



**Kazakhtelecom JSC**

Consolidated financial statements

*For the year ended 31 December 2016  
together with Independent auditor's report*

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Independent auditors' report

**Consolidated financial statements**

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## 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.



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### ***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.





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### ***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.



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### ***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.



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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



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

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

25 February 2017

Gulmira Turmagambetova  
General Director  
«Ernst & Young» LLP

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



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****As at 31 December 2016**

<i>In thousands of tenge</i>	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Assets</b>			
<b>Non-current assets</b>			
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
		<b>364,102,896</b>	<b>318,469,603</b>
<b>Current assets</b>			
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
		<b>104,859,216</b>	<b>69,547,141</b>
Assets classified as held for sale	37	–	48,477,200
<b>Total assets</b>		<b>468,962,112</b>	<b>436,493,944</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to equity holders of the Parent</b>			
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
		<b>343,797,610</b>	<b>293,425,085</b>
<b>Non-controlling interests</b>		<b>–</b>	<b>(1,003,643)</b>
<b>Total equity</b>		<b>343,797,610</b>	<b>292,421,442</b>

*The accounting policies and explanatory notes on pages 8 to 60 are an integral part of these consolidated financial statements.*



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)**

<i>In thousands of tenge</i>	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Non-current liabilities</b>			
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
		<b>87,564,132</b>	<b>61,027,626</b>
<b>Current liabilities</b>			
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
		<b>37,600,370</b>	<b>34,557,560</b>
Liabilities directly associated with assets classified as held for sale	37	—	48,487,316
<b>Total liabilities</b>		<b>125,164,502</b>	<b>144,072,502</b>
<b>Total equity and liabilities</b>		<b>468,962,112</b>	<b>436,493,944</b>

Chairman of the Management Board



Yessekeyev K.B.

Chief financial director

A handwritten signature in dark ink, appearing to be "U-bekov A.A.".

U-bekov A.A.

Chief accountant

A handwritten signature in dark ink, appearing to be "Zhumanova M.A.".

Zhumanova M.A.

The accounting policies and explanatory notes on pages 8 to 60 are an integral part of these consolidated financial statements

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

<i>In thousands of tenge</i>	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Continuing operations</b>			
Revenue	27	<b>198,466,711</b>	182,743,603
Compensation for provision of universal services in rural areas	28	<b>7,353,257</b>	7,010,726
		<b>205,819,968</b>	189,754,329
Cost of sales	29	<b>(138,292,361)</b>	(127,254,556)
<b>Gross profit</b>		<b>67,527,607</b>	62,499,773
General and administrative expenses	30	<b>(21,791,041)</b>	(22,894,843)
Selling expenses	31	<b>(2,928,796)</b>	(3,149,381)
<b>Operating profit</b>		<b>42,807,770</b>	36,455,549
Share in losses of associates	9	<b>(13,568,195)</b>	–
Finance costs	33	<b>(6,412,545)</b>	(6,653,136)
Finance income	33	<b>3,575,283</b>	2,679,338
Net foreign exchange (loss)/gain	34	<b>(890,461)</b>	189,482
Loss on disposal of property and equipment		<b>(315,024)</b>	(353,932)
Other income	35	<b>4,197,635</b>	3,979,735
Other expenses	35	<b>(5,312,424)</b>	(1,325,098)
<b>Profit before tax from continuing operations</b>		<b>24,082,039</b>	34,971,938
Income tax expenses	36	<b>(9,210,030)</b>	(8,614,784)
<b>Profit for the year from continuing operations</b>		<b>14,872,009</b>	26,357,154
<b>Discontinued operations</b>			
Profit/(loss) after tax for the year from discontinued operations	37	<b>40,959,809</b>	(2,148,068)
<b>Net profit for the year</b>		<b>55,831,818</b>	24,209,086
<b>Profit attributable to:</b>			
Equity holders of the Parent		<b>55,831,818</b>	24,388,364
Non-controlling interests		<b>–</b>	(179,278)

*The accounting policies and explanatory notes on pages 8 to 60 are an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)**

<i>In thousands of tenge</i>	Note	2016	2015
<b>Other comprehensive loss</b>			
<i>Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods (net of tax)</i>			
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
<b>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods (net of tax)</b>			
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)
<b>Total comprehensive income for the year, net of income tax</b>		<b>55,174,216</b>	<b>22,300,753</b>
<b>Attributable to:</b>			
Equity holders of the Parent		55,174,216	22,480,031
Non-controlling interests		-	(179,278)
		55,174,216	22,300,753
<b>Earnings per share</b>			
Basic and diluted, net profit for the year attributable to equity holders of the Parent, tenge	20	5,071.51	2,219.75
<b>Earnings per share for continuing operations</b>			
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



Chief financial director

A handwritten signature in dark ink, appearing to read "Uzbekov A.A.".

Uzbekov A.A.

Chief accountant

A handwritten signature in dark ink, appearing to read "Zhumanova M.A.".

Zhumanova M.A.

The accounting policies and explanatory notes on pages 8 to 60 are an integral part of these consolidated financial statements

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

In thousands of tenge	Attributable to equity holders of the Parent					Total	Non-controlling interests	Total equity
	Shares outstanding	Treasury shares	Foreign currency translation reserve	Other reserves	Retained earnings			
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
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

Chief financial director

Chief accountant



Uzbekov A.A.

Zhumanova M.A.

The accounting policies and explanatory notes on pages 8 to 60 are an integral part of these consolidated financial statements



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

<i>In thousands of tenge</i>	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Operating activities</b>			
Profit before tax from continuing operations		<b>24,082,039</b>	34,971,938
Profit/(loss) before tax from discontinued operations		<b>42,621,503</b>	(2,138,852)
<b>Profit before tax</b>		<b>66,703,542</b>	32,833,086
<b>Adjustment for:</b>			
Depreciation of property and equipment		<b>27,845,196</b>	31,304,158
Amortisation of intangible assets		<b>3,064,718</b>	3,869,427
Change in deferred income		<b>12,293</b>	127,115
Changes in employee benefit obligations		<b>(326,485)</b>	(542,991)
Unrealised foreign exchange (gain)/loss, net		<b>(252,976)</b>	7,651,418
Allowance for doubtful receivables		<b>1,411,405</b>	1,001,432
NRV adjustment of slow-moving inventory		<b>192,139</b>	810,006
Share in losses of associates	9	<b>13,568,195</b>	—
Finance costs accrued	33, 37	<b>6,833,870</b>	8,095,412
Finance income accrued	33, 37	<b>(3,750,368)</b>	(2,905,698)
Gain on disposal of subsidiary	37	<b>(41,579,323)</b>	—
Loss on disposal of PPE and intangible assets		<b>315,024</b>	496,577
<b>Adjustments of working capital</b>			
Change in trade receivables		<b>(10,650,693)</b>	803,274
Change in inventory		<b>(496,005)</b>	(1,085,763)
Change in current and non-current assets		<b>4,889,055</b>	(1,634,829)
Change in advances paid		<b>168,661</b>	146,273
Change in accounts payable		<b>2,355,652</b>	1,079,205
Change in advances received		<b>305,897</b>	236,018
Changes in other current liabilities		<b>5,513,293</b>	(628,286)
<b>Cash flows received from operating activities</b>		<b>76,123,090</b>	81,655,834
Dividends paid on common and preferred shares	20	<b>(3,627,387)</b>	(1,170,843)
Income tax paid		<b>(8,184,946)</b>	(5,319,944)
Interest paid		<b>(5,844,446)</b>	(6,468,646)
Interest received		<b>1,731,670</b>	796,716
<b>Net cash flows from operating activities</b>		<b>60,197,981</b>	69,493,117
<b>Investing activities</b>			
Purchase of property and equipment		<b>(17,379,516)</b>	(38,656,330)
Purchase of intangible assets		<b>(4,047,567)</b>	(1,040,563)
Proceeds from sale of property and equipment		<b>306,631</b>	219,319
Net cash outflow from subsidiary disposal		<b>(53,965)</b>	—
Placement of deposits		<b>(57,121,119)</b>	(22,277,090)
Return of cash on deposits		<b>39,519,133</b>	20,064,175
Issue of long-term loans to employees		<b>(2,127,857)</b>	(2,097,004)
Repayment of loans from employees		<b>365,450</b>	255,727
Issuance of covered bank guarantee		<b>—</b>	(208,600)
Return of funds of covered bank guarantee		<b>208,600</b>	193,160
Financial aid repaid		<b>3,496</b>	4,500
Net cash outflow from subsidiary disposal (Note 37)		<b>(1,683,295)</b>	—
<b>Net cash flows used in investing activities</b>		<b>(42,010,009)</b>	(43,542,706)

*The accounting policies and explanatory notes on pages 8 to 60 are an integral part of these consolidated financial statements.*

**CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**

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

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

Chairman of the Management Board



*Keshekeyev K.B.*

Chief financial director

*Uzbekov A.A.*

Chief accountant

*Zhumanova M.A.*

*The accounting policies and explanatory notes on pages 8 to 60 are an integral part of these consolidated financial statements*

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 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:

	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.



## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 2. BASIS FOR PREPARATION (continued)

#### Basis of consolidation (continued)

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.



## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### New and amended standards and interpretations (continued)

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.

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### New and amended standards and interpretations (continued)

##### *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.

###### *(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.



## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### New and amended standards and interpretations (continued)

##### *Annual improvements 2012-2014 cycle (continued)*

##### *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.

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Standards and interpretations issued but not yet effective (continued)

##### *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.

##### *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.



## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Standards and interpretations issued but not yet effective (continued)

##### *IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (continued)*

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 *Operating 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

The functional currencies of foreign operations KT-IX LLC (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.

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Business combinations and goodwill (continued)

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.



## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investments in associates (continued)

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 is 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.

#### 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.



**ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Fair value measurement (continued)**

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.

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Non-current assets held for sale and discontinued operations (continued)

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.

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.



## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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

#### 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.



## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Impairment of non-financial assets (continued)

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 recognised 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.

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Financial assets (continued)

##### *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. 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.



## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.



## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

#### 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.

**ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Provisions (continued)***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.



## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 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.



**ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Revenue recognition (continued)***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.

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.

**ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Income tax (continued)***Deferred income tax (continued)*

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.



**ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)****4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)****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*.

**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.



## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 4. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

#### Employee benefit obligations (continued)

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:

	Country of incorporation	Percentage ownership	
		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%

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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### 5. CONSOLIDATION (continued)

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.

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 6. SEGMENT INFORMATION (continued)

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

<i>In thousands of tenge</i>	Fixed telephony	Mobile telecom- munication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
<b>Revenue</b>					
Sales to external customers	205,819,968	–	–	–	205,819,968
Inter-segment	268	–	131,602	(131,870)	–
<b>Total revenue</b>	<b>205,820,236</b>	<b>–</b>	<b>131,602</b>	<b>(131,870)</b>	<b>205,819,968</b>
<b>Financial results</b>					
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)
<b>Segment profit/(loss)</b>	<b>35,091,524</b>	<b>(13,539,208)</b>	<b>(62,714)</b>	<b>2,592,437</b>	<b>24,082,039</b>
<b>Operating assets</b>	<b>401,684,781</b>	<b>67,160,792</b>	<b>441,401</b>	<b>(324,862)</b>	<b>468,962,112</b>
<b>Operating liabilities</b>	<b>124,895,545</b>	<b>–</b>	<b>254,647</b>	<b>14,310</b>	<b>125,164,502</b>
<b>Other disclosures</b>					
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

<i>In thousands of tenge</i>	Fixed telephony	Mobile telecom- munication services in GSM and LTE standards	Other	Eliminations and adjustments	Group
<b>Revenue</b>					
Sales to external customers	189,753,961	–	368	–	189,754,329
Inter-segment	235	–	104,133	(104,368)	–
<b>Total revenue</b>	<b>189,754,196</b>	<b>–</b>	<b>104,501</b>	<b>(104,368)</b>	<b>189,754,329</b>
<b>Financial results</b>					
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)
<b>Segment profit/(loss)</b>	<b>36,136,110</b>	<b>–</b>	<b>(25,463)</b>	<b>(1,138,709)</b>	<b>34,971,938</b>
<b>Operating assets</b>	<b>389,895,622</b>	<b>–</b>	<b>587,745</b>	<b>(2,466,623)</b>	<b>388,016,744</b>
<b>Operating liabilities</b>	<b>95,544,709</b>	<b>–</b>	<b>246,261</b>	<b>(205,784)</b>	<b>95,585,186</b>
<b>Other disclosures</b>					
Capital expenditures	28,212,323	–	54,849	–	28,267,172

- 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.



## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 6. SEGMENT INFORMATION (continued)

#### Reconciliation of profit

<i>In thousands of tenge</i>	2016	2015
<b>Segment profit</b>	<b>21,523,329</b>	<b>36,136,110</b>
Other	2,558,710	(1,164,172)
<b>Profit of the Group</b>	<b>24,082,039</b>	<b>34,971,938</b>

#### Reconciliation of operating assets

<i>In thousands of tenge</i>	2016	2015
<b>Segment operating assets</b>	<b>469,286,974</b>	<b>390,483,367</b>
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
<b>Operating assets of the Group</b>	<b>468,962,112</b>	<b>436,493,944</b>

#### Reconciliation of operating liabilities

<i>In thousands of tenge</i>	2016	2015
<b>Segment operating liabilities</b>	<b>125,150,192</b>	<b>95,790,970</b>
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
<b>Operating liabilities of the Group</b>	<b>125,164,502</b>	<b>144,072,502</b>

### 7. PROPERTY AND EQUIPMENT

Movement of property and equipment in 2016 and 2015 is presented as follows:

<i>In thousands of tenge</i>	Land	Buildings and constructions	Equipment	Other	Construction in progress	Total
<b>Cost</b>						
<b>At 1 January 2015</b>	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)
<b>At 31 December 2015</b>	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)
<b>At 31 December 2016</b>	554,818	48,157,375	502,873,315	13,164,465	11,087,670	575,837,643
<b>Accumulated depreciation and impairment</b>						
<b>At 1 January 2015</b>	–	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)
<b>At 31 December 2015</b>	–	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)
<b>At 31 December 2016</b>	–	16,658,584	275,106,330	10,623,033	1,273,823	303,661,770
<b>Net book value</b>						
<b>At 31 December 2015</b>	558,088	33,045,908	237,479,520	2,988,668	11,483,524	285,555,708
<b>At 31 December 2016</b>	554,818	31,498,791	227,766,985	2,541,432	9,813,847	272,175,873

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 7. PROPERTY AND EQUIPMENT (continued)

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:

<i>In thousands of tenge</i>	<b>Licenses and trademarks</b>	<b>Software</b>	<b>Goodwill</b>	<b>Other</b>	<b>Total</b>
<b>Cost</b>					
<b>At 1 January 2015</b>	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)
<b>At 31 December 2015</b>	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
<b>At 31 December 2016</b>	16,544,978	21,555,045	2,706,335	4,329,457	45,135,815
<b>Accumulated amortisation and impairment</b>					
<b>At 1 January 2015</b>	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)
<b>At 31 December 2015</b>	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)
<b>At 31 December 2016</b>	9,055,741	16,504,181	—	2,435,772	27,995,694
<b>Net book value</b>					
<b>At 31 December 2015</b>	8,268,496	6,074,040	2,706,335	2,509,294	19,558,165
<b>At 31 December 2016</b>	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).

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 9. INVESTMENTS IN ASSOCIATES

The following associates have been included in these consolidated financial statements:

<i>In thousands of tenge</i>	Primary activities	Country of incorporation	31 December 2016		31 December 2015	
			Carrying value	Ownership share	Carrying amount	Ownership share
Khan Tengri Holding B.V.	Telecommunications services	Netherlands	67,160,792	51%	–	–
Kazakhtelecom Industrial Enterprises Services LLP	IT services	Kazakhstan	–	49%	–	–
			<b>67,160,792</b>		<b>–</b>	<b>–</b>

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:

<i>In thousands of tenge</i>	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)
<b>Equity</b>	<b>131,687,827</b>

<b>Carrying amount of investment of the Group</b>	<b>67,160,792</b>
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<i>In thousands of tenge</i>	2016
Revenue	78,190,273
Operating expenses	(90,659,497)
Non-operating expenses	(10,520,833)
<b>Loss before tax</b>	<b>(22,990,057)</b>
Income tax expenses	(404,491)
<b>Loss for the period</b>	<b>(23,394,548)</b>
<b>Total comprehensive loss for the year</b>	<b>(23,394,548)</b>

<b>Share of the Group in loss for the year</b>	<b>(13,539,208)</b>
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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).



## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 9. INVESTMENTS IN ASSOCIATES (continued)

Below is a summarized information on individually insignificant associate, Kazakhtelecom Industrial Enterprises Services LLP (proportionate share of the Group's interest):

<i>In thousands of tenge</i>	<b>2016</b>
Revenue	19,574
Operating expenses	(98,358)
Non-operating expenses	—
<b>Loss before tax</b>	<b>(78,784)</b>
Income tax benefit	—
<b>Loss for the year</b>	<b>(78,784)</b>
<b>Total comprehensive income for the year</b>	<b>(78,784)</b>
<b>Share of the Group in loss for the year</b>	<b>(28,987)</b>

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:

	<b>IP TV</b>	
	<b>2016</b>	<b>2015</b>
<b>Goodwill</b>	<b>2,706,335</b>	<b>2,706,335</b>

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.

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 10. TESTING FOR IMPAIRMENT (continued)

#### Key assumptions used in value in use 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 Khan Tengri Holding B.V. CGU has 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.

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 10. TESTING FOR IMPAIRMENT (continued)

#### Key assumptions used in value in use calculations (continued)

##### *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 Khan Tengri 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.

#### 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.



## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 11. INVESTMENT PROPERTY

Movements in investment property for the year ended 31 December 2016 were as follows:

<i>In thousands of tenge</i>	<b>2016</b>	<b>2015</b>
<b>Cost</b>		
At 1 January	<b>1,264,668</b>	1,264,668
<b>At 31 December</b>	<b>1,264,668</b>	1,264,668
<b>Accumulated depreciation and impairment</b>		
At 1 January	<b>(1,264,668)</b>	(1,264,668)
<b>At 31 December</b>	<b>(1,264,668)</b>	(1,264,668)
<b>Carrying amount</b>		
At 1 January	–	–
<b>At 31 December</b>	–	–

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:

<i>In thousands of tenge</i>	<b>2016</b>	<b>2015</b>
Long-term accounts receivable	<b>3,024,242</b>	7,662,171
Loans to employees	<b>2,733,636</b>	2,791,134
Long-term deposits	<b>50</b>	50
Other	<b>119,038</b>	103,673
	<b>5,876,966</b>	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:

<i>In thousands of tenge</i>	<b>2016</b>	<b>2015</b>
Deferred expenses	<b>1,392,240</b>	1,865,825
Long-term VAT receivable	<b>137,188</b>	457,912
Long-term accounts receivable	<b>106,131</b>	117,553
Other	<b>73,342</b>	73,342
	<b>1,708,901</b>	2,514,632
Less: allowance for doubtful receivable	–	–
	<b>1,708,901</b>	2,514,632

At 31 December 2016 and 2015, other non-current assets were denominated in tenge.

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 14. INVENTORIES

As at 31 December 2016 and 2015, inventories comprised:

<i>In thousands of tenge</i>	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
	<b>4,483,724</b>	<b>3,760,673</b>

### 15. TRADE RECEIVABLES

As at 31 December 2016 and 2015, trade receivables comprised:

<i>In thousands of tenge</i>	2016	2015
Trade receivables	27,216,691	18,299,271
	<b>27,216,691</b>	<b>18,299,271</b>
Less: allowance for doubtful receivables	(2,224,485)	(1,914,169)
	<b>24,992,206</b>	<b>16,385,102</b>

Movements in the allowance for doubtful receivables were as follows for the years ended 31 December:

<i>In thousands of tenge</i>	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	<b>(2,224,485)</b>	<b>(1,914,169)</b>

As at 31 December 2016 and 2015, the ageing analysis of trade receivables was as follows:

<i>In thousands of tenge</i>	Total	Neither past due nor impaired	Past due but not impaired				Over 360 days
			Less than 30 days	30 to 90 days	90 to 120 days	120 to 360 days	
31 December 2016	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.

<i>In thousands of tenge</i>	2016	2015
Tenge	23,928,901	14,913,472
US dollars	1,008,804	1,414,681
Other currencies	54,501	56,949
	<b>24,992,206</b>	<b>16,385,102</b>

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.

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 16. ADVANCES PAID

As at 31 December 2016 and 2015, advances paid comprised:

<i>In thousands of tenge</i>	<b>2016</b>	<b>2015</b>
Advances paid	<b>369,685</b>	538,346
	<b>369,685</b>	538,346
Less: allowance for doubtful receivables	<b>(72,405)</b>	(30,716)
	<b>297,280</b>	507,630

Movements in the allowance for doubtful receivables were as follows for the years ended 31 December:

<i>In thousands of tenge</i>	<b>2016</b>	<b>2015</b>
<b>Allowance at the beginning of the year</b>	<b>(30,716)</b>	(31,220)
Charge for the year	<b>(41,689)</b>	(2,090)
Discontinued operations	–	2,594
<b>Allowance at the end of the year</b>	<b>(72,405)</b>	(30,716)

### 17. OTHER CURRENT FINANCIAL ASSETS

As at 31 December 2016 and 2015 other current financial assets comprised:

<i>In thousands of tenge</i>	<b>2016</b>	<b>2015</b>
Bank deposits	<b>45,889,260</b>	29,278,450
Loans to employees	<b>1,896,652</b>	1,851,394
Interest receivable	<b>242,197</b>	228,817
Other accounts receivable	<b>99,153</b>	2,376,729
Cash restricted in use	–	208,600
Other	<b>5,805</b>	5,805
	<b>48,133,067</b>	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:

<i>In thousands of tenge</i>	<b>2016</b>	<b>2015</b>
US dollars	<b>45,929,406</b>	29,253,502
KZT	<b>2,197,856</b>	4,690,488
Other	<b>5,805</b>	5,805
	<b>48,133,067</b>	33,949,795

### 18. OTHER CURRENT ASSETS

As at 31 December 2016 and 2015 other current assets comprised:

<i>In thousands of tenge</i>	<b>2016</b>	<b>2015</b>
Deferred expenses	<b>934,227</b>	1,063,665
Restricted cash	<b>446,198</b>	–
VAT receivable	<b>431,782</b>	1,430,856
Reimbursement of fee for using radio frequencies	<b>173,184</b>	–
Taxes prepaid other than corporate income tax	<b>162,106</b>	177,102
Due from employees	<b>97,098</b>	96,470
Other	<b>1,044,575</b>	1,021,088
	<b>3,289,170</b>	3,789,181
Less: allowance for doubtful receivables	<b>(660,721)</b>	(186,760)
	<b>2,628,449</b>	3,602,421



## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 18. OTHER CURRENT ASSETS (continued)

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.

Changes in the allowance for doubtful receivables were as follows for the years ended 31 December:

<i>In thousands of tenge</i>	2016	2015
<b>Allowance at the beginning of the year</b>	<b>(186,760)</b>	<b>(334,166)</b>
Charge for the year	<b>(483,549)</b>	(91,038)
Write-off for the year	<b>9,588</b>	105,493
Discontinued operations	—	132,951
<b>Allowance at the end of the year</b>	<b>(660,721)</b>	<b>(186,760)</b>

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:

<i>In thousands of tenge</i>	2016	2015
Cash on current bank accounts	<b>20,976,246</b>	8,179,504
Deposits with less than 90 days' maturity from the date of opening	<b>3,332,900</b>	3,079,666
Cash on hand	<b>11,796</b>	17,721
	<b>24,320,942</b>	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:

<i>In thousands of tenge</i>	2016	2015
US dollars	<b>17,049,152</b>	5,264,926
Tenge	<b>7,237,491</b>	5,743,047
Russian roubles	<b>28,249</b>	258,593
Other	<b>6,050</b>	10,325
	<b>24,320,942</b>	11,276,891

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:

<i>In thousands of tenge</i>	2016	2015
Cash on current bank accounts	<b>20,976,246</b>	8,179,504
Deposits with less than 90 days' maturity from the date of opening	<b>3,332,900</b>	3,079,666
Cash on hand	<b>11,796</b>	17,721
Cash and cash equivalents and short-term deposits attributable to discontinued operations (Note 37)	—	8,688,151
<b>Cash and cash equivalents</b>	<b>24,320,942</b>	19,965,042

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 20. EQUITY

#### Authorised and issued shares

	Number of shares		In thousands of tenge		Total issued shares
	Common shares	Preferred non-voting shares	Common shares	Preferred non-voting 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
<b>At 31 December 2016</b>	<b>10,922,876</b>	<b>1,213,653</b>	<b>10,922,876</b>	<b>1,213,653</b>	<b>12,136,529</b>

#### Treasury shares

	Number of shares		In thousands of tenge		Total
	Common shares	Preferred non-voting shares	Common shares	Preferred non-voting shares	
<b>At 31 December 2014</b>	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)
<b>At 31 December 2015</b>	215,553	893,129	2,966,250	3,498,238	6,464,488
Acquisition of treasury shares					
Sale of treasury shares	–	(32)	–	(114)	(114)
<b>At 31 December 2016</b>	<b>215,553</b>	<b>893,097</b>	<b>2,966,250</b>	<b>3,498,124</b>	<b>6,464,374</b>

#### 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).

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 20. EQUITY (continued)

#### Dividends (continued)

Movement in dividends payable for the years ended 31 December was as follow:

<i>In thousands of tenge</i>	2016	2015
<b>Dividends payable at the beginning of the year</b>	<b>1,582,251</b>	1,588,474
Dividends declared on common shares	<b>3,551,940</b>	1,089,559
Dividends declared on preferred shares in excess of the obligatory amount	<b>10,896</b>	–
Interest on debt component of preferred shares (Note 33)	<b>96,167</b>	95,432
Change in dividends payable for the previous period	–	(2,620)
Withholding tax	<b>(66,428)</b>	(17,751)
Dividends paid on common and preferred shares	<b>(3,627,387)</b>	(1,170,843)
<b>Dividends payable at the end of the year (Note 26)</b>	<b>1,547,439</b>	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.

The following tables reflects profit and share data used in the basic and diluted earnings per share computations.

<i>In thousands of tenge</i>	2016	2015
Net profit attributable to common equity holders of the Parent from continuing operations	<b>14,872,009</b>	26,536,432
Net profit/(loss) attributable to common equity holders of the Parent from discontinued operations	<b>40,959,809</b>	(2,148,068)
<b>Net profit attributable to common equity holders of the Parent for basic earnings</b>	<b>55,831,818</b>	24,388,364
Interest on preferred shares	<b>96,167</b>	95,432
<b>Net profit attributable to common and preferred equity holders of the Parent adjusted for diluted earnings</b>	<b>55,927,985</b>	24,483,796
Weighted average number of common and preferred shares for calculation of basic and diluted earnings per share	<b>11,027,863</b>	11,029,991
Basic and diluted earnings per share, tenge	<b>5,071.51</b>	2,219.75



## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 20. EQUITY (continued)

#### Earnings per share (continued)

The following table reflects profit and share data used in the computation of basic and diluted earnings per share from continuing activities:

<i>In thousands of tenge</i>	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 common shares 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:

<i>In thousands of tenge</i>	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:

<i>In thousands of tenge</i>	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:

<i>In thousands of tenge</i>	2016	2015
<b>Current portion of borrowings</b>	<b>2,473,507</b>	<b>4,138,393</b>
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	–
<b>Total long-term portion of borrowings</b>	<b>53,794,669</b>	<b>27,299,921</b>
<b>Total borrowings</b>	<b>56,268,176</b>	<b>31,438,314</b>

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).

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 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:

<i>In thousands of tenge</i>	2016		2015	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Discounted 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)	–
<b>Discounted value of minimum lease payments</b>	<b>4,435,721</b>	<b>4,435,721</b>	<b>9,143,183</b>	<b>9,143,183</b>
Less: amounts due for settlement within 12 months		(3,162,706)		(4,707,462)
<b>Amounts due for settlement after 12 months</b>		<b>1,273,015</b>		<b>4,435,721</b>

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:

<i>In thousands of tenge</i>	2016	2015
Present value of defined benefit obligation	8,219,538	7,786,044

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 23. EMPLOYEE BENEFIT OBLIGATIONS (continued)

#### Defined benefits pension plan (continued)

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:

<i>In thousands of tenge</i>	2016	2015
<b>Total liability at the beginning of the year</b>	<b>7,786,044</b>	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
<b>Total liability at the end of the year</b>	<b>8,219,538</b>	7,786,044
<b>Liability payable within one year</b>	<b>430,554</b>	511,689
<b>Liability payable after one year</b>	<b>7,788,984</b>	7,274,355

Actuarial losses recognised in 2016 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:

Sensitivity level	Discount rate		The expected rate of future annual minimum salary increases	
	Growth by 0.5%	Reduction by 0.5%	Growth by 1%	Reduction by 1%
Impact on 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.



## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 24. OTHER NON-CURRENT LIABILITIES

At 31 December 2016 and 2015 other non-current liabilities comprised :

<i>In thousands of tenge</i>	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
	<b>4,209,139</b>	<b>2,976,133</b>

#### 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.

Movement of provision for decommissioning liabilities for the years ended 31 December was as follows:

<i>In thousands of tenge</i>	2016	2015
<b>Provision for decommissioning liabilities as at 1 January</b>	<b>66,614</b>	<b>1,944,996</b>
Additional provisions	61,057	(363)
Amortization of discount on continuing operations ( <i>Note 33</i> )	13,893	6,970
Discontinued operations	–	(1,884,989)
<b>Provision for decommissioning liabilities as at 31 December</b>	<b>141,564</b>	<b>66,614</b>

### 25. TRADE PAYABLES

At 31 December 2016 and 2015 trade payables comprised:

<i>In thousands of tenge</i>	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
	<b>11,997,342</b>	<b>11,893,469</b>

As at 31 December 2016 and 2015 trade payables were interest-free.

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 25. TRADE PAYABLES (continued)

As at 31 December 2016 and 2015 trade payables were mainly denominated in the following currencies:

<i>In thousands of tenge</i>	2016	2015
Tenge	11,429,856	7,088,852
US dollars	379,761	4,704,858
Other	187,725	99,759
	<b>11,997,342</b>	<b>11,893,469</b>

### 26. OTHER CURRENT LIABILITIES

At 31 December 2016 and 2015 other current liabilities comprised:

<i>In thousands of tenge</i>	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
	<b>16,129,172</b>	<b>10,630,418</b>

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:

<i>In thousands of tenge</i>	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
	<b>198,466,711</b>	<b>182,743,603</b>

### 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).

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 29. COST OF SALES

Cost for the years ended 31 December comprised:

<i>In thousands of tenge</i>	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
	<b>138,292,361</b>	<b>127,254,556</b>

### 30. GENERAL AND ADMINISTRATIVE EXPENSES

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

<i>In thousands of tenge</i>	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
	<b>21,791,041</b>	<b>22,894,843</b>

### 31. SELLING EXPENSES

Selling expenses for the years ended 31 December comprised:

<i>In thousands of tenge</i>	2016	2015
Marketing and advertising	1,744,576	1,469,181
Dealers commission	801,790	1,338,712
Other	382,430	341,488
	<b>2,928,796</b>	<b>3,149,381</b>



## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 32. PERSONNEL EXPENSES

Personnel expenses for the years ended 31 December comprised:

<i>In thousands of tenge</i>	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
	<b>64,072,132</b>	<b>59,689,819</b>

Personnel expenses for the years ended 31 December were allocated as follows:

<i>In thousands of tenge</i>	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
	<b>64,072,132</b>	<b>59,689,819</b>

### 33. (FINANCE COSTS) / FINANCE INCOME

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

<i>In thousands of tenge</i>	2016	2015
<b>Finance costs</b>		
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)
	<b>(6,412,545)</b>	<b>(6,653,136)</b>
<b>Finance income</b>		
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
	<b>3,575,283</b>	<b>2,679,338</b>

### 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).

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 35. OTHER INCOME/(EXPENSES)

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

<i>In thousands of tenge</i>	2016	2015
<b>Other income</b>		
Rental income	3,194,530	2,748,393
Non-core operations	452,817	482,099
Other	550,288	749,243
	<b>4,197,635</b>	<b>3,979,735</b>
<b>Other expenses</b>		
Expenses related to acquisition of a 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)
	<b>(5,312,424)</b>	<b>(1,325,098)</b>

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:

<i>In thousands of tenge</i>	2016	2015
Current corporate income tax expenses	7,432,290	6,191,443
Deferred income tax expenses	1,777,740	2,423,341
	<b>9,210,030</b>	<b>8,614,784</b>

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:

<i>In thousands of tenge</i>	2016	2015
<b>Profit before tax from continuing operations</b>	<b>24,082,039</b>	34,971,938
Profit/(loss) before tax from discontinued operations	42,621,503	(2,138,852)
<b>Profit before taxation</b>	<b>66,703,542</b>	<b>32,833,086</b>
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
<b>Total income tax expenses</b>	<b>10,871,724</b>	<b>8,624,000</b>
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
<b>Total income tax expenses</b>	<b>10,871,724</b>	<b>8,624,000</b>

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 36. INCOME TAX EXPENSES (continued)

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:

<i>In thousands of tenge</i>	Consolidated statement of financial position		Consolidated statement of comprehensive income		In other comprehensive income	
	31 December 2016	31 December 2015	2016	2015	2016	2015
<b>Deferred tax assets</b>						
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)	-	-
<b>Deferred tax assets</b>	-	1,505,221	(1,657,216)	(680,946)	151,995	506,337
<b>Deferred tax liabilities</b>						
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	-	-
<b>Deferred tax liabilities</b>	19,624,081	18,167,340	(1,456,741)	(1,700,971)	-	-
<b>Deferred income tax (expense)/benefit</b>			(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:

<i>In thousands of tenge</i>	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)
<b>Net deferred tax liabilities</b>	<b>(19,624,081)</b>	<b>(16,662,119)</b>

<i>In thousands of tenge</i>	2016	2015
<b>Reconciliation of deferred tax liabilities, net</b>		
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
<b>Balance at 31 December</b>	<b>(19,624,081)</b>	<b>(16,662,119)</b>

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.

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 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:

<i>In thousands of tenge</i>	<b>2016</b>	<b>2015</b>
Revenue	<b>4,961,007</b>	37,499,637
Cost of sales	<b>(2,533,355)</b>	(31,797,354)
<b>Gross profit</b>	<b>2,427,652</b>	5,702,283
General and administrative expenses	<b>(585,577)</b>	(3,464,783)
Selling expenses	<b>(601,613)</b>	(3,788,680)
<b>Operating profit/(loss)</b>	<b>1,240,462</b>	(1,551,180)
Finance costs	<b>(421,325)</b>	(1,442,276)
Finance income	<b>175,085</b>	226,360
Other income	<b>47,958</b>	628,244
<b>Profit/(loss) before tax from discontinued operations</b>	<b>1,042,180</b>	(2,138,852)
Income tax expenses	<b>(423,337)</b>	(9,216)
<b>Profit/(loss) for the year from discontinued operations</b>	<b>618,843</b>	(2,148,068)
<b>Gain on disposal of a subsidiary</b>	<b>41,579,323</b>	–
Income tax expenses from disposal of a subsidiary	<b>(1,238,357)</b>	–
<b>Total profit/(loss) for the year from discontinued operations</b>	<b>40,959,809</b>	(2,148,068)

Gain on disposal of a subsidiary Altel JSC is presented as follows:

<i>In thousands of tenge</i>	<b>2016</b>
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)
<b>Profit from disposal of subsidiary</b>	<b>41,579,323</b>



## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 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:

<i>In thousands of tenge</i>	2016	2015
<b>Assets</b>		
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
<b>Total assets</b>	<b>47,136,254</b>	<b>48,477,200</b>
<b>Liabilities</b>		
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)
<b>Total liabilities</b>	<b>(16,181,891)</b>	<b>(48,487,316)</b>
<b>Disposed net assets</b>	<b>30,954,363</b>	<b>(10,116)</b>

Net cash flows of Altel JSC:

<i>In thousands of tenge</i>	2016	2015
Operating	(10,770,566)	6,332,276
Investing	(4,777,192)	(8,266,897)
Financing	8,542,902	9,006,069
<b>Net cash (outflow)/inflow</b>	<b>(7,004,856)</b>	<b>7,071,448</b>

Net cash outflows from disposal of the subsidiary Altel JSC are presented as follows:

<i>In thousands of tenge</i>	2016
Cash of disposed subsidiary	(1,683,295)
<b>Net disposal of cash from subsidiary disposal</b>	<b>(1,683,295)</b>

	2016	2015
<b>Profit/(loss) per share</b>		
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.

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 39. RELATED PARTY TRANSACTIONS (continued)

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:

<i>In thousands of tenge</i>	2016	2015
<b>Sales of goods and services</b>		
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
<b>Purchases of goods and services</b>		
Parent	30,226	—
Parent-controlled entities	1,685,666	2,036,093
Associate	8,052,200	—
Government institutions	557,754	14,226,577
<b>Interest accrued on borrowings</b>		
Entities under state control		
- Development Bank of Kazakhstan JSC	4,199,838	3,318,471
<b>Average interest rate on borrowings</b>	8.15%	8.08%

<i>In thousands of tenge</i>	2016	2015
<b>Cash and cash equivalents</b>		
Entities under state control		
- Development Bank of Kazakhstan JSC	3,240	2,581
<b>Borrowings</b>		
Entities under state control		
- Development Bank of Kazakhstan JSC	55,137,133	55,398,052
<b>Trade and other accounts receivable</b>		
Parent	51,156	154,155
Parent-controlled entities	539,019	470,265
Associate	11,164,458	—
Government institutions	4,411,156	3,204,354
<b>Accounts payable</b>		
Parent-controlled entities	342,445	192,228
Associate	8,231,494	—
Government institutions	525,492	556,337
<b>Other non-current assets</b>		
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.

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 39. RELATED PARTY TRANSACTIONS (continued)

As disclosed in *Note 28*, the Government of the Republic of Kazakhstan provides certain subsidies to the Group for provision of universal services in rural areas.

As 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.

<i>In thousands of tenge</i>	2016	Effect on	2015	Effect on
	Increase/ (decrease) in exchange rate	profit before tax	Increase/ (decrease) in exchange rate	profit before tax
US dollars	13%	4,654,329	60%	1,684,581
	-13%	(4,654,329)	-20%	(561,527)

#### 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.

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 40. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

#### Credit risk (continued)

In thousands of tenge	Rating 2016	Rating 2015	Balance of cash		Balance on deposit accounts	
			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	BB/negative/B,					
Kazakhstan JSC	kzA	Ba2/negative	3,848,216	5,437,860	16,997,790	5,431,520
Kaspi Bank JSC	BB-/negative/B,					
Forte Bank JSC	kzBBB+	BB-/B1/negative	3,455,999	–	–	–
	B/stable/B, kzBB	B/B/stable	2,667,505	154	–	–
	BBB-/					
SB Sberbank JSC	negative/AA-	Ba3/negative	1,186,179	51,190	–	–
	B+/negative/B,					
Tsesnabank JSC	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	–	–
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	BBB-/negative/					
Kazakhstan JSC	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	–	–
<b>Total</b>			<b>24,309,147</b>	<b>11,259,431</b>	<b>45,889,260</b>	<b>29,278,450</b>

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.



## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 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.

<i>In thousands of tenge</i>	On demand	1 to 3 months	3 months to 1 year	From 1 to 5 years	More than 5 years	Total
<b>At 31 December 2016</b>						
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
<b>At 31 December 2015</b>						
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:

<i>In thousands of tenge</i>	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
<b>Net debt</b>	<b>72,701,239</b>	<b>52,474,966</b>
<b>Equity</b>	<b>343,797,610</b>	<b>292,421,442</b>
<b>Debt-equity ratio</b>	<b>0.21</b>	<b>0.18</b>

#### 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.

# ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 40. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND PRINCIPLES (continued)

### Fair value (continued)

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:

	Date of valuation	Fair value measurement using			Total
		Price quotations on active markets (Level 1)	Significant observable in-puts (Level 2)	Significant unobservable in-puts (Level 3)	
<i>In thousands of tenge</i>					
<b>Assets for which fair values are disclosed</b>					
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
<b>Liabilities for which fair values are disclosed</b>					
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.

<i>In thousands of tenge</i>	Carrying amount 2016	Fair value 2016	Unrecognised gain/(loss) 2016	Carrying amount 2015	Fair value 2015	Unrecognised gain in 2015
<b>Financial assets</b>						
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	–
<b>Financial liabilities</b>						
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	–
<b>Total unrecognised change in unrealised fair value</b>			<b>(2,673,551)</b>			<b>(1,623,455)</b>

## ACCOUNTING POLICY AND EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 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:

<i>In thousands of tenge</i>	<b>2016</b>	<b>2015</b>
Within one year	<b>8,624</b>	118,205
More than 1 year but less than 5 years	–	–
	<b>8,624</b>	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.