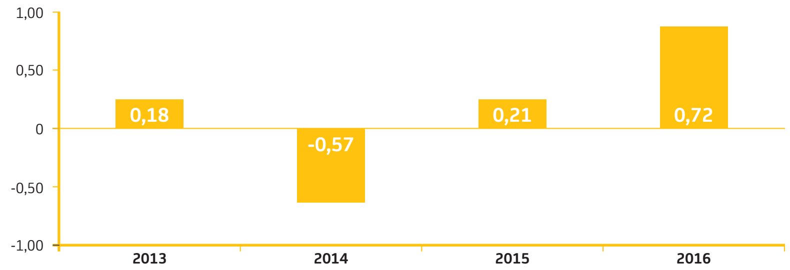
SOLID PERFORMANCE Vostoktelecom LLP (100%)

In 2016, VOSTOKTELECOM LLP provided the uninterrupted operation of the WLL wireless access network in rural areas of the Republic of Kazakhstan, and continued maintenance work of the antenna-feeder devices of the base stations of Mobile Telecom-Service LLP.

In 2017, it is planned, on the basis of the Partnership, to expand the scope of the intra-group service for the maintenance of telecommunications equipment and facilities of Kazakhtelecom JSC.

Vostoktelecom LLP

Net profit, KZT billion



CONSOLIDATION THROUGH A NEW BUSINESS KT IES LLP (49%)

Within the framework of building an effective business model and developing the IX (Internet Exchange) services on the basis of Signum LLC, the company KT-IX LLC was formed.

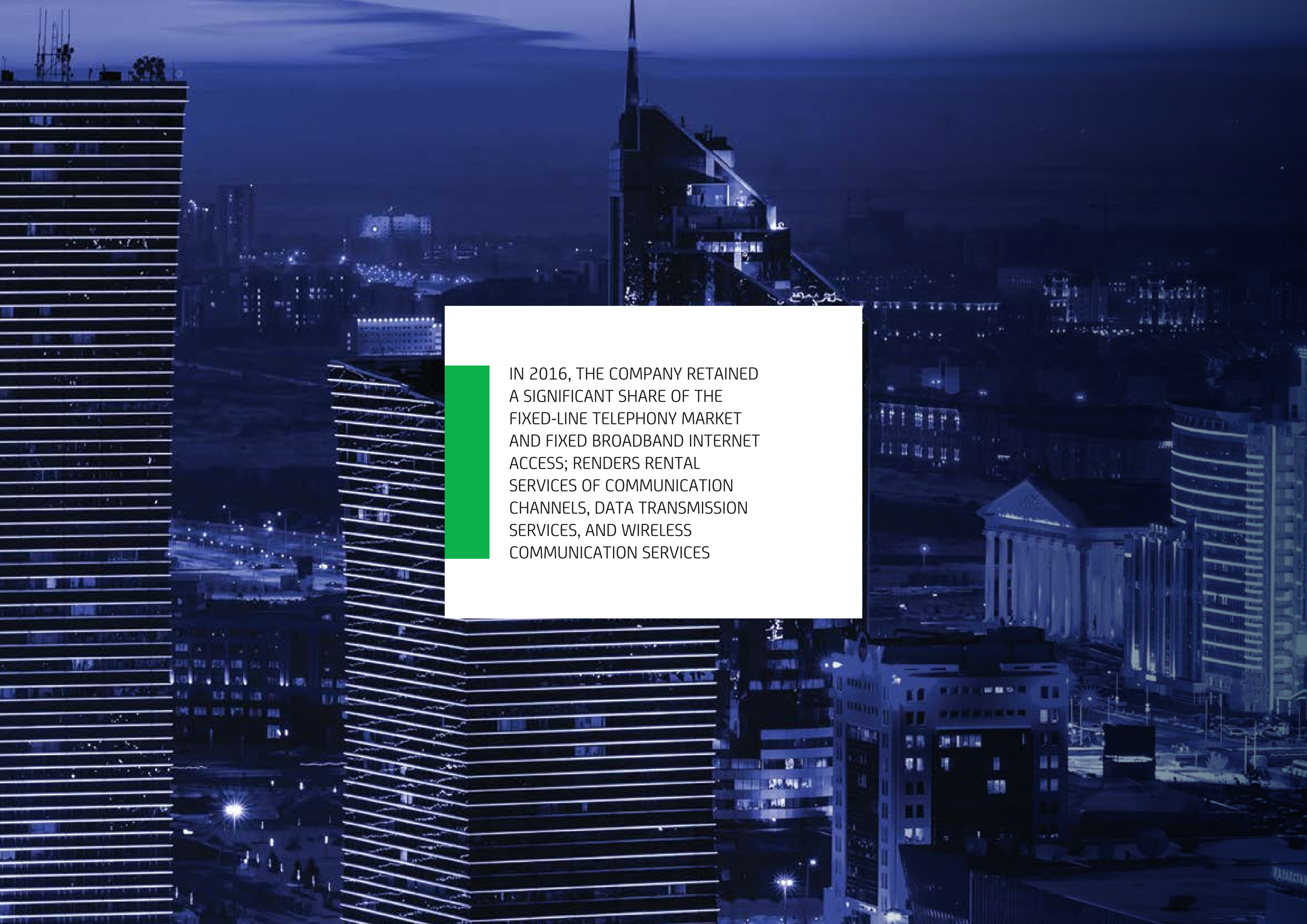
In 2016, the uninterrupted and trouble-free operation of the telematic services node and the data transmission network at MMTS No. 9 was provided, besides, technical support for videoconferences conducted on the TelePresence system was provided.

STARTUP OF NEW BUSINESS LINES Nursat+ LLP (100%)

2016, the company provided telecommunications services, but in order to eliminate duplication of services, Kazakhtelecom JSC Group of Companies carried out activities to change the direction of the company's business and transition to the e-commerce and payment services market.

In 2017, it is planned to actively implement the project and commercial launch of an electronic platform in the market of the Republic of Kazakhstan.

Operational activities, production and financial indicators



IN 2016, THE COMPANY RETAINED A SIGNIFICANT SHARE OF THE FIXED-LINE TELEPHONY MARKET AND FIXED BROADBAND INTERNET ACCESS; RENDERS RENTAL SERVICES OF COMMUNICATION CHANNELS, DATA TRANSMISSION SERVICES, AND WIRELESS COMMUNICATION SERVICES

MANAGEMENT’S REPORT ON FINANCIAL AND OPERATIONAL PERFORMANCE

In 2016, the Company retained a significant share of the fixed-line telephony market and fixed broadband Internet access; renders rental services of communication channels, data transmission services, and wireless communication services.

Kazakhtelecom JSC is engaged in the implementation of a number of major infrastructure projects, the modernization and digitization of telecommunications networks, the introduction of new technologies and installation of telecommunications network in villages, as well as the development of broadband Internet access.

The list of new services has significantly expanded: converged services («FMS Family Solution», «iD Net Wireless», «Universal Number», «HD TV Package», «Wi-Fi Internet Access in Public Areas», «iD TV Online», «Mobile Office», «Software Rental», «Secured Internet», «Deferred Payment», DDoS Protection — «MSSP Services», «Megaline Minimum Plus», «High-Speed Tariff Plans», and others.

Based on the outcomes of 2016:

- the number of fixed lines amounted to **3 670 696** lines, or 95% to the fact of 2015;
- the number of broadband subscribers amounted to **1 592 146** ports, which is 6% higher than the same indicator in 2015;
- The number of Pay TV subscribers was **670 127** of points or 110% compared to the previous year, including 491 209 points of iD TV.

Consolidated revenues from the service sales of Kazakhtelecom JSC amounted to KZT 205 820 million, or 108.5% compared to the previous year.

Consolidated net profit amounted to KZT 55 832 million, which is 229% compared to the previous year.

Profit before taxes, interest for loans and depreciation charges — EBITDA — amounted to KZT 73 718 million, or 110.4% of the previous year.

The EBITDA margin was 35.8%, which is 2% higher than the previous year’s level due to the implementation of a strategy aimed at improving operating efficiency and costs optimization.

The volume of capital investments in the Group of companies Kazakhtelecom JSC amounted to KZT 15 014 million, or 38.8% compared to the previous year.

ARPU (average revenue per user) reached KZT 3 605, which was 101% of the plan. ARLB (average revenue of broadband access per port) reached KZT 4 568, which amounted to 100% of the planned liabilities.

The company maintains a comfortable level of debt load, financial stability indicators are within the established limits and have a significant margin of safety. Also, when planning the debt load for the current period, the Company takes into account expectations for major events for five upcoming years, among other things, in order to maintain a high level of financial stability of the Company.

Kazakhtelecom JSC has a long-term positive credit history and extensive experience of cooperation with both domestic and external sources of debt financing. The dynamics of the Company’s ratings made by international agencies Standard & Poor’s and Fitch Ratings evidenced in favor of the Company to be a stable and reliable partner. Over the past 3 years, the level of the Company’s credit rating has not fallen below the «BB» (forecast «Stable»).

Standard & Poor’s. In October 2016, Standard & Poor’s rating agency improved the forecast to “Positive” and confirmed Kazakhtelecom’s credit ratings at «BB», which is conditioned by improvement in the assessment of the financial profile of Kazakhtelecom JSC to the highest possible level in Standard & Poor’s corporate methodology.

The positive outlook on the credit rating of Kazakhtelecom JSC reflects the possibility of raising the rating over the next 12 months.

Fitch Ratings. In December 2016, for the first time in its interaction with international rating agencies, the credit rating of Kazakhtelecom JSC was upgraded from «BB» (forecast «Positive») to «BB+» (forecast «Stable»). According to analysts of Fitch Ratings agency, the rating upgrading is justified by the improvement of the Company’s credit and liquidity indicators on the background of positive cash flow. Also, the increase in the rating was facilitated by the strengthening of a number of factors and positive changes in activity.

The current rating level of Kazakhtelecom is comparable to the rating of the largest telecommunications companies in Russia: the ratings by Fitch Ratings for «MTS», «Megafon» and «VimpelCom» are also at «BB+» level.

Consolidated revenues from the sale of services by Kazakhtelecom JSC amounted to KZT **205 820** million, or **108.5%** of the previous year. At the same time, 2015 and 2016 are reflected taking into account the disposal of ALTEL JSC from the consolidated data of the Company as a result of the transaction on the formation of a joint venture in the mobile segment based on ALTEL JSC (ALTEL 4G trademark) and Mobile Telecom-Service LLP (Tele2 trademark).

Consolidated net profit amounted to KZT **55 832** million, (including profit from discontinued operations — KZT **40 959.8** million).

The **EBITDA** indicator for the results of 2016 amounted to KZT **73 718** million, which was 110.4% compared to the previous year.

EBITDA margin of 35.8% exceeded last year's index by 0.6%, which became possible due to constant work to improve operating efficiency and optimize costs.

Consolidated expenses from the operating activities of the Group of companies of Kazakhtelecom JSC in the reporting period amounted to KZT 169 425 million.

The volume of capital investments in the Group of companies of Kazakhtelecom JSC amounted to KZT 15 014 million, or 38.8% of the previous year. The deviation happened due to the disposal of ALTEL JSC from consolidated performance of the Company as a result of the completion of the transaction on formation of a joint venture in the mobile segment on the basis of business of ALTEL JSC (ALTEL 4G trademark) and Mobile Telecom-Service LLP (Tele2 trademark), data of ALTEL JSC for the development of capital investments deconsolidated and as a result of optimization of the investment program of the Company.

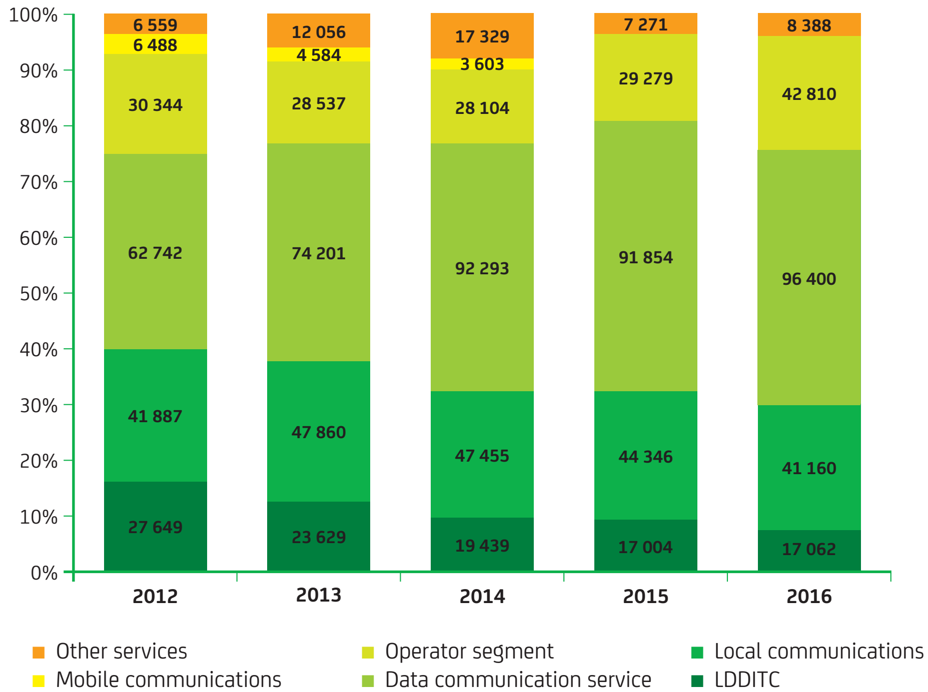
Structure of income on the Group of companies of Kazakhtelecom JSC

- Local telephone service; **20,0%**
- Income when providing data network services to telecoms operators; **3,9%**
- Revenues from leasing the channels of the transport network; **8,0%**
- Revenues on agreements with third-party operators connected to the network of Kazakhtelecom JSC; **3,6%**
- Revenues on agreements with international operators; **5,3%**
- Revenues for conversations with subscribers of third-party operators, including cellular operators; **3,1%**
- Long-distance, international telephone communications; **5,2%**
- Other services; **2,2%**
- Corporate infocommunication services; **1,9%**
- Data communication network services; **46,8%**

The largest share in 2016 is occupied by the following revenues:

- from data communication network services, the share in the total revenue structure of Kazakhtelecom JSC was 46.8%;
- from the provision of local telephony services, the share in the total revenue structure was 20.0%;
- from leasing the channels of the transport network, the share in the total revenue structure was 8.0%;
- under agreements with international operators, the share in the total revenue structure was 5.3%;
- from the provision of long distance domestic and international telephone communications (LDDITC) services, whose share in the total revenue structure was 5.2%.

Dynamics of the most significant income items for 5 years, *in KZT million*



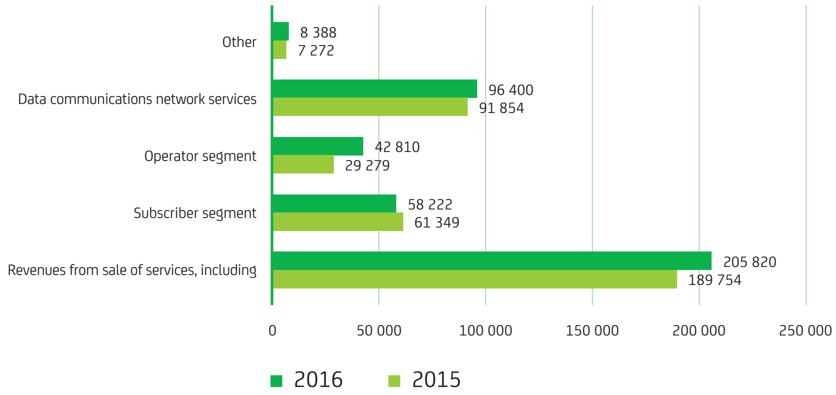
The last few years there has been a decrease in the volume of fixed telephony connections and a decrease in voice traffic. As a consequence, there was slowdown in the growth of revenues from LDDITC services in the subscriber segment, due to:

- high level of penetration of mobile communication, low tariffs of mobile operators;
- growth in the popularity of alternative types of dial-up and substitute services (VoIP, Skype, etc.).

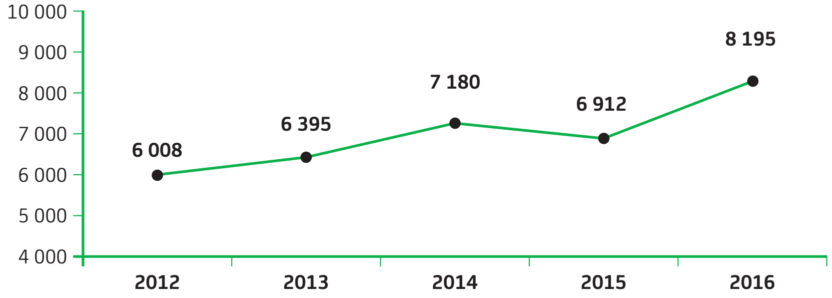
There is also a slowdown in the growth rates of fixed broadband access, which is associated with increased competition, including through the development of mobile broadband access.

It should be noted that high rates of penetration of key income-generating services (fixed telephony, broadband, cellular communications), as well as «mobile cannibalization», which manifests itself not only in relation to traditional telephony services, but also to fixed Internet, are the determining factors for a significant change in commercial strategies of the key players.

Changes in the structure of revenues in 2016 relative to 2015, ***in KZT million***



Revenues per employee, ***KZT thousand***



In revenues per employee, there is a positive dynamics as a result of ongoing measures to maintain the operational efficiency of the business at an above-average level for analog companies and increase the efficiency of capital investments.

With the growth of penetration of broadband access services to the Internet and the development of IT technologies, the style of consumption of services has changed. More and more consumers are inclined to consume voice services, using VoIP technology via Internet communication applications (Skype, other messengers), which affected the consumption of traditional telephony services.

In order to compensate for the fall in income from «mature» services and create a balanced product portfolio, Kazakhtelecom JSC follows the strategies of active growth and increase of market share in segments where extensive growth is still possible, namely: Pay TV and new services.

The company timely introduces additional services that will increase the ARPU of existing customers even in conditions of maturity of traditional services markets. These are, first of all, converged services, data processing center (DPC) services, system integration, Cloud Computing (SaaS, PaaS, etc.), content services for a wide range of users (thematic web portals, mobile commerce, mobile marketing, multimedia content etc.).

In order to ensure transparency in the procurement of goods, works and services, Kazakhtelecom JSC Group of companies conduct procurement through an open tender and requests for quotations with the use of bidding to reduce prices in the electronic procurement information system. In 2016, 11 769 contracts were concluded in the amount of KZT 56.340 billion, while the share of local content was 55.6%.

To achieve indicators on local content the Company conducts work on the development of intercompany cooperation, on the conclusion with suppliers of long-term contracts for the supply of their products.

OVERVIEW OF OPERATING ACTIVITIES

In the modern world, telecommunications and information technologies largely determine the efficiency and development of the country's economy as a whole.

Production activity is the central process of any organization, which largely determines the economic efficiency of the company. The outcome of the production activity of telecommunication companies is a service — a useful effect of information and messages transfer from the sender to the recipient.

Successful production activities of a telecommunications company are impossible without the use of the most advanced communication systems, the use of modern information and innovative technologies.

DEVELOPMENT OF TELECOMMUNICATION INFRASTRUCTURE

Currently, telecommunications is one of the most dynamically developing sectors of the economy in our country. At the same time, the development of the industry is characterized not only by the increase in the capacity of existing communication equipment, but also, mainly, by the expansion of the range of communication services and the accelerating renewal rates of the telecommunications services range and technologies used.

In accordance with the National Action Plan for the implementation of the message of the Head of State to the people of Kazakhstan «Strategy «Kazakhstan-2050» — a new political course of the established state» Kazakhtelecom JSC continues to build up the transit potential of the baseline network.

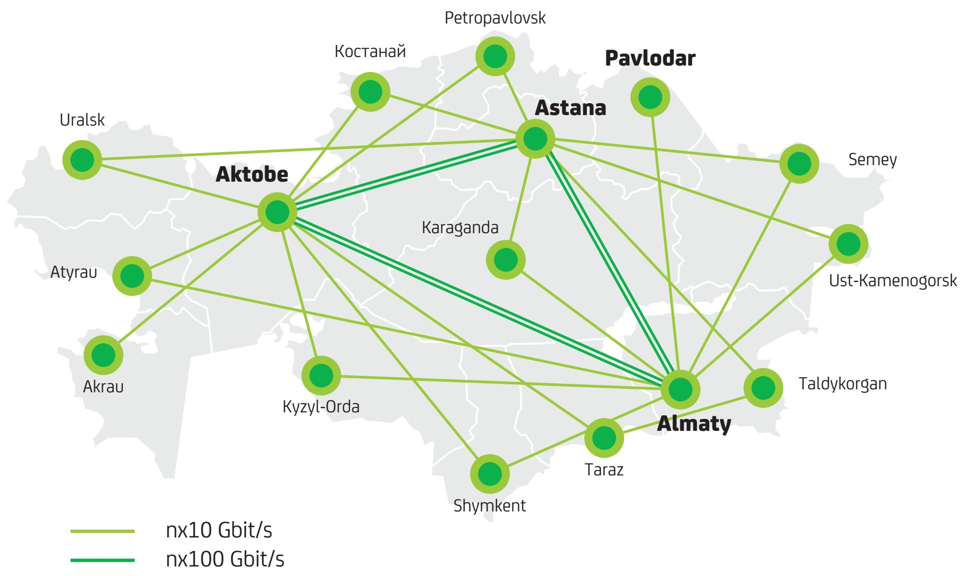
Over the period from 2015 to 2016, within the framework of projects to expand the capacity of the existing National Information Superhighway (NIS):

- the total capacity of external Internet channels has been increased from 670 Gbit/s to 770 Gbit/s, border crossings have been expanded by 710 Gbit/s;
- carrier load of the transit channels amounted to 2.6 Tbit/s;
- 3 new joints have been built with international telecom operators, with a total of 23 joints.
- the length of zone and rural optical fiber transmission system lines increased by 296 km and amounted to 27 019 km.

In 2016, a two-year business plan «Organization of international transit channels for wholesale business» was developed and protected, providing for an increase in transit capacity of 500 Gbit/s.

In the period from 2015 to 2016, the Company continued to build and expand the fiber-optic access network in order to develop broadband services and meet the growing demand for high-speed access services. Additional networks are built in cities of Aksay, Zachagansk, (West Kazakhstan region), Khromtau, suburbs of Aktobe, Zyryanovsk, Ridder, Stepnogorsk. Up to date, in total fiber-optical access networks covered about 26 thousand apartment buildings and 26 thousand houses of the private sector. In 2016, GPON equipment with a total capacity of 12 140 ports was introduced within the projects of the broadband network development in Atyrau, East Kazakhstan, West Kazakhstan, Kyzylorda, Mangistau, Akmola and Almaty regions. Within the projects of broadband access development, 80 140 users were connected.

Kazakhtelecom JSC: backbone data network



As of January 01, 2017 local network of telecommunications of Kazakhtelecom JSC is represented by 6 516 switching points.

The total installed capacity of the local telecommunications network for 2017 as compared to 2016 decreased by 97 747 numbers and amounted to 5 294 480 numbers. The capacity of the NGN network increased by 67 586 numbers.

The installed capacity of the Urban telephone network was 3 976 394 numbers.

The installed capacity of rural telephone network was 1 318 086 numbers.

The number of fixed lines as of 01.01.2017 was 3 670 696 units, including the UTN — 2 700 365 units, RTN — 970 331 units.

The density of telephones per 100 inhabitants as of January 1, 2017 was 21.37 numbers, including UTN — 28.55 units, RTN — 12.56 units.

According to the instructions of the Head of State on improving the information and communication system, Almaty is provided with emergency video messages on emergency situations for the timely interception of television broadcasting and the delivery of reliable information by the authorized body to the population.

Due to the growth in the number of users of the network and the increased load on the IP TV head ends in the cities of Astana and Almaty have been modernized, and regional IP TV ends have been expanded. Delivered 84 214 licenses and 97 804 user devices (STB). In order to meet the demand and for the convenience of users, iD TV Online application is developed for TVs with Smart TV function.

In order to improve the quality of services provided and to increase the speed of data transmission, as well as to retain the Company's leading positions in the segment of broadband services to large corporate clients and state authorities (B2B, B2G), in 2016 the project of Kazakhtelecom JSC for fiber-optic communication lines construction for corporate clients of the Company was adopted for implementation. This project by 2019 provides for switching over 13,000 legal entities to optical distribution networks in the cities of Astana, Almaty, regional centers and cities of regional importance.

INFORMATION TECHNOLOGIES

The modern period of development of a civilized society is characterized by the process of informatization. The introduction of new information technologies significantly expands the use of information resources in various sectors of the country's economy.

In 2016, Kazakhtelecom JSC provided virtualization of information systems Small World, Mediation Device, ACP and organized Competence Centers for virtual systems. As a result of this work, 250 pieces of equipment were released and its' productivity was increased.

The works on upgrading the core switching equipment at the branch offices of Kazakhtelecom JSC and switching to the backbone data network using the BGP Option B protocol were accomplished. As a result, 10 units of switching equipment were released, the delay in data transmission speed was reduced and the fail-operational capability of data network was increased.

The Company developed and implemented a single catalog of services based on Microsoft Active Directory, which allowed to increase the level of information security of networks.

At present, Kazakhtelecom occupies one of the leading positions in the market of cloud computing and data center services. Cloud services based on data centers of Kazakhtelecom JSC in 2016 showed rapid growth, in particular, the consumption of the Virtual Data Center service has more than doubled. Due to their availability, ease of use, high security, cloud services and data center services are becoming increasingly popular among both B2B customers and B2G customers.

These services are also actively used by SME-segment companies. Thus, besides the services that already gained popularity such as Virtual Dedicated Server and Dynamic Cloud Server, the Company develops new services on the SaaS model. The open digital platform created on the initiative of Kazakhtelecom JSC in conjunction with «Atameken» National Chamber of Entrepreneurs with the active participation of domestic IT companies, is an aggregator of services necessary to ensure the functioning of the business throughout the entire life cycle.

Corporate information systems. In 2016, the planned scope of work on automation and integration of systems for the needs of Kazakhtelecom JSC was completed, and the server equipment of the SAP ERP and BW complex was upgraded.

A new system of mass switching has been introduced in Almaty, the functionality for creating / replacing / removing line data on a copper network has been replicated, works on automation of the technical feasibility of installation of the video surveillance service has been performed, modules «Payment for Remuneration», «Distribution of the Plan (+ SOT)», «Notification» and «The Board of Honor» were developed, the process of providing «FMS» service was automated.

In the reporting year, the Unified Center for Operational Network Management was established. Integration between the resource defect management system and the service defect management system was implemented. A new automated process was developed — «Remedy» the Central repair Bureau for the problem management system. The centralization of «Service 165» to the «Genesys» platform has been completed. The mobile personnel management system in the Company branch offices was put into operation and optimization of the organizational structures of the technical divisions was carried out, in order to increase the efficiency and productivity of technical personnel.

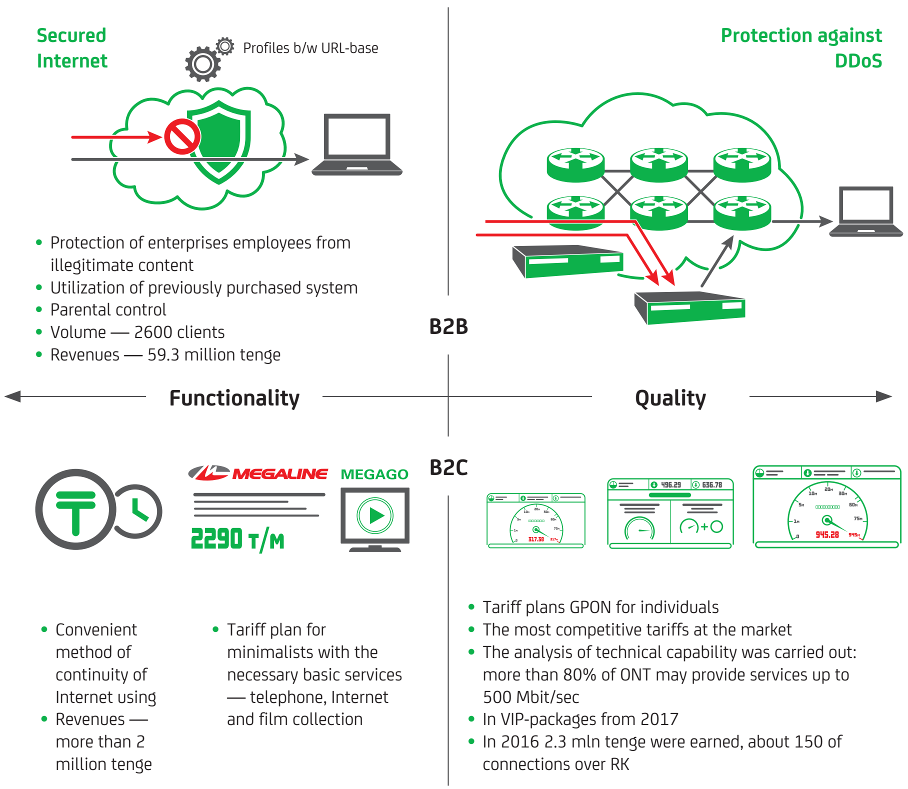
INNOVATIVE DEVELOPMENT

Innovative development around the world is conditioned by need of continuous improvement and maintenance the competitiveness of companies. At the same time, the innovations give companies the opportunity to compete effectively in the market, attracting new consumers and providing new services, as well as improving the financial performance of their activities.

In accordance with the Strategy of increasing the shareholder value, one of the new strategic business directions for the development of Kazakhtelecom JSC is the so-called «Digitalization of the economy», which includes the development of the Internet of things (IoT), the introduction of M2M — machine-to-machine services. This was reflected in new services and products implemented by the Company in 2016, which are:

1) Secure Internet;
2) Protection against DDoS (MSSP);
3) Deferred payment;
4) High-speed tariff plans 300/500/1000 Mbit/s;
5) Megaline Minimum Plus..

Description and outcomes of the implementation of new services:



Revenues of Kazakhtelecom JSC from informational security services

465 Bill. tenge

205 thous	2.6 thous	10
Informational security services users on individuals segment	Informational security services users on SME-segment	Largest business organization use Managed security services
165 tenge	**1896 tenge**	**10**
APRU security services on individual segment	APRU security services on SME-segment	APRU security services on largest business clients segment

39 Gbit/sec

The volume of Internet traffic processed by security systems in busy

25
URL-categories

2 mln per week

40
Maximum size of DDoS-attack, which the equipment is capable to filter

50 mln
Categorized web-sites

10% Online-games

8% Spam and software viruses

5% Pirate products

3% Web-sites for adults

In the reporting year, within the framework of the Company's innovative development, a new business segment was formed which is information security in the B2C, SME-segments, large corporate clients.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Priority Development Areas. Business plans for 2017

OVER THE PAST DECADES, THE WORLD HAS BEEN RAPIDLY MOVING TOWARDS A NEW TYPE OF ECONOMY, WHERE DIGITAL TECHNOLOGIES ARE BECOMING THE MAIN TOOL FOR ITS FORMATION. IN MODERN CONDITIONS, INFORMATION TECHNOLOGIES AND DIGITAL TRANSFORMATION ARE THE MAIN FACTOR OF TECHNOLOGICAL CHANGES AND THE CONDITION FOR ENSURING COMPETITIVENESS BOTH AT THE LEVEL OF INDIVIDUAL ENTERPRISES AND AT THE LEVEL OF COUNTRIES AND SUPRANATIONAL ASSOCIATIONS, LEADING TO THE RESTRUCTURING OF ALL ECONOMIC AND PRODUCTION PROCESSES, RADICAL IMPROVEMENTS IN PRODUCTIVITY, QUALITY IMPROVEMENT AS WELL AS GOODS AND SERVICES COST REDUCTION.

PRIORITY DEVELOPMENT AREAS

Over the past decades, the world has been rapidly moving towards a new type of economy, where digital technologies are becoming the main tool for its formation. In modern conditions, information technologies and digital transformation are the main factor of technological changes and the condition for ensuring competitiveness both at the level of individual enterprises and at the level of countries and supranational associations, leading to the restructuring of all economic and production processes, radical improvements in productivity, quality improvement as well as goods and services cost reduction.

Kazakhtelecom JSC has identified new promising areas of business, first of all, attention is paid to the segment of e-commerce, preparatory work has been done to become an aggregator of payments and to offer customers the best solution. Despite the fact that only the first steps are being taken in this direction, the Company is going to not only bring technology to every home, but also offer the widest range of services. The growth in the consumption of video services via mobile devices leads to further development of data transmission networks. When analyzing the key directions of the Company's work, it is noted that convergent services that are a mix of cellular and fixed communication advantages and, mobile services themselves, — have been brought to the fore.

Another world economic trend is the transition of business processes to digital format, and here Kazakhtelecom JSC makes every effort to create an information base for Kazakhstan's business. We are actively working to increase the penetration of cloud technologies, the development of the IT infrastructure and the strengthening of the network of data centers. Applied technologies allow to form the operational infrastructure necessary for doing business, including: commercial channels and advertising, collection of payments, accounting, inventory management and relationships with customers.

Great attention was also paid to M2M solutions aimed at automation and informatization of business — from video surveillance services and security systems to the creation of «smart» productions. Thus, the implementation of a project that provides for the transfer of fiscal data from cash registers to the Tax Committee in real time allowed to modernize the existing system of cash registers, improve the monitoring and analysis of cash transactions and ensure maximum transparency of these processes.

Innovative projects and development of new services

In the difficult conditions of the ongoing global economic crisis, Kazakhtelecom JSC plans to develop not only such established trends as FTTH, IP TV, but also additional high-tech sources of revenue:

«Development of FinTech services»	Entering the market of financial services. In this area, the Strategy assumes the implementation of the following types of services: • electronic payments (B2C); • electronic transfers (C2C); • loans (B2C); • products for SMEs and B2B (account management and lending).
«Development of e-commerce services»	Entering the e-commerce market. In this area, the Strategy assumes the implementation of the following types of services: • Creation of a platform for aggregation of suppliers (b2B2C); • Creation of niche shops (B2C); • Implementation of partnership with a major international player.
«Organization of «cloud» video surveillance services»	• Expansion of the range of services provided in the strategic M2M business direction; • Implementation of cloud video surveillance services for B2C, B2B, B2G segments.
«Development of M2M-services»	• Implementation of the strategic M2M (IoT, Digitalization of the economy) business direction; • Expanding the range of services provided; • Using the potential of the synergy of fixed and mobile businesses.
«Implementation of wireless services based on energy efficient long-range networks for IoT»	• Implementation of the strategic IoT and M2M business directions for the purpose of digitalization of the economy; • Expansion of the range of wireless services of Kazakhtelecom JSC; • Deployment of energy efficient long-range wireless networks for M2M communications and the implementation of solutions for Internet of things.

Within the framework of the Action Plan of the State Program «Digital Kazakhstan-2020», Kazakhtelecom JSC plans to participate in the implementation of the following projects:

1. Implementation of the project entitled «Provision of broadband access to the Internet for rural settlements of the Republic of Kazakhstan» based on the PPP model;
2. Creation of industrial Internet networks (LPWAN);
3. Creation of the IoT-platform (Internet of things) for digitalization of economic sectors;
4. Creation of the Big Data platform for structuring, processing and analysis of social, industrial, financial and other data most relevant to the development of the economy;
5. Creation of an open digital platform for micro, small and medium businesses;
6. Creation of an online platform for increasing the digital literacy of the population, entrepreneurs and specialists of the most priority sectors of the economy.

PLANS FOR 2017

Entering foreign markets and developing transit potential

One of the development goals of the new strategy «Digital Kazakhstan-2020», aimed at digitalization of the country, is to increase the transit potential. The program provides for the development of a multilateral partnership with telecommunications operators of neighboring countries, with the creation of a modern, more productive and scalable transport infrastructure capable of providing telecommunication traffic in the direction Europe–Asia up to 200 Gbit/s by 2020. Expansion of the DWDM transit optical network to a maximum throughput capacity of 4 Tbit/s in accordance with market needs.

Kazakhtelecom JSC pays special attention to the development of the transit potential of the Republic and the increase of transit telecommunication flows through Kazakhstan by means of the modernization of the company's backbone network using DWDM technology, as well as cooperation with international operator — partners in the organization and promotion of the Europe–Southeast Asia route through the network of Kazakhtelecom JSC.

«Organization of international transit channels for wholesale business»	• Maintaining a market share in international business; • Meeting the demand in the direction of Russia–Central Asia and China; • Preservation of existing revenues and annual increase in revenues in international business by 1%; • Augmentation of the existing DWDM backbone transport network with an additional capacity of 700 Gbit/s for transit services.
«Extension of network resources for operator connections»	In order to meet the needs of the large telecom operators of the Republic of Kazakhstan within the framework of long-term contracts, a technical solution is considered that provides timely equipping of service routers with 10G ports with support for traffic prioritization / without prioritizing traffic and extension of the throughput capacity of the transport zonal network of branches.

For the upcoming period, the task was set to achieve key financial and economic indicators approved in the Development Plan for 2017–2021, and ensure financial stability of the Company.

In 2017, capital investments in the amount of about KZT 32.6 bln are planned for the implementation of investment projects, which, in particular, will be aimed at the further development of existing services:

- 26.5 thousand ports for FTTH-subscribers in new houses,
- 21.7 thousand ONT terminals to increase penetration in existing houses,
- 12.5 thousand CPE LTE terminals for the development of a wireless cluster,
- 72.6 thousand new STB consoles for IP TV subscribers,
- 10 thousand SIP licenses (B2B and B2C segments),
- 27.2 thousand video cameras for access video surveillance,
- FOCL construction and connection of 6 396 SME and LCC subscribers.

On an ongoing basis, the Company will continue working with rating agencies to maintain the Company's credit rating.


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86 95 3 21

Risk management and internal control

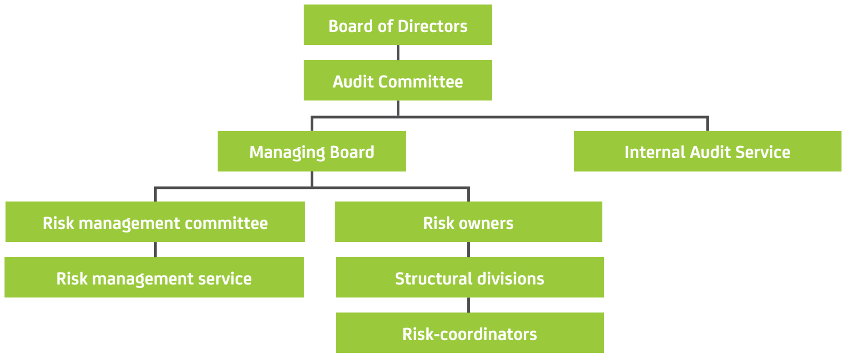
Life is risk management, not risk elimination.

Walter Riston

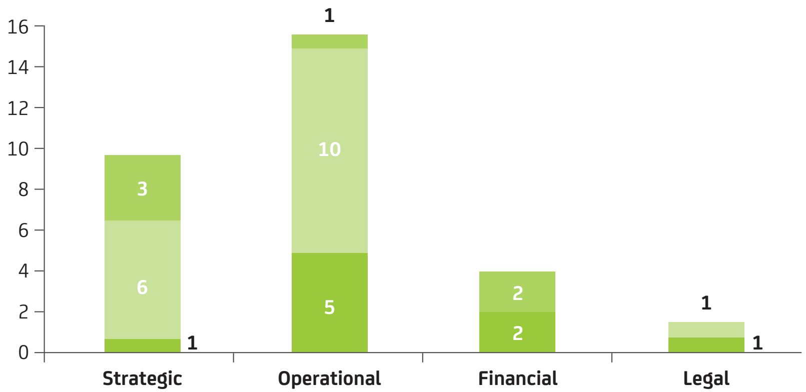
The corporate risk management system in Kazakhtelecom JSC (hereinafter referred to as CRMS) involves the development of an integrated system that provides the Company's bodies with timely information on the risks, needed to make decisions, taking into account risks and resources allocation in priority areas to ensure an acceptable level of risk.
The process of risk management is the basis for ensuring the guarantee of achieving the objectives of business continuity and security in any organization. During the transformation process, risk management in Kazakhtelecom JSC increasingly acquires features of proactive impact, is an integral part of the corporate culture of the Company and an effective tool for achieving ambitious, strategic goals.

Structure of the risk management system

The structure is represented by risk management at several levels with the involvement of the following bodies, departments and employees of the Company:



During the reporting year, the Risk Management Service carried out the work on monitoring the Risk Register, updating risk data, monitoring risk mitigation measures. At the end of 2016, the Company's Corporate Risk Register includes 32 risks:



Kazakhtelecom JSC pays special attention to the assessment and control of strategic risks affecting the achievement of strategic goals reflected in the Long-term Strategy and to meet the Efficiency target values of the Development Plan.

Operational risks also include a set of measures aimed at both eliminating the reasons for the risks implementation and minimizing the consequences in the case of risk events. Responsible managers are identified for each of the events. Constant monitoring and control over the implementation of measures aimed at mitigating risks is being carried out.

One of the activities of the risk management service is to monitor the country's financial sector in order to level out the risks of depreciation of the national currency value, which the Company could face directly in its activities. Based on the analysis of the banking sector of Kazakhstan on the financial statements of the second-tier banks, as well as on the forecasts of analysts of international rating agencies, the risk of ratings downgrading for a number of Kazakhstan banks is revealed. The decrease of profitability of the banking sector, increase in credit risks, restriction of funding sources in Kazakhstani currency with a significant discrepancy between the assets and liabilities of banks on currencies were predicted. Considering the recall of the license for banking business from Kazinvestbank JSC, the Company's Risk Register included a new risk «Non-fulfillment of obligations by banks to the Company».

In addition, regulatory and legal requirements, which have a direct impact on the Company's profitability, are monitored by state bodies and the Government.

Following the outcomes of 2016, the risks of Kazakhtelecom JSC are within the permissible deviations level (tolerance) of Company's key performance indicators. The Company implements activities for the proactive management of significant risks to reduce their impact on the goals of the period.

In 2016, a new Development Strategy for Kazakhtelecom JSC was approved, with special emphasis made on the direction of new business development. As part of this strategy, the work was carried out to analyze the risks that the Company may face in its' activities. The Risk Management Service provided practical recommendations for optimization of the aligned business processes, and master classes were organized on start-up projects for the Group of Companies of JSC.

CONTINUED INTEGRATION OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS IN BRANCH OFFICES AND SUBSIDIARIES

Improving the effectiveness of the Group's risk management practices implies the improving the functioning and interaction of the entities of the risk management process. Information on potential risks collected and updated at the branches and subsidiaries level allows us to capture and evaluate factors affecting both local and group-wide level. This allows for more successful preventive measures for risk management at the local level and for making comprehensive decisions based on integrated data coming from all entities.

Branches' and subsidiaries' registers and risk maps are reevaluated and updated quarterly. For significant risks affecting not only local indicators but also corporate-level risks and financial investments required to reduce them, the projects aimed at implementing measures next year were developed and defended by the branches.

FURTHER IMPLEMENTATION OF BEST PRACTICES AND STANDARDS OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Company constantly monitors current changes in the world's best risk management standards for companies in the real sector of the economy. In the reporting period, the approaches to the risk assessment of the company's investment projects were improved. And although the development of regulations continues, the results of raising the awareness and competence of units developing investment projects of different focus in the sphere of risk management of both individual projects and the entire investment portfolio are already visible today.

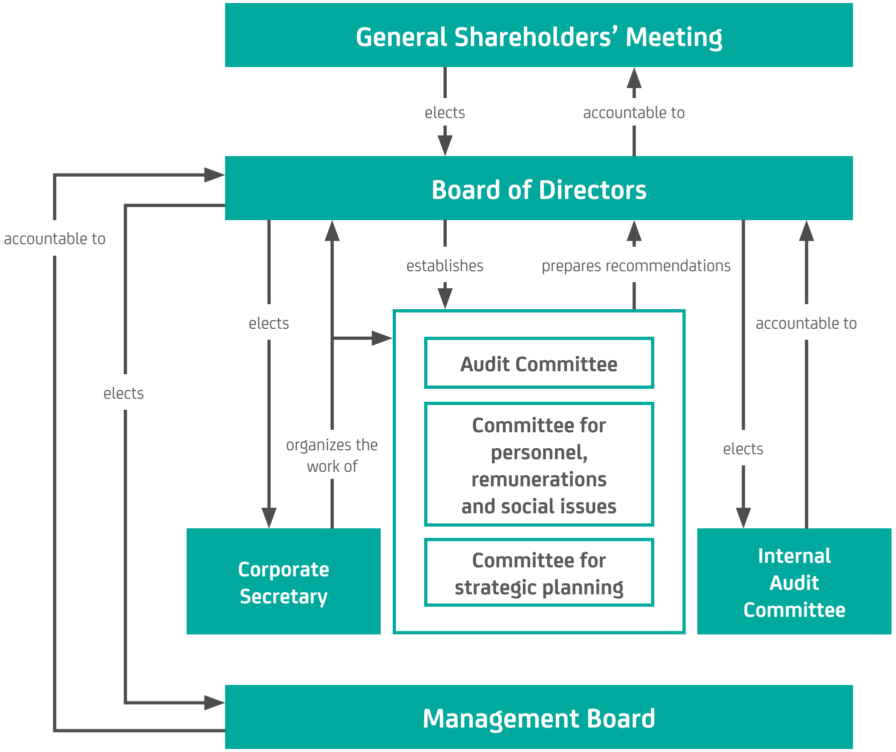
In terms of the core processes of the Corporate Risk Management System and the internal control system, there have been no significant changes, since, previously, the systems were built on the basis of standards and best practices. The entire risk field of the Company is classified by directions as: strategic, financial, operational, legal/compliance. As part of the risk management process, the Company maintains a corporate Risk Register that reflects risks that may affect the achievement of long-term strategic goals and key performance indicators of the Development Plan approved by the Board of Directors.

The corporate register of risks is updated annually. In 2016 the update was carried out taking into account information on the risks of branches and subsidiaries. The risk management activities are updated on a quarterly basis and risk assessment is reviewed on qualitative and quantitative parameters, both at the corporate level and in the entities of the Group. The dynamics of risk migration by criticality zones is monitored in the Risk Map. Timely identification of risk in the «alarm» zone makes it possible to take preventive measures for mitigating risks. In 2017, work will be continued on the implementation of risk management culture in the Company.

In accordance with the acting Risk Management Policy, the Board of Directors reviews the reports of the risk management service of the Company on a quarterly basis, is informed of the annual evaluation of the effectiveness of corporate systems for risk management and internal control, conducted both by internal and external audit. Thus, the measures carried out in 2016 increased the final evaluation of the effectiveness of internal control and risk management systems over the past year.

OF HIGH QUALITY AT ALL LEVELS, THE SYSTEM OF CORPORATE GOVERNANCE IS THE GUARANTOR OF EFFECTIVE ACTIVITY OF KAZAKHTELECOM JSC, STRENGTHENING ITS REPUTATION AND REDUCING THE COST OF ATTRACTING INVESTMENT CAPITAL.

CORPORATE GOVERNANCE STRUCTURE



The Corporate Governance System of Kazakhtelecom JSC is a set of processes that provide for management and control over the Company's activity. Aand includes management of relations between the Management Board, the Board of Directors, shareholders and interested parties. The bodies' competences and the decision decision-making procedure are clearly determined in the Company's Charter.

The Corporate Governance System of the Company is based upon the respect for shareholders' rights and fair attitude to each of them, effective relationship of Kazakhtelecom JSC's Board of Directors and Management Board and aimed at the increase of the long-term value of the Company.

Kazakhtelecom JSC strives to improve the corporate practices, information transparency for investors and shareholders, reduce risks and build an appropriate internal control system. For this end in view, an effective risk management and internal control system was established in the Company to ensure the confidence in the Company's accomplishment of strategic and operating objectives.

With the aim to evaluate the compliance of the Company's corporate governance with Samruk-Kazyna JSC's Corporate Governance Code, Corporate Governance Diagnosis Method was approved. The Method covers the Code compliance assessment and takes into account the quality and sustainability of mechanisms to ensure such compliance in future. The Method was developed to introduce higher corporate governance standards and contributes to the Company's achievement of corporate governance level of the best world practices that in its turn affects investment attractiveness and profile raising of the Company.

The corporate governance code of Kazakhtelecom JSC was approved by the decision of the extraordinary General Meeting of Shareholders of the Company dated December 7, 2015, Minutes No. 56. In the Company's subsidiaries, the corporate governance code was approved by the Decision of Board of Directors on December 25, 2015, Minutes No. 12.

By the decision of the Board of Directors of the Company on March 11, 2016, an Action Plan was approved to improve the corporate governance system and introduce the Corporate Governance Code of Kazakhtelecom JSC for 2016–2020. As part of the implementation of the Plan, measures are taken to update and correct documents and processes within the established period.

The activities of the Company and its corporate practice show full compliance with the principles and provisions of the Corporate Governance Code:

1. THE GOVERNMENT AS A SHAREHOLDER OF THE FUND

The main strategic goal of the Fund's organizations is to increase long-term value and sustainable development. All decisions and actions taken must be consistent with the development strategy.

The bodies of the Company are completely independent in making decisions and implementing any actions within their competence. Mutual relations (interactions) between shareholders and the Company are carried out through the Board of Directors in accordance with the principles of good corporate governance.

Disclosure of information on the Company's activities is carried out in accordance with the Law «On Joint Stock Companies» and the Charter of the Company.

The Internal Audit Service functions in the Company, the corporate secretary exercises its' duties, which are provided for by the legislation and internal documents of the Company.

The provisions are described in more detail below in this Report.

2. INTERACTION BETWEEN THE FOUNDATION AND ORGANIZATION. THE ROLE OF THE FUND AS A NATIONAL HOLDING MANAGER.

The corporate governance system is a set of processes that ensure the management and control of the Company's activities, as well as the system of relationships between the Management Board, the Board of Directors, shareholders and interested parties. These issues are clearly regulated in the Charter, the provisions on General Shareholders' Meeting, Board of Directors, the Management Board and other internal documents.

Samruk-Kazyna JSC participates in the management of companies through the exercise of the functions of a major shareholder, and through the Board of Directors. The Fund annually sends the expectations of the shareholder for the coming financial year to the Chairman of the Board of Directors and representatives of the Fund in the Board of Directors of the company.

The Board of Directors of the Company has complete independence in making decisions within its competence. The Fund's position on certain issues is reported through representatives of the Fund in the Board of Directors.

The management of the Company is carried out by its' bodies in accordance with the legislation and the Charter.

3. SUSTAINABLE DEVELOPMENT

Coordination of activities on sustainable development is carried out by the Personnel Management and Development Department. There is working group on corporate social responsibility, which includes representatives of all areas of the Company's activities. The necessary measures within the framework of sustainable development that are aimed at eliminating existing minor discrepancies with the Code are carried out and are to be implemented. These discrepancies are purely technical in nature (approval of a document, preparation of a report, etc.).

For example, at the end of 2017 the Company should hold a seminar in the field of sustainable development at all levels: starting with the Board of Directors and ending with ordinary workers to ensure the contribution to sustainable development.

Implementation of other activities in the sphere of sustainable development will be monitored on an ongoing basis.

4. RIGHTS OF SHAREHOLDERS (PARTICIPANTS) AND FAIR TREATMENT TO SHAREHOLDERS (PARTICIPANTS)

Respect for shareholders' rights is a key obligation of the Company. The Company fully respects shareholders' rights, which are enshrined in legislation and internal documents to ensure fair treatment to shareholders.

5. EFFECTIVENESS OF THE BOARD OF DIRECTORS AND THE EXECUTIVE BOARD

The Board of Directors is a management body accountable to the general meeting of shareholders, which provides strategic management of the organization and control over the activities of the Management Board.

The Management Board is accountable to the Board of Directors, it manages daily activities of the organization and ensures its compliance with the strategy, development plan and decisions adopted by the General Meeting of Shareholders and the Board of Directors.

The powers of the Board of Directors and the Management Board are clearly fixed and delineated.

The Board of Directors and its committees hold a balance of skills, experience and knowledge that ensures the adoption of independent, objective and effective decisions in the interests of the Company and taking into account the fair treatment towards all shareholders and the principles of sustainable development.

The Board of Directors of the Company is represented by specialists in various fields of knowledge (finance, marketing, technology, etc.), who have extensive work experience, including international one. The number of non-executive directors corresponds to the recommended by the legislation (30%) and even exceeds it.

The election of the Board of Directors takes place exclusively within the procedures established by the legislation and the Charter of the Company. The election procedure, term of powers, activities of the Board of Directors are regulated by internal documents of the Company. There is acting induction programme for newly elected members of the Board of Directors.

The Chairman of the Board of Directors is responsible for the overall management of the Board of Directors, ensures full and effective implementation of its' main functions by the Board of Directors and constructive dialogue between members of the Board of Directors, major shareholders and the Management Board.

The role and functions of the Chairman of the Board of Directors and the head of the executive body are clearly delineated and fixed in the Company's Charter and regulation of the Board of Directors and the Management Board.

Committees of the Board of Directors contribute to a deep and thorough consideration of issues within the competence of the Board of Directors and to improvement of the decisions quality, especially in such areas as audit, risk management, strategic planning, personnel issues. The Company has three committees: audit, personnel, remunerations and social, strategic planning. Their role is quite clearly regulated by the provision for them, they consider a wide range of issues and provide the necessary recommendations to the Board of Directors.

Preparation and holding of meetings of the Board of Directors contribute to the maximum effectiveness of its activities. To fulfill their duties, the members of the Board of Directors have access to full, up-to-date and timely information.

The Board of Directors holds regular meetings to effectively perform its functions. Meetings of the Board of Directors are held in accordance with the work plan approved before the beginning of the calendar year. The meetings of the Board of Directors and its committees are carried out by means of full-time or correspondence forms of voting, while the number of meetings with absentee voting is minimized. Consideration and adoption of decisions on matters of an important and strategic nature is carried out only at meetings of the Board of Directors with a personal form of voting.

Meetings of the Board of Directors and its' committees are duly recorded by the corporate secretary, indicating a full scope of outcomes of the discussions and decisions taken.

In order to organize effectively the activities of the Board of Directors and the interaction of the Board of Directors, the Management Board with shareholders, the Board of Directors, a corporate secretary has been appointed, which performs its functions in accordance with legislation, the charter and other internal documents.

The Company has a Collegial Executive Body — the Management Board. The Management Board is accountable to the Board of Directors and manages daily activities of the Company, responsible for implementing the strategy, development plan and decisions adopted by the Board of Directors and the General Meeting of Shareholders.

The Board of Directors elects the head and the members of the Management Board, determines the terms of office, the amount of the official salary, and the terms of remuneration. Recommendation on the election of the head and members of the executive body for a period of up to three years is observed.

Motivational efficiency of the head and members of the executive body is approved by the Board of Directors annually.

In the event of corporate conflicts, participants seek ways to resolve them through negotiations in order to ensure effective protection of the interests of the organization and interested parties. There is a document in the field of corporate conflicts approved by the Board of Directors.

6. RISK MANAGEMENT, INTERNAL CONTROL AND AUDIT

System of risk management and internal control functions in the Company. The Board of Directors plays an active role in the risk management.

Reports on risk management are reviewed by the Audit Committee and the Board of Directors on a Quarterly basis. If necessary, they adjust the activities and processes in this area.

The Internal Audit Service, which is accountable to the Board of Directors, effectively functions in the Company.

7. TRANSPARENCY

In order to comply with the interests of involved parties, the Company timely and reliably discloses information on the most important aspects of its activities, including financial condition, performance results, ownership structure and management. The Corresponding information is placed on various resources.

The Company annually performs an audit of financial statements through the involvement of an independent and qualified auditor. The results of the audit are approved by the general meeting of shareholders.

Also, the Company approves the annual report, which discloses all aspects of the Company's activities over the past year. The annual report was previously approved by the shareholders' meeting, but following the adoption of corporate governance code, this competence was transferred to the Board of Directors.

THE BOARD OF DIRECTORS IS THE MANAGEMENT BODY PERFORMING GENERAL MANAGEMENT OF THE COMPANY, AND IS IN CHARGE OF DEVELOPING ITS STRATEGY AND CONTROLLING THE MANAGEMENT BOARD'S ACTIVITY, EXCEPT FOR THE ISSUES REFERRED BY THE LAW OF THE REPUBLIC OF KAZAKHSTAN «ON JOINT STOCK COMPANIES» AND (OR) THE ARTICLES OF ASSOCIATION TO THE EXCLUSIVE COMPETENCE OF THE GENERAL SHAREHOLDERS' MEETING. MEMBERS OF THE BOARD OF DIRECTORS ARE ELECTED BY THE RESOLUTION OF THE GENERAL SHAREHOLDERS' MEETING.

Kazakhtelecom JSC's Board of Directors

KAZAKHTELECOM JSC'S BOARD OF DIRECTORS

On June 30, 2015, Kazakhtelecom JSC's Board of Directors was elected at the extraordinary General Shareholders' Meeting (Protocol No. 55) in new composition:

Members of the Board of Directors:
Nurzhan Baidauletov
Kuanyshbek Yessekeyev
Aigul Nuriyeva
Adilbek Sarsenov
Serik Saudabayev

Members of the Board of Directors, independent directors:
Alexey Buyanov
Garrett Martin Johnston
Dmitry Zaika
Yermek Kudabayev

According to the decision of Kazakhtelecom JSC's Board of Directors of as of July 16, 2015 (Protocol No. 6) Nurzhan Baidauletov was elected Chairman of Kazakhtelecom JSC's Board of Directors.

On March 16, 2016, the terms of reference of member of Kazakhtelecom JSC's Board of Directors, Mrs. Aigul Nuriyeva, were terminated.

On December 6, 2016, Mr. Dmitry Prikhozhan was elected in composition of Kazakhtelecom JSC's Board of Directors at the extraordinary General Shareholders' Meeting (Protocol No. 58) for the remaining term of office.

NURZHAN BAIDAULETOV

Date of birth:	September 01, 1960
Citizenship:	The Republic of Kazakhstan
Date of the first election to the Board of Directors:	May 08, 2012
Date of the current election to the Board of Directors:	June 30, 2015
Status:	Chairman of the Board of Directors Representative of Samruk-Kazyna JSC (5 570 668 ordinary voting shares)
Share ownership:	none

Education:

09.1977 – 06.1986	The Moscow Institute of Railway Engineering Qualification: Management of Railway Transportation Processes

Places of employment and positions occupied over the last five years:

Since 17.04.2016 till present	**Samruk-Kazyna JSC** Representative of Samruk-Kazyna JSC in the Board of Directors of Air Astana JSC and Kazakhtelecom JSC
02.06.2014 – 17.04.2016	**Samruk-Kazyna JSC** Chief Asset Management Officer
01.04.2014 – 01.04.2016	**Kazpost JSC** Member of the Board of Directors
24.01.2012 – 11.04.2016	**KTZ NC JSC** Chairman of the Board of Directors
Since 26.12.2008 till present	**Air Astana JSC** Chairman of the Board of Directors
27.11.2008 – 01.06.2014	**Samruk-Kazyna JSC** Managing Director

KUANYSHBEK YESSEKEYEV

Date of birth:	June 10, 1975
Citizenship:	The Republic of Kazakhstan
Date of the first election to the Board of Directors:	December 16, 2006
Date of the current election to the Board of Directors:	June 30, 2015
Status:	Member of the Board of Directors Chairman of the Management Board of JSC Kazakhtelecom
Share ownership:	none

Education:

1991–1995	The Kazakh State University named after Al-Farabi. Qualification: applied mathematics Candidate of Mathematical sciences
2001–2002	The Kazakh State Academy of Management. Qualification: management

Places of employment and positions occupied over the last five years:

Since 15.03.2010 till present	**Kazakhtelecom JSC** Chairman of the Management Board, member of the Board of Directors
23.02.2007 – 15.03.2010	**The Agency of the Republic of Kazakhstan for Informatization and Communications** Chairman

ADILBEK SARSENOV

Date of birth:	August 28, 1973
Citizenship:	The Republic of Kazakhstan
Date of the first election to the Board of Directors:	December 24, 2007
Date of the current election to the Board of Directors:	June 30, 2015
Status:	Member of the Board of Directors Representative of shareholder — Sobrio Limited (2 672 592 ordinary voting shares)
Share ownership:	none

Education:

1991–1996	The Almaty Institute of Power Engineering Qualification: radio engineering
2005–2006	International Business School (Cambridge, USA) under the Bolashak scholarship, MBA program. Specialty: General management in international companies

Places of employment and positions occupied over the last five years:

01.08.2010 – 31.03.2016	**Amun Capital Advisors KZ LLP** Director for Telecom Assets Management
10.12.2010 – 10.12.2013	**ERA TV Broadcaster** Member of the Supervisory Board
09.12.2008 – 06.09.2010	**National Company Kazsatnet JSC** Chairman of the Board of Directors
06.11.2008 – 06.09.2010	**National Information Technologies JSC** Member of the Board of Directors
06.11.2008 – 02.08.2010 06.11.2008 – 21.02.2011	**National Information and Communications Holding Zerde JSC** Chairman of the Management Board Member of the Board of Directors
19.10.2007 – 30.07.2010	**Kazakhstan Holding for Management of State Assets Samruk JSC** Director for Telecom Assets Management Group

KAZAKHTELECOM JSC'S BOARD OF DIRECTORS

DMITRY PRIKHOZHAN

Date of birth:	December 10, 1973
Citizenship:	The Republic of Kazakhstan
Date of the first election to the Board of Directors:	December 6, 2016
Date of the current election to the Board of Directors:	December 6, 2016
Status:	Member of the Board of Directors Representative of shareholder — Sobrio Limited (2 672 592 ordinary voting shares)
Share ownership:	none

Education:

1990–1995	The Kazakh State National University named after Al-Farabi Specialty: Jurisprudence Qualification: Lawyer

Places of employment and positions occupied over the last five years:

Since 19.04.2010 till present	**Eximbank Kazakhstan JSC** Chairman of the Management Board
12.05.2004 – 18.04.2010	**Eximbank Kazakhstan JSC** Deputy Chairman of the Management Board
05.04.2004 – 11.05.2004	**Eximbank Kazakhstan JSC** Adviser to Chairman of the Management Board

SERIK SAUDABAYEV

Date of birth:	December 8, 1977
Citizenship:	The Republic of Kazakhstan
Date of the first election to the Board of Directors:	July 12, 2010
Date of the current election to the Board of Directors:	June 30, 2015
Status:	Member of the Board of Directors Representative of the Company's shareholder — Sovereign Welfare Fund Samruk-Kazyna JSC (5 570 668 ordinary voting shares)
Share ownership:	none

Education:

1995–1999	The Almaty State University named after Abai Specialty: Jurisprudence
2004–2006	The Kazakh University of Economics named after T. Ryskulov Specialty: Economics

Places of employment and positions occupied over the last five years:

Since 26.10.2016 till present	**Kazpost JSC** Member of the Board of Directors
Since 11.07.2016 till present	**Samruk-Kazyna JSC** Director of Communications Directorate
11.05.2014 – 10.07.2016	**Samruk-Kazyna JSC** Deputy Director General for Asset Management
17.06.2010 – 10.05.2014	**National Welfare Fund Samruk-Kazyna JSC** Director for Telecom Assets Management
13.08.2010 – 31.03.2014	**Kazpost JSC** Member of the Board of Directors
14.08.2007 – 16.04.2008 **17.04.2008 – 18.05.2010**	**Kazakhtelecom JSC** Deputy Director of Legal Department Corporate Secretary

ALEXEY BUYANOV

Date of birth:	August 15, 1969
Citizenship:	The Russian Federation
Date of the first election to the Board of Directors:	June 30, 2015
Date of the current election to the Board of Directors:	June 30, 2015
Status:	Independent Director
Share ownership:	none
Independence criteria:	Meets the criteria specified in sub-paragraph 20, Article 1 of the Law of the Republic of Kazakhstan «On Joint Stock Companies»

Education:

1986–1992	The Moscow Institute of Physics and Technology (MIPT) Specialty: Applied Physics & Mathematics Qualification: Physical Engineer

Places of employment and positions occupied over the last five years:

Since January 2016 till present	**Investment Company Bengala Investments SA** Director
June 2014 – June 2016	**Redline Capital Management S.A. (Investement Fond)** Managing Director
2005 – 2014	**Sistema Joint Stock Financial Corporation** Senior, First Vice-President

GARRET MARTIN JOHNSTON

Date of birth:	July 22, 1968
Citizenship:	Ireland, Russian Federation
Date of the first election to the Board of Directors:	June 30, 2015
Date of the current election to the Board of Directors:	June 30, 2015
Status:	Independent Director
Share ownership:	none
Independence criteria:	Meets to the criteria provided for in sub-paragraph 20) Article 1 of the Law of the Republic of Kazakhstan «On Joint Stock Companies»

Education:

1985–1990	Dublin University Specialty: Economics
1990–1991	Trinity College, Dublin, Ireland Specialty: International Trade, TMI degree (Postgraduate Diploma International Commerce)

Places of employment and positions occupied over the last five years:

Since 15.06.2015 till present	**Macroscope Consulting** Owner and CEO
Since 01.10.2014 till present	**appselekt.com** Chief Marketing Officer
15.01.2014 – 30.09.2014	**Digicel Caribbean and Central America** CEO Enterprise Solutions
27.12.2011 – 11.01. 2014	**Rosnano MedInvest (RMI Partners)** Vice-President for Marketing & Strategy
30.03.2011 – 22.12.2011	**Tuš Group** Strategy & Restructuring Adviser to President and Owner
20.06.2010 – 28.03.2011	**X5 Retail Group** Strategic Marketing Adviser to President
03.09.2007 – 11.06.2010	**MTC** Director of Strategic Marketing Group
01.02.2006 – 02.09.2007	**MTC, Russia** Marketing Director

KAZAKHTELECOM JSC'S BOARD OF DIRECTORS

DMITRY ZAIKA

Date of birth:	April 27, 1975
Citizenship:	The Republic of Kazakhstan
Date of the first election to the Board of Directors:	June 30, 2015
Date of the current election to the Board of Directors:	June 30, 2015
Status:	Independent Director
Share ownership:	none
Independence criteria:	Meets the criteria specified in sub-paragraph 20, Article 1 of the Law of the Republic of Kazakhstan «On Joint Stock Companies»

Education:

1992–1998	Almaty Institute of Energy and Communications Specialization: Radio engineering Qualifications: Radio Engineer
2003–2005	Kazakh State Economic University Specialization: Financial Management Qualification: Economist (diploma with distinction)

Places of employment and positions occupied over the last five years:

20.04.2012 – 15.08.2016	**ALTEL JSC** Independent Director
Since 29.08.2011 till present	**Khimfarm JSC** Independent Director

YERMEK KUDABAYEV

Date of birth:	April 7, 1970
Citizenship:	The Republic of Kazakhstan
Date of the first election to the Board of Directors:	June 30, 2015
Date of the current election to the Board of Directors:	June 30, 2015
Status:	Independent Director
Share ownership:	421.772 shares 0,3% share of participation Bekem Metals Inc. (USA), Stock Exchange OTCBB (USA)
Independence criteria:	Meets to the criteria provided for in sub-paragraph 20) Article 1 of the Law of the Republic of Kazakhstan «On Joint-Stock Companies»

Education:

1987–1993	Moscow Institute of Steel and Alloys (MISA) Faculty of Economics and Metallurgy Management Qualification: engineer-economist
1994–1996	Kazakhstan Institute of Management, Economics and Strategic Research (KIMEP) Qualifications: Master of Business Administration
1998–2004	Association of Certified Chartered Accountants (ACCA), London, UK Faculty of Finance and Accounting ACCA degree (international diploma of financier-accountant)

Places of employment and positions occupied over the last five years:

Since 27.04.2016 till present	**Intelligent Consulting Solutions LLP** Managing Director for Economics & Finance
25.10.2013 – 27.04.2016	**KazPetroDrilling JSC** Managing Director for Economics & Finance
01.07.2013 – 01.11.2013	**Meridian Petroleum LLP** New Projects Manager
01.11.2010 – 15.04.2013	**Chagala Group Limited** CFO

In 2016, the following 4 independent directors — members of the Board of Directors worked in full compliance with the requirements of the legislation of the Republic of Kazakhstan applied to the notion of «independent director»:

Members of the Board of Directors, Independent Directors:

- Alexey Buyanov,
- Garrett Martin Johnston,
- Dmitry Zaika,
- Yermek Kudabayev.

According to paragraph 5, Article 54 of the Law of the Republic of Kazakhstan «On joint stock companies», the proportion of independent members shall not constitute less than thirty percent of the composition of the Board of Directors. Kazakhtelecom JSC meets the requirement; moreover, the Company exceeds the minimum threshold of 30%, where the current percentage of independent Board members makes up 44%.

COMMITTEES OF THE BOARD OF DIRECTORS

With a view to consider the issues in-depth, the following Committees of the Board of Directors were established in the Company:

1. ***Audit Committee***
2. ***Strategic Planning Committee***
3. ***Committee for Personnel, Remunerations and Social Issues***

The Board of Directors takes decision on the establishment of committees, determines the composition and number of its members, chairpersons, terms of reference, as well as its performance functions and procedure. The Committees, within their competence, prepare recommendations to the Board of Directors on the most crucial issues whereby improving decision effectiveness.

The audit committee of Kazakhtelecom JSC's Board of Directors consists entirely of independent directors.

Independent directors make up the majority of members of other Board of Directors' committees.

The Audit Committee is a consulting and advisory body of Kazakhtelecom JSC's Board of Directors and carries out its activity in accordance with the Provision on the Audit Committee approved by decision of the Board of Directors No. 2 as of March 1, 2010 (as amended on June 28, 2013).

In accordance with the Corporate Governance Code of JSC Kazakhtelecom, the Audit Committee consists entirely of independent directors who meet the criteria for recognizing the independence of directors provided for by sub-paragraph 20) of Article 1 of the Law of the Republic of Kazakhstan «On Joint Stock Companies».

The composition of the Audit Committee of JSC Kazakhtelecom's Board of Directors is as follows:

Chairman of the Committee:

Yermek Kudabayev — independent director.

Members of the Committee:

Alexey Buyanov — independent director;

Garrett Martin Johnston — independent director;

Dmitry Zaika — independent director.

The Audit Committee's meetings are held at least on a quarterly basis and theextraordinary meetings — as required.

In 2016, the Audit Committee held 9 meetings, where 6 attendee meetings and 3 meetings in absentia. They considered 22 issues and made appropriate recommendations to the Company's Board of Directors, including issues of the Internal Audit Service, Internal Control Service and Risk Service, financial reporting, external audit and other important issues.

Participation in the Audit Committee's meetings in 2016:

Members of the Board of Directors	№1 26.01	№2 10.02	№3 31.03 in absentia	№4 25.05	№5 02.08 in absentia	№6 31.08	№7 23.09	№8 28.10	№9 28.11 in absentia	Reason for absence	Participation percentage
Yermek Kudabayev	+	+	+	+	+	+	+	+	+		100
Alexey Buyanov	+	+	+	+	+	+	+	+	+		100
Garret Martin Johnston	+	+	+	+	+	+	+	+	+		100
Dmitry Zaika	+	+	+	+	+	+	+	+	+		100

The Committee during the performance of its duties acted in good faith and in a reasonable manner in the interests of the Company. The goals, tasks and functional responsibilities established for the Audit Committee by the Corporate Governance Code of the Company, Provision on the Audit Committee, decisions of the Company's Board of Directors, instructions of the Board of Directors, as well as the operating plan of the Committee for 2016 were fulfilled.

The Strategic Planning Committee is a consulting and advisory body of JSC Kazakhtelecom's Board of Directors and carries out its activities in accordance with the Provision on the Strategic Planning Committee approved by the decision of the Board of Directors No. 14 as of 19.11.2010.

The composition of the Strategic Planning Committee of JSC Kazakhtelecom's Board of Directors is as follows:

Chairman of the Committee:
Alexey Buyanov — independent director.
Members of the Committee:
Dmitry Zaika — independent director;
Adilbek Sarsenov – representative of the shareholder — Bodam B.V. (Now Sobrio Limited);
Serik Saudabayev — representative of the shareholder Samruk-Kazyna JSC.

The meetings of the Strategic Planning Committee are held at least on a quarterly basis, extraordinary meetings as required.

In 2016, the Strategic Planning Committee held 9 attendee meetings at which 23 issues were considered and appropriate recommendations were made to the Company's Board of Directors. The most important issues included business-planning, approval of the Company's Strategy and Development Plan, adoption of strategic documents, optimization of subsidiaries, and other significant issues of the Company's activities.

Participation in the Strategic Planning Committee's meetings in 2016:

Members of the Board of Directors	№1 25.02	№2 11.03	№3 27.05	№4 31.05	№5 01.07	№6 11.07	№7 26.09	№8 01.11	№9 05.12	Reason for absence	Participation percentage
Alexey Buyanov	+	+	+	+	+	+	+	+	+		100
Adilbek Sarsenov	+	+	+	+	+	+	+	+	+		100
Serik Saudabayev	+	+	+	+	+	+	+	+	+		100
Dmitry Zaika	+	+	+	+	-	+	+	+	+	1 — business trip	88.89

The Committee during performance of its duties acted in good faith and in a reasonable manner in the interests of the Company. The tasks to determine and submit recommendations to the Company's Board of Directors on the issues of determining the priority areas of the Company's activities and its development strategy, including issues related to the development of measures to enhance the Company's long-term performance, were fully accomplished.

The Committee for Personnel, Remuneration and Social Issues in its activity is fully accountable to the Company's Board of Directors and carries out its activities in accordance with the Provision on the Committee for Personnel, Remuneration and Social Issues of Kazakhtelecom JSC's Board of Directors approved by the decision of the Board of Directors, Protocol No. 2 dated 18.03.2015.

The composition of the Committee for Personnel, Remunerations and Social Issues of the Kazakhtelecom JSC's Board of Directors is as follows:

Chairman of the Committee:
Dmitry Zaika — independent director.

Members of the Committee:
Alexey Buyanov — independent director;
Garrett Martin Johnston — independent director;
Yermek Kudabayev — independent director.

Participation in the meetings of the Committee for Personnel, Remuneration and Social Issues in 2016:

Members of the Board of Directors	№1 26.01	№2 25.02	№3 10.03	№4 25.05	№5 04.07	№6 11.07	№7 31.08	№8 23.09	Reason for absence	Participation percentage
Dmitry Zaika	+	+	+	+	+	+	+	+		100
Alexey Buyanov	+	+	+	+	+	+	+	+		100
Garret Martin Johnston	+	+	+	+	+	-	+	+	1 — business trip	87.5
Yermek Kudabayev	+	+	+	+	+	+	+	+		100

In 2016, the Committee for Personnel, Remuneration and Social Issues held 8 attendee meetings at which 15 issues were considered and appropriate recommendations were made to the Company's Board of Directors. In particular, the issues related to the election of the Company's Management Board members, appointment of chief executives of subsidiaries, approval of executives' KPIs, salary payment, personnel management, and other issues.

In 2016, the Committee for Personnel, Remunerations and Social Issues accomplished the objectives, tasks and functional responsibilities established for the Committee for Personnel, Remuneration and Social Issues by the Company's Corporate Governance Code, Provision on the Committee for Appointments and Remuneration, decisions of the Company's Board of Directors, instructions of the Board Directors, as well as the operating plan of the Committee for 2016.

With a view to effective organization of the activity of the Board of Directors and interaction of the Board of Directors, the executive body, with the shareholders, the Board of Directors appoints a Corporate secretary.

The Corporate secretary is accountable to the Board of Directors and ensures effective interaction between the Company and the shareholders, along with effective interaction between the Company's bodies pursuant to the provisions of the Charter and other internal regulatory documents of the Company.

The Corporate Secretary also acts as the Ombudsman, who is responsible for clarification of the provisions of the Code of Business Conduct.

Mr B. K. Abdykalykov, the Corporate Secretary of Kazakhtelecom JSC, is a holder of state awards and the honorary title «Uzdik bailanysshy». He was regarded as the best corporate secretary of past years, a permanent member of working groups on further improving of corporate governance and the Institute of Corporate Secretaries.

Information on the evaluation policy of the Board of Directors activity of Kazakhtelecom JSC

By the decision of the Board of Directors of the Company dated August 5, 2015 (Minutes No. 7), the Rules were approved for evaluating the activities of the Board of Directors and members of the JSC Kazakhtelecom's Board of Directors, which regulate the issues of evaluation of the Board of Directors, its committees and directors.

The evaluation allows to determine the contribution of the Board of Directors and each of its' members to the growth of long-term value and sustainable development of the Company, as well as to identify directions and recommend measures for improvement.

The Corporate governance Code of Kazakhtelecom JSC provides for an annual assessment within the framework of a structured process approved by the Board of Directors of the Company. At the same time, at least once every three years the evaluation is conducted with the involvement of an independent professional organization.

As a result of its activities in 2016, the committees of the Board of Directors of the Company received a positive evaluation from the Board of Directors. Members of the JSC Kazakhtelecom's Board of Directors of by the means of questionnaires evaluated the work of the JSC Kazakhtelecom's Board of Directors. Based on the results of this evaluation, the members of the Board of Directors received a high score.

Internal audit of the Company

The Internal Audit Service (IAC) provides the organization and implementation of internal audit in Kazakhtelecom JSC, which is directly subordinate and accountable to the Board of Directors. Supervision of the IAC activity is carried out by the Audit Committee of the Board of Directors of the Company.

The main objective of the IAC is to provide the Board of Directors of the Company with independent and objective information intended to ensure effective management of the Company by introducing a systematic approach to the improvement of risk management systems, internal control and corporate governance in the Company.

The activity of the IAC is based on the Regulations on the Internal Audit Service of Kazakhtelecom JSC, the Internal Audit Policy of Kazakhtelecom JSC, approved by the JSC Kazakhtelecom's Board of Directors. Audits are carried out in accordance with the Annual Audit Plan approved by the Audit Committee and approved by the Board of Directors of the Company.

In 2016, according to the Annual Audit Plan, 17 scheduled audits and 3 unscheduled audits were conducted. The main areas of audit were related to the evaluation of the effectiveness of risk management processes, internal control and corporate governance. Based on the audit results of IAC, 297 recommendations were approved by the decision of the Board of Directors of the Company. As part of action plans to implement the recommendations of the Internal Audit Service, the Company fully implemented 130 recommendations, the deadline for which was 2016.

On a regular basis, IAS submits to the Board of Directors reports (quarterly, annual) on its activity, preliminarily examined by the Committee for audit.

IAS has won the high praise of independent advisers (Ernst & Young LLP/advisory Services) for the compliance with the Definition of Internal Audit, Code of Ethics, and International professional internal auditing standards. The level of compliance was determined as «generally compliant» (the highest possible level).

This assessment is a clear demonstration of transparency and efficiency of the Internal Audit Service, as well as close cooperation and collaboration with the Board of Directors and the Management Board.

THE MAIN ISSUES CONSIDERED BY THE BOARD OF DIRECTORS IN 2016

Participation of members of the Board of Directors in attendee meetings of the Board of Directors in 2016:

Members of the Board of Directors	№1 05.02	№2 22.02 in absentia	№3 25.02	№4 11.03	№5 25.04 in absentia	№6 31.05	№7 12.07	№8 01.08 in absentia	№9 06.09 in absentia	№10 27.09	№11 03.11	№12 30.12 in absentia
N. Baidauletov	+	+	+	+	+	+	+	+	+	+	+	+
A. Nuriyeva	+	+	+	+	16.03.2016 ceased her powers on her own initiative							
K. Essekeyev	+	+	+	+	+	+	+	+	+	+	+	+
A. Sarsenov	+	+	+	+	+	+	+	+	+	+	+	+
S. Saudabayev	+	+	+	+	+	+	+	+	+	+	+	+
D. Prikhozhan	06.12.2016 — Elected to the JSC Kazakhtelecom's Board of Directors by decision of the Extraordinary General Meeting of Shareholders, Minutes No.58											+
A. Buyanov	+	+	+	+	+	+	+	+	+	+	+	+
Garrett Martin Johnston	+	+	+	+	+	+	+	+	+	+	+	+
D. Zaika	+	+	+	+	+	+	+	+	+	+	+	+
E. Kudabayev	+	+	+	+	+	+	- (on business trip)	+	+	+	+	+

The JSC Kazakhtelecom's Board of Directors holds meetings in accordance with the annual work plan, and as required. In 2016, the JSC Kazakhtelecom's Board of Directors held 12 meetings, 7 of them in the form of attendee meetings and 5 — in the form of absentee voting.

In 2016, for consideration of the Board of Directors of the Company 98 issues were raised and important decisions were made regarding the approval of the Strategy for increasing the shareholder value of Kazakhtelecom JSC, electing the members of the JSC Kazakhtelecom's Management Board, implementing the joint venture project in the mobile sector, and many others.

On a regular basis (quarterly), the reports of the JSC Kazakhtelecom's Management Board, on the implementation of large investment projects of Kazakhtelecom JSC, on the implementation of the Company's Development Plan, on risks, on the introduction of the Kazakhtelecom Corporate Governance Code, on transactions concluded, where there is an interest, decisions on which were taken by the JSC Kazakhtelecom's Management Board and the Internal Audit Service.

REPORT ON REMUNERATION OF THE BOARD OF DIRECTORS' MEMBERS

Kazakhtelecom JSC's Board of Directors' members, other than independent directors, fulfill their duties on a free of charge basis. The terms and conditions of independent directors' remuneration are provided in agreements concluded with them.

Kazakhtelecom JSC's Board of Directors' members, who are independent directors, are eligible for an annual fixed remuneration and extra remuneration for participation in meeting of a Committee of Kazakhtelecom JSC's Board of Directors.

An Independent Director is reimbursed for costs (travel, accommodation, daily subsistence allowance, telephone costs in the Republic of Kazakhstan, scanning, photocopying, faxing, printing, and typing of documents, Internet access in the Republic of Kazakhstan, courier services and postal services) associated with participation in attendee meetings of the Board of Directors and Committees, annual General Shareholders' Meeting as well as meetings convened at the initiative of shareholders or the Company held outside the place of permanent residence of an Independent Director.

The sizes of annual fixed and extra remuneration for participation in each attendee meeting of a Committee of the Board of Directors are determined in accordance with decisions of the General Shareholders' Meeting of Kazakhtelecom JSC, Protocol No. 39 dated September 4, 2009 and No. 46 dated December 29, 2011.

Payments to Independent Directors for 2016

BD members	Currency	Amount of fixed annual remuneration	Amount of extra remuneration for participation in Committees' meetings	Total for 2016
A.N. Buyanov	USD	45 000	11 500	56 500
Garret Martin Johnston	USD	45 000	6 500	51 500
D.A. Zaika	KZT	6 660 000	1 650 000	8 310 000
E.A. Kudabayev	KZT	6 660 000	1 050 000	7 710 000

Kazakhtelecom JSC discloses information on the size of remunerations of the Board of Directors' members to all interested persons in accordance with the legislation of the Republic of Kazakhstan, Kazakhtelecom JSC's Charter.

KAZAKHTELECOM JSC'S MANAGEMENT BOARD

The Management Board is a collegial executive body, which is in charge of the Company's operating activities with a view to meeting the objectives and implementing the strategy of the Company.

According to Kazakhtelecom JSC's Charter the Management Board implements the decisions of the General Shareholders' Meeting and the Board of Directors, is accountable to the Board of Directors and responsible for fulfilling the duties imposed.

Activity of the Management Board is based on the principle of the utmost protection of interests of Shareholders and is fully accountable to the decisions s of the General Shareholders' Meeting and the Board of Directors.

The Management Board is composed of 7 members: Chairman of the Management Board and other persons appointed by the Board of Directors.

Mr. Kuanyshbek Yessekeyev

Date of birth: June 10, 1975

Citizenship: Republic of Kazakhstan

Date of the first election to the Management Board of Kazakhtelecom JSC: 15.03.2010

Date of the current election to the Management Board of Kazakhtelecom JSC

14.03.2016

Status: Member of the Board of Directors,

Chairman of the Management Board of Kazakhtelecom JSC

Education: higher, Candidate of Mathematical Sciences

1991–1995 The Kazakh State University named after Al-Farabi

Qualification: Applied Mathematics, Candidate of Mathematical Sciences

2001–2002 The Kazakh State Academy of Management

Qualification: Management

Places of employment and positions occupied over the last five years:

Since 15.03.2010 till present: **Kazakhtelecom JSC**, Chairman of the Management Board, Member of the Board of Directors.

Outside employment and membership in the Boards of Directors of other companies:

Chairman of the Board of Directors of ALTEL JSC

Ownership of the Company's shares, shares of the Company's suppliers and competitors: none

Mr. Marat Abdildabekov

Date of birth: October 13, 1967

Citizenship: Republic of Kazakhstan

Date of the first election to the Management Board of Kazakhtelecom JSC: 08.06.2007

Date of the current election to the Management Board of Kazakhtelecom JSC:

15.03.2016

Status: Member of the Management Board of Kazakhtelecom JSC,

Chief Information Officer of Kazakhtelecom JSC

Education: higher

1984–1991 The Kazakh State University named after S. Kirov

Qualification: Mechanics and Applied Mathematics

Places of employment and positions occupied over the last five years:

Since 05.2007 till present: K**azakhtelecom JSC**, Vice-President — Chief Information Officer

Outside employment and membership in the Boards of Directors of other companies:

Chairman of the Supervisory Board of KT Cloud Lab LLP

Ownership of the Company's shares, shares of the Company's suppliers and competitors: none

Mr. Rafael Abykhanov

Date of birth: June 7, 1971

Citizenship: Republic of Kazakhstan

Date of the first election to the Management Board of Kazakhtelecom JSC: 09.09.2013

Date of the current election to the Management Board of Kazakhtelecom JSC:

15.03.2016

Status: Member of the Management Board of Kazakhtelecom JSC,

Chief Commercial Officer of Kazakhtelecom JSC

Education: higher

1990–1996 The Kazakh National Technical University

Qualification: Radio Engineering

Places of employment and positions occupied over the last five years:

05.2009 – 09.2013 **Kazakhtelecom JSC,** Operator Relations Managing Director

Since 09.2013 till present: **Kazakhtelecom JSC,** Chief Commercial Officer

Outside employment and membership in the Boards of Directors of other companies: none

Ownership of the Company's shares, shares of the Company's suppliers and competitors: none

Mr. Alexander Lezgovko

Date of birth: September 15, 1961
Citizenship: Republic of Kazakhstan
Date of the first election to the Management Board of Kazakhtelecom JSC: 26.03.2007
Date of the current election to the Management Board of Kazakhtelecom JSC: 15.03.2016
Status: Member of the Management Board of Kazakhtelecom JSC, Chief Technical Officer of Kazakhtelecom JSC
Education: higher

1978–1983 The Almaty Institute of Power Engineering
Qualification: Automated Telecommunications

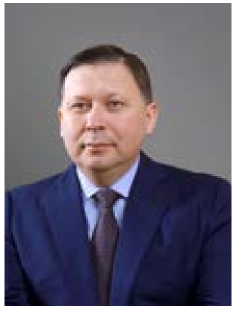
Places of employment and positions occupied over the last five years:
Since 03.2007 till present – **Kazakhtelecom JSC,** Vice-President — Chief Technical Officer
Outside employment and membership in the Boards of Directors of other companies: none
Ownership of the Company's shares, shares of the Company's suppliers and competitors: holds preferred shares of Kazakhtelecom JSC

Mr. Batyr Makhanbetazhiyev

Date of birth: March 12, 1972
Citizenship: Republic of Kazakhstan
Date of the first election to the Management Board of Kazakhtelecom JSC: 07.06.2010
Date of the current election to the Management Board of Kazakhtelecom JSC: 15.03.2016
Status: Member of the Management Board of Kazakhtelecom JSC, Chief Strategy Officer of Kazakhtelecom JSC
Education: higher

1989–1994 The Moscow State University named after M. Lomonosov
Qualification: Economic Cybernetics, Mathematical Economist

Places of employment and positions occupied over the last five years:
Since 04.2010 till present: **Kazakhtelecom JSC,** Chief Administrative Officer of **Kazakhtelecom JSC,** Chief Strategy Officer of **Kazakhtelecom JSC**
Outside employment and membership in the Boards of Directors of other companies: none
Ownership of the Company's shares, shares of the Company's suppliers and competitors: none



Mr. Daryn Tuyakov

Date of birth: May 25, 1969
Citizenship: Republic of Kazakhstan
Date of the first election to the Management Board of Kazakhtelecom JSC: 24.07.2009
Date of the current election to the Management Board of Kazakhtelecom JSC: 15.03.2016
Status: Member of the Management Board of Kazakhtelecom JSC, Chief Officer — Head of Administration of Kazakhtelecom JSC
Education: higher

1986–1990 The Leningrad High Military and Political School of Air Defense named after Y. Andropov
Qualification: Military and Political Air Defense (teacher of history and philosophy)
1991–1997 The Kazakh State University named after Al-Farabi
Qualification: Jurisprudence (Lawyer)
2005–2007 The International Academy of Business
Degree: Master of Business Administration (MBA)
2011–2014 The High School of Corporate Management of the Russian Academy of the National Economy and State Service of the President of RF
Degree: Ph.D of Business Administration

Places of employment and positions occupied over the last five years:
05.2009 – 01.2012 **Kazakhtelecom JSC,** Managing GR-Director
Since 01.2012 till present : **Kazakhtelecom JSC,** Chief Officer — Head of Administration.
Outside employment and membership in the Boards of Directors of other companies: нет
Ownership of the Company's shares, shares of the Company's suppliers and competitors: none

Mr. Askhat Uzbekov

Date of birth: June 18, 1980
Citizenship: Republic of Kazakhstan
Date of the first election to the Management Board of Kazakhtelecom JSC: 24.10.2016
Status: Member of Kazakhtelecom JSC's Management Board, Chief Financial Officer of Kazakhtelecom JSC
Education: higher

2002–2006 Turan University
Specialty: International Economy (Economist)

Places of employment and positions occupied over the last five years:
02.2012 – 12.2014 KazMunayGas Exploration Production JSC, Financial Director of KMG EP International;
01.2015 – 09.2016 **Kazakhtelecom JSC,** Managing Director — Head of Treasury, Managing Director — Financial Controller, acting Chief Financial Officer of **Kazakhtelecom JSC;**
Since 09.2016 till present: Kazakhtelecom JSC, Chief Financial Officer of **Kazakhtelecom JSC.**
Outside employment and membership in the Boards of Directors of other companies: none
Ownership of the Company's shares, shares of the Company's suppliers and competitors: none

REPORT ON THE MANAGEMENT BOARD'S ACTIVITY IN 2016

In 2016, Kazakhtelecom JSC's Management Board held 49 attendee meetings and took 264 decisions of the Management Board. 3 decisions of the Management Board were taken by the absentee voting ballots.

The update of the Shareholder Value Improvement Strategy became one of the most crucial decisions of 2016.

In the reporting period, the Management Board considered operation issues. In particular, the focus was made on the discussion of:

- achieving budget targets and working out the plans of further development of Kazakhtelecom JSC Group for the forthcoming years;
- implementing Orleu Modernization Program;
- optimizing investment management process;
- technical policy and new businesses development;
- process of risk management program implementation;
- operating performance improvement and cost cutting projects.

As part of strategic initiatives related to business improvement, the Company's Management Board took a number of decisions during the last year on the issues of the Company's process management, jobs grading, organizational structure optimization, restructuring affiliated branches of the Company.

The Management Board was also focused on preparation of materials and issues, decisions on which are taken by the Board of Directors, with a view to thoroughly address these issues and provide quality of the Company's decisions.

REPORT ON REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD

The conditions and procedure of remuneration of members of Kazakhtelecom JSC's Management Board are determined in the Provision on Kazakhtelecom JSC's Management Board, Provision on Kazakhtelecom JSC's Central Administration Office Employee Salary, and Rules for Remuneration of Executives and Head of the Internal Audit Service of Kazakhtelecom JSC at the end of a year, which are developed in accordance with Samruk-Kazyna JSC's Policy for Assessment and Remuneration of Executives.

In accordance with the aforementioned documents the Board of Directors, following recommendations of the appropriate Committee of the Board of Directors determines the amount of official salaries and terms of remuneration and bonuses of the Chairman and members of the Management Board.

The major condition for paying remuneration is the availability of the consolidated cumulative profit for the reporting period. On the results of 2016, the consolidated cumulative profit amounted to KZT 55 832 million.

The executives and head of the Internal Audit Service are remunerated at the end of a year subject to motivating key performance indicators (hereinafter «KPI») approved by the Company's Board of Directors. Personal contribution of each member of the Management Board resulted in over-fulfillment of target values of corporate KPIs. The effectiveness of motivating KPIs on the results of 2015 made up 116.6%.

The amount of remuneration payable to the members of Kazakhtelecom JSC's Management Board for 2015 results was approved by the decision of the Board of Directors of Kazakhtelecom JSC No. 3 dated 14.03.2016. The remuneration payable to the members of the Management Board must be limited to a triple annual salary of this employee.

The remuneration of members of Kazakhtelecom JSC's Management Board totaled to KZT 398 713 thousand. Remuneration to Chairman and members of Kazakhtelecom JSC'S Management Board was paid upon the approval, according to established order, of financial and operating performance of the Company based on the audited financial statements.

MATERIAL TRANSACTIONS OF THE COMPANY

According to sub-paragraph 33) paragraph 1 Article 33 of Kazakhtelecom JSC's Charter, decisions on entering into interested party transactions are referred to the exclusive competence of the Company's Board of Directors, except for the cases stipulated by the Company's Charter.

According to paragraph 1 article 73 of the Law of the Republic of Kazakhstan «On Joint Stock Companies» and paragraph 5 article 42 of Kazakhtelecom JSC's Charter, decision on entering into interested party transactions shall be taken by the simple majority of votes of those members of the Board of Directors who are not interested in the transaction.

In 2016, the Board of Directors of Kazakhtelekom JSC adopted the pre-approved by the management of the Board of Kazakhtelecom JSC decision on conclusion of transactions in which the company is interested, including:

- On conclusion of the transaction in which Kazakhtelecom JSC is interested — Contract on the transfer of debt between Subsidiary Bank Sberbank of Russia JSC, Kazakhtelecom JSC and ALTEL JSC;
- On conclusion of the transaction in which Kazakhtelecom JSC is interested — the Agreement about opening of credit line between Kazkommertsbank JSC, Kazakhtelecom JSC and Mobile Telecom-Service LLP;
- On conclusion of the transaction in which Kazakhtelecom JSC is interested — Contract for the repayable rendering of services of MaxCom LLP (affiliate) in order to preserve and maintain base stations in working order;
- On conclusion of the transaction in which Kazakhtelecom JSC is interested — Contract on carrying out by Kazakhtelecom JSC on behalf and in the interests of NURSAT JSC all necessary actions for the implementation or restructuring of NURSAT+ LLP;
- On conclusion of the transaction with Samruk–Kazyna Business Service LLP for the sale of 51% of share in the Charter capital of KT IES LLP in the commission of which Kazakhtelecom JSC is interested, at a price not below the market value;
- On conclusion of the transaction in which Kazakhtelecom JSC is interested — Contract between Kazakhtelecom JSC and VOSTOKTELEKOM LLP for maintenance of Antenna mast structures, antenna-feeder devices, radio-relay equipment, ALTEL LLP, Mobile Telecom-Service LLP;
- On conclusion of the transaction in which Kazakhtelecom JSC is interested — Contract for maintenance of communication facilities among ALTEL LLP, Mobile Telecom-Service LLP and Kazakhtelecom JSC;
- NURSAT JSC and Kazakhtelecom JSC signed an Agreement of sale and purchase of 100% share in the Charter capital of NURSAT+ LLP.

DIVIDEND POLICY

The Regulation on Dividend Policy of Kazakhtelecom JSC was approved by the extraordinary general meeting of shareholders dated January 18, 2013, Minutes of Meeting No. 49.

The purpose of the Dividend Policy of Kazakhtelecom JSC is to ensure the balance of Company's and shareholders' interests, the predictability and transparency of the approach in determining the amount of dividends, conditions and procedure for their payment.

The amount of dividends payable depends on the financial and economic condition of Kazakhtelecom JSC, determined on the basis of indicators of financial stability and liquidity. The procedure for payment of dividends and the procedure for settlements with shareholders on unpaid dividends are governed by the Regulation on Dividend Policy of Kazakhtelecom JSC.

In May 2016, following the results of 2015, in accordance with the decision of the annual General Meeting of Shareholders (Minutes of Meeting No. 57 dated April 22, 2016), dividends were paid in the amount of KZT 331.73 per one ordinary share of the Company. The guaranteed size of dividends on preference shares is KZT 300 per preference share. Payment of guaranteed dividends for 2016 was made in December 2016.

On April 21, 2017, the annual General Shareholders' Meeting of Kazakhtelecom JSC approved the size of ordinary share dividends on the results of 2016 amounting to KZT 404.57 per ordinary share.

Kazakhtelecom JSC abides by the decisions of general shareholders meeting of the Company's and fully fulfills its' obligations to transfer dividends to the persons entitled to receive them.

Information Policy

One of the main documents that determines the main principles and general requirements for disclosure of information about the activities of Kazakhtelecom JSC is the Company's Information Policy. Information Policy of Kazakhtelecom JSC was developed and approved by the decision of the Board of Directors of the Company (Protocol No. 45, dated October 26, 2009), amended Information Policy (Protocol No. 15, dated December 29, 2012).

The Information Policy determines major principles and general requirements to the disclosure of information about the Company's activity to the Company's shareholders, state agencies of the Republic of Kazakhstan, persons and entities interested in the Company's activity, investors and other stakeholders, as well as requirements to the protection of information that constitutes the Company's business, commercial and other secret protected by the law.

The Policy aims at raising the level of awareness of the public, both within and outside Kazakhstan, of the Company's activity, which tends to contribute to formation of a favorable image of the Company and strengthen investors and public's confidence in the Company.

The basic principles of the Information Policy are:

- pregularity, timeliness and relevance;
- transparency and accessibility;
- accuracy and completeness;
- efficiency;
- non-disclosure behavior;
- balance;
- equality of rights of Information Recipients;
- effectiveness of information.

Kazakhtelecom JSC provides, on a timely basis, disclosure of reliable information about the Company, including its financial position, economic indicators, performance results, ownership structure and management. When disclosing and publishing any information, provisions of the legislation of the Republic of Kazakhstan on commercial and other secret-protected secrets, as well as internal documents' provisions are taken into account.

The information is posted on the official portal of Kazakhtelecom JSC in Kazakh, Russian, English languages at the same time in republican periodical, electronic and Internet media by observing the list of information constituting the official, commercial secret of the Company.

The policy of promotion of Kazakhtelecom JSC in social media is based upon the transparency and credibility principles of information disclosure provided in the corporate governance code. Presence on social media is focused on creating an image of a client-oriented company and an advanced infocommunication operator, and increasing the demand for services due to the increase in awareness.

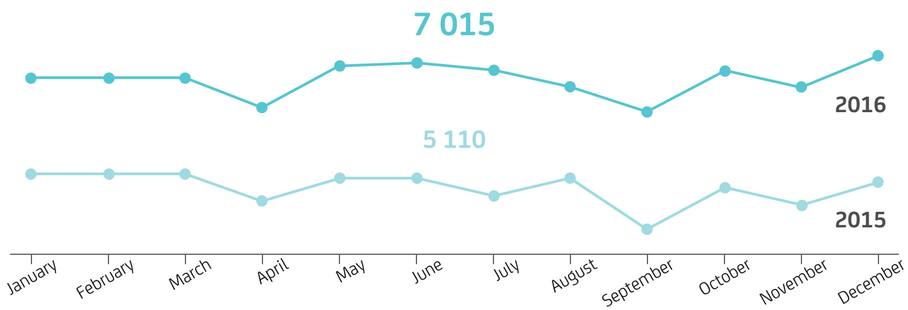
The underlying principles of the promotion in social media are the creation of a unique content and feedback. The effectiveness of the promotion of Kazakhtelecom JSC in social media is analyzed through the Internet space monitoring.

The presence in popular social networks, forums, and blogs (VK.com, Facebook, My World, Twitter, yvision, horde.me) enables to solve the following tasks:

- to form a positive information field;
- to communicate with subscribers, raising awareness about the Company's services;
- to inform about the Company's news;
- to create useful content for the audience and educational content (destruction of myths, overcoming of barriers, market reviews, clarification of market nuances and nuances of services);
- to create unique entertainment content;
- to generate feedback.

In 2016, PR-activity of the Company was noted as being high, the involvement with target audiences was conducted on a purposeful and ongoing basis. In total, 161 PR-events were held last year. 7 015 materials, including 2 202 regional mass media materials, were published and announced in mass media. The number of publications in 2016 increased, compared to 2015, by 37% including 31% increase in regional mass media.

The increase of materials published in mass media



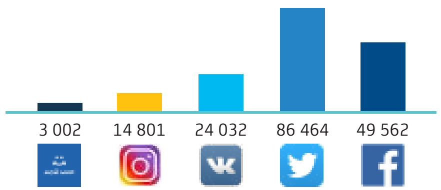
Number of materials published in regional mass media increased by 31%

The number of subscribers and readers of Kazakhtelecom in social media in 2016 increased by 50%, compared to 2015, making up 177 861 people.

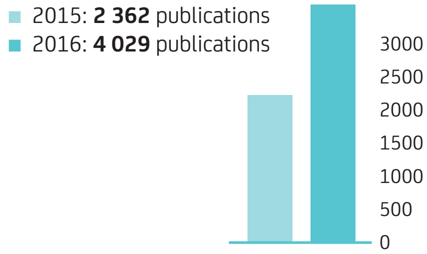
The number of posts in social networks over the last year increased by 170%.

Number of subscribers of Kazakhtelecom in social media in 2016 increased by 50%

2015: 117 790 subscribers
2016: 177 861 subscribers



Number of posts in social networks in 2016 increased by 170%



INFORMATION ON CONFLICT OF INTEREST MANAGEMENT POLICY

The policy on the conflict of interests management in Kazakhtelecom JSC (hereinafter referred to as the Policy) was approved by the Decision of the JSC Kazakhtelecom's Board of Directors No. 10 dated October 24, 2011.

The policy was developed in accordance with the legislation of the Republic of Kazakhstan, the Company's Charter, the Code of Corporate Governance of the Company and determines the procedure for preventing, identifying and regulating conflicts of interest; Procedures for interaction and coordination of the Company's bodies in the event of occurrence or likelihood of occurrence of interest conflict.

The purpose of this Policy is to achieve an appropriate degree of regulation of the Conflict of Interest in Kazakhtelecom JSC, which excludes the possibility of any negative consequences.

When entering employment in the Company, each new employee signs a List of procedures for resolving a conflict of interests in Kazakhtelecom JSC and an obligation to comply with the requirements of the Policy and be guided by them in their professional activities.

QUALITY MANAGEMENT SYSTEM

Quality management system (QMS) in accordance with the requirements of IS ISO 9001:2008 had been implemented and maintained in Kazakhtelecom JSC since 2005.

The obligations of Kazakhtelecom JSC towards service consumers and other interested parties are declared in the Quality Policy of Kazakhtelecom JSC containing the basic principles of quality and being the basis for goals setting aimed at the continuous improvement of the QMS and all the activities in general.

In November 2016, the Company successfully passed an inspection audit by the BureauVeritas authorized organization for compliance with the requirements of IS ISO 9001:2008. The certificate was issued by one of the world's leading certification bodies accredited by UKAS for the right of work on certification for compliance with international standards.

As part of the audit, the activities of all branch offices of Kazakhtelecom JSC were examined to ensure the quality of telecommunications services throughout Kazakhstan. The certificate received confirms that the Company's activity meets the world quality standards.

In 2016, a program was developed to move the QMS to the requirements of the new version of ISO 9001:2015 standard.

Up to date, the Company's management system has been implemented in accordance with the requirements of the international standard, the system is stable and dynamically developing, the activity is carried out in accordance with established business processes that describe all the stages of management: planning, execution, control, analysis in order to improve further the Company's management system in general.

The formation of an effective system of human resources management is one of the priority tasks within the framework of implementation of the Orleu Modernization Program. The focus is on the introduction and use of a more active HR-policy that is able to achieve the ambitious goals set for transforming the business of the whole Company.

To implement these tasks, the Company has developed and adopted a HR-strategy, which includes three main components:

1. Organizational development
2. Improving efficiency
3. Change in corporate culture

HR-Strategy

Organizational development

Organization structure

- Centralizaiton of administrative and supporting functions
- Decrease of the number of management levels
- Change in the regional management model
- Development of the organization structure
- Management of the operating efficiency

Improving efficiency of the staff

HR processes

- Personnel attraction model
- Introduction of grades and revision of the compensations system
- Personnel assessment
- Personnel development

Change in corporate culture

Conduct and culture

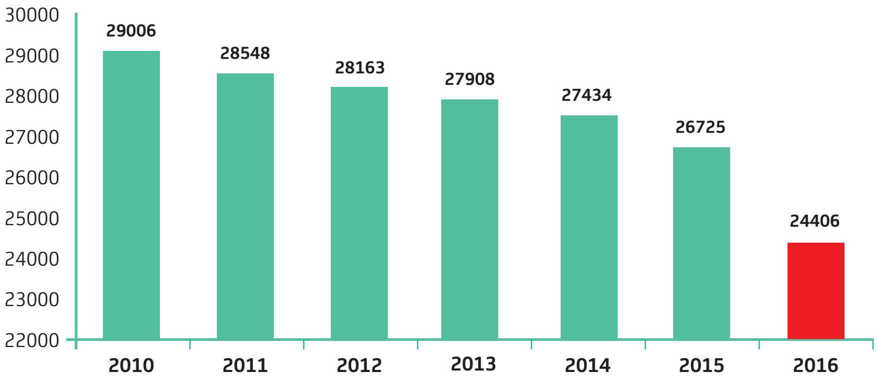
- Diagnosis of the current situation
- Development of target culture parameters
- Change in the main culture levers

HR-INDICATORS

In 2016, within the framework of the implementation of the Orleu Transformation Program, initiatives were taken to optimize the staff of the station personnel, optimize management levels, centralize administrative and support functions. Based on the results of these measures, 1 837 staffing positions were optimized.

The actual number of employees of the Company for 2016 was 24 406 people (7.1% — administrative personnel and 92.9% — production personnel).

Dynamics of changes in the actual number of employees of Kazakhtelecom JSC (2010–2016)



The structure of the Company's personnel is quite stable, more than 40% of employees have more than 10 years of experience in Kazakhtelecom JSC, and about 60% of employees have more than 5 years of work experience

The Company implements projects and programs aimed at improving the quality of recruitment, adaptation, training and development of employees, which helps to reduce employee turnover.

The coefficient of staff turnover decreased from 7.5% in 2015 to 7.1% in 2016 (administrative staff — 5.4%, production personnel — 8.4%).

HR-PROJECTS OF THE COMPANY

Organizational development

In the framework of the organizational development of the Company, such initiatives as centralization of administrative and support functions, optimization of management levels, change of the regional management model, renewal of the organizational structure are under implementation.

In 2016, the implementation of the model of Human Resources Shared Service Center (HR-SSC), which trains all branches of the Company, was completed. HR-SSC unified 46 business processes, all operations were switched to online. At the same time, continuing the implementation of the strategic initiative of the Orleu Program to centralize supporting functions, the Company in the past year implemented a pilot project to establish a Shared Service Center for Payroll Functions, which involved the Central Office and five functional branches located in Almaty. The Company plans to develop a model of a shared service center for financial and legal functions.

Improvement of the staff efficiency

Involvement of the key personnel is the first stage in the successful implementation of the Company's HR-strategy. In accordance with the HR-strategy, a number of key objectives have been accomplished in the process of attracting personnel in 2016:

1. Increasing the efficiency of staff selection and reduction of costs for their attraction.
2. Adoption of a systematic and unified approach to the recruitment of personnel, which allows the attraction of qualified personnel, improvement of the efficiency of management and implementation of major processes;
3. Strengthening the image of a strong, progressive company that provides equal opportunities for all candidates, ensuring transparency, both in external and internal recruitment;
4. Increasing the attractiveness of the employer's brand, recognizability and awareness of the Company's HR-brand;
5. Implementation of the staff adaptation and retention program.

Personnel assessment. One of the key elements of the system for improving staff efficiency is the so-called performance management system. Its essence lies in setting clear, measurable goals and objectives for the relevant period in the form of key performance indicators (KPI) to the employee, on the performance of which the employee's remuneration depends.

In 2016, an updated list of KPIs of the Company's top management was developed and approved in accordance with the strategic initiatives and market segmentation of B2C, B2B, B2O and B2G. The conducted work enabled to develop and distribute KPI at all levels of management in accordance with the functional responsibility for the implementation of the goals and objectives of the Company's Long-Term Strategy. Also, an individual development plan (IPR) system has been introduced, which will enable each employee to concentrate on developing their knowledge and skills, to increase personal effectiveness and effectiveness.

In the reporting year, the Company carried out work on the evaluation of the positions according to the methodology of the Hay Group, the leading international consultant for HR (personnel) management. Assessment of posts or «grading» — ranking of posts by such criteria as the level of qualifications, the complexity of the work performed, the degree of responsibility for the position, independence in making decisions, impact on the company's strategic goals and business results, etc. The use of the grading system in the payment of labor will achieve a number of advantages, including achieving internal justice and increasing staff productivity through incentives..

Change in corporate culture

The project on changing the corporate culture of Kazakhtelecom JSC is one of the key initiatives of the HR-strategy adopted in our Company.

In 2016, a large-scale stage of the project was completed, which allowed to diagnose the current state of the corporate culture. A social survey was successfully conducted, in which over 16 000 employees of the Company throughout Kazakhstan participated. Based on the information received, an analytical report on the current state of the corporate culture of Kazakhtelecom JSC was prepared.

In 2017, it is planned to actively work on developing the image of the target corporate culture and values for employees, drawing up an implementation plan and launching its implementation.

PERSONNEL TRAINING/KNOWLEDGE MANAGEMENT

To strengthen its leading position and ensure growth in the telecommunications market of the country, Kazakhtelecom JSC attaches great importance to the **training and development** of personnel. The Company has organized a training system, the main components of which are intra-corporate training on the basis of the «Academy of Infocommunication Technologies» Directorate and a corporate remote learning system.

The Company has developed a career planning system. The Company is implementing the project entitled **«Talent Management»,** the purpose of which is the formation and preparation of the personnel pool as the main internal source of replacement of key positions of the Company. This project is the tool of increase of motivation and efficiency of the personnel, retention of talented workers with a high leadership capacity and a professional level.

In 2016, a staff pool of the Company-2016 was formed in the number of 100 employees, a replacement matrix was prepared and the **Leadership School** was launched to systematically train the personnel pool, taking into account the needs and expectations of the Company's business.

CORPORATE SOCIAL RESPONSIBILITY

Business social responsibility is an important component of corporate values of the Company and a condition of sustainable development as a whole.

The company stringently follows the principles of social responsibility and takes an active part in state social programs, realization of social programs for personnel, sponsorship and charity, carrying out environmental activities.

Kazakhtelecom JSC follows the Strategy of corporate social responsibility for 2012–2020 and is a member of the global movement for socially responsible business, implementing its principles in its business practices and strengthening competitiveness. The Company annually publishes a separate Report on corporate social responsibility. In 2016, the fifth Report on corporate social responsibility of Kazakhtelecom JSC was prepared and published.

In the Company for three years, the Social partnership center Samruk-Kazyna JSC with attraction of the independent sociological Agency conducted a study of the Social Stability Rating (SSR). Based on the recommendations of the Corporate Fund «Social partnership center» activities were planned and implemented to maintain and increase the level of SSR in 2016. The social stability rating of Kazakhtelecom JSC for 2016 year was consolidated in the company's 73% and captures a consistently favorable situation in Kazakhtelecom JSC.

SOCIAL PROJECTS OF THE COMPANY

The Company in conjunction with its business focus takes an active part in implementation of priority state and industry programs of a social nature aimed at addressing the «digital gap», support of educational programs, computer education etc.

Kazakhtelecom JSC is the only telecom operator for many years, which is imposed the obligations to provide universal telecom services to population in rural areas.

To ensure access of educational institutions to the best educational resources and technologies, in the framework of the State program of education development of RK for 2011–2020 years, the Company holds events to connect educational institutions to Internet using broadband access technologies (broadband). So on 01.01.2017 connected via broadband (the access speed from 256 Kbit/s) 6 231 public schools, or 87%, among them 4 605 — rural schools, or 84%.

Since 2014, the Company has created and is actively developing the volunteer movement «Ayauly Alakan», whose members are actively involved in the social adaptation of pupils of orphanages and contribute to their cultural, moral and physical education, assisting seniors, the elderly and the needy employees of the Company. The corporate volunteering program implements the principles of social responsibility, develops and strengthens corporate values and culture, social activity and initiative of workers to assist vulnerable populations.

In order to increase the level of availability of telecommunication services for the broad layers of population the Company as the practical steps to implement the principles of social responsibility holds a flexible tariff policy. We offer subscribers packages at favorable rates.

For 2016, the Company has completely updated its product line for private users. New tariff portfolio consists of packages with the maximum number of services. The new line is divided into «Basic», «Standard» and «VIP», which includes a full range of services and is able to meet the demand of different users.

Additionally, in the framework of joint projects with mobile operator ALTEL JSC the Company launched a convergent solution for services, namely the packages «Family decision» (package of fixed and mobile communications).

In recent years, Kazakhtelecom JSC expanded the use of interactive service channels that enable customers to solve their questions and problems in time convenient for them. On the portal www.telecom.kz, the possibility of appeal to the appropriate company branch is realized for further information, registration, or claim.

One of the important tasks of the Company in the sphere of social policy is to create favorable working conditions for the Company employees.

Kazakhtelecom JSC has a responsible approach to the issues of social protection of their employees; maintain the employee's confidence in the future. In order to strengthen social partnership, compliance responsibilities, and providing guaranteed benefits and payments to employees on October 27, 2016 a new Collective agreement was signed that represents the agreement concluded between the workers through their representatives – trade union organizations and the employer. Today the interests of more than 20 thousand employees of Kazakhtelecom are represented by the Public Association «Kazakhstan trade union of workers of information, communication and telecommunications» and Public Association «Trade union of information and communications employees».

Collective agreement is concluded for 5 years until 2021, which is especially important in difficult economic conditions, when many local companies are reducing the social security.

Today the Company provides social support to more than 9 thousand pensioners. Annually it is provided to render them targeted charitable assistance, meetings to the professional holiday of telecommunications workers and to the Day of the elderly person. In addition, every year on Victory Day funds to encourage veterans of the Great Patriotic War and war workers, registered in the Company (over 600 people) are allocated. The Company congratulates veterans upon the anniversary dates.

To ensure the protection of workers' health and labor safety Kazakhtelecom JSC creates safe working conditions at the workplace, ensures the safety of buildings and structures, creates required hygienic conditions for the workers and provides employees with devices for collective and individual protection, etc.

One of the areas of corporate social responsibility is the support of the education and training of employees of the Company.

In 2016 in the framework of retraining and advanced training 10 936 employees were trained, that construes 43.1% of the average number.

Contracts for continuing education in the current academic year of 38 people were concluded on a quota of Kazakhtelecom JSC in the field of «Radio engineering, electronics and telecommunications» and «Computing and software» with 4 universities.

There are current agreements and memorandums of social partnership on implementation of dual training with 9 colleges (8 areas). Also Memorandums on cooperation were concluded in the field of vocational education and training with 3 Regional Chambers of entrepreneurs. Practical training for 475 college students and 75 University students was organized.

SPONSORSHIP AND CHARITY

The principles and guidelines of sponsorship are formulated in the Policy of sponsorship and/or charity support to Kazakhtelecom JSC, approved by the Board of Directors in 2011.

In accordance with the principles of this Policy, the main areas of sponsorship are support for public events, emergencies of natural and technogenic character, social projects, individual sports, international conferences and forums.

The main directions of charity is to support statutory activities of non-profit organizations operating in social sphere, provision of social support for veterans, disabled persons, orphanages and centers, the pensioners registered in Company, and other persons in accordance with the collective agreement.

YOUTH POLICY

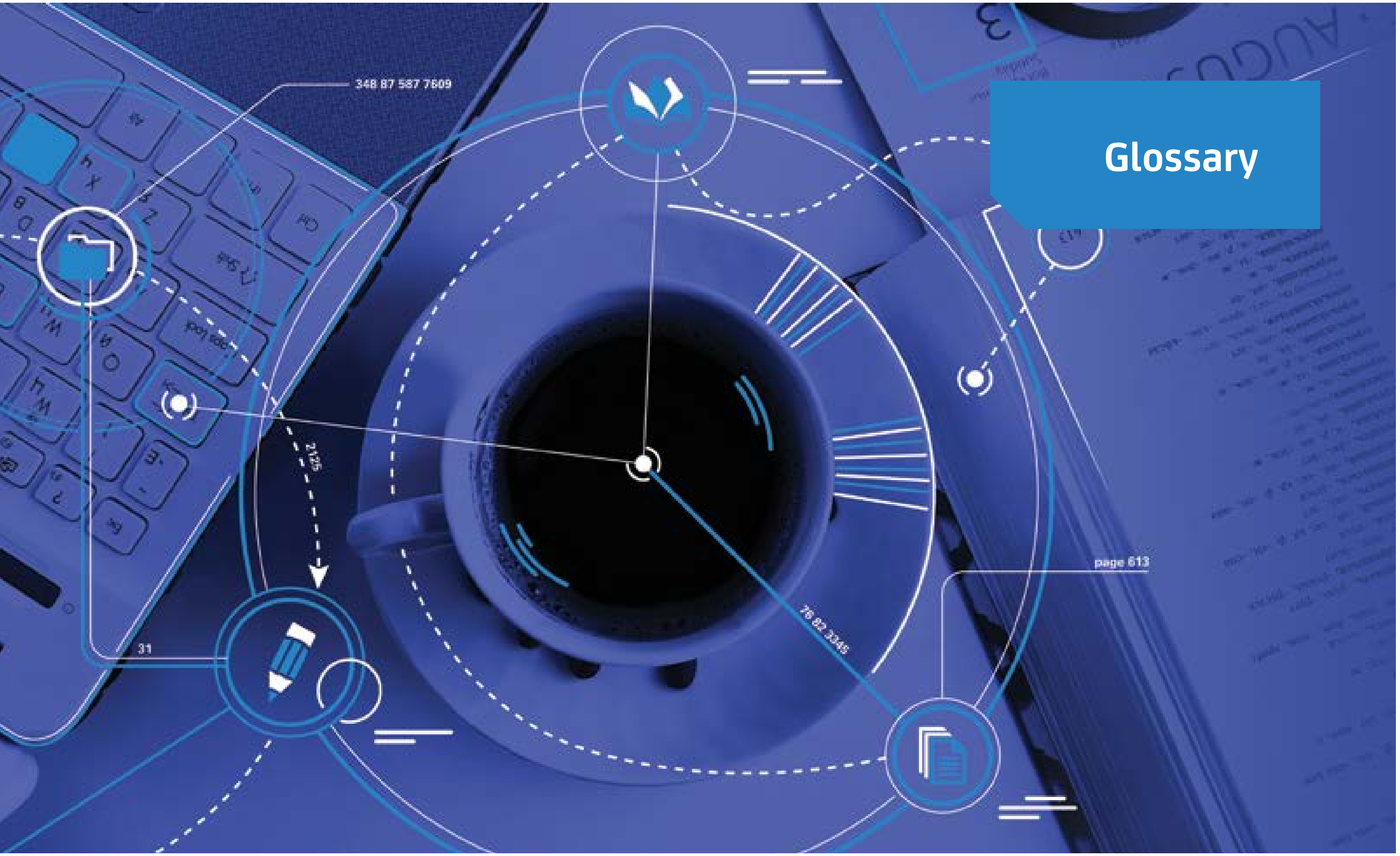
Issues of succession planning and timely training have strategic importance for Kazakhtelecom JSC. The youth organization «Zhastelecom» has been operating for the fifth year, Youth council has been elected from among promising young professionals. The most promising members of «Zhastelecom» are included in the program for the preparation of a personnel reserve for replacement of key positions.

In September 2016, there was a Forum of young workers of Kazakhtelecom JSC — the communication platform for the youth of Company, discussion and search of solutions for problem questions and prospects of development.

ENVIRONMENT CONTROL

Environmental activity, preserving of favorable environment and resource efficiency are also a priority for the Company. Introducing new technologies to replace outdated, the Company prefers saving and environmentally friendly technologies.

Work on improving the energy efficiency and energy savings is classified as strategic and is a part of measures to reduce costs and improve the efficiency of the Company. The Company is implementing Energy-saving program, providing for the organizational, scientific, production measures aimed at the efficient use of energy resources and involving in economic circulation of renewable energy sources. One of the points of the program is the application of rigid selection criteria for the acquisition of equipment for technological needs of Company, based on the technical characteristics allowing achieving maximum performance index during the manufacturing processes.



Glossary

ARPU — Average Revenue per User.

B2B — Business to Business.

B2C — Business to Consumer.

B2G — Business to Government.

Big Data — processing of high data volume.

CDMA — Code Division Multiple Access, digital cellular (wireless) communication network. Wireless communication equipment CDMA was recommended by the International Organization for Standardization in Telecommunications as the most prospective one for construction of the third generation networks.

DDoS (Distributed Denial of Service) — initially, the type of network attack based on the not limitlessness of resources of the attacked service, which can be lot of queries, which it obviously will not be able to cope with and will be forced to deny to service (or be forced to wait for an unacceptably long time).

DWDM — Dense Wave Division Multiplexing is the most reliable technology for supporting infrastructure of mutiservice and mobile networks, provides sharp increase of the network bandwidth capacity, and implements wide range of new communications services.

EVDO — Evolution Data Optimized, high speed data communication technology used in cellular networks of CDMA standard.

FTTH — Fiber to the Home.

FTTx (Fiber to the X) is a generic term for any telecommunications network using optical fiber which is terminated at a specified location (point X) and then terminated at the subscriber's home using metal local loop (also it is possible to terminate optical fiber directly at the subscriber's terminal).

GPON (Gigabit passive optical network) is the technology which ensures excellent quality of services, availability of multiple services, high speed and cost saving.

Hosting — service of installing customer's equipment on provider's premises for connecting to high bandwidth communication channels (colocation).

IoT — Internet of Things.

LTE — Long-Term Evolution, mobile protocol for data communications enabling to set up high speed cellular systems optimized for batch communication at up to 300 Mbit/s in downlink (from base station to user) and up to 75 Mbps in uplink.

M2M — Machine-to-Machine is a common term for technologies that allow machines to communicate with each other or in one direction. They may include wired or wireless sensor monitoring systems or any parameter of a device.

MSSP — Managed Security Services Provider.

NPS (Net Promoter Score) means the Index of determining the adherence of consumers to a product or company (the index of willingness to recommend), it is used to assess readiness for repeated purchases).

OTT — Over the Top technology is gaining a wide spread in the segment of delivery of video content over the Internet and is a part of IPTV technology. This term means delivery of a video signal to a console (computer, mobile phone) of a user over the Internet without direct contact with a telecom operator as opposed to IPTV services, which are provided over a network controlled by an operator with a guaranteed quality.

SIP — Session Initiation Protocol, an application layer protocol designed by IETF MMUSIC Working Group and a standard proposed for creating, modifying and terminating user session consisting of multimedia elements such as video and voice, instant messaging, online games.

SDP (Service Delivery Platform) is a set of components that ensure functioning of a service delivery architecture, such as service creation, session control and protocols.

SD-FEC — Soft Decision Forward Error Correction.

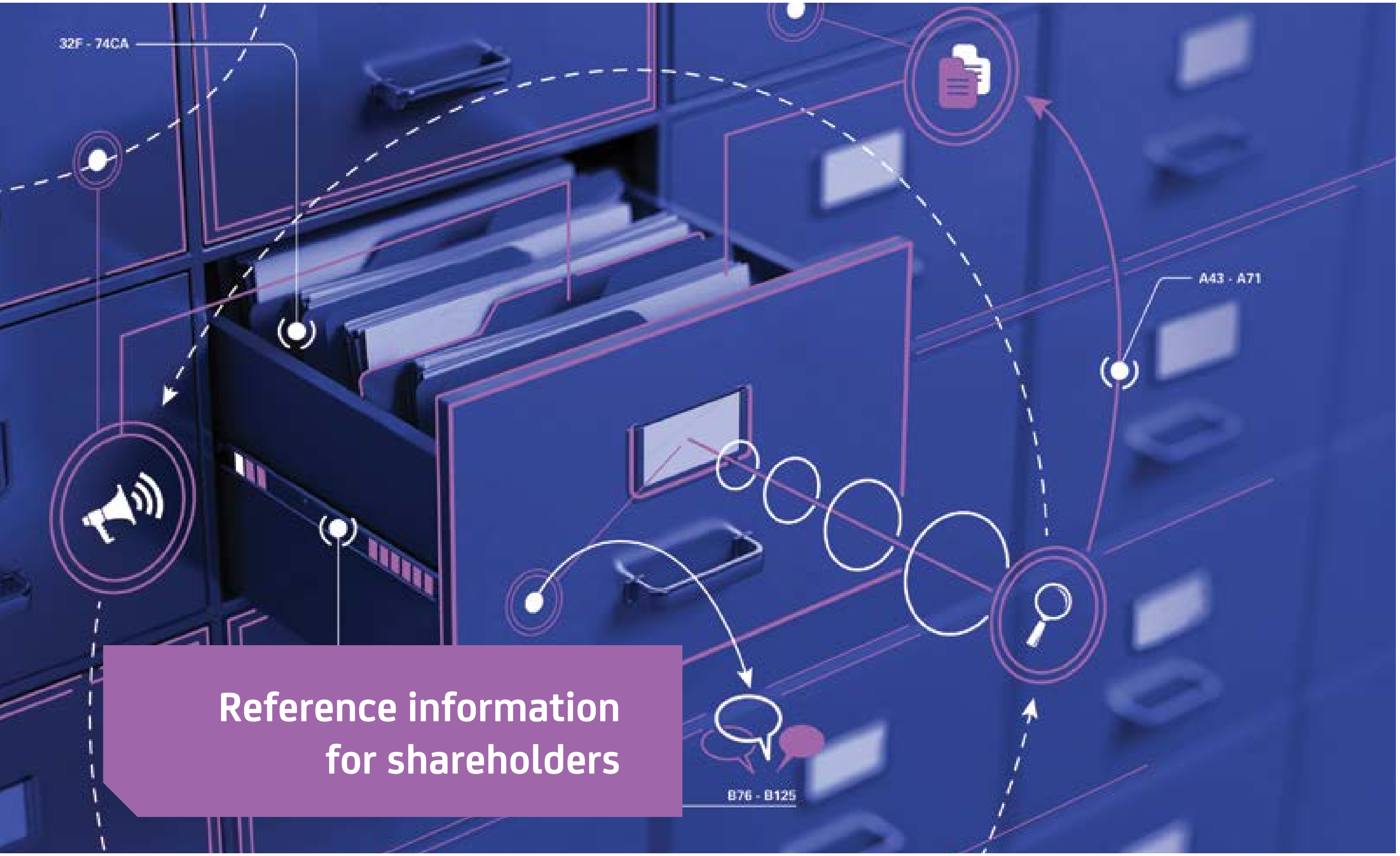
UMTS (Universal Mobile Telecommunications System) the cell communications technology developed with a view to upgrading GSM networks.

VoIP (Voice over Internet Protocol) or IP telephony is a technology involved in the delivery of voice communications in the packet-switched networks over Internet Protocol, such as the Internet and other IP networks (for example, leased digital channels).

VPN (Virtual Private Network) is a generic term used to describe a combination of technologies for establishing one or several connections (logical network) across another network (for example, the Internet).

VPS (Virtual Private Server) is the service of hosting of the virtual private server.

WLL — Wireless Local Loop, a term used for defining wireless communication, combination of radiotelephone line and fixed-line phone. WLL is used where connection of fixed-line phone to terrestrial telephone networks is not available or too expensive. It is also used in underpopulated rural areas.



Reference information for shareholders

Full name:
Kazakhtelecom Joint Stock Company

Short Name:
Kazakhtelecom JSC

Registered address:
12, Sauran Street
Yessil district, Astana
010000, Republic of Kazakhstan

Tel: +7 (717) 2 591 600
Fax: +7 (717) 2 587 724
E-mail: telecom@telecom.kz
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Contact telephone numbers:

Corporate Secretary
of Kazakhtelecom JSC
Tel: +7 (717) 2 580 651

Corporate Management Service
Tel: +7 (717) 2 591 414
Tel: +7 (727) 2 587 264

Public Relations Service
Tel: +7 (717) 2 591 504
Tel: +7 (727) 2 587 511
Fax: +7 (727) 2 587 512

Information about the auditor of the Company

Ernst & Young has been external auditor of Kazakhtelecom JSC starting from 2007. The service agreement with Ernst & Young for audit of the separate and consolidated financial statements of Kazakhtelecom Group was signed for 2016–2018 in accordance with the Procedure for selection of an auditor of Sovereign Wealth Fund Samruk-Kazyna JSC and organizations, fifty and more percent of voting shares (participation interest) of which directly or indirectly subjected to Samruk-Kazyna's ownership or trust management title.
Ernst & Young has a good business reputation and considerable experience in provisioning services to leading companies in different industries. The Company is one of the global leaders in the area of audit, taxation, law, business consulting and consulting about IPO transactions.

Full name:
«Ernst & Young» Limited Liability Partnership

License number: 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 July 15, 2005.

Mailing address:
77/7, Al-Farabi Ave.,
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Tel.: +7 (727) 2 585 960
Fax: +7 (727) 2 585 961
E-mail: almaty@kz.ey.com
http://www.ey.com/kz

Information about the registrar

Full name:
Integrated Securities Registrar, Joint Stock Company.

Integrated Securities Registrar, Joint Stock Company (hereinafter «Integrated Securities Registrar») is established by the Decision No. 1 of the National Bank of the Republic of Kazakhstan dated 01.12.2011 and registered by the Department of Justice of Almaty on January 11, 2012. Integrated Securities Registrar started to provide services within the scope of its activity from February 01, 2012.
Main objective of Integrated Securities Registrar is the activity in the area of maintenance of the share register system and other activities to be undertaken in accordance with the laws of the Republic of Kazakhstan on the stock market.
Since December 20, 2012, the Integrated Securities Registrar JSC is the Kazakhtelecom JSC's register.

Mailing address:
30A/3, Satpaev Street,
Almaty, 050040,
Republic of Kazakhstan
Tel: +7 (727) 2 724 760
Fax: +7 (727) 2 724 760, ext. 230
E-mail: info@tisr.kz

Information about **Integrated Securities Registrar JSC** is available on the corporate website of Kazakhtelecom JSC (section For Investors >> Securities >> Information about the Registrar) and on the website of the registrar (http://tisr.kz).


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Consolidated financial statements

CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Kazakhtelecom JSC

Opinion

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

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

Basis for opinion

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

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Revenue recognition - accuracy of revenue recorded given the complexity of the billing systems

There is a significant risk around the accuracy of revenue recorded as the billing systems employed by the Group are complex, and effect of accounting treatment of changing tariff structures and multi-element arrangements could be significant.

We evaluated the relevant IT systems and the design of controls, and tested the operating effectiveness of controls over capture and recording of revenue transactions; authorisation of changes in rates (tariffs) input to the billing systems; and calculation of amounts billed to customers.

The Group's disclosure in respect of the accounting policies on revenue recognition is included in Note 3 to the consolidated financial statements, and detailed revenue disclosures are included in Note 27 to the consolidated financial statements.

Valuation of non-current assets, including property and equipment, intangible assets and investment in an associate - risk of impairment

There is a significant risk of impairment of the Group's non-current assets. Property and equipment and intangible assets, including goodwill, bear risk of impairment in light of fast technological changes in telecom industry. Investment in an associate Khan Tengri Holding B.V. bears the risk of impairment due to saturation of mobile telecommunications market in Kazakhstan. Other risk factors include challenging economic conditions due to significant Tenge devaluation in 2015, and changing competitive and regulatory landscapes due to introduction of mobile number portability in January 2016 and granting of 4G licenses to other mobile telecom operators.

At the reporting date the Group identified impairment indicators on some of its cash-generating units (CGUs). In accordance with IAS 36, management is required to carry out an impairment testing of such CGUs.

Impairment reviews are complex, contain highly judgmental assumptions, such as customer base and average revenue per user (ARPU), CAPEX and EBITDA margin during the budgeted period, growth rate used to extrapolate cash flows beyond the forecast period, and discount rate.

Assumptions used in the impairment reviews might be inappropriate, and hence the wrong conclusion may be drawn in respect of whether an impairment is required.

Our audit procedures included, amongst others, evaluating and testing the assumptions used in the impairment model. We assessed methodology used by the Group, for compliance with IAS 36 requirements. We involved a valuation expert to assist us with our procedures. We compared assumptions and data used by the Group to the historical data and current industry data. We specifically focused on the sensitivity of the testing, evaluating whether a reasonably possible change in assumptions could cause the carrying amounts of the cash-generating units to exceed its recoverable amounts.

The Group's disclosures about impairment testing of the non-current assets are included in Note 10 to the consolidated financial statements, which specifically explains that small changes in the key assumptions used could give rise to an impairment of the investment in an associate, property and equipment and intangible assets, including goodwill balances in the future.

Accounting treatment of the deal with Tele2 on merger of the cellular communications businesses.

In February 2016, the Group closed its deal with Tele2 to merge their cellular communications businesses in the Republic of Kazakhstan in the entity Khan Tengri Holding B.V.

Determining proper accounting treatment of the agreement on acquisition of a share in Khan Tengri Holding B.V. in exchange for a 100% in a subsidiary (Altel JSC) and fulfilment of some other conditions required a significant amount of management estimation and audit effort.

Key judgments relate to assessment of the Group's ability to control Khan Tengri Holding B.V., as well as compliance with requirements of IFRS 10 and IAS 28 for accounting treatment of obtaining an interest in Khan Tengri Holding B.V, and compliance with requirements of the IFRS 5 for presentation of a discontinued operation.

We performed audit procedures to evaluate management's conclusion on compliance of the transaction with IFRS 5, IFRS 10 and IAS 28 requirements. We obtained and examined the sale agreement and other evidence supporting the Group's position to classify Altel JSC as a discontinued operation.

The Group's disclosures on discontinued operations and on the investment in Khan Tengri Holding B.V. are respectively included in Notes 37 and 9 to the consolidated financial statements.

Other Information included in the Group's 2016 Annual report

Other information consists of the information included in the Group's 2016 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2016 Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

Responsibilities of management and the audit committee of the board of directors for the consolidated financial statements

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

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

The audit committee of the board of directors is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant

doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the audit committee of the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Bakhtiyor Eshonkulov.

Ernst & Young LLP

Bakhtiyor Eshonkulov
Auditor / Audit Partner

Gulmira Turmagambetova
General Director
«Ernst & Young» LLP

Audit Qualification Certificate
No. МФ-0000323
dated 25 February 2016

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

Kazakhstan 050060, Almaty
Al-Farabi Ave., 77/7.

25 February 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

In thousands of tenge	Note	2016	2015
ASSETS			
Non-current assets			
Property and equipment	**7**	**272,175,873**	285,555,708
Intangible assets	**8**	**17,140,121**	19,558,165
Advances paid for non-current assets		**40,243**	79,256
Investments in associates	**9**	**67,160,792**	–
Deferred tax asset	**36**	**–**	204,814
Other non-current financial assets	**12**	**5,876,966**	10,557,028
Other non-current assets	**13**	**1,708,901**	2,514,632
		364,102,896	318,469,603
Current assets			
Inventories	**14**	**4,483,724**	3,760,673
Trade receivables	**15**	**24,992,206**	16,385,102
Advances paid	**16**	**297,280**	507,630
Corporate income tax prepaid		**3,548**	64,629
Other current financial assets	**17**	**48,133,067**	33,949,795
Other current assets	**18**	**2,628,449**	3,602,421
Cash and cash equivalents	**19**	**24,320,942**	11,276,891
		104,859,216	69,547,141
Assets classified as held for sale	**37**	**–**	48,477,200
Total assets		**468,962,112**	436,493,944

The accounting policies and explanatory notes on pages 13 to 108 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of tenge	Note	2016	2015
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Parent			
Shares outstanding	**20**	**12,136,529**	12,136,529
Treasury shares	**20**	**(6,464,374)**	(6,464,488)
Foreign currency translation reserve	**20**	**(1,957)**	47,662
Other reserves	**20**	**1,820,479**	1,820,479
Retained earnings		**336,306,933**	285,884,903
		343,797,610	293,425,085
Non-controlling interests		**–**	(1,003,643)
Total equity		**343,797,610**	292,421,442
Non-current liabilities			
Borrowings: non-current portion	**21**	**53,794,669**	27,299,921
Finance lease liabilities	**22**	**1,273,015**	4,435,721
Deferred tax liabilities	**36**	**19,624,081**	18,167,340
Employee benefit obligations	**23**	**7,788,984**	7,274,355
Debt component of preferred shares	**20**	**874,244**	874,156
Other non-current liabilities	**24**	**4,209,139**	2,976,133
		87,564,132	61,027,626

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of tenge	Note	2016	2015
Current liabilities			
Borrowings: current portion	**21**	**2,473,507**	4,138,393
Current portion of financial lease liabilities	**22**	**3,162,706**	4,707,462
Current portion of employee benefit obligations	**23**	**430,554**	511,689
Trade payables	**25**	**11,997,342**	11,893,469
Advances received		**2,835,106**	2,529,209
Current corporate income tax payable		**571,983**	146,920
Other current liabilities	**26**	**16,129,172**	10,630,418
		37,600,370	34,557,560
Liabilities directly associated with assets classified as held for sale	**37**	**–**	48,487,316
TOTAL LIABILITIES		**125,164,502**	144,072,502
TOTAL EQUITY AND LIABILITIES		**468,962,112**	436,493,944

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

Chief financial director — *Uzbekov A.A.*

Chief accountant — *Zhumanova M.A.*

ҚАЗАҚСТАН РЕСПУБЛИКАСЫ АЛМАТЫ ҚАЛАСЫ АКЦИОНЕРЛІК ҚОҒАМЫ • ҚАЗАҚТЕЛЕКОМ •

The accounting policies and explanatory notes on pages 13 to 108 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

In thousands of tenge	Note	2016	2015
Continuing operations			
Revenue	27	**198,466,711**	182,743,603
Compensation for provision of universal services in rural areas	28	**7,353,257**	7,010,726
		205,819,968	189,754,329
Cost of sales	29	**(138,292,361)**	(127,254,556)
Gross profit		**67,527,607**	62,499,773
General and administrative expenses	30	**(21,791,041)**	(22,894,843)
Selling expenses	31	**(2,928,796)**	(3,149,381)
Operating profit		**42,807,770**	36,455,549
Share in losses of associates	9	**(13,568,195)**	–
Finance costs	33	**(6,412,545)**	(6,653,136)
Finance income	33	**3,575,283**	2,679,338
Net foreign exchange (loss)/gain	34	**(890,461)**	189,482
Loss on disposal of property and equipment		**(315,024)**	(353,932)
Other income	35	**4,197,635**	3,979,735
Other expenses	35	**(5,312,424)**	(1,325,098)
Profit before tax from continuing operations		**24,082,039**	34,971,938
Income tax expenses	36	**(9,210,030)**	(8,614,784)
Profit for the year from continuing operations		**14,872,009**	26,357,154
Discontinued operations			
Profit/(loss) after tax for the year from discontinued operations	37	**40,959,809**	(2,148,068)
Net profit for the year		**55,831,818**	24,209,086

The accounting policies and explanatory notes on pages 13 to 108 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of tenge	Note	2016	2015
Profit attributable to:			
Equity holders of the Parent		**55,831,818**	24,388,364
Non-controlling interests		**–**	(179,278)
Other comprehensive loss			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods (net of tax)			
Foreign exchange differences from translation of financial statements of foreign subsidiaries		**(49,619)**	117,012
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		**(49,619)**	117,012
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods (net of tax)		**–**	–
Actuarial losses on defined benefits plans, net of income tax	**23**	**(607,983)**	(2,025,345)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(607,983)**	(2,025,345)
Other comprehensive loss for the year, net of income tax		**(657,602)**	(1,908,333)
Total comprehensive income for the year, net of income tax		**55,174,216**	22,300,753
Attributable to:			
Equity holders of the Parent		**55,174,216**	22,480,031
Non-controlling interests		**–**	(179,278)
		55,174,216	22,300,753

The accounting policies and explanatory notes on pages 13 to 108 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of tenge	Note	2016	2015
Earnings per share			
Basic and diluted, net profit for the year attributable to equity holders of the Parent, tenge	**20**	**5,071.51**	2,219.75
Earnings per share for continuing operations			
Basic and diluted, profit from continuing operations for the year attributable to equity holders of the Parent, tenge	**20**	**1,357.30**	2,414.50

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

Chief financial director — *Uzbekov A.A.*

Chief accountant — *Zhumanova M.A.*

The accounting policies and explanatory notes on pages 13 to 108 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to equity holders of the Parent							
In thousands of tenge	Shares outstanding	Treasury shares	Foreign currency translation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Note	20	20	20	20				
At 1 January 2015	12,136,529	(6,398,619)	(69,350)	1,820,479	263,644,674	271,133,713	(824,365)	270,309,348
Net 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	–	–	117,012	–	22,363,019	22,480,031	(179,278)	22,300,753
Treasury shares repurchased, net *(Note 20)*	–	(65,869)	–	–	–	(65,869)	–	(65,869)
Return of issued guarantee for the 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
Net profit for the period	**–**	**–**	**–**	**–**	**55,831,818**	**55,831,818**	**–**	**55,831,818**
Other comprehensive loss	**–**	**–**	**(49,619)**	**–**	**(607,983)**	**(657,602)**	**–**	**(657,602)**
Total comprehensive income	**–**	**–**	**(49,619)**	**–**	**55,223,835**	**55,174,216**	**–**	**55,174,216**

The accounting policies and explanatory notes on pages 13 to 108 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to equity holders of the Parent							
In thousands of tenge	Shares outstanding	Treasury shares	Foreign currency translation reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
Treasury shares repurchased, net *(Note 20)*	–	**114**	–	–	–	**114**	–	**114**
Dividends *(Note 20)*	–	–	–	–	**(3,562,836)**	**(3,562,836)**	–	**(3,562,836)**
Change in ownership in subsidiaries, not resulting in loss of control *(Note 5)*	–	–	–	–	**(1,238,969)**	**(1,238,969)**	**1,003,643**	**(235,326)**
At 31 December 2016	**12,136,529**	**(6,464,374)**	**(1,957)**	**1,820,479**	**336,306,933**	**343,797,610**	–	**343,797,610**

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

Chief financial director — *Uzbekov A.A.*

Chief accountant — *Zhumanova M.A.*

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

In thousands of tenge	Note	2016	2015
Operating activities			
Profit before tax from continuing operations		**24,082,039**	34,971,938
Profit/(loss) before tax from discontinued operations		**42,621,503**	(2,138,852)
Profit before tax		**66,703,542**	32,833,086
Adjustment for:			
Depreciation of property and equipment		**27,845,196**	31,304,158
Amortisation of intangible assets		**3,064,718**	3,869,427
Change in deferred income		**12,293**	127,115
Changes in employee benefit obligations		**(326,485)**	(542,991)
Unrealised foreign exchange (gain)/loss, net		**(252,976)**	7,651,418
Allowance for doubtful receivables		**1,411,405**	1,001,432
NRV adjustment of slow-moving inventory		**192,139**	810,006
Share in losses of associates	**9**	**13,568,195**	–
Finance costs accrued	**33, 37**	**6,833,870**	8,095,412
Finance income accrued	**33, 37**	**(3,750,368)**	(2,905,698)
Gain on disposal of subsidiary	**37**	**(41,579,323)**	–
Loss on disposal of PPE and intangible assets		**315,024**	496,577

The accounting policies and explanatory notes on pages 13 to 108 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of tenge	Note	2016	2015
Adjustments of working capital			
Change in trade receivables		**(10,650,693)**	803,274
Change in inventory		**(496,005)**	(1,085,763)
Change in current and non-current assets		**4,889,055**	(1,634,829)
Change in advances paid		**168,661**	146,273
Change in accounts payable		**2,355,652**	1,079,205
Change in advances received		**305,897**	236,018
Changes in other current liabilities		**5,513,293**	(628,286)
Cash flows received from operating activities		**76,123,090**	81,655,834
Dividends paid on common and preferred shares	**20**	**(3,627,387)**	(1,170,843)
Income tax paid		**(8,184,946)**	(5,319,944)
Interest paid		**(5,844,446)**	(6,468,646)
Interest received		**1,731,670**	796,716
Net cash flows from operating activities		**60,197,981**	69,493,117

The accounting policies and explanatory notes on pages 13 to 108 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of tenge	Note	2016	2015
Investing activities			
Purchase of property and equipment		**(17,379,516)**	(38,656,330)
Purchase of intangible assets		**(4,047,567)**	(1,040,563)
Proceeds from sale of property and equipment		**306,631**	219,319
Net cash outflow from subsidiary disposal		**(53,965)**	–
Placement of deposits		**(57,121,119)**	(22,277,090)
Return of cash on deposits		**39,519,133**	20,064,175
Issue of long-term loans to employees		**(2,127,857)**	(2,097,004)
Repayment of loans from employees		**365,450**	255,727
Issuance of covered bank guarantee		**–**	(208,600)
Return of funds of covered bank guarantee		**208,600**	193,160
Financial aid repaid		**3,496**	4,500
Net cash outflow from subsidiary disposal *(Note 37)*		**(1,683,295)**	–
Net cash flows used in investing activities		**(42,010,009)**	(43,542,706)

The accounting policies and explanatory notes on pages 13 to 108 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of tenge	Note	2016	2015
Financing activities			
Borrowings received		**–**	16,414,597
Borrowings repaid		**(8,624,665)**	(31,570,145)
Acquisition of treasury shares		**–**	(70,000)
Repayment of finance lease liabilities		**(4,707,462)**	(8,723,116)
Acquisition of non-controlling interests in a subsidiary	**5**	**(201,728)**	–
Net cash flows used in financing activities		**(13,533,855)**	(23,948,664)
Effect of exchange rate changes on cash and cash equivalents		**(298,217)**	9,233,998
Net increase of cash and cash equivalents		**4,654,117**	2,001,747
Cash and cash equivalents, as at 1 January		**19,965,042**	8,729,297
Cash and cash equivalents, as at 31 December	**19**	**24,320,942**	19,965,042

Disclosure of significant non-cash transactions is presented in *Note 38.*

Chairman of the Management Board	*Yessekeyev K.B.*
Chief financial director	*Uzbekov A.A.*
Chief accountant	*Zhumanova M.A.*

The accounting policies and explanatory notes on pages 13 to 108 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

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

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

The Company is controlled by the Government of the Republic of Kazakhstan through Sovereign Wealth Fund "Samruk-Kazyna" JSC ("Samruk-Kazyna" or the "Parent"), which owns 51% of the Company's controlling shares. Below is a list of the Company's shareholders as at 31 December 2016:

In thousands of tenge	**At 31 December 2016**	At 31 December 2015
Samruk-Kazyna	**51.0%**	51.0%
SOBRIO LIMITED	**24.5%**	–
ADR (The Bank of New York – depositor)	**9.2%**	9.8%
Alatau Capital Invest LLP	**3.7%**	–
State Fund on Pension Assets JSC	**3.4%**	3.4%
Deran Investment B.V.	**2.0%**	2.0%
Bodam B. V.	**–**	16.9%
Deran Services Limited	**–**	7.6%
Kazkommertsbank JSC	**–**	3.1%
Other	**6.2%**	6.2%
	100%	100%

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

The Company and its subsidiaries listed in Note 5 (hereinafter collectively referred to as 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 also leases out lines and provides data transfer services, as well as wireless communication.

These consolidated financial statements of the Group were approved for issue by the Chairman of the Management Board on behalf of the Management of the Company on 25 February 2017.

2. BASIS FOR PREPARATION

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (hereinafter, "IFRS"), as issued by International Accounting Standard Board (hereinafter, "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. The consolidated financial statements are presented in Kazakhstan tenge ("tenge" or "KZT") and all monetary amounts are rounded to the nearest thousand, except when otherwise indicated.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent and its subsidiaries as at 31 December 2016. 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.

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

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- Voting rights or potential voting rights belonging to the Group.

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 over subsidiary. Assets, liabilities, revenue and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group obtains 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, revenue, 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 adopted accounting policies of the Group are consistent with those of the previous financial year, except for the following new and revised standards and amendments effective on 1 January 2016.

- IFRS 14 *Regulatory Deferral Accounts*;
- Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests*;
- Amendment to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*;
- Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*;
- Amendments to IAS 27: *Equity Method in Separate Financial Statements*;
- Annual improvements cycle – 2012-2014;
- Amendments to IAS 1 *Disclosure Initiative*;
- Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception.*

The Group applied for the first time certain standards and amendments, which are effective on 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

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 in the statement of financial position and present movements in these account balances as separate line items in the statement of comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 becomes effective for financial years beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

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 *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. Further, IFRS 11 has a scope exception, according to which the amendments do not apply if the parties that exercise a joint control (including the reporting entity) are under the common control of the same ultimate controlling party.

The amendments are applied both to the acquisition of the initial interest in a joint operation, and to the acquisition of additional interests in the same joint operation, and these amendments are effective prospectively for annual periods beginning on or after 1 January 2016, the earlier application is permitted. These amendments do not have any impact on the Group's consolidated financial statements as there has been no interest acquired in a joint operation during the period.

Amendment to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 Property and Equipment and

IAS 38 Intangible Assets 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 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 have no impact to the Group's consolidated financial statements 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 *Agriculture*. 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 accounting 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 effective retrospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments have no effect on the Group consolidated financial statements of the Group as the Group does not have any bearer plants.

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their consolidated 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. The first-time adopters, electing to use the equity method in their separate financial statements, will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual reporting periods beginning on or after 1 January 2016. Earlier application is permitted. The amendments have no impact on the Group's consolidated financial statements.

Annual IFRS improvements 2012-2014 cycle

The document comprises the following amendment:

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

Assets (or disposal group) generally are disposed through the sale or distribution to owners. The amendment clarifies that transition from one method to another will not be considered as a new disposal method, but as a continuation of the initial plan. Therefore, the application of IFRS 5 requirements is not discontinued. The amendment is to be applied prospectively.

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 disclosure of information is not required for period starting prior the annual period when an entity applies the amendment for the first time.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Annual IFRS improvements 2012-2014 cycle (continued)

IFRS 7 Financial Instruments: Disclosures (continued)

(ii) Applicability of the amendments to IFRS 7 to the 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 market for high quality corporate bonds in that currency, government bond rates must be used. The amendment is to 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 financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively. The amendments have no impact on the Group's consolidated financial statements.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement of comprehensive income and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of OCI 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 subtotals are presented in the statement of financial position and the statement of comprehensive income. These amendments have no impact on the Group's consolidated financial statements.

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

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 *Consolidated Financial Statements*. 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.

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 *Investments in Associates and Joint Ventures* 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 are applied retrospectively and have no impact on the Group's consolidated financial statements since the Group does not apply the consolidation exception.

Standards and interpretations issued but not yet effective

Standards and interpretations issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. The Group intends to adopt those standards when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which 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 the standard is applied retrospectively, however 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. In 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 statement of financial position 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 statement of financial position and 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.

Loans, other financial assets, as well as trade receivables 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 they 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 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at the 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 by one year. The Group plans to adopt the new standard on the required effective date using the full retrospective method. In 2015, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Besides, the Group considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued but not yet effective (continued)

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. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

Amendments to IAS 7 Disclosure Initiative

Amendments to IAS 7 *Statement of Cash Flows* form a part of the IASB's initiative in the area of disclosure, and require an entity to disclose information that enables users of financial statements to evaluate changes in liabilities arising from financial activities, including changes resulting and non-resulting from cash flows. On initial application of these amendments, entities are not required to provide comparative information for preceding periods. These amendments become effective for annual periods beginning on or after 1 January 2017. Early application is allowed. Application of these amendments requires the Group to disclose additional information.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

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

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

These amendments become effective for annual periods beginning on or after 1 January 2017. Early application is allowed. An entity must disclose application of the amendments for an earlier period. It is expected that these amendments will have no impact on the Group's consolidated financial statements.

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

The IASB issued amendments to IFRS 2 *Share-based Payments* where three main aspects are reviewed: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; classification of a share-based payment transaction with net settlement features for withholding tax obligations; the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendment is effective for annual periods beginning on or after 1 January 2018. Early application is allowed. The amendments will have no impact on the Group's consolidated financial statements.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 O*perating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). .

Foreign currency translation

The consolidated financial statements of the Group are presented in tenge, which is the functional currency of the Company and its main subsidiaries. Tenge is the currency of the primary economic environment in which the Company and its main 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 prevailing at the date when the transaction meets recognition criteria. Monetary assets and liabilities denominated in foreign currency are translated at the official exchange rate ruling at the reporting date established by Kazakhstan Stock Exchange ("KASE") and published by the National Bank of the Republic of Kazakhstan ("NBRK"). 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.

Foreign exchange rates are presented in the following table:

	31 December 2016	31 December 2015
US dollars	**333.29**	340.01
Euro	**352.42**	371.46
Russian roubles	**5.43**	4.61

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

Transactions and balances (continued)

The functional currencies of foreign operations KT-IXLLC (Russian Federation) and Online.kg LLC (Kyrgyzstan) are Russian Roubles and Kyrgyz Soms, respectively. During consolidation the assets and liabilities of foreign operations are translated into tenge at the rate of exchange prevailing at the reporting date and their consolidated statement of comprehensive income are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised 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, which is 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 general 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.

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 the changes in fair value recognised in the consolidated statement of 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 (CGU) 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.

Investments in associates

An associate is a company, which is significantly influenced by the Company. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The Group's investment in its associates is accounted for using the equity method.

According to the equity method, investment in an associate is initially stated at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not tested for impairment individually.

If interest in an associate is acquired in exchange for contribution of a non-monetary asset in an associate, the Group (a) assesses its share in an associate at fair value in accordance with IFRS 3; and (b) fully recognises profit or loss incurred due to sale or contribution of assets that are businesses as defined in accordance with IFRS 3.

The consolidated statement of comprehensive income reflects the share of the Group in the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share in profit or loss of the associate is shown directly in the consolidated statement of comprehensive income beyond the operating profit. It represents profit or loss after taxes and non-controlling interests in subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the investment in an associate and its carrying amount and recognises the loss in the 'share of loss of an associate' in the consolidated statement of comprehensive income.

Upon loss of significant influence over the associate, the Company measures and recognizes any retaining investment at fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Current versus non-current classification

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

- expected to be realised or intended to sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within 12 (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 12 (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 within normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within 12 (twelve) months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least 12 (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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 financial statements at fair value 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 (hereinafter, the "Working Group") 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 composition of the Working Group is determined by the Management of the Company.

External valuation experts are involved for valuation of significant assets, such as investment property and AFS financial assets, and significant liabilities, such as contingent consideration. The decision to engage external value experts is taken on an annual basis by the Working Group after it is discussed and approved by the Company's Audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Valuation Committee decides, after discussions with the Group's external valuation experts, which valuation techniques and inputs to use for each case.

At each reporting date the Working Group analyses changes in the cost of assets and liabilities that should be reanalyzed reassessed in accordance with the Group's accounting policy. As a part of such analysis, the Working Group checks main inputs used at the latest evaluation by comparing information used at evaluation with agreements and other relevant documents.

The Working Group and external valuation experts of the Group also compare changes in fair value of each asset and liability with relevant external sources in order to determine the change relevancy.

The Working Group and external valuation experts of the Group provide the evaluation results to the Audit committee and independent auditors of the Group on a regular basis that assumes discussion of main assumptions used in evaluation.

For the purpose of fair value disclosure, the Group classified assets and liabilities based on their nature, characteristics and risks related to them and applicable level of fair value hierarchy, as specified above.

Non-current assets held for sale and discontinued operations

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

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

Assets and liabilities classified as held for distribution 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 in the consolidated statement of comprehensive income as a separate item as profit or loss after tax from discontinued operations.

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 property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property 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 property 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. Please refer to Other non-current liabilities (Note 24) for further information about the recognised decommissioning provision.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, 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.

Construction-in-progress

Construction-in-progress represents property and equipment under construction and machinery and equipment awaiting installation and is recorded at cost. Construction-in-progress includes cost of construction and 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 of depreciable assets. Construction-in-progress is not depreciated.

Investment property

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 calculated on a straight-line basis over the estimated useful life, which is 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 when the asset is derecognized.

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 initial cost less any accumulated amortisation and any 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.

Intangible assets have finite useful lives.

Intangible assets with finite useful 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. Expenses on amortization of intangible assets with finite useful life are recognized in the consolidated statement of comprehensive income in the category of expenses, which corresponds to the function of the intangible asset.

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.

Intangible assets are amortized on a straight-line basis within the estimated useful lives.

	Years
Licenses and trademarks	3-20
Computer 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 or cash-generating unit's (CGU) recoverable amount is the higher of: The fair value of an asset (cash generating unit) less costs of disposal and its value in use (cash generating unit). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of 5 (five) years. 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 those expense categories consistent with the function of the impaired asset.

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

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

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

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

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, AFS financial assets. 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.

Subsequent measurement

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

Loans issued and receivables

This category is the most relevant to the Group. Loans issued 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 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 expenses arising from impairment are recognized in the consolidated statement of comprehensive income within finance costs in case of loans and within general and administrative expenses in case of accounts receivable.

This category generally applies to other non-current financial assets, trade receivables and other current financial assets. Further details are contained in *Notes 12, 15 and 17*, respectively.

Investments held to maturity

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 it to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee 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. The Group did not have any held-to-maturity investments during the reporting periods ended 31 December 2016 and 31 December 2015, except for deposits placed in banks.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with initial maturity of 3 (three) months or less, which are subject to an insignificant risk of changes in value.

Derecognition

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

- 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, the Group evaluates if it has retained the risks and rewards of the property, and to which extent, if any. 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 its continuing involvement. In that case, the Group also recognises an associated liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition (continued)

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.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation. Besides, such evidence include observable data indicating that there is a measurable decrease in the expected 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 amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised 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 loss is recognised in the consolidated statement of comprehensive income. Interest income (recorded as finance income in the consolidated statement of comprehensive 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 recognised, the previously recognised 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, payables.

All financial liabilities are recognised 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 comprise trade and other accounts payable, loans and borrowings, finance lease liabilities, finance 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 category is the most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

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

This category generally applies to interest-bearing loans and borrowings. Further details are contained in *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 recorded in liabilities

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

Trade and other accounts payable

Liabilities for trade and other accounts payable are recognised at fair value to be paid in the future for goods and services received, whether or not billed to the Group.

Derecognition

A financial liability is derecognised 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, and the difference in the respective carrying amounts is recognised through the consolidated statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are only offset and reported at the net amount in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and the Group intends to either settle on a net basis, to realise the asset and settle the liability simultaneously.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are valued at the lower of: cost of acquisition and net realisable value.

Cost comprise expenses 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 estimated costs of completion and the 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 determined based on weighted average cost method.

Lease

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 reflected directly 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 operating expenses 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 and other income 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 recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any 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.

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Decommissioning liabilities

Decommissioning liabilities are recognized in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs. Decommissioning costs are recorded at the discounted value of expected liability settlement costs calculated using estimated cash flows and recognized as part of the initial cost of the particular asset. Cash flows are discounted at the current rate before tax, which reflects risks inherent to the decommissioning obligations. Unwinding of discount is expensed as incurred and recognised in the consolidated statement of comprehensive income as finance costs. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset.

Employee benefit

Social tax

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. Social tax expenses are charged to expenses as incurred.

Besides, the Group withholds 10% of the salary of employees paid as contributions of employees to the accumulating 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 benefits pension plan

In accordance with the Collective Agreement the Company provides certain long-term and retirement benefits to certain employees (the “Defined Benefit Scheme”).

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 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.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit obligation and the return on plan assets (excluding amounts included in net interest on the net defined benefit obligation), are recognised 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. Remeasurements 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 related restructuring costs.

Net interest is calculated by applying the discount rate to the net defined benefit obligation or asset. The Group recognises the outlined changes of net defined benefit obligation in the items: “cost of sales”, “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 profit or loss 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash dividend and non-cash distribution 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 authorised and the distribution is no longer at the discretion of the Company. According to the legislation, distribution 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 remeasurement 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, irrespective of the period of payment. 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.

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 fee for telecommunication services, (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 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 fees for telecommunication services are recognised in the month in which the 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.

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 AFS, interest income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The interest income is recorded as part of finance income in the consolidated statement of comprehensive income.

Dividends

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

Expense recognition

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

Connection cost

The Group records connection costs incurred and attributable to the related deferred income 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 the Group incurs in connection with the borrowing of funds.

Income tax

Current income tax

Current income tax assets and liabilities 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, by the reporting date, in the countries where the Group operates and generates taxable profit.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of comprehensive income. Management of the Group 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 income tax

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred income tax (continued)

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

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

The carrying amount of deferred tax assets is reviewed at each reporting 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 tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting 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 tax assets and liabilities are measured at the tax rates that are expected to apply in 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 the statement of comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current 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 change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires the management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of these items and 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 and financial risk management objectives and principles – *Note 40*;
- Sensitivity analyses disclosures – *Notes 10 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 lives of property and equipment and intangible assets

The Group assesses the remaining useful lives of items of property and equipment and intangible assets at least at each financial year-end and, 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 carrying amounts of property and equipment and intangible assets and on depreciation and amortization expenses recognized in profit or loss. In 2016, the Group did not revise the useful lives of PPE and intangible assets. The last revision was performed by the Group in January 2015, which resulted in an increase in the remaining useful life by 3 years in average. Changes in the remaining life of operation resulted in decrease in depreciation and amortisation charges for the year ended 31 December 2015 in the amount of KZT 1,491,769 thousand. The Group expects decrease in depreciation and amortisation charges in future reporting periods to which they relate by the amount that approximates the decrease in depreciation and amortisation charges for 2015.

Impairment of non-financial assets

An impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of: its fair value less costs of disposal 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 5 (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 growth rates used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in *Note 10*.

4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgement is used to estimate doubtful accounts. In assessing doubtful accounts, historical and anticipated performance of buyer or customer is taken into account. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in the consolidated financial statements.

As at 31 December 2016, the Group had an allowance for doubtful receivables in the amount of KZT 2,957,611 thousand (as at 31 December 2015: KZT 2,131,645 thousand) *(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 Company's historical churn rate. As at 31 December 2016, average customer relationship period is assessed as 13 (thirteen) years for fixed telephony customers and 5 (five) years for internet customers.

Finance – Group as lessee

The Group has entered into leases with respect to certain telecommunication equipment. The Group determined that under these agreements, substantially all the risks and benefits incidental to ownership of the leased item are transferred to the Group and, respectively, the lease is classified as finance lease.

Employee benefit obligations

The Group uses actuarial valuation method for measurement of the present value of defined employee benefit obligation and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, etc.) as well as financial assumptions (discount rate, future salary increases). Due to the long term nature of these benefits, such estimates are subject to significant uncertainty.

In determining the appropriate discount rate, management of the Group considers the interest rates of high-yield corporate bonds in respective currencies.

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 obligations are contained in *Note 23.*

Discontinued operations

On 3 November 2015, the Company announced its decision to enter into an agreement with Tele2 Group to establish a joint venture in mobile segment based on Altel JSC (ALTEL 4G brand) and Mobile Telecom-Service LLP (Tele2 brand). On 29 February 2016, Kazakhtelecom JSC and Tele2 completed the transaction on formation of a joint venture. As a result of this transaction, Kazakhtelecom JSC received 51% of the authorised capital and 49.48% of voting shares in Khan Tengri Holding B.V. in exchange for 100% share in Altel JSC (Note 9). Thus, Altel JSC activities were classified as discontinued operations.

Refer to *Note 37* for more details regarding discontinued operations.

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 2016, tax losses carried forward by the Group were equal to KZT 17,860 thousand (31 December 2015: KZT 2,081,767 thousand) (Note 36). These losses refer to subsidiaries that had losses in prior periods, are extended for the period of 10 years and will mature from 2019, and may be used against taxable income only in the subsidiary of the Group that incurred such loss.

As at 31 December 2016, the Group had no recognised deferred tax assets (at 31 December 2015: KZT 204,814 thousand). As at 31 December 2016, the carrying amount of non-recognized tax assets was equal to KZT 137,346 thousand (31 December 2015: KZT 276,694 thousand). Further details are contained in *Note 36.*

Fair value measurement of financial instruments

When the fair value of financial instruments and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on data in active markets, their fair value is measured using valuation techniques including the discounted cash flow (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. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value reported in the consolidated financial statements. For more details on the fair values refer to *Note 40.*

5. CONSOLIDATION

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

		Percentage ownership	
	Country of incorporation	**31 December 2016**	31 December 2015
Nursat JSC	Kazakhstan	**100.00%**	80.00%
KT-IX LLC	Russia	**100.00%**	100.00%
KT Cloud Lab LLP	Kazakhstan	**100.00%**	100.00%
VostokTelecom LLP	Kazakhstan	**100.00%**	100.00%
Online.kg LLC	Kyrgyzstan	**100.00%**	100.00%
Info-Net Wireless LLP	Kazakhstan	**100.00%**	100.00%
Nursat+ LLP	Kazakhstan	**100.00%**	100.00%
Altel JSC	Kazakhstan	**–**	100.00%
Kazakhtelecom Industrial Enterprises Services LLP	Kazakhstan	**–**	100.00%
Digital TV LLP	Kazakhstan	**–**	100.00%
MaxCom LLP	Kazakhstan	**–**	100.00%

On 25 January 2016, the Company acquired 20% shares in Nursat JSC in cash from a minority shareholder represented by the Committee for State Property and Privatization of the Ministry of Finance of the Republic of Kazakhstan for KZT 235,326 thousand. As at 31 December 2015, prepayment of KZT 33,598 thousand was made out of this amount.

On 29 February 2016, Kazakhtelecom JSC and Tele2 completed the transaction on formation of a joint venture in mobile segment based on Altel JSC and Mobile Telecom-Service LLP businesses. As a result of this transaction, Kazakhtelecom JSC received 51% of the authorised capital and 49.48% of voting shares in Khan Tengri Holding B.V. in exchange for 100% share in Altel JSC *(Notes 9 and 37)*.

In July 2016, Digital TV LLP was liquidated. This entity stopped its operations due to closure after business integration of Digital TV LLP to Kazakhtelecom JSC.

On 26 August 2016, discontinuation of operations of Maxcom LLP was registered due to reorganisation through merger into Vostoktelecom LLP.

Based on the decision of the Board of Directors of Kazakhtelecom JSC dated 17 August 2016, Kazakhtelecom JSC and Samruk-Kazyna Business Service LLP signed the agreement of purchase and sale of 51% interest of Kazakhtelecom JSC in the charter capital of Kazakhtelecom Industrial Enterprises Services LLP *(Note 9)*. The amount of the transaction was equal to KZT 30,170 thousand. As at 31 December 2016, amount receivable has not been paid and was recognised within other receivables. The Group expects this receivable to be paid during the first quarter of 2017.

On 16 November 2016, Signum LLC was reregistered and renamed to KT-IX LLC.

6. SEGMENT INFORMATION

For management purposes, the Group represents business units based on the organizational structure of the Group and has reportable operating segments as follows:

- Rendering fixed-line telecommunication services to local, national long-distance and international to business units of Kazakhtelecom JSC, Vostoktelecom LLP, KT Cloud Lab LLP and Nursat JSC;
- Rendering mobile telecommunication services in GSM and LTE standards by a business unit of an associate Khan Tengri Holding B.V.

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

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

Transaction prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

In February 2016, the Group lost control over the subsidiary rendering mobile telecommunication services in GSM and LTE standards *(Note 37)*.This disclosure of segment information does not include amounts related to discontinued operation.

The following tables disclose revenue and profit information for the Group's operating segments for the years ended 31 December 2016 and 2015.

For the year ended 31 December 2016

In thousands of tenge	Fixed telephony	Mobile telecom-munication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
Revenue					
Sales to external customers	**205,819,968**	**–**	**–**	**–**	**205,819,968**
Inter-segment	**268**	**–**	**131,602**	**(131,870)**	**–**
Total revenue	**205,820,236**	**–**	**131,602**	**(131,870)**	**205,819,968**

6. SEGMENT INFORMATION (continued)

For the year ended 31 December 2016 (continued)

In thousands of tenge	Fixed telephony	Mobile telecom-munication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
Financial results					
Amortisation and depreciation	(30,859,109)	–	(50,805)	–	(30,909,914)
Finance costs	(6,417,739)	–	–	5,194	(6,412,545)
Finance income	3,699,363	–	–	(124,080)	3,575,283
Share in loss of associates	–	(13,539,208)	(28,987)	–	(13,568,195)
Accrual of allowance for doubtful receivables	(1,411,405)	–	–	–	(1,411,405)
Income tax	(9,216,687)	–	6,657	–	(9,210,030)
Segment profit/(loss)	35,091,524	(13,539,208)	(62,714)	2,592,437	24,082,039
Operating assets	401,684,781	67,160,792	441,401	(324,862)	468,962,112
Operating liabilities	124,895,545	–	254,647	14,310	125,164,502
Other disclosures					
Investments in associates	–	67,160,792	–	–	67,160,792
Capital expenditures	15,960,247	–	18,492	–	15,978,739

For the year ended 31 December 2015

In thousands of tenge	Fixed telephony	Mobile telecom-munication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
Revenue					
Sales to external customers	189,753,961	–	368	–	189,754,329
Inter-segment	235	–	104,133	(104,368)	–
Total revenue	189,754,196	–	104,501	(104,368)	189,754,329
Financial results					
Amortisation and depreciation	(30,266,328)	–	(22,788)	–	(30,289,116)
Finance costs	(6,681,809)	–	–	28,673	(6,653,136)
Finance income	3,732,156	–	658	(1,053,476)	2,679,338
Accrual of allowance for doubtful receivables	942,103	–	–	–	942,103
Income tax	(8,597,108)	–	(17,676)	–	(8,614,784)
Segment profit/(loss)	36,136,110	–	(25,463)	(1,138,709)	34,971,938
Operating assets	389,895,622	–	587,745	(2,466,623)	388,016,744
Operating liabilities	95,544,709	–	246,261	(205,784)	95,585,186
Other disclosures					
Capital expenditures	28,212,323	–	54,849	–	28,267,172

6. SEGMENT INFORMATION (continued)

1) Income between segments are excluded in consolidation;
2) Finance costs and finance income comprise intersegment finance costs and intersegment finance income;
3) Operating income of segments comprises income from intersegment transactions;
4) Capital expenditure consists of additions to property and equipment and intangible assets.

Reconciliation of profit

In thousands of tenge	**2016**	2015
Segment profit	**21,523,329**	36,136,110
Other	**2,558,710**	(1,164,172)
Profit of the Group	**24,082,039**	34,971,938

Reconciliation of operating assets

In thousands of tenge	**2016**	2015
Segment operating assets	**469,286,974**	390,483,367
Elimination of the Company's investments in subsidiaries	**(73,877)**	(1,967,405)
Elimination of intra-group receivables and payables	**(250,985)**	(499,218)
Segment assets – assets classified as held for sale	**–**	48,477,200
Operating assets of the Group	**468,962,112**	436,493,944

Reconciliation of operating liabilities

In thousands of tenge	**2016**	2015
Segment operating liabilities	**125,150,192**	95,790,970
Deferred tax liabilities	**265,295**	293,434
Elimination of intra-group receivables and payables	**(250,985)**	(499,218)
Liabilities directly associated with assets classified as held for sale	**–**	48,487,316
Operating liabilities of the Group	**125,164,502**	144,072,502

7. PROPERTY AND EQUIPMENT

Movement of property and equipment in 2016 and 2015 is presented as follows:

In thousands of tenge	Land	Buildings and constructions	Equipment	Other	Construction in progress	Total
Cost						
At 1 January 2015	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
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 December2015	558,088	47,892,318	492,557,643	13,066,339	12,757,347	566,831,735
Additions	**924**	**56,879**	**11,428,420**	**369,753**	**3,949,175**	**15,805,151**
Transfers	**85**	**471,127**	**4,257,904**	**(43,588)**	**(4,685,528)**	**–**
Disposals	**(4,279)**	**(262,949)**	**(5,370,652)**	**(228,039)**	**(247,934)**	**(6,113,853)**
Transfers to intangible assets *(Note 8)*	**–**	**–**	**–**	**–**	**(685,390)**	**(685,390)**
At 31 December2016	**554,818**	**48,157,375**	**502,873,315**	**13,164,465**	**11,087,670**	**575,837,643**

In thousands of tenge	Land	Buildings and constructions	Equipment	Other	Construction in progress	Total
Accumulated depreciation and impairment						
At 1 January 2015	–	13,276,824	255,148,778	10,154,638	1,273,823	279,854,063
Depreciation charge	–	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
Depreciation charge	**–**	**1,900,704**	**25,197,800**	**763,118**	**–**	**27,861,622**
Disposals	**–**	**(88,530)**	**(5,169,593)**	**(217,756)**	**–**	**(5,475,879)**
At 31 December2016	**–**	**16,658,584**	**275,106,330**	**10,623,033**	**1,273,823**	**303,661,770**
Net book value						
At 31 December 2015	558,088	33,045,908	237,479,520	2,988,668	11,483,524	285,555,708
At 31 December2016	**554,818**	**31,498,791**	**227,766,985**	**2,541,432**	**9,813,847**	**272,175,873**

Construction-in-progress represents mainly network construction and telecommunication equipment to be installed.

During 2016 the Group did not capitalize borrowing costs (2015: borrowing costs in the amount of KZT 41,000 thousand have been capitalized in the cost of construction-in-progress at weighted average interest rate of 7%). At 31 December 2016, the net book value of equipment used by the Group under finance leases and included in property and equipment was equal to KZT 25,570,125 thousand (at 31 December 2015: KZT 28,038,190 thousand). During 2016, there were no property and equipment received under lease agreements (2015: KZT 186,964 thousand received under finance lease agreements). Leased assets are pledged as collateral for the related finance leases.

As at 31 December 2016, property and equipment with the cost of KZT 116,565,628 thousand were fully depreciated (at 31 December 2015: KZT 122,930,240 thousand).

8. INTANGIBLE ASSETS

Movement of intangible assets for 2016 and 2015 is presented as follows:

In thousands of tenge	Licenses and trademarks	Software	Goodwill	Other	Total
Cost					
At 1 January 2015	26,245,279	21,088,108	2,706,335	5,367,734	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 construction-in-progress (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 December2015	16,276,647	21,214,456	2,706,335	4,329,457	44,526,895
Additions	**129,169**	**44,419**	**–**	**–**	**173,588**
Transfers	**6,415**	**(6,415)**	**–**	**–**	**–**
Disposals	**(18,791)**	**(231,267)**	**–**	**–**	**(250,058)**
Transfers from construction-in-progress *(Note 7)*	**151,538**	**533,852**	**–**	**–**	**685,390**
At 31 December2016	**16,544,978**	**21,555,045**	**2,706,335**	**4,329,457**	**45,135,815**

In thousands of tenge	Licenses and trademarks	Software	Goodwill	Other	Total
Accumulated amortisation and impairment					
At 1 January 2015	14,397,122	14,256,207	–	2,222,858	30,876,187
Amortisation charges	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
Amortisation charges	**1,052,351**	**1,400,658**	**–**	**615,609**	**3,068,618**
Disposals	**(4,761)**	**(36,893)**	**–**	**–**	**(41,654)**
At 31 December 2016	**9,055,741**	**16,504,181**	**–**	**2,435,772**	**27,995,694**
Net book value					
At 31 December 2015	8,268,496	6,074,040	2,706,335	2,509,294	19,558,165
At 31 December2016	**7,489,237**	**5,050,864**	**2,706,335**	**1,893,685**	**17,140,121**

Licenses and trademarks, software and other comprise intangible assets acquired as a result of business combination.

As at 31 December 2016 intangible assets (mainly software) with the cost of KZT 8,508,183 thousand were fully amortized (as at 31 December 2015: KZT 8,768,527 thousand).

9. INVESTMENTS IN ASSOCIATES

The following associates have been included in these consolidated financial statements:

			31 December 2016		31 December 2015	
In thousands of tenge	**Primary activities**	**Country of incorporation**	**Carrying value**	**Ownership share**	Carrying amount	Ownership share
Khan Tengri Holding B.V.	Telecommunication services	Netherlands	**67,160,792**	**51%**	–	–
Kazakhtelecom Industrial Enterprises Services LLP	IT services	Kazakhstan	**–**	**49%**	–	–
			67,160,792		–	–

On 29 February 2016, the Group acquired 51% share capital and 49.48% of voting shares in Khan Tengri Holding B.V. *(Note 37)* rendering GSM and LTE mobile telecommunication services in the Republic of Kazakhstan. Khan Tengri Holding B.V. is a private entity that is not listed on the stock exchange. The Group's interest in Khan Tengri Holding B.V. is recorded in the consolidated financial statements using the equity method.

As at 31 December 2016, the Group has not completed its measurement of the fair value of the investment. As at the date of acquisition, the investment was recognized on the basis of preliminary measurement of fair value in the amount of KZT 80,700,000 thousand. After measurement of fair value of acquired investment is completed, the carrying amount of the investment and the Group's share in associate's loss and result from disposal of a subsidiary may be adjusted in the consolidated financial statements of the Group *(Note 37)*.

In November 2016, after final settlements on acquisition of interest in Khan Tengri Holding B.V. the Group recognized a liability to Khan Tengri Holding B.V. in the amount of KZT 4,842,282 thousand. This liability was capitalized in the cost of investment, and subsequently charged to expenses related to acquisition of interest in an associate within continued operations *(Note 35)*.

The table below provides a summarized financial information on the Group's investment in Khan Tengri Holding B.V. on the basis of a preliminary assessment of the fair value:

In thousands of tenge	31 December 2016
Current assets	29,436,215
Non-current assets	271,415,573
Current liabilities	(51,528,003)
Non-current liabilities	(117,635,958)
Equity	**131,687,827**
Carrying amount of investment of the Group	**67,160,792**

In thousands of tenge	2016
Revenue	78,190,273
Operating expenses	(90,659,497)
Non-operating expenses	(10,520,833)
Loss before tax	**(22,990,057)**
Income tax expenses	(404,491)
Loss for the period	**(23,394,548)**
Total comprehensive loss for the year	**(23,394,548)**
Share of the Group in loss for the year	**(13,539,208)**

9. INVESTMENTS IN ASSOCIATES (continued)

Based on the decision of the Board of Directors of Kazakhtelecom JSC, on 17th of August 2016, Kazakhtelecom JSC and Samruk-Kazyna Business Service LLP signed the agreement of purchase and sale of 51% interest of Kazakhtelecom JSC in the charter capital of Kazakhtelecom Industrial Enterprises Services LLP *(Note 5)*.

Below is a summarized information on individually insignificant associate, Kazakhtelecom Industrial Enterprises Services LLP (proportionate share of the Group's interest):

In thousands of tenge	2016
Revenue	19,574
Operating expenses	(98,358)
Non-operating expenses	–
Loss before tax	**(78,784)**
Income tax benefit	–
Loss for the year	**(78,784)**
Total comprehensive income for the year	**(78,784)**
Share of the Group in loss for the year	**(28,987)**

As at 31 December 2016, the Group's share of unrecognized accumulated losses in an associate Kazakhtelecom Industrial Enterprises Services LLP was equal to 7,988 thousand tenge.

10. TESTING FOR IMPAIRMENT

Goodwill

Goodwill acquired through business combination has been allocated to IP TV cash generating unit ("CGU"). This CGU is also a part of wired telecommunications segment. The carrying amount of goodwill allocated to IP TV CGU was as follows:

	IP TV	
	2016	2015
Goodwill	**2,706,335**	2,706,335

The Group performed testing for impairment in December 2016 and 2015.

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

The after tax discount rate applied to the cash flow projections is 14.95% (2015: 20.15%), and cash flows beyond the five-year period are extrapolated using a 0% growth rate (2015: 0%).

As a result of this analysis as at 31 December 2016, the management have not identified any evidence of impairment of this CGU.

Key assumptions used in value in use calculations

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

- The customer base over the forecast period and an average gain per a subscriber;
- Growth rate for cash flow extrapolation beyond the forecast period;
- Discount rate.

Customer base and average gain per a subscriber

The customer base and average gain per a subscriber is important because management of the Group estimates how the unit's position may change over the forecast period against its competitors. The Group expects to increase IPTV customer base over the forecast period, as the Group plans to use the advantage of Kazakhtelecom JSC infrastructure to increase the market share of Kazakhtelecom JSC. Given the fact of competition, average gain will decline during the forecast period.

Growth rates

Rates are based on published industry research.

10. TESTING FOR IMPAIRMENT (continued)

Key assumptions used in value inuse calculations (continued)

Discount rate

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

Sensitivity to changes in assumptions

The effect of changes in key assumptions on the recoverable amount is discussed below:

Customer base and average gain per a subscriber

Although management expects that the market share owned by the Group will grow over the forecast period, a decrease in the customer base and average gain per a subscriber by 36.71% (2015: 36.86%) would result in a loss from impairment in IP TV CGU.

Growth rates

Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction to 12.3% per annum in the long-term growth rate (2015: 7.9% per annum) for IP TV unit would result in origination of impairment losses.

Discount rate

A rise in after tax discount rate to 21.8% (2015: 25.44%) would result in impairment losses in IP TV CGU.

Investment in associate – Khan Tengri Holding B.V.

Investment in associate, Khan Tengri Holding B.V., represents CGU. This CGU is an operating segment for rendering of GSM and LTE mobile telecommunication services.

The carrying amount of investment in this CGU was as follows:

	2016
Investment in an associate	67,160,792

The Group performed testing for impairment in December 2016.

The recoverable amount of KhanTengri Holding B.V. CGUhas been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a eight-year period.

The after tax discount rate applied to the cash flow projections is 14.95%, and cash flows beyond the eight-year period are extrapolated using a 3.72% growth rate.

As a result of this analysis as at 31 December 2016, the management have not identified any evidence of impairment of this CGU.

Key assumptions used in value in use calculations

The calculation of value in use for CGU is most sensitive to the following assumptions:

- Customer base over the forecast period and average gain per a subscriber having a direct impact on revenue growth rates;
- The level of capital investments included in the financial plan;
- EBITDA margin included in the financial plan;
- Growth rate for cash flow extrapolation beyond the forecast period;
- Discount rate.

Customer base, average gain per a subscriber and revenue growth rates

The customer base and average gain per a subscriber is important because management of the Group estimates how the unit's position may change over the forecast period against its competitors. The Group's management expects an increase in the customer base over the forecast period because KhanTengri Holding B.V. plans to take advantage over the competitors of 4G/LTE coverage and speed of mobile internet as well as attractive tariffs to increase its market share. As a result the Group expects an increase in revenue of the unit over the entire forecast period.

Level of capital investments

The level of capital investments is important because it defines the ability of the unit to technically maintain an increase in the customer base and meet the changing market requirements. The level of investments is determined by the needs of the units in completing the technical integration of the two networks in a timely manner, as well as the need to preserve and strengthen the advantages of covering the public demand for communication services and improve network quality indicators.

EBITDA margin

EBITDA margin reflects the rate of return included by the unit into its financial plan with consideration of market conditions, competition and other factors. The growing dynamics of this index corresponds to operational growth of the unit and related cost savings.

Growth rates

Rates are based on published industry research.

Discount rate

Discount rates represent the current market assessment of the risks specific to this CGU, taking into consideration the time value of money and individual risks of the CGU 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.

10. TESTING FOR IMPAIRMENT (continued)

Sensitivity to changes in assumptions

The effect of changes in key assumptions on the recoverable amount is discussed below:

Customer base, average gain per a subscriber and revenue growth rates
Although the management expects that the market share owned by the Group will grow over the forecast period, according to the financial plan, slowing growth of customer base or decrease in the average gain per subscriber, which will lead to a slowdown in revenue growth by more than 1%, would result in a loss from impairment in CGU.

Level of capital investments
Increase in capital investments by more than 4.5% will result in origination of losses from impairment in this unit.

EBITDA margin
Decrease in EBITDA margin by more than 1% will result in origination of losses from impairment in this unit.

Growth rates
Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. A reduction to 3.4% per annum in the long-term growth rate in this unit would result in origination of impairment losses.

Discount rate
An increase in after tax discount rate to 15.28% would result in impairment losses in CGU.

11. INVESTMENT PROPERTY

Movements in investment property for the year ended 31 December 2016 were as follows:

In thousands of tenge	**2016**	2015
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 31 December	**(1,264,668)**	(1,264,668)
Carrying amount		
At 1 January	**–**	–
At 31 December	**–**	–

Investment property is represented by an office building constructed in order to lease it out to the Government related entities.

The impairment of KZT 1,264,668 thousand represents the write down of the carrying amount of the investment property to its recoverable amount. The recoverable amount was based on analysis of value in use and fair value less costs to sell and estimated to be nil as at 31 December 2016 and 2015, 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. The Group's management assessed the fair value of the investment property as KZT 4,980,283 thousand as equal to at 31 December 2016 (as at 31 December 2015: KZT 4,480,642 thousand).

12. OTHER NON-CURRENT FINANCIAL ASSETS

As at 31 December 2016 and 2015 other non-current financial assets comprised:

In thousands of tenge	2016	2015
Long-term accounts receivable	**3,024,242**	7,662,171
Loans to employees	**2,733,636**	2,791,134
Long-term deposits	**50**	50
Other	**119,038**	103,673
	5,876,966	10,557,028

As at 31 December 2016, the long-term receivables represent amounts due from Mobile Telecom Service LLP. As disclosed in *Note 37*, on 29 February 2016 the Company and Mobile Telecom Service LLP agreed to extend the maturity of the Company's receivables from Mobile Telecom Service LLP until 2031. These receivables were discounted at the date of restructuring using 10% rate.

Loans to employees are interest free loans provided for the period from 1 to 15 years. These loans were discounted as at the issue date at market interest rates of 12.2% per annum to 22% (2015: from 12.2 to 22% per annum). Repayment of long-term loans to employees is made through withholding of the amounts due from employees' salaries. Loans are secured by employees' real estate properties.

At 31 December 2016 and 2015, other non-current financial assets were denominated in tenge.

13. OTHER NON-CURRENT ASSETS

As at 31 December 2016 and 2015 other non-current assets comprised:

In thousands of tenge	**2016**	2015
Deferred expenses	**1,392,240**	1,865,825
Long-term VAT receivable	**137,188**	457,912
Long-term accounts receivable	**106,131**	117,553
Other	**73,342**	73,342
	1,708,901	2,514,632
Less: allowance for doubtful receivable	**–**	–
	1,708,901	2,514,632

At 31 December 2016 and 2015, other non-current assets were denominated in tenge.

14. INVENTORIES

As at 31 December 2016 and 2015, inventories comprised:

In thousands of tenge	2016	2015
Cable materials at cost	**1,964,441**	1,743,796
Raw and other materials at cost	**869,715**	621,623
Spare parts at cost	**787,676**	640,210
Fuel at cost	**542,862**	480,496
Goods for resale at net realisable value	**319,030**	274,548
	4,483,724	3,760,673

15. TRADE RECEIVABLES

As at 31 December 2016 and 2015, trade receivables comprised:

In thousands of tenge	**2016**	2015
Trade receivables	**27,216,691**	18,299,271
	27,216,691	18,299,271
Less: allowance for doubtful receivables	**(2,224,485)**	(1,914,169)
	24,992,206	16,385,102

Movements in the allowance for doubtful receivables were as follows for the years ended 31 December:

In thousands of tenge	**2016**	2015
Allowance for doubtful receivables at the beginning of the year	**(1,914,169)**	(1,512,067)
Charge for the year	**(876,706)**	(850,337)
Write-off for the year	**566,390**	318,630
Discontinued operations	**–**	129,605
Allowance for doubtful receivables at the end of the year	**(2,224,485)**	(1,914,169)

15. TRADE RECEIVABLES (continued)

As at 31 December 2016 and 2015, the ageing analysis of trade receivables was as follows:

			Past due but not impaired				
In thousands of tenge	**Total**	**Neither past due nor impaired**	Less than 30 days	30 to 90 days	90 to 120 days	120 to 360 days	Over 360 days
31 December2016	**24,992,206**	**23,098,804**	**989,484**	**537,916**	**136,265**	**229,737**	**–**
31 December 2015	16,385,102	13,732,077	1,245,011	715,981	177,278	397,688	117,067

As at 31 December 2016 and 2015 the Group's trade receivables were denominated in the following currencies.

In thousands of tenge	**2016**	2015
Tenge	**23,928,901**	14,913,472
US dollars	**1,008,804**	1,414,681
Other currencies	**54,501**	56,949
	24,992,206	16,385,102

As at 31 December 2016 the Group's trade receivables amounts due receivables from Mobile Telecom Service LLP of KZT 7,920,728 thousand (31 December 2015: KZT 373,336 thousand) resulted from rendering of telecommunication services and providing access to data transfer via IP VPN network. A portion of these receivables was paid in January and February 2017 in the amount of KZT 2,575,547 thousand. The Group is planning to offset these receivables in the amount of KZT 4,842,282 thousand with the same amount of payables to Mobile Telecom Service LLP.

16. ADVANCES PAID

As at 31 December 2016 and 2015, advances paid comprised:

In thousands of tenge	2016	2015
Advances paid	**369,685**	538,346
	369,685	538,346
Less: allowance for doubtful receivables	**(72,405)**	(30,716)
	297,280	507,630

Movements in the allowance for doubtful receivables were as follows for the years ended 31 December:

In thousands of tenge	2016	2015
Allowance at the beginning of the year	**(30,716)**	(31,220)
Charge for the year	**(41,689)**	(2,090)
Discontinued operations	**–**	2,594
Allowance at the end of the year	**(72,405)**	(30,716)

17. OTHER CURRENT FINANCIAL ASSETS

As at 31 December 2016 and 2015 other current financial assets comprised:

In thousands of tenge	**2016**	2015
Bank deposits	**45,889,260**	29,278,450
Loans to employees	**1,896,652**	1,851,394
Interest receivable	**242,197**	228,817
Other accounts receivable	**99,153**	2,376,729
Cash restricted in use	**–**	208,600
Other	**5,805**	5,805
	48,133,067	33,949,795

Bank deposits with initial maturity of more than 3 (three) months but less than 12 (twelve) months have been placed with local banks and earned income at interest rates of 1 to 14.5% per annum (2015: 2.3 to 10% per annum).

Non-interest bearing cash restricted in use on current bank accounts have been placed as collateral for bank guarantees for a period of less than one year.

As at 31 December 2016 and 2015 other financial assets were denominated in the following currencies:

In thousands of tenge	**2016**	2015
US dollars	**45,929,406**	29,253,502
KZT	**2,197,856**	4,690,488
Other	**5,805**	5,805
	48,133,067	33,949,795

18. OTHER CURRENT ASSETS

As at 31 December 2016 and 2015 other current assets comprised:

In thousands of tenge	2016	2015
Deferred expenses	**934,227**	1,063,665
Restricted cash	**446,198**	–
VAT receivable	**431,782**	1,430,856
Reimbursement of fee for using radio frequencies	**173,184**	–
Taxes prepaid other than corporate income tax	**162,106**	177,102
Due from employees	**97,098**	96,470
Other	**1,044,575**	1,021,088
	3,289,170	3,789,181
Less: allowance for doubtful receivables	**(660,721)**	(186,760)
	2,628,449	3,602,421

Cash restricted in use represents cash on the accounts with KazInvestBank JSC, which are assessed as unlikely to be recovered due to the revocation of the banks' license. Impairment allowance was made for the whole amount of this cash.

Reimbursement of fees for using radio frequencies represents receivables from Mobile Telecom Service LLP on reimbursement of the Group's expenses for the fees to use radio frequencies.

As at 31 December 2016 and 2015 other current assets include guarantee payments for participation in tenders and prepaid insurance contracts.

18. OTHER CURRENT ASSETS (continued)

Changes in the allowance for doubtful receivables were as follows for the years ended 31 December:

In thousands of tenge	**2016**	2015
Allowance at the beginning of the year	**(186,760)**	(334,166)
Charge for the year	**(483,549)**	(91,038)
Write-off for the year	**9,588**	105,493
Discontinued operations	**–**	132,951
Allowance at the end of the year	**(660,721)**	(186,760)

As at 31 December 2016 and 2015, other current assets were mainly denominated in tenge.

19. CASH AND CASH EQUIVALENTS

As at 31 December 2016 and 2015 cash and cash equivalents comprised:

In thousands of tenge	**2016**	2015
Cash on current bank accounts	**20,976,246**	8,179,504
Deposits with less than 90 days' maturity from the date of opening	**3,332,900**	3,079,666
Cash on hand	**11,796**	17,721
	24,320,942	11,276,891

Cash on current bank accounts earn interest at the rates ranging from 0.1% to 13% per annum (2015: from 0.01% to 7.55% 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 0.8% to 38.0% per annum (2015: from 0.1% to 32.0% per annum).

As at 31 December 2016 and 2015 cash and cash equivalents were denominated in the following currencies:

In thousands of tenge	**2016**	2015
US dollars	**17,049,152**	5,264,926
Tenge	**7,237,491**	5,743,047
Russian roubles	**28,249**	258,593
Other	**6,050**	10,325
	24,320,942	11,276,891

19. CASH AND CASH EQUIVALENTS (continued)

For the purpose of the consolidated statement cash flows, cash and cash equivalents as at 31 December 2016 and 31 December 2015 were presented as follows:

In thousands of tenge	**2016**	2015
Cash on current bank accounts	**20,976,246**	8,179,504
Deposits with less than 90 days' maturity from the date of opening	**3,332,900**	3,079,666
Cash on hand	**11,796**	17,721
Cash and cash equivalents and short-term deposits attributable to discontinued operations *(Note 37)*	**–**	8,688,151
Cash and cash equivalents	**24,320,942**	19,965,042

20. EQUITY

Authorised and issued shares

	Number of shares		In thousands of tenge		
	Common shares	Preferred non-voting shares	Common shares	Preferred non-voting shares	Total issued shares
At 31 December 2014	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
At 31 December 2015	10,922,876	1,213,653	10,922,876	1,213,653	12,136,529
At 31 December 2016	**10,922,876**	**1,213,653**	**10,922,876**	**1,213,653**	**12,136,529**

Treasury shares

	Number of shares		In thousands of tenge		
	Common shares	Preferred non-voting shares	Common shares	Preferred non-voting shares	Total
At 31 December 2014	210,180	892,143	2,909,449	3,489,170	6,398,619
Acquisition of treasury shares	33,737	12,067	331,654	87,603	419,257
Sale of treasury shares	(28,364)	(11,081)	(274,853)	(78,535)	(353,388)
At 31 December 2015	215,553	893,129	2,966,250	3,498,238	6,464,488
Acquisition of treasury shares					
Sale of treasury shares	**–**	**(32)**	**–**	**(114)**	**(114)**
At 31 December 2016	**215,553**	**893,097**	**2,966,250**	**3,498,124**	**6,464,374**

20. EQUITY (continued)

Shares issued less reacquired shares

As at 31 December 2016, number of common and preferred shares issued net of reacquired shares was 10,707,323 and 320,556 shares, respectively (31 December 2015: 10,707,323 and 320,524 shares, respectively).

Preferred shares

Holders of preferred shares are entitled to receive annual cumulative dividends of 300 tenge per share, and not less than the amount of the dividends per share paid to holders of common shares. The discounted value of future cash flows of annual cumulative dividends is recorded as a financial liability as at 31 December 2016 in the amount of KZT 874,244 thousand (31 December 2015: KZT 874,156 thousand). This liability has been included in non-current liabilities as a debt component of preferred shares. 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 3 (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 in the amount of KZT 96,167 thousand were accrued as at 31 December 2016 (at 31 December 2015: KZT 95,432 thousand) and are recorded as interest expenses in the consolidated statement of comprehensive income *(Note 33)*. Present value of non-discounted future cash flows represents the liability component of preferred shares in non-current liabilities.

On the basis of the decision taken at the annual general meeting of shareholders of Kazakhtelecom JSC on 22 April 2016, the Company declared dividends on preferred shares based on 2015 results in the amount of KZT 10,896 thousand and dividends on common shares in the amount of KZT 3,551,940 thousand (2015: KZT 0 and KZT 1,089,559 thousand, respectively). The dividends accrued on common shares during 2016. Dividends per share (common and preferred) as at 31 December 2016 were equal to KZT 331.73 (as at 31 December 2015: KZT were paid 101.73 per common share).

Movement in dividends payable for the years ended 31 December was as follow:

In thousands of tenge	2016	2015
Dividends payable at the beginning of the year	**1,582,251**	1,588,474
Dividends declared on common shares	**3,551,940**	1,089,559
Dividends declared on preferred shares in excess of the obligatory amount	**10,896**	–
Interest on debt component of preferred shares *(Note 33)*	**96,167**	95,432
Change in dividends payable for the previous period	**–**	(2,620)
Withholding tax	**(66,428)**	(17,751)
Dividends paid on common and preferred shares	**(3,627,387)**	(1,170,843)
Dividends payable at the end of the year *(Note 26)*	**1,547,439**	1,582,251

Other reserves

According to the Company's Charter, the Company created a reserve capital equal to 15% of the authorized share capital. This reserve capital was created through appropriation of the retained earnings. There were no movements in the reserve capital in 2016 and 2015.

Foreign 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 are calculated by dividing net profit for the year attributable to common equity holders of the Parent (after adjusting for the after-tax amount of dividends on preferred shares) by the weighted average number of common and preferred shares outstanding during the year.

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

20. EQUITY (continued)

Earnings per share (continued)

The following tables reflects profit and share data used in the basic and diluted earnings per share computations.

In thousands of tenge	2016	2015
Net profit attributable to common equity holders of the Parent from continuing operations	**14,872,009**	26,536,432
Net profit/(loss) attributable to common equity holders of the Parent from discontinued operations	**40,959,809**	(2,148,068)
Net profit attributable to common equity holders of the Parent for basic earnings	**55,831,818**	24,388,364
Interest on preferred shares	**96,167**	95,432
Net profit attributable to common and preferred equity holders of the Parent adjusted for diluted earnings	**55,927,985**	24,483,796
Weighted average number of common and preferred shares for calculation of basic and diluted earnings per share	**11,027,863**	11,029,991
Basic and diluted earnings per share, tenge	**5,071.51**	2,219.75

The following table reflects profit and share data used in the computation of basic and diluted earnings per share from continuing activities:

In thousands of tenge	**2016**	2015
Net profit attributable to common equity holders of the Parent from continuing operations	**14,872,009**	26,536,432
Interest on preferred shares	**96,167**	95,432
Weighted average number of common and preferred shares for calculation of basic and diluted earnings per share	**11,027,863**	11,029,991
Basic and diluted earnings per share, profit from continuing operations for the year attributable to equity holders of the Parent, tenge	**1,357.30**	2,414.50

There have been no other transactions involving common shares or potential commonshares between the reporting date and the date of preparation of these consolidated financial statements.

In accordance with listing requirements of Kazakhstan Stock Exchange, the Group should disclose ratio of total assets less total intangible assets, total liabilities and preferred non-voting shares (in equity) to the number of issued common shares at the end of the year. As at 31 December 2016, this ratio was equal to KZT 30,478 (as at 31 December 2015: KZT 25,454). Another requirement for disclosure is the sum of the dividends payable to owners of preferred non-voting shares, preferred non-voting shares amount in equity and debt component of preferred non-voting shares, divided by number of preferred non-voting shares. As at 31 December 2016, this ratio was equal to KZT 8,553 (as at 31 December 2015: KZT 8,662).

21. BORROWINGS

As at 31 December 2016 and 2015, borrowings comprised:

In thousands of tenge	**Weighted average interest rate**	**2016**	Weighted average interest rate	2015
Borrowings with a fixed interest rate of 7% to 12.5% per annum	**8.35%**	**56,268,176**	9.45%	31,438,314
		56,268,176		31,438,314

As at 31 December 2016 and 2015, borrowings were denominated in the following currencies:

In thousands of tenge	**2016**	2015
Tenge	**28,450,534**	3,012,959
Tenge, payments indexed to exchange rate tenge/US dollar	**27,817,642**	28,425,355
	56,268,176	31,438,314

Borrowings are repayable as follows:

	2016	2015
Current portion of borrowings	**2,473,507**	4,138,393
Maturity between 1 and 2 years	**2,029,593**	–
Maturity between 2 and 5 years	**38,981,004**	27,299,921
Maturity over 5 years	**12,784,072**	–
Total long-term portion of borrowings	**53,794,669**	27,299,921
Total borrowings	**56,268,176**	31,438,314

As at 31 December 2016, the Parent is a guarantor of the Group's credit facility in the amount of KZT 26,991,220 thousand received from Development Bank of Kazakhstan JSC (as at 31 December 2015: nil).

22. LEASE

Finance lease

The Group has entered into finance lease agreements on the number of property and equipment items, primarily telecommunication equipment. According to agreement terms, leased assets pass into the Group's ownership after the expiry of lease term. The amounts of future minimum lease payments and their present values are presented as follows:

	2016		2015	
In thousands of tenge	**Minimum lease payments**	**Present value of minimum lease payments**	Minimum lease payments	Present value of minimum lease payments
Within one year	**3,514,387**	**3,162,706**	5,579,589	4,707,462
After one year but not more than five years	**1,333,351**	**1,273,015**	4,847,737	4,435,721
Less: amounts representing future finance costs	**(412,017)**	**–**	(1,284,143)	–
Discounted value of minimum lease payments	**4,435,721**	**4,435,721**	9,143,183	9,143,183
Less: amounts due for settlement within 12 months		**(3,162,706)**		(4,707,462)
Amounts due for settlement after 12 months		**1,273,015**		4,435,721

The amounts representing finance costs are based on effective interest rates from 12.5% to 14% per annum.

Operating lease

The Group has entered into commercial agreements of operating lease on certain property and equipment, primarily buildings and premises. These leases have an average life of 1 year with renewal option included in the agreements. There are no restrictions placed upon the lessee by entering into these leases. Information on obligations under operating lease agreements is disclosed in *Note 41*.

23. EMPLOYEE BENEFIT OBLIGATIONS

State contribution plan

The Group pays social tax according to the current statutory requirements of the Republic of Kazakhstan. The social tax and salary accruals are recorded in expenses as incurred.

Besides, the Group withholds 10% of the salary of employees paid as contributions of employees to the accumulating pension funds. These expenses are recorded in the period when they were incurred.

Defined benefits pension plan

Post-retirement benefits under this scheme are payable in accordance with the Collective Agreement concluded between the Company and its employees.

The Group did not form a fund against such liabilities.

The total liability for the Company's defined benefit plan comprised the following at 31 December 2016 and 2015:

In thousands of tenge	**2016**	2015
Present value of defined benefit obligation	**8,219,538**	7,786,044

A reconciliation of the present value of the defined benefit obligation with specified payments is as follows for the years ended 31 December 2016 and 2015:

In thousands of tenge	**2016**	2015
Total liability at the beginning of the year	**7,786,044**	5,797,354
Current service cost	**294,864**	116,272
Interest expenses	**739,674**	540,313
Benefits paid during the year	**(1,320,587)**	(1,440,320)
Actuarial losses recognized during the period within other comprehensive income	**759,978**	2,531,681
Actuarial losses recognized during the period within expenses	**(40,435)**	240,744
Total liability at the end of the year	**8,219,538**	7,786,044
Liability payable within one year	**430,554**	511,689
Liability payable after one year	**7,788,984**	7,274,355

23. EMPLOYEE BENEFIT OBLIGATIONS (continued)

Defined benefits pension plan (continued)

Actuarial losses recognised in2016 have resulted primarily from changes in the assumptions relating to the discount rate and from historical adjustments.

Cost of current services, interest expenses and actuarial losses in the total amount of KZT 994,103 thousand were recorded in cost of sales and general and administrative expenses within personnel costs (2015: KZT 897,329 thousand) *(Note 32).*

Actuarial losses recognized in 2016 within other comprehensive income, net of income tax, were equal to KZT 607,983 thousand (2015: KZT 2,025,345 thousand).

There were no unrecognised actuarial losses or past service costs.

The estimates of the liability were made on the basis of the published statistical data regarding mortality of employees and actual 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:

	2016	2015
Discount rate	**9.54%**	9.50%
The expected rate of future annual minimum salary increases	**7.00%**	7.00%

A quantitative sensitivity analysis for significant assumptions as at 31 December 2016, is as follows:

	Discount rate		**The expected rate of future annual minimum salary increases**	
Sensitivity level	Growth by 0.5%	Reduction by 0.5%	Growth by 1%	Reduction by 1%
Impacton defined benefit plan liabilities, in thousands tenge	(195,110)	296,804	539,718	(460,198)

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

At 31 December 2016 and 2015 other non-current liabilities comprised :

In thousands of tenge	2016	2015
Deferred connection income	**1,763,417**	2,205,014
Guarantees issued	**726,808**	–
Decommissioning liabilities	**141,564**	66,614
Other	**1,577,350**	704,505
	4,209,139	2,976,133

Guarantees issued

As disclosed in *Note 37*, on 25 February 2016, the Company provided a guarantee to Mobile Telecom Service LLP under the credit facility from Kazkommertsbank with a credit limit of up to KZT 14,000,000 thousand for the period until 25 February 2023 and a guarantee to Altel JSC under the credit facility from Development Bank of Kazakhstan JSC with a credit limit of up to KZT 10,008,780 thousand for the period until 19 December 2024.

On 31 December, amount of actually used credit line of Kazkommertsbank JSC was equal to nil, disbursed loan amount on a credit line of Development Bank of Kazakhstan JSC equal to KZT 2,445,467 thousand.

On 14 November 2009 the Group signed an agreement with Kazakhmys Plc and China Development Bank ("CDB"), where the Group and Kazakhmys provided a 12 to 15 years guarantee to CDB for the Parent's borrowings. 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 compensation of any amounts paid by the Group arising from the guarantee agreement by the Parent.

The Group recorded guarantee issued within the consolidated statement of changes in equity. Amortization of this guarantee until the date of repayment of the Parent in 2015 was equal to KZT 69,395 thousand *(Note 33)*.

In 2015, due to the early termination of obligations of the Parent to CDB, the Group derecognized liabilities on guarantee issued. Derecognition in the amount of KZT 964,149 thousand was recorded within retained earnings.

Decommissioning liabilities

Provision for decommissioning liabilities is recorded at the discounted value of expected costs to bring the sites and facilities to their original condition using estimated cash flows and is recognised as part of the cost of the specific asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability.

24. OTHER NON-CURRENT LIABILITIES (continued)

Decommissioning liabilities (continued)

Movement of provision for decommissioning liabilities for the years ended 31 December was as follows:

In thousands of tenge	**2016**	2015
Provision for decommissioning liabilities as at 1 January	**66,614**	1,944,996
Additional provisions	**61,057**	(363)
Amortization of discount on continuing operations *(Note 33)*	**13,893**	6,970
Discontinued operations	**–**	(1,884,989)
Provision for decommissioning liabilities as at 31 December	**141,564**	66,614

25. TRADE PAYABLES

At 31 December 2016 and 2015 trade payables comprised:

In thousands of tenge	**2016**	2015
Trade payables for services rendered	**6,635,766**	6,364,079
Trade payables for supply of property and equipment	**4,558,941**	5,331,902
Trade payables for inventory received	**802,635**	197,488
	11,997,342	11,893,469

As at 31 December 2016 and 2015 trade payables were interest-free.

As at 31 December 2016 and 2015 trade payables were mainly denominated in the following currencies:

In thousands of tenge	**2016**	2015
Tenge	**11,429,856**	7,088,852
US dollars	**379,761**	4,704,858
Other	**187,725**	99,759
	11,997,342	11,893,469

26. OTHER CURRENT LIABILITIES

At 31 December 2016 and 2015 other current liabilities comprised:

In thousands of tenge	**2016**	2015
Payable to Khan Tengri Holding B.V.	**4,842,282**	–
Settlements with employees	**4,324,798**	3,734,606
Taxes payable other than income tax	**2,335,514**	2,428,493
Dividends payable (Note 20)	**1,547,439**	1,582,251
Payable to pension funds	**864,145**	746,694
Deferred income	**662,586**	811,719
Guarantees issued	**151,852**	–
Other	**1,400,556**	1,326,655
	16,129,172	10,630,418

Payable to Khan Tengri Holding B.V. is related to final settlements on acquisition of interest in associate of Khan Tengri Holding B.V. *(Note 37)*.
At 31 December 2016 and 2015, other current liabilities were not interest bearing and were primarily denominated in tenge.

27. REVENUE

Revenue for the years ended 31 December comprised:

In thousands of tenge	**2016**	2015
Data transfer services	**102,272,443**	96,635,654
Rendering of wireline and wireless phone services	**52,923,822**	56,054,526
Interconnect	**18,344,782**	15,847,010
Rent of lines	**16,537,084**	6,933,796
Other	**8,388,580**	7,272,617
	198,466,711	182,743,603

28. COMPENSATION FOR PROVISION OF UNIVERSAL SERVICES 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 grants received for the year ended 31 December 2016 were equal KZT 7,353,257 thousand (2015: KZT 7,010,726 thousand).

29. COST OF SALES

Cost for the years ended 31 December comprised:

In thousands of tenge	2016	2015
Personnel costs *(Note 32)*	**52,015,463**	48,553,105
Depreciation and amortisation	**30,652,953**	30,007,843
Rent of channels	**8,641,512**	8,212,875
Repair and maintenance expenses	**8,273,302**	7,343,005
Interconnect	**7,501,132**	8,555,181
Materials	**6,634,679**	6,159,307
Rental of equipment	**6,246,064**	886,844
TV Content	**4,248,377**	3,773,756
Fees for the right to provide telecom services	**2,749,103**	2,519,955
Electricity	**2,719,383**	2,748,050
Security and safety	**2,258,226**	2,406,021
Fees for use of frequency range	**351,398**	981,380
Other	**6,000,769**	5,107,234
	138,292,361	127,254,556

30. GENERAL AND ADMINISTRATIVE EXPENSES

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

In thousands of tenge	2016	2015
Personnel costs *(Note 32)*	**12,056,669**	11,136,714
Taxes other than income tax	**2,937,777**	3,321,472
Consulting services	**1,466,552**	3,819,904
Allowance for doubtful receivables (Notes 13, 15, 16 and 18)	**1,411,405**	942,103
Social activities	**637,038**	519,419
Business trips	**349,215**	280,127
Depreciation and amortization	**256,961**	281,273
Insurance	**211,589**	554,940
Materials	**230,387**	231,734
Repair and maintenance expenses	**247,609**	219,218
Bank fees	**198,175**	305,178
Write-down of inventories to net realizable value	**192,139**	341,290
Security and safety	**87,611**	84,933
Trainings	**83,478**	110,233
Rent of equipment	**78,375**	73,136
Other	**1,346,061**	673,169
	21,791,041	22,894,843

31. SELLING EXPENSES

Selling expenses for the years ended 31 December comprised:

In thousands of tenge	2016	2015
Marketing and advertising	**1,744,576**	1,469,181
Dealers commission	**801,790**	1,338,712
Other	**382,430**	341,488
	2,928,796	3,149,381

32. PERSONNEL EXPENSES

Personnel expenses for the years ended 31 December comprised:

In thousands of tenge	2016	2015
Payroll	**57,456,111**	53,535,415
Payroll related taxes	**5,621,918**	5,257,075
Employee benefits *(Note 23)*	**994,103**	897,329
	64,072,132	59,689,819

Personnel expenses for the years ended 31 December were allocated as follows:

In thousands of tenge	2016	2015
Cost of sales *(Note 29)*	**52,015,463**	48,553,105
General and administrative expenses *(Note 30)*	**12,056,669**	11,136,714
	64,072,132	59,689,819

33. (FINANCE COSTS) / FINANCE INCOME

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

In thousands of tenge	**2016**	2015
Finance costs		
Interest expense on loans	**(4,591,568)**	(3,704,016)
Interest payable under finance leases	**(872,127)**	(1,957,577)
Discounting of long-term loans to employees	**(678,722)**	(777,829)
Discounting of other non-current financial assets	**(139,048)**	(111,312)
Interest on debt component of preferred shares (Note 20)	**(96,167)**	(95,432)
Unwinding of discounting of long-term accounts payable	**(21,020)**	–
Unwinding of discount (provision for decommissioning liability) (Note 24)	**(13,893)**	(6,970)
	(6,412,545)	(6,653,136)
Finance income		
Unwinding of discount on long-term loans to employees	**1,058,544**	1,069,658
Interest income on deposits	**1,028,267**	501,992
Interest income on cash balances	**860,930**	21,327
Unwinding of discount on long-term accounts receivable	**499,324**	1,016,966
Interest income on guarantees issued (Note 24)	**128,218**	69,395
	3,575,283	2,679,338

34. NET INCOME/(EXPENSES)FROM REVALUATION OF FOREIGN CURRENCY BALANCES

On 20 August 2015, the National Bank and the Government of the Republic of Kazakhstan announced the transition to "free floating exchange rate of tenge" and abolition of the currency corridor. As a result, Kazakhstani tenge significantly devalued against US dollar and other major currencies approximately by 90%. In 2016 and 2015 the Group had a balanced foreign exchange position, and therefore, for the year ended 31 December 2016, the Group recognized a net loss from revaluation of foreign currency balances in the amount of KZT 890,461 thousand (in 2015: the Group recognized net gain from revaluation of foreign currency balances in the amount of KZT 189,482 thousand).

35. OTHER INCOME/(EXPENSES)

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

In thousands of tenge	**2016**	2015
Other income		
Rental income	**3,194,530**	2,748,393
Non-core operations	**452,817**	482,099
Other	**550,288**	749,243
	4,197,635	3,979,735
Other expenses		
Expenses related to acquisition of an interest in an associate *(Note 37)*	**(4,842,282)**	–
Non-core operations	**(427,284)**	(494,309)
Rent	**(12,310)**	(12,841)
Other	**(30,548)**	(817,948)
	(5,312,424)	(1,325,098)

Rental income mainly represents rent of spaces used for the installation of technological equipment by third parties.

36. INCOME TAX EXPENSES

Income tax expenses for the years ended 31 December comprised:

In thousands of tenge	2016	2015
Current corporate income tax expenses	**7,432,290**	6,191,443
Deferred income tax expenses	**1,777,740**	2,423,341
	9,210,030	8,614,784

The Group and its subsidiaries except for KT-IX LLC and Online.kg LLC are subject to taxation in the Republic of Kazakhstan. KT-IX LLC is subject to taxation in the Russian Federation. Online.kg LLC is subject to taxation in the Kyrgyz Republic.

Tax rate for the Group and subsidiaries except for subsidiaries stated above was 20% in 2016 and 2015.

A reconciliation of income tax expenses applicable to profit before taxation at the statutory rate of 20% (2015: 20%), with the current corporate income tax expenses for the years ended 31 December is out below:

In thousands of tenge	2016	2015
Profit before tax from continuing operations	**24,082,039**	34,971,938
Profit/(loss) before tax from discontinued operations	**42,621,503**	(2,138,852)
Profit before taxation	**66,703,542**	32,833,086

36. INCOME TAX EXPENSES (continued)

In thousands of tenge	**2016**	2015
Income tax at statutory income tax rate of 20%	**13,340,708**	6,566,617
NRV adjustment for inventories	**125,727**	156,216
Changes in unrecognised deferred tax assets	**(139,348)**	(143,774)
Share in loss of an associate non-deductible for tax purposes	**2,713,639**	–
Non-taxable gain from discontinued operations	**(6,091,417)**	–
Non-deductible expenses	**922,415**	2,044,941
Total income tax expenses	**10,871,724**	8,624,000
Income tax expense reported in the consolidated statement of comprehensive income	**9,210,030**	8,614,784
Income tax related to discontinued operations *(Note 37)*	**1,661,694**	9,216
Total income tax expenses	**10,871,724**	8,624,000

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, comprised the following at 31 December 2016:

	Consolidated statement of financial position		Consolidated statement of comprehensive income		In other comprehensive income	
In thousands of tenge	**31 December 2016**	31 December 2015	**2016**	2015	2016	2015
Deferred tax assets						
Tax losses carry-forward	**17,384**	2,081,767	**(2,064,383)**	(401,709)	**–**	–
Employee benefit obligations	**1,643,908**	1,557,209	**(65,296)**	(108,599)	**151,995**	506,337
Discount on long-term assets	**1,037,058**	1,163,564	**(126,506)**	(204,104)	**–**	–
Accrued expenses	**–**	1,105,482	**(1,105,482)**	880,894	**–**	–
Accrued provisions for unused vacations	**256,363**	392,890	**(136,527)**	64,589	**–**	–
Allowance for doubtful receivables	**507,331**	371,821	**135,510**	108,156	**–**	–
Interest payable on borrowings	**272,588**	225,260	**47,328**	26,277	**–**	–
Intangible assets	**128,609**	60,072	**68,537**	(16,664)	**–**	–
Deferred income	**17,860**	55,862	**(38,002)**	25,444	**–**	–
Other	**654,286**	881,200	**(226,914)**	(48,651)	**–**	–
Less: unrecognised tax assets	**(137,346)**	(276,694)	**139,348**	143,774	**–**	–
Less: deferred tax assets less deferred tax liabilities	**(4,398,041)**	(6,113,212)	**1,715,171**	(1,150,353)	**–**	–
Deferred tax assets	**–**	1,505,221	**(1,657,216)**	(680,946)	**151,995**	506,337

36. INCOME TAX EXPENSES (continued)

	Consolidated statement of financial position		Consolidated statement of comprehensive income		In other comprehensive income	
In thousands of tenge	**31 December 2016**	31 December 2015	**2016**	2015	2016	2015
Deferred tax liabilities						
Property and equipment	**23,756,637**	23,689,223	**(67,414)**	(2,864,952)	**–**	–
Intangible assets	**265,485**	591,329	**325,844**	13,628	**–**	–
Less: deferred tax assets less deferred tax liabilities	**(4,398,041)**	(6,113,212)	**(1,715,171)**	1,150,353	**–**	–
Deferred tax liabilities	**19,624,081**	18,167,340	**(1,456,741)**	(1,700,971)	**–**	–
Deferred income tax (expense)/benefit			**(3,113,957)**	(2,381,917)	**151,995**	506,337

Deferred tax assets and liabilities are presented in the consolidated statement of financial position as follows:

In thousands of tenge	**2016**	2015
Deferred tax assets		
- Continuing operations	**–**	204,814
- Discontinued operations *(Note 37)*	**–**	1,300,407
Deferred tax liabilities	**(19,624,081)**	(18,167,340)
Net deferred tax liabilities	**(19,624,081)**	(16,662,119)

In thousands of tenge	**2016**	2015
Reconciliation of deferred tax liabilities, net		
Balance at 1 January	**(16,662,119)**	(14,786,539)
Income tax expenses for the reporting period –origination and recovery of temporary differences	**(1,777,740)**	(2,423,341)
Less: deferred tax recognised within other comprehensive income	**151,995**	506,337
Discontinued operations *(Note 37)*	**(1,336,217)**	41,424
Balance at 31 December	**(19,624,081)**	(16,662,119)

The Group performs offsetting of tax assets and liabilities only if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred tax assets and deferred tax liabilities relating to income tax collected by the same taxation 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 legislation of the Republic of Kazakhstan, tax losses may be deferred for 10 (ten) years from the date of their origination and will expire in 2019. 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

On 3 November 2015, the Group announced the decision of its Board of directors to enter into an agreement to form a joint venture in mobile segment based on Altel JSC (ALTEL 4G brand) and Mobile Telecom-Service LLP (Tele2 brand) businesses.

On 29 February 2016, Kazakhtelecom JSC and Tele2 completed the transaction on formation of a joint venture in mobile segment based on Altel JSC and Mobile Telecom-Service LLP businesses. As a result of this transaction, Kazakhtelecom JSC received 51% of the authorised capital and 49.48% of voting shares in Khan Tengri Holding B.V. in exchange for 100% share in Altel JSC *(Note 9)*.

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

Also, according to the transaction terms, on 29 February 2016 the Company and Mobile Telecom Service LLP agreed to extend the maturity of the Company's receivables from Mobile Telecom Service LLP until 2031. Receivables were discounted at the date of restructuring using the 10% market interest rate.

On 25 February 2016, the amount due from Altel JSC on the credit line in Development Bank of Kazakhstan JSC of KZT 26,991,220 thousand and the amount due on the credit line in SB Sberbank of Russia of KZT 3,000,000 thousand was transferred to the Company.

Results of discontinued operations are presented as follows:

In thousands of tenge	**2016**	2015
Revenue	**4,961,007**	37,499,637
Cost of sales	**(2,533,355)**	(31,797,354)
Gross profit	**2,427,652**	5,702,283
General and administrative expenses	**(585,577)**	(3,464,783)
Selling expenses	**(601,613)**	(3,788,680)
Operating profit/(loss)	**1,240,462**	(1,551,180)

In thousands of tenge	**2016**	2015
Finance costs	**(421,325)**	(1,442,276)
Finance income	**175,085**	226,360
Other income	**47,958**	628,244
Profit/(loss) before tax from discontinued operations	**1,042,180**	(2,138,852)
Income tax expenses	**(423,337)**	(9,216)
Profit/(loss) for the year from discontinued operations	**618,843**	(2,148,068)
Gain on disposal of a subsidiary	**41,579,323**	–
Income tax expenses from disposal of a subsidiary	**(1,238,357)**	–
Total profit/(loss) for the year from discontinued operations	**40,959,809**	(2,148,068)

Gain on disposal of a subsidiary Altel JSC is presented as follows:

In thousands of tenge	**2016**
Preliminary assessment of the fair value of investment in Khan Tengri Holding B.V. *(Note 9)*	80,700,000
Disposed net assets	(30,954,363)
Discounting of receivables from Mobile Telecom-Service LLP	(7,282,414)
Obligations on guarantees issued	(883,900)
Profit from disposal of subsidiary	**41,579,323**

37. DISCONTINUED OPERATIONS (continued)

The major classes of assets and liabilities of Altel JSC as at the date of disposal and 31 December 2015 were as follows:

In thousands of tenge	**2016**	2015
Assets		
Property and equipment *(Note 7)*	**28,048,578**	26,932,840
Intangible assets *(Note 8)*	**8,082,670**	3,885,075
Deferred tax asset *(Note 36)*	**911,526**	1,300,407
Inventory	**2,067,089**	2,449,560
Trade receivables	**3,889,479**	2,722,596
Cash and cash equivalents	**1,683,295**	8,688,151
Other	**2,453,617**	2,498,571
Total assets	**47,136,254**	48,477,200
Liabilities		
Borrowings	**–**	(33,836,564)
Trade payables	**(10,423,524)**	(8,673,614)
Advances received	**(1,389,595)**	(1,441,043)
Other	**(4,368,772)**	(4,536,095)
Total liabilities	**(16,181,891)**	(48,487,316)
Disposed net assets	**30,954,363**	(10,116)

Net cash flows of Altel JSC:

In thousands of tenge	**2016**	2015
Operating	**(10,770,566)**	6,332,276
Investing	**(4,777,192)**	(8,266,897)
Financing	**8,542,902**	9,006,069
Net cash (outflow)/inflow	**(7,004,856)**	7,071,448

Net cash outflows from disposal of the subsidiary Altel JSC are presented as follows

In thousands of tenge	**2016**
Cash of disposed subsidiary	**(1,683,295)**
Net disposal of cash from subsidiary disposal	**(1,683,295)**

	2016	2015
Profit/(loss) per share		
Basic and diluted, from discontinued operations, tenge	**3,714.21**	(194.75)

38. NON-CASH TRANSACTIONS

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

In 2016, the Group paid an amount of KZT 20,432,465 thousand for property and equipment purchased in prior year (2015: KZT 9,849,298 thousand). Property and equipment in the amount of KZT 4,558,941 thousand was purchased in 2016 but not paid as at 31 December 2016 (2015:KZT 5,331,902 thousand).

In 2015, in accordance with the finance lease agreements, the Group received telecommunication equipment amounting to KZT 186,964 thousand.

39. RELATED PARTY TRANSACTIONS

The category 'entities under control of the parent' comprises entities controlled by the Parent Company. Transactions with such 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 the Parent and entities controlled by the Parent.

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 2016 and 2015, the Group has not recorded any impairment of accounts receivable 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 2016 and 2015 and the balances with related parties at 31 December 2016 and 2015 are as follows:

In thousands of tenge	**2016**	2015
Sales of goods and services		
Parent	**204,883**	646,134
Parent-controlled entities	**3,955,022**	2,524,809
Associate	**18,445,746**	–
Government institutions	**28,657,548**	27,262,662

In thousands of tenge	**2016**	2015
Purchases of goods and services		
Parent	**30,226**	–
Parent-controlled entities	**1,685,666**	2,036,093
Associate	**8,052,200**	–
Government institutions	**557,754**	14,226,577
Interest accrued on borrowings		
Entities under state control		
- Development Bank of Kazakhstan JSC	**4,199,838**	3,318,471
Average interest rate on borrowings	**8.15%**	8.08%
Cash and cash equivalents		
Entities under state control		
- Development Bank of Kazakhstan JSC	**3,240**	2,581
Borrowings		
Entities under state control		
- Development Bank of Kazakhstan JSC	**55,137,133**	55,398,052
Trade and other accounts receivable		
Parent	**51,156**	154,155
Parent-controlled entities	**539,019**	470,265
Associate	**11,164,458**	–
Government institutions	**4,411,156**	3,204,354

39. RELATED PARTY TRANSACTIONS (continued)

In thousands of tenge	2016	2015
Accounts payable		
Parent-controlled entities	**342,445**	192,228
Associate	**8,231,494**	–
Government institutions	**525,492**	556,337
Other non-current assets		
Long-term loans to key management personnel	**38,513**	41,696

In 2016 and 2015, the Group provided communication services for the entities controlled by the Parent, and purchased goods and services to support operating activities related to provision of telecommunication services from such entities.

Total compensation to key management personnel included in general and administrative expenses in the accompanying consolidated statement of comprehensive income was equal to KZT 654,466 thousand and KZT 715,758 thousand for the years ended 31 December 2016 and 2015, respectively.

Compensation to key management personnel includes salary stated in labor contracts and bonuses paid based on the results of the year.

As disclosedin *Note 28*, the Government of the Republic of Kazakhstan provides certain subsidies to the Group for provision of universal services in rural areas.

As disclosed in *Note 21*, as at 31 December 2016, the Group had borrowings in the amount of KZT 26,991,220 thousand, under which the Parent acted as a guarantor (at 31 December 2015: nil).

40. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES

The Group's main financial instruments comprise loans, finance lease liabilities, cash and cash equivalents, accounts receivable and 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 2016, the Group had no loans or borrowings with floating interest rates and was not subjected to the risk of changes in market interest rates.

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

The following table demonstrates the sensitivity to a reasonably possible changes in the exchange rates of US dollar to tenge, 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.

	2016		2015	
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 dollars	**13%**	**4,654,329**	60%	1,684,581
	-13%	**(4,654,329)**	-20%	(561,527)

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

Credit risk

Credit risk is the risk that the Group will incur finance costs 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 trades 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 equal to the carrying amount as disclosed in *Note 12, 15, 16, 17 and 18*. The Group has no significant concentrations of credit risk.

			Balance of cash		Balance on deposit accounts	
In thousands of tenge	**Rating 2016**	Rating 2015	**2016**	2015	**2016**	2015
ATF Bank JSC	**B/negative/B**	B-/B/stable	**5,075,125**	–	**–**	–
Kazkommertsbank JSC	**B-/negative/C**	B3/negative	**4,814,671**	3,503,692	**13,594,766**	16,634,030
Halyk Bank Kazakhstan JSC	**BB/negative/B, kzA**	Ba2/negative	**3,848,216**	5,437,860	**16,997,790**	5,431,520
Kaspi Bank JSC	**BB-/negative/B, kzBBB+**	BB-/B1/negative	**3,455,999**	–	**–**	–
Forte Bank JSC	**B/stable/B, kzBB**	B/B/stable	**2,667,505**	154	**–**	–
SB Sberbank JSC	**BBB-/negative/AA-**	Ba3/negative	**1,186,179**	51,190	**–**	–
Tsesnabank JSC	**B+/negative/B, kzBBB-**	B+/B/stable	**1,662,330**	374,596	**3,364,909**	–
Altyn Bank JSC (SB Halyk Bank Kazakhstan JSC)	**BB stable**	BB/B/stable	**597,988**	510,708	**6,665,800**	4,752,580
Eximbank Kazakhstan JSC	**B-/stable/C, kzBB-**	B-/B++/stable	**580,601**	–	**–**	–
Citibank Kazakhstan JSC	**A positive**	A positive	**400,051**	1,925	**–**	–

			Balance of cash		Balance on deposit accounts	
In thousands of tenge	**Rating 2016**	Rating 2015	**2016**	2015	**2016**	2015
Alfa Bank JSC	**BB/Stable/B, kzA-**	B+/stable	**10,626**	–	**–**	–
Bank CenterCredit JSC	**B/stable/B, kzBB+**	B/B/stable	**6,568**	2075	**5,265,995**	–
Development Bank of Kazakhstan JSC	**BBB-/negative/A-3**	BBB/A-2/negative	**3,240**	2,581	**–**	–
Uralsib JSC	**B/CCC+**	Ba3	**41**	39	**–**	–
Bank of Astana JSC	**B/stable/B**	B/stable	**5**	–	**–**	–
KazInvest Bank JSC	**D/D/-**	B-/C/stable	**2**	1,374,436	**–**	2,206,555
Qazaq Banki JSC	**B-/negative/C**	B-/C/stable	**–**	–	**–**	253,765
Islamic Bank JSC	**A+positive**	A+positive	**–**	132	**–**	–
SB Bank of China in Kazakhstan JSC	**A stable**	A stable	**–**	40	**–**	–
Moskommertsbank	**A+ negative**	A+/negative	**–**	3	**–**	–
Total			**24,309,147**	11,259,431	**45,889,260**	29,278,450

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

The Group monitors its risk of a shortage of funds using a 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 loans and borrowings should mature in the next 12 month period, Approximately 9% of the Group's debt will mature in less than one year at 31 December 2016 (31 December 2015: 22%) based on the carrying amount of borrowings reflected in the consolidated financial statements.

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

Liquidity risk (continued)

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

In thousands of tenge	On demand	1 to 3 months	3 months to 1 year	From 1 to 5 years	More than 5 years	Total
At 31 December 2016						
Borrowings	**–**	**1,126,587**	**3,334,270**	**52,825,639**	**14,585,904**	**71,872,400**
Finance lease liabilities	**–**	**1,076,402**	**2,437,985**	**1,333,351**	**–**	**4,847,738**
Trade payables	**9,146,269**	**1,188,105**	**1,662,968**	**–**	**–**	**11,997,342**
Employee benefit obligations	**–**	**–**	**430,554**	**5,282,348**	**6,602,935**	**12,315,837**
Other financial liabilities	**–**	**12,266,927**	**–**	**2,445,722**	**–**	**14,712,649**
	9,146,269	**15,658,021**	**7,865,777**	**61,887,060**	**21,188,839**	**115,745,966**
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 payables	9,067,081	1,177,818	1,648,570	–	–	11,893,469
Employee benefit obligations	–	–	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

Cash flow risk

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

Cash flows requirements are monitored on a regular basis and management provides for availability of sufficient funds required to fulfil any liabilities when 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 common shares, return equity to shareholders or issue new shares. No changes were made by the Group in the capital management objectives, policies or processes in 2016 and 2015.

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 payables and finance lease liabilities. Capital includes equity attributable to the equity holders of the Group.

The Group's debt-to-equity ratio at the period end was as follows:

In thousands of tenge	**31 December 2016**	31 December 2015
Interest-bearing loans and borrowings	**56,268,176**	31,438,314
Trade payables	**11,997,342**	11,893,469
Finance lease liabilities	**4,435,721**	9,143,183
Net debt	**72,701,239**	52,474,966
Equity	**343,797,610**	292,421,442
Debt-equity ratio	**0.21**	0.18

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

Fair value

For the purpose of disclosing the fair value, the Group determined classes of assets and liabilities based on characteristics and risks of assets or liabilities and fair value hierarchy level as described above.

The table below presents fair value hierarchy of assets and liabilities of the Group. Disclosure of quantitative information of fair value hierarchy of financial instruments as at 31 December 2016:

		Fair value measurement using			
In thousands of tenge	Date of valuation	Price quotations on active markets (Level 1)	Significant observable in-puts (Level 2)	Significant unobservable in-puts (Level 3)	Total
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2016	**24,320,942**	–	–	**24,320,942**
Other non-current financial assets	31 December 2016	–	–	**4,850,133**	**4,850,133**
Other financial assets	31 December 2016	–	–	**48,133,067**	**48,133,067**
Trade receivables	31 December 2016	–	–	**24,992,206**	**24,992,206**
Liabilities for which fair values are disclosed					
Borrowings	31 December 2016	–	–	**52,567,792**	**52,567,792**
Finance lease liabilities	31 December 2016	–	–	**4,435,721**	**4,435,721**
Trade payables	31 December 2016	–	–	**11,997,342**	**11,997,342**
Employee benefit obligations	31 December 2016	–	–	**8,219,538**	**8,219,538**

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial assets and liabilities 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 amount 2016	Fair value 2016	Unrecognised gain/(loss) 2016	Carrying amount 2015	Fair value 2015	Unrecognised gain/(loss) 2015
Financial assets						
Cash and cash equivalents	**24,320,942**	**24,320,942**	**–**	11,276,891	11,276,891	–
Other non-current financial assets	**5,876,966**	**4,850,133**	**(1,026,833)**	10,557,028	9,990,795	(566,233)
Other financial assets	**48,133,067**	**48,133,067**	**–**	33,949,795	33,949,795	–
Trade receivables	**24,992,206**	**24,992,206**	**–**	16,385,102	16,385,102	–
Financial liabilities						
Borrowings	**56,268,176**	**52,567,792**	**3,700,384**	31,438,314	32,495,536	(1,057,222)
Finance lease liabilities	**4,435,721**	**4,435,721**	**–**	9,143,183	9,143,183	–
Trade payables	**11,997,342**	**11,997,342**	**–**	11,893,469	11,893,469	–
Employee benefit obligations	**8,219,538**	**8,219,538**	**–**	7,786,044	7,786,044	–
Total unrecognised change in unrealised fair value			**(2,673,551)**			(1,623,455)

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

Valuation techniques and assumptions

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

Assets for which fair value approximates carrying value

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

Financial liabilities carried at amortised cost

The fair value of loans obtained is measured by discounting future cash flows using rates currently existing for outstanding amounts with similar terms, credit risk and maturity.

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 2016, the Group had contractual obligations in the total amount of KZT 11,107,684 thousand (31 December 2015: KZT 9,144,742 thousand) mainly related to purchase of telecommunication equipment and construction of telecommunication network.

Operating lease commitments – Group as lessee

The Group entered into agreements for the lease of office buildings and premises in various regions of Kazakhstan. Agreements for the lease of office buildings and premises are based on the lease term of 1 year as an average. There are no restrictions placed upon the Group by entering into these lease agreements.

Future minimum rental payments under the non-cancellable operating lease agreements are presented as follows:

In thousands of tenge	2016	2015
Within one year	**8,624**	118,205
More than 1 year but less than 5 years	**–**	–
	8,624	118,205

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 its 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

Tax legislation and regulatory framework of the Republic of Kazakhstan are subject to constant changes and allow for different interpretations. 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. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the year of review. 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 2016. Management believes that as at 31 December 2016 its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained.