

JSC TRANSTELECOM

Financial Statements
for the year ended 31 December 2014

JSC TRANSTELECOM

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014	1
INDEPENDENT AUDITOR'S REPORT	2-3
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014:	
Statement of financial position	4
Statement of profit or loss and other comprehensive income	5
Statement of changes in equity	6
Statement of cash flows	7-8
Notes to the financial statements	9-43

JSC TRANSTELECOM

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

Management of JSC Transtelecom (the "Company") is responsible for the preparation of the financial statements that present fairly the financial position of the Company as at 31 December 2014, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- making an assessment of the Company's ability to continue as a going concern.

Management is also responsible for:

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

The financial statements for the year ended 31 December 2014 were authorized for issue on 11 March 2015 by the management of the Company.

On behalf of management of the Company:

Pshembayev D. M.
President

11 March 2015
Astana

Bozshina K. S.
Acting chief accountant

11 March 2015
Astana

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and the shareholder of JSC Transtelecom:

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

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Member of Deloitte Touche Tohmatsu Limited

Opinion

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

Emphasis of matter

As disclosed in Notes 9 and 20 to the these financial statements, 87% of the Company's trade receivables as at 31 December 2014 (2013: 73%) and 79% of the Company's revenue for the year ended 31 December 2014 (2013: 75%), resulted from transactions with JSC National Company Kazakhstan Temir Zholy and its subsidiaries, which are the related parties of the Company. Our opinion is not qualified in respect of this matter.

Alua Yessimbekova
Engagement Partner
Certified Public Accountant
New Hampshire, USA
License No. 07348
dated 12 June 2014

Yekaterina Abdrashitova
Auditor-performer
Qualified Auditor
of the Republic of Kazakhstan
Qualification Certificate
No. MF-0000209
dated 1 October 2014

DELOITTE, LLP

Deloitte, LLP
State license for the audit activity in the Republic of Kazakhstan #0000015, type MFU-2, issued by the Ministry of Finance of the Republic of Kazakhstan
dated 13 September 2006

Nurlan Bekenov
General Director
Deloitte, LLP

11 March 2015
Almaty

JSC TRANSTELECOM

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014
(in thousands of tenge)

	Notes	31 December 2014	31 December 2013
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	5	58,595,744	34,366,793
Intangible assets	6	3,354,370	584,537
Other non-current assets	7	2,335,067	996,888
		64,285,181	35,948,218
CURRENT ASSETS:			
Inventories	8	461,256	351,887
Trade accounts receivable	9	5,310,939	1,516,543
Prepaid income tax		191,794	170,335
Other current assets	10	1,504,702	1,089,361
Cash	11	4,217,569	4,367,395
		11,686,260	7,495,521
TOTAL ASSETS		75,971,441	43,443,739
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	12	12,241,487	12,241,487
Additional paid-in capital	12	244,190	244,190
Retained earnings		4,129,343	1,059,495
		16,615,020	13,545,172
NON-CURRENT LIABILITIES:			
Long-term borrowings	13	41,272,251	15,266,617
Long-term portion of finance lease obligations	14	2,447,763	2,818,021
Employee benefit obligations	15	366,409	350,693
Deferred tax liabilities	19	887,453	118,165
		44,973,876	18,553,496
CURRENT LIABILITIES:			
Short-term borrowings and current portion of long-term borrowings	13	2,904,577	5,708,493
Current portion of finance lease obligations	14	362,159	234,521
Current portion of employee benefit obligations	15	34,854	28,924
Trade accounts payable	16	9,733,671	3,364,999
Taxes payable and other obligatory payments	17	507,755	1,040,035
Income tax payable		5,174	561,069
Other current liabilities	18	834,355	407,030
		14,382,545	11,345,071
TOTAL EQUITY AND LIABILITIES		75,971,441	43,443,739

On behalf of management of the Company:

Pshembayev D. M.
President

11 March 2015
Astana

Bozshina K. S.
Acting chief accountant

11 March 2015
Astana

The notes on pages 9-43 form an integral part of these financial statements. The independent auditor's report is on pages 2-3.

JSC TRANSTELECOM

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

(in thousands of tenge)

	Notes	2014	2013
REVENUE FROM RENDERING SERVICES	20	21,616,183	15,808,155
COST OF RENDERING SERVICES	21	(14,407,853)	(10,261,798)
GROSS PROFIT		7,208,330	5,546,357
General and administrative expenses	22	(1,900,920)	(2,306,747)
Finance costs	23	(2,992,766)	(1,529,845)
Finance income		268,939	27,318
Foreign exchange gain/(loss), net		7,590	(206,086)
Other income	24	765,210	130,422
PROFIT BEFORE TAX		3,356,383	1,661,419
INCOME TAX EXPENSE	19	(208,219)	(1,103,099)
PROFIT FOR THE YEAR		3,148,164	558,320
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation	15	5,432	10,161
TOTAL PROFIT AND COMPREHENSIVE INCOME FOR THE YEAR		3,153,596	568,481

On behalf of management of the Company:

Pshembayev D. M.
President

11 March 2015
Astana

Bozshina K. S.
Acting chief accountant

11 March 2015
Astana

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JSC TRANSTELECOM

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014
(in thousands of tenge)

	Share capital	Additional paid-in capital	Retained earnings	Total equity
At 1 January 2013	5,631,487	244,190	618,545	6,494,222
Profit for the year	-	-	558,320	558,320
Other comprehensive income for the year (see Note 15)	-	-	10,161	10,161
Total profit and comprehensive income for the year	-	-	568,481	568,481
Contribution to share capital (see Note 12)	6,610,000	-	-	6,610,000
Dividends (see Note 12)	-	-	(127,531)	(127,531)
At 31 December 2013	12,241,487	244,190	1,059,495	13,545,172
Profit for the year	-	-	3,148,164	3,148,164
Other comprehensive income for the year (see Note 15)	-	-	5,432	5,432
Total profit and comprehensive income for the year	-	-	3,153,596	3,153,596
Dividends (see Note 12)	-	-	(83,748)	(83,748)
At 31 December 2014	12,241,487	244,190	4,129,343	16,615,020

On behalf of management of the Company:

Pshembayev D. M.
President

11 March 2015
Astana

Bozshina K. S.
Acting chief accountant

11 March 2015
Astana

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JSC TRANSTELECOM

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014
(in thousands of tenge)

	Notes	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before tax		3,356,383	1,661,419
Adjustments for:			
Finance costs	23	2,992,766	1,529,845
Depreciation and amortization	21, 22	4,270,263	3,258,718
Accrual of provision for doubtful debts	9, 10, 22	439,404	88,390
Change in provision for obsolete and slow-moving inventories		-	(668)
Change in provision on litigation issues	22	-	(694,415)
Change in provision for idle property, plant and equipment	22	(39,153)	34,927
Change in provision on remuneration of executive personnel	22	199,508	119,520
Accrual of expenses based on act of tax audit	22	(638,456)	918,092
Write-off of inventories to net realizable value		-	80
Foreign exchange (gain)/loss		(7,590)	206,086
Finance income		(268,939)	(27,318)
Loss from disposal of property, plant and equipment and intangible assets		38,557	22,445
Employee benefit expenses	22	47,335	19,280
Cash flows from operating activities before changes in working capital		10,390,078	7,136,401
Change in trade accounts receivable		(3,800,129)	1,067,768
Change in inventories		(109,369)	105,743
Change in other current assets		(2,509,311)	(1,151,553)
Change in trade accounts payable		6,376,262	(4,577)
Change in taxes payable and other obligatory payments		259,891	67,793
Change in other current liabilities		342,237	19,552
Change in employee benefit obligations	15	(20,257)	(18,080)
Cash generated from operating activities		10,929,402	7,223,047
Interest paid		(2,923,723)	(1,794,390)
Income tax paid		(170,000)	(53,607)
Net cash generated by operating activities		7,835,679	5,375,050
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment and advances paid for non-current assets		(30,731,839)	(12,106,099)
Purchase of intangible assets		(1,667)	(346,205)
Replenishment of deposit accounts		(30,000)	-
Interest received		268,701	-
Net cash used in investing activities		(30,494,805)	(12,452,304)

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014
(in thousands of tenge)

	Notes	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of shares	12	-	6,610,000
Repayment of borrowings		(9,413,479)	(13,536,883)
Proceeds from borrowings		32,275,976	17,501,371
Dividends paid	12	(83,748)	(127,531)
Repayment of finance lease obligations		(269,449)	(323,300)
Net cash generated by financing activities		22,509,300	10,123,657
NET CHANGE IN CASH		(149,826)	3,046,403
CASH at the beginning of the year	11	4,367,395	1,320,992
CASH at the end of the year	11	4,217,569	4,367,395

On behalf of management of the Company:

Pshembayev D. M.
President

11 March 2015
Astana

Bozshina K. S.
Acting chief accountant

11 March 2015
Astana

The notes on pages 9-43 form an integral part of these financial statements. The independent auditor's report is on pages 2-3.

1. NATURE OF THE BUSINESS

JSC Transtelecom (further - the "Company") was established in accordance with the legislation of the Republic of Kazakhstan in 1998 as a state subsidiary entity. In 2004, the Company was reorganized into Joint Stock Company Transtelecom. The certificate of state re-registration of the legal entity No.31014-1910-AO was issued by the Department of Justice of Almaty on 15 June 2004. The certificate of state re-registration of the legal entity No.42964-1901-AO was issued by the Department of Justice of Astana on 17 April 2012 in connection with relocation of the central office to Astana.

The primary activity of the Company is the provision of telecommunications services, a full range of construction and installation work, also carrying out research and project activities in the territory of the Republic of Kazakhstan. As at 31 December 2014 and 2013, the Company had 15 and 14 branches, respectively, in different cities of the Republic of Kazakhstan. In November 2014, the branch Directorate of infotelecommunication technology was established.

According to the Order of the Agency of the Republic of Kazakhstan on Regulation of Natural Monopolies on the Republican Section of the State Register of Natural Monopolies No.16-ОД dated 24 January 2005, the Company was included into the Republican Section of the State Register of Natural Monopolies on connecting operators' transmission of telephone traffic (local, international, from/to cellular operators network) from the connected operators' telecommunication network. Besides, based on the Order No.26 of the Committee for the Protection of Competition under the Ministry of Industry and Trade of the Republic of Kazakhstan dated 24 February 2005, the Company was included into the State Register of the companies with dominant (monopolistic) position on the market of local telephone and telegraph communication services.

The sole shareholder of the Company is JSC National Company Kazakhstan Temir Zholy (further - "JSC NC KTZh" or the "Shareholder").

Joint Stock Company "National Welfare Fund "Samruk-Kazyna" on behalf of the Government is an ultimate shareholder of the Company.

In accordance with the Government Complex plan of privatization for 2014-2016, No.280 dated 31 March 2014, in 2015 JSC NC KTZh intends to realize 49% stake of Company.

The principal office of the Company is located at the following address: 10 Kunayev str., Astana, 010000, Republic of Kazakhstan.

2. ADOPTION OF NEW AND REVISED STANDARDS

Standards and Interpretations effective in the current year

In the current year, the Company has applied for the first time a number of new and revised IFRS that are mandatory from 1 January 2014:

- Amendments to IFRS 10, 12 and IAS 27 Investment Entities;
- Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities;
- Amendments to IAS 36 Impairment of assets - Recoverable Amount Disclosures for Non-Financial Assets;
- Amendments to IAS 39 Financial Instruments: recognition and measurement - Novation of Derivatives and Continuation of Hedge Accounting;
- IFRIC 21 Levies.

Amendments to IFRS 10, IFRS 12 and IAS 27- Investment Entities

The amendments to IFRS 10 introduce an exception from the requirement to consolidate subsidiaries for an investment entity. Instead, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss. The exception does not apply to subsidiaries of investment entities that provide services that relate to the investment entity's investment activities.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both and;
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

These amendments do not have any effect on the financial statements, as the Company is not an investment entity.

Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. There is no effect of these amendments on the financial statements of the Company.

Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets

The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or cash-generating unit to periods in which an impairment loss has been recognized or reversed. In addition, they expand and clarify the disclosure requirements applicable when recoverable amount has been determined on the basis of fair value less costs of disposal. These amendments affect disclosures only and do not have any impact of these financial statements.

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

These amendments allow the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met. There is no effect of these amendments on the financial statements as the Company does not apply hedge accounting.

IFRIC 21 Levies

The interpretation is applicable to all payments imposed by governments under legislation, other than income taxes that are within the scope of IAS 12 and fines and penalties for breaches of legislation. The interpretation clarifies that a liability to pay a levy should only be recognised when an obligating event has occurred and provides guidance on how to determine whether a liability should be recognized progressively over specific period or in full at a specific date. The same principles should be applied in interim financial statements. There was no effect of the interpretation on these financial statements except for the change in Company's policy.

Standards and interpretations issued but not yet effective

The Company has not applied the following new and revised IFRS and IFRIC (issued but not yet in force):

	Effective for reporting periods starting on and after
IFRS 9 Financial Instruments	1 January 2018
IFRS 14 Regulatory Deferral Accounts	1 January 2016
IFRS 15 Revenue from Contracts with Customers	1 January 2017
Adjustments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets, regarding clarifications to admissible depreciation and amortisation methods	1 January 2016
Adjustments to IAS 19 Defined Benefit Plans: Employee Contributions	1 July 2014
Adjustments to IFRS as part of IFRS Improvements 2010–2012 and IFRS Improvements 2011–2013	1 July 2014
Adjustments to IFRS as part of IFRS Improvements September 2014	1 January 2016

Certain IFRS have been revised and new standards issued that have not yet become effective. The most significant future change is expected from IFRS 9 and IFRS 15.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014, IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements for financial assets. IFRS 9 is aiming at replacing IAS 39 Financial Instruments: Recognition and Measurement.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

The management of the Company anticipates that the application of IFRS 9 in the future may have a impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. The standard is effective for annual periods beginning on or after 1 January 2017.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

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

The Company did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

Adjustments to IAS 19 Defined benefit plans: employee contributions

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties that are linked to services to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction of the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service either using the plan's contribution formula or on a straight-line basis; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The Company's management believes that adoption of these amendments to IAS 19 will not have a significant impact on the Company's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of preparation

These financial statements have been prepared on the historical cost basis, except for certain financial instruments which should be stated at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Certain property, plant and equipment of the Company were revalued to determine deemed (initial) cost at the transition date of IFRS.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36. In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Going concern

These financial statements have been prepared based on the assumption that the Company will continue as a going concern, which assumes the realization of the Company's assets and discharge of its liabilities in the normal course of business within the foreseeable future.

As at 31 December 2014, the current liabilities of the Company exceeded its current assets by 2,696,285 thousand tenge (2013: 3,849,550 thousand tenge).

Management believes that the Company will be able to realize its assets and fulfill its liabilities in the normal course of business. Management also believes that due to net income for the year ended 31 December 2014 and positive medium-term forecasts the Company will be able to continue its activities in the foreseeable future as a going concern.

Currency

The currency of the Republic of Kazakhstan is Kazakhstan tenge ("tenge"), which is the functional currency of the Company and the presentation currency of these financial statements. All the financial information presented in tenge has been rounded to the nearest thousand.

In preparing the financial statements, transactions in currencies other than the entity's functional currency (the "foreign currencies") are recognised at the rates of exchange prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rates prevailing at the date of financial statements. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on foreign currency borrowings relating to assets under construction intended for future productive use, are included in the cost of those assets as an adjustment to interest costs on those foreign currency borrowings.

Exchange rates of foreign currency in which the Company had significant transactions are presented as follows:

	31 December 2014	31 December 2013
Exchange rate as at the end of the year (to tenge)		
1 US Dollar ("USD")	182.35	153.61
1 Euro	221.97	211.17
	2014	**2013**
Average exchange rate for the year (to tenge)		
1 US Dollar ("USD")	179.19	152.14
1 Euro	238.10	202.08

Property, plant and equipment

Property, plant and equipment are stated at their initial cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended use.

The cost of the Company's self-constructed assets includes the cost of all materials used in construction, direct labor on the project, financing costs that are directly attributable to the project, and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalized as soon as the asset is ready for its intended use.

An item of property, plant and equipment is derecognized 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 proceeds from disposal and the carrying value of the asset) is included in profit or loss in the period in which the asset is derecognized.

Further expenditures on property, plant and equipment are capitalized to the extent that the flow of the future economic benefits is probable and these expenditures can be reliably measured.

Deprecation is computed under the straight-line method utilizing the useful economic lives of the assets, which are as follows:

Buildings and constructions	14-20 years
Machinery and equipment	5-14 years
Vehicles	7-10 years
Other assets	5-10 years
Equipment under financial lease agreements	3-14.5 years

Land is not depreciated.

Intangible assets

Intangible assets that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. For the entire group of intangible assets, the Company determines the useful life of 1 year to 10 years.

Impairment of property, plant and equipment and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as a lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis as expenses over the lease term.

The Company as a lessee

Assets held under finance lease are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in statement of profit or loss and other comprehensive income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense evenly over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Inventories

Inventories are valued at the lower of cost or net realizable value. Costs of inventories are determined on the weighted average cost principle. Net realizable value is the estimated selling price in the ordinary course of the business, less the estimated cost of completion and estimated costs necessary to make a realization.

Other short-term financial investments

Short-term financial investments include short-term deposits with original maturity of between three months and one year.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Loans and receivables

Trade receivables, loans issued and other receivables with fixed or determinable payments that are not quoted at the active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognized by applying an effective interest rate, except short-term receivables when recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and recognizes obtained assets as collateralized borrowing.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Company retains control), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized using effective interest method.

Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are settled, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income from temporary investment of certain borrowings expecting their use on qualifying assets is deducted from borrowing costs on borrowings qualified for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Provisions

Provisions are reflected in accounting when the Company has present legal or constructive obligation (determined by the norms of law or expected to be), appeared as the result of the past events and it is probable that outflow of resources embodying economic benefits will be required to settle the obligation and the obligation can be estimated reliably.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of an economic benefits on provision recovery is expected to be recovered by the third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Retirement benefit costs

In accordance with the legislative requirements of the Republic of Kazakhstan the Company pays into an cumulative pension funds the amount equivalent to 10% of each employee's salary but not more than 149,745 tenge per month (2013: 139,950 tenge per month). These amounts are expensed when they are incurred. Pension fund payments are withheld from employees' salaries and included with other salary costs in the statement of profit or loss and comprehensive income.

Defined benefit scheme

In accordance with a Labor Union Agreement the Company provides certain benefits to its employees upon their retirement ("Defined Benefit Scheme"). Pursuant to this agreement, the Company provides the following benefits:

- one-time retirement grant;
- annual financial support to pensioners; and
- funeral aid.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest income), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest income/(expense) is calculated by applying the discount rate at the beginning of the period to the net assets/(liabilities) of the pension plan as of that date.

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Company presents the first two components of defined benefit costs in profit or loss in the line item 'employee benefits expense'.

The retirement benefit obligation recognised in the statement of financial position represents the actual deficit or surplus in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

The discount rate for the Company's obligations to employee benefits obligations is determined by market yields on government securities on the reporting date. Based on the analysis of data on the Kazakhstan Stock Exchange (KASE), the average yield on government securities MEUKAM (maturity - over 2,021 days) was 6.706%.

Income taxes

The income tax expense represents the sum of current tax payable and deferred income tax.

Current tax

Currently tax payable is based on taxable income for the year. Taxable income differs from net profit as reported in the statement of comprehensive income as it excludes income or expense items that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rate effective at the reporting date.

Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements, and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

A deferred tax asset or liability is recorded at tax rates that are expected to apply in the period when the liability is settled or the asset realized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes are recognized in profit or loss, except when they relate to other comprehensive income or to equity (in this case the tax is also recognized directly in equity).

Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenue can be measured reliably. Sales are recognized less value added tax.

The Company revenues are principally derived from a) the provision of local, domestic long-distance and international long-distance telephone services which consist of (i) usage charges for telephone services, which vary depending on distance and duration of the telephone call, (ii) monthly telephone service fee and b) provision of Internet and data transmission services, c) providing telegraph services, d) rent of backbone links, e) provision of construction services and f) other services.

The Company records revenue from services as follows:

(i) Revenues derived from local, domestic long distance and international long distance telephone services are recognized as the services are provided;
(ii) Monthly telephone service fees are recognized in the month in which the telephone services are provided to customer;
(iii) Revenues from the provision of Internet and data transmission services are recognized when the services are provided to customers;
(iv) Revenues from renting magistral channels are recognized evenly during the period of the agreement;
(v) Revenues from the services of telegraph are recognized when the services are provided to customers;
(vi) Revenues from provision of other services are recognized as related services are provided to customers.

The Company's policy with regard to the recognition of revenue from construction contracts is described below.

Construction contracts

Revenue and costs related to construction contracts are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date related to the estimated total contract costs. Deviations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the statement of financial position, within liabilities, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the statement of financial position as trade receivables.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

Finance lease – Company as a lessee

The Company entered into a finance lease of telecommunication equipment (see Note 14). Under the lease agreement the ownership of the equipment is not transferred to the lessee at the end of the lease term and the lease covers many separate assets. The Company determined that this lease mainly transfers all risks and rewards inherent in the title to this equipment, therefore the lease is classified as a finance one. Also management of the Company applied its judgment over lease payments allocation between the separate assets, and also for the determination of lease inception date and measurement of present value of minimum lease payments for every separate asset.

Key sources of estimation uncertainty

Employee benefits

The Company uses the actuarial method of evaluation to determine the carrying value of retirement benefit obligations and related current service cost (see Note 15). It requires use of demographic assumptions regarding future characteristics of existing and resigned employees to which benefits are due (mortality during and after employment, statistics of changes in the number of employees, etc.), and financial assumptions (discount rate, future annual material aid, future annual minimum salary).

These assumptions including methods used may have a significant impact on the carrying value of retirement benefit obligations and the related current service cost.

Impairment of non-current assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. 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 for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.

The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value-in-use include discounted cash flow-based methods. These estimates, including the methodologies used, can have a material impact on the fair value and ultimately the amount of any impairment of non-current assets.

Provision for doubtful debts

The Company creates provisions for doubtful receivables. Significant judgments are used to determine these provisions. In determining doubtful debts the historic and expected behavior of customers is considered. The changes in the economy or individual conditions of the customer can require adjustments of the provision for doubtful debts in these financial statements. As at 31 December 2014 and 2013, provisions for doubtful debts were 681,549 thousand tenge and 247,195 thousand tenge, respectively (see Notes 9 and 10).

Useful economic lives of property, plant and equipment

As disclosed in Note 3, the Company considers useful economic lives of property, plant and equipment at the end of each annual reporting period. The evaluation of the useful economic life of an asset depends on factors such as economic use, maintenance programs, technological improvements and other business conditions. The evaluation of useful economic lives of property, plant and equipment by management reflects relevant information available at the date of approval of these financial statements.

Estimation of litigation issues

The Company participates in the different litigation issues concerning its economic activities. The Company uses estimations of probability of unfavorable outcome from potential issues or which are on the stage of examination and their influence on a financial position or financial results of the Company. Estimations are based on probability to win or lose dispute and the amount of probable payments. Differences between estimations and actually paid amounts if those arise in future accounting periods, can significantly affect the financial results of the Company.

Construction contracts

The distribution of revenues and costs related to the construction contract for the reporting periods requires for the Company to make estimates regarding the reliability of the contract's financial result calculation. If the financial result of a construction contract can be estimated reliably, revenue and costs are recognized in proportion to the stage of completion at the reporting date, otherwise the revenue is recognized only to the extent that it is expected to refund the costs incurred under the contract. The differences between the estimates and the actual result of the contract could have a material effect on the Company's financial performance.

5. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions
Cost:		
At 1 January 2013	206,496	2,264,198
Additions	-	33
Internal movement	-	214,527
Disposals	-	(4,766)
At 31 December 2013	206,496	2,473,992
Additions	206	-
Internal movement	-	846,247
Movement to intangible assets	-	-
Disposals	-	(80,840)
At 31 December 2014	206,702	3,239,399
Accumulated depreciation:		
At 1 January 2013	-	(1,033,763)
Charge for the year	-	(99,509)
Internal movement	-	142
Provision for idle property, plant and equipment	-	(37,394)
Disposals	-	258
At 31 December 2013	-	(1,170,266)
Charge for the year	-	(114,965)
Recovery of provision for idle property, plant and equipment	-	37,653
Disposal	-	43,760
At 31 December 2014	-	(1,203,818)
Net book value:		
At 31 December 2013	206,496	1,303,726
At 31 December 2014	206,702	2,035,581

Machinery and equipment	Vehicles	Other assets	Capital construction in progress	Total
30,189,898	203,708	263,519	3,452,538	36,580,357
11,826	-	-	12,841,015	12,852,874
6,030,292	10	80,746	(6,325,575)	-
(31,749)	(57)	(2,222)	(17,085)	(55,879)
36,200,267	203,661	342,043	9,950,893	49,377,352
31,717	-	19,939	31,214,922	31,266,784
29,789,324	48,583	157,535	(30,841,689)	-
-	-	-	(2,970,463)	(2,970,463)
(75,855)	-	(16,713)	-	(173,408)
65,945,453	252,244	502,804	7,353,663	77,500,265
(10,552,803)	(83,855)	(128,908)	-	(11,799,329)
(3,030,183)	(21,053)	(42,096)	-	(3,192,841)
(142)	-	-	-	-
2,404	-	63	-	(34,927)
14,001	57	2,222	-	16,538
(13,566,723)	(104,851)	(168,719)	-	(15,010,559)
(3,872,089)	(20,462)	(60,594)	-	(4,068,110)
1,459	-	41	-	39,153
74,995	-	16,240	-	134,995
(17,362,358)	(125,313)	(213,032)	-	(18,904,521)
22,633,544	98,810	173,324	9,950,893	34,366,793
48,583,095	126,931	289,772	7,353,663	58,595,744

As at 31 December 2014 and 2013, the Company had property, plant and equipment received under finance lease agreement with net book value of 1,855,625 thousand tenge and 2,226,750 thousand tenge, respectively. Lessor's title for these leased assets is the collateral for the Company's financial lease obligations (see Note 14).

As at 31 December 2014, administrative building with carrying value of 346,232 thousand tenge and land with carrying value of 160,398 thousand tenge were pledged to secure loan obtained from SB JSC Sberbank of Russia (in 2013: 288,015 thousand tenge and 160,398 thousand tenge, respectively) (see Note 13). As at 31 December 2014, the Company fully repaid loan of SB JSC Sberbank, and in this regard, measures are being taken to remove pledged property from collateral.

As at 31 December 2014, cost of fully depreciated property, plant and equipment amounted to 4,090,643 thousand tenge (31 December 2013: 3,364,983 thousand tenge).

During 2014, the Company capitalized borrowing costs of 182,587 thousand tenge (2013: borrowing costs of 529,796 thousand tenge) (see Note 23).

As at 31 December 2014, capital construction in progress is presented, mainly, by the equipment and magistral fiber – optic network for the construction of a hardware-software complex of fiber-optic communication lines (hereinafter – "FOCL") (2013: capital construction in progress is presented mainly by the equipment for the implementation of hardware-software complex of the locomotive level and locomotive depot level within the implementation of the strategic investment project "Automated control system for power dispatch traction" (hereinafter – "ACS PDT")).

During 2014, the digital equipment and magistral fiber-optic networks are mostly transferred from capital construction in progress to the group "Machinery and equipment".

6. INTANGIBLE ASSETS

	Licenses	Software	Other	Total
Cost				
At 1 January 2013	226,247	193,087	4,422	423,756
Additions	224,140	122,065	-	346,205
At 31 December 2013	450,387	315,152	4,422	769,961
Additions	1,139,720	381,187	1,451,223	2,972,130
Disposals	(501)	(3,658)	-	(4,159)
At 31 December 2014	1,589,606	692,681	1,455,645	3,737,932
Accumulated depreciation				
At 1 January 2013	(49,685)	(66,272)	(3,401)	(119,358)
Charge for the year	(34,456)	(31,099)	(511)	(66,066)
At 31 December 2013	(84,141)	(97,371)	(3,912)	(185,424)
Charge for the year	(91,373)	(55,501)	(55,279)	(202,153)
Disposals	501	3,514	-	4,015
At 31 December 2014	(175,013)	(149,358)	(59,191)	(383,562)
Net book value				
At 31 December 2013	366,246	217,781	510	584,537
At 31 December 2014	1,414,593	543,323	1,396,454	3,354,370

During 2014, the Company acquired intangible assets, which include licenses, software and other intangible assets for the implementation of hardware-software complex of the locomotive level and locomotive depot level within the implementation of the strategic investment project "ACS PDT" to provide services to JSC Locomotive.

As at 31 December 2014, other intangible assets also includes a land project in the amount of 380,327 thousand tenge with useful life of 49 years, which provides special right to the target use of land with the servitude for the operation of fiber-optic communication line to an existing magistral fiber-optical line on the site "Almaty-Astana".

7. OTHER NON-CURRENT ASSETS

	31 December 2014	31 December 2013
Long-term portion of value added tax ("VAT") recoverable	2,223,397	532,860
Advances paid	111,670	464,028
	2,335,067	996,888

As at 31 December 2014, the Company reclassified the value added tax as other long-term assets, which compensation is expected in a period of exceeding twelve months, in the amount of 2,223,397 thousand tenge (2013: 532,860 thousand tenge).

As at 31 December 2014 and 2013, advances paid are mainly represented by advances for design of construction of the magistral fiber-optical communication lines.

8. INVENTORIES

	31 December 2014	31 December 2013
Spare parts	217,153	160,403
Materials	159,987	130,094
Fuel	16,131	13,552
Other	67,985	47,838
	461,256	351,887

As at 31 December 2014, inventories included emergency stock of the Company of 265,474 thousand tenge (31 December 2013: 191,032 thousand tenge).

9. TRADE ACCOUNTS RECEIVABLE

	31 December 2014	31 December 2013
Receivables from JSC NC KTZh and its subsidiaries (see Note 25)	4,604,693	1,110,718
Receivables from other related parties and third parties	859,400	556,553
	5,464,093	1,667,271
Provision for doubtful debts	(153,154)	(150,728)
	5,310,939	1,516,543

For the years ended 31 December, the movement in the provision for doubtful debts was presented as follows:

	2014	2013
Provision for doubtful debts at the beginning of the year	(150,728)	(172,159)
(Accrued)/recovered during the year	(5,733)	6,106
Written off through earlier created provision during the year	3,307	15,325
Provision for doubtful debts at the end of the year	(153,154)	(150,728)

As at 31 December 2014 and 2013, trade accounts receivable for services rendered to JSC NC KTZh and its subsidiaries were 87% and 73% of the total balance of trade accounts receivable, respectively.

Average period of trade credit provided to the Company's customers is 90 days. The Company creates 100% provision for the entire balance of accounts receivable (less value added tax) overdue for more than 6 months, since the historical experience shows that accounts receivable overdue for such a period are usually not repaid. As for trade accounts receivables outstanding for the period of 90-180 days, provision for doubtful debts is recorded based on the historic estimates and the analysis of the current financial position of the counterparty.

Below is the ageing analysis of overdue but not impaired trade accounts receivable:

	31 December 2014	31 December 2013
91-180 days	7,936	2,102
181-360 days	-	-
Over 360 days	-	-
	7,936	2,102
Average period (in days)	148	108

The analysis of impaired trade accounts receivable by maturity:

	31 December 2014	31 December 2013
91-180 days	7,936	2,102
181-360 days	13,693	3,115
Over 360 days	131,525	145,511
	153,154	150,728
Average period (in days)	1,456	1,487

Trade accounts receivable of the Company were denominated in the following currencies:

	31 December 2014	31 December 2013
Tenge	5,146,647	1,453,579
USD	164,263	62,964
Russian Rubles	29	-
	5,310,939	1,516,543

10. OTHER CURRENT ASSETS

	31 December 2014	31 December 2013
Advances to suppliers	872,399	759,946
VAT recoverable	543,757	195,310
Other short-term financial investments	30,238	-
Prepaid taxes other than income tax	10,345	10,242
Receivables from employees	795	733
Other accounts receivable	575,563	219,597
	2,033,097	1,185,828
Provision for doubtful debts	(528,395)	(96,467)
	1,504,702	1,089,361

For the years ended 31 December, the movement in the provision for doubtful debts was presented as follows:

	2014	2013
Provision for doubtful debts at the beginning of the year	(96,467)	(1,971)
Accrued during the year	(433,671)	(94,496)
Written off through earlier created provision during the year	1,743	-
Provision for doubtful debts at the end of the year	(528,395)	(96,467)

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

11. CASH

	31 December 2014	31 December 2013
Cash in bank accounts	4,217,529	4,366,955
Petty cash	40	440
	4,217,569	4,367,395

Cash was denominated in the following currencies:

	31 December 2014	31 December 2013
Tenge	3,226,406	4,310,238
USD	991,064	57,129
Russian Ruble	88	28
Euro	11	-
	4,217,569	4,367,395

12. SHARE AND ADDITIONAL PAID-IN CAPITAL

Share capital

As at 31 December 2014 and 2013, the Company's issued and paid share capital equaled to 12,241,487 thousand tenge. The Shareholder is entitled to dividends, a portion of the Company's property in case of its liquidation, and preemptive right in purchasing the Company's shares or other securities convertible to the Company's shares.

In October 2013, the Shareholder of the Company took the decision to increase share capital by 6,610,000 thousand tenge by issuing additional shares with par value 1,000 tenge each, which in 2013 were purchased by the Shareholder using its pre-emptive rights.

On 30 April 2014, according to the decision of the Board of Directors of the Company payment of dividends were declared for the results of 2013 in the amount of 83,748 thousand tenge (2013: 127,531 thousand tenge).

As at 31 December 2014 and 2013, the Company did not have any preferred shares.

Additional paid capital

Additional paid capital is presented by difference between nominal and fair value of interest-free loan obtained from JSC NC KTZh in 2011, net of deferred tax.

13. LOANS

	Currency	Maturity	Interest rate	31 December 2014	31 December 2013
Loans:					
JSC Development Bank of Kazakhstan ("DBK")	Tenge	2024	8.0%	15,243,667	-
Eurasian Development Bank ("EADB")	Tenge	2020	7.7%	12,561,846	3,123,438
JSC Development Bank of Kazakhstan ("DBK")	Tenge	2018	7.6%	9,093,726	11,371,859
Eurasian Development Bank ("EADB")	Tenge	2024	9.0%	7,297,514	-
SB JSC Sberbank of Russia	Tenge	2016	9.7%	-	6,487,917
				44,196,753	20,983,214
Less: current portions of long-term loans payable within 12 month				(2,904,577)	(5,708,493)
Less: not amortized part of lump-sum commission				(19,925)	(8,104)
				41,272,251	15,266,617

JSC Development Bank of Kazakhstan

On 20 September 2013, the Company entered into a loan agreement with JSC Development Bank of Kazakhstan for total amount of 11,136,750 thousand tenge under 7.6% per annum till 25 September 2018. This loan was secured by the guarantee of JSC NC KTZh. The repayment of interest and principal amounts is to equal semi-annual installments annually.

On 26 June 2014, the Company entered into a credit line agreement for a total amount of 25,420,927 thousand tenge for construction of the FOCL. The interest rate is 8% per annum. The loan is repayable in equal semi-annual installments. The loan is secured by the guarantee of JSC NC KTZh. The repayment of interest and principal amounts is equal to semi-annual installments, with the principal beginning from 2016.

Eurasian Development Bank

On 2 April 2013, the Company entered into a loan agreement for providing credit line for total amount of 17,513,000 thousand tenge with Eurasian Development Bank with maturity date up to 2020 for realization of investment project ACS PDT. The interest rate is 7.7% per annum. The full amount of credit line is repayable in 10 equal semi-annual payments of 1,751,300 thousand tenge beginning from 2015. This loan was secured by the guarantee of JSC NC KTZh.

On 30 October 2014, the Company entered into a 7,500,000 thousand tenge loan agreement (refinancing loan of SB JSC Sberbank of Russia). The interest rate is 9% per annum. The loan is secured for the full amount of obligations by a guarantee of JSC NC KTZh. The repayment of interest and principal is equal to semi-annual installments, with the principal beginning from 2016.

SB JSC Sberbank of Russia

On 31 October 2012, the Company entered into a credit line agreement of 7,500,000 thousand tenge with maturity of 2 years. This credit line is obtained to implement the investment strategic project ACS PDT. The interest rate is 9.7% per annum. The loan is repayable in a lump-sum at maturity of the loan, interest is paid off monthly. Loan is secured by property, plant and equipment (see Note 5) and money receipts in the future under the contract for rendering of services for the collection and transmission of technical parameters of locomotives and access to an automated control system. As at 31 December 2014, administrative building with carrying value of 346,232 thousand tenge and land with carrying value of 160,398 thousand tenge were pledged to secure loan obtained from SB JSC Sberbank of Russia (in 2013: 288,015 thousand tenge and 160,398 thousand tenge, respectively) (see Note 5).

In October 2014, loan from JSC Sberbank of Russia was refinanced in the amount of 7,500,000 thousand tenge by JSC Eurasian Development Bank. The Company repaid all obligations of its loan of SB JSC Sberbank. Due to the fact that the Company has fulfilled its obligations, measures are being taken to lift the burdens of collateral on the property.

The repayment schedule of amounts according to credit agreements is presented as follows:

	31 December 2014	31 December 2013
Within 1 year or on demand	2,904,577	5,708,493
1-2 years	6,860,520	5,519,583
2-3 years	7,303,157	5,292,334
3-4 years	7,303,157	2,227,350
4-5 years	19,805,417	2,227,350
	44,176,828	20,975,110

14. FINANCE LEASE OBLIGATIONS

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Obligations under finance lease:				
Not more than 1 year	842,121	771,944	362,159	234,521
More than 1 year and not more than 5 years	3,513,687	3,368,484	2,447,763	1,931,689
More than 5 years	-	987,324	-	886,332
	4,355,808	5,127,752	2,809,922	3,052,542
Less future finance charges	(1,545,886)	(2,075,210)	-	-
Present value of minimum lease payments	2,809,922	3,052,542	2,809,922	3,052,542
Included in the financial statements as:				
Current portion			362,159	234,521
Non-current portion			2,447,763	2,818,021

In December 2004, the Company entered into an agreement with TeleKRONA LLP according to which TeleKRONA LLP was obligated to construct a turnkey fiber-optic network during the period stipulated by the contract, and the Company was obliged to lease this network in parts as far as it is commisioned, for the period till 1 January 2020. The original cost of the contract was 19,317,000 thousand tenge, including VAT. On 2 April 2009, the Company and TeleKRONA LLP signed an additional agreement providing for cancellation of a lease of a part of equipment and, accordingly, decrease of the total amount of lease payments from 19,317,000 thousand tenge to 14,483,297 thousand tenge, changes in the payment schedule and obligations of the both parties not to demand for payment of penalties and recalculation of payments made prior to 1 January 2009.

For the year ended 31 December 2014, the Company incurred contingent rent expenses related to indexation of payments and change in VAT rate of 333,611 thousand tenge (2013: 14,880 thousand tenge).

For the year ended 31 December 2014 and 2013, average interest rate was 18.25% per annum. All lease obligations were denominated in tenge.

15. EMPLOYEE BENEFIT OBLIGATIONS

Employee retirement benefit obligations are payable in accordance with a Labor Union Agreement concluded between the Company and its employees for 2012-2014.

	31 December 2014	31 December 2013
Present value of employee benefit obligations	401,263	379,617
Liability falling due within one year	(34,854)	(28,924)
Liability falling due after one year	366,409	350,693

Below is the reconciliation of the carrying values of the defined benefit scheme for the years ended 31 December:

	31 December 2014	31 December 2013
Total liabilities at the beginning of the year	379,617	388,578
Current service cost	17,683	17,919
Past service cost	23,916	(26,284)
Interest cost	-	23,315
Payments made during the year	(20,257)	(18,080)
Actuarial loss recognized in profit and loss for the year	5,736	4,330
Actuarial income recognized in other comprehensive income for the year	(5,432)	(10,161)
Total liabilities at the end of the year	401,263	379,617
Liability falling due within one year	(34,854)	(28,924)
Liability falling due after one year	366,409	350,693

For the year ended 31 December 2014, the Company recognized expenses on post-employment benefits of 47,335 thousand tenge, including actuarial loss in amount of 5,736 thousand tenge (2013: expenses of 19,280 thousand tenge, including actuarial loss in amount of 4,330 thousand tenge) recognized in profit or loss (see Note 22).

The estimates of the Company's obligations were made on the basis of the published statistical data regarding mortality and the actual Company's data concerning the number, age, sex and years of the employees' pensioners' services and the Company's employee's turnover statistics. Other principal assumptions at the reporting date were as follows:

	31 December 2014	31 December 2013
Discount rate	6.7%	6.3%
Expected annual increase in material assistance in future	4.5%	4.7%
Expected annual increase in minimal salary in future	4.5%	4.7%

The Defined Benefit Scheme is unfunded.

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 1% higher (lower), the defined benefit obligation would decrease by 41,731 thousand tenge (increase by 50,559 thousand tenge).
- If the expected salary, inflation, monthly calculated index growth increases (decreases) by 1%, the defined benefit obligation would increase by 50,960 thousand tenge (decrease by 42,935 thousand tenge).
- If the life expectancy increases (decreases) by one year for both male and female, the defined benefit obligation would increase by 16,051 thousand tenge (decrease by 16,853 thousand tenge).
- If the employee turnover increases (decreases) by 1%, the defined benefit obligation would decrease by 4,414 thousand tenge (increase by 4,013 thousand tenge).

The presented above sensitivity analysis may not reflect actual changes in the defined benefit obligation, because it is unlikely that the change in assumptions would occur in isolation of one another (some assumptions are interrelated).

Furthermore, in sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method on the reporting date.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

16. TRADE ACCOUNTS PAYABLE

	31 December 2014	31 December 2013
Payable to other related and third parties	9,703,224	3,356,526
Payable to JSC NC KTZh and its subsidiaries (see Note 25)	30,447	8,473
	9,733,671	3,364,999

Trade accounts payable of the Company was denominated in the following currencies:

	31 December 2014	31 December 2013
Tenge	9,624,696	3,267,499
USD	88,229	80,138
Russian Rubles	20,746	17,362
	9,733,671	3,364,999

As at 31 December 2014 and 2013, trade accounts payable of the Company are mainly represented by accounts payable on purchase of property, plant and equipment, inventories and intangible assets.

17. TAXES PAYABLE AND OTHER OBLIGATORY PAYMENTS

	31 December 2014	31 December 2013
VAT payable, fines and penalties per act of tax audit (see Note 27)	281,096	918,092
VAT payable	104,609	16,216
Pension fund contributions	38,975	36,814
Personal income tax payable	31,140	29,115
Social tax	23,902	23,470
Social contributions	16,179	14,443
Other	11,854	1,885
	507,755	1,040,035

18. OTHER CURRENT LIABILITIES

	31 December 2014	31 December 2013
Provision on remuneration of executive personnel	319,028	119,520
Provision for unused vacation	225,242	122,596
Advances received from customers	46,635	42,847
Operating lease obligations	32,731	6,826
Accrued salary	1,778	1,762
Other liabilities	208,941	113,479
	834,355	407,030

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

19. INCOME TAX

	31 December 2014	31 December 2013
Adjustment of current income tax of prior years	(561,069)	561,069
Deferred tax expense	769,288	542,030
Total income tax expense	208,219	1,103,099

Deferred tax amounts calculated by applying the statutory tax rates in effect at the respective reporting dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in financial statements, are as follows:

	31 December 2014	31 December 2013
Deferred tax assets		
Tax loss carryforward	1,119,224	625,758
Provision for doubtful debts	136,271	49,182
Interests	63,308	-
Provision for unused vacations	45,048	24,519
Taxes	10,387	7,682
Other provisions	71,636	32,646
Total deferred tax assets	1,445,874	739,787
Deferred tax liabilities		
Difference in net book value of property, plant and equipment and intangible assets	(2,333,327)	(857,952)
Total deferred tax liabilities	(2,333,327)	(857,952)
Deferred tax liabilities, net	(887,453)	(118,165)

	2014	2013
Deferred tax (liabilities)/assets, net, at the beginning of the year	(118,165)	423,865
Deferred tax recognized in profit or loss	(769,288)	(542,030)
Deferred tax liabilities, net, at the end of the year	(887,453)	(118,165)

In 2014 and 2013, the statutory effective income tax rate in Kazakhstan was 20%.

As at 31 December 2014, tax loss carried forward amounted to 5,596,120 thousand tenge (31 December 2013: 3,128,790 thousand tenge). In accordance with tax code of the Republic of Kazakhstan, tax loss carried forward, which is recognized for tax purposes, is expired within ten years from the origination date. Accordingly, most of the Company's tax losses carried forward as of 31 December 2014 will expire in 2023-2024 for tax purposes.

Below is a reconciliation of theoretical income tax with the actual income tax expense recorded in the Company's statement of comprehensive income:

	2014	2013
Profit before income tax expense	3,356,383	1,661,419
Tax at statutory rate 20%	671,277	332,284
Accruals based on act of tax audit (see Note 17)	(127,511)	183,618
Adjustmentss of the current income tax of previous years	(561,069)	561,069
Effect of other permanent differences	225,522	26,128
Income tax expenses	208,219	1,103,099

20. REVENUE FROM RENDERING SERVICES

	2014	2013
Revenue from JSC NC KTZh and its subsidiaries (see Note 25)	17,171,422	11,856,845
Revenue from sale of goods and services to third parties and other related parties	4,444,761	3,951,310
	21,616,183	15,808,155

In 2014, sales to JSC NC KTZh and its subsidiaries approximated 79% of the total revenue amount (2013: 75%).

The table below presents the Company's revenue for the years ended 31 December by the type of services provided:

	2014	2013
Rent of the magistral channels	5,515,100	5,227,991
Project ACS PDT	5,158,433	352,975
Telegraph	2,571,531	2,757,195
Internet	1,656,634	1,286,480
Long-distance and international communication	1,394,133	1,387,392
Project ACS Magistral	1,345,460	941,186
Rent of data transmission lines	1,282,600	1,363,155
Local communication	907,304	933,153
International transit	835,862	729,631
Project ISU Park	377,794	356,910
Project Expo 2017	303,571	-
Construction services for the implementation of interval traffic control system	159,822	350,944
Other revenue	107,939	121,143
	21,616,183	15,808,155

From November 2013 and during 2014, the Company provided services within the project ACS PDT to JSC Locomotive, which involves complex automation of business processes in the locomotive sector.

21. COST OF RENDERING SERVICES

	2014	2013
Depreciation and amortization	4,135,824	3,142,456
Salary	3,031,378	2,575,909
Third party services	2,020,575	398,969
Materials	1,280,122	1,213,356
Operating lease expenses	1,086,710	1,128,902
Communication expenses	991,028	949,407
Professional services	705,244	559,370
Social tax	300,215	247,688
Construction services for the implementation of interval traffic control system	146,951	331,380
Electricity	112,823	93,362
Business trip expenses	107,764	61,176
Fuel	82,975	68,413
Accrual/(recovery) of provision for unused vacations	82,973	(600)
Insurance expenses	56,579	51,375
Personnel training	31,189	23,909
Reversing of expenses under consortium agreement KT&T LLP (see Note 27)	-	(762,540)
Other expenses	235,503	179,266
	14,407,853	10,261,798

Third party services are including subcontracting works within the projects ACS PDT, ACS Magistral, ISU Park and Expo 2017 in the amount of 1,045,789 thousand tenge (2013: 67,198 thousand tenge), 440,252 thousand tenge (2013: nil), 356,409 thousand tenge (2013: 331,771 thousand tenge) and 178,125 thousand tenge (2013: nil), respectively.

22. GENERAL AND ADMINISTRATIVE EXPENSES

	2014	2013
Salary	845,214	752,959
Accrual of provision for doubtful debts (Notes 9 and 10)	439,404	88,390
Provision on remuneration of executive personnel	199,508	119,520
Taxes, other than income tax	190,708	267,024
Depreciation and amortization	134,439	116,262
Professional services	94,306	235,109
Expenses of assets disposal	93,993	38
Rent expenses	90,075	90,103
Social tax	80,076	75,808
Advertisement expenses	54,318	53,362
Employee benefits expenses (Note 15)	47,335	19,280
Bank services	41,961	36,057
Business trip and representative expenses	36,353	31,557
Insurance expenses	22,263	7,436
Personnel training	20,367	14,250
Accrual of provisions for unused vacation	19,674	6,369
Materials	9,619	12,923
Recovery of provision on litigation issues	-	(694,415)
VAT, fines and penalties payables based on act of tax audit (Note 27)	(637,555)	918,092
(Recovery)/accrual of provision for idle property, plant and equipment (Note 5)	(39,153)	34,927
Other expenses	158,015	121,696
	1,900,920	2,306,747

23. FINANCE COSTS

	2014	2013
Interest expense on loans	2,315,467	1,407,353
Interest expense on financial lease	526,275	637,408
Contingent rent payments	333,611	14,880
	3,175,353	2,059,641
Less borrowing costs capitalized to the cost of qualifying assets (see Note 5)	(182,587)	(529,796)
	2,992,766	1,529,845

24. OTHER INCOME

Other income for the years ended 31 December 2014 and 2013 were presented as follows:

	2014	2013
Income from reimbursement of penalties from LLP KT&T (Note 27)	433,219	-
Income from granted assets	276,251	-
Other income	55,740	130,422
	765,210	130,422

25. PARTY TRANSACTIONS

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is paid to the substance of the relationship, and not merely the legal form.

Related parties may enter into transactions in which non-related parties may not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between non-related parties.

The nature of related parties' relationships for those related parties with which the Company entered into significant transactions or had significant balances outstanding as at 31 December 2014 and 2013, are detailed below.

As at 31 December, amounts due to and from related parties (JSC NC KTZh and its subsidiaries and associates) comprised the following:

	Due from related parties (Note 9)		Due to related parties (Note 16)	
Company name	31 December 2014	31 December 2013	31 December 2014	31 December 2013
JSC NC KTZh	3,074,757	754,174	3,232	3,232
JSC Locomotive	1,401,494	229,958	-	-
JSC Passenger Transportations	42,069	61,856	-	-
JSC Kaztemirtrans	30,955	12,642	-	-
LLP Repair corporation Kamkor	25,179	18,237	1,020	2,539
Other	30,239	33,851	26,195	2,702
	4,604,693	1,110,718	30,447	8,473

Transactions with related parties (JSC NC KTZh and its subsidiaries and associates) for the years ended 31 December were presented as follows:

	Services provided (Note 20)		Services received	
Company name	31 December 2014	31 December 2013	31 December 2014	31 December 2013
JSC NC KTZh	10,765,051	10,246,141	96,161	66,675
JSC Locomotive	5,313,143	524,193	6,902	-
JSC Passenger Transportations	534,675	552,220	8	4,262
JSC Kaztemirtrans	213,800	209,288	67,909	64,557
JSC Military Railway Security	69,371	63,693	123,279	-
JSC Locomotive Service Centre	25,322	26,745	307	-
JSC Kaztransservice	38,852	41,726	100	96
Other	211,208	194,046	51,556	46,084
	17,171,422	11,858,052	346,222	181,674

Construction contracts

On 30 December 2011, the Company entered into an agreement with JSC NC KTZh for construction of the microprocessor interval traffic control system in the Kandyagash - Nikeltau area totaling 8,066,440 thousand tenge. Expected completion date is an end of 2014. Due to the necessity in the purchase of unaccounted equipment in the project and estimate documentation from the part of JSC NC KTZh and in accordance with the order of the branch of JSC NC KTZh - "Directorate of Information Technology", the suspension of the agreement No.ЦИТ-93-11 about a procurement of construction and installation works dated 31 December 2011, 21 April 2014, JSC TransTelecom suspended production works on the above project. For the year ended 31 December 2014, costs incurred under this project were amounted to 146,951 thousand tenge (2013: 331,380 thousand tenge) (see Note 21). The Company recognized revenue on this project of 159,822 thousand tenge in proportion to the stage of completion for the year ended 31 December 2014 (2013: 350,944 thousand tenge) (see Note 20).

In 2013, automated control system for the load and the integrity of the movement of carriages was completed at the station Ekibastuz – Zhana-aul within the project ISU Park. For the year ended 31 December 2013, costs incurred under this project amounted to 331,771 thousand tenge (see Note 21) and recognized revenue of 356,910 thousand tenge (see Note 20). During 2014, within the project ISU Park made the delivery of equipment for the station Pavlodar and construction work is not carried out.

The amounts due to and from other related parties as at 31 December, comprised the following:

Company name	Due from related parties		Due to related parties	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
JSC Kazakhtelecom	11,628	15,323	59, 430	69,127
JSC Kedentransservice	1,024	1,119	27	33
Other	7,956	7,835	3,173	2,521
	20,608	24,277	62,630	71,681

Transactions with other related parties for the years ended 31 December, were presented as follows:

Company name	Services provided		Services received	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
JSC Kazakhtelecom	182,811	127,810	560,925	612,400
JSC Kedentransservice	11,751	10,962	-	-
Other	67,178	56,584	47,145	38,868
	261,740	195,356	608,070	651,268

As at 31 December 2014 and 2013, the Company had the following amounts of cash and short-term deposits on bank accounts in JSC BTA Bank, which is a related party of the Company:

	31 December 2014	31 December 2013
JSC BTA Bank	766	1,534
	766	1.534

As at 31 December 2014 and 2013, the Company's key management personnel comprised of 13 and 13 persons, respectively. For the years ended 31 December 2014 and 2013, compensation to the key management personnel was 114,956 thousand tenge and 95,969 thousand tenge, respectively. In 2014 the Company accrued provision on executive remunerations in amount of 119,508 thousand tenge (2013: 119,520 thousand tenge).

26. FINANCIAL INSTRUMENTS

Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to the Shareholders through optimization of the debt and equity balances. The Company's overall strategy remains unchanged since 2013.

The capital structure of the Company comprises the share capital as disclosed in Note 12, additional paid-in capital and retained earnings.

Categories of financial instruments

As at 31 December, financial instruments were presented as follows:

	2014	2013
Financial assets		
Cash	4,217,569	4,367,395
Trade accounts receivable	5,310,939	1,516,543
Other short-term financial investments	30,238	-
Financial liabilities		
Trade accounts payable	9,733,671	3,364,999
Other current liabilities (excluding provision and advances received from customers)	243,450	122,067
Financial lease obligations	2,809,922	3,052,542
Employee benefit obligations	401,263	379,617
Borrowings	44,176,828	20,975,110

Objective of financial risk management

The Company controls and manages the financial risks relating to the operations of the Company through internal risk reports, which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and price risk), liquidity risk and credit risk. The following is a description of the Company's risk management policy.

Market risk

The Company's operations are primarily exposed to financial risks of changes in exchange rates (see Currency risk management below) and in interest rates (see Interest rate risk management below). The Company does not enter into agreements on derivative financial instruments to manage its exposure to interest rate risk and currency risk, since the management believes that such exposure will not have any material impact on the financial statements.

Currency risk management

The Company undertakes certain sales/purchase transactions denominated in foreign currencies. It causes the risk of loss due to changes in exchange rates. The Company also has assets and liabilities denominated in foreign currencies.

The carrying value of the Company's monetary assets and monetary liabilities denominated in foreign currencies as at 31 December was presented as follows:

	Assets		Liabilities	
	2014 000'KZT	2013 000'KZT	2014 000'KZT	2013 000'KZT
USD	1,155,327	120,093	88,229	80,138
Russian Rubles	117	28	20,746	17,362
Euro	11	-	-	-

Foreign currency sensitivity analysis

The Company is mainly exposed to the risk of changes in the exchange rate.

The following table details the Company's sensitivity to 25% strengthening or weakening of tenge against the respective foreign currencies (2013: 25%). 25% (2013: 25%) is the sensitivity rate used when management assesses and represents reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 25% (2013: 25%) change in foreign currency rates. The sensitivity analysis includes a) external loans and accounts payable and b) accounts receivable of the Company, when a loan or accounts payable/receivable are denominated in currencies other than the currency of the creditor or debtor.

The table below presents changes in financial assets and liabilities in case of 25% (2013: 25%) strengthening of tenge against the respective currency. A positive number indicates an increase in profit before tax for the reporting period, and a negative number, there would be a comparable impact on the profit before tax. For 25% (2013: 25%) weakening of tenge against the relevant currency, there would be an equal and opposite impact on the profit.

	Impact of USD	
	2014	**2013**
Financial assets	(288,832)	(30,023)
Financial liabilities	22,057	20,035

Currency risk is primarily attributable to the risk on accounts receivable and accounts payable denominated in US, as at 31 December 2014 and 2013.

Credit risk management

Credit risk is related to the risk that the counterparty will not meet its contractual obligations, which would result in a financial loss for the Company. The Company adopted the policy of dealing only with creditworthy counterparties and receipts sufficient collateral, where acceptable, for the purpose of reducing the risk of financial loss as a result of non-fulfillment of obligations. The Company's exposure and creditworthiness of its counterparties are constantly monitored.

Credit risk is mainly related to accounts receivable and other current assets (see Notes 9 and 10). The Company has a significant concentration of credit risk in relation to JSC NC KTZh and its subsidiaries and associates. For the year ended 31 December 2014, revenue from JSC NC KTZh and its subsidiaries and associates approximated 79% of the total revenue (2013: 75%). As at 31 December 2014, trade accounts receivable from JSC NC KTZh and its subsidiaries made up 87% (2013: 73%) of total trade accounts receivable of the Company.

Carrying amounts of financial assets recognized in financial statements of the Company, less provision for impairment, represent the maximum value of credit risk.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Company's Shareholder, which has established an appropriate liquidity risk management framework for the management of the Company's short-, medium- and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Liquidity risk and interest rate risk tables

The following tables reflect contractual terms of the Company on its non-derivative financial liabilities. The table was prepared on the base of non-discounted cash flows projected on financial liabilities as at the earliest date when the Company may be required to repay. The table includes cash flows on both interest and principal payments.

	Interest rate	Up to 1 year	1-5 years	Over 5 years	Total
2014					
Financial assets					
Interest-free					
Cash	-	4,217,569	-	-	4,217,569
Trade accounts receivable	-	5,310,939	-	-	5,310,939
Interest-bearing					
Other short-term financial investments	6.50%	30,238	-	-	30,238
Total financial assets		9,558,746	-	-	9,558,746
Financial liabilities					
Interest-bearing					
Financial lease obligations	18.25%	362,159	2,447,763	-	2,809,922
Employee benefit obligations	6.70%	34,854	366,409	-	401,263
Borrowings:					
Instruments with fixed-rate interest rate	7.6%-9%	6,220,313	50,241,178	2,625,603	59,087,094
Interest-free					
Trade accounts payable	-	9,733,671	-	-	9,733,671
Other financial liabilities	-	243,450	-	-	243,450
Total financial liabilities		16,594,447	53,055,350	2,625,603	72,275,400
Net financial liabilities		(7,035,701)	(53,055,350)	(2,625,603)	(62,716,654)
2013					
Financial assets					
Interest-free					
Cash	-	4,367,395	-	-	4,367,395
Trade accounts receivable	-	1,516,543	-	-	1,516,543
Total financial assets		5,883,938	-	-	5,883,938
Financial liabilities					
Interest-bearing					
Financial lease obligations	18.25%	771,944	3,368,484	987,324	5,127,752
Employee benefit obligations	6.3%	28,924	350,693	-	379,617
Borrowings:					
Instruments with fixed-rate interest rate	7.6%-9.7%	5,708,493	18,700,222	-	24,408,715
Interest-free					
Trade accounts payable	-	3,364,999	-	-	3,364,999
Other financial liabilities	-	122,067	-	-	122,067
Total financial liabilities		9,996,427	22,419,399	987,324	33,403,150
Net financial liabilities		(4,112,489)	(22,419,399)	(987,324)	(27,519,212)

The Company believes it will settle all other liabilities against cash inflows from operating activities and the proceeds from financial assets that are going to be matured in the near future.

Fair value of financial instruments

Management considers that except for borrowings from international and Kazakhstani development institutions, as at 31 December 2014 and 2013, carrying values of financial assets and financial liabilities, recorded at their amortized value in the financial statements approximate their fair value.

The fair value of the borrowings received from international and Kazakhstani development institutions – EADB, and DBK was not disclosed as there is no possibility to estimate the interest rate on comparable loans which the Company would be able to obtain from these parties, as well as the interest rates applied by the commercial banks may substantially vary. The fair value of these loans may significantly change when recalculating using the rates applied by the commercial banks.

27. COMMITMENTS AND CONTINGENCIES

Operating environment

Emerging markets, including Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2014. Management is unable to reliably estimate the effects of any further price fluctuations on the Company's financial position.

Legal issues

Kazakhstan Transit Telecommunications LLP

During 2011-2012, Kazakhstan Transit Telecommunications LLP (hereinafter - "KT&T") brought number of actions against the Company regarding improper fulfillment by the Company of obligations under agreement on joint activity No.63-1/16 of 27 April 2006 (hereinafter –agreement on joint activity) for late payments for the use of equipment of KT&T for the period from July 2008 till February 2012. As a result of numerous judicial proceedings during period of 2011-2012, the Company was charged 136,240 thousand tenge (with regard to the state duty paid), and 3,788 thousand tenge as return of the state duty paid by KT&T.

Based on history of relations between the Company and KT&T, relating to a number of past proceedings, and also taking into consideration the fact that the statute of limitation on amounts of penalties calculated up to 2009 has passed, the Company management believes it is unlikely that full amount of outstanding penalty calculated by KT&T will be claimed. The company estimated possible liabilities on penalties in respect to late payment during 2009-2012, and as at 31 December 2012, accrued provision for amount of 694,415 thousand tenge.

As a result of long litigations, in May 2012, JSC NC KTZh declared counter-claim to KT&T and the Company on recognition of the agreement on joint activity invalid. On 17 August 2012, the court of the first instance dismissed the claim. An appeal and a cassation appeal of JSC NC KTZh and the Company were dismissed. On 14 August 2013, based on decision of the Supreme Court of the Republic of Kazakhstan the agreement on joint activity was recognized as invalid.

In 2013, as a result of recognition of agreement on joint activity invalid:

- on the basis of the Company petition, the transport prosecutor's submitted applications to various judicial instances concerning revision of all earlier taken place legal cases related to this agreement on joint activity; and
- Tax department of Astana accrued taxes, penalties and penalty fee in total amount of 1,479,161 thousand tenge (see Taxation and regulatory environment below).

Recognition of agreement on joint activity as invalid has had following impact on the financial statements of the Company in 2013:

- the Company reversed earlier established provisions of 694,415 thousand tenge (see Note 22);
- the Company wrote off accounts payable to KT&T of 762,540 thousand tenge (see Note 21);
- the Company accrued 100% provision on receivables from KT&T of 80,702 thousand tenge (see Note 10); and
- established provision on taxes, fines and penalties of 1,479,161 thousand tenge (see Notes 17, 19 and 22).

According to the decision of specialized inter-district court in Astana No.02-3907-14 dated 28 May 2014, which is determined by the appellate judicial board on civil and administrative cases, in 2014 in connection with the rotation of the judgment decision the Company recognized other income in amount of 433,219 thousand tenge, which is reimbursement of penalties. Simultaneously, the Company creates a provision for this amount, as there is uncertainty of cash flows receiving from KT&T (Note 22).

On 11 August 2014, Specialized Inter-district Economic Court of Almaty (hereinafter - the SIEC of Almaty) was charged with a claim for recognition of KT&T as bankrupt. The decision of SIEC of Almaty dated 21 October 2014, the claim was not satisfied. On 7 November, 2014, the Company is not agreed with above decision and filed an appeal.

On 19 January 2015, decision of the appellate judicial board of Almaty city court, KT&T LLP is declared bankrupt with the initiation of bankruptcy proceedings and the appointment of a temporary administrator.

The management of the Company considers that the above changes reflect the most exact assessment of influence of recognition of agreement on joint activity invalid.

Tax and regulatory environment

The government of the Republic of Kazakhstan continues to reform the business and commercial infrastructure in its transition to a market economy. As a result, laws and regulations affecting businesses continue to change rapidly. These changes are characterized by poor drafting, different interpretations and arbitrary application by the authorities.

In particular, taxes are subject to review and investigation by a number of authorities enabled by law to impose fines and penalties. The lack of references to established provisions in Kazakhstan leads to the lack of clarity and integrity of the provisions. Frequent contradictions of legal interpretations both within state authorities and between the companies and state authorities create uncertainties and discrepancies. These facts create tax risks in Kazakhstan which are more significant than those generally available in countries with more developed tax systems.

Tax authorities are entitled to review accounting records during five years after the end of the period, in the course of which the taxable base is determined and taxes payable are assessed. Therefore, the Company can be subject to additional tax liabilities which can arise as a result of tax audits. The Company believes it has adequately provided for all tax liabilities based on its understanding of the tax legislation.

In 2013, Tax Department of Astana carried out a complex tax inspection of the Company during 2007-2011. Based on the results of tax audit taxes, fines and penalties were accrued of 1,481,744 thousand tenge.

The company recognized and reflected in the financial statements additional accrual of the taxes, related to an arithmetic mistake of 2,853 thousand tenge. Provision was created for remaining 1,479,161 thousand tenge, which is related to agreement on joint activity, including provision:

- on corporate income tax in the amount of 561,069 thousand tenge;
- on a penalty fee on corporate income tax in the amount of 326,886 thousand tenge;
- on a penalty on corporate income tax in the amount of 280,535 thousand tenge;
- on a value added tax in the amount of 280,508 thousand tenge; and
- on a penalty fee on a value added tax in the amount of 30,163 thousand tenge.

On 1 September, 2014 according to the decision of Specialized interdistrict court Astana No.02-3907-14 dated 28 May 2014 about the appeal of the accrued sums, a penalty fee and a penalty provisons were reversed, including:

- on corporate income tax in amount of 561,069 thousand tenge;
- on a penalty fee on corporate income tax in amount of 326,886 thousand tenge;
- on the value added tax in amount of 280,508 thousand tenge;
- on a penalty fee on a value added tax in amount of 30 163 thousand tenge.

The penalty provision on corporate income tax in the amount of 280,535 thousand tenge subject to the decision of administrative court.

Environmental issues

The Company believes it is currently in compliance with all existing Kazakhstan environmental, healthcare and labor safety laws and regulations. However, these laws and regulations may change in the future. The Company is unable to predict the timing or extent to which these environmental, healthcare and labor safety laws and regulations may change. Such change, if it occurs, may require the Company to modernize technology to meet more stringent standards.

Antimonopoly legislation

As stated in Note 1, the Company was included into the Republican section of the State Register of Natural Monopolies for telephone traffic services (local, long-distance, mobile operators) provided to communication operators. The antimonopoly regulation requires the Company to apply tariffs established for regulated communication services and to submit reports to the Kazakhstan Agency for Regulation of Natural Monopolies and Protection of Competition. In addition, the Company was included into the State Register of market participants enjoying a dominant (monopolistic) position in a certain commodity market of local telephone and telegraph services. The management believes that the Company complies with the requirements of the anti-monopoly legislation.

Compliance with loan covenants

The Company has to comply with covenants of the loan agreements with EADB, DBK and SB JSC Sberbank of Russia. The management believes that the Company fully complied with loan covenants during the year ended 31 December 2014, and as at that date.

Finance lease obligations

As discussed in Note 14, the Company entered into the agreement for the financial lease of equipment till 1 January 2020. The original agreement amount was 19,317,000 thousand tenge, including VAT. Following the additional agreement as at 2 April 2009, the agreement amount was reduced to 14,483,297 thousand tenge, of which 9,304,939 thousand tenge were paid as at 31 December 2014 (31 December 2013: 8,417,206 thousand tenge).

28. EVENTS AFTER REPORTING DATE

On 8 January 2015 and 30 January 2015, the Company obtained two new tranches within credit line with JSC Development Bank of Kazakhstan amounting to 2,055,786 thousand tenge and 575,590 thousand tenge, respectively.

On 16 January 2015, the Company obtained new tranche within credit line with JSC Eurasian Development Bank amounting to 675,662 thousand tenge.

29. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by management of the Company and authorized for issue on 11 March 2015.