

TRANSTELECOM JSC

Financial statements
for the year ended 31 December 2016
and independent auditor's report

TRANSTELECOM JSC

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TRANSTELECOM JSC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREAPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

Management of Transtelecom JSC (the "Company") is responsible for the preparation of the financial statements that present fairly the financial position of the Company as at 31 December 2016, 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 financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- maintaining adequate accounting records that are sufficient to disclose and explain the Company's transactions as well as providing relevant and accurate information regarding the Company`s financial position, and ensuring compliance with IFRS;
- maintaining statutory accounting records in compliance with IFRS and legislation of the Republic of Kazakhstan;
- taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- detecting and preventing fraud and other irregularities.

The financial statements for the year ended 31 December 2016 were authorized and approved for issue by the management of the Company on 28 April 2017.

On behalf of management of the Company:

Kanapin A.M.
Acting President

28 April 2017
Astana

Bozshina K. S.
Chief accountant

28 April 2017
Astana

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Transtelecom JSC

Opinion

We have audited the financial statements of Transtelecom JSC, which comprise the statement of financial position as at 31 December 2016, 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 notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

As described in Notes 19 and 23 to the financial statements, 78% of the Company's trade accounts receivable as at 31 December 2016 (31 December 2015: 88%) and 71% of the Company's sales for the year ended 31 December 2016 (2015: 75%) were to JSC National Company Kazakhstan Temir Zholy (JSC NC KTZh) and its subsidiaries, which are related parties of the Company. Our opinion is not modified in respect of this matter.

We draw attention to Note 25 to the financial statements, which describes the uncertainty related to the outcome of the unresolved issue between JSC NC KTZh and the Company in respect of the payment of dividends declared for 2015. Our opinion is not modified in respect of this matter.

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Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Даулет Куатбеков
Qualified Auditor
Qualification
certificate №0000523,
dated 15 February 2002,
Republic of Kazakhstan

Deloitte, LLP
State license for the audit activity in the Reoublic of Kazakhstan
№0000015, type MFU-2, issued by the Ministry of Finance of
the Republic of Kazakhstan
13 September 2006

Nurlan Bekenov
General Director
Deloitte, LLP

28 April 2017
Almaty

TRANSTELECOM JSC

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016
(in thousands of Tenge)

	Notes	31 December 2016	31 December 2015
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	5	62,193,301	62,656,012
Intangible assets	6	3,556,450	4,382,992
Other non-current assets	7	1,250,747	2,030,976
		67,000,498	69,069,980
CURRENT ASSETS:			
Inventories		680,233	659,385
Trade accounts receivable from related parties	23	13,928,798	10,892,797
Trade accounts receivable	9	2,115,309	1,193,806
Prepaid income tax		363,876	233,294
Advances paid	8	3,316,518	13,160
Other current assets	10	646,822	1,583,327
Cash and cash equivalents	11	13,115,545	7,393,490
		34,167,101	21,969,259
Non-current assets held for sale		-	353,431
TOTAL ASSETS		**101,167,599**	**91,392,670**
EQUITY AND LIABILITIES			
Equity:			
Share capital	12	12,241,487	12,241,487
Additional paid-in capital		244,190	244,190
Retained earnings		11,346,724	8,182,246
		23,832,401	20,667,923
NON-CURRENT LIABILITIES:			
Long-term borrowings	13	43,408,986	47,590,139
Long-term portion of finance lease obligations	14	1,504,209	2,021,227
Employee benefit obligations	15	404,968	412,407
Deferred tax liabilities	18	3,072,754	1,932,268
		48,390,917	51,956,041
CURRENT LIABILITIES:			
Short-term borrowings and current portion of long-term borrowings	13	10,151,499	9,350,138
Current portion of finance lease obligations	14	334,864	432,553
Trade accounts payable	16	9,402,543	7,481,342
Dividends payable	12	644,160	-
Taxes payable and other obligatory payments		510,414	221,759
Income tax payable		25,220	9,580
Advances received	8	6,863,601	222,772
Other current liabilities	17	998,557	1,017,766
Current portion of employee benefit obligations	15	13,423	32,796
		28,944,281	18,768,706
TOTAL LIABILITIES		77,335,198	70,724,747
TOTAL EQUITY AND LIABILITIES		**101,167,599**	**91,392,670**

On behalf of management of the Company:

Kanapin A.M.
Acting President

28 April 2017
Astana

Bozshina K. S.
Chief accountant

28 April 2017
Astana

The notes on pages 10-41 form an integral part of these financial statements. The independent auditor's report is on pages 2-4.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of Tenge)

	Notes	2016	2015
REVENUE	19	48,009,701	32,669,074
COST OF SALES	20	(34,245,775)	(20,841,096)
GROSS PROFIT		13,763,926	11,827,978
General and administrative expenses	21	(3,022,815)	(2,533,371)
OPERATING PROFIT		10,741,111	9,294,607
Finance costs	22	(6,035,743)	(5,286,321)
Finance income		817,240	419,061
Foreign exchange (loss)/gain, net		(91,746)	1,057,410
Other income		46,174	70,983
PROFIT BEFORE TAX		5,477,036	5,555,740
INCOME TAX EXPENSE	18	(1,140,486)	(1,044,815)
PROFIT FOR THE YEAR		4,336,550	4,510,925
OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation	15	90,987	14,203
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,427,537**	**4,525,128**

On behalf of management of the Company:

Kanapin A.M.
Acting President

28 April 2017
Astana

Bozshina K. S.
Chief accountat

28 April 2017
Astana

The notes on pages 10-41 form an integral part of these financial statements. The independent auditor's report is on pages 2-4.

TRANSTELECOM JSC

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of Tenge)

	Share capital	Additional paid-in capital	Retained earnings	Total equity
As at 1 January 2015	12,241,487	244,190	4,129,343	16,615,020
Profit for the year	-	-	4,510,925	4,510,925
Other comprehensive income for the year, net of income tax (Note 15)	-	-	14,203	14,203
Total comprehensive income for the year	-	-	4,525,128	4,525,128
Dividends (Note 12)	-	-	(472,225)	(472,225)
As at 31 December 2015	**12,241,487**	**244,190**	**8,182,246**	**20,667,923**
Profit for the year	-	-	4,336,550	4,336,550
Other comprehensive income for the year, net of income tax (Note 15)	-	-	90,987	90,987
Total comprehensive income for the year	-	-	4,427,537	4,427,537
Dividends (Note 12)	-	-	(1,263,059)	(1,263,059)
As at 31 December 2016	**12,241,487**	**244,190**	**11,346,724**	**23,832,401**

On behalf of management of the Company:

Kanapin A.M.
Acting President

28 April 2017
Astana

Bozshina K. S.
Chief accountant

28 April 2017
Astana

The notes on pages 10-41 form an integral part of these financial statements. The independent auditor's report is on pages 2-4.

TRANSTELECOM JSC

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of Tenge)

	Notes	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before tax		5,477,036	5,555,740
Adjustments for:			
Finance costs	22	6,035,743	5,286,321
Depreciation and amortization	20, 21	7,520,014	6,885,598
Accrual of allowance for doubtful debts	21	81,241	6,687
Change in provision on remuneration of executive personnel	21	91,327	336,886
Provision for staff reduction		14,607	-
Accrual/(recovery) of VAT, fines and penalties provision		597	(280,535)
Foreign exchange loss/(gain), net		91,746	(1,057,410)
Finance income		(817,240)	(419,061)
Loss from disposal of property, plant and equipment and intangible assets		28,185	-
Employee benefit obligations	15	101,912	84,492
Cash flows from operating activities before changes in working capital		18,625,168	16,398,718
Changes in working capital:			
Change in trade accounts receivable		(4,023,245)	(6,629,570)
Change in inventories		(14,118)	1,829
Change in advances paid		(3,290,198)	859,239
Change in other assets		1,935,960	190,034
Change in trade accounts payable		1,946,046	2,918,212
Change in taxes payable and other obligatory payments		173,116	39,165
Change in advances received		6,418,057	(176,137)
Change in other current liabilities		79,246	251,451
Change in employee benefit obligations		(37,737)	(26,349)
Cash generated from operating activities		21,812,295	13,826,592
Interest paid		(6,200,296)	(5,224,131)
Interest received		704,297	319,046
Income tax paid		-	(81,720)
Net cash generated by operating activities		16,316,296	8,839,787
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment and advances paid for non-current assets		(6,170,374)	(18,234,078)
Purchase of intangible assets		-	(75)
Replenishment of deposit accounts		(34,734)	(28,709)
Proceeds from disposal of property, plant and equipment		261,521	-
Net cash used in investing activities		(5,943,587)	(18,262,862)

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2016
(in thousands of Tenge)

	Notes	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of borrowings		(8,371,240)	(2,227,350)
Proceeds from borrowings		5,070,299	14,700,192
Dividends paid	12	(618,899)	(472,225)
Repayment of finance lease obligations		(596,324)	(362,159)
Net cash (used in)/received from financing activities		(4,516,164)	11,638,458
NET CHANGE IN CASH AND CASH EQUIVALENTS		5,856,545	2,215,383
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(134,490)	960,538
CASH AND CASH EQUIVALENTS at the beginning of the year	11	7,393,490	4,217,569
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	11	**13,115,545**	**7,393,490**

On behalf of management of the Company:

Kanapin A.M.
Acting President

28 April 2017
Astana

Bozshina K. S.
Chief accountant

28 April 2017
Astana

The notes on pages 10-41 form an integral part of these financial statements. The independent auditor's report is on pages 2-4.

1. NATURE OF THE BUSINESS

Transtelecom JSC (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 central office to Astana.

The primary activity of the Company is the provision of a wide range of telecommunications and IT services, the implementation of a full range of construction and installation works, as well as conducting survey and design activities on the territory of the Republic of Kazakhstan. As of 31 December 2015, the Company had 15 branches in different cities of the Republic of Kazakhstan. By a decision No. 9/2016 of the Board of Directors from 17 November 2016, it was approved to close "Directorate for the operation of the telecommunications network" and "Directorate of information and telecommunication technologies" branches in Astana, which comes into effect from 1 February 2017.

According to the Order No.16-ОД of the Agency of the Republic of Kazakhstan on Regulation of Natural Monopolies "On Republican Section of the State Register of Natural Monopolies" dated 24 January 2005, the Company was included in the Republican section of the State Register of Natural Monopolies as a provider of service for usage of telephone underground conduits. In addition, based on the Order No. 494-ОД dated 31 December 2015 of the Regulation of Natural Monopolies Committee and based on the order No. 212-ОД dated 12 August 2016 of Ministry of National Economy of the Republic of Kazakhstan, the Company was included into the State Register of the companies with dominant (monopolistic) position on a certain commodity market for the following types of services:

- telegraph service;
- service for leasing direct pairs (lines);
- service of primary access to the Internet (for telecom operators);
- Internet access services for ultimate customers.

As of 31 December 2016, the shareholders of the Company were Joint Stock Company National Company Kazakhstan Temir Zholy (NC KTZh JSC) (51%) and Mukhanov Marlen Savitovich (49%). As of 31 December 2015, the only shareholder was NC KTZh JSC.

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

On 15 June 2016, based on the agreement No. 49-AO dated 12 May 2015, 49% of common shares were sold to Mukhanov Marlen Savitovich. A common share gives shareholders the right to participate in the General Meeting of Shareholders with the right to vote when resolving all issues submitted for voting.

On 14 December 2016, NC KTZh JSC published a notice in the mass media about holding trades via open two-stage tender for the sale of a 26% stake in JSC Transtelecom.

The total number of employees of the Company as of 31 December 2016 and 2015 was 3,243 and 2,773 people, respectively.

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

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Amendments to IFRS and new interpretations that are mandatorily effective for the current year

In the current year, the Company has applied a number of amendments to IFRS and a new interpretation issued by International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016.

- IFRS 5: Amendments resulting from September 2014 Annual Improvements to IFRS;
- IFRS 7: Amendments resulting from September 2014 Annual Improvements to IFRS;
- IFRS 11: Amendments regarding the accounting for acquisitions of an interest in a joint operation;
- IFRS 12: Amendments regarding the application of the consolidation exception;
- IFRS 14: Regulatory Deferral Accounts;
- IAS 1: Amendments resulting from the disclosure initiative;
- IAS 19: Amendments resulting from September 2014 Annual Improvements to IFRS;
- IAS 27: Amendments reinstating the equity method as an accounting option for investments in in subsidiaries, joint ventures and associates in an entity's separate financial statements;
- IAS 28: Amendments regarding the application of the consolidation exception;
- IAS 34: Amendments resulting from September 2014 Annual Improvements to IFRS;
- IAS 38: Amendments regarding the clarification of acceptable methods of depreciation and amortisation; and
- Amendments bringing bearer plants into the scope of IAS 16.

Acceptance of the above mentioned standards and interpretations did not result in changes in accounting policies of the Company. The amendments did not have material effect on the financial statements of the Company.

New and revised IFRS issued but not yet effective

The Company has not applied the following new and revised IFRS that have been issued but not yet effective:

	Effective date - for annual periods beginning on or after
IFRS 16 Leases	1 January 2019, with earlier application permitted
IFRS 15 Revenue from Contracts with Customers	1 January 2018, with earlier application permitted
IFRS 9 Financial instruments	1 January 2018, with earlier application permitted
Amendments to IFRS 1: Annual Improvements to IFRS, periods 2014-2016 (removal of short-term exceptions)	1 January 2018, with earlier application permitted
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018, with earlier application permitted
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018, with earlier application permitted
Explanations to IFRS 15	1 January 2018, with earlier application permitted
Amendments to IAS 28: resulting from Annual Improvements to IFRS, periods 2014-2016 (clarifications on certain fair value estimates)	1 January 2018, with earlier application permitted
Amendments to IAS 40: Transfers of Investment Property	1 January 2018, with earlier application permitted
Amendments to IFRS 12: Annual Improvements to IFRS, 2014-2016 periods (clarifications on the scope of application)	1 January 2017, with earlier application permitted
Amendments to IAS 7: Disclosure Initiative	1 January 2017, with earlier application permitted
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017, with earlier application permitted

IFRS 16 Leases was announced in January 2016. IFRS 16 supersedes IAS 17 Leases and related interpretations and is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 Revenue from Contracts with Customers has also been applied. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however remains largely unchanged and the distinction between operating and finance leases is retained. The management of the Company anticipates that the application of this standard may have an impact on the Company's financial statements. The Company is currently assessing an impact of the new standard on the financial results.

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Company plans to adopt the new standard on the required effective date. During 2015 the Company has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9. The Company expects changes in loss allowance methodology and will perform a detailed assessment in the future to determine the extent.

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 1 January 2018.

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.

In accordance with IAS 15, an entity recognizes revenue when, or as the performer's obligation is met, i.e. when the control over the goods or services that make up the performer's obligation passes to the client. The standard contains more detailed requirements for accounting for different types of transactions. In addition, IAS 15 requires disclosure of more information.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Company's management expects that the adoption of IFRS 15 in the future may have a significant impact on the amounts and timing of revenue recognition. However, it is not possible to assess the impact of applying IFRS 15 before undertaking a detailed analysis.

The management expects that other new standards that were mentioned earlier will not have significant impact on the Company`s financial statement in the period of initial application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with 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 defined as the amount that would have been received on the sale of an asset or paid in the transfer of an obligation, as part of a voluntary transaction between market participants on the valuation date, regardless of the immediate observability of this value or its determination by another method. In assessing an asset or a liability at fair value, the Company takes into account the characteristics of the asset or liability if market participants consider them. For estimates and disclosures in these financial statements, fair value is determined in the manner described above, with the exception of lease arrangements regulated by IAS 17, as well as estimates that are comparable but not equal to fair value (for example, net realizable value in the estimation of reserves under IAS 2 or the value in use when assessing impairment under IAS 36). In addition, in the preparation of financial statements, the fair value measurement is classified by hierarchy levels, depending on the observability of the input data and their relevance to the valuation:

- 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 sale of the Company's assets and discharge of its liabilities in the normal course of business within the foreseeable future.

Currency

The currency of the Republic of Kazakhstan is Kazakhstan tenge ("tenge" hereafter), 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 recognized 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 arising from changes in foreign exchange rates are recognized in profit or loss in the period in which they arise.

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

	31 December 2016	31 December 2015
Exchange rates at the end of the year (to tenge)		
1 US Dollar ("USD")	333.29	339.47
1 Euro	352.42	371.31
	2016	**2015**
Average exchange rate for the year (to tenge)		
1 US Dollar ("USD")	341.76	222.25
1 Euro	378.32	246.48

Property, plant and equipment

Property, plant and equipment (PPE) 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.

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	10-100 years
Machinery and equipment	5-14 years
Vehicles	4-15 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. To compile financial statement, the Company classifies intangible assets into following groups:

Class of intangible assets	**Useful lives**
License	5-10 years
Software	5-10 years
Other	1-10 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 recognized 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 sell.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value.

Financial assets

Accounts receivable

Trade receivables and other receivables with fixed or determinable payments that are not traded in an organized market are classified as "receivables".

Other short-term financial investments

Short-term financial investments include short-term deposits with an initial maturity of three months to one year.

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-organization.

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 amortized cost, the amount of the impairment loss recognized 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.

An impairment loss directly reduces the carrying amount of all financial assets, with the exception of trade receivables, which are reduced from the reserve.

Derecognition of financial assets

The Company ceases to recognize financial assets only in the event of termination of contractual rights to cash flows on them or in the event of the transfer of a financial asset and the related risks and benefits to another entity.

When the financial asset is fully derecognized, the difference between the carrying amount of the asset and the amount of consideration received and receivable, as well as any income or expense accrued in other comprehensive income, is recognized in profit or loss.

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.

The income received as a result of temporary investment of borrowed funds, until they are spent for the acquisition of qualifying assets, is deducted from borrowing costs.

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

Provisions

Provisions are recognized when the Company has obligations (legal or conditioned by business transactions) that have arisen as a result of past events, and the likelihood that the Company will have to repay these obligations is high, and their amount can be reliably estimated.

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 (if the effect of discounting is significant).

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.

Restructuring

The reserve for restructuring is formed on the date when the Company developed a detailed formal restructuring plan and created reasonable expectations for restructuring, either by starting to implement this plan or by bringing its content to all interested parties. The reserve for restructuring is created only for the amount of direct costs associated with its implementation, which represent costs that are uniquely determined by the restructuring and are not related to current activities.

Retirement benefit costs

In accordance with the legislative requirements of the Republic of Kazakhstan the Company pays the amount equivalent to 10% of each employee's salary but not more than 171,442 tenge per month (2015: 160,230 tenge per month) to cumulative pension funds. 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.

Obligations and expenses for remuneration under the Pension Plan, with the established amount of payments determined by using the method of the projected unit of exchange. This method considers each year worked as raising the right to receive remuneration for an additional unit, and measures each unit separately to reflect the final commitment. Expenses for the provision of benefits are recognized in profit or loss in order to distribute the total remuneration during the working period of employees according to the pension plan formula with the established amount of payments. This obligation is measured at the present value of the estimated future cash flow using a discount rate similar to the government bond rate, whose currency and terms are comparable to the currency and the estimated terms of the Retirement Benefit obligation.

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

Income tax

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

Current tax

Current income tax payable is calculated on the basis of taxable profit for the year. Taxable profit differs from net profit recorded in the statement of comprehensive income because it does not include amounts of income and expenses that are taxable or deductible in other periods and also do not include amounts that will never be recognized as either taxable or deductible . The Company's liability for current income tax is calculated at the tax rate that was effective at the balance sheet 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.

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.

Current and deferred taxes are recognized in profit or loss, except when they relate to items directly attributable to other comprehensive income or equity (in which case the relevant 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 Company and the amount of revenue can be measured reliably. Sales are recognized less value added tax.

Revenue of the company consists of:

a) the provision of local, domestic long-distance and international long-distance telephone services which consist of:
   (i) charge for telephone services, which vary depending on distance and duration of the telephone call, and
   (ii) monthly telephone service fee,
b) provision of Internet and data transmission services,
c) provision of telegraph services,
d) trunk rental,
e) provision of construction services, and
f) other services, including conducting research and project activities, which includes urban planning, maintenance of trunk, international, long-distance and local loop, provision of information technology services, including the supply of software products, consulting services, and services for the implementation and maintenance of information systems.

The Company records revenue from services as follows:

(i) Revenues from provision of local, domestic long distance and international long distance telephone services are recognized at the same period in which the corresponding services have been rendered;
(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 trunk rent are recognized evenly during the period of the agreement;
(v) Revenue from the provision of other services is recognized by reference to the stage of completion of the contract activity at the end of the reporting date. Stage of completion is measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. When the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

4. CRITICAL ACCOUNTING JUDGMENTS 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

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.

The Company performed the impairment indicators analysis of non-current assets as at 31 December 2016. Based on the analysis no impairment indicators were identified.

Allowance for doubtful debts

The Company creates allowance for doubtful trade and other accounts receivable. Significant judgments are used to determine these allowance. 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 allowance for doubtful debts in these financial statements. As at 31 December 2016 and 2015, allowance for doubtful debts was 755,107 thousand tenge and 687,753 thousand tenge, respectively.

Useful lives of property, plant and equipment

As disclosed in Note 3, the Company considers useful lives of property, plant and equipment at the end of each annual reporting period. The evaluation of the useful life of an asset depends on factors such as economic use, maintenance programs, technological improvements and other business conditions. The evaluation of useful 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 operating activities. The Company estimates the probability of unfavorable outcome of issues at the stage of examination or any potential issues and their impact on the financial position and financial results of the Company. Estimations based on probability to win or lose dispute and the amount of probable payments. Differences between estimated and actually paid amounts if those arise in future accounting periods, may significantly affect the financial results of the Company.

5. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and constructions	Machinery and equipment	Vehicles	Other Assets	Capital construction in progress	Total
Cost							
As at 1 January 2015	**206,702**	**3,239,399**	**65,945,453**	**252,244**	**502,804**	**7,353,663**	**77,500,265**
Additions	-	133,894	53,152	882	19,162	12,320,712	12,527,802
Internal movements	-	184,148	15,143,152	54,161	26,497	(15,407,958)	-
Reclassification	-	(16,730)	275,677	-	(258,947)	-	-
Transfer to intangible assets	-	-	-	-	-	(1,775,129)	(1,775,129)
Transfer to inventories			(94,200)	-	-	(105,740)	(199,940)
Transfer to non-current assets held for sale	(26,057)	(429,532)	-	-	-	-	(455,589)
Disposals	-	-	(19,826)	-	(273)	-	(20,099)
As at 31 December 2015	**180,645**	**3,111,179**	**81,303,408**	**307,287**	**289,243**	**2,385,548**	**87,577,310**
Additions	-	172,123	411,597	79,544	48,231	5,554,180	6,265,675
Transfer from intangible assets	-	-	389,123	-	-	-	389,123
Internal movements	-	7,389	1,163,362	2,866	4,277	(1,177,894)	-
Disposals	-	(2,578)	(67,848)	(28,341)	(8,493)	(68,850)	(176,110)
As at 31 December 2016	**180,645**	**3,288,113**	**83,199,642**	**361,356**	**333,258**	**6,692,984**	**94,055,998**
Accumulated depreciation							
As at 1 January 2015	-	(1,203,818)	(17,362,358)	(125,313)	(213,032)	-	(18,904,521)
Charge for the year	-	(161,711)	(5,919,229)	(29,387)	(28,689)	-	(6,139,016)
Reclassification	-	9,462	(104,996)	-	95,534	-	-
Disposals	-	-	19,803	-	278	-	20,081
Transfer to non-current assets held for sale	-	102,158	-	-	-	-	102,158
As at 31 December 2015	**-**	**(1,253,909)**	**(23,366,780)**	**(154,700)**	**(145,909)**	**-**	**(24,921,298)**
Charge for the year	-	(161,568)	(6,716,921)	(33,381)	(27,829)	-	(6,939,699)
Transfer from intangible assets	-	-	(65,257)	-	-	-	(65,257)
The depreciation of dismantelled assets and PPE transferred free of charge	-	-	61,125	236	2,196	-	63,557
As at 31 December 2016	**-**	**(1,415,477)**	**(30,087,833)**	**(187,845)**	**(171,542)**	**-**	**(31,862,697)**
Carrying value							
As at 31 December 2015	**180,645**	**1,857,270**	**57,936,628**	**152,587**	**143,334**	**2,385,548**	**62,656,012**
As at 31 December 2016	**180,645**	**1,872,636**	**53,111,809**	**173,511**	**161,716**	**6,692,984**	**62,193,301**

As at 31 December 2016 and 2015, the Company had the property, plant and equipment received under the finance lease agreement with carrying value of 1,113,375 thousand tenge and 1,484,500 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 2016, cost of fully depreciated property, plant and equipment amounted to 7,963,080 thousand tenge (31 December 2015: 6,923,020 thousand tenge).

During 2016, the Company capitalized borrowing costs of 85,702 thousand tenge directly related to the construction of fiber-optic communication lines of the "Last Mile" (2015: 228,417 thousand tenge) (see Note 22).

As of 31 December 2016, construction in progress is mainly represented by equipment for the construction of fiber-optic communication lines of the "Last Mile".

During 2016, the hardware-software system, digital equipment and magistral fiber-optic networks were commissioned from the construction in progress. The total cost recognized in the carrying amount of property, plant and equipment in the course of its construction in 2016 were 1,777,894 thousand tenge.

There is no information on claims and other external limitations on usage of assets.

6. INTANGIBLE ASSETS

	Licenses	Software	Other	Total
Cost				
As at 1 January 2015	1,589,606	692,681	1,455,645	3,737,932
Additions	75	-	-	75
Transfer from construction-in-progress (Note 5)	112,413	6,320	1,656,396	1,775,129
As at 31 December 2015	1,702,094	699,001	3,112,041	5,513,136
Additions	23,077	45,668	8,894	77,639
Transfer to Property, plant and equipment (Note 5)	-	-	(389,123)	(389,123)
Disposals	-	(51)	(4,422)	(4,473)
As at 31 December 2016	1,725,171	744,618	2,727,390	5,197,179
Accumulated amortisation				
As at 1 January 2015	(175,013)	(149,358)	(59,191)	(383,562)
Charge for the year	(206,533)	(117,484)	(422,565)	(746,582)
As at 31 December 2015	(381,546)	(266,842)	(481,756)	(1,130,144)
Charge for the year	(185,616)	(105,033)	(289,666)	(580,315)
Transfer to Property, plant and equipment (Note 5)	-	-	65,257	65,257
Disposals	-	51	4,422	4,473
As at 31 December 2016	(567,162)	(371,824)	(701,743)	(1,640,729)
Carrying value				
As at 31 December 2015	**1,320,548**	**432,159**	**2,630,285**	**4,382,992**
As at 31 December 2016	**1,158,009**	**372,794**	**2,025,647**	**3,556,450**

As of 31 December 2016, there is no information on intangible assets pledged as collateral for liabilities.

7. OTHER NON-CURRENT ASSETS

	31 December 2016	31 December 2015
Non-current advances paid	820,577	820,577
Non-current receivables from employees	432,092	652,699
Long-term portion of value added tax ("VAT") recoverable	-	557,700
	1,252,669	2,030,976
Allowance for doubtful debts	(1,922)	-
	1,250,747	**2,030,976**

As of 31 December 2016, long-term advances paid mainly were represented by advances made for the construction of a microprocessor automation and telemechanic system at the stations of the Kandyagash-Nikeltau site. The contractor of this project is TNS Intec LLP.

In 2015, the Company purchased 45 residential units from NC KTZH JSC and sold it to employees with a refund of housing cost for 15 years at a discount rate of 13.10%. As of 31 December 2016, liabilities of employee are recorded in non-current accounts receivable in the amount of 432,092 thousand tenge and in other current assets in the amount of 211,391 thousand tenge (31 December 2015: 652,669 thousand tenge and 218,411 thousand tenge, respectively).

8. ADVANCES PAID AND ADVANCES RECEIVED

As of 31 December 2016, advances paid mainly were represented by advances in the amount of 3,301,582 thousand tenge, issued to subcontractors for construction and installation works on the engineering infrastructure of the Expo-2017 project, which will be completed in 2017. The contractors of this project are NORTEX GROUP LLP, TNS Intec LLP and Volstransservis LLP.

As of 31 December 2016, advances received mainly were represented by advances from NC Astana EXPO-2017 JSC, in the amount of 6,409,440 thousand tenge under the Expo-2017 project. The implementation of this project will be carried out in 2017 according to the schedule of works.

9. TRADE ACCOUNTS RECEIVABLE

	31 December 2016	31 December 2015
Trade accounts receivable from third parties	2,334,871	1,352,500
	2,334,871	1,352,500
Allowance for doubtful debts	(219,562)	(158,694)
	2,115,309	**1,193,806**

For the years 2016 and 2015, the movement of the allowance for doubtful debts was as follows:

	2016	2015
Allowance for doubtful debts at the beginning of the year	(158,694)	(153,154)
Accrued for the year	(74,040)	(6,023)
Written off through the earlier created allowance during the year	13,172	483
Allowance for doubtful debts at the end of the year	**(219,562)**	**(158,694)**

At the reporting date, the ageing of trade receivables was as follows:

	31 December 2016		31 December 2015	
	Book value	Allowance	Book value	Allowance
Not expired	2,103,309	-	1,188,231	-
Overdue for 91-180 days	24,000	(12,000)	11,150	(5,575)
Overdue for 180-365 days	36,634	(36,634)	13,693	(13,693)
Overdue for more than a year	170,928	(170,928)	139,426	(139,426)
As of 31 December	**2,334,871**	**(219,562)**	**1,352,500**	**(158,694)**

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

	31 December 2016	31 December 2015
Tenge	1,122,932	727,555
USD	664,819	429,308
EURO	309,971	31,631
Russian Rubles	17,587	5,312
	2,115,309	**1,193,806**

10. OTHER CURRENT ASSETS

	31 December 2016	31 December 2015
Short-term receivables from employees (Note 7)	211,391	218,411
VAT recoverable	138,900	1,115,371
Other short-term financial investments	93,681	58,947
Interest receivable	86,753	100,015
Prepaid taxes other than income tax	16,820	12,588
Receivables from employees	2,918	3,369
Other accounts receivable	629,982	603,685
	1,180,445	2,112,386
Allowance for doubtful debts	(533,623)	(529,059)
	646,822	**1,583,327**

For the years 2016 and 2015, the movement of the allowance for doubtful debts was as follows:

	2016	2015
Allowance for doubtful debts at the beginning of the year	(529,059)	(528,395)
Accrued for the year	(5,279)	(664)
Written off through the earlier created allowance during the year	715	-
Allowance for doubtful debts at the end of the year	**(533,623)**	**(529,059)**

Short-term receivables from employees include short-term portion of prepaid expenses at discounted value in the amount of 181,359 thousand tenge and current portion of receivables in the amount of 30,032 thousand tenge. (31 December 2015: 188,627 thousand tenge and 29,784 thousand tenge, respectively).

For the years ended 31 December 2016 and 2015, financial assets included in other current assets of the Company were represented in tenge.

11. CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Deposits with maturities of less than 3 months	11,265,029	7,088,211
Cash on bank accounts	1,850,470	305,188
Petty cash	46	91
	13,115,545	**7,393,490**

Cash and cash equivalents were denominated in the following currencies:

	31 Decemeber 2016	31 December 2015
Tenge	8,846,001	4,854,724
USD	4,227,002	2,538,409
EURO	42,542	4
Russian Ruble	-	353
	13,115,545	**7,393,490**

12. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

Share capital

As at 31 December 2016 and 2015, the Company's issued and paid share capital equaled to 12,241,487 thousand tenge.

As of 31 December, the Company's share capital is as follows:

	31 December 2016		31 December 2015	
	Proportion	Number of shares	Proportion	Number of shares
NC KTZh JSC	51%	2,875,429	100%	5,638,097
Mukhanov M.S.	49%	2,762,668	-	-

As at 31 December 2016 and 2015, the Company did not have any preferred shares.

On 9 June 2016, according to the decision of Management Board of NC KTZh JSC, it was decided to pay dividends for 2015 of 1,263,059 thousand tenge (2015: 472,225 thousand tenge).

On 31 October 2016, the Company paid dividends to Mukhanov M.S. proportionately to its shareholding of 49% in the amount of 618,899 thousand tenge.

Dividends payable to JSC NC KTZh of 644,160 thousand tenge were recorded in short-term dividends payable.

Additional paid-in capital

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

13. BORROWINGS

	Currency	Maturity	Interest rate	31 December 2016	31 December 2015
Borrowings:					
Development Bank of Kazakhstan JSC ("DBK")	Tenge	2024	8.0%	22,481,184	24,372,567
Eurasian Development Bank ("EADB")	Tenge	2020	9.0%	14,927,045	18,161,549
Eurasian Development Bank ("EADB")	Tenge	2024	9.0%	7,588,179	7,584,456
Development Bank of Kazakhstan JSC ("DBK")	Tenge	2018	7.6%	4,548,744	6,821,705
Eurasian Development Bank ("EADB")	Tenge	-	Floating rate	4,015,333	-
				53,560,485	56,940,277
Less: current portions of long-term borrowings payable within 12 months				(10,151,499)	(9,350,138)
				43,408,986	**47,590,139**

The loans received, except for the loan agreement of 4,000,000 thousand tenge, are guaranteed by NC KTZh JSC.

The repayment schedule of the principal and interest amounts as at 31 December under the loan agreements is as follows:

	31 December 2016	31 December 2015
Within 1 year	10,151,499	9,350,138
1-2 years	9,282,442	9,152,393
2-3 years	11,055,092	9,152,393
3-4 years	8,647,183	6,925,043
More than 4 years	14,424,269	22,360,310
	53,560,485	**56,940,277**

On 28 October 2016, the Company entered into a loan agreement for working capital replenishment in the amount of 4,000,000 thousand tenge. There were no any payments for this loan in 2016.

The Company has to comply with covenants of the loan agreements with DBK and EADB. The management believes that the Company fully complied with loan covenants under the loan agreements with EADB as of 31 December 2016 and for the year then ended.

In order to prevent the cases of non-fulfillment of obligations to creditors, the Company agreed changes to financial covenants. Thus, as at 31 December 2016 waiver was received under the loan agreements with the DBK.

14. FINANCE LEASE OBLIGATIONS

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Obligations under finance lease:				
Not more than 1 year	842,121	842,121	334,864	432,553
More than 1 year and not more than 5 years	1,829,445	2,671,566	1,504,209	2,021,227
	2,671,566	3,513,687	1,839,073	2,453,780
Less future finance charges	(832,493)	(1,059,907)	-	-
Present value of minimum lease payments	**1,839,073**	**2,453,780**	**1,839,073**	**2,453,780**
Included in the financial statements as:				
Current portion			**334,864**	**432,553**
Non-current portion			**1,504,209**	**2,021,227**

In October 2015, there was a transfer of ownership of leased network from TeleKRONA LLP to Grand Telecom LLP, which resulted in ratification of additional agreement according to which Grand Telecom LLP becomes a lessor from October 2015. There were no other amendments to lease terms.

For the year ended 31 December 2016, the Company incurred contingent rent expenses related to the indexation of payments of 1,252,928 thousand tenge (2015: 767,173 thousand tenge) (Note 22).

For the years ended 31 December 2016 and 2015, 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 2015-2017.

	31 December 2016	31 December 2015
Present value of employee benefit obligations	418,391	445,203
Liability falling due within one year	(13,423)	(32,796)
Liability falling due after one year	**404,968**	**412,407**

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

	31 December 2016	31 December 2015
Total liabilities at the beginning of the year	445,203	401,263
Current service cost	28,309	19,482
Interest cost	36,394	27,596
Past service cost	54,020	10,615
Payments made during the year	(37,737)	(26,349)
Actuarial (gain)/ loss recognized in profit or loss for the year	(16,811)	26,799
Actuarial income recognized in other comprehensive income for the year	(90,987)	(14,203)
Total liabilities at the end of the year	418,391	445,203
Liability falling due within one year	(13,423)	(32,796)
Liability falling due after one year	**404,968**	**412,407**

For the year ended 31 December 2016, the Company recognized expenses on post-employment benefits of 101,912 thousand tenge, including actuarial gain in the amount of 16,811 thousand tenge (2015: expenses of 84,492 thousand tenge, including actuarial loss in the amount of 26,799 thousand tenge) recognized in profit or loss (see Notes 20 and 21).

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 and pensioners services and the Company's employees turnover statistics. Other principal assumptions at the reporting date were as follows:

	31 December 2016	31 December 2015
Discount rate	9.6%	7.3%
Expected annual increase of material assistance in future	4.5% (on average)	5.9% (on average)
Expected annual increase of minimal salary in future	4.5% (on average)	7.2% (on average)

The sensitivity analysis carried out by the actuary showed that the maximum increase in employee benefit obligations is 10.1%, which arises in the event of inflation increase by 1%.

16. TRADE ACCOUNTS PAYABLE

	31 December 2016	31 December 2015
Payable to other related and third parties	8,511,898	6,601,794
Payable to NC KTZh JSC and its subsidiaries (Note 23)	890,645	879,548
	9,402,543	**7,481,342**

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

	31 December 2016	31 December 2015
Tenge	9,082,044	7,310,541
USD	253,664	156,483
Russian Rubles	66,571	14,318
Euro	264	-
	9,402,543	**7,481,342**

As at 31 December 2016 and 2015, trade accounts payable of the Company are mainly represented by accounts payable for the purchase of property, plant and equipment, inventories and intangible assets.

17. OTHER CURRENT LIABILITIES

	31 December 2016	31 December 2015
Remuneration to key management	348,806	508,793
Provisions for unused vacations	304,545	249,617
Operating lease payable	49,210	58,438
Other liabilities	295,996	200,918
	998,557	**1,017,766**

18. INCOME TAX

	2016	2015
Deferred income tax expense	1,140,486	1,044,815
Total income tax expense	**1,140,486**	**1,044,815**

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 2016	31 December 2015
Deferred tax assets		
Allowance for doubtful debts	150,598	137,511
Discount on apartments	112,071	113,176
Remuneration to employees	69,761	67,377
Provision for unused vacations	60,909	49,923
Taxes	12,481	10,692
Tax losses carried forward	8,320	590,547
Other provisions	11,499	11,629
Total deferred tax assets	425,639	980,855
Deferred tax liabilities		
Difference in carrying value of property, plant and equipment and intangible assets	(3,498,393)	(2,913,123)
Total deferred tax liabilities	(3,498,393)	(2,913,123)
Deferred tax liabilities, net	**(3,072,754)**	**(1,932,268)**

The deferred taxes movement for 2016 and 2015 is as follows:

	2016	2015
Deferred tax liabilities, net, at the beginning of the year	(1,932,268)	(887,453)
Deferred tax liability recognized in profit or loss	(1,140,486)	(1,044,815)
Deferred tax liabilities, net, at the end of the year	**(3,072,754)**	**(1,932,268)**

In 2016 and 2015, the statutory effective income tax rate in Kazakhstan was 20%.

The tax losses carried forward as at 31 December 2016 amounted to 41,601 thousand tenge (31 December 2015: 2,952,737 thousand tenge). According to the tax code of the Republic of Kazakhstan, the tax losses carried forward recognized for tax purposes expire within ten years from the date of their occurrence. Consequently, for tax purposes, the majority of the Company's tax losses carried forward as at 31 December 2016 expire in 2023-2024.

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

	2016	2015
Profit before income tax expense	5,477,036	5,555,740
Tax at statutory rate of 20%	1,095,407	1,111,148
Reverse of accruals based on act of tax audit	-	(56,107)
Effect of other permanent differences	45,079	(10,226)
Income tax expenses	**1,140,486**	**1,044,815**

19. REVENUE

	2016	2015
Revenue from NC KTZh JSC and its subsidiaries (see Note 23)	34,192,767	24,664,521
Revenue from sale of goods and services to third parties and other related parties	13,758,405	8,004,553
Revenue from sale of inventories to third parties	58,529	-
	48,009,701	**32,669,074**

In 2016, sales to NC KTZh JSC and its subsidiaries approximated to 71% of the total revenue amount (2015: 75%).

Revenues from NC KTZh JSC and its subsidiaries for 2016 include revenues from the sale of software and services of 8,358,757 thousand tenge and 25,834,010 thousand tenge, respectively.

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

	2016	2015
Trunk rent	11,680,410	9,874,077
Project ACS PDT	9,506,362	9,460,492
Sales of software (Project "Z Systems Upgrade", "VZhDO", delivery of licensed software)	8,417,286	-
Internet	4,420,718	2,632,833
Rent of data transmission lines	2,342,052	1,525,824
Revenue from other projects	2,269,106	1,732,916
International transit	1,982,128	1,153,498
Telegraph	1,973,269	1,957,589
Project "Unified Service Center"	1,282,563	-
Long-distance and international connection	1,263,872	1,240,069
Service of the industrial-engineering communication tools at KazTransOil JSC	1,176,404	1,180,378
Local connection	819,156	850,838
Implementation and support of IT infrastructure	624,426	870,003
Other revenue	251,949	190,557
	48,009,701	**32,669,074**

The growth in revenues from the following types of services: Internet and international transit, is explained by the new customers connection, the organization of communication channels and the increase in the volume of services.

20. COST OF SALES

	2016	2015
Cost of software	7,536,994	-
Depreciation and amortization	7,408,342	6,708,401
Salary and other related expenses	5,060,425	4,133,613
Operating lease expenses	3,670,542	1,737,176
Third party services	3,361,351	3,282,559
Materials	2,287,778	1,621,295
Professional services	1,688,748	1,035,219
Communication expenses	1,400,290	1,041,493
Taxes and other related expenses included in cost of sales	333,071	308,325
Employee benefits obligations (Note 15)	85,606	69,861
Other expenses	1,412,628	903,154
	34,245,775	**20,841,096**

Cost of inventories sold to NC KTZh JSC and its subsidiaries in 2016 amounted to 7,438,116 thousand tenge.

Third-party services include work of subcontractors under the following projects:

	2016	2015
ACS PDT	1,952,576	1,736,831
KazTransOil	1,193,448	531,333
Expo-2017	165,827	292,431
KazMunayGaz	34,202	-
Digital Mine	14,374	-
Kazpost	924	-
ISU Park	-	668,023
ACS Magistral	-	53,941
	3,361,351	**3,282,559**

21. GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Salary and other related expenses	1,166,943	976,955
Taxes, other than income tax	508,793	278,058
Professional services	400,734	553,883
Third party services	351,200	260,227
Depreciation and amortization	111,672	177,197
Provision on remuneration of executive personnel	91,327	336,886
Allowance for doubtful debts	81,241	6,687
Employee benefits obligations (Note 15)	16,306	14,631
Recovery of VAT, fines and penalties provision	-	(280,535)
Other expenses	294,599	209,382
	3,022,815	**2,533,371**

22. FINANCE COSTS

	2016	2015
Interest expense on loans	4,458,949	4,267,602
Interest expense on financial lease	409,568	479,963
Contingent rent payments (Note 14)	1,252,928	767,173
	6,121,445	5,514,738
Less borrowing costs capitalized to the cost of qualifying assets (Note 5)	(85,702)	(228,417)
	6,035,743	**5,286,321**

23. RELATED 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 2016 and 2015, are detailed below.

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

	Due from related parties		Due to related parties (Note 16)	
Company name	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**
KTZh-Freight transportation JSC (till 15 June 2016 Locomotive JSC)	6,268,298	5,415,883	2,624	-
NC KTZh JSC	5,953,727	5,091,190	878,555	876,614
Militarized Protection of the Railway JSC	137,006	9,737	-	-
Kaztemirtrans JSC	48,691	26,995	-	601
Passenger Transportations JSC	46,435	29,649	-	-
KTZ Express JSC	43,939	29,717	-	-
Other	2,831	28,761	9,466	2,333
	12,500,927	**10,631,932**	**890,645**	**879,548**

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

	Services provided (Note 19)		Services received	
Company name	**2016**	**2015**	**2016**	**2015**
NC KTZh JSC	22,952,701	14,104,114	61,545	95,369
KTZh-Freight transportation JSC (till 15 June 2016 Locomotive JSC)	10,042,132	9,574,450	7,750	36,063
Passenger Transportations JSC	519,384	398,888	-	182
Kaztemirtrans JSC	238,198	267,250	2,804	77,076
Militarized Protection of the Railway JSC	165,245	58,921	-	-
Vokzal-service JSC	131,618	-	330	334
KTZ Express JSC	105,193	77,395	113	-
Kaztransservice JSC	-	48,294	-	-
Other	38,296	135,209	35,419	58,908
	34,192,767	**24,664,521**	**107,961**	**267,932**

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

	Due from related parties		Due to related parties	
Company name	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**
KazTransOil JSC	1,208,512	213,529	-	28,048
Kazpost JSC	128,772	2,444	22,103	636
Samruk-Kazyna Contract JSC	28,000	32,908	-	2,166
Exploration Production KazMunayGas JSC	19,936	-	-	-
KazMunaiGas Onimderi JSC	19,592	117	11	6
Other	23,059	11,867	20,977	32,749
	1,427,871	**260,865**	**43,091**	**63,605**

Related party transactions for the years ended 31 December are as follows:

Company name	Services provided		Services received	
	2016	2015	2016	2015
KazTransOil JSC	2,411,237	1,657,717	-	-
Kazpost JSC	342,584	10,246	18,175	18,758
NAC Kazatomprom JSC	149,486	8,422	4,105	-
KazMunayGas Onimderi JSC	134,922	340	12	5
NC KazMunayGas JSC	108,313	-	-	-
Exploration Production KazMunayGas JSC	85,497	-	-	-
Kazakhtelecom JSC	65,375	136,880	267,719	352,302
Other	76,479	80,839	57,169	57,189
	3,373,893	**1,894,444**	**347,180**	**428,254**

As at 31 December 2016, the Company's key management personnel was comprised of 9 persons. For the year ended 31 December 2016, compensation to the key management personnel was 251,314 thousand tenge. As at 31 December 2015, the Company`s key management personnel was comprised of 11 persons. For the year ended 31 December 2015, compensation to the key management personnel was 182,389 thousand tenge.

24. 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 2015.

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 2016 and 2015, financial instruments were presented as follows:

	31 December 2016	31 December 2015
Financial assets		
Cash (Note 11)	1,850,516	305,279
Deposits with maturities less than 3 months (Note 11)	11,265,029	7,088,211
Other short-term financial investments (Note 10)	93,681	58,947
Trade accounts receivable (Notes 9 и 23)	16,044,107	12,086,603
Other current assets	30,032	29,784
Interest receivable	86,753	100,015
Non-current receivables	250,734	275,444
Financial liabilities		
Trade accounts payable (Note 16)	9,402,543	7,481,342
Other current liabilities (excluding provision and advances received from customers)	290,115	259,356
Financial lease obligations	1,839,073	2,453,780
Dividends on shares (Note 12)	644,160	-
Borrowings (Note 13)	53,560,485	56,940,277

Objectives 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	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
USD	4,925,150	3,001,674	253,664	156,483
Euro	352,865	31,635	264	-
Russian Rubles	17,587	5,666	66,571	14,318

Foreign currency sensitivity analysis

The company is mainly exposed to the risk associated with a change in the US dollar.

The following table details the Company`s sensitivity to a 30% increase or decrease in tenge against US dollar. 30% is the sensitivity rate used in internal foreign currency risk reports to the key management and represents management`s assessment of the reasonably possible change in foreign currency rates. The sensitivity analysis focuses only on unregulated monetary resources in foreign currency and corrects them at the end of period taking into account 30% changes in foreign exchange rates.

	Impact of USD	
	31 December 2016	31 December 2015
Financial assets	(1,477,545)	(900,502)
Financial liabilities	76,099	46,945

The sensitivity analysis includes: a) External loans and accounts payable, b) Receivables when loans or receivables/payables are represented in foreign currency, c) Cash and cash equivalents in foreign currency.

The above table shows the change in the Company's currency position with the strengthening and weakening of the Tenge by 30% relative to the corresponding currency. At the moment, the Company is at open, long currency position. This indicates that the Company's claims exceed liabilities for a particular foreign currency.

Currency risk primarily relates to the cash and cash equivalents of the Company, denominated in US dollars, as of 31 December 2016 and 31 December 2015.

Credit risk management

Credit risk primarily relates to trade receivables and other current assets. The company has a significant concentration of credit risk with respect to NC KTZh JSC and its subsidiaries and associates. For the year ended 31 December 2016, the share of revenue from NC KTZh JSC and its subsidiaries and associates accounted for approximately 71% of the total revenue of the Company (2015: 75%). As at 31 December 2016, trade receivables for connection services and other services provided to NC KTZh JSC and its subsidiaries accounted for 78% (2015: 88%) of the total amount of trade receivables 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.

Interest rates risk management

The Company's activities are subject to interest rate risk, as the Company attracts borrowed funds not only with fixed, but also with floating interest rates. The company manages this risk by maintaining a balanced combination of loans with fixed and floating interest rates.

The Company's risks associated with changes in interest rates on financial liabilities are discussed in more detail in the section of this note on liquidity risk management.

Analysis of sensitivity to interest rate risk

The following sensitivity analysis to interest rate changes was carried out for loans with a floating interest rate for 2016. Liabilities with floating interest rates are analyzed on the basis of the assumption that their value to the date 31 December 2016 did not change during the year, and the interest rate increased by 100 basis points, which corresponds to an approximate fluctuation of the interest rate during the year.

If the interest rate had increased (decreased) by 100 basis points while maintaining at the same level of all other variables, the pre-tax profit of the Company for 2016 would have decreased (increased) by 1,333 thousand tenge.

Liquidity risk management

Ultimate responsibility for liquidity risk management responsibility 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 basis 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.

In the following table, cash flows for loans with floating interest rates are presented taking into account the weighted average interest rate from the date of receipt of the loan by 31 December 2016.

	Interest rate	Up to 1 year	1-5 years	Over 5 years	Total
31 December 2016					
Financial Assets					
Interest-free					
Cash	-	1,850,516	-	-	1,850,516
Trade accounts receivable	-	16,044,107	-	-	16,044,107
Interest receivables	-	86,753	-	-	86,753
Interest-bearing					
Deposits with maturities less than 3 months	2.1-12%	11,265,029	-	-	11,265,029
Receivables from employees	13.10%	30,032	181,359	250,734	462,125
Other short-term financial investments	2.10%-15%	93,681	-	-	93,681
Total financial assets		**29,370,118**	**181,359**	**250,734**	**29,802,211**
Financial liabilities					
Interest-bearing					
Finance lease obligations	18.25%	842,121	1,829,445	-	2,671,566
Loans with fixed interest rate	7.6%-9%	10,989,890	39,459,720	12,301,335	62,750,945
Loans with floating interest rate	-	30,667	5,331,445	-	5,362,112
Interest-free					
Trade accounts payable	-	9,402,543	-	-	9,402,543
Dividends on shares	-	644,160	-	-	644,160
Other financial liabilities	-	290,115	-	-	290,115
Total financial liabilities		**22,199,496**	**46,620,610**	**12,301,335**	**81,121,441**
Net financial assets / (liabilities)		**7,170,622**	**(46,439,251)**	**(12,050,601)**	**(51,319,230)**

	Interest rate	Up to 1 year	1-5 years	Over 5 years	Total
31 December 2015					
Financial assets					
Interest-free					
Cash	-	305,279	-	-	305,279
Trade accounts receivable	-	12,086,603	-	-	12,086,603
Interest receivables	-	100,015	-	-	100,015
Interest-bearing					
Deposits with maturities less than 3 months	5.2%-14.9%	7,088,211	-	-	7,088,211
Receivables from employees	13.10%	29,784	81,065	194,379	305,228
Other short-term financial investments	5.2-37%	58,947	-	-	58,947
Total financial assets		**19,668,839**	**81,065**	**194,379**	**19,944,283**
Financial liabilities					
Interest-bearing					
Finance lease obligations	18.25%	842,121	2,671,566	-	3,513,687
Loans with fixed interest rate	7.6%-9%	10,172,128	44,825,570	16,424,129	71,421,827
Interest-free					
Trade accounts payable	-	7,481,342	-	-	7,481,342
Other financial liabilities	-	259,356	-	-	259,356
Total financial liabilities		**18,754,947**	**47,497,136**	**16,424,129**	**82,676,212**
Net financial assets / (liabilities)		**913,892**	**(47,416,071)**	**(16,229,750)**	**(62,731,929)**

The Company believes that it will settle all other liabilities using cash inflows from operating activities and the proceeds from maturing financial assets.

Fair value of financial instruments

Management believes that except for loans received from international and Kazakhstan development institutions the carrying value of the Company's financial assets and liabilities as at 31 December 2016 and 31 December 2015 recorded in the financial statements at amortized cost did not differ materially from their fair value.

The fair value of loans received from international and Kazakhstan development institutions - EADB and DBK, amounted to 49,337,494 thousand tenge. For the purpose of fair value assessment, the Company determines described instruments' fair value hierarchy as level 2.

25. COMMITMENTS AND CONTINGENCIES

Operating environment

Emerging markets such as 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 the Republic of 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. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to significant decrease in national export revenue. On 20 August 2015, the Government and the National Bank of the Republic of Kazakhstan announced a transition to a new monetary policy based on free-floating tenge exchange rate, and cancelled the currency corridor. In 2015 and in the first quarter of 2016 tenge depreciated significantly against major foreign currencies.

Management of the Company is monitoring developments in the current environment and taking measures, it considered necessary in order to support the sustainability and development of the Company's business in the foreseeable future. However, the impact of further economic developments on future operations and financial position of the Company is at this stage difficult to determine.

Legal issues

1) Payment of dividends

As described in Note 12, on 9 June 2016, according to the decision of Management Board of JSC NC KTZh, it was decided to pay dividends for 2015 of 1,263,059 thousand tenge.

On 15 June 2016, the ownership on 49% of common shares were transferred to the new shareholder, Mukhanov M. S.

On 31 October 2016, the Company paid dividends to Mukhanov M.S. proportionately to its shareholding of 49% in the amount of 618,899 thousand tenge. Dividends payable to NC KTZh JSC of 644,160 thousand tenge were recorded in short-term dividends payable.

As at the date of these financial statements, there is an unresolved issue between JSC NC KTZh and the Company in respect of the legitimacy of the payment of declared dividends for 2015 to the shareholder Mukhanov M.S. Management of the Company believe that the dividend payments were made in accordance with the relevant legislation of the Republic of Kazakhstan prevailing on this issue. As a result, there have been no additional amounts recorded in the financial statements of the Company as a result of this transaction.

2) Kazakhstan Transit Telecommunications LLP

The Company had litigation issues with Kazakhtsan Transit Telecommunications LLP (KT&T hereafter) in 2011-2015. In 2013 the Company reported reserves on taxes and penalties in the amount of 1,479,161 thousand tenge, which consequently were reversed in the amount of 1,198,626 thousand tenge after recognition of the decision of Tax Department as invalid. In 2015, Company reversed the remaining provision of 280,535 thousand tenge, which was excessively charged.

On 19 January 2015, according to decision of the Appeal judicial board of the Almaty city court, KT&T LLP was declared bankrupt with initiation of procedure of bankruptcy and appointment of the temporary administrator. On 5 November 2015, specialized interdistrict court of Almaty made a decision to prolong bankruptcy proceedings by 19 January 2016. According to the minutes of creditors' meeting #3 dated 19 January 2016, the decision was made to sell the property of KT&T by two lots and to prolong bankruptcy proceedings. Based on decisions of subsequent meetings of creditors, the period for bankruptcy proceedings was extended until 19 January 2017.

Transtelecom JSC sent a request to inspect and perform appropriate actions in respect of the intentional and false bankruptcy with the attraction of law enforcement officials. According to the letter from the State Revenue Committee of Almaty dated 10 January 2017, No. MKD-1-12.2-25/1109, regarding KT&T LLP conclusion was made in respect of intentional and false bankruptcy and it was sent to the Economic Investigation Department of the State Revenue Committee of Almaty for a procedural decision. Based on the results of the investigation, a criminal case was initiated No. 157500121002656 from 15 September 2015 under article 238 of the Criminal Code of the Republic of Kazakhstan.

According to the minute of creditors' meeting No. 7 from 19 January 2017, it was decided to extend the term of bankruptcy proceedings for KT&T LLP until the issuance of respective resolution by the Economic Investigation Department of the State Revenue Committee of Almaty.

In 2015, based on decision of Appellate judicial board of Almaty No.1a-752/2014 dated on 27 October 2014, the Company attained a right to demand compensation for material damage from Abdrahmanov M.M. in the amount of 2,098,794 thousand tenge for embezzling consigned property. As at 31 December 2016, materials are in the proceeding of the Department for the Execution of Judicial Acts of Almaty.

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.

Environmental issues

The Company believes it is currently in compliance with all existing environmental, healthcare and labor safety laws and regulations of Republic of Kazakhstan. 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 in the Republican section of the State Register of Natural Monopolies as a provider of service for usage of telephone underground conduits. 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 for following types of services:

- telegraph service;
- service for leasing direct pairs (lines);
- service of primary access to the Internet (for telecom operators);
- Internet access services for ultimate customers.

The management believes that the Company complies with the requirements of the anti-monopoly legislation.

Capital commitments

As at 31 December 2016, the Company entered into an agreement with KazBuildCommunicationService LLP to perform complex works on the construction of the "Last Mile" sections of the fiber-optic communication line at railway facilities for the amount of 4,461,190 thousand tenge under Supplementary Agreement No. 732/06 dated 28 October 2016 (31 December 2015: 3,968,389 thousand tenge).

Compliance with loan covenants

The Company has to comply with covenants of the loan agreements with DBK and EADB. The management believes that the Company fully complied with loan covenants under the loan agreements with EADB as of 31 December 2016 and for the year then ended.

In order to prevent the cases of non-fulfillment of obligations to creditors, the Company agreed changes to financial covenants. Thus, as at 31 December 2016 waiver was received under the loan agreements with the DBK.

Other liabilities

Guarantees

As at 31 December 2016 the guarantees issued by the Company are as follows:

	Guarantee Purpose	Date of guarantee issue	Guarantee period	Guarantee amount
Qazkom JSC	Securing of advances return under the contract for the purchase of construction works of engineering infrastructure - International Specialized Exhibition ASTANA EXPO-2017 - Integrated Security Systems (Spot 3.2) "Organizer's office" on the territory of the exhibition "Expo-2017" in Astana No. 522/06 from 5 September 2016.	16 September 2016	until 30 April 2017	384,275
Qazkom JSC	Securing the fulfillment of obligations under the contract for the procurement of construction and installation works of engineering infrastructure - International Specialized Exhibition ASTANA EXPO-2017 - Integrated Security Systems (Spot 3.2) "Organizer's office" on the territory of the exhibition "Expo-2017" in Astana No. 522/06 from 5 September 2016.	16 September 2016	until 30 April 2017	38,427
Qazkom JSC	Securing the fulfillment of obligations under the contract for the procurement of services for the supervision of construction and installation works of engineering infrastructure No. 523/10 from 5 September 2016.	21 October 2016	until 30 April 2017	320

As at 31 December 2016, the Company did not have any obligations related to the guarantees listed above.

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 14,543,270 thousand tenge was paid as at 31 December 2016 (31 December 2015: 10,273,378 thousand tenge).

26. SUBSEQUENT EVENTS

From 31 December 2016 to the date of approval and signing of these financial statements, no adjusting events or events requiring disclosure in the financial statements happened.

27. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were authorized and approved for issue by the management of the Company on 28 April 2017.